Bank of Russia

March 2023

MONETARY CONDITIONS AND MONETARY POLICY TRANSMISSION MECHANISM

Information and analytical commentary

Moscow
2023

MONETARY CONDITIONS AND MONETARY POLICY TRANSMISSION MECHANISM (MARCH 2023)

- According to the Bank of Russia, monetary conditions remained neutral in February. In March, some financial market indices and high-frequency indicators started to imply tightening.
- The average spread between RUONIA and the key rate was -16 bp in March (in February: -37 bp).
- In March, yield curves of the money and debt markets shifted downwards as market participants revised their expectations of the key rate path. Long-term OFZ yields responded to the reduction in borrowings by the Ministry of Finance of the Russian Federation.
- In February and March, the inflow of funds into ruble deposits was supported by higher real interest rates and a continuously high propensity of households to save.
- In February, credit activity somewhat slowed due to a decline in short-term ruble and foreign currency loans amid very tough macroprudential regulation in the retail segment. The March flash data indicate a revival in the lending market.
- In February and March, the contribution of fiscal operations to the annual growth of money supply continued to increase.

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 interest rates and yields in the key market segments, impacting each other (the key rate have a direct effect on short-term money market rates; short-term rates influence long-term rates and OFZ yields; OFZ yields impact corporate bond yields; bond yields and long-term money market rates affect credit and deposit rates). Rates, in turn, influence the propensity to save, consume, and invest (*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 (*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 making its key rate decisions.

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

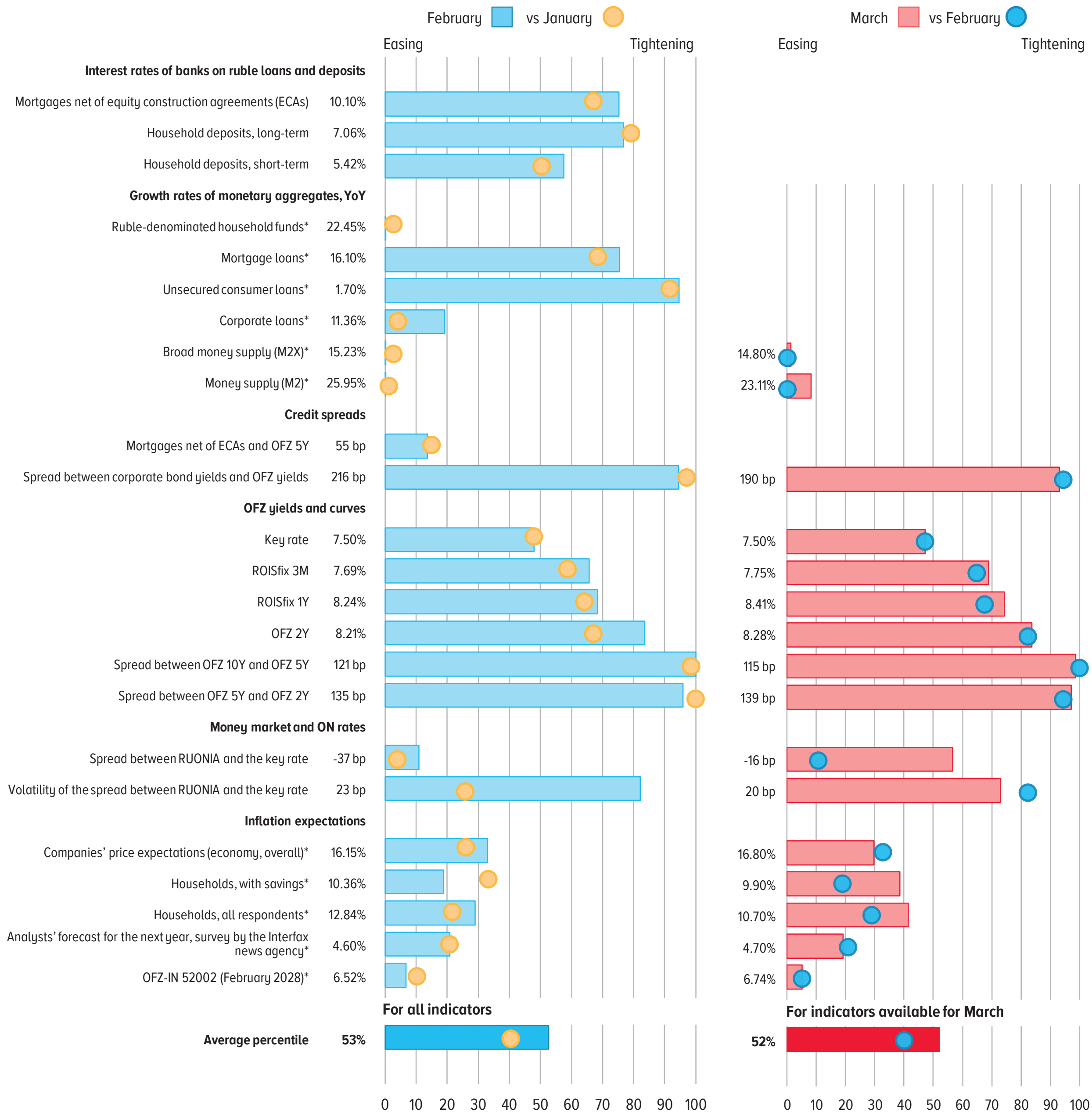
[1] See details in Appendix 1 to the Monetary Policy Guidelines for 2023–2025.

MONETARY CONDITIONS

In February, monetary conditions in the Russian economy remained neutral (Chart 1), while certain indicators changed diversely. For instance, higher OFZ yields fuelled by the revised expectations of the key rate path, a higher uncertainty premium, and slightly higher mortgage rates made monetary conditions tighten, whereas a fast increase in money supply made them ease.

In March, high-frequency indicators of monetary conditions and financial market indices changed towards tightening.

IN MARCH, HIGH-FREQUENCY INDICATORS OF MONETARY CONDITIONS PREDOMINANTLY SHOWED TIGHTENING *Chart 1*



** The indicators were used to calculate the inverse percentile (higher values are shown on the left).*
Note. The indicator panel represents one possible summary visualisation of key indicators to help assess the monetary conditions and their changes. It should not be considered as a comprehensive presentation of all types of indicators relevant to assessing the nature and changes of the monetary conditions.
The chart shows the level of the indicator (in percentiles) relative to the distribution of values from January 2017 to February 2023 (left-hand chart) and to March 2023 (right-hand chart). The round marker shows the indicator's level (in percentiles) as of the previous date. A shift of the indicator to the left relative to the previous date indicates the easing of monetary conditions, a shift to the right – their tightening. Percentiles for high-frequency indicators (OFZ yields, money market rates, exchange rate, spread between corporate bond yields and OFZ yields, etc.) were calculated based on average values for the relevant month.
Source: Bank of Russia calculations.

INTEREST RATE CHANNEL OF MONETARY POLICY TRANSMISSION MECHANISM

1. Key rate

At its meeting on 17 March 2023, the Bank of Russia Board of Directors decided to leave the key rate unchanged at the level of 7.5%, which was set in mid-September 2022 and reconfirmed further on. The overall balance of inflation risks did not change noticeably since the previous meeting. Household inflation expectations were down significantly. However, they are still elevated, as are business price expectations. If inflation risks intensify, the Bank of Russia will assess the necessity of increases in the key rate at its upcoming meetings. Concurrently, the key rate path anticipated by the market shifted downwards: now, market participants and analysts do not expect it to be increased at the next meetings (Table 1).

AS OF THE END OF MARCH, MARKET PARTICIPANTS ASSESSED THE RISK OF THE KEY RATE INCREASE AS LOW *Table 1*

Key rate expectations based on market indicators (instrument)	June 2023	December 2023
ROISfix	7.5 (7.75–8.0)	8.0–8.5 (8.0–8.5)
Analysts' key rate expectations*	**2023 average**	**2024 average**
Macroeconomic survey by the Bank of Russia	7.5 (7.5)	6.8 (6.8)

** Survey dates: 2–6 March 2023. Brackets are used to show the results of the survey conducted in January.*
Sources: Bank of Russia calculations, NFA.

2. Money market and overnight rates (RUONIA)

In March, the average spread between RUONIA[2] (the Bank of Russia's operational benchmark) and the Bank of Russia key rate[3] was **-16 bp** (in February: -37 bp; year to date: -33 bp) (Chart 4). The spread volatility was 20 bp (in February: 23 bp; year to date: 24 bp).

Over March, the structural liquidity surplus declined by 0.9 trillion rubles to 1.1 trillion rubles (Table 2). Fiscal operations, demand for cash and other factors together brought about an inflow of funds into banks. Thus, the drop in the surplus at the end of the month was mainly associated with the path of required reserves (RR) averaging by banks in the March averaging period (AP). In late March, banks reduced their bids at the one-week deposit auction and built up balances in their correspondent accounts. The surplus will increase as soon as banks deposit their excessive funds with the Bank of Russia and decrease their balances in the correspondent accounts. Over March, the liquidity surplus averaged 1.9 trillion rubles.

In early March, RUONIA moved in the same pattern as at the end of the previous month: in the tax payment period, liquidity was in a greater demand, the spread narrowed and turned positive. At the beginning of the month, banks were receiving budget funds. The Federal Treasury (FT) and the fiscal authorities of constituent territories of the Russian Federation increased the amounts of their bank deposits.

In the last days of the February AP, banks largely completed their RR averaging and the RUONIA spread returned to negative territory. At the beginning of the March AP, the spread was close to the average annual values of 2019–2022. Banks' bids at the Bank of Russia one-week deposit auctions

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

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

were below the established limits. There was an excessive liquidity in market participants' accounts. This 'over-averaging' pulled the rates down. As a result, the RUONIA spread was in negative territory even during the tax payment period of late March as opposed to the tax period of the previous month. As soon as budget funds were accepted and the FT placed its funds, RUONIA continued to go down.

In March, the budget received large amounts of seasonal revenues which exceeded the expenditure as of the end of the month. Russia's Ministry of Finance was placing OFZs (on a net basis: 0.2 trillion rubles) and conducting fiscal rule-based foreign currency sales (0.1 trillion rubles). These factors caused an outflow of liquidity from the banking sector. However, the FT and the fiscal authorities of constituent territories of the Russian Federation promptly deposited the received revenues with banks or placed the funds using repos. The inflow of liquidity under these operations in March was in part due to a calendar effect. At the beginning of the month, the FT deposited with banks the funds it had received from the payment of taxes due as early as February. In March, the aggregate fiscal operations resulted in the inflow of liquidity into banks as opposed to the previous months.

In March, demand for cash was close to its seasonal values amounting to 0.2 trillion rubles. The liquidity situation was also impacted by the transfers of banks' funds from C-type accounts to the accounts of the Deposit Insurance Agency,[4] opened with the Bank of Russia. This also led to an outflow of liquidity.

The end-2023 forecast of the structural liquidity surplus remains in the range of 2.8–3.4 trillion rubles.

3. Money and debt market yield curves

Money market curves. In March, the key rate expectations were gradually edging down given the current inflation landscape, with the ROISfix[5] rates slowly decreasing by 1–31 bp for all the maturities (Chart 6). RUSFAR 3M did not show any notable changes either (7.86%; +1 bp). The curve form implies that market participants do not expect monetary policy to be tightened at the next meetings. However, the key rate is anticipated to increase to 8–8.5% by the year-end.

OFZ yield curve. As of the end of March, the OFZ curve shifted slightly downwards along its entire length, except the short-term segment (shorter than 1Y): OFZ 1Y – 7.83% (+10 bp); OFZ 2Y – 8.25% (-6 bp); OFZ 5Y – 9.66% (-1 bp), and OFZ 10Y – 10.83% (-4 bp). Yields were moving downwards as market participants were revising their expectations of the key rate path amid the moderate price growth month-on-month. The reduction in borrowings by Russia's Ministry of Finance eased pressure on the long end of the curve. The spread between ten-year and two-year OFZ yields hardly changed (258 bp, +2 bp) staying close to the highest values since 2011. Since December 2022, the structure of market participants was stable: SICIs and individuals remained net sellers in the secondary OFZ market, while non-bank credit institutions and collective investors were net buyers. Trading was carried out mostly in the long-term (ten years and longer) segment of the curve.

Primary OFZ market. In March, the Russian Ministry of Finance raised about 208 billion rubles and reduced OFZ placements compared to February (321 billion rubles). Demand for the securities went down to 100 billion rubles a week on average (vs 161 billion rubles earlier). Long-term (10 and 18 years) OFZ-PD were mostly placed at a moderate premium (up to 10 bp) to secondary market yields. The March auctions witnessed a lower concentration of demand and a small amount of bids compared to the previous month, reflecting a high demand for securities from entities other than SICIs. However, collective investors purchased about 10–50% of the total placements.

[4] See the Bank of Russia Board of Directors' decision, dated 29 December 2022.

[5] The OIS (ROISfix) curve represents indicative rates (fixing) on RUONIA IR swaps.

Implied inflation.[6] In March, monthly average implied inflation for OFZ-IN 52002 (2028) increased to 6.74% (against 6.52% a month earlier). In the second part of the month, implied inflation predominantly declined, remaining considerably above the average value of 2022 (6.17%).

4. Corporate bond market

Secondary market. Based on the IFX-Cbonds index, the yields of corporate bonds dropped to 9.85% (-19 bp) as of the end of March. The spread between corporate and government bond yields narrowed to 190 bp (-26 bp). This level is close to the 2022 Q4 average (188 bp).

Primary market. In March, corporate borrowers continued to increase the amount of their borrowings (in March: 545 billion rubles; in February: 463 billion rubles). All issues were fully available to a wide range of investors. The number of issuers of market bonds rose to 34 (in February: 31), which is above the average annual value since 2014 and the highest figure since December 2022. The largest borrowings were raised by companies of the real sector (railway, telecommunications, and oil refining), including facilities in yuan. As for financial institutions, it was leasing companies that demonstrated high activity. As of the end of March, the market of corporate bonds totalled 20.7 trillion rubles (in February: 20.3 billion rubles; +19.7% YoY).

The amount of substitute bonds' issue rose (in March: 301 billion rubles; in February: 180 billion rubles).

5. Credit and deposit market

Deposit rates. The February rise in OFZ yields for all maturities had a weak effect on bank deposit rates. Changes in average market deposit rates are estimated to range from +0.1 pp to -0.1 pp for short-term[7] and long-term deposits, respectively (Chart 12). Such mild reaction might be associated with the fact that banks did not have to markedly raise their deposit rates, especially for long-term products, as households' propensity to save[8] had been rising in the previous few months. Instead, banks were flexible in managing their funding costs, i.e. they were adjusting deposit rates for certain maturities, including by offering welcome bonus rates for new deposits.

According to recent monitoring data, ruble deposit rates grew in March. However, this growth was not extensive and was still lower than the February upward shift in OFZ yields: FRG100[9] showed a 0.2 pp increase over the month (Chart 13). So, there still might be some room for raising deposit rates since they did not change noticeably after the February signal of monetary tightening. However, growth in deposit rates will be still moderated by a generally good situation in banks' retail funding due to a continuously high propensity of households to save.

Deposit operations. Household appetite for ruble deposits was supported by stable deposit rates amid slowing inflation. In January, household funds with banks[10] dropped as usual but started to flow to banks again in February to both current accounts and short-term deposits as some banks resumed to offer welcome bonus rates for new deposits.

More active raising of deposits for up to one year caused changes in the maturity structure of household ruble deposits with banks: the share of long-term deposits stopped growing, with its level (21 % in February) being still considerably above the all-time low hit in 2022 H1 (13%).

[6] Methodology of the calculation of the indicator.

[7] 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.

[8] See Inflation Expectations and Consumer Sentiment No. 3 (75), March 2023.

[9] The average interest rate of 59 largest deposit banks on deposits for up to one year in an amount of at least 100,000 rubles, according to information from the Frank RG news agency.

[10] 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.

In February, households continued to withdraw funds from foreign currency deposits: balances in accounts and deposits dropped by 3.1% vs 0.9% in January. A slight rise in the share of foreign currency in household funds (by 0.2 pp to 10.9%) resulted solely from the revaluation of the foreign currency part of the portfolio.

Eventually, positive changes in ruble savings in accounts and deposits together with a low base effect of February 2022 prompted a significant acceleration of annual growth[11] in total household funds with banks – up to 11.0% in February vs 5.8% in the previous month (Chart 14).

In February, household funds in escrow accounts started to grow again for the first time since November as the release of funds from such accounts went down due to the slower commissioning of housing though credits to new escrow accounts were close to the January readings.

According to preliminary data, ruble accounts and time deposits of households continued to grow in March, while retail depositors' appetite for foreign currency deposits remained low though some market participants raised their rates on deposits in US dollars, euros and yuan. In the near future, the continued slowdown in inflation and steadily high propensity to save will keep up households' appetite for bank deposits, especially those for up to three years.

Credit rates. Rates on ruble loans changed diversely in February (Chart 12). The loan rates might have changed both due to the earlier rise in OFZ yields[12] and specific segmented effects.

In January, the rates increased for short-term corporate loans (by 0.9 pp to 9.8%) and slightly decreased for long-term ones (by 0.3 pp to 8.2%). The rates on corporate loans for up to one year might have been up as banks raised short-term transfer rates. Those on credits for over one year might have declined since banks tended to gradually lower risk premiums amid macroeconomic stabilisation.

In February, the rate on retail loans for up to one year dropped by 0.4 pp to 19.1% per annum, for over one year – by 0.7 pp to 12.5%. The drop affected rates on unsecured consumer loans, while mortgage rates increased. In February, the weighted average rate on ruble housing mortgage loans rose by 0.2 pp to 8.1% due to a reduced issue of developer-subsidised mortgages at extremely low rates and a subsequent increase in the weighted average rate on ECA-secured mortgages by 0.4 pp as well as higher rates in the secondary housing market. The weighted average rate in the secondary housing market rose by 0.2 pp to 10.1% in February, with a slightly lower share of this segment in the activity of the entire mortgage market. Rates on consumer loans might have been down under the influence of macroprudential limits, helping reduce the issue of high-risk loans and the average interest rate on new loans.

According to preliminary data, corporate loan rates in February and retail loan rates in March generally fluctuated within the above trends (Chart 13). In 2022 Q2, loan rates will evolve along with inflation trends, including a steady reduction in inflation expectations[13] and future monetary policy decisions.

Corporate lending. In February, the annual growth in corporate loan portfolio[14] continued to go down but at a slower pace (Chart 15): 11.4% vs 12.6% in the previous month.

The slowdown was recorded in both the short-term and long-term segments of corporate lending. The annual growth of the short-term loan portfolio fell to 0.1% vs 0.6% in January. Long-term corporate loans rose by 15.8% after 17.5% in January. The slowdown in corporate lending was intensified by a 26.1% drop in foreign currency loans year-on-year. The annual growth of the ruble loan portfolio decelerated to 23% vs 23.4%, staying close to the highest values in the last decade.

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[11] 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. Where increases in the indicators comprising foreign currency and ruble components are calculated herein, the growth of the foreign currency component is converted into rubles using the period average exchange rate.

[12] See details in 'Money and debt market yield curves' section.

[13] See Inflation Expectations and Consumer Sentiment No. 3 (75), March 2023.

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

The proportion of non-performing corporate loans is assessed to be stable in January–February 2023. In February, it was 5% showing a decline from the local high of 6.1% in March 2022.

According to recent data, claims on businesses grew moderately in March. Demand for corporate loans will in part depend on a public expenditure path, budgeting of public procurement, and how intensively businesses will be implementing streamlining and transformation initiatives.

Retail lending. Retail lending slowed down in February. The annual growth in the retail loan portfolio[15] slowed down by 0.8 pp vs January to 8.5% (Chart 15). The slowdown was recorded in the mortgage market too, where the annual growth came in at 16.1% in February vs 16.9% in January despite a seasonal spike in disbursements compared to January. The proportion of new government-subsidised mortgages approached 50% in February staying close to the January figure and 2022 average. According to recent data, mortgage market activity was higher in March. In February, unsecured consumer lending activity slowed down as well: the annual growth of the consumer loan portfolio was 1.7% vs 2.5% in the previous month (Chart 16).

According to recent data, claims on households were up in March as was the annual growth rate of the retail portfolio. Macroprudential limits will continue to weigh on retail lending, including both consumer and mortgage loans, given the scheduled revision of the regulation. Mortgage lending may also slow down due to a rise in property prices, which makes housing less affordable to borrowers.

OTHER FINANCIAL MARKET SEGMENTS

1. Exchange rate (foreign exchange channel)

The ruble continued to depreciate during March. By the end of the month, the ruble exchange rate decreased by 3.5% to 77.60 rubles per US dollar, by 6% to 84.21 rubles per euro, and by 4.65% to 11.28 rubles per yuan. The monthly average exchange rate of the ruble showed the same trend (-5.4% MoM against the US dollar). The ruble depreciated due to a decrease in export revenues along with an increase in imports. The financial operations of households and businesses may also have made the ruble weaker.

Ruble exchange rate fluctuations decreased. The monthly realised exchange rate volatility declined to 7.6% (vs 10.8% in the previous month) to return to the level of early January 2022.

The real effective exchange rate of the ruble (REER), calculated against the currencies of the main foreign trade partners, decreased by 5.1% in February (vs -7.1% in December, +17.7 YoY).

2. Capital market (welfare channel)

In March, the Russian stock market demonstrated a strong growth. At the end of the month, the MOEX Index reached 2,451 bp (+8.8% MoM, -2.5% YoY). Thus, the index value exceeded the figure before the September 2022 drop. The Russian Volatility Index (RVI) fell to 34 points (-11 MoM; 28 points on average in 2021).

The key drivers of the positive trends in the Russian stock market were changes in energy prices following OPEC+ and Russia's decisions to cut output, as well as a release of positive financial statements by companies and 2022 Q4 dividend announcements. Oil and gas equities additionally grew as in March Russia and China agreed to develop cooperation.

The total amount of transactions across all Moscow Exchange markets increased by 26.3% in March. Daily average trades were 66.3 billion rubles (in February: 55.7 billion rubles).

[15] Hereinafter, the growth of household lending does not include claims acquired by banks.

Foreign markets

In March, some global central banks continued raising policy rates. Many central bankers delayed monetary tightening. The average policy rate in advanced economies grew to 3.79% (+27 bp MoM; +58 bp YtD), 11.95% in Latin America (+9 bp; +33 bp), 6.02% in South and Southeast Asia (+5 bp; +31 bp), and 10.62% in Africa (+62 bp; +89 bp). In Central and Eastern Europe and Central Asia, the weighted average rate edged down to 9.20% (-5 bp; -1 bp) owing to decisions made by central banks in Uzbekistan and Moldova.

As for advanced economies, policy rates were increased in the euro area, the US, the UK, Australia, and New Zealand. Sticking to its own monetary principles, the Bank of Japan expectedly kept its policy rate in negative territory. Central bankers in many emerging market economies maintained their rates at the current levels but pointed out high and unstable inflation expectations, concerns about energy and food prices' volatility amid the persistent geopolitical uncertainty. Despite the fact that Mexico's central bank raised its policy rate by 25 bp to 11.25%, inflation expectations for 2023 were still high.

Yields on long-term government bonds both in advanced and emerging market economies mostly declined (4–54 bp), reflecting the adjustment of expectations regarding the extent of monetary tightening across the globe and the peak of rate-raising. The yields on US Treasury bonds were down considerably – by 40–80 bp (UST 2Y: 4.06%; UST 10Y: 3.48%). The reason is that a worse situation in the banking sector prompted investors to aggressively buy historically least risky assets. The more pronounced trends in short-term yields were also driven by market participants' expectations of the delayed monetary tightening (+25 bp to 5–5.25% throughout 2023) in part due to lower inflationary pressures (in February, PCE: 0.26% MoM; in January: 0.57% MoM) and a pending economic slack owing to an anticipated banking crisis in the US and Europe.

In March, stock markets in advanced economies looked strong despite shocks and risk aversion (S&P 500: +3.5%; Stoxx 600: -0.71%; Nikkei 225: 2.17%) (Chart 20). The bankruptcy of regional US banks and the banking tumult in Europe pushed down the prices for the stocks of financial companies. As of the end of 2023 Q1, the stocks of energy companies showed the worst results as the fears of recession and a lower demand for energy resources made the prices for the stocks of oil and gas producers drop. However, the positive factor for the European markets was a stronger than projected deceleration of inflation.

Towards the end of February, the currency indices of emerging market economies evolved diversely (MSCI EM: +2.73%; SSE Composite: -0.21%; Bovespa: -2.91%; IPC Mexico: +2.17%) (Chart 20). Movements in emerging markets were conditioned on the uncertainty of future rate increases and global market trends.

MONEY SUPPLY

In February, the annual growth in banking systems' claims on the economy[16] continued to slow down and came in at 10.3% vs 11.7% in the previous months due to a subdued credit activity, especially in the retail segment where mortgage lending parameters were tightened. The role of fiscal operations in money supply formation continued to grow: the annual change in net claims on general government increased to 7.7 trillion rubles as of the end of January. As a result, lending to the economy and fiscal operations became the equal drivers of money supply growth with comparable positive contributions for the first time since 2021 H1. The annual growth of money supply in national definition (M2) hit a new local high of 25.9% in February (Chart 21).

In turn, though the annual growth of broad money supply (M2X) accelerated to 15.2%, it still lagged behind M2 growth reflecting the dedollarisation trend in the Russian economy.

The role of cash in circulation outside the banking system continued to be minor: the annual growth of M0 slowed down to 12% in February after 17.9% in January, with its share in the ruble money supply structure once again approaching historical lows.

According to preliminary estimates, in March, money supply growth slightly slowed down: M2 – to 23.1% and M2X – to 14.8% year-on-year, which was in part due to more moderate changes in public expenditure relative to January and February.

[16] 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 MARCH 2023, THE BANKING SECTOR'S STRUCTURAL LIQUIDITY SURPLUS DECREASED *Table 2*
(START OF BUSINESS, BILLIONS OF RUBLES)

	01.01.2021	01.01.2022	01.01.2023	01.03.2023	01.04.2023
Structural liquidity deficit (+) / surplus (-)	**-204**	**-1,691**	**-2,810**	**-2,065**	**-1,118**
Bank of Russia claims on credit institutions	**976**	**909**	**1,808**	**2,626**	**2,072**
Auction-based facilities	847	116	1,492	1,669	1,766
– repos and FX swaps	847	116	1,492	1,669	1,766
Fixed interest rate facilities	129	793	317	957	306
– repos and FX swaps	118	3	8	0	8
– secured loans	10	790	309	957	299
Credit institution claims on the Bank of Russia	**1,796**	**2,804**	**4,949**	**5,056**	**3,544**
Deposits	1,221	2,804	4,949	5,056	3,544
– auction-based	844	1,626	3,621	3,730	2,450
– fixed interest rate	377	1,178	1,328	1,326	1,094
Coupon OBRs	575	–	–	–	–
Standing reverse facilities, other than standard monetary policy instruments of the Bank of Russia*	**616**	**204**	**331**	**365**	**354**

** These transactions include Bank of Russia specialised refinancing facilities, loans issued by the Bank of Russia as part of irrevocable credit lines, and USD/RUB and EUR/RUB sell/buy FX swaps conducted by the Bank of Russia.*
Source: Bank of Russia calculations.

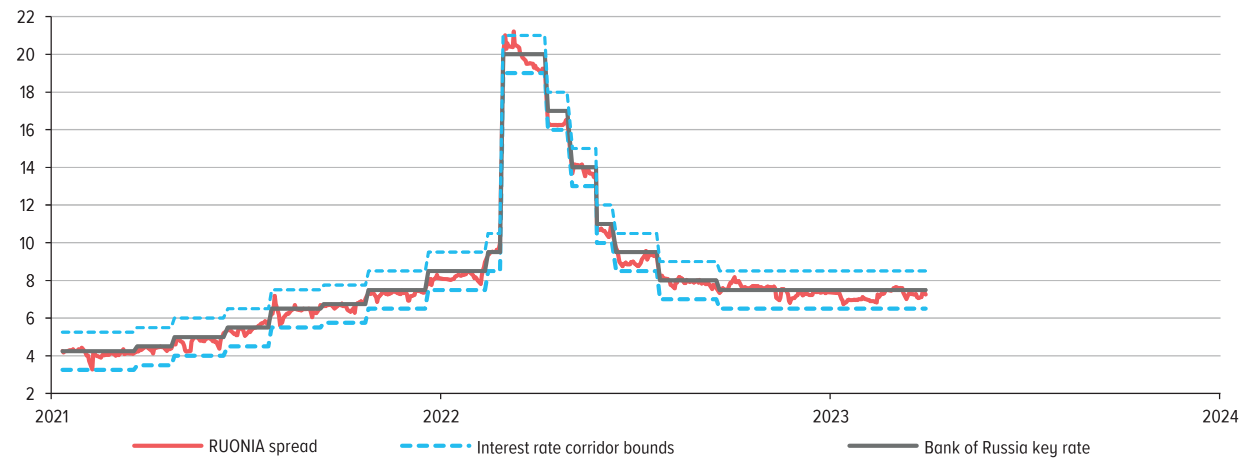
THE END-2023 FORECAST OF THE STRUCTURAL LIQUIDITY SURPLUS REMAINS IN THE RANGE OF 2.8–3.4 TRILLION RUBLES *Table 3*
(TRILLIONS OF RUBLES)

	2022 (actual)	January–March 2023	March 2023	2023 (forecast)
1. Liquidity factors	**1.5**	**-1.4**	**0.1**	**[1.5; 1.9]**
– change in the balances of general government accounts with the Bank of Russia, and other operations*	3.2	-0.9	0.4	[2.5; 2.7]
– change in the amount of cash in circulation	-2.3	-0.3	-0.2	[-0.8; -0.6]
– Bank of Russia interventions in the domestic FX market	-0.1	–	–	–
– regulation of banks' required reserves with the Bank of Russia	0.7	-0.1	0.0	-0.1
2. Change in free bank reserves (correspondent accounts) (demand)**	**0.3**	**0.3**	**1.1**	**[1.4; 1.6]**
3. Change in banks' claims on deposits with the Bank of Russia and coupon OBRs	**2.1**	**-1.4**	**-1.5**	**[-0.7; -0.1]**
4. Change in outstanding amount on Bank of Russia refinancing operations	**1.0**	**0.3**	**-0.6**	**-0.6**
Structural liquidity deficit (+) / surplus (-)	**-2.8**	**-1.1**		**[-3.4; -2.8]**

** 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.

RUONIA DYNAMICS
(%)

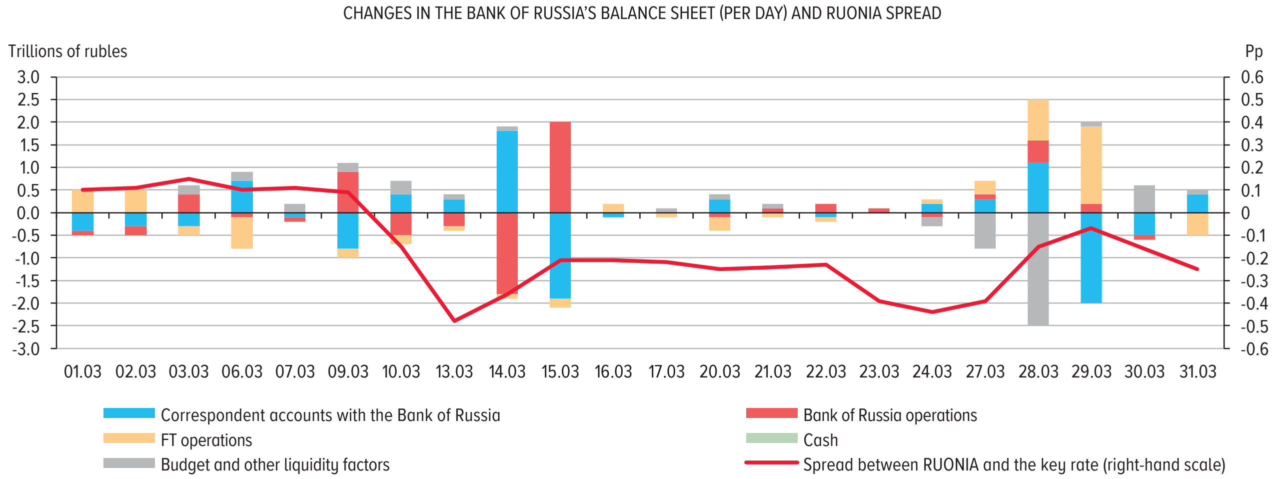
Chart 2



Source: Bank of Russia calculations.

AUTONOMOUS FACTORS LED TO A SMALL INFLOW
OF LIQUIDITY INTO BANKS IN MARCH 2023

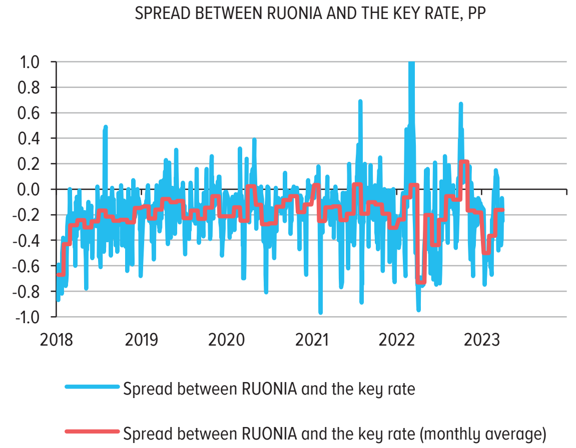
Chart 3

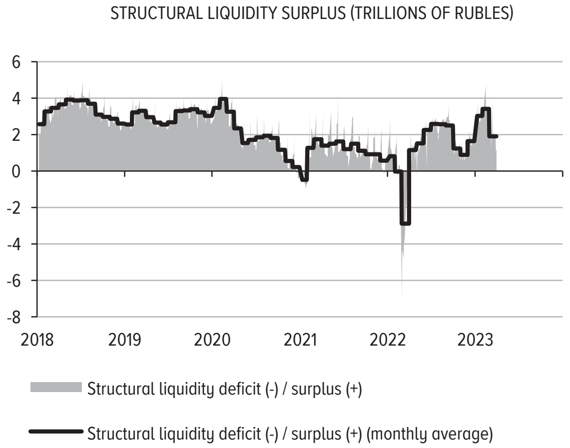


Source: Bank of Russia calculations.

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

Chart 4



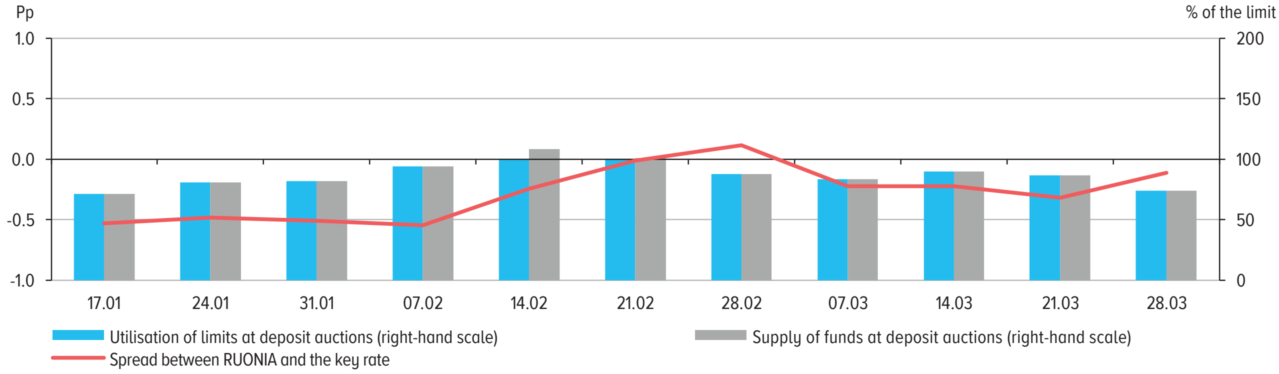


Source: Bank of Russia calculations.

BANKS' BIDS AT THE BANK OF RUSSIA ONE-WEEK DEPOSIT AUCTIONS WERE SLIGHTLY BELOW THE ESTABLISHED LIMITS

Chart 5

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

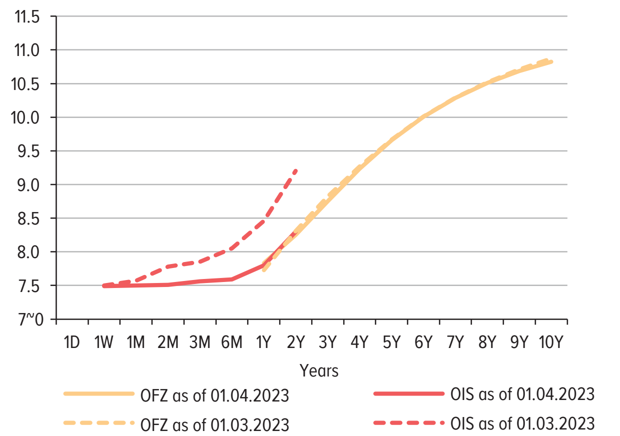


Note. Cut-off date – 4 April 2023. The data are provided on one-week and fine-tuning deposit auctions. Trading weeks are marked by dates of regular weekly auctions. Fine-tuning auctions are taken into account together with the one-week auction, the settlements under which were made during the corresponding trading week.
Source: Bank of Russia calculations.

IN MARCH, SHORT-TERM MONEY MARKET RATES DROPPED

Chart 6

MONEY MARKET CURVES (% P.A.)

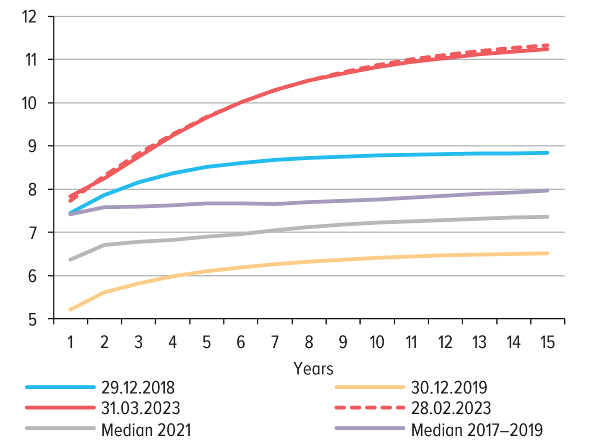


Sources: Moscow Exchange, NFA.

OFZ CURVE SHOWED NO PRONOUNCED CHANGES

Chart 7

OFZ ZERO COUPON YIELD CURVE (% P.A.)

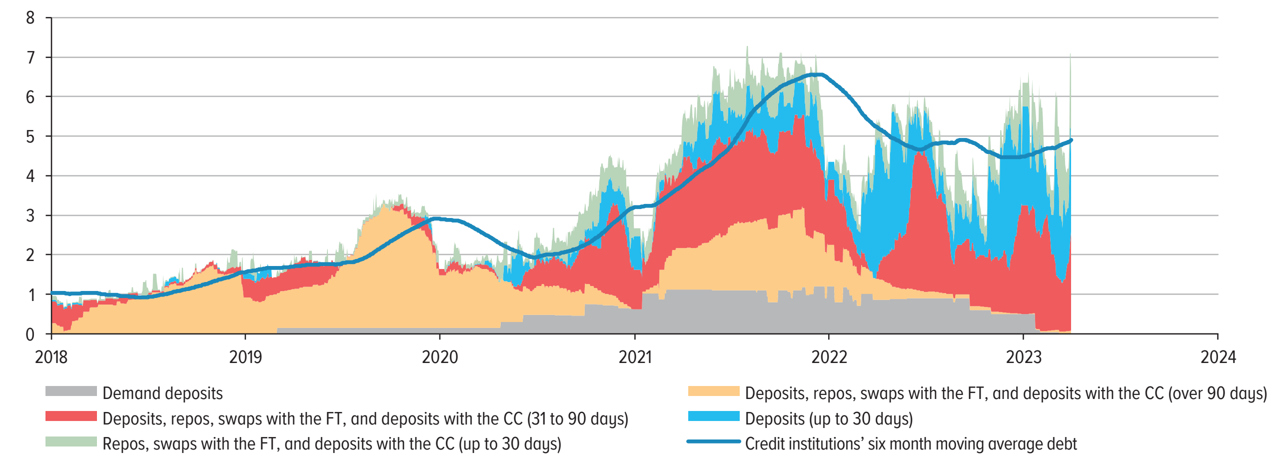


Sources: Moscow Exchange, Cbonds, Bank of Russia calculations.

CREDIT INSTITUTIONS' OUTSTANDING AMOUNTS DUE TO THE FT INCREASED BY 1.5 TRILLION RUBLES IN MARCH 2023

Chart 8

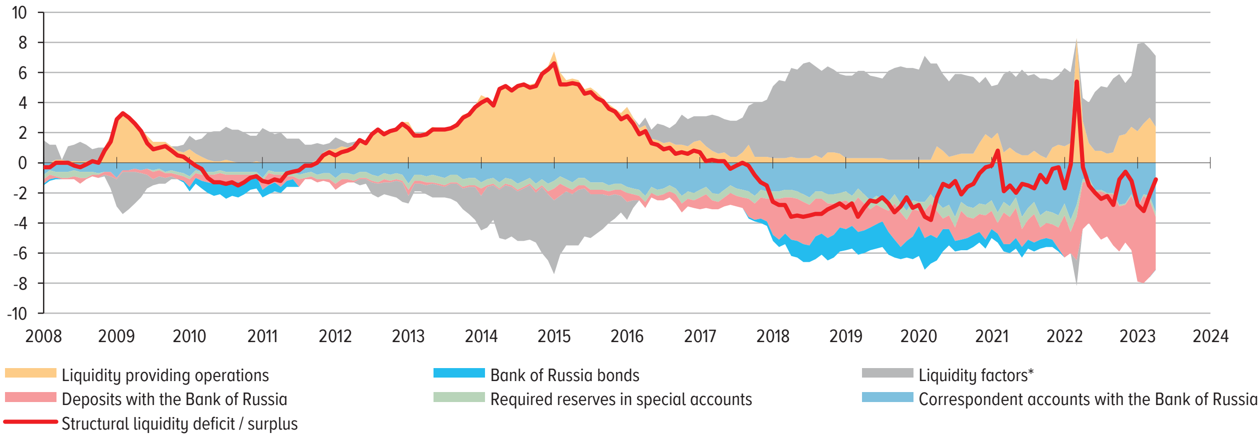
(TRILLIONS OF RUBLES)



Sources: Federal Treasury, Bank of Russia calculations.

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

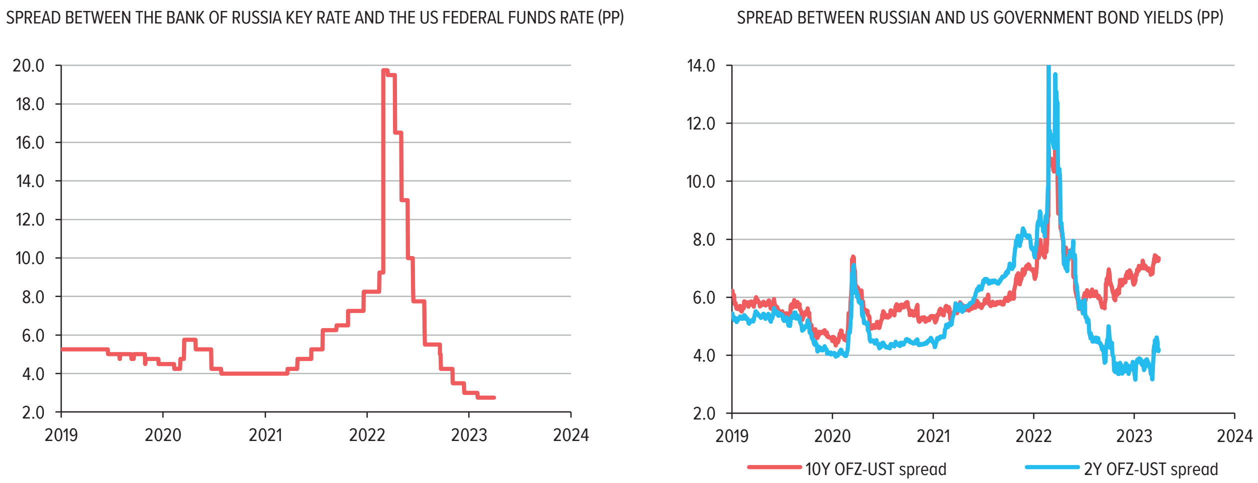
Chart 9



** This item is balancing and comprises changes in all other, not differentiated, items of the Bank of Russia's balance sheet.*
Source: Bank of Russia calculations.

THE SPREAD BETWEEN RUSSIAN AND US GOVERNMENT BONDS REMAINED

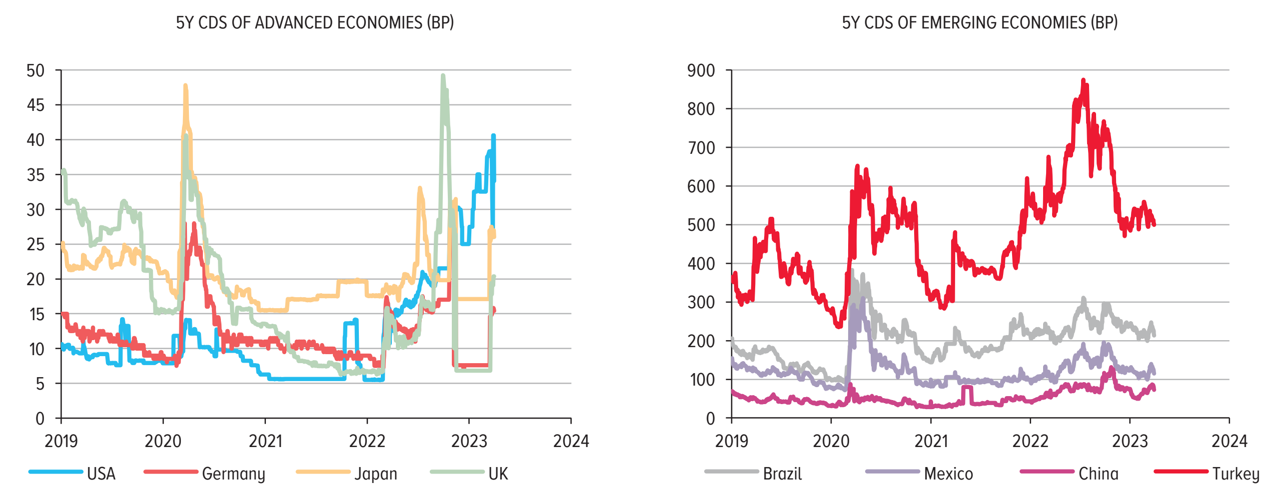
Chart 10



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

CDS SPREADS IN MOST COUNTRIES, INCLUDING ADVANCED ECONOMIES, ROSE

Chart 11

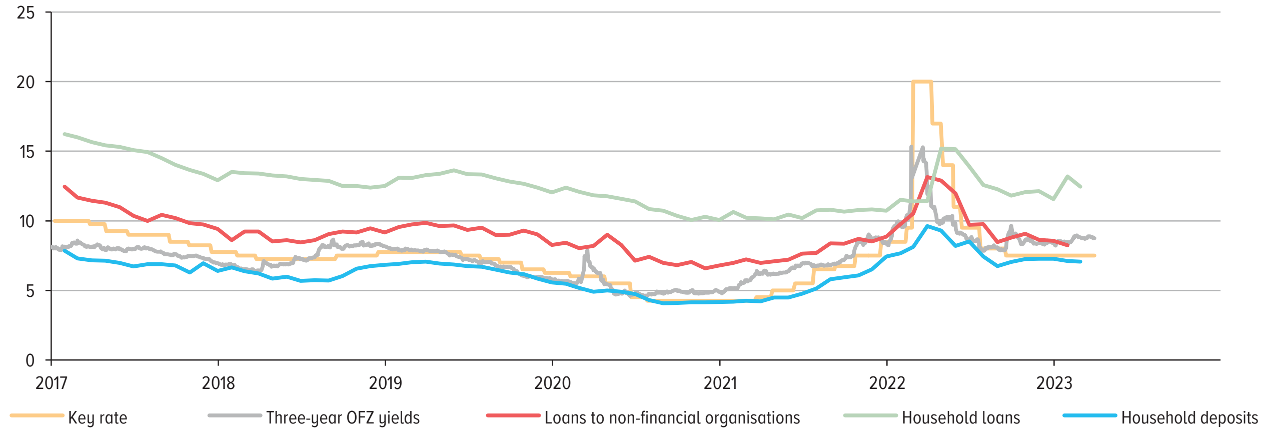


Sources: Cbonds, Bank of Russia calculations.

CREDIT RATES DROPPED IN FEBRUARY

Chart 12

INTEREST RATES ON BANKS' LONG-TERM RUBLE TRANSACTIONS (% P.A.)

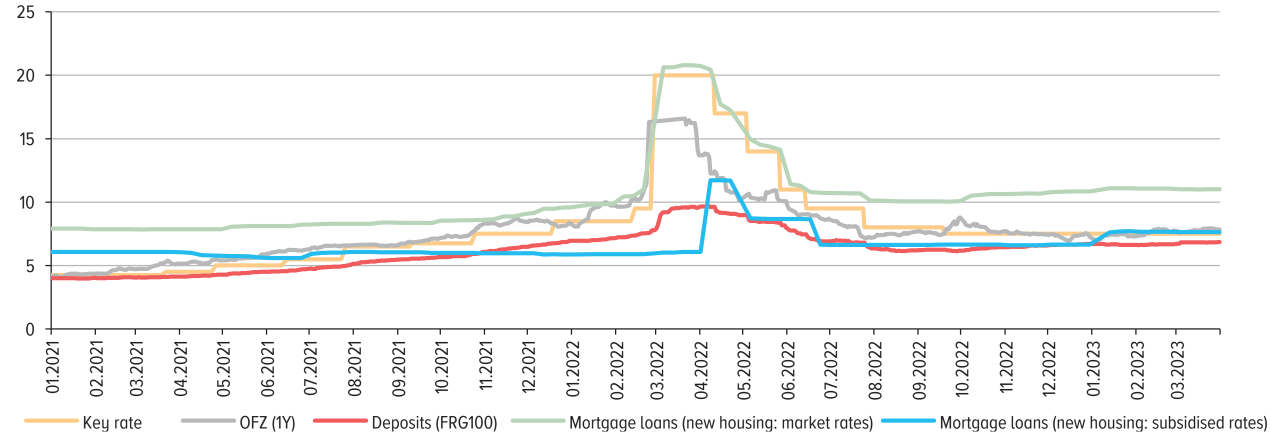


Source: Bank of Russia.

HIGH-FREQUENCY DATA INDICATED THAT IN MARCH, THE RETAIL LOAN AND DEPOSIT RATES WERE CLOSE TO THE FEBRUARY LEVELS

Chart 13

DYNAMICS OF HIGH-FREQUENCY INTEREST RATE INDICATORS (% P.A.)

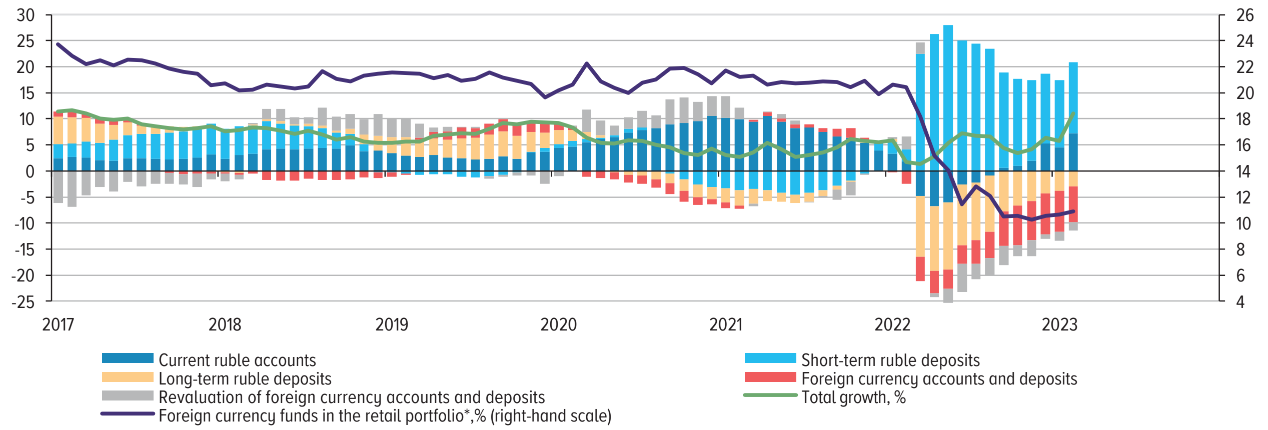


Sources: Bank of Russia, Frank RG, DOM.RF.

THE INFLOW OF HOUSEHOLD FUNDS INTO RUBLE ACCOUNTS AND TIME DEPOSITS CONTINUED IN FEBRUARY

Chart 14

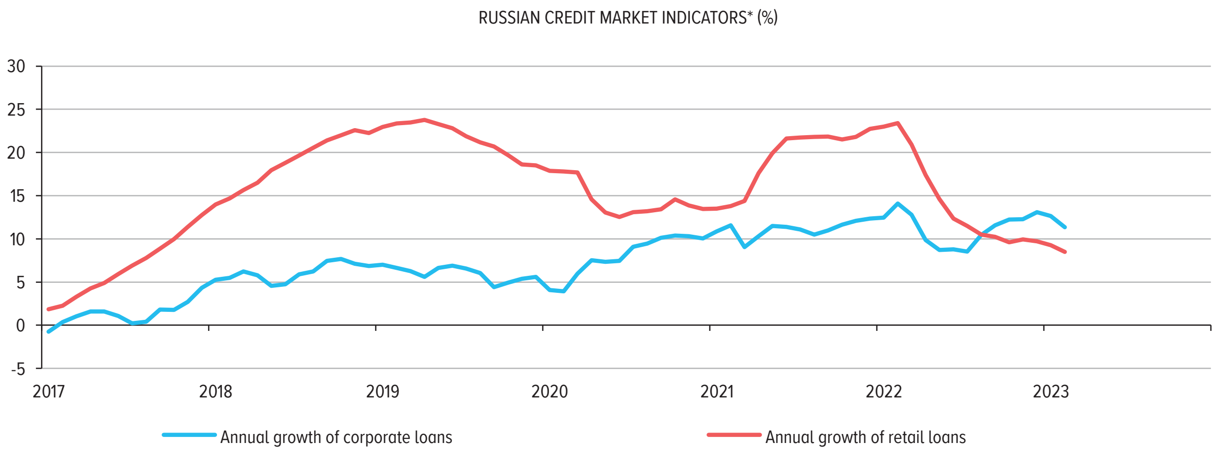
CONTRIBUTION OF INDIVIDUAL COMPONENTS TO ANNUAL GROWTH IN HOUSEHOLD FUNDS* (PP)



* *Excluding escrow accounts.*

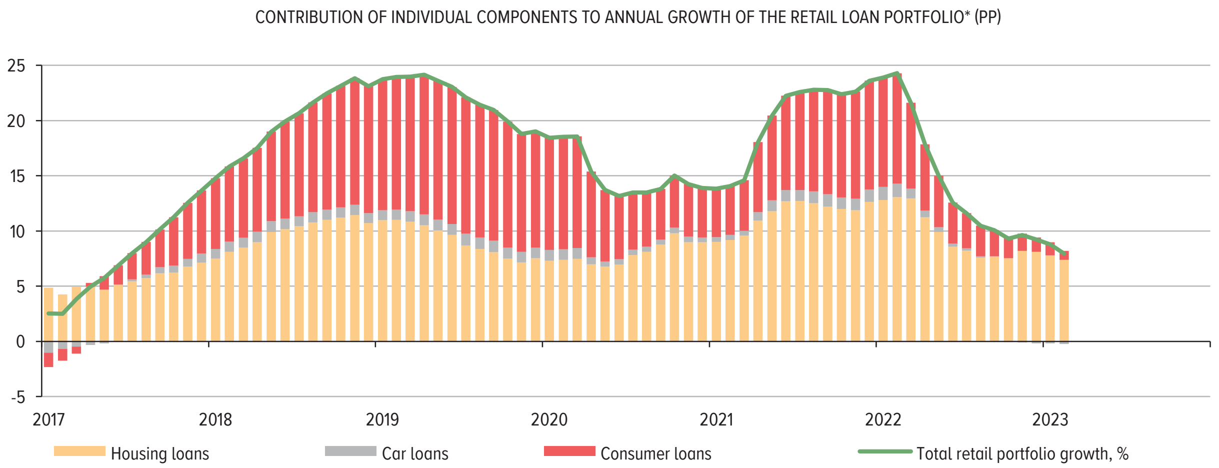
Source: Bank of Russia calculations.

LENDING SLOWED DOWN IN FEBRUARY *Chart 15*



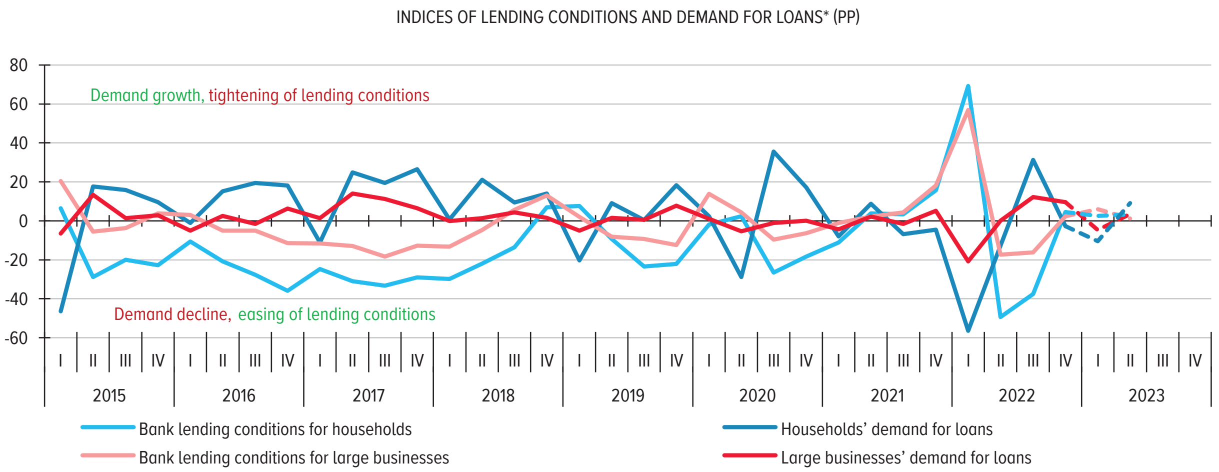
** Since 1 February 2021, the portfolios of corporate and retail loans include acquired claims. The portfolios' increases were calculated net of acquired claims.*
Source: Bank of Russia calculations.

MORTGAGE LENDING REMAINS THE KEY DRIVER OF RETAIL LOAN PORTFOLIO GROWTH *Chart 16*



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

BANKS MAY CONTINUE TO MODERATELY TIGHTEN LENDING TERMS UNTIL MID-2023 *Chart 17*



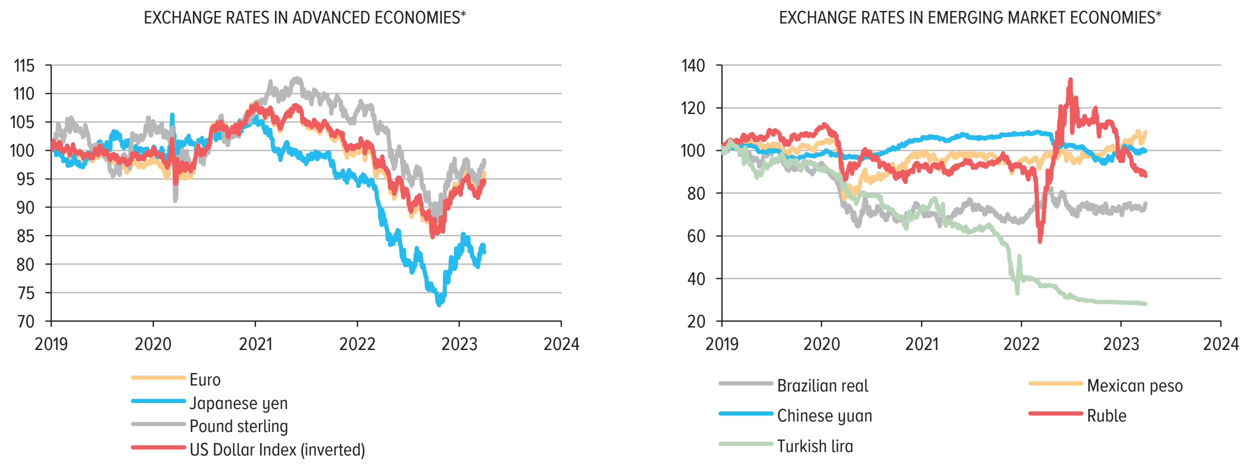
** The dotted lines signify respondent banks' expectations regarding changes in lending conditions and demand for loans in 2022 Q4.*
Source: Bank of Russia.

CREDIT AND DEPOSIT MARKET INDICATORS *Table 4*

		November 2022	December 2022	January 2023	February 2023
Interest rates on banks' long-term ruble transactions					
household deposits	% p.a.	7.3	7.3	7.1	7.1
household loans	% p.a.	12.1	11.6	13.2	12.5
corporate loans	% p.a.	8.6	8.6	8.2	–
Household funds*	**% YoY, AFCR**	**4.2**	**6.4**	**5.8**	**11.0**
in rubles*	% YoY	14.7	17.8	17.1	22.5
in foreign currency	% YoY	-39.2	-40.7	-39.8	-35.3
share of foreign currency*	%	10.2	10.6	10.7	10.9
Corporate loans**	**% YoY, AFCR**	**12.2**	**12.3**	**13.1**	**12.6**
short-term (up to 1 year)	% YoY, AFCR	9.6	7.4	4.7	0.6
long-term (more than 1 year)	% YoY, AFCR	14.1	15.4	16.8	17.5
Household loans**	**% YoY, AFCR**	**9.9**	**9.7**	**9.3**	**8.5**
housing mortgage loans	% YoY, AFCR	18.1	17.6	16.9	16.1
unsecured consumer loans	% YoY	3.2	2.7	2.5	1.7
Banking system's claims on the economy	**% YoY, AFCR**	**11.0**	**12.0**	**11.7**	**10.3**
on businesses	% YoY, AFCR	11.6	13.2	12.8	11.1
on households	% YoY, AFCR	9.8	9.4	8.9	8.1
Money supply (M2)	**% YoY**	**23.4**	**24.4**	**25.9**	**25.9**
Broad money supply (M2X)	**% YoY, AFCR**	**12.9**	**14.0**	**14.5**	**15.2**

** Excluding escrow accounts.*
** Since 1 February 2021, the portfolios of corporate and retail loans include acquired claims. The portfolios' increases were calculated net of acquired claims.*
Note. YoY – on corresponding period of previous 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 MARCH, THE US DOLLAR DEPRECIATED AGAINST MAIN WORLD CURRENCIES, EXCEPT THE JAPANESE YEN *Chart 18*
(02.01.2019 = 100)



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

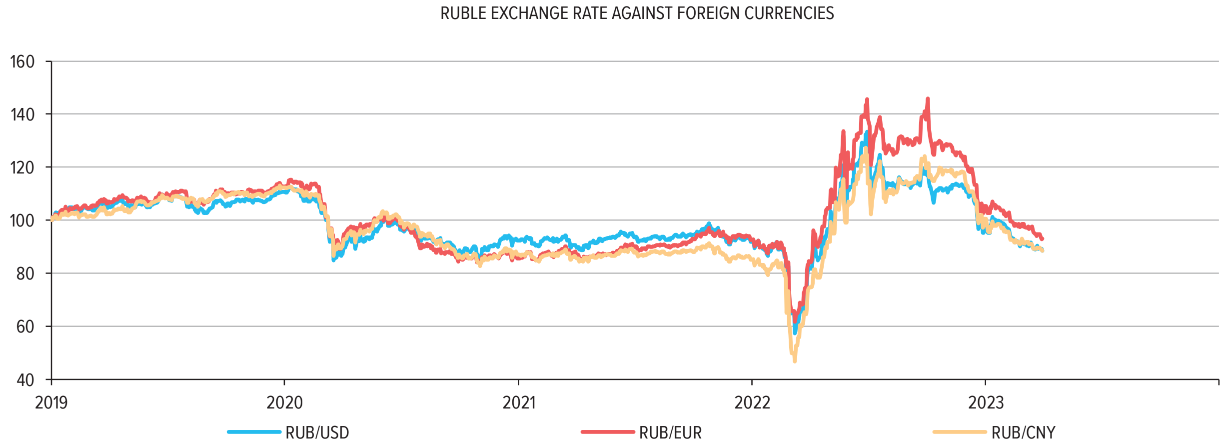
THE RUSSIAN FINANCIAL MARKET PREDOMINANTLY SHOWED POSITIVE TRENDS, EXCEPT FOREIGN EXCHANGE SEGMENT

Table 5

Indicator		31.03.2023	1M	3M	6M	YTD	1Y
Russian financial market ('+' – positive trends, '-' – negative trends)							
RUB/USD exchange rate		**77.60**	-3.5	-7.5	-32.8	-11.0	8.2
MOEX Index, bp		**2,451**	8.8	14.1	25.2	13.8	-2.5
RTS Index, bp		**997**	5.3	6.4	-5.6	2.7	5.0
Government bond yields, %		**10.01**	-1	36	-14	40	-234
Corporate bond yields, %		**9.85**	-19	7	-116	13	-658
Regional bond yields, %		**9.41**	3	38	-105	39	-522
RVI, p		**34**	-11	-8	-40	-6	-62
Exchange rates (per US dollar, % change, '+' – appreciation, '-' – depreciation)							
AEs*	US Dollar Index	**102.51**	-2.3	-1.3	-8.6	-1.0	4.8
	Euro	**1.08**	2.2	1.6	10.6	1.3	-2.8
	Japanese yen	**132.83**	-2.4	-0.1	-8.2	1.2	8.8
	Pound sterling	**1.23**	2.8	2.2	10.4	2.0	-6.1
EMEs	Ruble	**77.60**	-3.5	-7.5	-32.8	-11.0	8.2
	Brazilian real	**5.06**	2.6	4.1	6.4	4.2	-6.2
	Mexican peso	**18.03**	1.9	7.4	10.5	7.5	9.3
	Chinese yuan	**6.87**	0.9	1.4	3.5	0.4	-8.0
	Turkish lira	**19.19**	-1.6	-2.6	-3.7	-2.5	-30.9
	South Africa	**17.79**	3.2	-5.1	1.6	-4.7	-23.0
10Y bond yield (% p.a., change in bp, '+' – increase, '-' – decrease)							
AEs	USA	**3.48**	-44	-35	-35	-40	113
	Germany	**2.29**	-36	-14	18	-28	165
	Japan	**0.33**	-17	-12	9	-9	11
	UK	**3.49**	-33	-17	-60	-18	183
EMEs	Russia	**10.83**	-4	44	3	52	-96
	Brazil	**12.93**	-33	17	87	17	134
	Mexico	**9.12**	-54	-18	-86	-23	51
	China	**2.87**	-6	-2	11	0	6
	Turkey	**10.58**	4	11	-144	81	-1,515
	South Africa	**9.83**	-28	-43	-106	-36	27
5Y CDS spreads (bp, change in bp, '+' – increase, '-' – decrease)							
AEs	USA	**34**	2	9	13	9	21
	Germany	**15**	8	8	-2	8	1
	Japan	**26**	9	9	6	9	8
	UK	**20**	14	14	-29	14	6
EMEs	Brazil	**213**	-5	-26	-79	-26	18
	Mexico	**115**	4	-8	-71	-9	23
	China	**73**	1	-2	-36	-3	13
	Turkey	**499**	-43	10	-248	10	-31
	South Africa	**268**	14	21	-69	22	64
Stock indices (points, % change, '+' – increase, '-' – decrease)							
AEs	S&P 500	**4,109**	3.51	6.8	14.6	7.0	-10.7
	Stoxx 600	**458**	-0.71	6.4	18.0	7.8	-0.5
	Nikkei 225	**28,041**	2.17	7.8	8.5	7.4	0.1
	FTSE 100	**7,632**	-3.10	1.6	10.7	2.4	0.7
EMEs	MSCI EM	**990**	2.73	3.4	13.1	3.5	-13.8
	Bovespa	**101,882**	-2.91	-7.2	-7.4	-7.2	-15.3
	IPC Mexico	**53,904**	2.17	8.9	20.8	11.2	-3.4
	SSE Composite	**3,273**	-0.21	6.5	8.2	5.9	0.2
	BIST 100	**4,813**	-8.10	-12.1	51.4	-12.6	115.8
	FTSE/JSE	**76,100**	-2.10	3.4	19.4	4.2	0.9

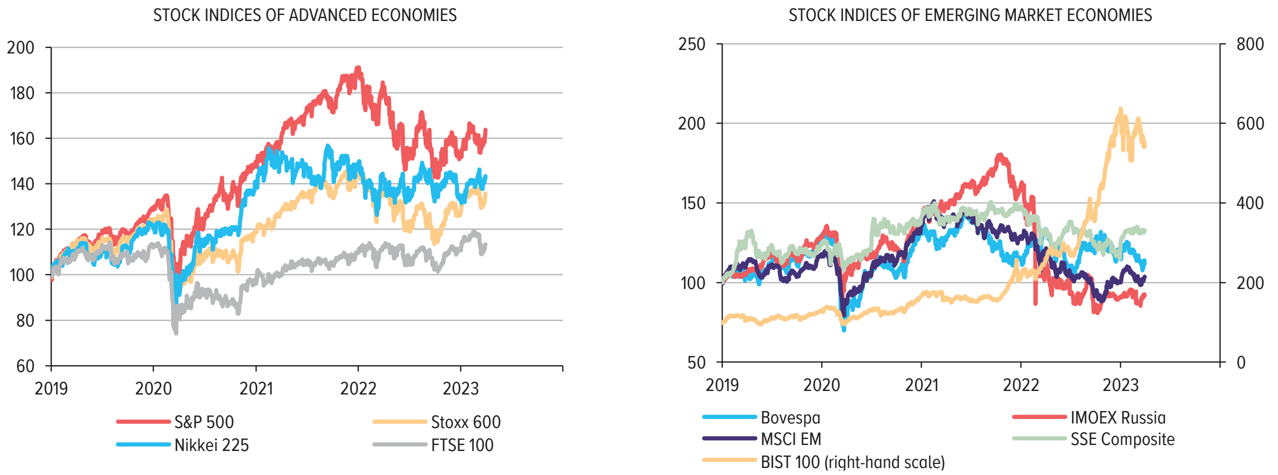
** Advanced economies.*
Sources: Moscow Exchange, Cbonds, Bank of Russia calculations.

THE RUBLE CONTINUED TO DEPRECIATE DURING MARCH* Chart 19
(02.01.2019 = 100)



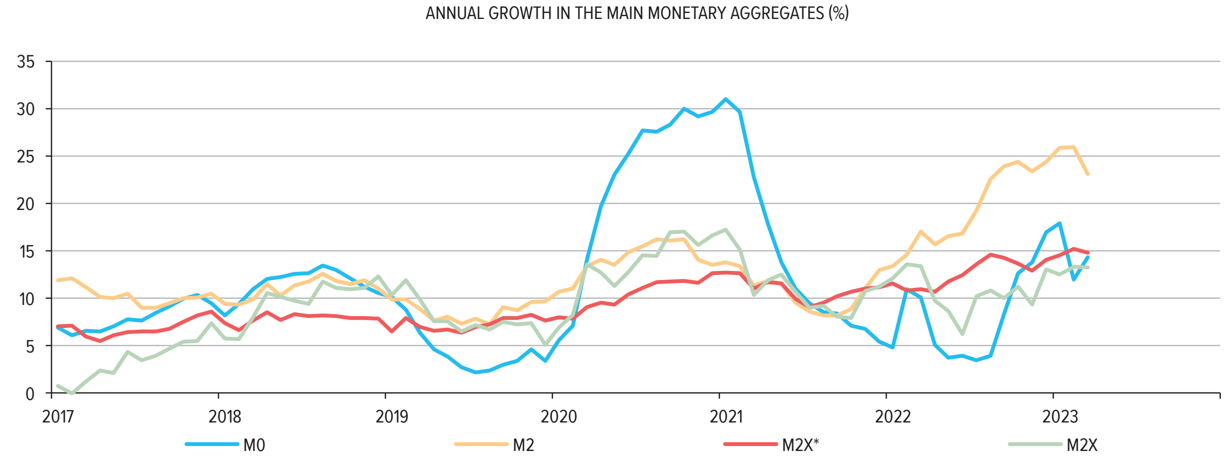
** The ruble's nominal and real effective exchange rates (NEER and REER, respectively) are calculated using market exchange rates of currencies and recent available monthly inflation data.*
Sources: Cbonds, Bank of Russia calculations.

STOCK INDICES CHANGED DIVERSELY Chart 20
(02.01.2019 = 100)



Sources: Cbonds, Bank of Russia calculations.

IN FEBRUARY, FISCAL EXPENDITURES PROMOTED
THE FURTHER ACCELERATION OF MONEY SUPPLY GROWTH Chart 21



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

Data cut-off dates:
- ‘Money market and overnight rates (RUONIA)’ section – 31 March 2023;
- ‘Money and debt market yield curves’ and ‘Other financial market segments’ sections – 31 March 2023;
- ‘Credit and deposit market’ section – 1 March 2023, high-frequency data – 1 April 2023.

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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