



Bank of Russia



# BANKING SECTOR LIQUIDITY AND FINANCIAL MARKETS

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Information and analytical commentary

16 December 2019

## BANKING SECTOR LIQUIDITY AND FINANCIAL MARKETS: FACTS, ASSESSMENTS AND COMMENTS (NOVEMBER 2019)

- The structural liquidity surplus rose to 3.0 trillion rubles in November (+0.7 trillion rubles), which was helped by a drop in the balances of banks' correspondent accounts with the Bank of Russia. The impact of liquidity factors was close to neutral.
- Short-term interbank lending rates held close to the Bank of Russia key rate (in the November averaging period, the spread was -7 bp; since the beginning of 2019: -15 bp). This was caused by the absence of a drag from expected changes in the key rate compared to the situation observed during several past months.
- Interest rates in the FX swap segment stayed close to interbank rates as the banking sector's foreign currency liquidity remained at a comfortable level.
- In November, the situation in the Russian stock market remained relatively calm. The positive pass-through of the monetary policy easing by the Bank of Russia was largely reversed in October; and the situation in global markets was virtually unchanged.
- December will see the start of the next round of dividend payments. According to end-November data, Russian companies and banks are planning to pay 418 billion rubles in December 2019 – January 2020, which is 16% more than in the same period of the previous year.
- In September, the cost of long-term borrowings grew slightly on the back of increased lending to higher-risk sectors. In October, mortgage rates touched their new all-time low.
- Activity in the retail segment of the lending market also decelerated in October, with the biggest contribution to the slowdown in the mortgage loan portfolio growth made by mortgage asset securitisation transactions.

### BANKING SECTOR LIQUIDITY AND MONEY MARKET

**Ruble liquidity.** The structural liquidity surplus rose by 0.7 trillion rubles in November to total 3.0 trillion rubles (Chart 1). It was caused by the redistribution of funds between banks' balances in correspondent accounts and their funds placed on deposits and used to buy Bank of Russia coupon bonds (coupon OBRs). Unlike the situation observed in past months, credit institutions maintained rather stable balances in their correspondent accounts over the required reserve (RR) averaging period. As a result, in early December, they were close to the averaged RR value as compared to early November when the balances were markedly higher because of expected key rate cutting and the corresponding change in the averaging strategy implemented by many banks.

The impact of liquidity factors was close to neutral in November. The seasonal expansion in budget expenditure and large tax repayments to certain companies were offset by a decline in

banks' debt under Federal Treasury operations and tax payments by banks' clients, which slightly decreased amid the oil price downturn.

The Bank of Russia continued to expand its coupon OBR purchases. In November, banks increased their investment in coupon OBRs by 400 billion rubles.

**Money market.** The spread between short-term interbank rates and the Bank of Russia key rate narrowed to equal -7 bp (in the October averaging period: -16 bp; since the beginning of 2019: -15 bp) (Chart 2), which means a minimum deviation since February 2017. The spread volatility dropped to 11 basis points.

The shrinking of the spread compared to the past averaging period is due to the fact that in November the expectations for a key rate cut did not influence interbank rates, as the nearest Bank of Russia Board of Directors meeting is held during the December averaging period. Over several months, in anticipation of the key rate cut, certain banks sought to maintain a considerable part of averaged RRs

during the second half of the averaging period, and they tried to place more funds in deposit auctions during the first part of this period. In this context, those banks, which could not make placements at the deposit auctions due to the above, placed their funds in the interbank market, thereby exerting downward pressure on the rates. In November, as no rate reductions were expected over the averaging period, the supply of funds at deposit auctions came close to the limits set by the Bank of Russia (Chart 5).

The decrease in the spread deviation from the key rate to the lowest value observed over a 2.5-year horizon was brought about by the combination of several factors. Since 2017, the negative spread of interbank rates to the key rate has remained unchanged due to various reasons, i.e. fast growth in the liquidity surplus, low rates in the FX swap segment caused by the foreign currency liquidity shortage, expectations around key rate cutting at the meetings of the Bank of Russia Board of Directors, as well as other temporary factors. In 2018–2019, the banking sector adjusted to the existing structural surplus, thereby raising the rate of use of limits at deposit auctions and Bank of Russia auctions to place coupon OBRs (Chart 5). Besides, a reduction in foreign-currency borrowings and the respective increase in ruble rates were registered in the FX swap segment. The negative spread of past months was mainly attributable to the expectations of a key rate cut, and also to liquidity inflows during certain weeks. However, over the November averaging period, these factors did not affect the spread, thereby keeping it around zero during the most part of the averaging period.

**Foreign currency liquidity.** As before, interest rate spreads in the FX swap and interbank (basis) segments formed close to zero, +2 bp in the November averaging period (+1 bp in

the October averaging period) (Chart 3). The foreign-currency liquidity cushion of the banking sector remains high, keeping the cost of foreign currency liquidity in the local market relatively small.

**The forecast structural liquidity surplus for the end of 2019** remains at the level of 3.6–3.9 trillion rubles. The Bank of Russia forecast factors in the current plans of the Russian Ministry of Finance to finance budget expenditure. In 2020, amid suspended foreign currency purchases, the structural liquidity surplus may increase to 4.1–4.6 trillion rubles.

Volatility and the ensuing uncertainty around the dynamics of autonomous liquidity factors are traditionally expected to rise in the last month of the year. Should part of the 2019 planned expenditure be transferred to 2020, the Federal Treasury will be able to expand the volume of funds to be deposited with banks. It implies an increase in banks' debt under Treasury operations compared to the previous year. As of 11 December 2019, banks' debt under Treasury operations to be transferred to the next year equalled 1.4 trillion rubles, compared to 1.5 trillion rubles in the previous year. If credit institutions' demand for Treasury operations is low, the liquidity inflow and, as a result, liquidity surplus may undershoot the forecast. Moreover, one of the forecast assumptions is the implication of an even RR averaging by banks. It means that end-year balances of funds in banks' correspondent account with the Bank of Russia are expected to be close to 2.3–2.4 trillion rubles.

**Key rate expectations.** In November, market participants' key rate expectations remained virtually unchanged (Table 1). The majority expect it to be reduced by 25 bp at the Board of Directors' December meeting.

IN NOVEMBER, MARKET PARTICIPANTS' KEY RATE EXPECTATIONS  
REMAINED VIRTUALLY UNCHANGED

Table 1

<b>1. Expectations based on market indicators*, interest rate (instrument)</b>	<b>December 2019</b>
– MosPrime 3M (FRA)	6.19 (7.03)
– RUONIA (ROISfix)	6.27 (6.76)
– RUONIA (futures)	6.27 (6.74)
<b>2. Analysts' key rate expectations*</b>	<b>As of 31.12.2019</b>
– Bloomberg survey	6.50 (6.75)
– Reuters survey	6.25 (6.75)
<b>3. Imputed inflation rate (OFZ-IN)</b>	<b>November 2019</b>
OFZ-IN-52 001 (until 16.08.2023)	2.84 (3.04)
OFZ-IN-52 002 (from 16.08.2023 until 02.02.2028)	3.53 (3.40)

\* Values are given as of the end of the current and previous months (in brackets).

Source: Bank of Russia calculations.

THE FORECAST OF THE STRUCTURAL LIQUIDITY SURPLUS FOR THE END OF 2019 REMAINS  
AT THE LEVEL OF 3.6–3.9 TRILLION RUBLES  
(TRILLIONS OF RUBLES)

Table 2

	January- November 2019	November 2019	2019 (estimate)	2020 (forecast)
<b>1. Liquidity factors (supply)</b>	<b>0.6</b>	<b>0.0</b>	<b>[0.8; 1.1]</b>	<b>[0.7; 0.9]</b>
– change in the balances of general government accounts with the Bank of Russia, and other operations*	-0.1	0.0	[0.8; 1.0]	[1.1; 1.2]
– change in the amount of cash in circulation	0.3	0.0	[-0.3; -0.2]	[-0.4; -0.3]
– Bank of Russia interventions in the domestic FX market and monetary gold purchases**	0.4	0.0	0.4	-
– regulation of banks' required reserves with the Bank of Russia	0.0	0.0	0.0	0.0
<b>2. Change in free bank reserves (correspondent accounts)*** (demand)</b>	<b>0.6</b>	<b>-0.7</b>	<b>0.3</b>	<b>0.1</b>
<b>3. Change in banks' claims on deposits with the Bank of Russia and BoR coupon bonds</b>	<b>0.0</b>	<b>0.7</b>	<b>[0.5; 0.8]</b>	<b>[0.5; 0.7]</b>
<b>4. Change in outstanding amounts on Bank of Russia refinancing operations (4 = 2 + 3 - 1)</b>	<b>-0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Structural liquidity deficit (+) / surplus (-) (as of the period-end)</b>	<b>-3.0</b>		<b>[-3.9; -3.6]</b>	<b>[-4.6; -4.1]</b>

\* Including fiscal rule-based operations to buy (sell) foreign currency in the domestic FX market, settlements on Bank of Russia USD/RUB FX swaps, and other operations.

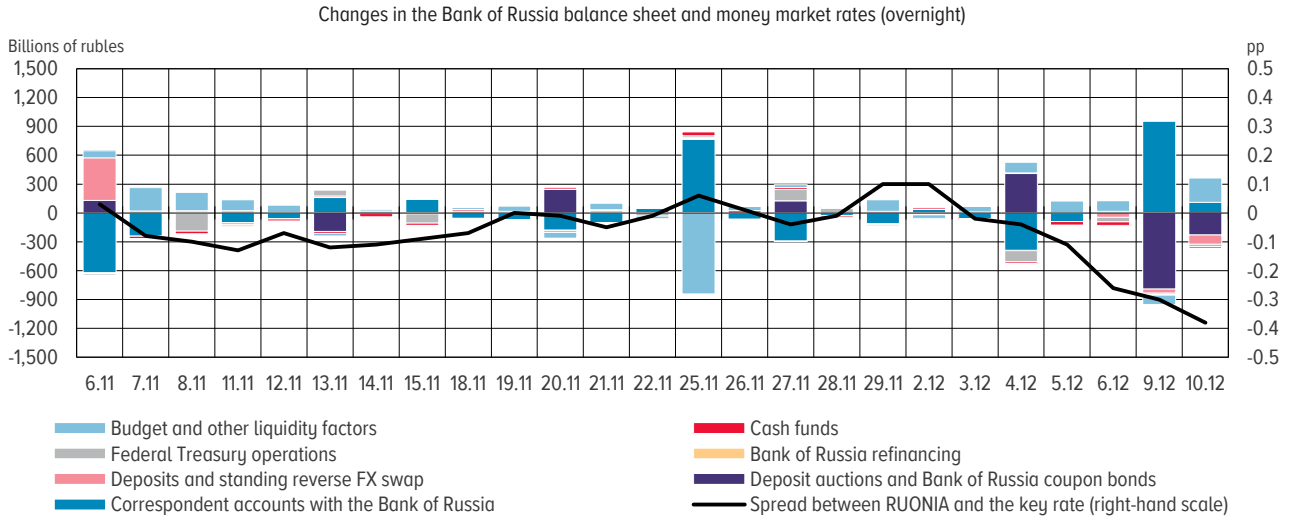
\*\* Forecast values of the indicator are in line with the actual amount of operations conducted.

\*\*\* The forecast for the end of 2019 implies uniform averaging of required reserves by banks and correspondent account balances close to the required ratio.

Source: Bank of Russia calculations.

IN NOVEMBER 2019, THE IMPACT OF LIQUIDITY FACTORS WAS CLOSE TO NEUTRAL

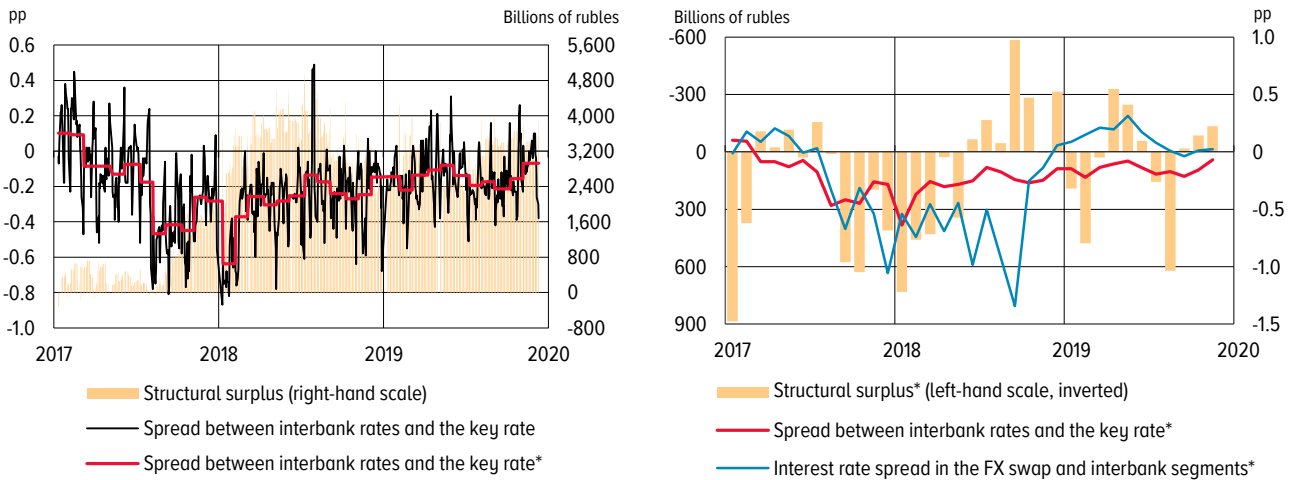
Chart 1



Source: Bank of Russia calculations.

INTERBANK LENDING RATES HELD CLOSE TO THE BANK OF RUSSIA KEY RATE

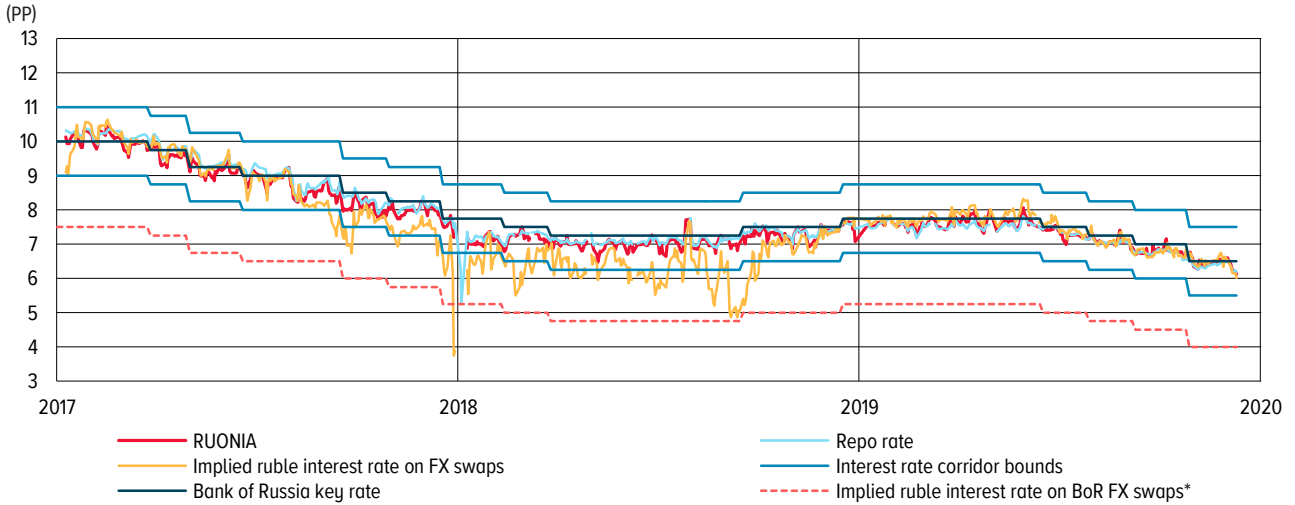
Chart 2



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

THE SPREAD IN THE FX SWAP AND INTERBANK SEGMENTS STAYED CLOSE TO ZERO DURING THE MOST PART OF THE AVERAGING PERIOD

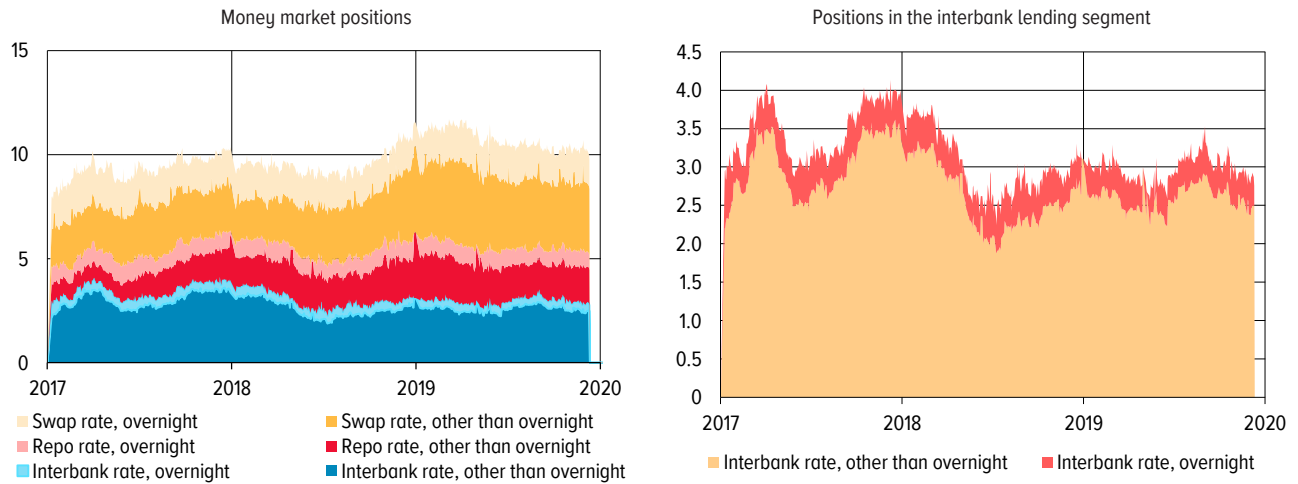
Chart 3



\* Implied rate = ruble lending rate – FX borrowing rate + LIBOR  
(from 19 December 2016: key rate – 1 pp – (LIBOR + 1.5 pp) + LIBOR = key rate – 2.5 pp).  
Source: Bank of Russia calculations.

BANKS' POSITIONS IN THE FX SWAP SEGMENT FOR OVER 1-DAY PERIODS SLIGHTLY INCREASED (TRILLIONS OF RUBLES)

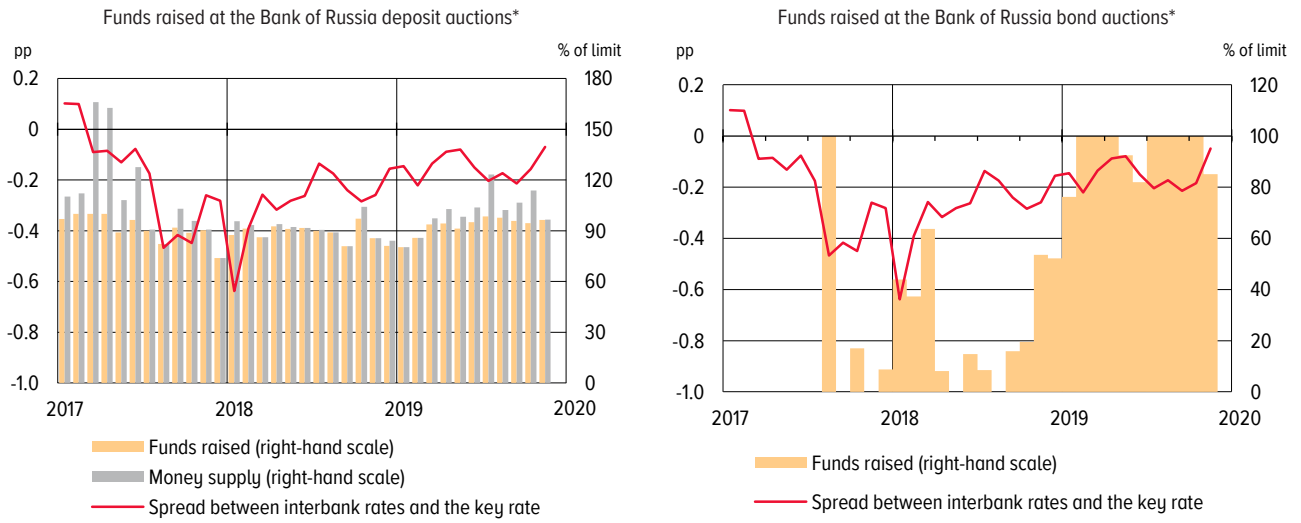
Chart 4



Source: Bank of Russia calculations

**BANKS' SUPPLY AT THE BANK OF RUSSIA DEPOSIT AUCTIONS WAS CLOSE TO THE ESTABLISHED LIMITS**

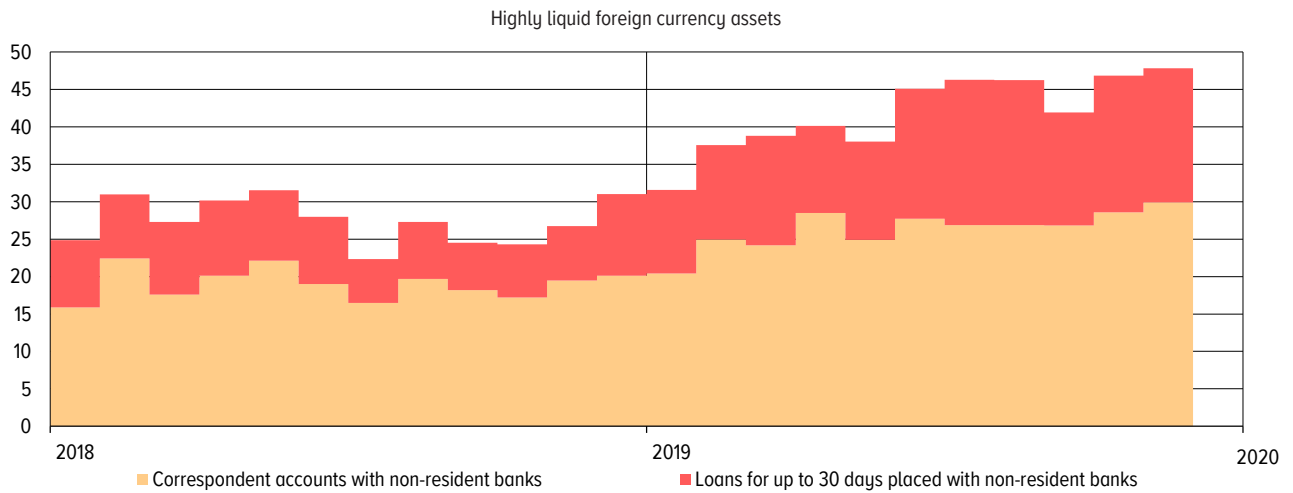
Chart 5



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

**THE AMOUNT OF HIGHLY LIQUID FOREIGN CURRENCY ASSETS REMAINS HIGH (AS OF 1 NOVEMBER)  
(BILLIONS OF US DOLLARS)**

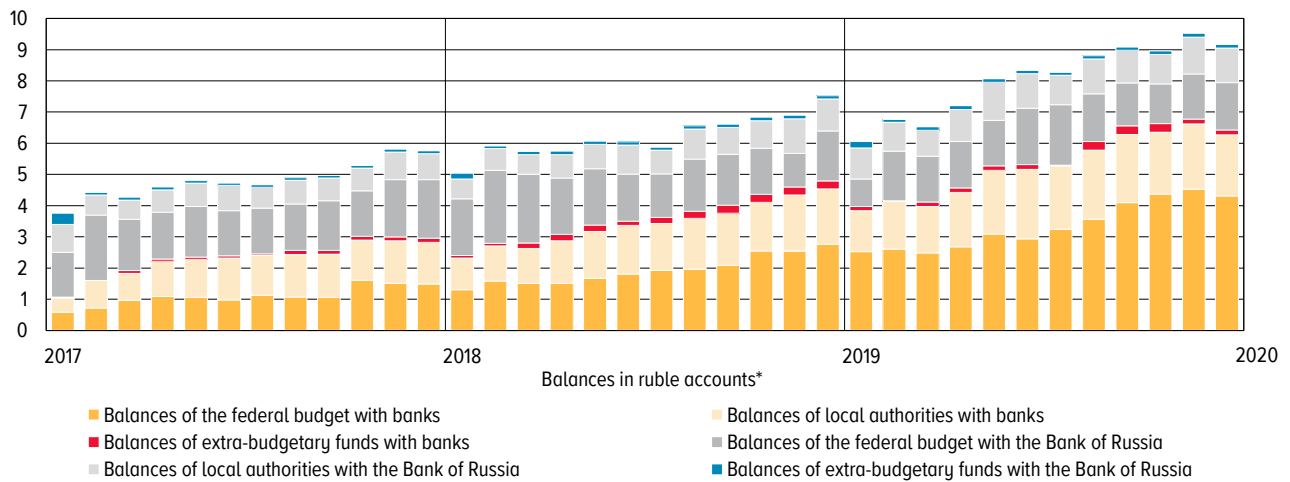
Chart 6



Source: Bank of Russia.

IN NOVEMBER, THE SEASONAL GROWTH IN BUDGET EXPENDITURE AND LARGE TAX REPAYMENTS TO CERTAIN COMPANIES WERE OFFSET BY A DECLINE IN BANKS' DEBT UNDER FEDERAL TREASURY OPERATIONS AND TAX PAYMENTS BY BANKS' CLIENTS (TRILLIONS OF RUBLES)

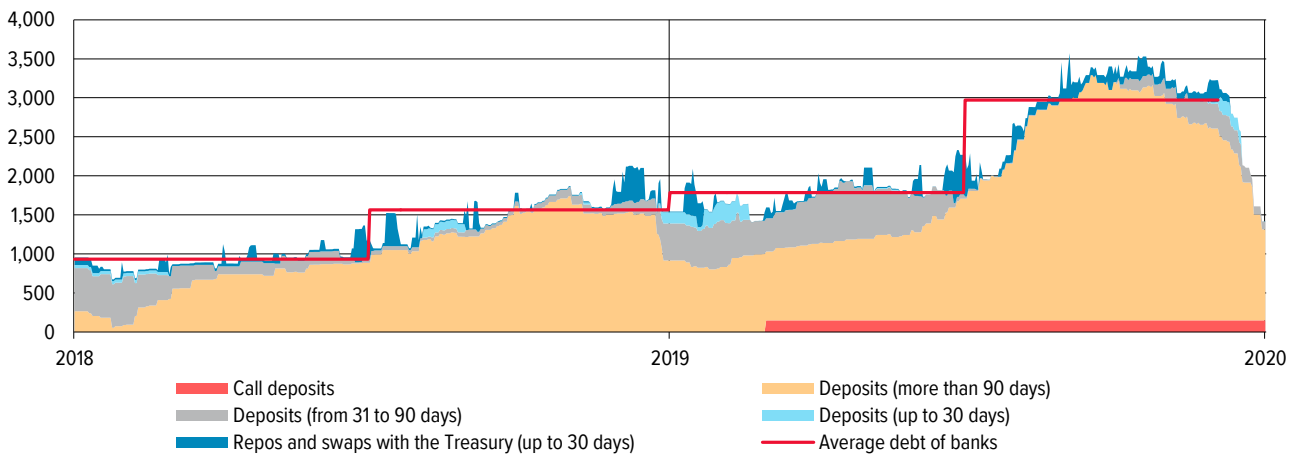
Chart 7



\* According to banking reporting form 0409301 'Performance indicators of a credit institution'.  
Source: Bank of Russia calculations.

IN DECEMBER, THE FEDERAL TREASURY MAY EXPAND THE AMOUNT OF TEMPORARILY AVAILABLE BUDGETARY FUNDS BEING PLACED AT BANKS. AS OF MID-DECEMBER, THE ANNUAL MOVING DEBT OF BANKS UNDER TREASURY OPERATIONS WAS 1.4 TRILLION RUBLES (1.5 TRILLION RUBLES IN 2018) (BILLIONS OF RUBLES)

Chart 8



Sources: Federal Treasury, Bank of Russia calculations.



IN NOVEMBER 2019, THE BANKING SECTOR'S STRUCTURAL LIQUIDITY SURPLUS INCREASED  
(START OF BUSINESS, BILLIONS OF RUBLES)

Table 3

	01.01.2017	01.01.2018	01.01.2019	01.11.2019	01.12.2019
<b>Structural liquidity deficit (+) / surplus (-)</b>	<b>736</b>	<b>-2,639</b>	<b>-3,024</b>	<b>-2,308</b>	<b>-3,037</b>
<b>Bank of Russia claims to credit institutions</b>	<b>1,258</b>	<b>10</b>	<b>13</b>	<b>5</b>	<b>5</b>
Auction-based facilities	216	-	-	-	-
– repos and FX swap	-	-	-	-	-
– secured loans	216	-	-	-	-
Fixed interest rate facilities	1042	10	13	5	5
– repos and FX swap	632	4	8	0	0
– secured loans	411	5	5	5	5
<b>Credit institutions' claims to the Bank of Russia</b>	<b>785</b>	<b>2,729</b>	<b>3,293</b>	<b>2,533</b>	<b>3,263</b>
Deposits	785	2,372	1,902	1,424	1,752
– auction-based	397	2,125	1,478	1,304	1,630
– fixed interest rate	388	247	424	120	122
BoR coupon bonds	0	357	1,391	1,109	1,511
<b>Standing reverse facilities, other than Bank of Russia standard monetary policy instruments*</b>	<b>263</b>	<b>81</b>	<b>256</b>	<b>219</b>	<b>221</b>

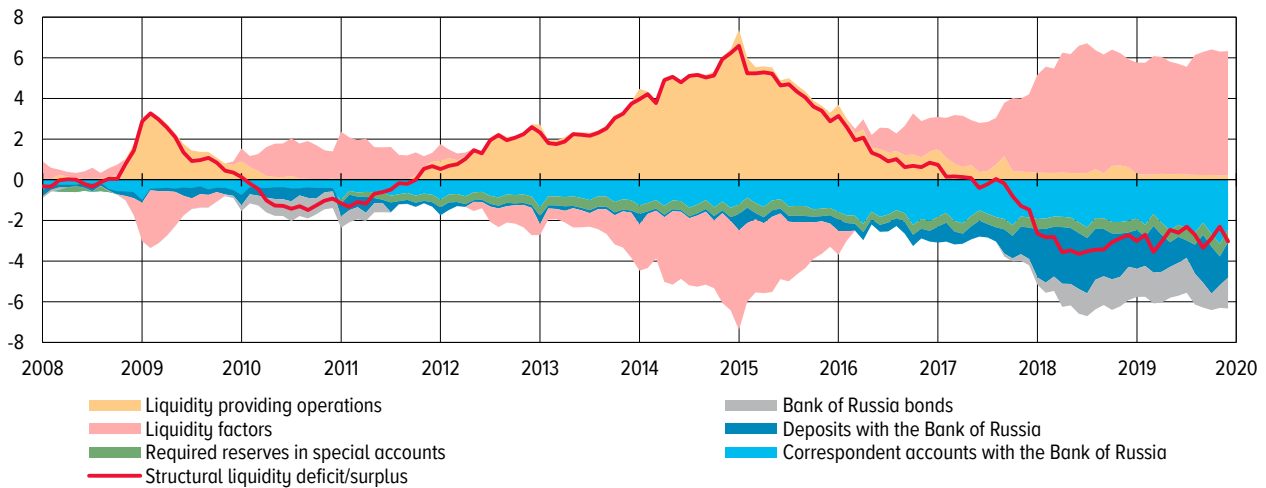
\* These transactions include Bank of Russia specialised refinancing instruments, loans granted by the Bank of Russia within irrevocable credit lines, and USD/RUB and EUR/RUB sell/buy FX swaps.

Note: due to rounding, final values may differ from the total of respective values.

Source: Bank of Russia calculations.

BANK OF RUSSIA BALANCE SHEET  
(TRILLIONS OF RUBLES)

Chart 9



Source: Bank of Russia calculations.

## FOREIGN EXCHANGE AND STOCK MARKET

In November, the situation in the Russian stock market remained relatively calm. The positive pass-through of the monetary policy easing by the Bank of Russia was largely reversed in October; and the situation in global markets was mostly unchanged.

**Exchange rate.** From mid-October, the USD/RUB exchange rate fluctuated close to 64 rubles per dollar (Chart 10). As a result, the implied and historic exchange rate volatility dropped to 2014 lows. The same is true for other emerging market economies (EMEs). The JP Morgan's EM FX volatility index also came close to its all-time lows in November. The decline in FX volatility increased the appeal of carry trade operations despite the key rate cut. According to the carry-to-risk indicator, the appeal of such operations grew to its maximum compared to 2017. In this context, non-residents demonstrated a moderate growth in long ruble positions in the FX swap segment.

**Country risk premium.** Russia's CDS spread continued to shrink to reach 69 bp by the end of the month, hitting a fresh low since 2007 (Chart 11). The majority of EMEs also registered shrinking CDS spreads.

**Federal government bonds.** In November, the rally observed in the OFZ market in the previous month came to an end. After demonstrating a 10–15 bp decline in the short end at the beginning of the month, the yield curve remained close to the achieved level till the end of the period (Chart 12). The inflow of foreign investment funds dropped from 220 billion rubles<sup>1</sup> to 14 billion rubles<sup>2</sup> (Chart 14). As a result, the volume of funds placed at OFZ auctions reduced almost twofold, compared with October, to total 102 billion rubles. Local investors that preferred higher yield corporate bonds amid dropping rates also demonstrated a decline in the demand for OFZ.

**Stocks.** In early November, the Russian stock indices continued their October upward trend, reaching all-time highs; after that, they slightly adjusted and remained at the achieved level until the end of the month. The MOEX index exceeded 3000 points and rose by 1.4% by the end of the month. The RTS index grew by 1.1% hitting the new high since end-2013 (Chart 13).

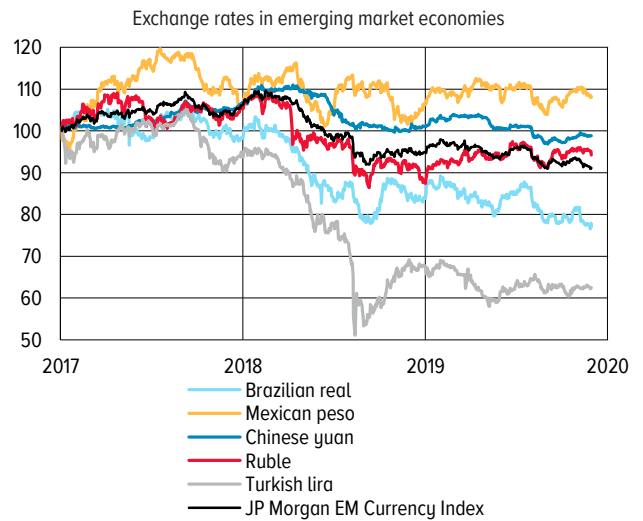
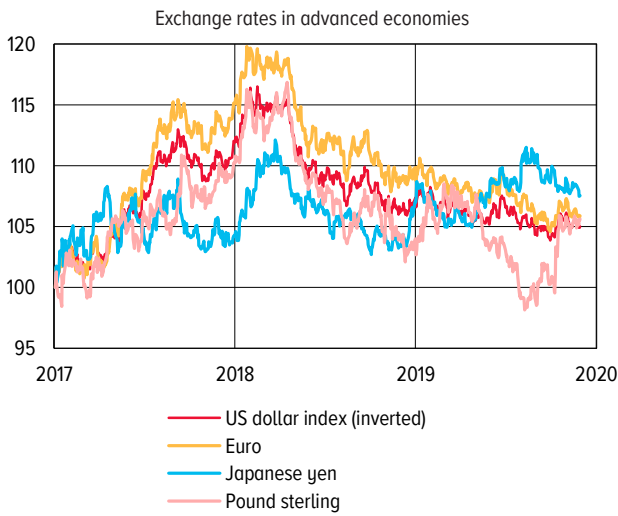
December will see the start of the next round of dividend payments. According to end-November data, Russian companies and banks plan to pay 418 billion rubles in December–January, which is 16% more than in the same period of the previous year.

<sup>1</sup> According to Form 0409711 'Securities Report'.

<sup>2</sup> According to the depository reporting of the NSD.

THE RUBLE FLUCTUATES CLOSE TO 64 RUBLES PER US DOLLAR FOR THE SIXTH WEEK IN A ROW\*  
(3 JANUARY 2017 = 100)

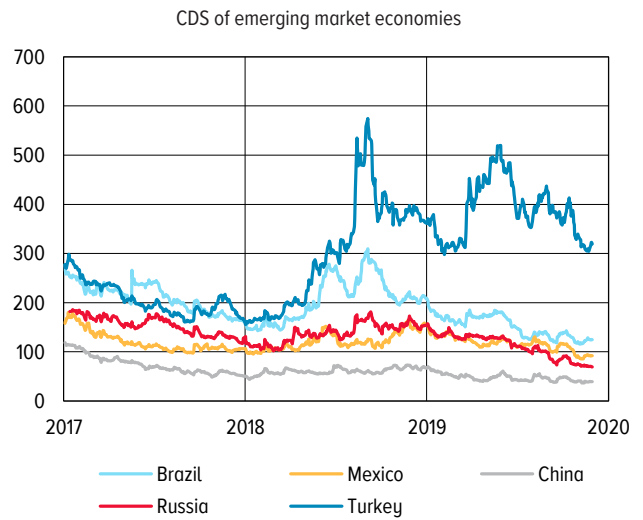
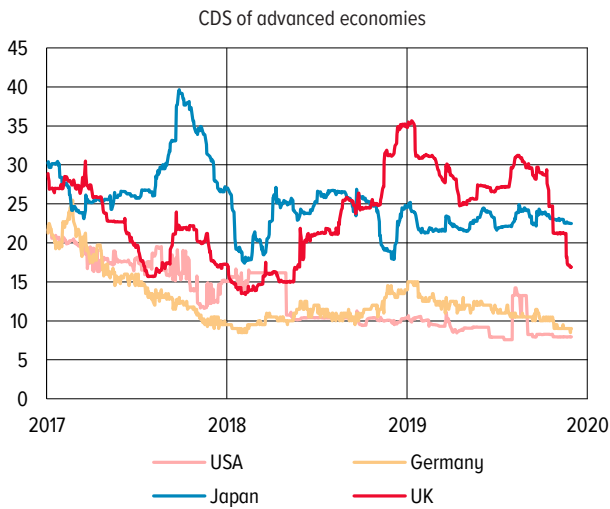
Chart 10



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

RUSSIA'S CDS SPREAD STAYED CLOSE TO ITS HISTORICAL LOWS  
(BP)

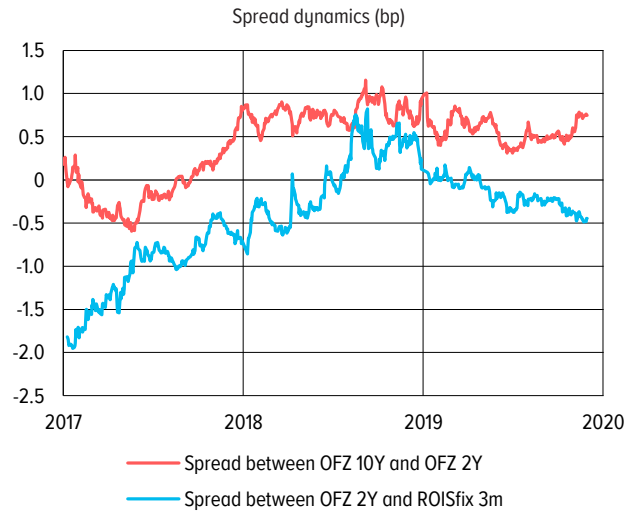
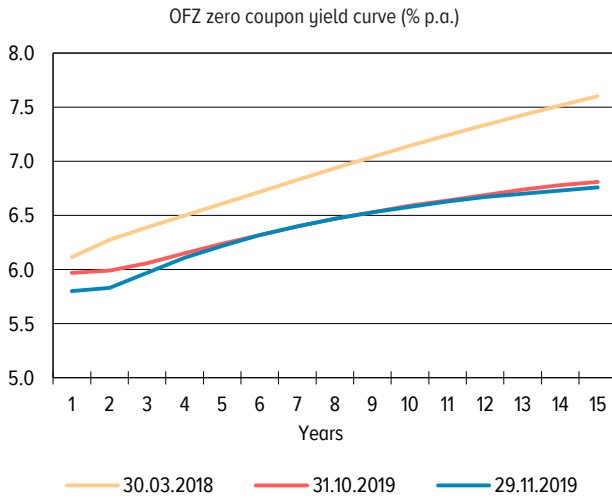
Chart 11



Sources: Bloomberg, Thomson Reuters, Bank of Russia calculations.

AFTER DECLINING IN THE FIRST WEEK OF NOVEMBER, THE OFZ YIELD CURVE REMAINED AT THE SAME LEVEL TILL THE END OF MONTH

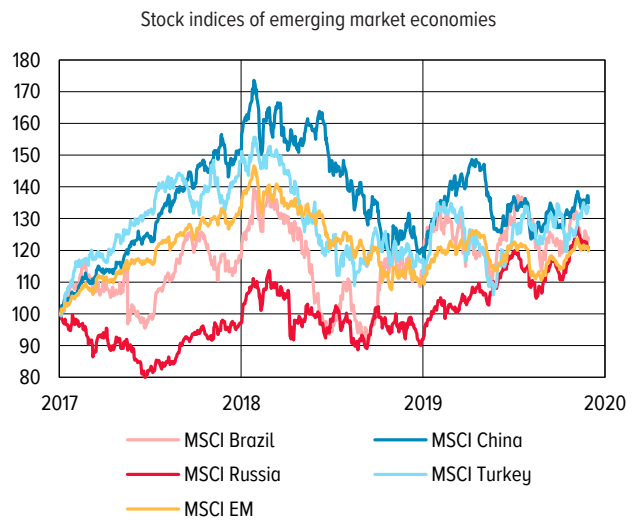
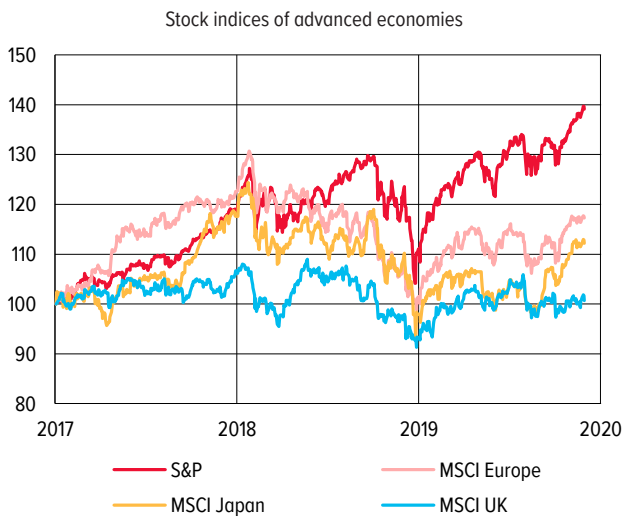
Chart 12



Source: PJSC Moscow Exchange.

GROWTH IN STOCK MARKET OBSERVED IN OCTOBER REVERSED TO SUBSTANTIAL SLOWDOWN IN NOVEMBER (3 JANUARY 2017 = 100)

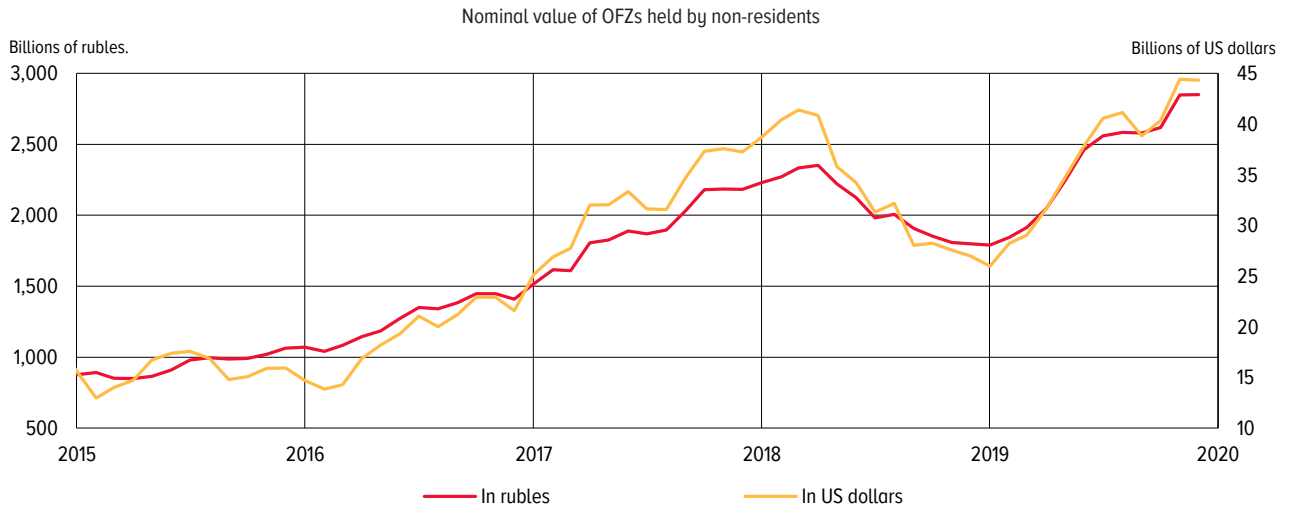
Chart 13



Sources: Bloomberg, Bank of Russia calculations.

NON-RESIDENTS REDUCED DEMAND FOR OFZs

Chart 14



Source: Bank of Russia calculations.

IN NOVEMBER, MOST SEGMENTS OF THE RUSSIAN FINANCIAL MARKET DID NOT SEE ANY SIGNIFICANT PRICE CHANGE

Table 4

Indicator		29.11.2019	1M	3M	6M	YTD	1Y
<b>Russian financial market</b>							
RUB/USD exchange rate		64.32	-1.0	3.2	1.2	7.7	3.7
MOEX Index		2935	1.4	7.1	10.1	24.5	23.3
RTS Index		1438	1.1	11.2	11.8	34.9	29.2
Government bond yield		6.26	-4	-60	-148	-215	-227
Corporate bond yield		7.06	-2	-71	-137	-209	-196
Regional bond yield		6.87	-3	-87	-158	-186	-180
CDS spread		69	-7	-29	-62	-85	-98
RVI		18	-1	-2	-3	-8	-8
<b>Exchange rates (per US dollar, % change, '+' – appreciation, '-' – depreciation)</b>							
AEs*	US dollar index	98.27	0.9	-0.7	0.5	1.9	1.5
	Euro	1.10	-1.2	0.3	-1.4	-3.7	-3.1
	Japanese yen	109.49	-1.3	-3.0	-1.1	0.7	3.8
	Pound sterling	1.29	-0.1	6.3	2.3	1.8	0.8
EMEs	JP Morgan EM Currency Index	59.82	-2.0	-0.2	-2.8	-3.9	-4.5
	Ruble	64.32	-1.0	3.2	1.2	7.7	3.7
	Brazilian real	4.24	-5.1	-2.2	-7.4	-8.4	-9.2
	Mexican peso	19.53	-1.6	2.6	0.3	0.6	3.8
	Chinese yuan	7.03	0.1	1.8	-1.8	-2.2	-1.1
	Turkish lira	5.75	-0.6	1.6	1.6	-8.3	-9.2
	South Africa	14.67	3.0	3.7	-0.6	-1.6	-6.1
	<b>10-year bond yield (% p.a., change in bp, '+' – increase, '-' – decrease)</b>						
AEs	USA	1.78	9	28	-35	-94	-128
	Germany	-0.36	5	34	-16	-60	-71
	Japan	-0.08	6	19	2	-8	-18
	UK	0.70	7	22	-19	-57	-68
EMEs	Russia	6.45	-1	-67	-147	-225	-237
	Brazil	6.92	43	-51	-153	-231	-317
	Mexico	7.08	32	11	-92	-161	-211
	China	3.17	-11	12	-12	-13	-22
	Turkey	12.11	-31	-348	-611	-397	-401
	South Africa	9.21	1	28	10	50	50
<b>CDS spreads (% p.a., change in bp, '+' – increase, '-' – decrease)</b>							
AEs	USA	8	0	-5	-1	-2	-2
	Germany	9	-1	-2	-4	-5	-5
	Japan	22	0	-2	-2	-2	4
	UK	17	-4	-13	-10	-18	-14
EMEs	Russia	69	-7	-29	-62	-85	-98
	Brazil	125	4	-11	-57	-86	-89
	Mexico	92	0	-22	-40	-65	-62
	China	40	-1	-7	-19	-28	-33
	Turkey	320	-20	-110	-168	-44	-69
	South Africa	188	-2	8	-14	-36	-45
<b>Stock indices (points, % change), '+' – increase, '-' – decrease)</b>							
AEs	S&P	3 141	3.4	7.3	14.1	26.4	14.5
	MSCI Europe	1,718	1.3	7.2	8.8	16.0	10.6
	MSCI Japan	1,026	1.9	12.2	12.6	14.6	3.9
	MSCI UK	2,103	1.3	1.6	2.0	7.9	3.6
EMEs	MSCI EM	1,040	-0.2	5.7	4.2	8.0	4.9
	MSCI Russia	752	-0.7	10.0	9.8	32.3	27.7
	MSCI Brazil	2,125	-4.5	3.6	1.6	9.1	6.9
	MSCI Mexico	4,547	-2.7	3.3	1.1	3.3	8.8
	MSCI China	80	1.6	5.5	7.2	12.4	5.0
	MSCI Turkey	1,425,514	7.4	8.2	15.3	14.8	11.0
MSCI South Africa	1 311	-2.9	-2.7	-4.7	0.2	0.1	

\* Advanced economies.

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

## CREDIT AND DEPOSIT MARKET

**Deposit rates.** October saw downward dynamics in the yields of financial market instruments conditioned by the monetary policy easing. Against this background, deposit rates declined in the retail segment of the deposit market (Chart 15). In October, the downward adjustment of rates continued both in the short- and long-term household deposits by comparable 0.12 pp to 4.99% and 6.16% respectively.

A decrease in the funding cost of retail deposits was also observed in November for large banks operating in the deposit market. This will drag heavily on mid-term deposit rates. Besides, one can expect a certain slowing in the downward adjustment of deposit rates amid banks' competition for depositors. This is evidenced by the introduction of seasonal deposits with attractive conditions, typical for the fourth quarter, which constrains the lowering of rates for below 1-year maturities.

The funding cost of foreign currency deposits continued to demonstrate a fast decline caused by the expected reduction in US interest rates, which was subsequently implemented in September and October. As a result, in September–October, the rate of long-term US dollar household deposits reduced by 0.34 pp.

**Deposit operations.** The nominal rates of ruble deposits dropped amid a moderate and comparable reduction in inflation. As a result, households continued to be interested in deposits, being the main savings instrument. At end-October, the increase in household ruble deposits was 8.6% in annual terms.<sup>3</sup> The growth of the ruble deposit portfolio decelerated a little (the annual growth was 8.9% at the end of September) due to a slowdown in the growth of long-term ruble deposits (the annual growth was 15.3% at the end of October compared with 17.1% in the previous month). It was due

to the high base effect associated with the increase in deposit rates in the fourth quarter of the previous year. Nonetheless, the long-term ruble deposit segment continued to make a considerable contribution to the annual growth of the ruble deposit portfolio (more than 60% of the increase), demonstrating households' ongoing confidence in the banking system, and expectations of favourable market dynamics (Chart 16).

The outflow of funds from foreign currency deposits resumed in October (the monthly decrease was 0.3% in US dollar terms). In combination with the stable dynamics of ruble deposits, this factor facilitated a further reduction in the share of foreign currency retail deposits (20.9% in October compared to 21.1% in the previous month).

**Credit rates.** In September, banks continued to reduce their credit rates in the corporate and retail segments, which was conditioned on the ongoing easing of monetary policy and the reduced cost of funding for banking operations (Chart 15). The interest rate on short-term loans to non-financial organisations reduced by 0.3 pp to 8.3% in September. In the long-term corporate lending segment, the interest rate changed from 9.1 to 9.2% in September because of the increase in the volume of credit issued to procyclical sectors characterised by higher risks (construction, trade, real estate sector, etc.). Overall, in 2019 Q3, the cost of corporate loans with over 1-year maturities was down by 0.4 pp despite the September hike.

In the short-term retail lending segment, in October, the interest rate dropped by 0.49 pp, and in the long-term segment – by 0.16 pp, which was in part caused by the downward pressure from the mortgage interest rate. In October, the interest rate on mortgage loans remained on the downward track reaching 9.4% (a 0.3 pp drop month-on-month), which corresponds to the all-time minimum.

As before, the decline in lending rates is an important factor behind the easing of lending conditions, which continued to be at play in 2019 Q3, both in the corporate and retail segments (Chart 19). Over the short-term horizon, the gradual decline in interest rates in the money and stock markets, which was observed in October–

<sup>3</sup> Hereinafter, increases in banks' balance sheet indicators are calculated based on 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. To analyse flows of funds between banks and their customers, the growth of the foreign currency component is converted into rubles using the period average exchange rate where increases in balance sheet indicators comprising foreign currency and ruble components are calculated herein.

November and is expected to continue, will allow banks to consistently reduce interest rates on loans to ultimate borrowers.

**Corporate lending.** October faced a slow recovery in corporate lending: the annual growth rate was up by 0.6 pp to 4.1%, in part due to the pick-up in foreign currency lending for up to 3 years (in October, the annual growth in US dollar terms was 6.2% compared to 11.4% in the previous month) amid the ongoing reduction in foreign currency loans issued for more than 3 years. The ruble segment of corporate lending continues to demonstrate growth (9.8% YoY in October), leading to a gradual substitution of short-term loans with long-term ones (Chart 17).

In this situation, the share of overdue loans in the portfolio of loans to non-financial organisations remained almost the same over several past months (8.0% at the end of October), thereby constraining the easing of non-price lending conditions by banks. However, the ongoing reduction in the cost of corporate borrowings will improve the affordability of loans to businesses.

**Retail lending.** October faced the continuation of the gradual slowing in the growth of the retail loan portfolio, which had started in May. The annual growth of households' debt on loans stood at 19.7% compared to 20.7% in the previous month (Chart 17). The mortgage segment represented more than a half of the annual slowdown in the portfolio of loans issued

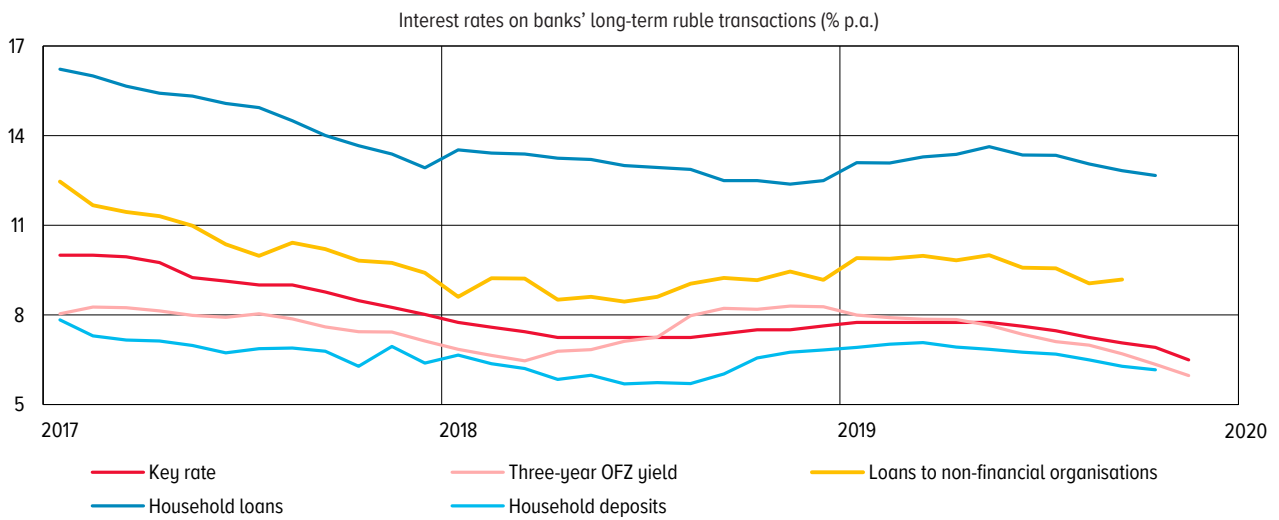
to households (Chart 18). A substantial slowdown in the growth of mortgage lending was observed in July this year, which was caused by mortgage asset securitisation transactions. The slowing growth of ruble mortgage loans in October (debt rose by less than 40 billion rubles over the month, whereas the average monthly growth, excluding July, exceeded 100 billion rubles this year) may be also associated with the issue of mortgage bonds, though this will be shown in the banking reporting for 2019 Q4. This said, at the end of October, the annual growth in the portfolio of ruble mortgage loans fell by 1.1 pp to 17.5%. Nonetheless, the mortgage segment retains its appeal both for banks (due to its low risks, the share of overdue debt is close to its all-time low) and for households (mortgage rates continue to drop).

The segment of unsecured consumer lending also demonstrates a decline in activity in part due to macroprudential measures that came into force on 1 October 2019. As a result, given the current dynamics of mortgage lending, the share of unsecured consumer loans in the retail lending portfolio remained almost unchanged. In future, taking into account growth in the affordability of mortgage loans coupled with the constraining effect produced by the interrelation of increased risk ratios and debt burden on the segment of consumer loans, one can expect a further moderate rise in retail lending without any threats to price and financial stability.



INTEREST RATES ON CORE BANK OPERATIONS CONTINUE TO DECLINE

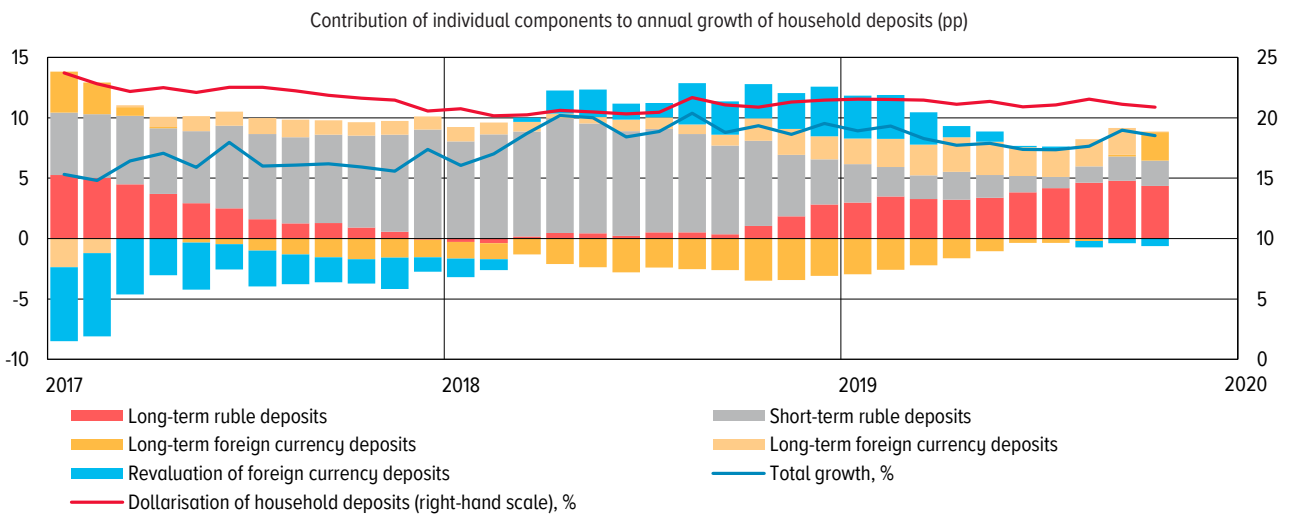
Chart 15



Source: Bank of Russia calculations.

THE SEGMENT OF LONG-TERM RUBLE DEPOSITS CONTINUES TO MAKE A SUBSTANTIAL CONTRIBUTION TO THE ANNUAL GROWTH OF THE RUBLE DEPOSIT PORTFOLIO

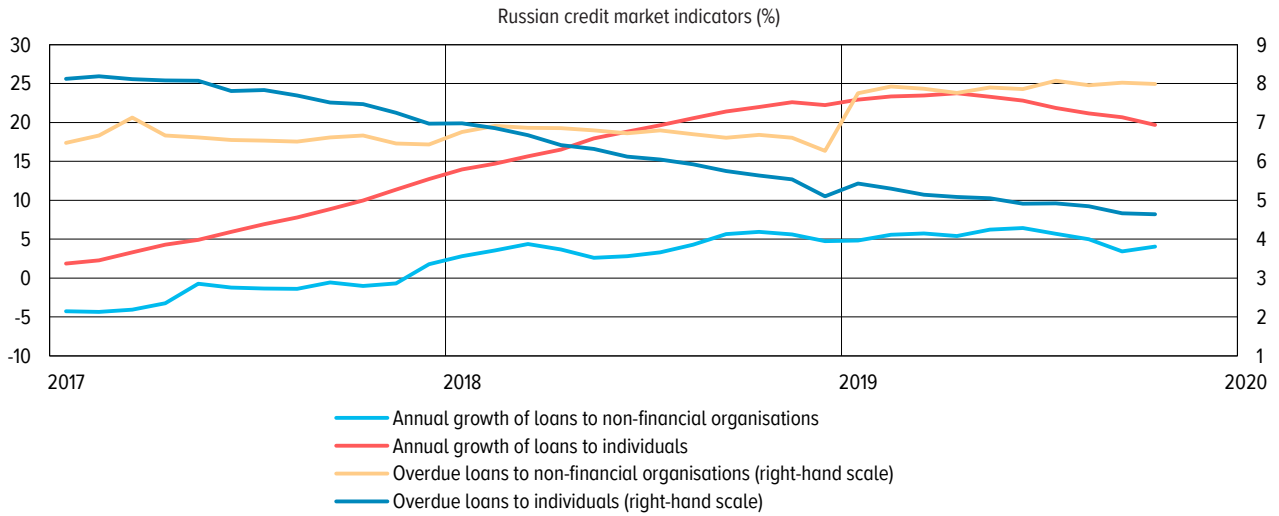
Chart 16



Source: Bank of Russia calculations.

OCTOBER SAW A CERTAIN PICK-UP IN CORPORATE LENDING DUE TO AN INCREASE IN FOREIGN CURRENCY LOANS

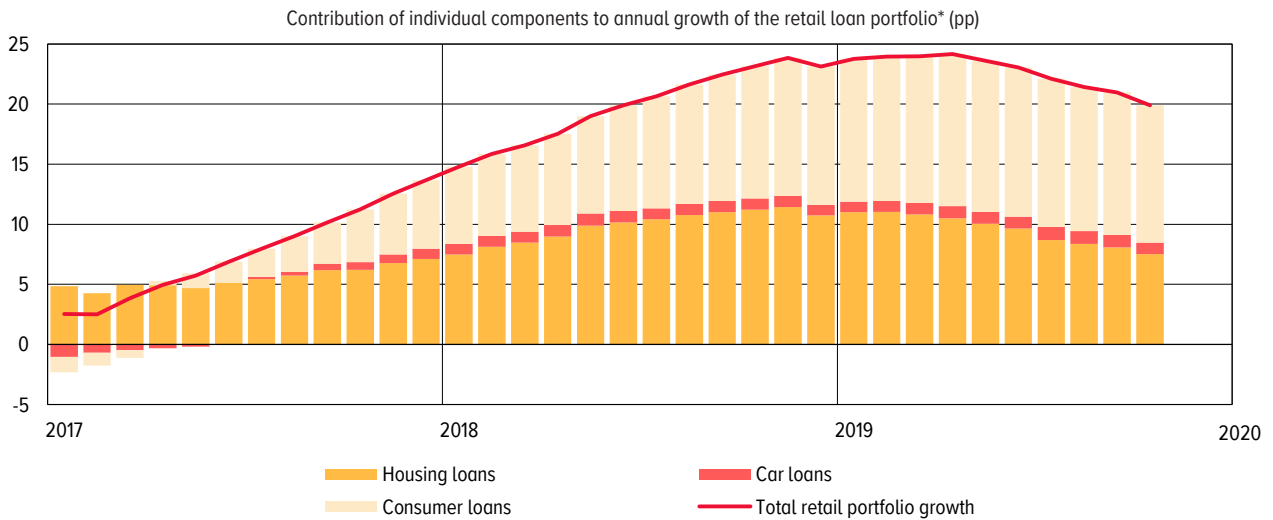
Chart 17



Source: Bank of Russia calculations.

LENDING CONTINUES TO SLOW DOWN ACROSS ALL TYPES OF RETAIL LENDING

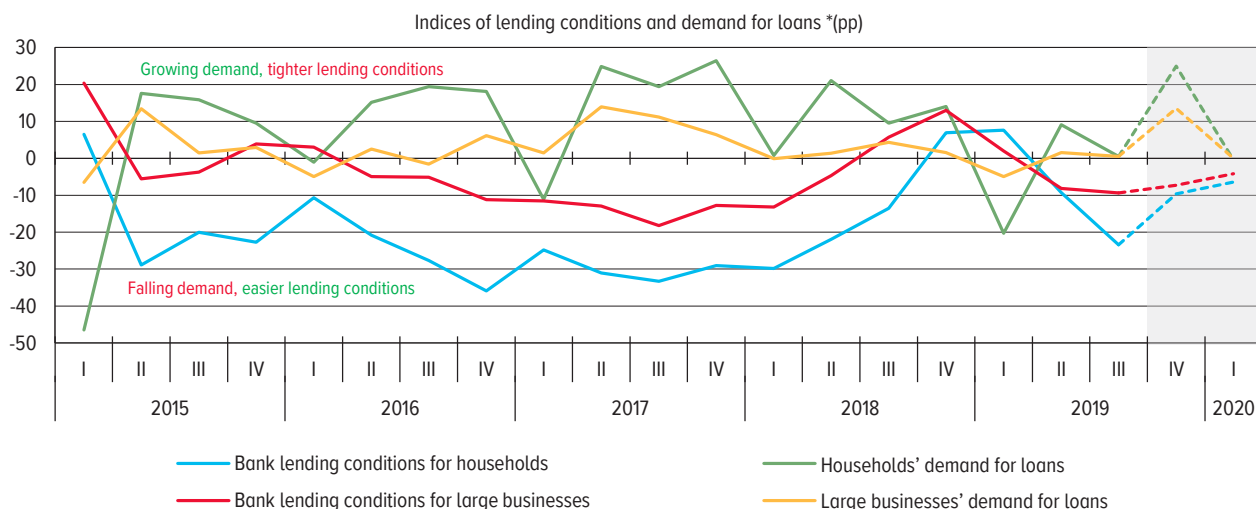
Chart 18



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

## IN 2019 Q3, PRICE LENDING CONDITIONS WERE PREDOMINANTLY RELAXED

Chart 19



## CREDIT AND DEPOSIT MARKET INDICATORS

Table 5

		July 2019	August 2019	September 2019	October 2019
Rates on banks' long-term ruble transactions					
– household deposits	% p.a.	6.7	6.5	6.3	6.2
– household loans	% p.a.	13.3	13.1	12.8	12.7
– corporate loans	% p.a.	9.6	9.1	9.2	
Household deposits					
	% YoY, AFCR	7.1	8.2	9.4	9.2
– in rubles	% YoY	6.5	7.8	8.9	8.6
– in foreign currency	% YoY	9.5	9.6	11.3	11.7
– dollarisation	%	21.1	21.5	21.1	20.9
Loans to non-financial organisations					
	% YoY, AFCR	5.7	5.0	3.4	4.1
– short-term (up to 1 year)	% YoY, AFCR	4.9	2.1	1.2	1.3
– long-term (more than 1 year)	% YoY, AFCR	4.3	4.0	2.1	3.0
– overdue loans	%	8.1	8.0	8.0	8.0
Household loans					
	% YoY, AFCR	21.9	21.2	20.7	19.7
– housing mortgage loans	% YoY, AFCR	19.8	19.0	18.3	17.3
– unsecured consumer loans	% YoY	24.4	23.7	23.4	22.6
– overdue loans	%	4.9	4.8	4.7	4.6

Note: YoY – year-over-year; AFCR – adjusted for foreign currency revaluation. The Marshall-Edgeworth decomposition is used to make the adjustment for FX revaluation.

Source: Bank of Russia calculations.

## Data cut-off dates:

- 'Banking sector liquidity and money market' section – 10.12.2019 (The reserve requirements are an important part of the Bank of Russia's instruments for managing banking sector liquidity and money market rates. Therefore, the operational procedure of the Bank of Russia's monetary policy should be analysed for efficiency with account of the required reserves averaging periods. In September–November 2019, this period is from 06.11.2019 to 10.12.2019);
- 'Foreign exchange and stock markets' section – 29.11.2019;
- 'Credit and deposit market' section – 01.11.2019.

A soft copy of the information and analytical commentary is available on the Bank of Russia website (<http://www.cbr.ru/DKP/>).

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This commentary was prepared by the Monetary Policy Department.

Cover photo: A.M.Gruzdeva, Bank of Russia

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