



Bank of Russia



October 2022

MONETARY CONDITIONS AND MONETARY POLICY TRANSMISSION MECHANISM

Information and analytical commentary

Moscow
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MONETARY CONDITIONS AND MONETARY POLICY TRANSMISSION MECHANISM (OCTOBER 2022)

- According to the Bank of Russia, monetary conditions slightly tightened on average in October. This was due to rising risk premiums in debt market and increasing rates on short- and medium-term deposits in response to an outflow of liquidity from the banking sector in late September. Overall, monetary conditions remain neutral.
- The average spread between RUONIA and the key rate over the October averaging period (AP) narrowed to 6 bp (in the September AP: 13 bp). As before, most of the borrowings were made by several large market participants.
- Money market and debt market yields fell slightly over the month, but their average level in October was higher than in September. Long-term OFZ yields continue to reflect higher risk premium. The decision of the Bank of Russia Board of Directors made on 28 October 2022 to keep the key rate at 7.50% per annum and a neutral signal for the key rate were in line with market expectations.
- Corporate lending and mortgages continued to grow at an accelerated pace in September due to the easing of price lending conditions in the third quarter, (including the spread of Developer Subsidised Mortgage), however, lending rates have been trending upwards from late September.
- Money supply expanded due to corporate lending and budget expenditure in September. The annual growth of money supply in national definition (M2) amounted to 23.9%. Over twelve months, broad money supply (M2X) increased by 10.0% (adjusted for foreign currency revaluation, by 14.3%).

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 (*welfare 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. In addition to monetary policy and demand, inflation and financial market trends are influenced by many other factors which are 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 Monetary Policy Guidelines for 2023–2025](#).

MONETARY CONDITIONS

As of the end of October, monetary conditions tightened in general. On the one hand, this was due to higher risk premiums in the debt market on the back of intensified geopolitical tensions. On the other hand, monetary conditions were impacted by higher interest rates on both short- and long-term deposits in response to the outflow of liquidity from the banking sector at the end of September (Chart 1). Loan interest rates stopped declining, and banks began to impose more stringent requirements on borrowers. Concurrently, the October decision of the Bank of Russia Board of Directors to keep the key rate at 7.50% per annum had a neutral effect on monetary policy as this decision was in line with market expectations.

MONETARY CONDITIONS TIGHTENED IN OCTOBER

Chart 1



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

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.

Source: Bank of Russia calculations.

INTEREST RATE CHANNEL OF MONETARY POLICY TRANSMISSION MECHANISM

1. Key rate

On 28 October 2022, the Bank of Russia Board of Directors decided to keep the key rate at 7.50% per annum. When deciding on the key rate, the Bank of Russia took into account the existing balance of disinflationary factors (saving behaviour, record-high harvests of agricultural products, faster recovery of imports of consumer and intermediate goods) and proinflationary risks (increased geopolitical tensions, deterioration of the global economy, higher real wages for certain occupations).

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

IN OCTOBER 2022, ANALYSTS RETAINED KEY RATE EXPECTATIONS FOR THE END OF 2022

Table 1

Key rate expectations based on market indicators (instrument)	December 2022	June 2023
ROISfix	7.5 (7.5)	7.5 (8.0)
RUSFAR	7,5 (7,5)	–
Analysts' key rate expectations*	2022 average	2023 average
Survey by the Bank of Russia	10.6 (10.5)	7.1 (6.8)

* Dates of the Bank of Russia's macroeconomic survey: 12–18 October 2022. Brackets are used to show the results of the survey conducted in September 2022.
Sources: Bank of Russia calculations, NFA.

2. Money market and overnight rates (RUONIA)

In the October required reserve (RR) averaging period (AP), the spread between RUONIA (the Bank of Russia's operational benchmark) and the Bank of Russia key rate was **6 bp** (in the September AP: 13 bp; year to date: -17 bp) (Chart 4). The spread volatility dropped to 21 bp (in the September AP: 29 bp; year to date: 37 bp).

Over the October AP, the structural liquidity surplus decreased by 0.7 trillion rubles on average to **1.1 trillion rubles** (in the September AP: 1.8 trillion rubles; as of 1 November 2022: 0.6 trillion rubles). In October, fiscal operations and cash demand led to an outflow of liquidity from banks.

Over the October AP, the spread was predominantly at the average level of the previous period and its volatility was low. First, money market participants did not expect major changes in the key rate from the Bank of Russia Board of Directors meeting on 28 October 2022. As a result, this factor had no noticeable impact on their strategies of RR averaging and on RUONIA. Second, a major participant attracting funds at relatively high rates, increased the amount of borrowings in the interbank lending segment. This also narrowed the range of RUONIA fluctuations. However, some banks still favoured other liquidity absorbing instruments: Bank of Russia standing deposits were still in demand and borrowings through repos on the Moscow Exchange increased. As a result, borrowing banks were forced to use Bank of Russia refinancing operations to meet their liquidity needs in addition to borrowings in the money market.

By the end of the AP, many banks had largely completed their RR averaging. Subsequently, demand for liquidity from large borrowers decreased, and RUONIA edged down. To maintain money

market rates close to the key rate, the Bank of Russia held a ‘fine-tuning’ deposit auction on the last day of AP.

In October, the liquidity balance in the banking sector reduced owing to fiscal operations.¹ A fiscal surplus was formed in October, for the first time since April. This is the month when the tax on additional income from hydrocarbon extraction and income tax for the third quarter are paid. Revenue growth was also boosted by measures implemented in the oil and gas sector.² OFZ auctions caused an additional outflow of liquidity. Concurrently, the Federal Treasury increased the amount of funds placed with banks, which mitigated the impact of fiscal flows on liquidity.

In October, demand for cash decreased but remained above its seasonal levels. Overall, the outflow caused by this factor amounted to 0.3 trillion rubles over the month.

In November, the Bank of Russia raised the limit of one-month repo auction to 1.5 trillion rubles (demand: 1.4 trillion rubles). This measure is aimed at smoothing the temporary imbalances in the maturities of credit institutions’ assets and liabilities amid a declining structural liquidity surplus and shorter maturities of credit institutions’ liabilities. One of the factors is the seasonality in the execution of budget expenditure at the end of the year relative to the growth rate of the Ministry of Finance’s borrowings. The Bank of Russia operations will help keep money market rates close to the key rate and therefore will have no impact on the monetary policy stance. Demand for these operations is expected to decrease again once liquidity returns to the banking sector from the budget when expenditures are executed, as it was in early 2021.

The structural liquidity surplus forecast for the end of 2022 was raised by 0.1 trillion rubles and is assessed to range from 3.3 trillion to 3.9 trillion rubles.³ This change is due to a 1.0 trillion ruble increase in the forecast of the inflow of funds to banks because of fiscal and other operations. The forecast for cash in circulation in 2022 was also revised upwards (by 0.9 trillion rubles to 1.4–1.6 trillion rubles, taking into account the August–October actual figures).

3. Money and debt market yield curves

Money market curves. In October, ROISfix curve⁴ shifted downwards. Rates for maturities of up to three months edged down by 4–8 bp, for those over 6 months – by 10 bp. One-year indicator was down by 19 bp. (Chart 6). Concurrently, RUSFAR 3M almost did not change and was 7.75% (-1 bp). The dynamics of money market curves was driven by the fact that market participants somewhat revised the risks of proinflationary factors’ materialisation and relevant key rate increase amid lower markets volatility and the adaptation of participants to internal and external shocks occurred in September. As a base scenario, market participants still expect the key rate to remain close to its current level of 7.50% until the end of the next year. However, the market’s assessment of the risk that inflation will possibly accelerate in the future is lower now than at the end of September.

OFZ yield curve. At the end of October, zero-coupon yield curve shifted downwards along its entire length by 50–100 bp on average, most notably for short-term maturities (Chart 9): OFZ 1Y – 7.72% (-107 bp); OFZ 2Y – 8.2% (-101 bp); OFZ 5Y – 9.37% (-91 bp), and OFZ 10Y – 10.18% (-61 bp). OFZ yields edged down from their peak values at the end of September. However, they remain elevated relative to the levels before the partial mobilisation. The curve dynamics was generally conditioned on a lower probability of the key rate increase at the next meetings of the Bank of Russia Board of Directors due to changes in the balance of disinflationary and proinflationary risks and a neutral signal from the Bank of Russia. Nevertheless, there are still risks of faster inflation in the medium

¹ According to the Bank of Russia Payment System.

² A one-off increase in the mineral extraction tax by 0.4 trillion rubles from October to December 2022 in each of these months in accordance with Federal Law No. 323-FZ, dated 14 July 2022, ‘On Amending Part Two of the Tax Code of the Russian Federation.’

³ See [Monetary Policy Report No. 4 \(40\), October 2022](#).

⁴ The OIS (ROISfix) curve represents indicative rates (fixing) on RUONIA IR swaps.

term in part due to a possible wage growth in a tighter labour market. The long end of OFZ curve (from 10Y) remains at 10.0–10.5%, reflecting higher risk premium. Demand for long-term securities has been subdued due to an uncertainty about further key rate path and federal budget execution⁵, and lingering concerns about a reversal of the disinflationary trend. The spread between ten-year and two-year OFZ yields expanded by 40 bp to 198 bp (158 bp as of the end of September) due to a more moderate downward shift of the long end of the curve caused by growing sanctions and geopolitical risks.

In October, the debt markets of the developed countries did not appear to have a decisive impact on the Russian OFZ market, as it showed an opposite trend. Yields on US Treasury bonds rose to 4.0–4.5% on the back of a tougher signal from the US Federal Reserve due to steadily higher inflation (8.2% in September, 8.3% in August) and fears of a global recession: 2Y – 4.51% (+29 bp) and 10Y – 4.1% (+27 bp).

In October, the average daily turnover grew to 13.1 billion rubles (in September: 19.4 billion rubles), and collective investors became net buyers of mid-term OFZ-PD and OFZ-PK. The structure of OFZ buyers in the secondary market slightly changed. There was a significant increase in the activity of collective investors, non-bank financial institutions and individuals. Concurrently, systemically important credit institutions (SICI) preferred to sell securities.

Primary OFZ market. The Russian Ministry of Finance resumed placements after a three-week pause due to high volatility in the financial market. The first auctions were held on 19 October offering medium-term OFZ-PD (2031) and OFZ-PK (2030) issuances of 25 billion rubles each, with a focus on domestic investors, first of all, on SICI. All the securities were placed in full. The bulk of demand came for OFZ-PK (76.7 billion rubles) as investors sought to hedge their interest rate risk. The interest in the nine-year bonds was slightly less – 31.4 billion rubles, with the premium on the secondary market ranging from +3 to +5 basis points. The observed low diversity of demand and non-competitive bids⁶ indicated that market participants were uncertain about their assessment of the current market conditions. On 26 October 2022, the Russian Ministry of Finance held three unlimited auctions at once, offering investors OFZ-PD (2029), OFZ-PK (2030) and OFZ-IN (2032). Demand for the securities reached 76.5 billion rubles (amount of satisfied bids: 20.7 billion rubles), 218.7 billion rubles (123.6 billion rubles) and 41 billion rubles (33.3 billion rubles), respectively. Moreover, the main buyers of OFZ-IN were not only credit institutions, but also collective investors. In the last auction week, the Ministry of Finance managed to raise 167 billion rubles, a record amount since April 2021 (178 billion rubles).

Implied inflation. As of the end of October, implied inflation for OFZ-IN-52002 (2028) decreased almost by 1bp to 6.4% (against 7.2% a month earlier).⁷

4. Corporate bond market

Secondary market. As of the end of October, the average yield of corporate bonds decreased by 1.6 pp to 9.4% (vs 11% in September). Over the month, the spread between the yields on corporate and government bonds shrank from the September highs to 150 bp (-57 bp), reflecting reduced tensions, including geopolitical ones. However, the risks of additional sanctions pressure remain. Apart from a limited supply, coupon payments can somewhat support the market in the short run.

Primary market. In October, corporate borrowers were raising funds in the debt market more actively than a month ago. The total volume of new issues increased almost by half to 618 billion rubles (vs 391 billion rubles in September), with about a half of the placements amounting to 304 billion rubles offered to a wide range of investors (vs 325 billion rubles in September). There were no

⁵ The Russian Ministry of Finance doubled its estimate of the budget deficit for 2023 to 3 trillion rubles.

⁶ Non-competitive bids are submitted without a preset price. They are executed as prescribed by the investor at the average weighted price of the auction.

⁷ See methodological notes [Estimates of Implied Inflation from Prices of Inflation Indexed Bonds](#).

significant changes in the borrower structure. Companies from the real sector, primarily oil & gas and metal producers, remained the main debt issuers. Russian companies continued to ramp up funds raised in Chinese yuan. Concurrently, a new instrument – substitute bonds – became widespread, enabling the investors to resume receiving payments on Eurobonds that are no longer credited to the accounts of Russian investors due to the blocking by foreign accounting infrastructure.

5. Credit and deposit market

Deposit rates. In September and October, deposit rates increased after their decrease in April–August. They went down on the back of accommodative monetary policy. Deposit rates rose in response to the cash outflow from banks when the key rate cutting was put on hold and OFZ yields stopped rising in late September.⁸ An increase in market rates encouraged banks to raise their transfer pricing rates, which pushed up deposit rates. In September, average market rates on short-term⁹ and long-term deposits edged up by 0.48 pp and 0.28 pp, respectively. (Chart 11).

In October, deposit rates continued to grow, with a tougher competition for depositors among banks. In October, deposit yield curve became upward sloping again. According to recent monitoring data, rates on savings accounts and deposits with systemically important banks for maturities shorter than one month were below those on one-year deposits. In October, the FRG100¹⁰ profitability index grew by 29 bp to 6.45% (Chart 12).

Banks promptly align their deposit rates with key rate changes, fluctuations in financial markets and monetary policy stance. A better situation in financial markets and a stabilisation of public expectations may make deposit rates less volatile.

Deposit operations. Household funds in the banking sector¹¹ declined in September owing to a higher cash demand and an increase in cross-border money transfers. Savings in rubles shifted from the short-term deposits, opened at higher rates in 2022 Q1 and Q2 and approaching their maturities, to current accounts and deposits for one year and longer. There was an outflow mainly driven by declining balances in foreign currency deposits. Household funds with banks¹² fell by about 450 billion rubles in September after a 32 billion ruble rise in August. The annual growth of household funds with banks dropped to 4.4% in September vs 6.6% in August (Chart 13).

More intensive outflow of foreign currency savings from banks amounted to 7 billion US dollars in September. To slow down the reduction of foreign currency funding, banks, among other things, relaxed their foreign currency account terms and conditions, i.e. decreased charges and increased balances subject to charges. In September, the share of household deposits in foreign currency with banks renewed its record low amounting to 10.5% vs 12.1% in August.

Based on preliminary estimates, the withdrawal of household savings from banks slowed down in October. Savings in rubles will support the increased deposit rates. However, their movements will depend on further saving behaviour. The outflow from foreign currency deposits is likely to continue amid persistent risks related to currencies of unfriendly countries. Notably, September saw a trend towards the development of household deposits in yuan.

⁸ See details in Subsection 'Money and debt market yield curves'.

⁹ 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.

¹⁰ The average interest rate of the 54 largest banks on deposits for up to one year in the amount of 100,000 rubles and more, according to the data from the Frank RG news agency.

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

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 of the foreign currency component is converted into rubles using the period average exchange rate.

Credit rates. Credit rates stopped declining in September. According to recent estimates, in October, the cost of borrowings in most market segments rose due to higher uncertainty and more expensive funding, although the Bank of Russia Board of Directors cut the key rate to 7.5% per annum at its September meeting.

In September, rates on short-term loans to non-financial organisations went down while those on long-term ones rose (Chart 11). This may reflect higher economic uncertainty. In September, average weighted rate on short-term retail loans hardly changed amounting to 18.4% per annum. This value exceeds the February figure by three pp as a month before. There was a more pronounced drop in average weighted rate on long-term loans. However, it was driven by a changing structure of turnover and an increasing share of mortgages in new loan issues as mortgage rates are much lower than those on other consumer loans (Chart 11). The rate on ruble-denominated housing mortgage loans was close to the level of previous month – 6.7% per annum. Rates has slightly edged up in the finished housing segment where market lending standards prevail. In the primary market, the rate hit its record low of 3.5% owing to government-subsidised mortgage programmes and subsidising of interest rate by developers. Recent monitoring data shows that banks have been raising their rates on market-based housing mortgage loans due to higher credit risks since late September. However, rates on subsidised mortgage facilities stayed unchanged (Chart 12).

Corporate and retail credit rates are likely to grow further at a moderate pace owing to worse sentiment of market participants amid higher uncertainty and an increase in OFZ yields and deposit rates. Concurrently, growth in credit rates will be curbed by the decision of 28 October to keep the key rate unchanged.

Corporate lending. In September, corporate lending was growing at a high pace which was comparable with that recorded in the previous months amid credit easing noted by banks, that participated in the bank lending conditions survey in 2022 Q3 (Chart 16). As of the end of September, the annual growth of corporate loan portfolio¹³ was 11.6%, speeding up by 1.1 pp over the month (Chart 14). Corporate lending was still expanding mainly due to the ruble segment. The share of foreign currency facilities in the portfolio continued to decline. For instance, annual growth of ruble corporate lending accelerated from 18.8% in August to 19.9% in September, whereas lending in foreign currency shrank by 18% in annualised terms as of the end of September. Based on high frequency data, in October, corporate lending continued to grow largely owing to the long-term segment.

As higher economic uncertainty is driving risks up, it may be expected that banks will be conservative in selecting borrowers while customers will be inclined to accumulate liabilities. Indeed, in October, businesses started to observe unfavourable changes in economic environment, with banks raising their non-price criteria for the evaluation of potential borrowers.¹⁴ This may stabilise or slightly slow down growth of corporate lending in the short run. The Bank of Russia is considering a regulatory relaxation whereby capital conservation buffers and systemically important bank buffers should be cancelled along with the restriction on profit distribution.¹⁵ This relaxation may support loan portfolio development.

Retail lending. In September, retail customers had a high demand for mortgage loans. The amount of disbursed housing mortgage loans reached 518 billion rubles, exceeding the average monthly disbursements of the last year. In September, the activity in the primary market was mainly driven by government-subsidised new housing mortgage loans, including those combined with ‘developer subsidised mortgage schemes’. The demand in primary market might have been additionally supported by the expectations of termination of government-subsidised new housing

¹³ Hereinafter, the growth of lending to non-financial organisations, financial institutions, and individual entrepreneurs exclude claims acquired by banks.

¹⁴ See [Monitoring of Businesses, No. 6, October 2022](#).

¹⁵ See [draft Bank of Russia Ordinance ‘On Amending Bank of Russia Instruction No. 199-I, Dated 29 November 2019, ‘On Banks’ Required Ratios and Capital Adequacy Buffers for Banks with a Universal Licence’](#).

mortgage programme and intentions to make use of it while it was effective. As of the end of month, annual growth of housing mortgage loan portfolio¹⁶ came in at 16.8% accounting for 75% of the annual growth of the total outstanding retail loans (Chart 15).

Other retail lending segments posted a weaker activity. In September, unsecured consumer loan portfolio rose by 0.9% against 1.4% a month earlier. Car loan portfolio slightly decreased amid continuously low activity in auto market.

Based on preliminary data, in October, activity in retail lending market somewhat declined due to increased uncertainty, higher bank credit rates, and lower household demand for expensive goods.¹⁷ Retail lending growth rate is expected to slow down further until the year-end. The establishment of [risk-weight add-ons for mortgage loans in rubles secured by equity construction agreements \(ECAs\) with a low downpayment](#) on 1 December and the introduction of macroprudential limits¹⁸ on certain high-risk transactions in the unsecured consumer lending segment in the beginning of the next year may additionally contribute to the cool-down in activity in the retail lending market.

OTHER FINANCIAL MARKET SEGMENTS

1. Exchange rate (foreign exchange channel)

In October, the ruble fluctuated in the range from 56.89 to 64.42 rubles per US dollar with a tendency to depreciate. By the end of month, the exchange rate was 61.48 rubles per US dollar (-8.1%). Monthly average exchange rate went down to 61.12 rubles per US dollar in October (in September: 59.82 rubles per US dollar). The ruble rate adjustment was associated with unfulfilled concerns about the sanction restrictions on the Russian financial market infrastructure, which could have resulted in a disruption of on-exchange trades in 'unfriendly' currencies. Persistent geopolitical tension and population migration exerted additional pressure.

Monthly realised exchange rate volatility returned to the level of August 2022 amounting to 27.3% (vs 11.1% in September). The ruble is still very volatile due to its higher sensitivity to the situation in oil and gas market following the suspension of fiscal rule.

[The real effective exchange rate of the ruble](#) (hereinafter, the REER), calculated against the currencies of the main foreign trade partners, appreciated by 2.6% in September (vs -3.9% in August). The REER movements are conditional on the September appreciation of ruble against the currencies of countries that have the largest portions in the overall external trade turnover with Russia. All else being equal, a stronger REER prompted a tightening of monetary conditions, making Russian export commodities slightly less attractive.

2. Capital market (welfare channel)

As of the end of October, the Moscow Exchange index partially recovered after a steepest plunge in the preceding month and gained 10.7% (vs -42.8% from the beginning of the year, -48.3% YoY). In addition, its volatility decreased to 8.8% (vs 14% in September).

During October, trends in the Russian equity market were uneven due to several factors, such as a persistent pressure from geopolitical and sanctions risks; a closure of dividend registers in the beginning of the month and a consequent inflow of liquidity from the reinvestment of dividends by blue chips and smaller companies, which supported the market; and a gradually declining geopolitical risk premium following the adaptation of market participants in the second half of October. Besides, the market adjustment was driven by a weakening ruble against the US dollar and higher oil prices, which supported raw material exporters.

¹⁶ Housing mortgage loans, net of claims on such loans acquired by banks.

¹⁷ See [Inflation Expectations and Consumer Sentiment No. 10 \(70\), October 2022](#).

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

In October, the total volume of transactions in all MOEX markets went on decreasing. For instance, the volume of trades in shares, depositary receipts and investment fund units dropped by 31.2% to 1 trillion rubles (vs 1.5 trillion in September). Daily average trades amounted to 48 billion rubles (vs 66.7 billion rubles in September). The impact of global trends on the Russian equity market is less pronounced in the short run owing to a smaller number of foreign investors, with local factors remaining the key drivers of the market development.

The Russian stock market is still likely to show a recovery trend provided geopolitical uncertainty subsides. All else being equal, the gradual recovery of the equity market in October implies a relative easing of monetary conditions, whereas the value of investors' portfolio and their investment activity are edging up. However, in Russia, the influence of this channel is not as significant as in countries with more mature stock markets.

Foreign markets

In September, global central banks continued the cycle of tightening their monetary policies and increasing their policy rates amid steadily high inflationary pressure. The average policy rate in advanced economies reached 2.37% (+24 bp MoM; +237 bp YTD), 11.03% in Latin America (+0 bp, +437 bp), 5.21% in South and Southeast Asia (+11 bp, +179 bp), 9.00% in Central and Eastern Europe and Central Asia (+36 bp, +546 bp), and 8.88% in African countries (+35 bp, +314 bp).

Some emerging market economies, such as Indonesia, Chile, South Korea and Peru, raised their policy rates while Brazil kept its policy rate unchanged (13.75%).

Concurrently, despite accelerating consumer prices growth in Turkey (85.5% YoY, 19.9% last year), its Central Bank cut the key rate again by 150 bp to 10.5%.

Stock indices in national currencies of emerging market economies were mostly growing (Chart 20). Stock indices of China were trending negatively and recorded a 4.3% decrease due to the ongoing restrictions related to the coronavirus pandemic. Yields on government bonds in EMEs mostly declined.

The rhetoric of the monetary authorities of key developed countries remained tough. Along with geopolitical risks, this kept investors cautious about the growth prospects of the global economy. However, stock markets trended upwards: S&P 500 – by +8.00%, Stoxx 600 – by +6.3%, Nikkei 225 – by +6.6% (Chart 20). Such trends were related to the changed expectations of market participants regarding the tightness of the US Fed monetary policy in the coming months, as well as to the impact of multidirectional factors in commodity markets.

At the end of October, the currencies of advanced countries strengthened against the US dollar, while the currencies of EMEs showed mainly negative trends (Chart 18). To maintain the yen level, in October, the Bank of Japan continued foreign exchange interventions, while pursuing an ultra-loose monetary policy.

MONEY SUPPLY

The growth in the banking system's claims on the economy¹⁹ slowed down in September compared to August. Notably, both corporate and retail lending posted a slower pace of growth. The annual growth rate of claims on the economy edged down by -0.6 pp to 10.7% after a 0.4 pp increase in August. Lending to the economy continues to be the largest contributor among money supply sources (above 9 trillion rubles).

In September, the banking system's net claims on the general government supported annual growth of money supply via budget expenditures due to smaller balances in the Federal Treasury accounts. The contribution of banking system's claims on the general government increased in

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.

September compared to August, reaching its highest value since the middle of 2021 (above 2 trillion rubles). The contribution of net foreign assets of credit institutions continued to decline in September.

Monetary aggregates were changing in different directions: annual growth of money supply in the national definition M2 came in at 23.9% after 22.6% in August (Chart 17) while the broad money supply M2X edged down from 10.8% in August to 10.0% in September (adjusted for foreign currency revaluation, from 14.6% to 14.3%). Growth of cash in circulation M0 sped up in September fuelled by a local household demand and amounted to 8.3% in annualised terms vs 3.5–4% in May–August. The expansion of non-cash component of money supply is supported by the record low ratio of M0 to M2 of less than 19%.

CHARTS AND TABLES

IN OCTOBER 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	01.10.2022	01.11.2022
Structural liquidity deficit (+) / surplus (-)	-2,639	-3,016	-2,761	-204	-1,691	-280	-2,384	-1,132	-564
Bank of Russia claims on credit institutions	10	21	18	976	909	2,484	280	1,479	1,570
Auction-based facilities	–	–	–	847	116	2,298	171	166	372
– repos and FX swaps	–	–	–	847	116	2,298	171	166	372
Fixed interest rate facilities	10	21	18	129	793	186	109	1,312	1,198
– repos and FX swaps	4	8	13	118	3	92	10	10	1
– secured loans	5	13	5	10	790	94	99	1,303	1,196
Credit institution claims on the Bank of Russia	2,729	3,293	2,983	1,796	2,804	3,108	3,180	2,955	2,458
Deposits	2,372	1,902	1,026	1,221	2,804	3,108	3,180	2,955	2,458
– auction-based	2,125	1,478	697	844	1,626	–	1,838	1,664	1,070
– fixed interest rate	247	424	330	377	1,178	3,108	1,341	1,291	1,388
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	344	324

* 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 WAS RAISED BY 0.1 TRILLION RUBLES AND IS ASSESSED TO RANGE FROM 3.3 TRILLION TO 3.9 TRILLION RUBLES
(TRILLIONS OF RUBLES)

Table 3

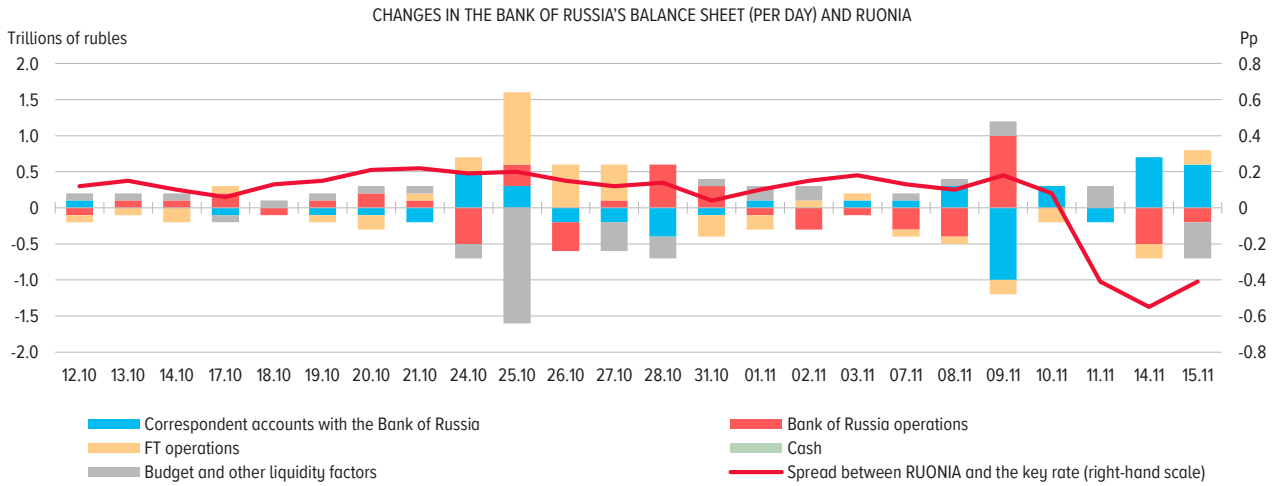
	2021 (actual)	January – October 2022	October 2022	2022 (forecast)
1. Liquidity factors	1.6	-1.1	-0.7	[1.4; 1.8]
– change in the balances of funds in general government accounts with the Bank of Russia, and other operations*	2.3	-0.2	-0.4	[2.5; 2.7]
– change in the amount of cash in circulation	-0.7	-1.4	-0.3	[-1.6; -1.4]
– Bank of Russia interventions in the domestic FX market	–	-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	0.1	-0.1	[-0.4; -0.2]
3. Change in banks' claims on deposits with the Bank of Russia and BoR coupon bonds	1.0	-0.3	-0.5	[1.1; 1.7]
4. Change in outstanding amounts on Bank of Russia refinancing operations	-0.5	0.8	0.1	-0.4
Structural liquidity deficit (+) / surplus (-)	-1.7		-0.6	[-3.9; -3.3]

* 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 OCTOBER 2022, FISCAL OPERATIONS LED TO AN OUTFLOW OF LIQUIDITY

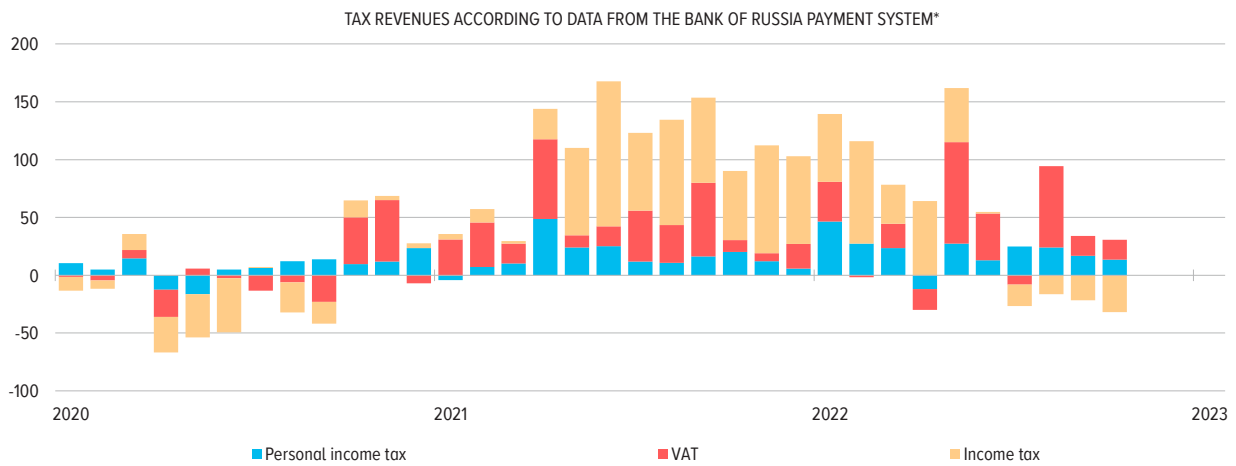
Chart 2



Source: Bank of Russia calculations.

IN OCTOBER 2022, GROWTH OF PIT AND VAT REVENUES SLOWED DOWN IN ANNUALISED TERMS WHILE REDUCTION OF INCOME TAX (IT) REVENUES SPED UP (%)

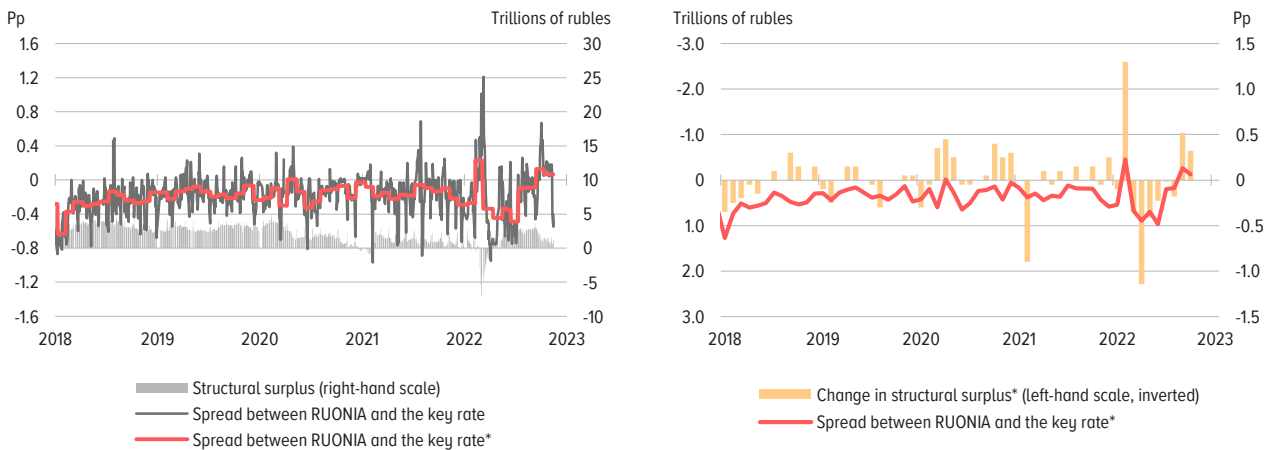
Chart 3



* 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.

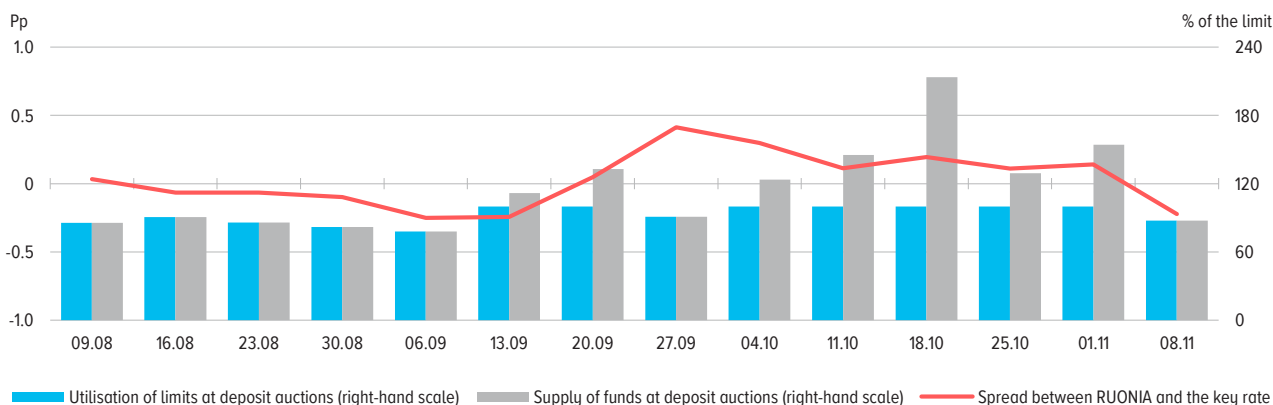
THE SPREAD BETWEEN RUONIA AND THE BANK OF RUSSIA KEY RATE CONTRACTED

Chart 4



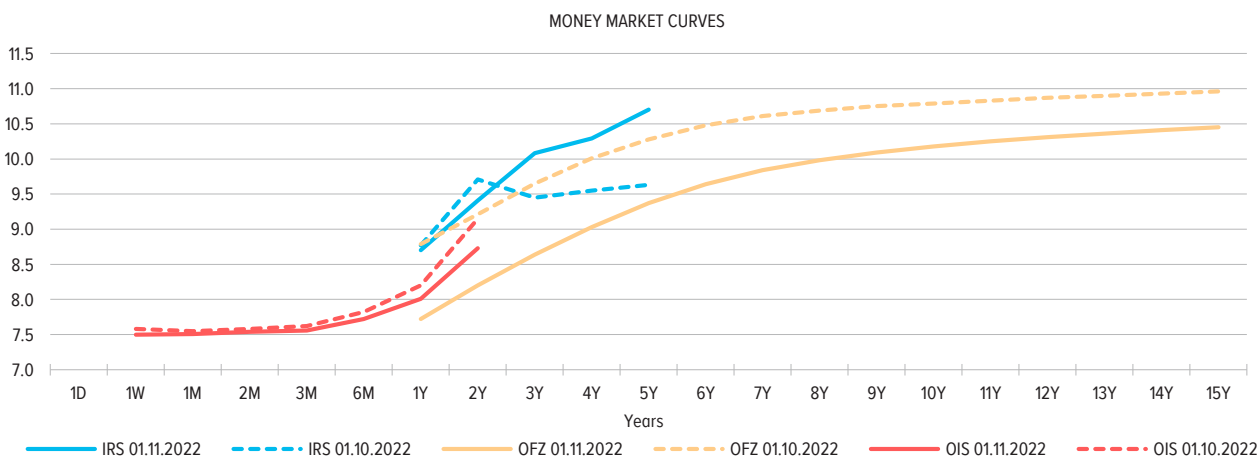
* Average for averaging periods.
Source: Bank of Russia calculations.

BANKS' SUPPLY AT BANK OF RUSSIA ONE-WEEK DEPOSIT AUCTIONS SLIGHTLY EXCEEDED THE ESTABLISHED LIMITS Chart 5



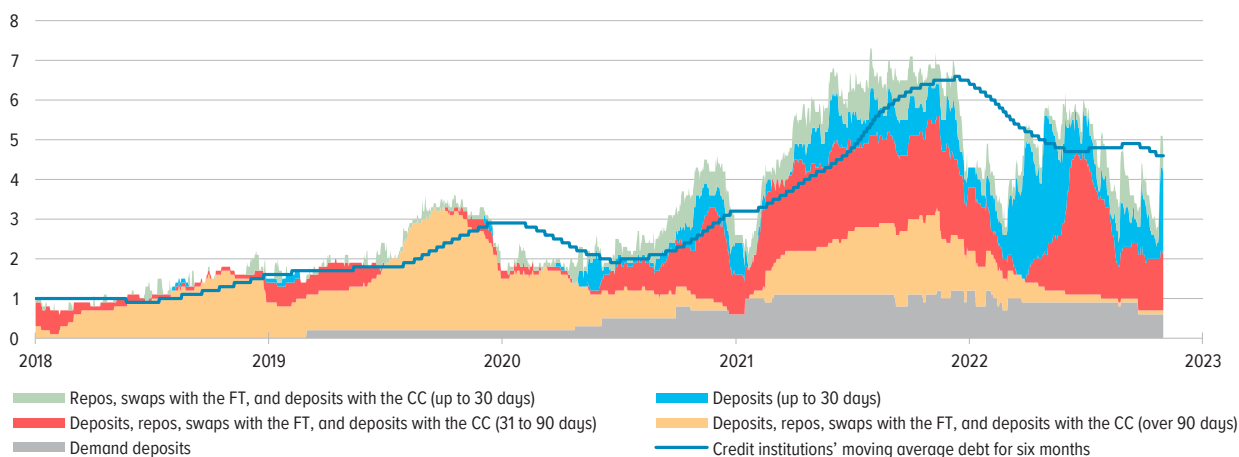
Note. The data are provided on deposit, fine-tuning repo and one-week auctions. Trading weeks are marked by dates of regular weekly auctions. Fine-tuning auctions are taken into account together with the one-week auction, the settlements under which were made over the corresponding trading week.
Source: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

IN OCTOBER 2022, MONEY MARKET RATES DECLINED FOR ALL MATURITIES Chart 6
(% P.A.)



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.

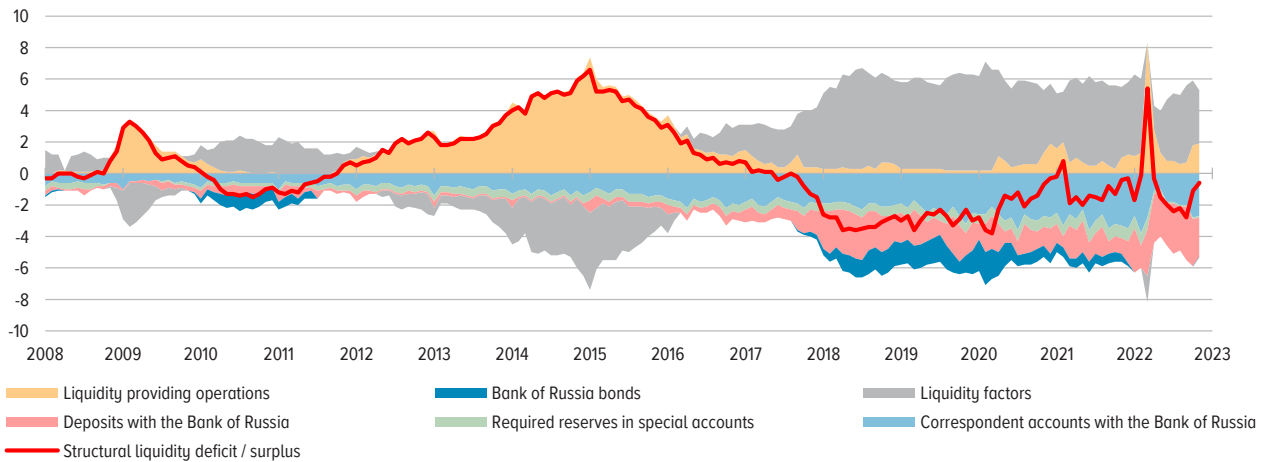
IN OCTOBER 2022, CREDIT INSTITUTIONS' DEBT TO THE FT ROSE BY 0.7 TRILLION RUBLES Chart 7
(TRILLIONS OF RUBLES)



Sources: Federal Treasury, Bank of Russia calculations.

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

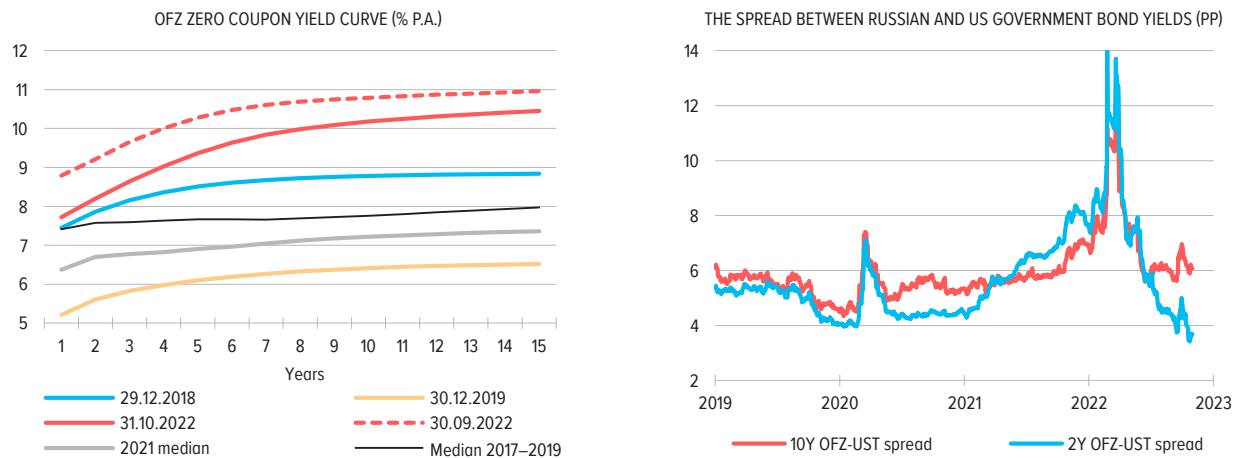
Chart 8



Source: Bank of Russia calculations.

THE LONG END OF OFZ YIELD CURVE REFLECTED HIGHER RISK PREMIUM

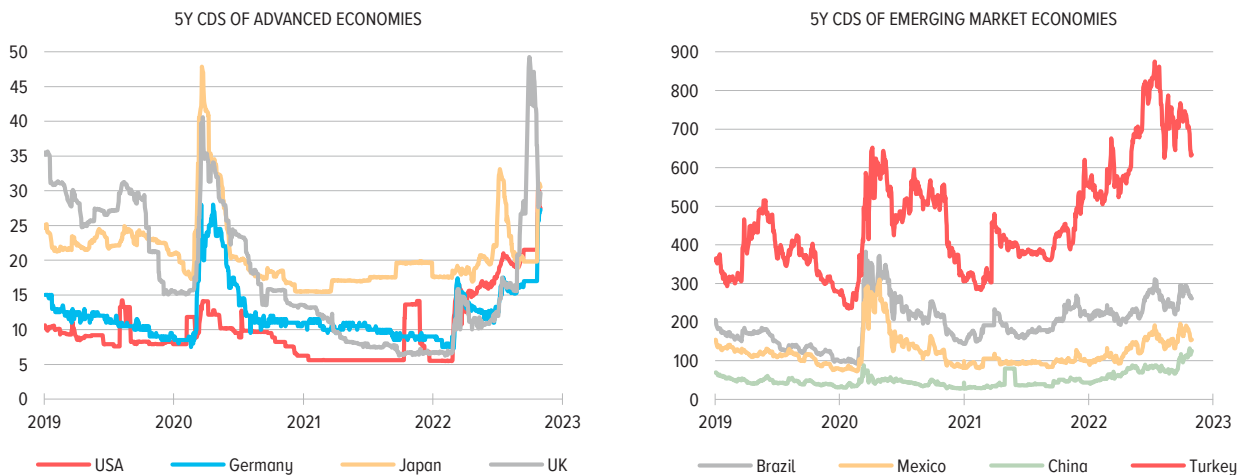
Chart 9



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

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

Chart 10



Sources: Cbonds, Bank of Russia calculations.

THE RUSSIAN FINANCIAL MARKET SHOWED POSITIVE TRENDS

Table 4

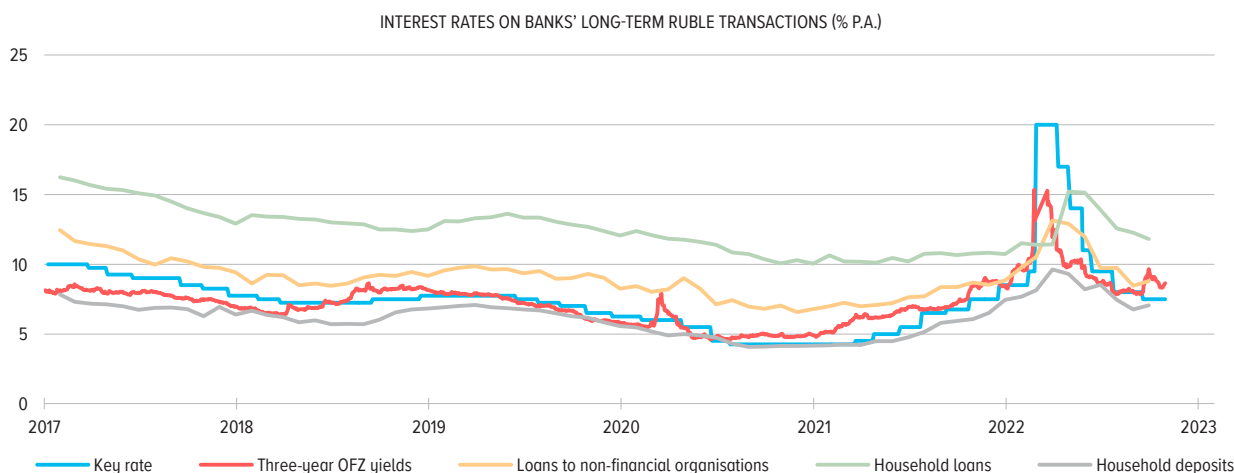
Indicator		31.10.2022	1M	3M	6M	YTD	1Y
Russian financial market							
RUB/USD exchange rate		61.48	-8.1	0.2	13.4	17.6	12.5
MOEX Index		2,167	10.7	-2.1	-11.4	-42.8	-48.3
RTS Index		1,112	5.3	-1.6	2.8	-30.3	-40.9
Government bond yields		9.51	-64	98	-64	110	129
Corporate bond yields		9.38	-163	26	-315	53	55
Regional bond yields		9.04	-142	44	-239	41	46
RVI		47	-27	-10	-24	14	22
Exchange rates (per US dollar, per cent change, '+' – appreciation, '-' – depreciation)							
AEs	USA	111.54	-0.5	5.3	7.5	16.6	19.5
	Germany	0.99	0.8	-3.4	-5.9	-13.1	-15.4
	Japan	148.74	2.8	11.6	14.3	29.2	31.0
	UK	1.15	2.7	-5.9	-8.2	-15.2	-16.9
EMEs	Russia	61.48	-8.1	0.2	13.4	17.6	12.5
	Brazil	5.18	4.3	-0.2	-1.8	7.0	8.3
	Mexico	19.80	1.7	2.7	3.2	3.4	2.8
	China	7.30	-2.6	-8.3	-9.4	-14.8	-14.3
	Turkey	18.63	-0.7	-3.9	-25.0	-39.7	-95.5
	South Africa	18.36	-1.5	-10.6	-13.6	-14.8	-21.3
10-year bond yields (% p.a., change in bp, '+' – increase, '-' – decrease)							
AEs	USA	4.10	27	143	111	258	253
	Germany	2.14	3	133	117	232	232
	Japan	0.24	0	6	2	17	15
	UK	3.51	-58	165	160	254	253
EMEs	Russia	10.18	-61	129	-14	174	202
	Brazil	12.06	0	-112	-33	180	18
	Mexico	10.21	22	131	77	237	241
	China	2.66	-11	-12	-20	-13	-33
	Turkey	11.24	-78	-668	-1013	-1344	-881
	South Africa	10.86	-3	50	90	143	126
5Y CDS spreads (bp, change in bp, '+' – increase, '-' – decrease)							
AEs	USA	27	6	7	12	16	14
	Germany	27	10	12	15	18	18
	Japan	31	11	4	12	13	12
	UK	30	-20	13	18	20	21
EMEs	Brazil	261	-32	3	37	66	39
	Mexico	154	-31	4	14	68	59
	China	125	17	53	46	84	79
	Turkey	633	-114	-165	40	88	203
	South Africa	298	-39	3	49	98	91
Stock indices (points, % change, '+' – increase, '-' – decrease)							
AEs	S&P 500	3,874	8.0	-6.2	-6.8	-18.7	-15.7
	Stoxx 600	412	6.3	-6.0	-7.1	-15.5	-13.3
	Nikkei 225	27,565	6.6	-0.7	2.8	-4.3	-4.4
	FTSE 100	7,095	2.9	-4.4	-6.0	-3.9	-2.1
EMEs	MSCI EM	848	-3.2	-14.7	-21.2	-31.2	-33.5
	Bovespa	116,037	5.5	12.5	8.8	10.7	9.8
	IPC Mexico	49,922	11.9	3.7	-3.8	-6.3	-2.6
	SSE Composite	2,893	-4.3	-11.1	-5.0	-20.5	-17.8
	BIST 100	3,979	25.1	53.5	63.7	114.2	161.4
	FTSE / JSE	66,672	4.6	-3.3	-8.0	-9.5	-1.6

* Advanced economies.

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

RATES STOPPED DECLINING IN SEPTEMBER

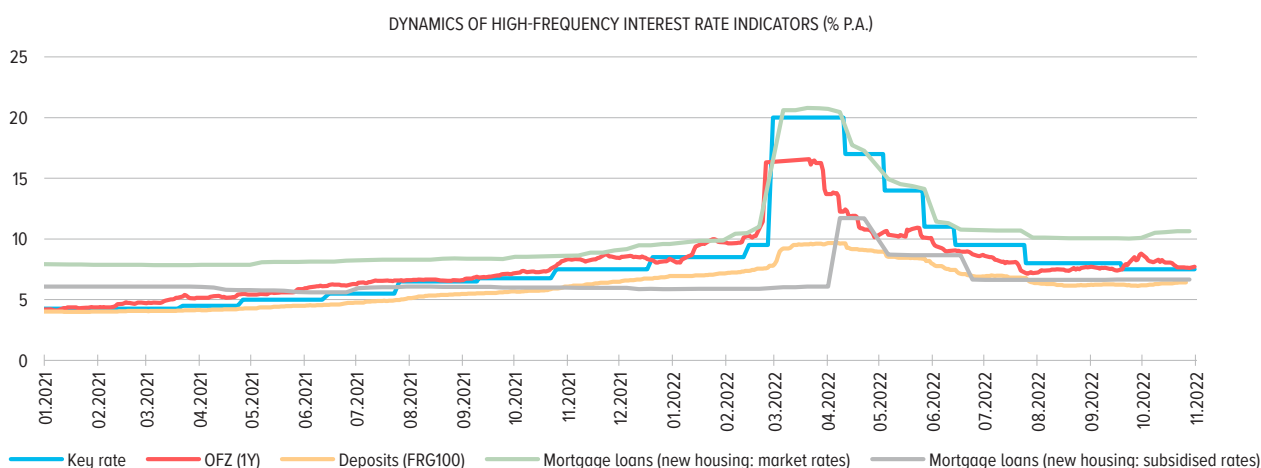
Chart 11



Source: Bank of Russia.

IN OCTOBER, BANKS RAISED CREDIT RATES DUE TO HIGHER CREDIT RISKS AND COST OF FUNDING

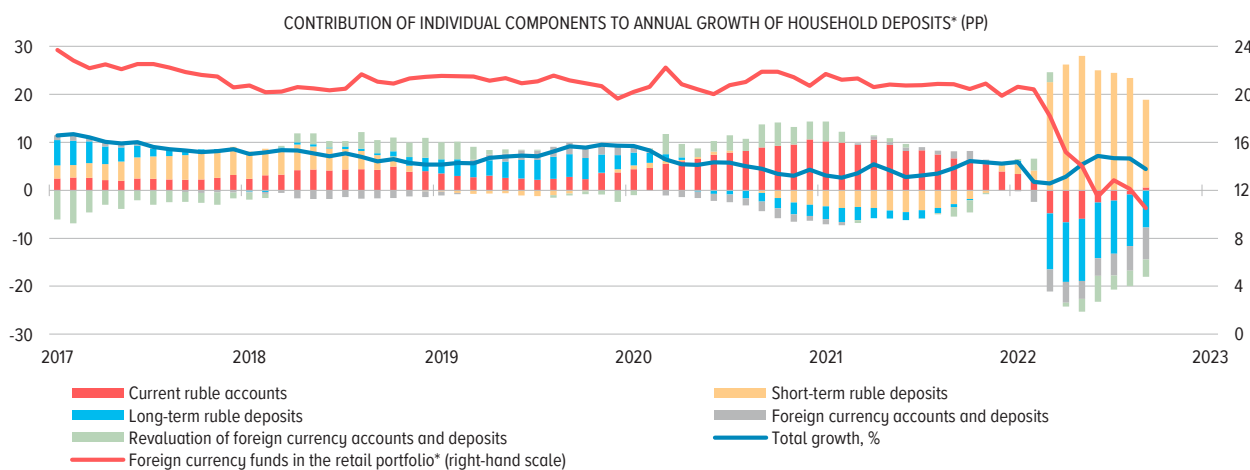
Chart 12



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

IN SEPTEMBER, BANKS FACED AN OUTFLOW OF FUNDS FROM DEPOSITS

Chart 13



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

CORPORATE LENDING GROWTH REMAINED SUSTAINABLE IN SEPTEMBER

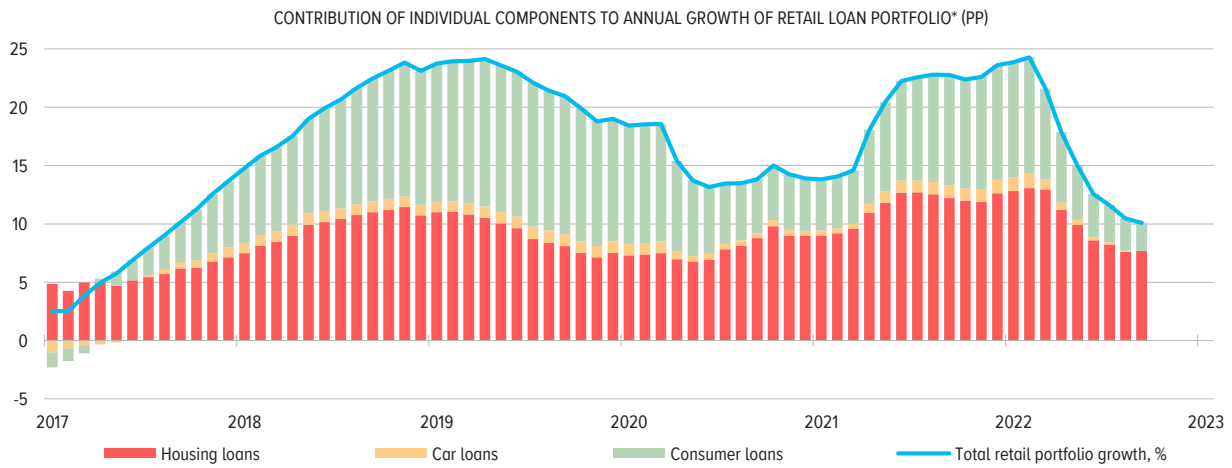
Chart 14



* 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.

MORTGAGE LENDING WAS THE MAIN CONTRIBUTOR TO RETAIL PORTFOLIO GROWTH IN SEPTEMBER

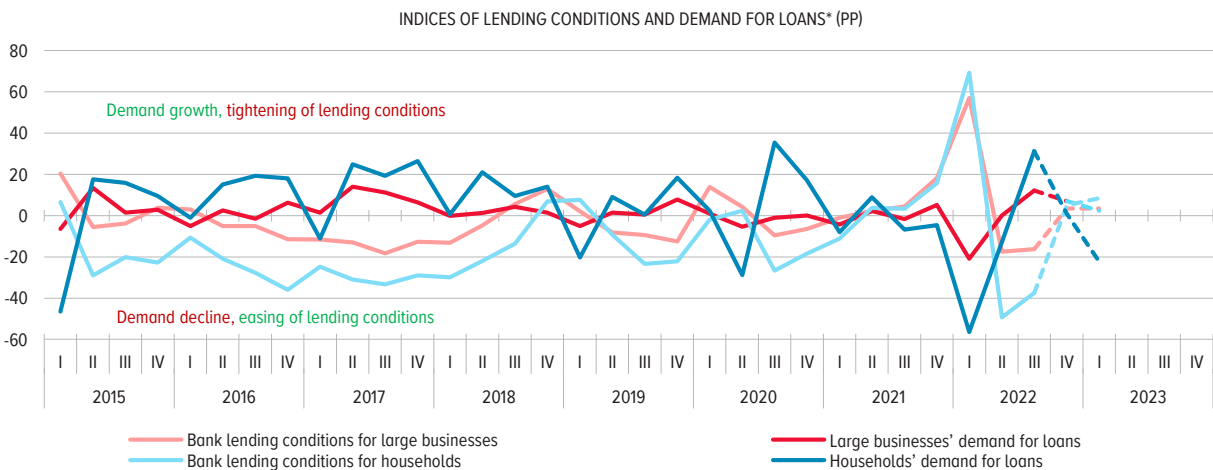
Chart 15



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

IN 2022 Q3, LENDING CONDITIONS EASED FOR ALL CATEGORIES OF BORROWERS

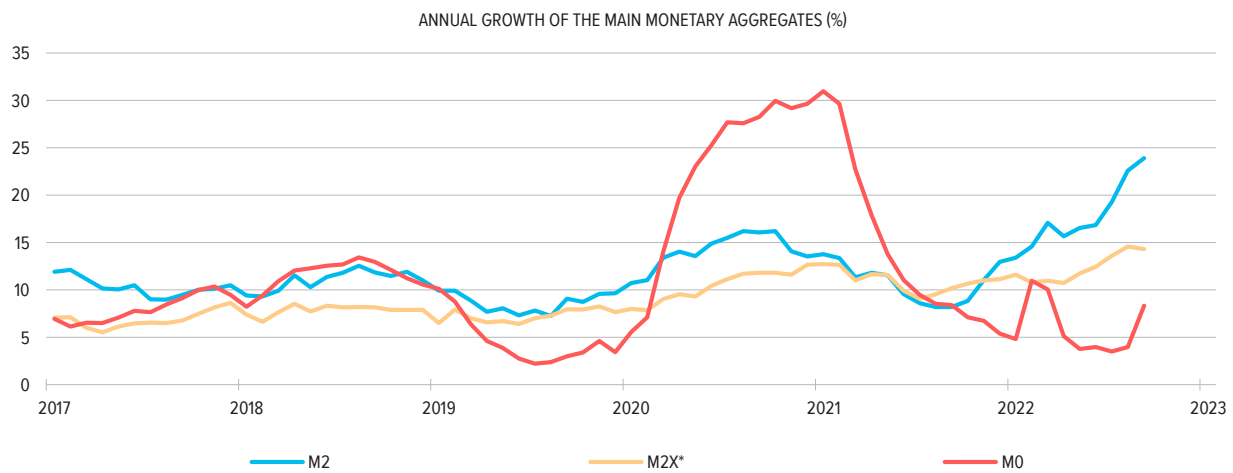
Chart 16



* The dotted lines signify respondent banks' expectations regarding changes in lending conditions and demand for loans in 2022 Q3.
Source: Bank of Russia.

GROWTH OF MONETARY AGGREGATES SPED UP IN SEPTEMBER

Chart 17



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

CREDIT AND DEPOSIT MARKET INDICATORS

Table 5

		June 2022	July 2022	August 2022	September 2022
Interest rates on banks' long-term ruble transactions					
household deposits	% p.a.	8.5	7.4	6.8	7.1
household loans	% p.a.	13.9	12.6	12.3	11.8
corporate loans	% p.a.	9.7	9.8	8.5	8.8
Household funds*	% YoY, AFCR	7.2	6.7	6.6	4.4
in rubles*	% YoY	13.6	14.1	14.8	14.0
in foreign currency	% YoY	-20.4	-23.6	-26.9	-35.6
share of foreign currency*	%	11.5	12.8	12.1	10.5
Corporate loans**	% YoY, AFCR	8.8	8.5	10.4	11.6
short-term (up to 1 year)	% YoY, AFCR	4.8	5.6	9.0	10.1
long-term (more than 1 year)	% YoY, AFCR	11.7	10.2	11.8	13.1
Household loans**	% YoY, AFCR	12.4	11.5	10.5	10.2
housing mortgage loans	% YoY, AFCR	18.3	17.6	16.7	16.8
unsecured consumer loans	% YoY	7.7	6.6	5.8	5.0
Banking system's claims on the economy	% YoY, AFCR	11.5	10.9	11.3	10.7
on businesses	% YoY, AFCR	11.1	10.8	11.6	10.9
on households	% YoY, AFCR	12.2	11.3	10.3	10.2
Money supply (monetary aggregate M2)	% YoY	16.8	19.3	22.6	23.9
Broad money	% YoY, AFCR	12.5	13.6	14.6	14.3

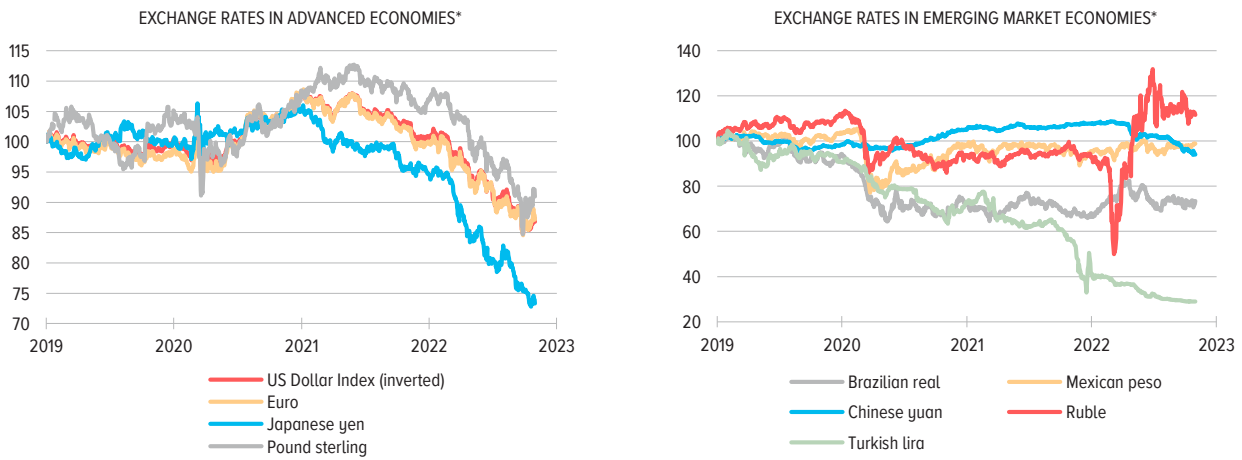
* Excluding escrow accounts.

** 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 OCTOBER 2022, THE US DOLLAR APPRECIATED AGAINST MOST CURRENCIES
(02.01.2019 = 100)

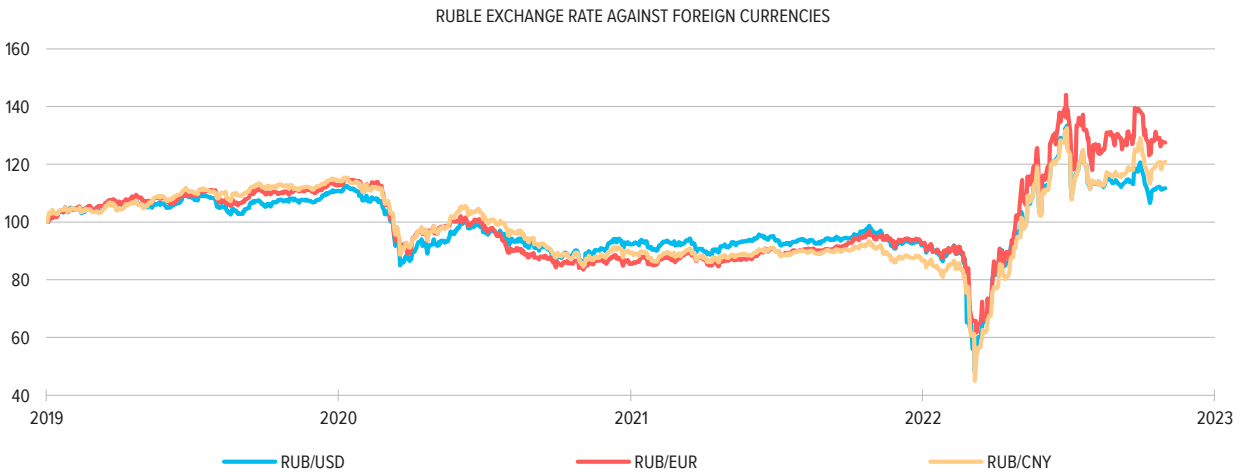
Chart 18



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

THE RUBLE DEPRECIATED AGAINST THE US DOLLAR BY LATE OCTOBER 2022
(02.01.2019 = 100)

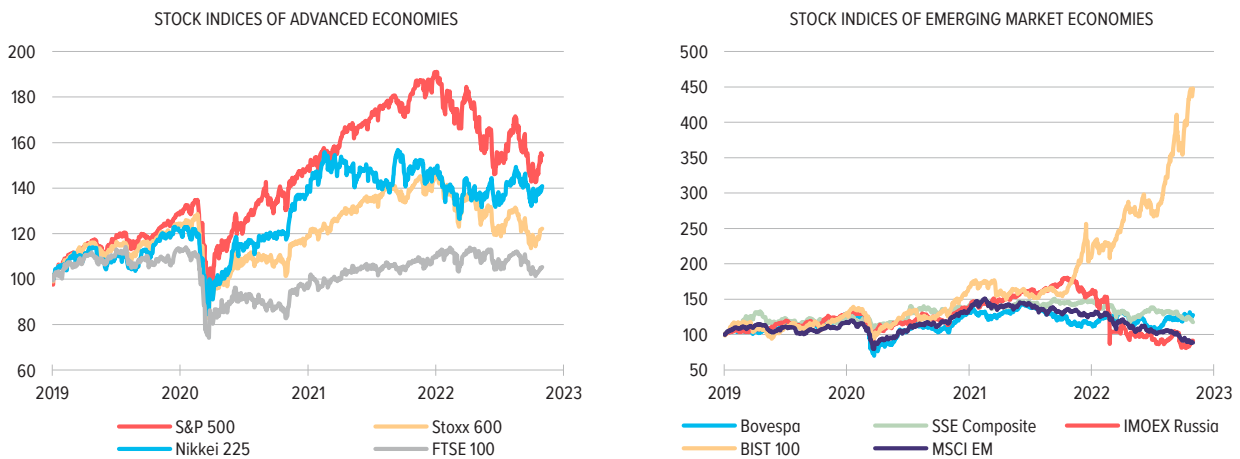
Chart 19



Sources: Cbonds, Bank of Russia calculations.

STOCK INDICES OF MOST COUNTRIES, EXCEPT CHINA, GREW OVER THE MONTH
(02.01.2019 = 100)

Chart 20



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

Data cut-off dates:

- 'Money market and overnight rates (RUONIA)' section – 15 November 2022 (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 October–November 2022, this period is from 12 October 2022 to 15 November 2022);
- 'Money and debt market yield curves' and 'Other financial market segments' sections – 31 October 2022;
- 'Credit and deposit market' section – 1 October 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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