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MONETARY CONDITIONS AND MONETARY POLICY TRANSMISSION MECHANISM

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MONETARY CONDITIONS AND MONETARY POLICY TRANSMISSION MECHANISM (SEPTEMBER 2022)

- According to the Bank of Russia, monetary conditions did not change significantly on average in September due to the diverse impact of financial and credit and deposit market indicators.
- The average spread between RUONIA and the key rate over the September averaging period (AP) was 13 bp (in the August AP: -9 bp). The growth in rates was caused by increased demand for cash, transfers of budget funds between banks and the uneven path of banks' RR averaging owing to the expectations of a key rate cut in September.
- In September, money and debt market yield curves shifted noticeably upwards along the entire length. The short-term rate movements were associated with higher demand for liquidity and a tougher signal from the Bank of Russia about the further path of the key rate in the near future, while long-term rates reflected a higher risk premium amid the escalation of the geopolitical conflict.
- In August–September, rates in certain segments of the credit and deposit market continued to decline, and the room for their further cut narrowed. In late September–early October, there was some growth in retail lending rates. In August, the growth of corporate lending and the recovery of mortgage market activity continued at a faster pace. In combination with the persistent budget deficit, this supported the annual growth rate of money supply that amounted to 22.6% in August (19.3% in July).

MONETARY POLICY TRANSMISSION

The monetary policy transmission mechanism (or monetary policy transmission) is a sequence of links in the economy through which monetary policy influences demand and, accordingly, inflation. This mechanism is based on rates and yields in the key market segments, influencing each other (the key rate directly influences short-term money market rates; short-term rates influence long-term rates and OFZ yields; OFZ yields influence corporate bond yields; bond yields and long-term money market rates influence credit and deposit rates). Rates, in turn, influence the attractiveness of savings, consumption, and investment (interest rate channel of the transmission mechanism), the ability of borrowers to provide high quality

collateral, and of banks – to expand lending (credit and balance-sheet channels), as well as the wealth of investors (wealth channel), and the ruble exchange rate stability (foreign exchange channel).¹

Through any of these channels, higher market rates constrain demand and inflation, while lower ones stimulate them, creating conditions for a rise in inflation. In addition to monetary policy and demand, inflation and financial market trends are influenced by many other factors taken into account by the Bank of Russia when deciding on the key rate.

This material briefly describes the monetary policy transmission and the conditions of its functioning.

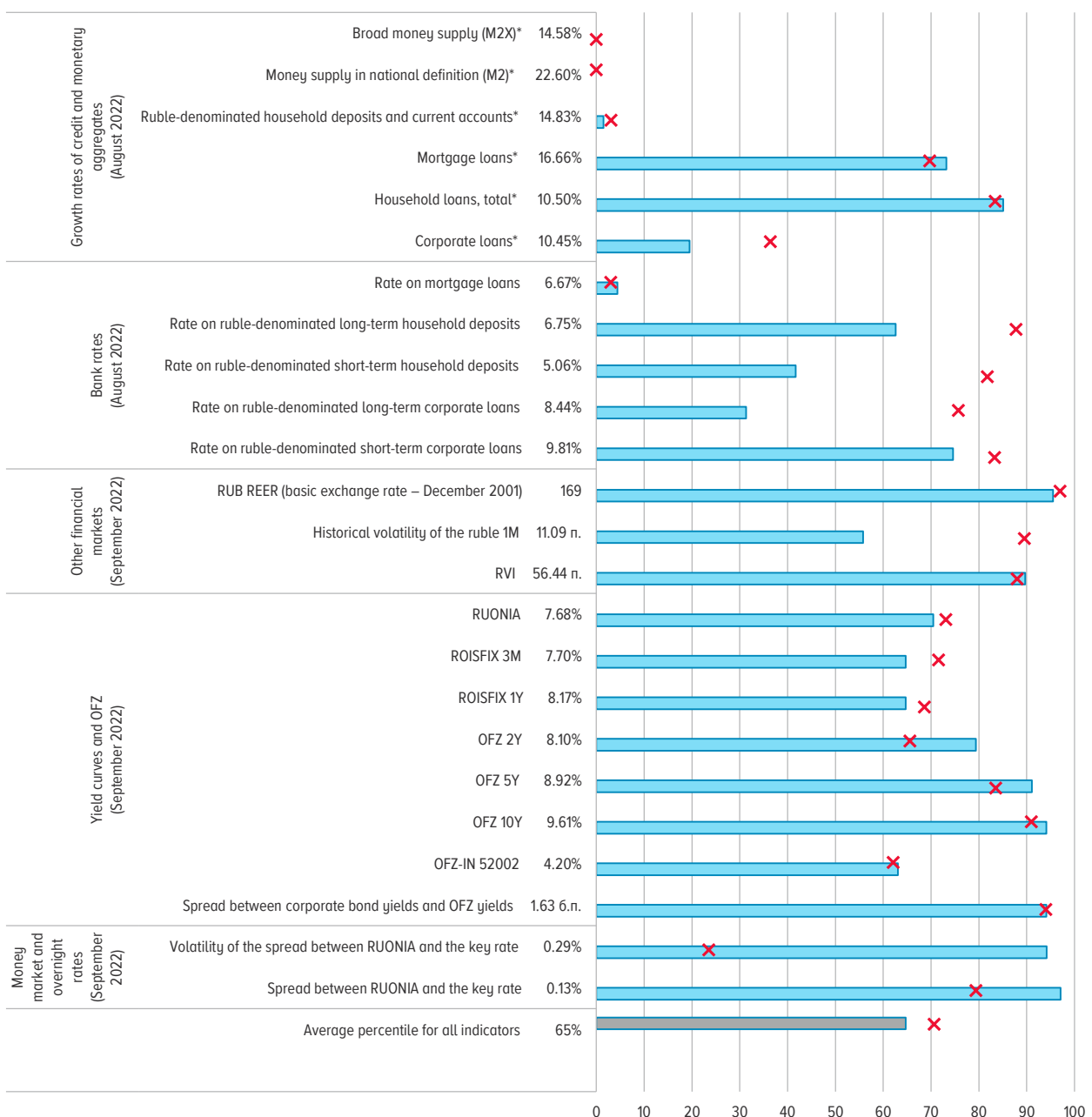
¹ Refer to Appendix 1 to [the Monetary Policy Guidelines for 2022–2024](#).

MONETARY CONDITIONS

As of the end of September, monetary conditions did not change significantly in general. On the one hand, increased volatility in the foreign exchange and OFZ markets due to geopolitical developments and the growth of short-term rates in the money market resulting from high demand for cash were driving factors for tightening monetary conditions. On the other hand, the continued decline in credit and deposit rates amid monetary policy easing during the summer and the decision taken by the Bank of Russia Board of Directors in September to reduce the key rate by 50 bp to 7.50% had an opposite effect (Chart 1).

MONETARY CONDITIONS REMAINED GENERALLY UNCHANGED IN SEPTEMBER

Chart 1



Note. The chart shows the current level of the indicator (in percentiles) relative to the distribution of values since January 2017. The red marker shows the indicator's level (in percentiles) as of the previous date.

* The indicators were used to calculate the inverse percentile (higher values are shown on the left).

Source: Bank of Russia calculations.

INTEREST RATE CHANNEL OF MONETARY POLICY TRANSMISSION MECHANISM

1. Key rate

On 16 September 2022, the Bank of Russia Board of Directors decided to lower the key rate by 50 bp to 7.50% per annum amid a low rise in consumer prices and moderate consumer demand. When deciding on the key rate cut, the Bank of Russia took into account the business activity trends that were developing better than the Bank of Russia expected at its previous meeting and the difficult external environment for the Russian economy, restricting the economic activity. The average monthly key rate was 7.80% (vs 8.00% in August).

According to financial market indicators as of the end of September 2022, market participants expect the key rate to remain at 7.50% until the end of 2022 (Table 1).

IN SEPTEMBER 2022, ANALYSTS LOWERED KEY RATE EXPECTATIONS FOR THE END OF 2022

Table 1

Key rate expectations based on market indicators (instrument)	December 2022	June 2023
ROISFIX	7.75 (7.75)	8.00 (7.75)
RUSFAR	7.75 (7.75)	-
Analysts' key rate expectations*	2022 average	2023 average
Survey by the Bank of Russia	10.5 (11.0)	6.8 (7.5)

* Survey dates: 31 August–6 September 2022. Brackets are used to show the results of the survey conducted on 6–12 July 2022.
Sources: Bank of Russia calculations, NFA.

2. MONEY MARKET AND OVERNIGHT RATES (RUONIA)

In the September required reserve (RR) averaging period (AP), the spread between RUONIA¹ (the Bank of Russia's operational benchmark) and the Bank of Russia² key rate was **13 bp** (in the August AP: -9 bp; year to date: -20 bp) (Chart 4). The spread volatility increased to 29 bp (in the August AP: 13 bp; year to date: 37 bp).

The structural liquidity surplus over the September AP decreased to **1.8 trillion rubles** (in the August AP: 2.8 trillion rubles; as of 1 October 2022: 1.1 trillion rubles). Some part of the surplus was absorbed by increasing the RR ratios.³ As a result, banks had to maintain in correspondent accounts 0.8 trillion rubles more than in the previous AP. Such normalisation of RR ratios helped decrease the 'overhang' in correspondent accounts. Earlier, as the client flows recovered, in order to ensure the continuity of payments, banks maintained more funds in their correspondent accounts than they needed for RR averaging. For this reason, the volatility of demand for liquidity, as well as for short-term liquidity management instruments, was growing. In addition, the volume of excess funds in the banking sector lowered because of the surge in demand for cash after 21 September. This happened due to both the growth in households' demand and increased cash reserves in cash

¹ RUONIA (Ruble Overnight Index Average) is the weighted average interest rate on overnight interbank ruble loans (deposits) reflecting the cost of unsecured overnight borrowing.

² The operational objective of the Bank of Russia's monetary policy within the inflation targeting strategy is to maintain interest rates in the unsecured overnight segment of the interbank lending market close to the Bank of Russia key rate.

³ See [Bank of Russia press release, dated 25 July 2022](#).

offices and ATMs. In early October, the demand for cash slowed down and approached its seasonal value. Budget operations had a near-zero impact on banks' liquidity. In September, the budget showed a deficit. However, the Federal Treasury (FT) proportionally reduced the amount of funds placed with banks.

It is expected that a structural liquidity surplus will remain in the banking sector and grow to 3.2–3.8 trillion rubles⁴ by the end of 2022 due to budget operations.

In the September AP, the spread volatility was more intense. In anticipation of the key rate cut at the meeting of the Bank of Russia Board of Directors on 16 September, market participants preferred to postpone RR averaging to the second half of the AP, as they sought to place funds in deposits at the current 'high' rate in the first half of the period. This put a downward pressure on RUONIA and the spread expanded.

After the key rate cut, the demand for liquidity from major participants grew. Banks needed to increase their balances in correspondent accounts in order to average their RRs, as well as to make up for the liquidity outflow due to the growth in demand for cash. These conditions made the competition at FT auctions tougher, especially during the tax period. As a result, despite the neutral impact of budget operations in the banking sector as a whole, some participants had an outflow related to FT operations, while others, on the contrary, increased the amount of borrowings. This led to a higher cost of borrowings in the money market and a positive spread between RUONIA and the key rate, as well as to temporary growth in demand for loans from the Bank of Russia.

3. Money and debt market yield curves

OIS (ROISFIX) curve.⁵ In early September, markets did not expect a 50 bp cut in the key rate, therefore, by the end of the month, the short end of the ROISFIX curve and the RUSFAR curve edged down. Yields with the maturity of three months and shorter edged down by 34–39 bp, and those over six months – by 17 bp (Chart 6).

Concurrently, taking into account the escalating rhetoric and higher volatility in the markets that occurred at the end of the month, key rate expectations for the period until the end of 2023 were slightly revised. The market expects the rate to remain in the range of 7.50–8.00%, fearing a reversal of disinflationary trends and possible acceleration of inflation. The two-year ROISFIX rate increased by 62 bp to 9.15%, reflecting a higher interest rate risk premium and the trends described above.

RUSFAR curve. As of the end of September, the RUSFAR 3M rate fell by 4 bp to 7.76%. According to the market indicator, market participants expect the key rate to remain in the range of 7.50–8.00% in the next quarter.

OFZ yield curve. In September, the entire zero-coupon yield curve edged up significantly, most notably for long-term maturities (Chart 9): OFZ 1Y – 8.79% (+110 bp); OFZ 2Y – 9.21% (+137 bp); OFZ 5Y – 10.28% (+177 bp), and OFZ 10Y – 10.79% (+169 bp). The movement of the curve occurred in the second half of the month. First, this was associated with a reaction to the tougher signal from the Bank of Russia regarding the further key rate path. On 16–19 September, OFZ yields edged up by 10–20 bp on average over the entire length. Second, the increased geopolitical tension triggered active sales in the Russian public debt segment. The spread between ten-year and two-year OFZ yields grew by 31 bp to 158 bp (as of the end of August: 127 bp) due to a more intense upward movement of the long end of the curve, which was associated with growing sanction and geopolitical risks and, as a result, with an increase in the risk premium. Additional pressure on the market was exerted by the continued growth of yields in advanced economies (US Fed: +75 bp up to 3.25% as of 21 September; ECB: +75 bp up to 1.25% as of 8 September; Swiss National Bank: +75 bp up to 0.5% as of 22 September) and fears of a global recession.

⁴ See [Monetary Policy Report No. 3 \(39\), July 2022](#).

⁵ The OIS (ROISfix) curve – indicative rates (fixing) on RUONIA interest rate swaps.

In September, the average daily turnover of OFZ grew to 19.4 billion rubles (in August: 11.2 billion rubles), primarily due to trading in medium-term and long-term OFZ-PD. The main OFZ buyers were non-bank credit institutions, while other market participants, SICs in particular, were mainly selling the public debt.

Primary OFZ market. On 14 September, the Russian Ministry of Finance resumed its activity in the primary public debt market after a seven-month break and placed OFZ-PD maturing in 2031. Demand for the nine-year bonds totalled 24.8 billion rubles, and the market absorbed the entire offered volume of 10 billion rubles. On 21 September, the auctions were declared invalid due to the lack of market demand amid increased geopolitical tension and high volatility in financial markets; on 28 September, the auctions were cancelled. Next year, the Russian Ministry of Finance plans to raise 1.75 trillion rubles, in 2024 – 1.94 trillion rubles, in 2025 – 2 trillion rubles.

Implied inflation. As of the end of September, implied inflation for OFZ-IN-52002 (2028) grew by almost 2 pp, totalling 7.2% (a month earlier: 5.3%)⁶ amid expectations of the disinflationary trend's reversal and higher inflation growth rates in the medium term.

4. Corporate bond market

Secondary market. As of the end of September, the average yield of corporate bonds increased to 11% (+180 bp) following the dynamics of OFZ yields. During the first half of the month, the spread between corporate bond and government bond yields mostly narrowed, demonstrating a decrease in the risk premium due to the adjustment of Russian companies to new macroeconomic conditions, including the redirection of trade flows to Asia. Amid the escalation of the geopolitical conflict, the spread generally expanded by 60 bp to 120 bp by the end of September, according to the IFX-Cbonds and GBI-Cbonds indices. Moreover, on 27 September, the spread reached 350 bp – the maximum value since April 2022 – after the publication of news about the significant damage to the Nord Stream 1 and Nord Stream 2 pipelines. In the short run, demand for corporate bonds will depend on the ability of companies to generate positive financial results amid sanctions and tax pressure.⁷

Primary market. In September, issuing activity slightly declined due to more intense volatility in financial markets, totalling 391 billion rubles (in August: 460 billion rubles). Moreover, new issues were predominantly available to a wide range of investors (in September: 324 billion rubles; in August: 220 billion rubles). The structure of borrowers did not change significantly. Companies from the real sector, in particular, oil and gas producers, power generating and telecommunication companies, remained the main debt issuers. Russian companies continued to expand their offerings of bonds in Chinese yuan.

5. Credit and deposit market

Deposit rates. Interest rates on deposits decreased in August. Banks were adjusting their deposit rates amid the actual easing of monetary policy and expectations of the key rate cut in September. The reduction in rates was more intense for short-term deposits, which were highly volatile when the key rate increased. In August, average market rates on short-term⁸ and long-term deposits edged down by 1.2 pp and 0.7 pp, respectively. (Chart 12).

⁶ See methodological notes [Estimates of Implied Inflation from Prices of Inflation Indexed Bonds](#).

⁷ In 2023, the Government of the Russian Federation plans to introduce an additional tax on oil, gas and LNG exporters to make up the budget deficit. In addition, an alternative option for raising the MET rate for gas producers is currently under discussion.

⁸ Short-term deposits imply deposits with any maturities of up to one year, excluding demand deposits; long-term deposits are deposits with any maturities of over one year.

According to recent monitoring data, rates on deposits with maturities of up to one year changed insignificantly in September. The FRG100⁹ profitability index decreased by 6 bp to 6.17% in September (Chart 13). Concurrently, average rates on savings accounts and deposits for up to one month in systemically important banks exceeded those on deposits for three, six and twelve months. Thanks to funds in savings accounts, banks may manage their liquidity more effectively and meet the needs of individuals who prefer savings instruments with an option to withdraw money at minimal cost in the situation of uncertainty.

The changes in deposit rates will depend on the key rate decisions. The expectations of banking analysts and strategists have stabilised and are quickly evolving under the influence of monetary policy communication. The OFZ yield growth in September¹⁰ may translate into an increased estimated cost of bank funding and exert upward pressure on deposit rates. Liquidity regulation easing may help enhance the flexibility of banks in managing deposit rates.

Deposit operations. The inflow of household funds to the banking sector¹¹ slowed down in August amid lower ruble deposit rates and reduced foreign currency savings with banks, as well as under the influence of ongoing seasonal spending. Concurrently, the reduction in investments in short-term deposits was accompanied by growing current accounts because rates on savings instruments remained relatively high. The annual change¹² in household funds with banks was secured by balances on short-term deposits and amounted to 6.6% in August vs 6.7% in July (Chart 14). Households also invested their savings in real estate: the inflow of funds to escrow accounts restored with the expansion of mortgage lending.¹³

The outflow of foreign currency savings from banks continued, given low interest rates and fees for managing foreign currency accounts and deposits. Banks support the process of dedollarisation. They avoid to build up foreign currency liabilities and close FX positions despite regulatory easing. In part due to the ruble appreciation against foreign currencies in August, the share of FX deposits decreased to 12.1% from 12.8% in July, remaining close to its historic low.

The uncertainty that has increased since the end of September may impact the saving behaviour and deposit trends. The rising demand for cash in late September and early October could limit the net inflow of savings to banks. Stabilisation of the household expectations may help restore the inflow of funds to deposits.

Credit rates. The room for lowering credit rates shrank in August–September due to higher OFZ yields and prevailing expectations that the key rate would remain at the current level¹⁴ of 7.50% per annum. A decrease in the cost of ruble borrowings in August and, according to recent estimates, in September was still observed in certain segments of the credit market.

In August, interest rates on short-term and on long-term loans to non-financial organisations declined by 0.8 pp and 1.3 pp, respectively. This affected both large corporate borrowers and small and medium-sized enterprises (Chart 12).

In the retail segment, the decrease in average market rates affected mainly mortgage loans for finished housing in August (the average rate decreased by 0.7 pp over the month). In the primary mortgage lending market, rates remained close to 3.7% per annum for three consecutive months

⁹ The average interest rate of the 54 largest deposit banks on deposits for up to one year in an amount of 100,000 rubles and more, according to the Frank RG news agency.

¹⁰ See Subsection 'Money and debt market yield curves'.

¹¹ Hereinafter, household funds with banks include balances in time deposits, demand deposits and current accounts, but exclude escrow accounts under equity construction contracts.

¹² Hereinafter, increases in banks' balance sheet indicators are calculated based on the reporting data of operating credit institutions recorded in the State Register as of the relevant reporting date. Increases in foreign currency claims and liabilities are calculated in US dollar terms. When calculating increases in the indicators comprising foreign currency and ruble components, the increase in the foreign currency component is converted into rubles using the period average exchange rate.

¹³ See Section 'Retail lending'.

¹⁴ [Macroeconomic survey results](#).

due to effective subsidised programmes and subsidising of rates by developers. The cost of long-term consumer loans also did not change significantly and exceeded the February levels as banks continued to keep up their conservative estimates of the credit risk premium. Under these conditions, the reduction in the average market rate on long-term retail loans from 12.6% in July to 12.3% in August was secured by a further rise in the share of mortgages in the market turnover (Chart 12). Rates on short-term retail loans resumed growth in August. According to recent monitoring data, in September, the rates offered on both market and subsidised housing mortgage loans remained close to the achieved levels (Chart 13).

In the short run, rate movements will depend on changes in the market composition as the share of loans on market terms continues to increase. A possible reduction in rates will be curbed by expectations of the future key rate path and growth of yields in related segments of the financial market.

Corporate lending. Corporate lending continued to grow at a faster pace as economic activity recovered and companies adjusted to changing business environment, as well as under the influence of the ongoing process of import substitution. As of the end of August, the annual growth in the corporate loan portfolio¹⁵ was 10.4% vs 8.5% in the previous month (Chart 15). The tendency to replace foreign currency loans with ruble ones continued: the annual rate of reduction in the portfolio of corporate foreign currency borrowings increased from 12.2% to 18.1%. According to recent data, corporate lending kept on growing in September.

In the short run, we can expect the effect of subsidised lending programs on lending activity to weaken due to the closure of a number of government-backed programmes. However, this factor will continue to be crucial for certain segments of the corporate lending market. Lending activity may also be supported by the Bank of Russia's planned extension of regulatory easing, which will make it possible not to worsen the assessment of the quality of loans, and the temporary relaxation of buffer requirements.

Retail lending. The reduction in lending rates and the recovery of economic activity contributed to the growth of the retail loan portfolio.¹⁶ The most intensive growth was recorded in the mortgage lending segment (Chart 16). In August, the volume of issued ruble-denominated housing mortgage loans demonstrated a pronounced growth and totalled 458 billion rubles, approaching the average issue value of 2021 that was a record-breaking year for the mortgage market. Additionally, in August, more than a half of all loans were issued in the secondary segment where market-based loans prevail in its turnover structure. A noticeable recovery in loans for finished housing may be associated both with a decline in market-based mortgage rates following the key rate movements and with the continuing rise in the prices for housing under construction. The annual growth of the housing mortgage loan portfolio¹⁷ slowed down by 1 pp to 16.7% as of the end of the month, which was due to the major mortgage asset securitisation in the amount of about 155 billion rubles. Adjusted for this transaction, the annual increase in outstanding amount of mortgage loans accelerated again in August after five months of slowdown.

As consumer confidence raised, the portfolio of unsecured consumer loans continued to recover: over the month, it grew by 1.8% vs 0.7% in July, in part due to seasonal factors. However, there were still no signs of recovery in the auto lending segment.

According to preliminary data, retail lending continued to grow at a comparable pace in September. Given that the uncertainty increased again in late September, we can expect households' appetite for new loans to decrease in the short run, including due to a gradual reduction in the potential for meeting pent-up demand. In early 2023, the retail lending development may be additionally

¹⁵ Hereinafter, the growth of lending to non-financial organisations, financial institutions and individual entrepreneurs excludes claims acquired by banks.

¹⁶ Hereinafter, the growth of household lending does not include claims acquired by banks.

¹⁷ Housing mortgage loans, net of claims on such loans acquired by banks.

restrained by the introduction of macroprudential limits¹⁸ on certain high-risk transactions in the unsecured consumer lending segment.

OTHER FINANCIAL MARKET SEGMENTS

1. Exchange rate (foreign exchange channel)

In September, the ruble fluctuated in the range from 57.21 to 61.23 rubles per US dollar. By the end of the month, the ruble to US dollar exchange rate rose by 3.0% to 58.45 rubles per US dollar (Chart 20). The exchange rate calmly reacted to the decision of the Bank of Russia Board of Directors to cut the key rate by 50 bp and, following its publication, and depreciated by no more than 10 kopecks. However, during the day, the ruble demonstrated higher volatility, which could be caused by the neutral signal of the Bank of Russia.

In the current conditions, the ruble exchange rate still depends on the trade surplus estimated at 183.1 billion rubles from January to August 2022, which is three times higher than in the same period of 2021. In September, the appreciation of the ruble against 'unfriendly' currencies was also influenced by fears of sanctions against the financial market infrastructure, which could lead to a complete halt in trading in the US dollar and the euro and provoked significant sales of 'toxic' currencies.

The monthly realised exchange rate volatility nearly halved again from the previous month (11.1% in September vs 24.2% in August), which was below the historical average since 2017 (14.2%). However, the risks of increased volatility persist due to the higher sensitivity of the exchange rate to the global commodity market environment as a result of the suspension of the fiscal rule.

The real effective exchange rate of the ruble (hereinafter, the REER), calculated against the currencies of the main foreign trade partners, continued to weaken (-3.9% in August vs -0.2% in July). Other things being equal, the changes in the REER helped ease monetary policy, increasing the merchandise appeal of Russian exports. The Russian Ministry of Finance is considering the possibility of resuming the operation of the fiscal rule, which will help reduce the exchange rate's sensitivity to oil and gas market conditions.

2. Capital market (wealth channel)

In September, the Moscow Exchange index went down by 18.4% (-48.3% YTD, -51.8% YoY). The sharpest drop in the Russian stock market since February 2022 was due to the increased geopolitical tensions and sanctions risks amid general negative trends in global equity markets (Chart 21). In addition, the increased volatility of sectoral indices was caused by a stronger ruble, adjustments in global oil prices, and expectations of a higher tax burden for exporters of raw materials.

As of the end of September, in addition to the negative trends in the shares of oil and metal producers, the shares of the construction sector were also under pressure due to the absence of preconditions for further growth in demand for real estate, as well as on the back of the expected completion of the key rate cut cycle and new macroprudential requirements for mortgages with a small downpayment.

The possibility of further increased volatility and negative pressure on the Russian stock market remains due to geopolitical uncertainty. All else being equal, a decrease in the stock market tightens monetary conditions, because the value of investors' portfolio and their investment activity decline. However, in Russia, the influence of this channel is not as significant as in advanced economies.

¹⁸ See the report [Bank of Russia Macroprudential Policy: Implementation Framework and Future Decisions, September 2022](#).

Foreign markets

In September, global central banks continued the cycle of tightening their monetary policies and increased their policy rates amid inflationary pressure. The average policy rate in advanced economies reached 2.13% (+63 bp MoM), 11.03% in Latin America (+49 bp), 5.10% in South and Southeast Asia (+47 bp), 8.64% in Central and Eastern Europe and Central Asia (+28 bp), and 8.53% in African countries (+61 bp).

The rhetoric of monetary authorities of key advanced economies continued to be extremely tough, which, along with geopolitical risks and problems in the European energy infrastructure, caused serious concerns among investors over future global economic growth and provoked a further sale of risky assets. Global markets expected high rates to remain unchanged for a longer time. This increased the yields of bonds of advanced economies and depreciated their currencies against the US dollar (Chart 19).

To stabilise market conditions, the Bank of England resumed the purchases of government bonds amid their rising yields due to the previously announced large-scale tax cuts and potential growth of the budget deficit.

At its meeting in September, the Bank of Japan preserved the key parameters of its monetary policy and the rate at -0.1%, thus continuing to buck the global trend to tighten monetary conditions. In addition, to maintain the exchange rate of the yen, the regulator intervened in the FX market for the first time since 1998.

Stock indices in national currencies in advanced economies significantly decreased over the month: S&P 500 – by 9.3%, Stoxx 600 – by 6.6%, Nikkei 225 – by 7.9%. General negative trends in the stock markets are associated with recession concerns.

Stock indices in national currencies and exchange rates against the US dollar of emerging market economies (EMEs) were mostly weakening (Chart 21). The exchange rate of the Mexican peso remained unchanged, while the Bank of Mexico raised its policy rate in September by an expected 75 bp to 9.25% due to an upward trend in the balance of risks to prices. Despite the rise in consumer prices to 83.5% YoY, the Central Bank of Turkey cut its policy rate by 100 bp to 12% in September. The weakening of the Turkish lira against the US dollar totalled 27.9% (-58.3% over the last two years) since the beginning of the year.

MONEY SUPPLY

The banking system's claims on the economy¹⁹ rose in August, with growth in corporate lending offsetting the continued slowdown in claims on households. As a result, the annual growth rate of claims on the economy increased by 0.3 pp to 11.3% against a decrease of 0.5 pp in July. Lending to the economy is supported by accommodative monetary conditions, ensuring a rise in money supply.

The contribution of the banking system's net claims on the general government to the annual change in money supply was still positive in August due to the budget deficit and the use of the National Wealth Fund. Compared to July, the scope of this contribution increased. Money supply is supported by the budget deficit that has a stimulating effect on aggregate demand. Owing to the current account surplus, net foreign assets make a positive contribution to money supply.

The annual growth rate of monetary aggregates accelerated: the money supply in the national definition M2 in August increased to 22.6% from 19.3% in July, and the broad money supply M2X increased to 14.6% from 13.6% in July (Chart 18). Since the middle of 2022 Q1, the M2 money supply path has been higher than in 2014–2021, while the growth of the M2X broad money supply has been growing more moderately due to dedollarisation processes.

¹⁹ The banking system's claims on the economy mean all claims of the banking system on non-financial organisations, financial institutions, and households in Russian rubles, foreign currency, and precious metals, which include loans extended (including overdue loans), overdue interest on loans, credit institutions' investment in debt and equity securities and promissory notes, as well as other forms of participation in equity of non-financial organisations and financial institutions, and other receivables under settlement operations with non-financial organisations, financial institutions, and households.

CHARTS AND TABLES

IN SEPTEMBER 2022, THE BANKING SECTOR'S STRUCTURAL LIQUIDITY SURPLUS DECREASED
(START OF BUSINESS, BILLIONS OF RUBLES)

Table 2

	01.01.2018	01.01.2019	01.01.2020	01.01.2021	01.01.2022	01.04.2022	01.07.2022	01.09.2022	01.10.2022
Structural liquidity deficit (+) / surplus (-)	-2,639	-3,016	-2,761	-204	-1,691	-280	-2,384	-2,757	-1,132
Bank of Russia claims on credit institutions	10	21	18	976	909	2,484	280	291	1,479
Auction-based facilities	-	-	-	847	116	2,298	171	70	166
– repos and FX swaps	-	-	-	847	116	2,298	171	70	166
Fixed interest rate facilities	10	21	18	129	793	186	109	221	1,312
– repos and FX swaps	4	8	13	118	3	92	10	1	10
– secured loans	5	13	5	10	790	94	99	220	1 303
Credit institutions claims on the Bank of Russia	2,729	3,293	2,983	1,796	2,804	3,108	3,180	3,414	2,955
Deposits	2,372	1,902	1,026	1,221	2,804	3,108	3,180	3,414	2,955
– auction-based	2,125	1,478	697	844	1,626	-	1,838	2,295	1,664
– fixed interest rate	247	424	330	377	1,178	3,108	1,341	1,119	1,291
Coupon OBRs	357	1,391	1,956	575	-	-	-	-	-
Standing reverse facilities, other than standard monetary policy instruments of the Bank of Russia*	81	256	204	616	204	343	516	366	344

* This type of transactions includes specialised refinancing instruments of the Bank of Russia, loans provided by the Bank of Russia within irrevocable credit lines.
Source: Bank of Russia calculations.

THE STRUCTURAL LIQUIDITY SURPLUS FORECAST FOR THE END OF 2022 IS 3.2–3.8 TRILLION RUBLES
(TRILLIONS OF RUBLES)

Table 3

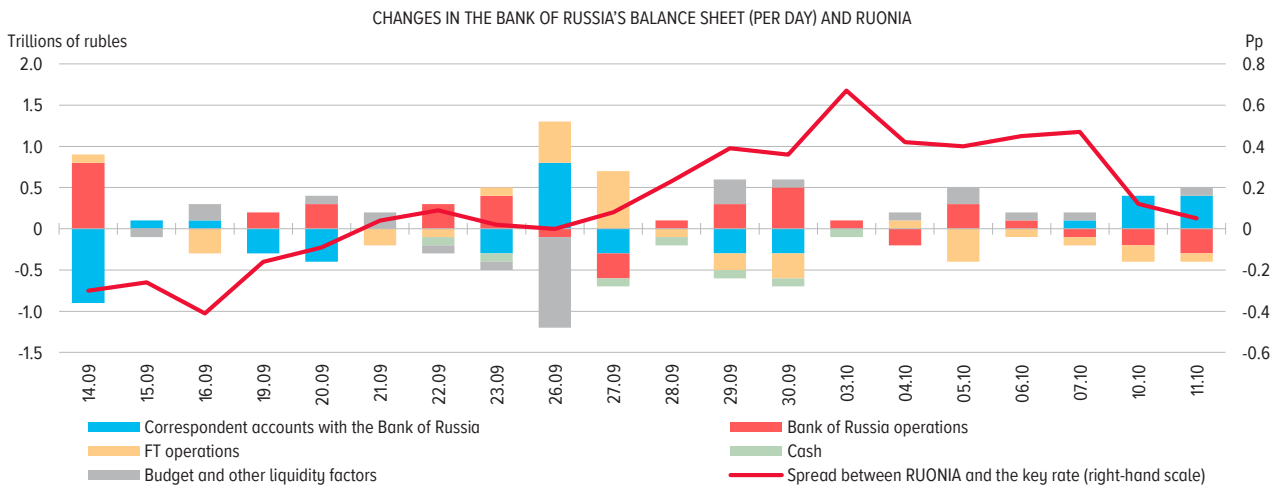
	2021 (actual)	January – September 2022	September 2022	2022 (forecast)
1. Liquidity factors	1.6	-0.4	-0.8	[1.4; 1.8]
– change in the balances of funds in general government accounts with the Bank of Russia, and other operations*	2.3	0.2	0.1	[1.5; 1.7]
– change in the amount of cash in circulation	-0.7	-1.1	-0.9	[-0.7; -0.5]
– Bank of Russia interventions in the domestic FX market and monetary gold purchases**	-	-0.1	-	-0.1
– regulation of banks' required reserves with the Bank of Russia	-0.1	0.7	0.0	0.7
2. Change in free bank reserves (correspondent accounts) (demand)	0.1	0.2	0.8	[-0.4; -0.2]
3. Change in banks' claims on deposits with the Bank of Russia and BoR coupon bonds	1.0	0.2	-0.5	[1.4; 2.0]
4. Change in outstanding amounts on Bank of Russia refinancing operations	-0.5	0.7	1.2	-0.2
Structural liquidity deficit (+) / surplus (-)	-1.7		-1.1	[-3.8; -3.2]

* Including fiscal rule-based operations to buy (sell) foreign currency in the domestic FX market and other operations.

** The forecast for the end of the year implies the uniform averaging of required reserves by banks and correspondent account balances close to the required ratio.
Source: Bank of Russia calculations.

IN SEPTEMBER, THE FEDERAL TREASURY PROMPTLY OFFSET THE LIQUIDITY OUTFLOW ON TAX PAYMENT DAYS THROUGH ITS OPERATIONS

Chart 2

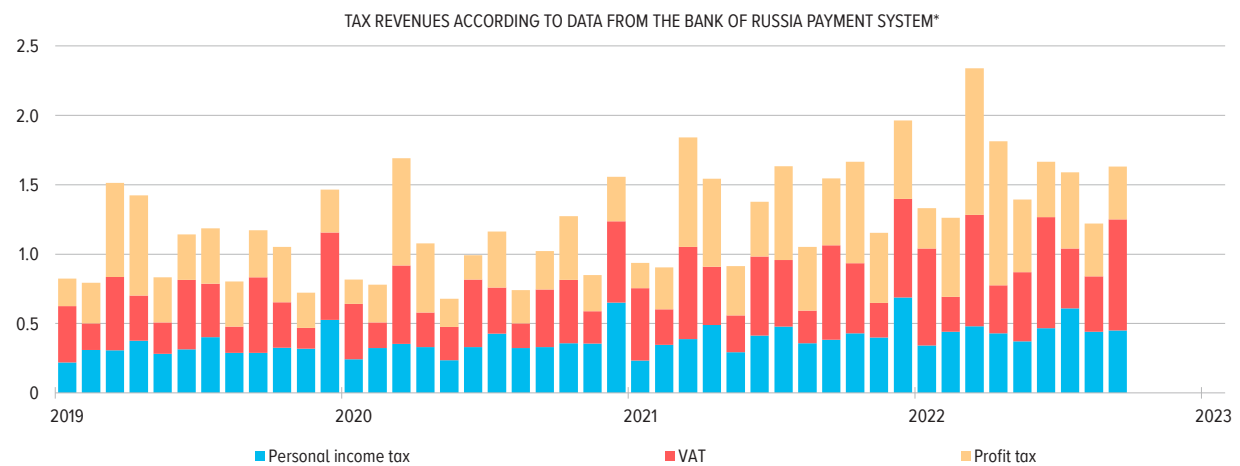


Source: Bank of Russia calculations.

IN SEPTEMBER 2022, PIT AND VAT PAYMENTS INCREASED YEAR-ON-YEAR, WHILE INCOME TAX (IT) REVENUES DECREASED

Chart 3

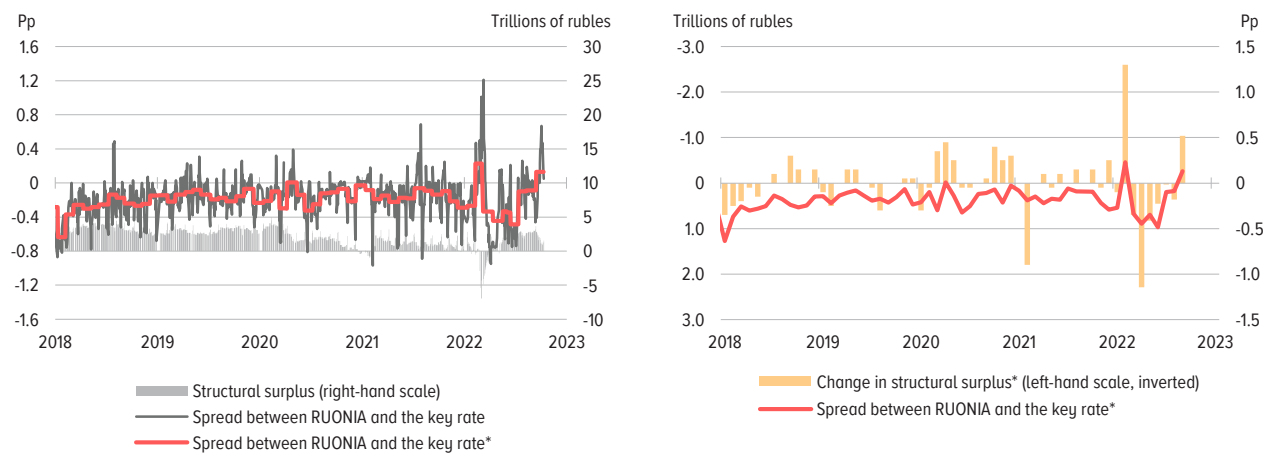
(TRILLIONS OF RUBLES)



* Funds transfers from credit institutions' accounts to the fiscal system's accounts with budget classification codes corresponding to the above taxes.
Source: Bank of Russia calculations.

THE SPREAD BETWEEN RUONIA AND THE BANK OF RUSSIA KEY RATE BECAME POSITIVE

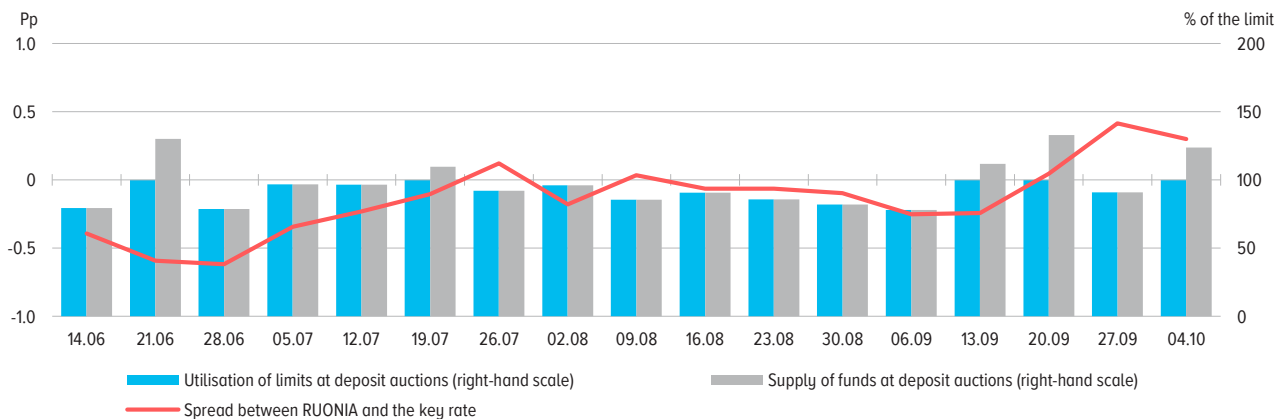
Chart 4



* Average for averaging periods.
Source: Bank of Russia calculations.

UTILISATION OF LIMITS AT THE BANK OF RUSSIA DEPOSIT AUCTIONS IN 2022
(AVERAGE PER TRADING WEEK)

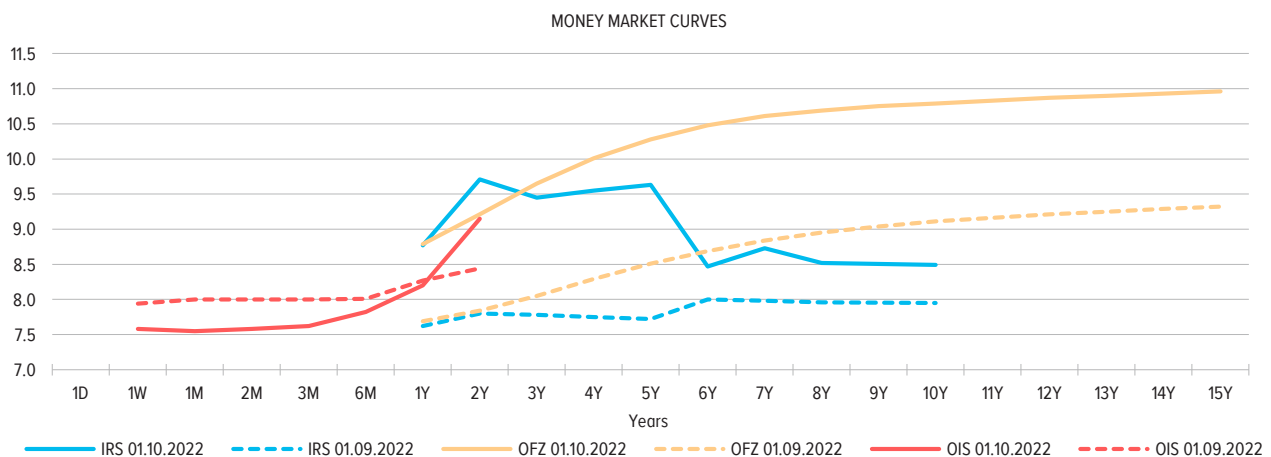
Chart 5



Note. The data are provided on deposit, fine-tuning repo and one-week auctions. Trading weeks are marked by dates of regular weekly auctions. Fine-tuning auctions are taken into account together with the one-week auction, the settlements under which were made over the corresponding trading week.
Source: Bank of Russia calculations.

IN SEPTEMBER, SHORT-TERM MONEY MARKET RATES LOWERED, WHILE LONG-TERM RATES ROSE (% P.A.)

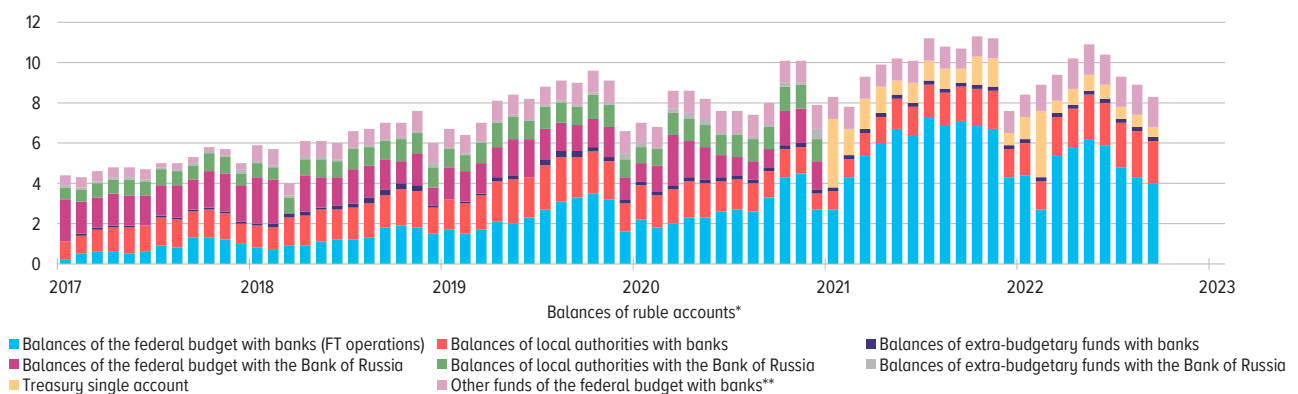
Chart 6



Note. The IRS curve for maturities of up to one year is built using MosPrime rates with respective maturities.
Sources: Cbonds, NFA, Bank of Russia calculations.

IN SEPTEMBER 2022, BUDGET ACCOUNT BALANCES CONTINUED TO DECLINE DUE TO INCREASED EXPENSES AND REDUCED INCOMES
(TRILLIONS OF RUBLES, AS OF THE END OF THE PERIOD)

Chart 7

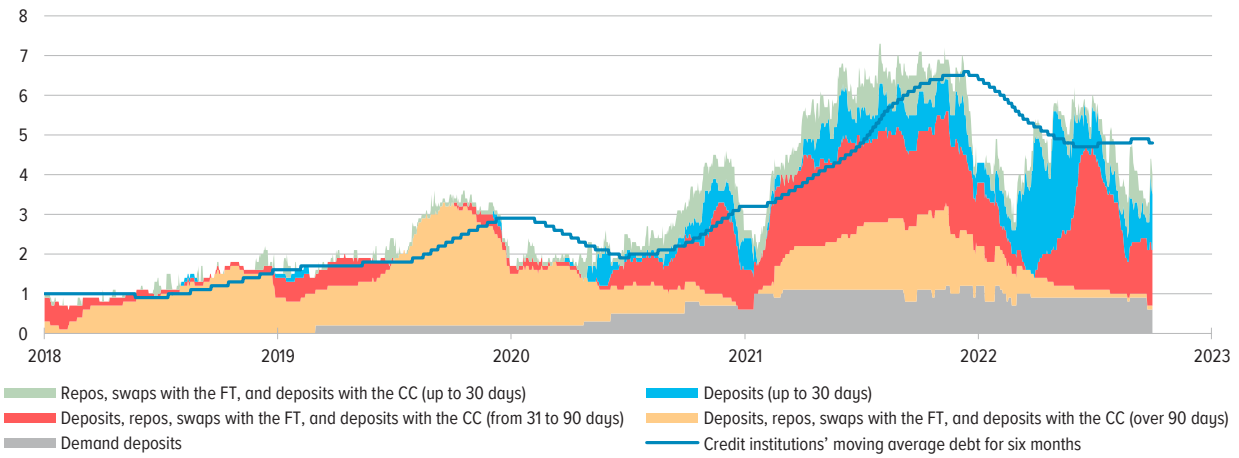


* According to Banking Reporting Form 0409301 'Performance indicators of a credit institution'.

** Other funds comprise VEB.RF budgetary funds, election commissions' funds, funds received for temporary use, funds for the cash transactions of Russia's Ministry of Finance, and others.
Source: Bank of Russia calculations.

IN SEPTEMBER 2022, CREDIT INSTITUTIONS' DEBT TO THE FT DECREASED BY 0.3 TRILLION RUBLES
(TRILLIONS OF RUBLES)

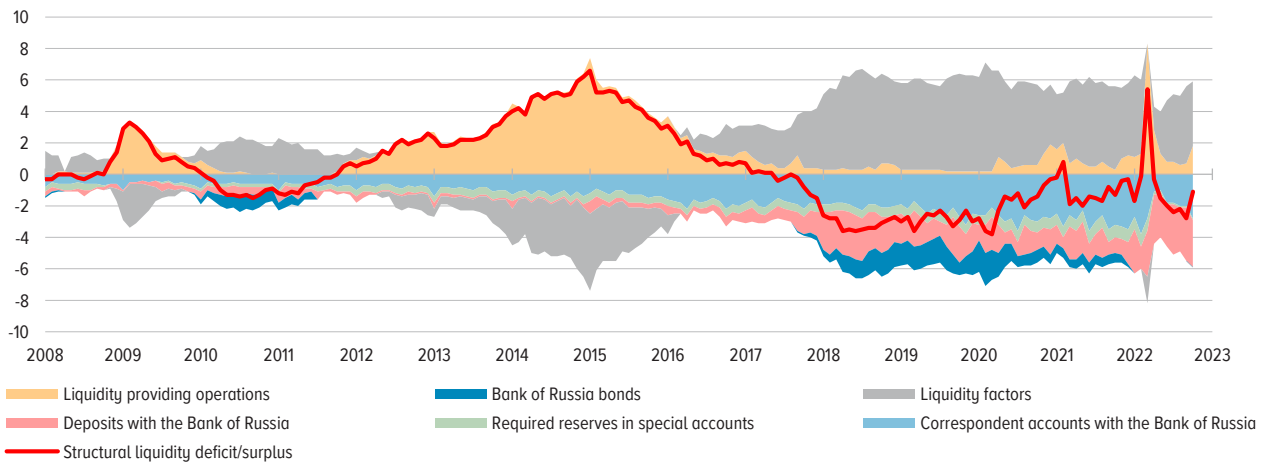
Chart 8



Sources: Federal Treasury, Bank of Russia calculations.

THE BANK OF RUSSIA'S BALANCE SHEET
(TRILLIONS OF RUBLES)

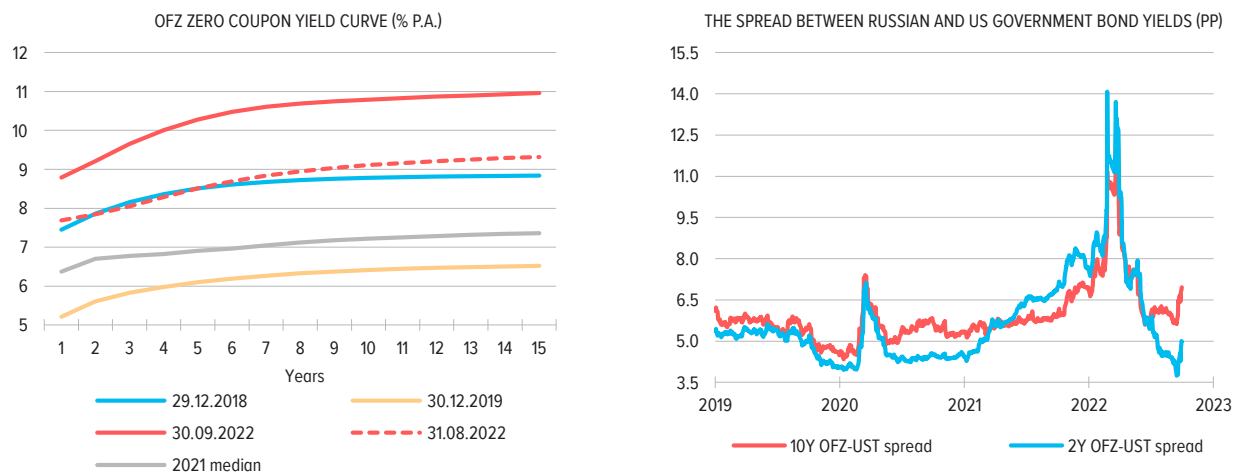
Chart 9



Source: Bank of Russia calculations.

OFZ YIELD CURVE ADJUSTED UPWARDS ALONG ITS ENTIRE LENGTH, MOST NOTABLY FOR SHORT-TERM MATURITIES

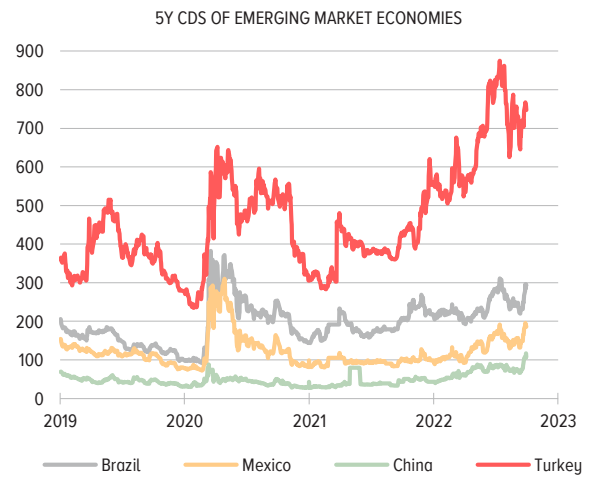
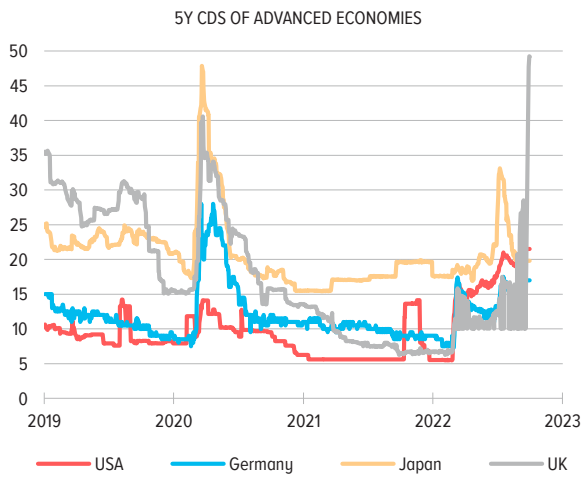
Chart 10



Sources: PJSC Moscow Exchange, Cbonds, Bank of Russia calculations.

CDS SPREADS MOSTLY GREW IN BOTH ADVANCED AND EMERGING MARKET ECONOMIES (BP)

Chart 11



Sources: Cbonds, Bank of Russia calculations.

THE RUSSIAN EQUITY MARKET SHOWED NEGATIVE TRENDS

Table 4

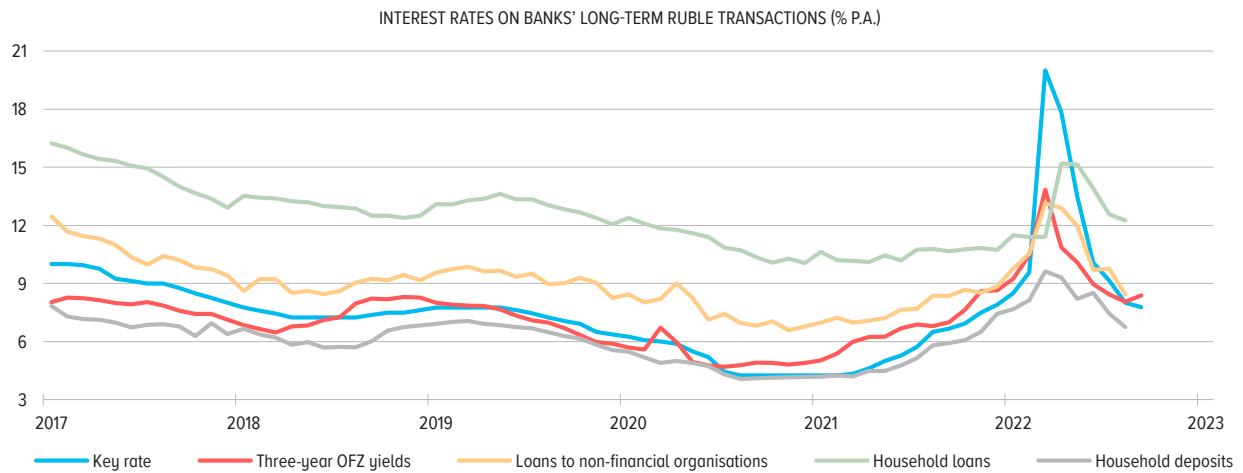
Indicator		30.09.2022	1M	3M	6M	YTD	1Y
Russian financial market							
RUB/USD exchange rate		56.89	5.5	-10.6	32.2	23.8	21.9
MOEX Index		1957	-18.4	-11.2	-29.1	-48.3	-51.8
RTS Index		1056	-16.1	-21.5	2.1	-33.8	-39.9
Government bond yields		10.15	146	148	-162	174	285
Corporate bond yields		11.01	182	79	-414	216	309
Regional bond yields		10.46	160	105	-311	183	266
RVI		74	24	13	-23	41	48
Exchange rates (per US dollar, per cent change, '+' – appreciation, '-' – depreciation)							
AEs*	US Dollar Index	112.12	3.1	7.1	13.8	17.2	18.8
	Euro	0.98	-2.5	-6.5	-11.3	-13.8	-15.5
	Japanese yen	144.75	4.2	6.6	18.1	25.7	29.3
	Pound sterling	1.12	-3.9	-8.3	-14.8	-17.4	-16.8
EMEs	Ruble	56.89	5.5	-10.6	32.2	23.8	21.9
	Brazilian real	5.41	-4.4	-3.0	-16.2	2.8	0.1
	Mexican peso	20.14	0.0	-0.2	-1.4	1.8	1.8
	Chinese yuan	7.12	-3.3	-6.2	-11.8	-11.8	-9.9
	Turkish lira	18.49	-1.6	-10.8	-25.9	-38.7	-107.5
	South African rand	18.08	-5.7	-11.0	-23.4	-13.1	-19.2
10-year bond yields (% p.a., change in bp, '+' – increase, '-' – decrease)							
AEs	USA	3.83	68	85	145	231	228
	Germany	2.11	57	59	155	229	232
	Japan	0.24	2	1	2	17	17
	UK	4.08	129	170	248	311	311
EMEs	Russia	10.79	169	200	-57	236	341
	Brazil	12.06	-22	-115	55	180	102
	Mexico	9.99	60	64	142	215	241
	China	2.77	11	-7	-6	-2	-13
	Turkey	12.02	-102	-735	-1,332	-1,266	-674
	South Africa	10.89	45	31	129	146	162
5Y CDS spreads (bp, change in bp, '+' – increase, '-' – decrease)							
AEs	USA	22	3	4	9	10	9
	Germany	17	1	4	3	8	8
	Japan	20	0	-5	2	3	1
	UK	49	28	37	35	39	40
EMEs	Brazil	293	44	15	96	97	99
	Mexico	186	31	19	90	99	89
	China	108	33	22	46	67	61
	Turkey	747	-2	-78	213	202	336
	South Africa	338	56	26	131	137	129
Stock indices (points, % change, '+' – increase, '-' – decrease)							
AEs	S&P 500	3,586	-9.3	-5.3	-21.1	-24.8	-17.8
	Stoxx 600	388	-6.6	-4.8	-15.4	-20.5	-14.8
	Nikkei 225	25,854	-7.9	-2.0	-6.5	-10.2	-12.5
	FTSE 100	6,894	-5.4	-3.8	-8.5	-6.6	-3.0
EMEs	MSCI EM	876	-11.9	-12.5	-23.6	-28.9	-30.0
	Bovespa	110,037	0.5	11.7	-9.5	5.0	-1.0
	IPC Mexico	44,627	-0.7	-6.1	-21.2	-16.2	-12.6
	SSE Composite	3,024	-5.6	-11.0	-7.9	-16.9	-14.5
	BIST 100	3,180	0.3	32.2	41.2	71.2	128.5
	FTSE / JSE	63,726	-5.2	-3.8	-16.0	-13.5	-1.0

* Advanced economies.

Sources: PJSC Moscow Exchange, Cbonds, Bank of Russia calculations.

THE ROOM FOR CUTTING RATES SHRANK IN AUGUST

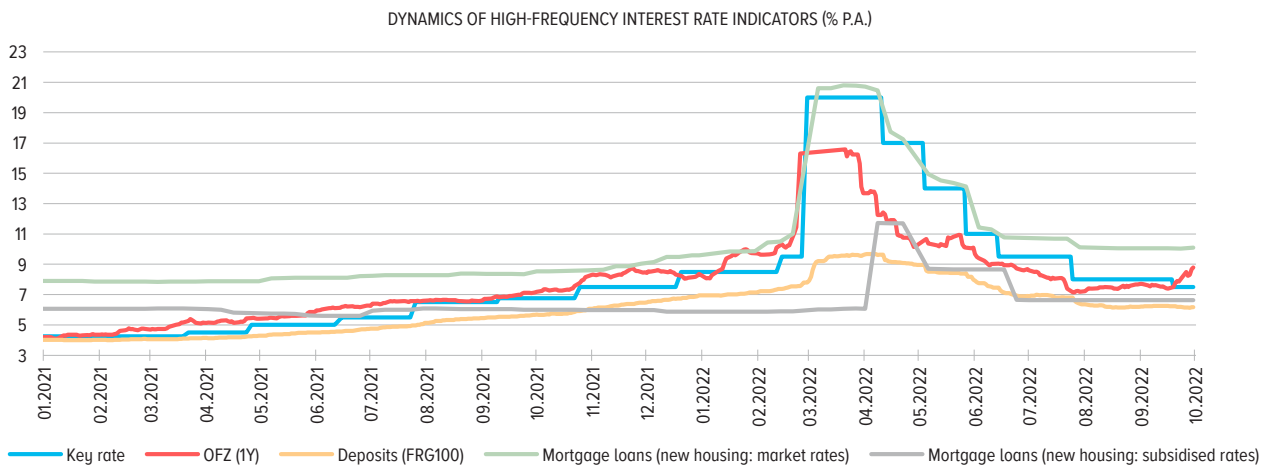
Chart 12



Source: Bank of Russia.

RATES STOPPED DECLINING IN SEPTEMBER

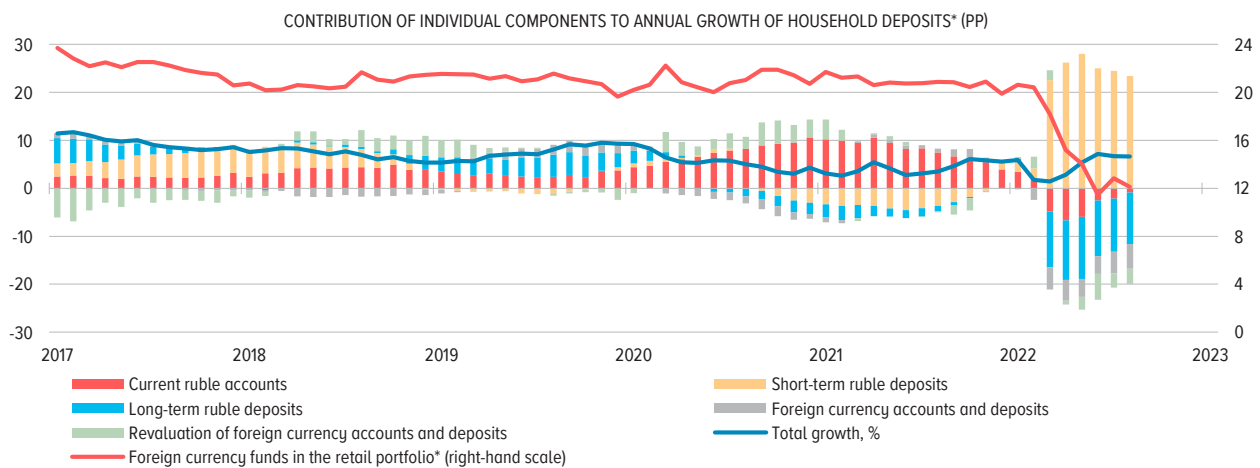
Chart 13



Sources: Bank of Russia, Frank RG, DOM.RF.

THE INFLOW OF HOUSEHOLD FUNDS TO THE BANKING SECTOR SLOWED DOWN IN AUGUST

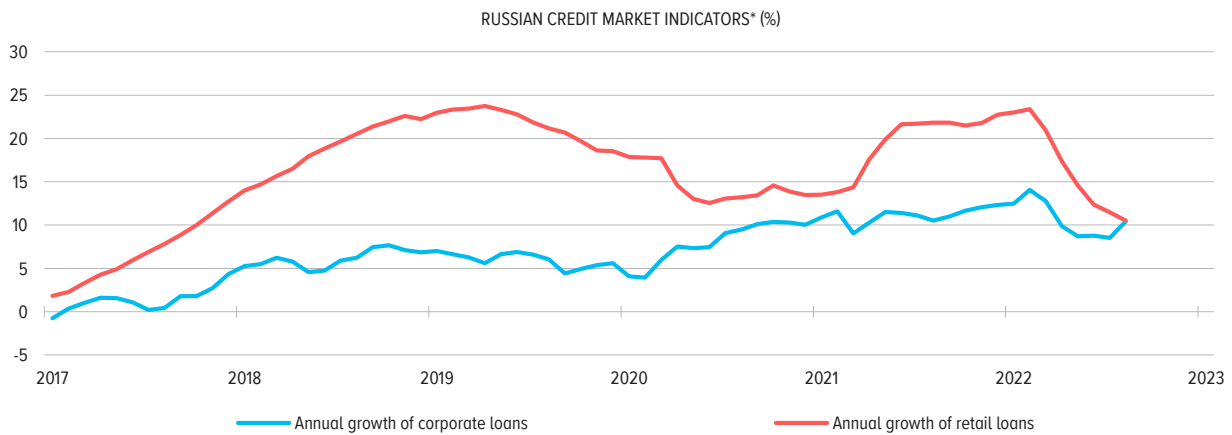
Chart 14



* Excluding escrow accounts.
Source: Bank of Russia calculations.

IN AUGUST 2022, CORPORATE LENDING GREW AT A FASTER PACE

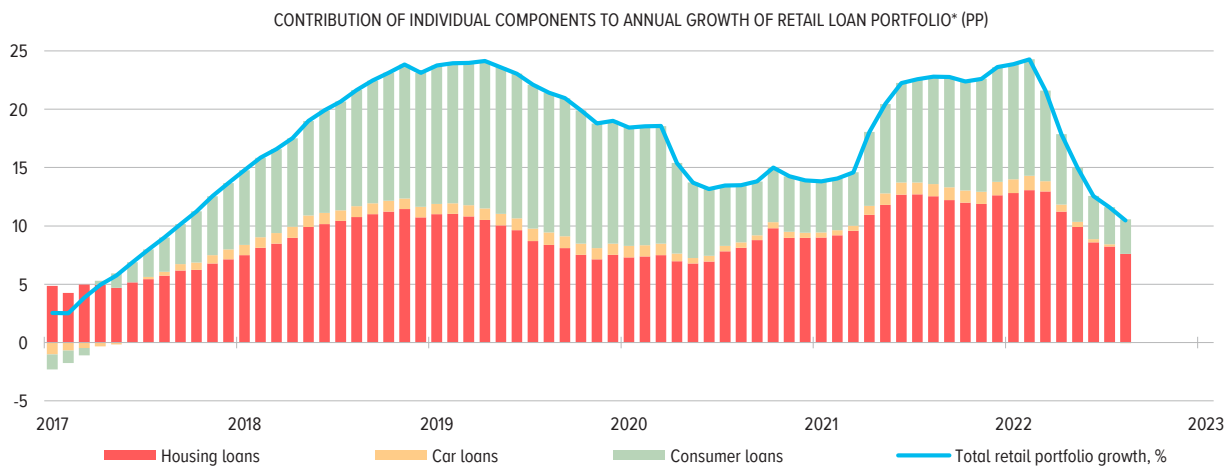
Chart 15



* Since 1 February 2021, the corporate and household loan portfolio includes acquired claims. The portfolio growth was calculated net of acquired claims.
Source: Bank of Russia calculations.

THE RECOVERY OF MORTGAGE LENDING IS STILL AHEAD OF THE CHANGES IN THE UNSECURED RETAIL LENDING

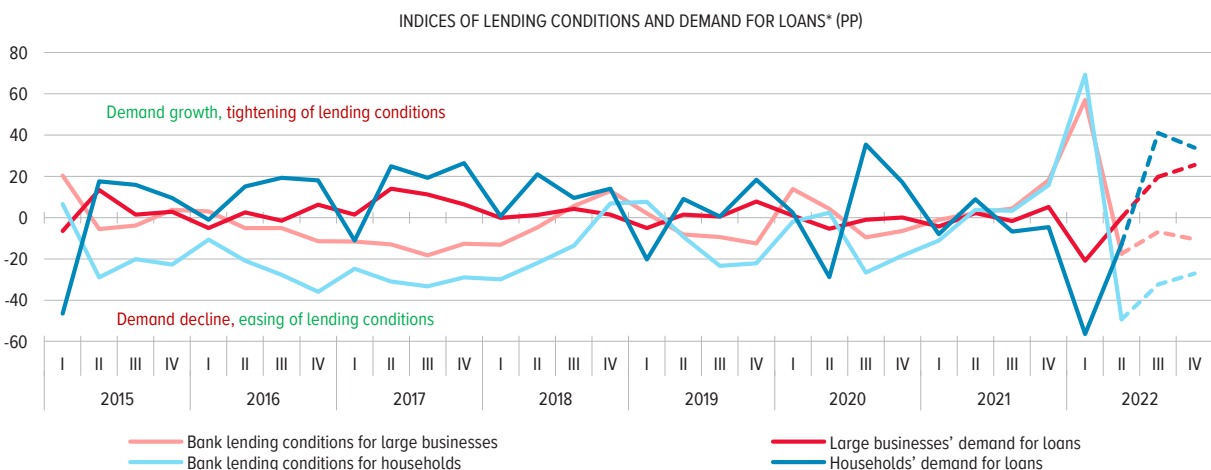
Chart 16



* For loans grouped into homogeneous loan portfolios.
Source: Bank of Russia calculations.

IN 2022 Q2, MORE ACCOMMODATIVE LENDING CONDITIONS PROMOTED THE RECOVERY OF LENDING ACTIVITY

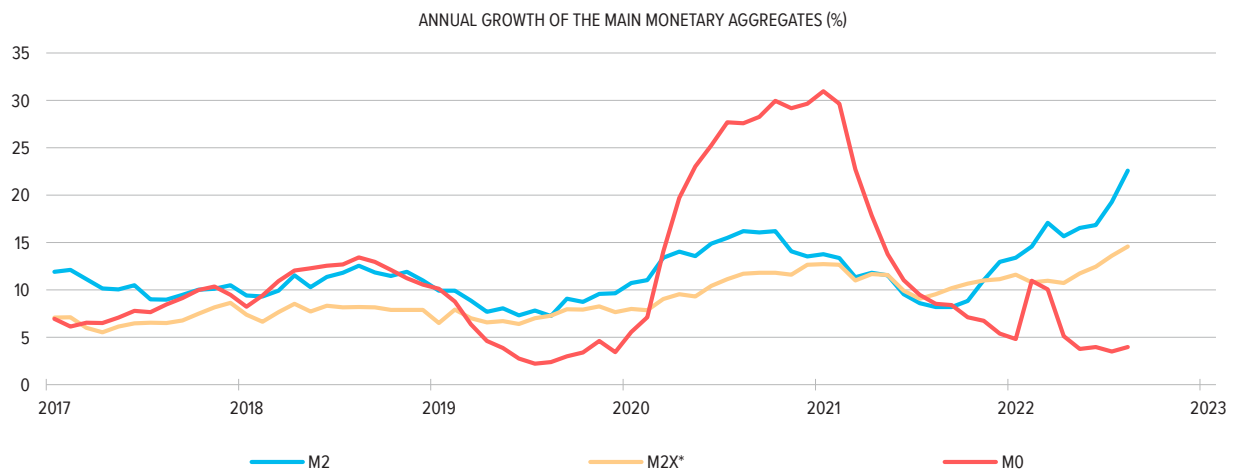
Chart 17



* The dotted lines signify respondent banks' expectations regarding changes in lending conditions and demand for loans in 2022 Q2.
Source: Bank of Russia.

MONEY SUPPLY CONTINUED TO GROW IN AUGUST

Chart 18



* Adjusted for foreign currency revaluation.
Source: Bank of Russia calculations.

INDICATORS OF THE CREDIT AND DEPOSIT MARKETS

Table 5

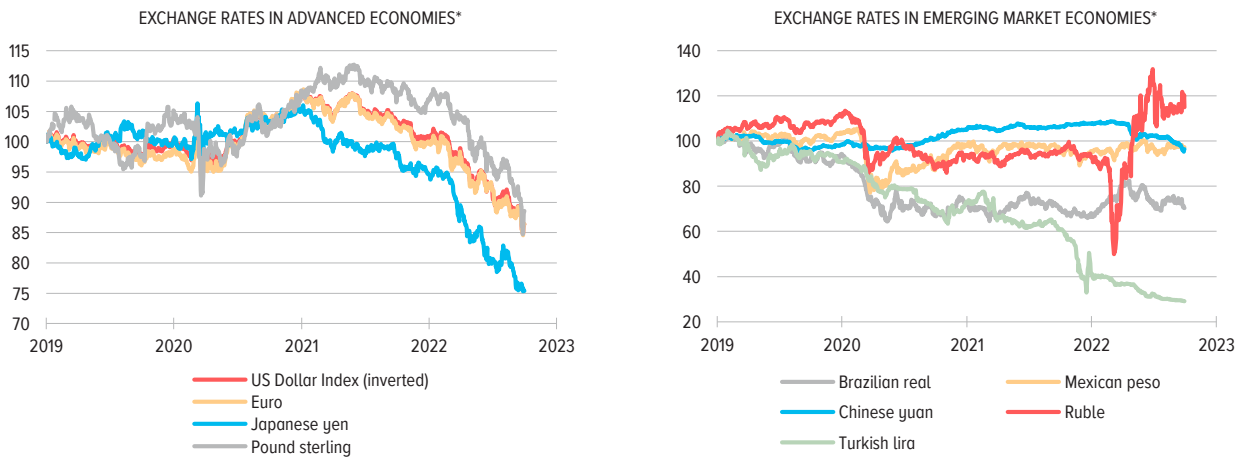
		May 2022	June 2022	July 2022	August 2022
Interest rates on banks' long-term ruble transactions					
household deposits	% p.a.	8.2	8.5	7.4	6.8
household loans	% p.a.	15.1	13.9	12.6	12.3
corporate loans	% p.a.	12.0	9.7	9.8	8.4
Households' funds*	% YoY, AFCR	5.4	7.2	6.7	6.6
in rubles*	% YoY	11.5	13.6	14.1	14.8
in foreign currency	% YoY	-19.2	-20.4	-23.6	-26.9
share of foreign currency*	%	14.0	11.5	12.8	12.1
Corporate loans**	% YoY, AFCR	8.7	8.8	8.5	10.4
short-term (up to 1 year)	% YoY, AFCR	3.9	4.8	5.6	9.0
long-term (more than 1 year)	% YoY, AFCR	11.1	11.7	10.2	11.8
Household loans**	% YoY, AFCR	14.6	12.4	11.5	10.5
housing mortgage loans	% YoY, AFCR	20.8	18.3	17.6	16.7
unsecured consumer loans	% YoY	9.7	7.7	6.6	6.2
Banking system's claims on the economy	% YoY, AFCR	12.4	11.5	10.9	11.3
on businesses	% YoY, AFCR	11.6	11.1	10.8	11.6
on households	% YoY, AFCR	14.4	12.2	11.3	10.3
Money supply (monetary aggregate M2)	% YoY	16.6	16.8	19.3	22.6
Broad money	% YoY, AFCR	11.8	12.5	13.6	14.6

* Excluding escrow accounts.

** Since 1 February 2021, the corporate and household loan portfolio includes acquired claims. The portfolio growth was calculated net of acquired claims.

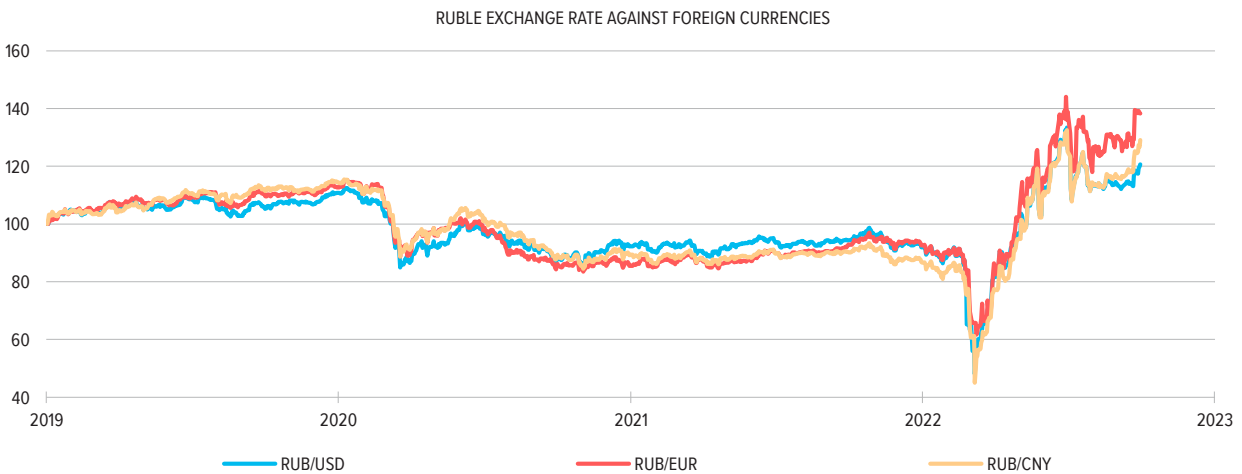
Note. YoY – year-on-year; AFCR – adjusted for foreign currency revaluation. The Marshall-Edgeworth decomposition is used to make the adjustment for foreign currency revaluation.
Source: Bank of Russia calculations.

IN SEPTEMBER 2022, EME CURRENCIES MOSTLY WEAKENED AGAINST THE US DOLLAR, EXCEPT THE RUSSIAN RUBLE AND THE MEXICAN PESO Chart 19
(02.01.2019 = 100)



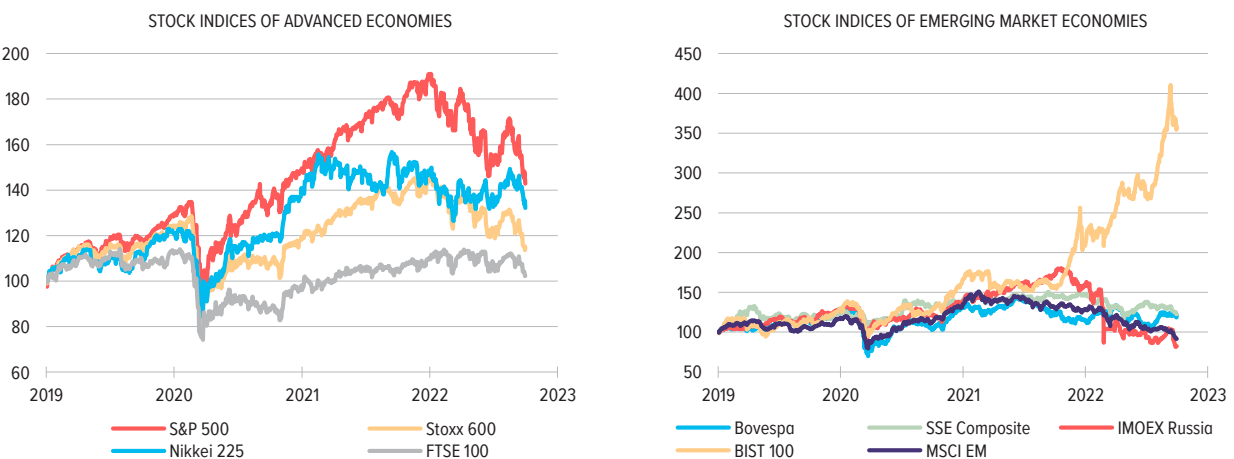
* Against the US dollar. Reverse exchange rates.
Sources: Cbonds, Bank of Russia calculations.

THE RUBLE STRENGTHENED AGAINST US DOLLAR BY THE END OF SEPTEMBER 2022 Chart 20
(02.01.2019 = 100)



Sources: Cbonds, Bank of Russia calculations.

STOCK INDICES IN MOST ADVANCED ECONOMIES DECLINED IN SEPTEMBER Chart 21
(02.01.2019 = 100)



Note. Stock indices are specified in national currencies.
Sources: Cbonds, Bank of Russia calculations.

Data cut-off dates:

- 'Money market and overnight rates (RUONIA)' subsection – 11 October 2022 (mandatory reserve requirements are an important part of Bank of Russia instruments to manage banking sector liquidity and money market rates. Therefore, the analysis of the effectiveness of the Bank of Russia's monetary policy operational procedure should take into account required reserves averaging periods. In September–October 2022, this period is from 14 September 2022 to 11 October 2022);
- 'Money and debt market yield curves' and 'Other financial market segments' sections – 30 September 2022;
- 'Credit and deposit market' section – 1 September 2022.

The electronic version of the [information and analytical commentary](#) is available on the Bank of Russia website.

Please send your comments and suggestions to svc_analysis@cbr.ru.

This commentary was prepared by the Monetary Policy Department.

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