



Bank of Russia



# BANKING SECTOR LIQUIDITY AND FINANCIAL MARKETS

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Information and analytical commentary

14 May 2020

## BANKING SECTOR LIQUIDITY AND FINANCIAL MARKETS: FACTS, ASSESSMENTS AND COMMENTS (MARCH 2020)

- In April, the structural liquidity surplus shrank to 1.4 trillion rubles (-0.9 trillion rubles). This was caused by the continuing growth of cash in circulation, although at a slower pace, and an increase in required reserves resulting from the foreign currency revaluation of credit institutions' liabilities.
- The spread between interbank lending rates and the Bank of Russia key rate became positive, reaching +1 bp (vs -30 bp in the March averaging period) amid material liquidity outflows from the banking sector.
- The spread between interest rates in the FX swap and interbank lending segments shrank to -3 bp. Despite the slump in oil prices, the situation with foreign currency liquidity remained favourable owing to fiscal rule-based foreign currency sales by the Bank of Russia.
- April stabilised the situation in global financial markets. A range of countries announced gradual cancellation of their quarantine restrictions. Combined with the economic support measures being taken, this easing will boost a recovery of economic activity. A relatively favourable external environment, including a rise in oil prices, also supported a revival in the Russian market.
- After the Bank of Russia's comments on possible easing of monetary policy and the actual reduction in the key rate, market players started to expect that monetary policy will significantly loosen by the end of the year.
- Preliminary data show that long-term deposit rates continued to decline in March, without any notable changes in the short-term segment of the market. The mortgage rate hit a new record low in March.
- Saving activity declined in March, which was associated with a substantial outflow of foreign currency deposits. According to recent statistics, the inflow of households' funds into ruble deposits remained steady in April, with a weaker outflow of foreign currency deposits compared to March.
- In 2020 Q1, lending conditions tightened in both the corporate and retail segments, primarily as a result of considerable tightening of the requirements for borrowers' financial standing. Respondent banks expect that in Q2 and Q3 lending conditions will considerably toughen for all main categories of borrowers, largely through non-price terms, against the background of shrinking demand for borrowings.
- Short-term loans were the major driver of corporate lending in March. Retail lending market players intensified their activity in March, which ensured a less noticeable slowdown of the annual growth in mortgage and consumer lending.

### Banking sector liquidity and money market

**Ruble liquidity.** In April, the structural liquidity surplus contracted by 0.9 trillion rubles, to 1.4 trillion rubles (Chart 1). Its amount averaged 2.0 trillion rubles in the April required reserve averaging period (vs 3.1 trillion rubles in the March averaging period). The shrinkage of the surplus as of early May was caused by the increased amount of cash in circulation

which continued to grow, although at a slower pace. Conversely, there was a moderate liquidity inflow through the budget channel. Budget expenses in April were generally in line with previous years' trends, while budget revenues slightly contracted. The collapse of the Urals crude price induced a reduction in oil and gas revenues of the budget system. Non-oil and gas revenues also decreased, which was associated with, among other things, a slowdown of economic activity and the postponement of the

tax payments of non-operating enterprises to the first business days after the termination of the self-isolation regime.

Due to low revenues and the need to finance expenses, the budget systems of the constituent territories of the Russian Federation did not build up their placements of temporarily available funds in bank deposits as opposed to April 2019. Contrastingly, the Federal Treasury made additional placements of approximately 0.4 trillion rubles with credit institutions. Banks also demonstrated high demand for the operations of the Moscow Department of Finance. This is evidenced by high deposit rates at the deposit auctions conducted (above the Bank of Russia key rate adjusted for implicit costs to maintain required reserves). These operations were partially offset by the internal borrowings of Russia's Ministry of Finance that expanded by 0.2 trillion rubles (including redemptions and coupon payments on federal government bonds).

The banking sector's increased need for liquidity was also driven by the growth of required reserves to 2.6 trillion rubles (+0.2 trillion rubles) to be maintained by banks with the Bank of Russia, which resulted from the foreign currency revaluation of credit institutions' liabilities. Banks transferred another 43 billion rubles into special required reserve accounts. In addition, a number of credit institutions sought to form liquidity cushions for unexpected large client outflows. In this environment, balances in banks' correspondent accounts with the Bank of Russia increased to 3 trillion rubles as of the beginning of May. In order to smooth out the emerging disbalances in the distribution of liquidity among credit institutions, the Bank of Russia also held fine-tuning repo auctions in addition to its deposit auctions.

The Bank of Russia continued coupon bond (coupon OBR) placements. However, banks' investments in coupon OBRs in April remained at the level of 1.5 trillion rubles. Amid the shrinking surplus of liquidity in the banking sector, the Bank of Russia reduced its coupon OBR placements in May in order to ensure greater flexibility to be able to promptly adjust the amounts of absorbed liquidity through its weekly deposit auctions. To this end, the Bank

of Russia decided to cancel the auction for the placement of the 33<sup>rd</sup> coupon OBR issue scheduled for 12 May 2020, and not to carry out the auction for the placement of the 32<sup>nd</sup> coupon OBR issue until the redemption of the 31<sup>st</sup> issue.

**Money market.** The spread between short-term lending rates<sup>1</sup> and the Bank of Russia key rate contracted to +1 bp (vs -30 bp in the March averaging period) (Chart 2). The spread volatility decreased to 17 bp (vs 26 bp in the March averaging period). The shrinkage of the spread was caused by funds outflows from the banking sector, due to which interbank lending rates formed above the key rate on certain days. However, prompt measures implemented by the Bank of Russia in response to the liquidity situation, including through fine-tuning repo auctions, helped preserve the conditions for interest rates to stay close to the key rate and to expand opportunities for credit institutions to manage their own liquidity. Over the averaging period, the Bank of Russia was carrying out fine-tuning repo auctions.

Compared to March when banks tended to place funds for shorter periods, April recorded a slight rise in trading volumes in segments other than overnight.

**Foreign currency liquidity.** The interest rate spread in the FX swap and interbank (basis) segments contracted to -3 bp on average (vs -29 bp in the March averaging period) (Chart 3). The cost of foreign currency liquidity decreased in April owing to the stabilisation of the situation with foreign currency liquidity in global markets by late March – early April.<sup>2</sup> Despite plummeting oil prices, the foreign currency liquidity cushion in the banking sector changed only slightly. This became possible owing to the fiscal rule-based foreign currency sales by the Bank of Russia, including additional foreign currency sales when the Urals crude price declined beneath USD 25 per barrel. All these supported the basis. In these conditions,

<sup>1</sup> The interbank lending rate is the interest rate charged on unsecured loans in the money market.

<sup>2</sup> Refer to *Banking Sector Liquidity and Financial Markets: Facts, Assessments and Comments*, No. 3 (49), March 2020.

the Bank of Russia's FX swap to supply US dollars was not demanded, as before.

**The structural liquidity surplus forecast** for the end of 2020 was raised from 2.1–2.7 trillion rubles to 2.2–2.8 trillion rubles and factors in the impact of fiscal rule-based operations, including the transactions related to the sale of the equity stake in Sberbank to the Government of the Russian Federation.

**Key rate expectations.** In April, market participants significantly altered their key

rate expectations. In contrast to March when investors and analysts mostly expected the key rate to stay at the level of 6.0% p.a. until at least the end of the year, the Bank of Russia's comments on a potential decrease in the key rate and its subsequent actual reduction persuaded market players that monetary policy will be easing faster. Now, their expectations regarding the key rate range from 4.5% to 5.0% per annum (Table 1).

#### MARKET PLAYERS EXPECT A CONSIDERABLE REDUCTION IN THE INTEREST RATE BY THE END OF THE YEAR

Table 1

<b>1. Expectations based on market indicators,* interest rate (instrument)</b>	<b>June 2020</b>	<b>December 2020</b>
– MosPrime 3M (из FRA)	5.40 (6.63)	5.10 (6.84)
– RUONIA (из ROISfix)	5.08 (6.71)	5.00 (6.49)
– RUONIA (из фьючерсов)	5.46 (6.32)	5.35 (6.48)
<b>2. Analysts' key rate expectations*</b>	<b>As of 30.06.2020</b>	<b>As of 31.12.2020</b>
– Bloomberg survey	5.00 (6.00)	4.75 (6.00)
– Reuters survey	5.00 (6.00)	4.50 (6.00)

\* The values are given as of the end of the current and previous (in brackets) months.  
Source: Bank of Russia calculations.

IN APRIL 2020, THE BANKING SECTOR'S STRUCTURAL LIQUIDITY SURPLUS DECREASED  
(START OF BUSINESS, BILLIONS OF RUBLES)

Table 2

	01.01.2017	01.01.2018	01.01.2019	01.01.2020	01.04.2020	01.05.2020
<b>Structural liquidity deficit (+) / surplus (-)</b>	<b>736</b>	<b>-2,639</b>	<b>-3,016</b>	<b>-2,761</b>	<b>-2,307</b>	<b>-1,434</b>
<b>Bank of Russia's claims on credit institutions</b>	<b>1,258</b>	<b>10</b>	<b>21</b>	<b>18</b>	<b>876</b>	<b>506</b>
Auction-based facilities	216	-	-	-	854	500
– repos and FX swaps	-	-	-	-	854	500
– secured loans	216	-	-	-	-	-
Fixed interest rate facilities	1,042	10	21	18	22	6
– repos and FX swaps	632	4	8	13	17	1
– secured loans	411	5	13	5	5	5
<b>Credit institutions' claims on the Bank of Russia</b>	<b>785</b>	<b>2,729</b>	<b>3,293</b>	<b>2,983</b>	<b>3,378</b>	<b>2,190</b>
Deposits	785	2,372	1,902	1,026	1,834	670
– auction-based	397	2,125	1,478	697	1,674	410
– fixed interest rate	388	247	424	330	160	260
BoR coupon bonds	0	357	1,391	1,956	1,544	1,520
<b>Standing reverse facilities, other than standard monetary policy instruments of the Bank of Russia*</b>	<b>263</b>	<b>81</b>	<b>256</b>	<b>204</b>	<b>195</b>	<b>251</b>

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

Source: Bank of Russia calculations.

THE STRUCTURAL LIQUIDITY SURPLUS FORECAST FOR THE END OF 2020 WAS RAISED  
FROM 2.1–2.7 TRILLION RUBLES TO 2.2–2.8 TRILLION RUBLES  
(TRILLIONS OF RUBLES)

Table 3

	2019 (actual)	January–April 2020	April 2020	2020 (forecast)
<b>1. Liquidity factors (supply)</b>	<b>0.5</b>	<b>-0.9</b>	<b>-0.4</b>	<b>[-0.5; 0.0]</b>
– change in the balances of funds in general government accounts with the Bank of Russia, and other operations*	0.2	0.1	0.1	[0.0; 0.3]
– change in the amount of cash in circulation	-0.1	-1.0	-0.5	[-0.6; -0.4]
– Bank of Russia's interventions in the domestic FX market and monetary gold purchases**	0.4	0.1	0.0	0.1
– regulation of banks' required reserves with the Bank of Russia	0.0	0.0	0.0	-0.1
<b>2. Change in free bank reserves (correspondent accounts)*** (demand)</b>	<b>0.7</b>	<b>0.4</b>	<b>0.4</b>	<b>[-0.1; 0.0]</b>
<b>3. Change in banks' claims on deposits with the Bank of Russia and BoR coupon bonds</b>	<b>-0.3</b>	<b>-0.8</b>	<b>-1.2</b>	<b>[-0.6; 0.0]</b>
<b>4. Change in outstanding amounts on Bank of Russia refinancing operations (4 = 2 + 3 - 1)</b>	<b>-0.1</b>	<b>0.5</b>	<b>-0.3</b>	<b>0.0</b>
<b>Structural liquidity deficit (+) / surplus (-) (as of the period-end)</b>	<b>-2.8</b>	<b>-1.4</b>		<b>[-2.8; -2.2]</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.

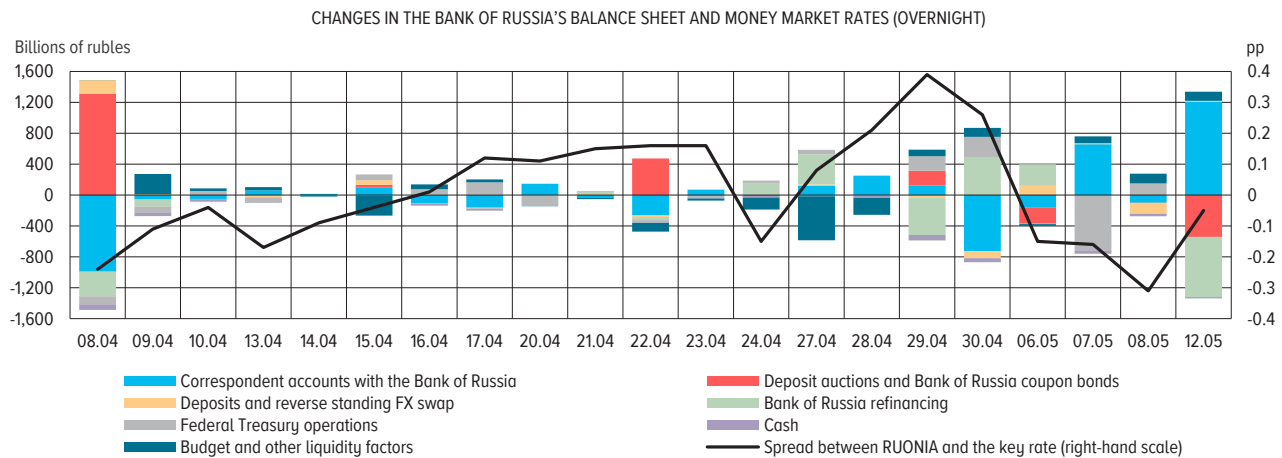
\*\* Forecast values of the indicator are in line with the actual amount of operations conducted.

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

Source: Bank of Russia calculations.

APRIL 2020 RECORDED A LIQUIDITY OUTFLOW DUE TO THE GROWTH OF THE AMOUNT OF CASH IN CIRCULATION, AND AN INCREASE IN REQUIRED RESERVES RESULTING FROM THE FOREIGN CURRENCY REVALUATION OF CREDIT INSTITUTIONS' LIABILITIES

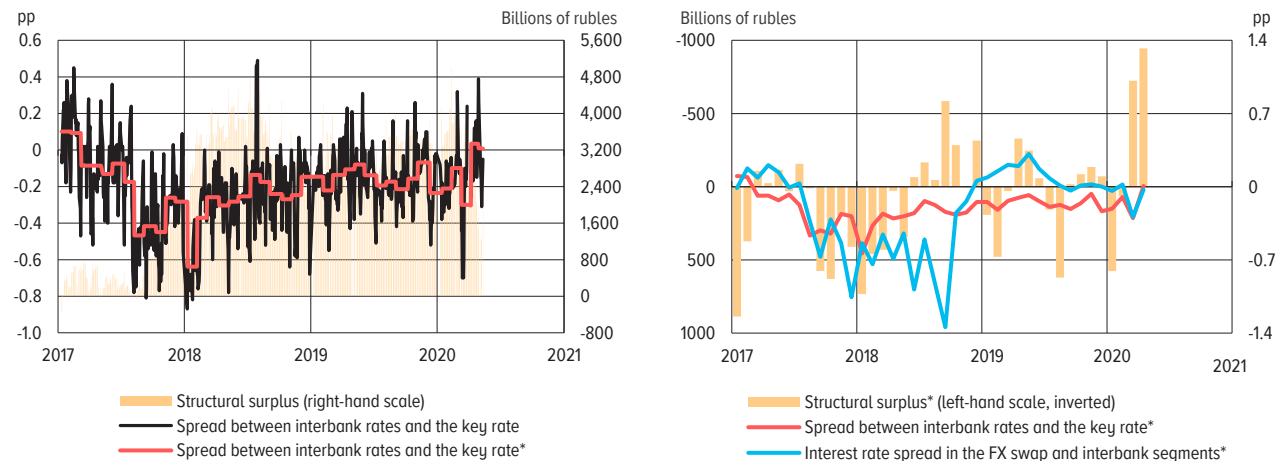
Chart 1



Source: Bank of Russia calculations.

THE SPREAD BETWEEN INTERBANK LENDING RATES AND THE BANK OF RUSSIA KEY RATE CONTRACTED

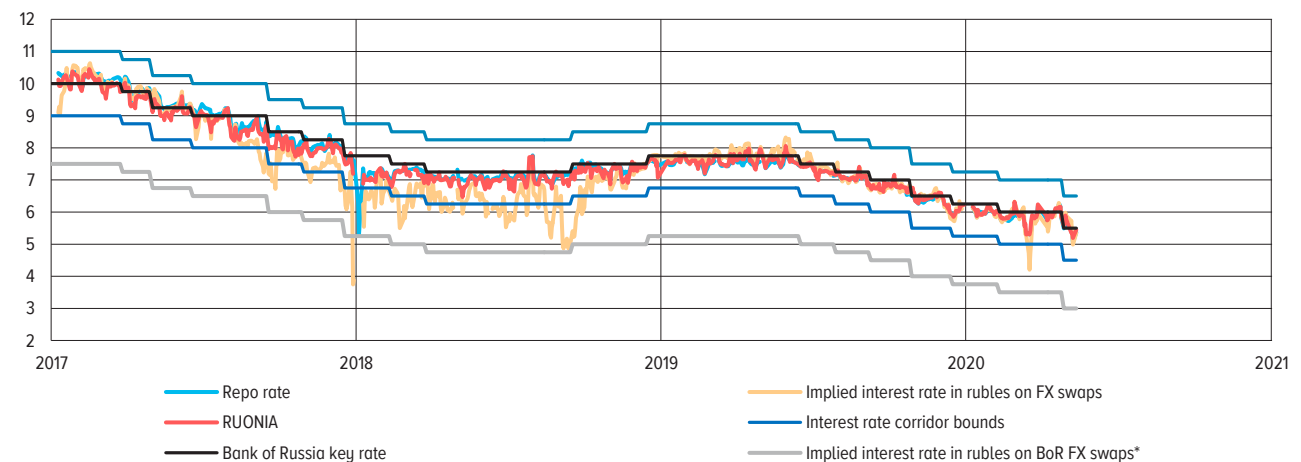
Chart 2



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

THE SPREAD BETWEEN INTEREST RATES IN THE FX SWAP AND INTERBANK LENDING SEGMENTS SHRANK (% P.A.)

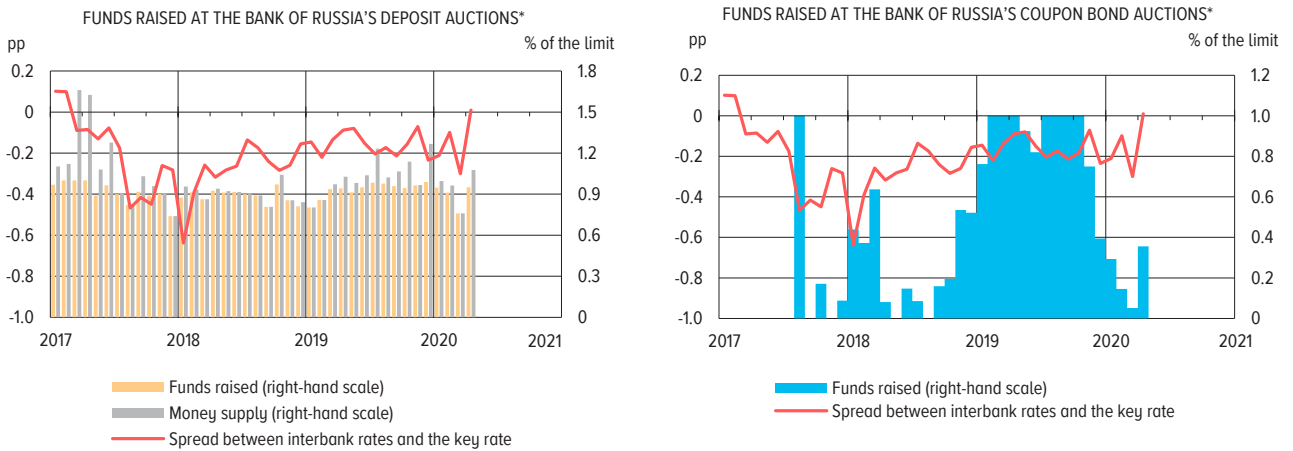
Chart 3



\* Implied rate = ruble lending rate – foreign currency borrowing rate + LIBOR (from 19.12.2016: key rate – 1 pp – (LIBOR + 1.5 pp) + LIBOR = key rate – 2.5 pp).  
Source: Bank of Russia calculations.

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

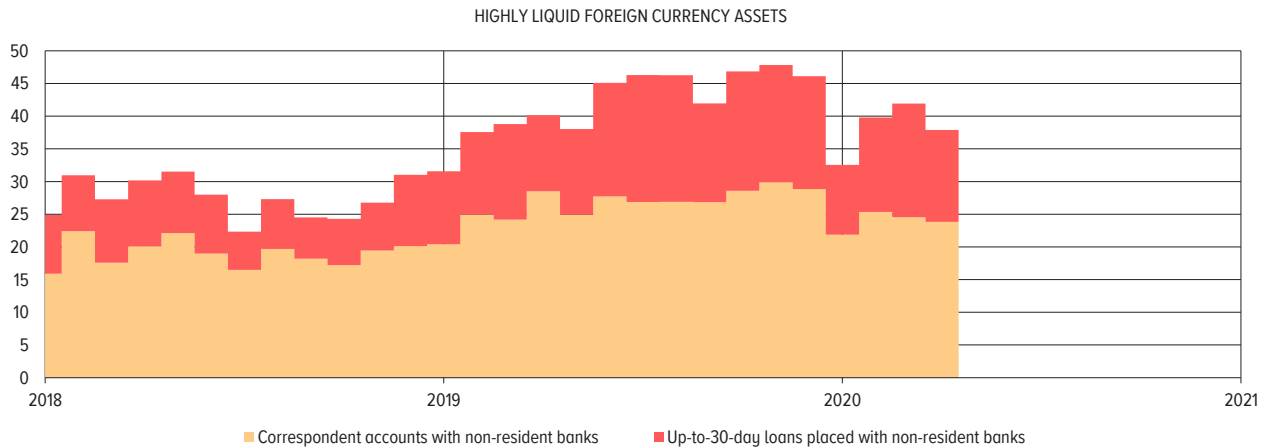
Chart 4



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

**THE AMOUNT OF HIGHLY LIQUID FOREIGN CURRENCY ASSETS DECREASED IN MARCH (AS OF 1 APRIL)**  
(BILLIONS OF US DOLLARS)

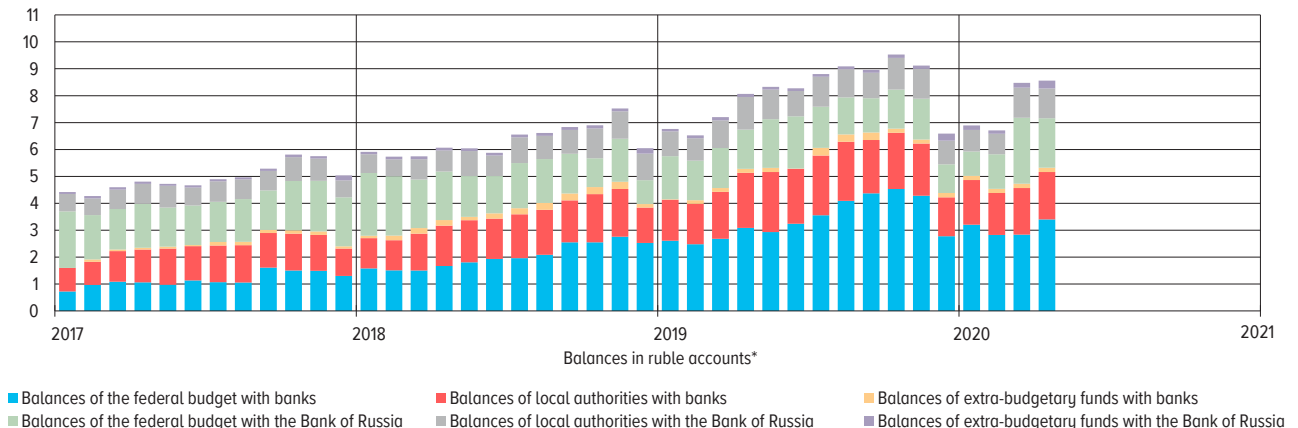
Chart 5



Source: Bank of Russia calculations.

**IN APRIL 2020, BALANCES IN EXTRA-BUDGETARY FUNDS' ACCOUNTS SLIGHTLY INCREASED, WHILE THE DECREASE IN BALANCES IN THE FEDERAL BUDGET ACCOUNTS WITH THE BANK OF RUSSIA CONFORMED TO THE GROWTH OF PLACEMENTS OF TEMPORARILY AVAILABLE BUDGETARY FUNDS WITH BANKS**  
(TRILLIONS OF RUBLES, AS OF THE PERIOD-END)

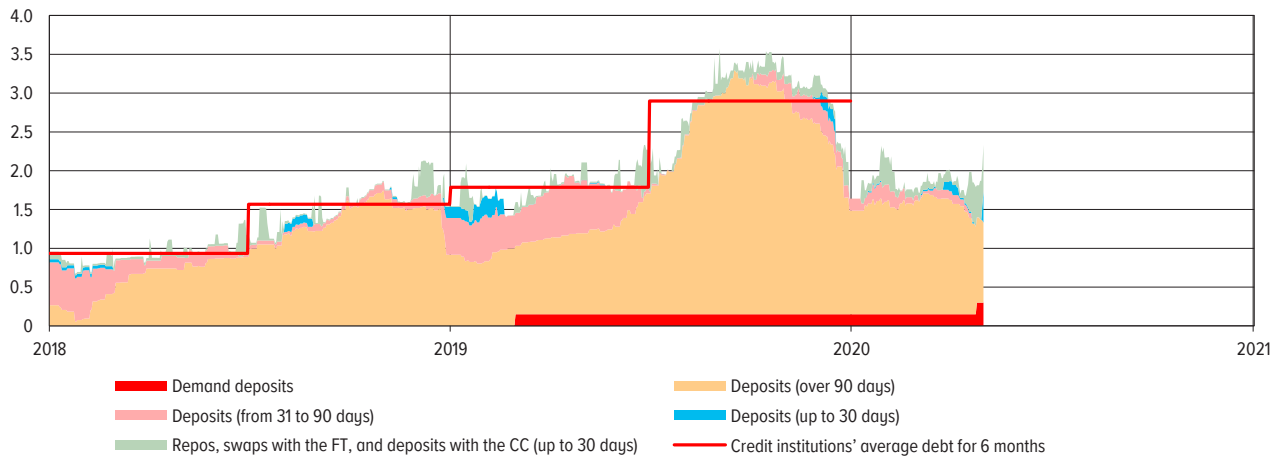
Chart 6



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

CREDIT INSTITUTIONS' DEBT ON FT OPERATIONS WAS UP BY 0.4 TRILLION RUBLES IN APRIL 2020  
(TRILLIONS OF RUBLES)

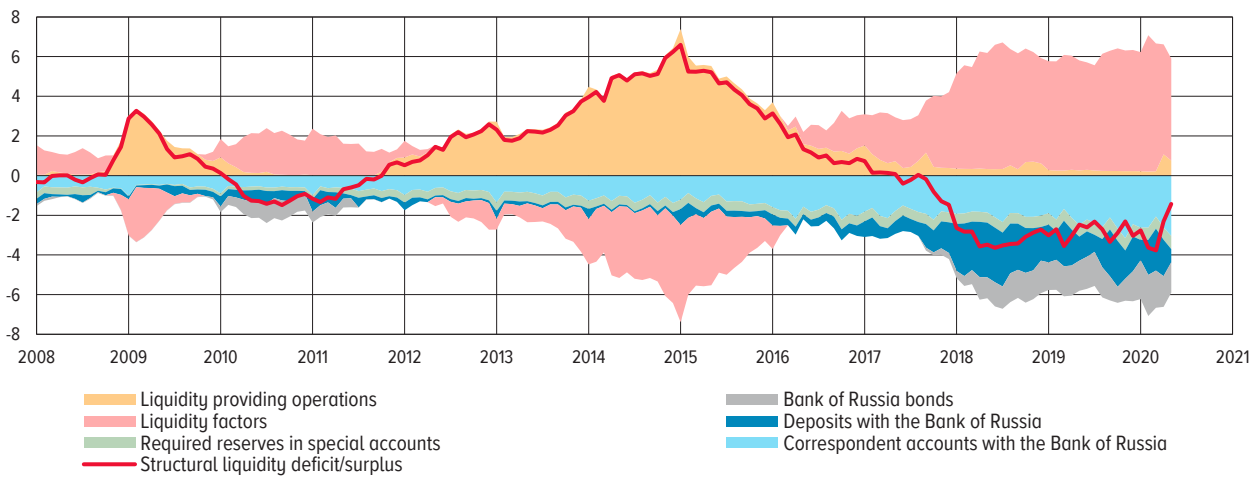
Chart 7



Sources: Federal Treasury, Bank of Russia calculations.

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

Chart 8



Source: Bank of Russia calculations.



## Foreign exchange and stock markets

April stabilised the situation in global financial markets. A range of countries announced gradual cancellation of their quarantine restrictions. Combined with the economic support measures being taken, this easing will boost a recovery of economic activity. Oil prices returned to the level of USD 30 per barrel (Brent), pushed by expectations of a partial revival of demand for energy commodities and by the renewal of the OPEC+ deal limiting oil production. A relatively favourable external environment also supported the recovery in the Russian financial market.

**Exchange rate.** By the end of April, the exchange rate of the ruble rose by 5.1% to 74.39 rubles per US dollar. The Emerging Markets Foreign Exchange Index dropped by 0.8% (Chart 9). The strengthening of the ruble in April was driven by the adjustment of its exchange rate after the March decline (14.8% vs 8.4% in EMEs) induced by the collapse of the oil price that in April returned to the level of USD 30 per barrel.

**Country risk premium.** Russia's CDS spread shrank by 24 bp, to 169 bp (Chart 10). In the majority of other emerging market economies (EME), CDS spreads either remained unchanged

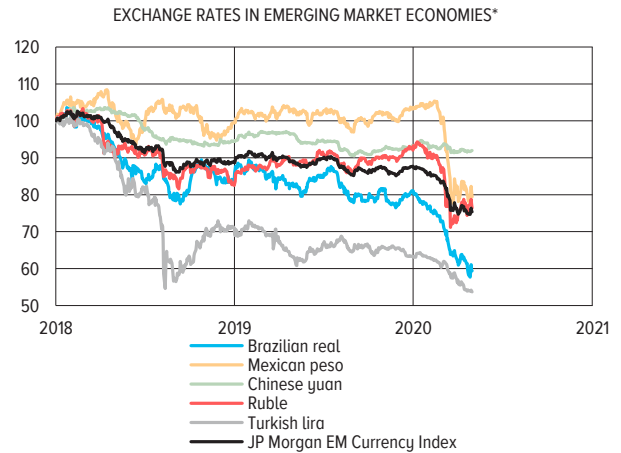
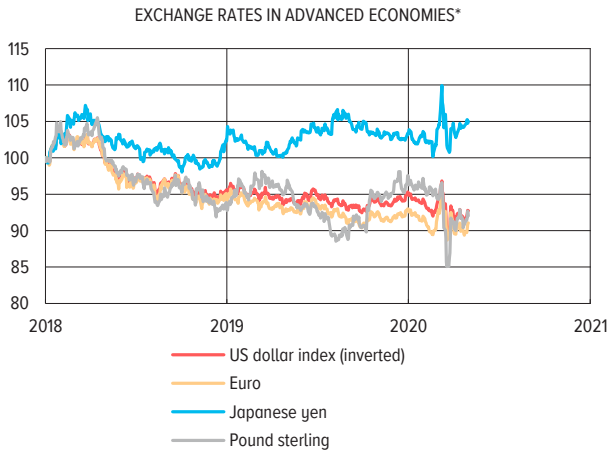
or slightly expanded. This difference in how CDS spreads were moving was probably associated with the impact of the situation in the oil market.

**Federal government bonds.** In April, Russia's Ministry of Finance resumed federal government bond (OFZ) auctions. Since the situation in financial markets stabilised and market players expected the Bank of Russia to ease monetary policy, demand for OFZs increased, and Russia's Ministry of Finance managed to place bonds totalling 339 billion rubles at face value. This is over one-half of the amount of OFZ offerings scheduled for Q2 (600 billion rubles). The OFZ yield curve returned to its February lows: 2Y – 5.31% (-95 bp), and 10Y – 6.17% (-66 bp) (Chart 11).

**Stocks.** After the decline in February – March, stock markets in the majority of countries continued to recover (Chart 12). The US market was the leader: the American S&P regained one-half of the fall, adding 12.7% in April and 30.1% against its March lows. Other countries demonstrated a slower rise. On average, EMEs' indices were up by 9.0% in April and 22.0% versus their March lows. Owing to the rise in oil prices, the Russian market was growing slightly faster (in US dollars): MSCI Russia was up by 11.5%, and the MOEX Index added 5.7%.

**IN CONTRAST TO THE CURRENCIES OF THE MAJORITY OF EMES, THE EXCHANGE RATE OF THE RUBLE SIGNIFICANTLY STRENGTHENED (02.01.2018 = 100)**

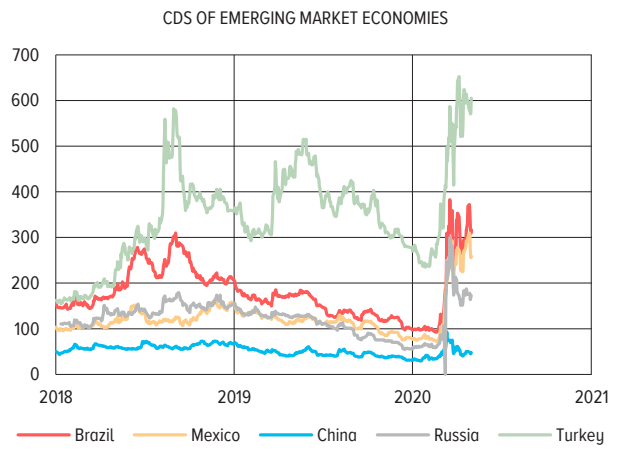
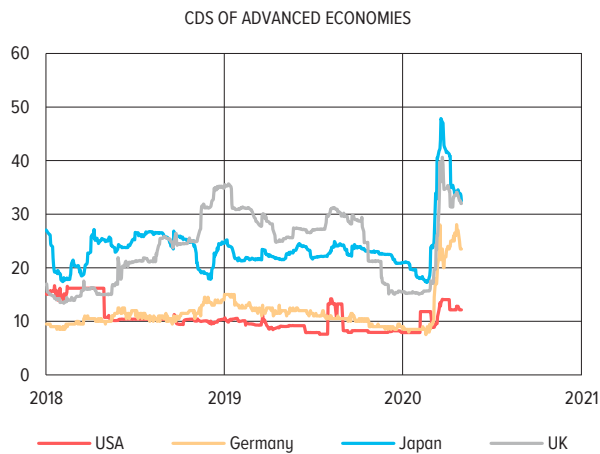
Chart 9



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

**RUSSIA'S CDS SPREAD SLIGHTLY SHRANK, BUT IS STILL NOTABLY ABOVE ITS 2019 READINGS (BP)**

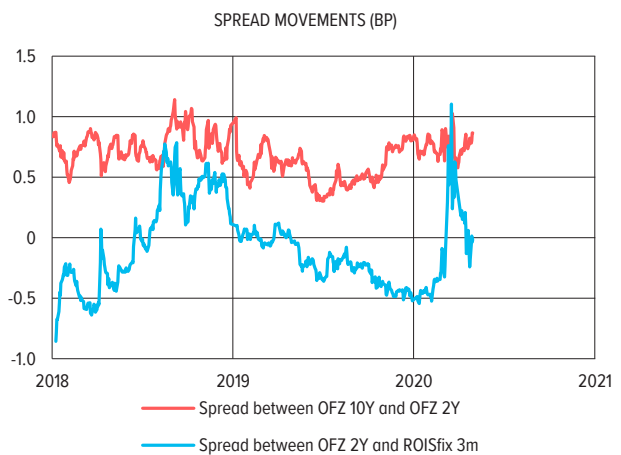
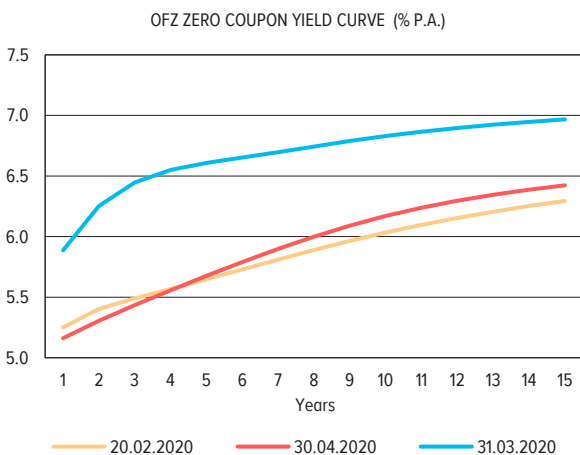
Chart 10



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

**THE OFZ YIELD CURVE RETURNED TO ITS FEBRUARY 2020 LOWS**

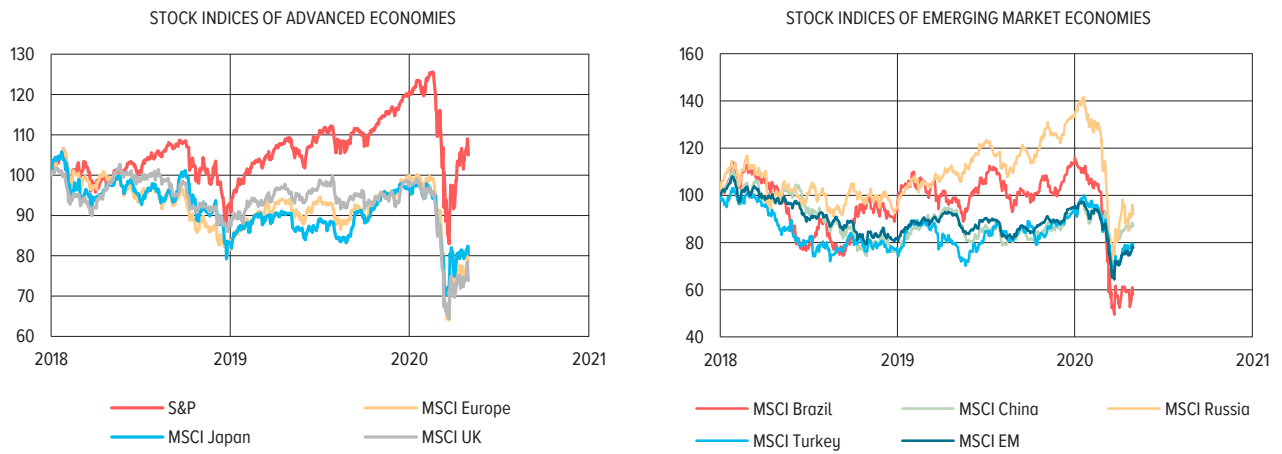
Chart 11



Source: PJSC Moscow Exchange.

STOCK INDICES OF MOST ECONOMIES CONTINUED TO RECOVER  
(02.01.2018 = 100)

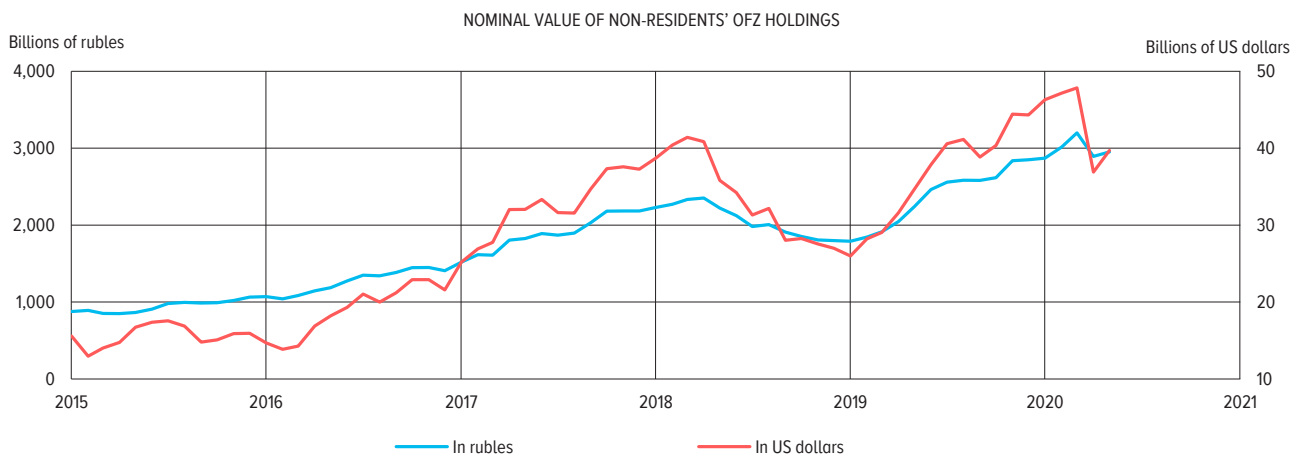
Chart 12



Sources: Bloomberg, Bank of Russia calculations.

FOREIGN INVESTORS PARTIALLY RESTORED THEIR OFZ HOLDINGS IN APRIL

Chart 13



Source: Bank of Russia calculations.

## THE MAJORITY OF MARKETS STABILISED IN APRIL 2020

Table 4

Indicator		30.04.2020	1M	3M	6M	YTD	1Y
<b>Russian financial market</b>							
RUB/USD exchange rate		74.39	5.1	-17.6	-16.0	-20.0	-15.1
MOEX Index		2,651	5.7	-14.7	-8.4	-13.0	3.6
RTS Index		1,125	10.9	-27.2	-20.9	-27.4	-9.9
Government bond yield		6.63	-8	54	23	42	-144
Corporate bond yield		7.49	-16	98	48	76	-116
Regional bond yield		7.14	-37	83	24	87	-146
CDS spread		169	-24	104	93	113	44
RVI		44	-28	22	24	22	25
<b>Exchange rates (per US dollar, % change, '+' – appreciation, '-' – depreciation)</b>							
AEs*	US Dollar Index	99.02	0.0	1.2	1.7	2.7	1.6
	Euro	1.10	-0.7	-0.7	-1.8	-2.3	-2.3
	Japanese yen	107.18	0.3	1.6	0.8	1.3	4.0
	Pound sterling	1.26	1.4	-3.8	-2.7	-5.0	-3.4
EMEs	JP Morgan EM Currency Index	52.97	-0.8	-11.8	-13.2	-13.7	-15.2
	Ruble	74.39	5.1	-17.6	-16.0	-20.0	-15.1
	Brazilian real	5.49	-5.1	-22.7	-26.7	-26.7	-28.5
	Mexican peso	24.17	-1.9	-22.3	-20.5	-21.7	-21.7
	Chinese yuan	7.06	0.3	-2.2	-0.3	-1.4	-4.6
	Turkish lira	6.99	-5.3	-14.5	-18.2	-14.8	-14.6
	South African rand	18.53	-3.7	-20.3	-18.5	-24.4	-22.8
<b>10-year bond yield (% p.a., change in bp, '+' – increase, '-' – decrease)</b>							
AEs	USA	0.64	-3	-95	-105	-128	-186
	Germany	-0.59	-12	-18	-18	-40	-60
	Japan	-0.04	-5	3	11	-2	1
	UK	0.23	-12	-31	-40	-59	-95
EMEs	Russia	6.12	-64	-15	-35	-25	-202
	Brazil	7.19	-143	50	70	40	-179
	Mexico	6.57	-49	-7	-19	-32	-152
	China	2.51	-7	-48	-77	-63	-89
	Turkey	11.32	-152	151	-111	-64	-804
	South Africa	10.26	-70	127	107	125	115
<b>CDS spreads (% p.a., change in bp, '+' – increase, '-' – decrease)</b>							
AEs	USA	12	-2	4	4	4	3
	Germany	24	1	15	14	15	12
	Japan	33	-8	15	10	12	12
	UK	32	-3	17	11	17	7
EMEs	Russia	169	-24	104	93	113	44
	Brazil	308	32	210	188	209	136
	Mexico	256	15	176	164	177	143
	China	45	-6	3	5	14	4
	Turkey	571	30	331	240	294	124
	South Africa	415	8	231	229	253	229
<b>Equity market (points, % change, '+' – increase, '-' – decrease)</b>							
AEs	S&P	2,912	12.7	-11.3	-4.1	-9.9	-1.1
	MSCI Europe	1,417	5.7	-19.0	-16.4	-20.6	-15.9
	MSCI Japan	886	4.4	-12.7	-12.0	-14.6	-8.9
	MSCI UK	1,676	3.5	-20.6	-19.3	-22.3	-21.5
EMEs	MSCI EM	925	9.0	-13.8	-11.2	-17.0	-14.3
	MSCI Russia	571	11.5	-28.2	-24.5	-29.2	-14.0
	MSCI Brazil	1,234	5.3	-44.7	-44.6	-48.0	-40.1
	MSCI Mexico	3,191	4.2	-35.4	-31.7	-32.9	-34.4
	MSCI China	81	6.3	-0.7	4.0	-5.1	-5.2
	MSCI Turkey	1,283,068	10.5	-17.6	-3.3	-14.6	-0.5
	MSCI South Africa	1,197	14.9	-12.0	-11.3	-12.7	-18.0

\* Advanced economies.

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

## Credit and deposit market

**Deposit rates.** According to preliminary data, the average market interest rate in the long-term retail deposit segment dropped by 0.3 pp in March 2020, following the actual reduction in the key rate in February. Moreover, preliminary statistics show that the March destabilisation in financial markets entailing a rise in yields of government securities driven by the growth of the risk premium held interest rates on short-term household deposits at their February level.

The subsequent decrease in OFZ yields and the key rate reduction create prerequisites for a moderate downward adjustment of the interest rate on long-term deposits. As to short-term deposits, the average market rates may be expected to stay close to the current level in the next months. Short-term deposit rates will be supported by the extension of deposit maturities on current terms announced in April by individual banks – major deposit market players aiming to postpone possible visits of clients to their offices, the extension of attractive promo deposits, as well as the increase in interest rates on certain short- and medium-term deposit products in April by a range of banks. Given that inflation will stabilise at a steadily low level, real returns on deposits will keep ruble-denominated deposit products attractive for households.

According to preliminary data, interest rates on foreign currency household deposits continued to decline, remaining close to their record lows. Moreover, a lot of banks not only decreased their interest rates on foreign currency deposits, but also reduced the range of their foreign currency deposit products.

**Deposit operations.** By the end of March 2020, the annual growth of the retail deposit portfolio totalled 7.3%,<sup>1</sup> declining by 1.7 pp month-over-month (Chart 15). In March, households' saving activity weakened, which was associated with a substantial money

outflow from foreign currency deposits since consumers satisfied their deferred demand for large purchases, as well as with generally higher uncertainty. In annual terms, foreign currency deposits shrank by 4.6% by the end of March, after the moderate growth in the previous month, which was associated with, among other factors, low interest of banks themselves in raising foreign currency deposits amid the weak growth of foreign currency assets.

Ruble-denominated deposits demonstrated stable dynamics, despite the persisting decrease in nominal deposit rates. As of the end of March, the annual growth of the retail portfolio of ruble-denominated deposits totalled 10.7% against 10.8% in the previous month. Deposits with maturities of up to one year were the major contributor to this increase. This was due to elevated macroeconomic uncertainty and higher demand among individuals for debit cards with interest accrual, including for making cashless payments. According to recent statistics, the inflow of households' funds into ruble deposits remained steady in April owing to current accounts, while ruble balances in the segment of time deposits contracted. This was accompanied by a weaker outflow of foreign currency deposits compared to March.

The share of foreign currency retail deposits expanded by 1.6 pp, to 22.1% by the end of March. In the current situation, this growth was caused solely by the revaluation of foreign currency deposits.

**Credit rates.** In February 2020, the corporate segment<sup>2</sup> recorded a decline in interest rates on long-term loans by 0.4 pp, to 8.0%, which was primarily associated with changes in the structure of extended loans, specifically a reduction in the share of loans to small and medium-sized enterprises (SME) in the overall amount of disbursements (Chart 14). In the segment of corporate lending for up to one year, the interest rate remained close to its January level, which is an evidence of increased uncertainty regarding the market situation in the short run.

In the next months, interest rates on loans to non-financial organisations are expected to

<sup>1</sup> 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.

<sup>2</sup> Hereinafter, the corporate segment of the credit market implies lending to non-financial organisations.

maintain their downward trend, which will be supported by the easing of monetary policy and the expansion of refinancing programmes, primarily those covering SME loans. In addition, the reduction in contributions to the Deposit Insurance Fund from 0.15% to 0.1% until the end of 2020 that was approved in April and becomes effective from 2020 Q3 will also provide greater flexibility to banks in setting prices for their credit and deposit products. However, the rise in returns on financial market instruments in March and the continuing uncertainty of economic expectations will limit the potential for a decrease in interest rates and will drive short-term volatility of the average market rates.

In the retail segment of the credit market, interest rates continued to go down. In March 2020, the interest rate on ruble-denominated housing mortgage loans decreased by 0.07 pp month-over-month, to 8.62%, hitting a new record low. The drop of the mortgage interest rate in March contributed to the decline in the average market rates on long-term household loans. According to preliminary data, the interest rate on loans granted to households for a period of more than one year decreased by 0.3 pp. Long-term interest rates in the retail lending segment may be expected to maintain the downward trend, primarily due to the decline in the mortgage rate, which is associated with the easing of monetary policy and the implementation of the governmental programme for subsidising interest rates. In the short-term segment, interest rates may stop to decrease for a while since both banks and potential borrowers may adopt a more cautious and prudent approach to risk assessment.

**Corporate lending.** As opposed to the two previous months of sliding activity in corporate lending, March recorded an accelerated increase in the portfolio of loans granted to non-financial organisations. As of the end of March, the corporate loan portfolio expanded to 3.6% in annual terms, compared to 2.0% a month earlier (Chart 16). A major contributor to the rise in credit activity in this segment was ruble-denominated lending for a period of up to one year: the annual growth of the portfolio of such loans was up by 6 pp, to 8.3%. Short-term corporate lending increased faster since

organisations needed financing to cover their current expenses amid the decline in economic activity induced by the coronavirus pandemic.

The growth of organisations' demand for short-term borrowings in March was also boosted by companies' concerns about potential tightening of lending conditions. According to the study of bank lending conditions (BLC), credit institutions considerably raised their requirements for the financial standing of both large companies and SMEs as early as in 2020 Q1. Moreover, banks participating in the BLC study also expect further tightening of lending conditions for all main categories of borrowers (Chart 18), with non-price lending terms to toughen the most.

In March, organisations still preferred not to build up their foreign currency liabilities amid increased macroeconomic uncertainty and exchange rate volatility, due to which the portfolio of foreign currency loans continued to shrink. Lending to non-resident entities also materially contracted against the background of declining external demand. As of the end of March, the portfolio of loans to non-residents decreased by 7.5% in annual terms against the 4.9% reduction in the previous month.

As banks were switching to more conservative borrower selection policies, this slightly improved the quality of the corporate loan portfolio in March, and the portion of overdue loans in the portfolio shrank by 0.1 pp, to total 7.5%.

In the short run, corporate lending trends will be influenced by weakening aggregate demand, toughening non-price lending conditions, and a partial replacement of loans with funds incoming through the budget channel to support the industries most affected by the coronavirus pandemic. Bond market players' activity will also remain a major factor since bonds are an alternative to corporate loans. At the same time, corporate lending will be supported by the actual easing of monetary policy contributing to further reduction in the cost of borrowings, and the measures being implemented by the Bank of Russia to expand loan restructuring capabilities that are aimed at limiting the growth of overdue loans, combined with the SME lending support programmes.



**Retail lending.** Retail lending market participants increased their activity in March 2020, which suspended the intense slowdown of lending in this segment. As of the end of the month, the annual growth of the household loan portfolio totalled 17.7% against 17.8% a month earlier (Chart 16). Moreover, all segments of the retail lending market demonstrated steady growth, which may be explained by increased consumer activity amid uncertainty regarding economic developments in the short run (Chart 17). As of the end of March, the annual growth of housing mortgage loans and unsecured consumer loans reached 15.2% and 20.0%, respectively. Moreover, in the situation where mortgage rates dropped to their record lows and economic uncertainty rose, households' demand for mortgage loan refinancing also increased in March 2020.

As households demonstrated high demand for loans in March, banks became more cautious in selecting their borrowers. Thus, banks tightened their requirements for potential borrowers' financial standing in both mortgage and consumer lending, which is confirmed by the findings of the 2020 Q1 BLC study (Chart 18). In addition, respondent banks expect households' demand for borrowings to decrease and are going to further raise their requirements for borrowers. According to information from credit history bureaus, the percentage of approved credit applications from individuals notably declined in April. Combined with the expected drop in demand, this will weaken activity in the retail segment of the credit market.

Moreover, retail lending will slow down primarily due to consumer loans. However, the growth rate of housing mortgage loans will also continue to go down, while remaining high. Mortgage lending will be supported by the governmental programme for subsidising interest rates (major banks were actively accepting such mortgage applications already in April), the digitisation of mortgage transactions, the announced regulatory easing that releases capital to build up lending, and the measures aiming to settle outstanding debts of the borrowers affected by coronavirus pandemic consequences.

**Money supply.** The growth of the banking system's claims on the economy<sup>3</sup> sped up in March 2020. This was primarily driven by claims on businesses which increased due to the expansion of lending to non-financial organisations. As of the end of March, the annual growth of companies' exposure totalled 6.3%, which is 1.4 pp more compared to the previous month. The banking system's claims on households remained steady, with their annual growth rising by 0.2 pp, to 16.8%, over the month.

The March dynamics of the banking system's claims on businesses and households, combined with the continuing money inflow into the economy through the budget channel, pushed further expansion of broad money. As of the end of March, the growth of broad money increased by 1.2 pp, reaching 9.1% over the month (Chart 19).

Ruble-denominated deposits of the non-financial sector remained the major component of broad money. In addition, foreign cash outside the banking system substantially increased, its annual growth totalling 14.0% against 7.1% a month earlier. The amount of foreign cash in circulation significantly increased in March,<sup>4</sup> which may be associated with households' high demand for cash due to the mandatory self-isolation during the period of the coronavirus pandemic.

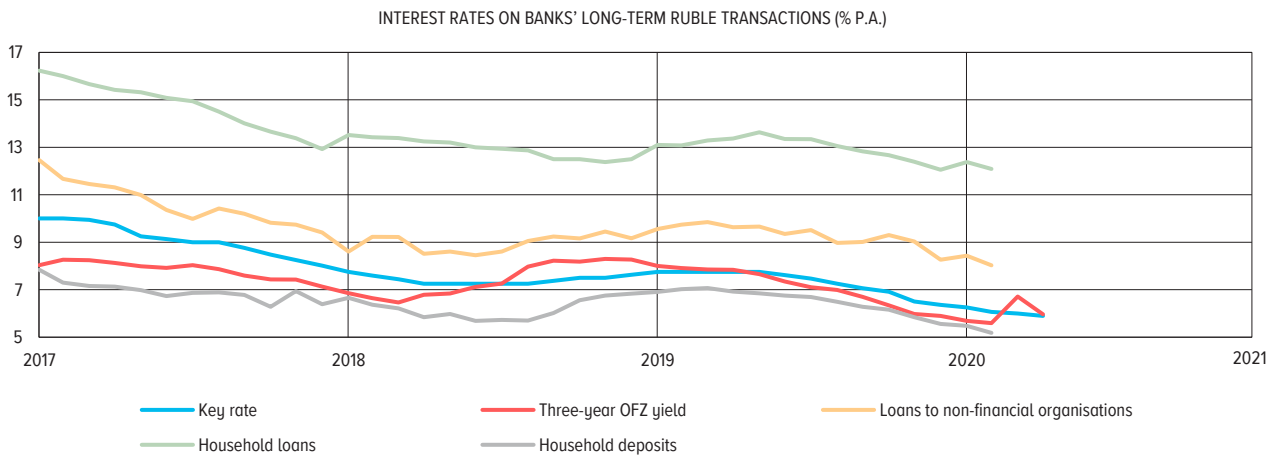
In these conditions, the annual growth of money supply in the national definition (M2 aggregate) sped up by 2.4 pp over the month, reaching 13.4% as of the end of March. The considerable rise in the growth of the M2 aggregate recorded in March was driven by, among other factors, the migration of a portion of depositors' funds from foreign currency deposits into ruble-denominated deposits.

<sup>3</sup> *Banking sector claims on the economy mean all claims of the banking system on non-financial and financial organisations 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 non-financial and financial organisations' equity, and other receivables under settlement operations with non-financial and financial organisations and households.*

<sup>4</sup> *Refer to Banking Sector Liquidity and Financial Markets: Facts, Assessments and Comments, No. 3 (49), March 2020.*

CHANGES IN CORPORATE LENDING RATES IN EARLY 2020 WERE CAUSED BY FLUCTUATIONS IN THE STRUCTURE OF EXTENDED LOANS

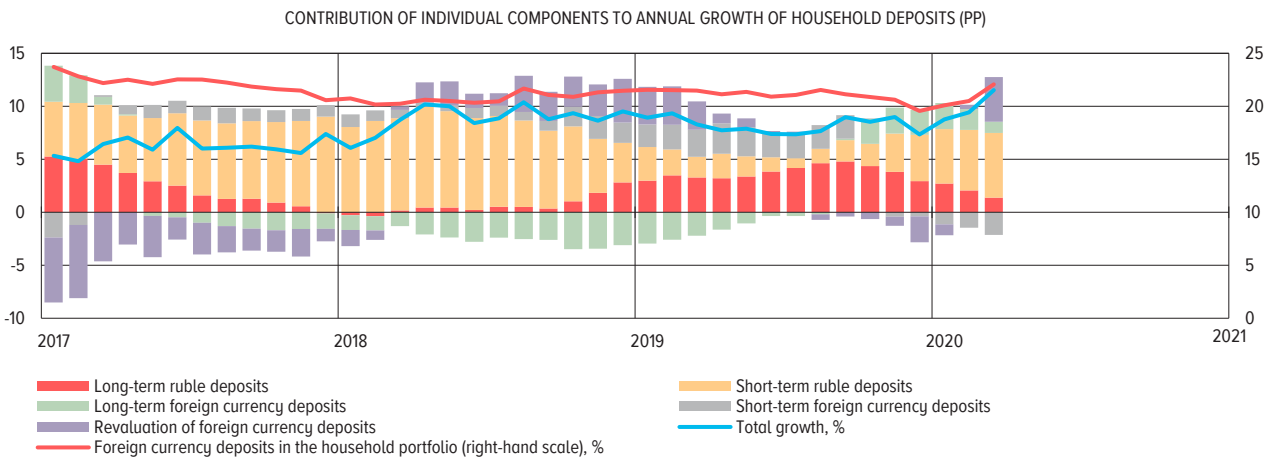
Chart 14



Source: Bank of Russia.

SAVING ACTIVITY DECLINED IN MARCH DUE TO A SUBSTANTIAL OUTFLOW OF FOREIGN CURRENCY DEPOSITS

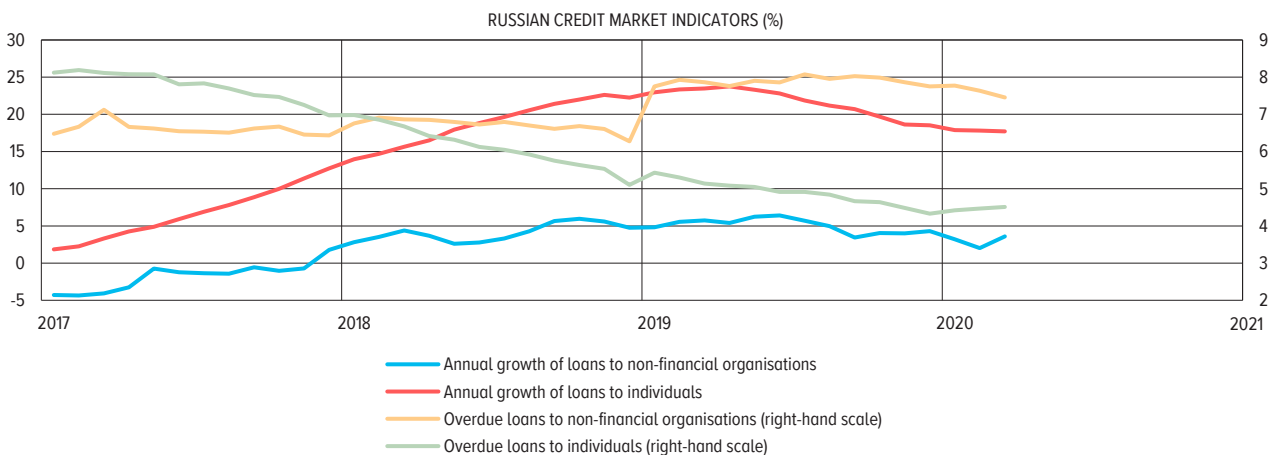
Chart 15



Source: Bank of Russia calculations.

SHORT-TERM LOANS WERE THE MAJOR DRIVER OF CORPORATE LENDING IN MARCH

Chart 16

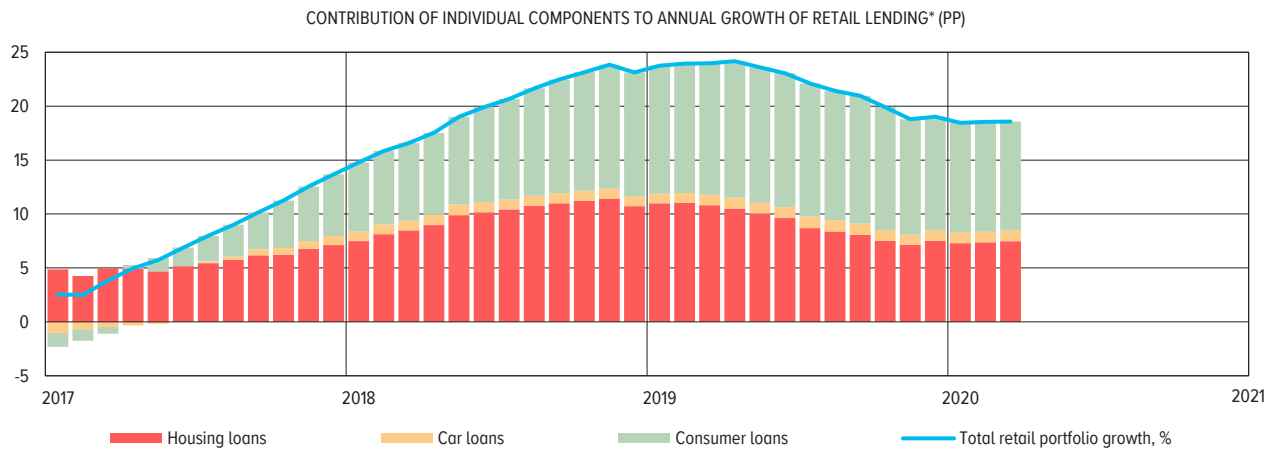


Source: Bank of Russia calculations.



MARCH SUSPENDED THE INTENSE SLOWDOWN IN RETAIL LENDING

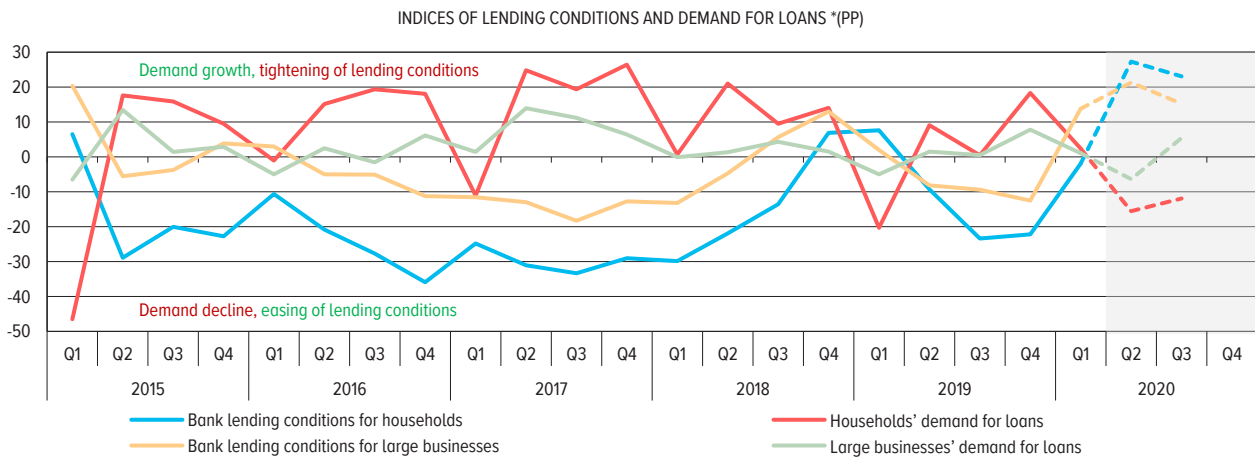
Chart 17



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

IN 2020 Q1, BANKS TIGHTENED THEIR REQUIREMENTS FOR BORROWERS' FINANCIAL STANDING

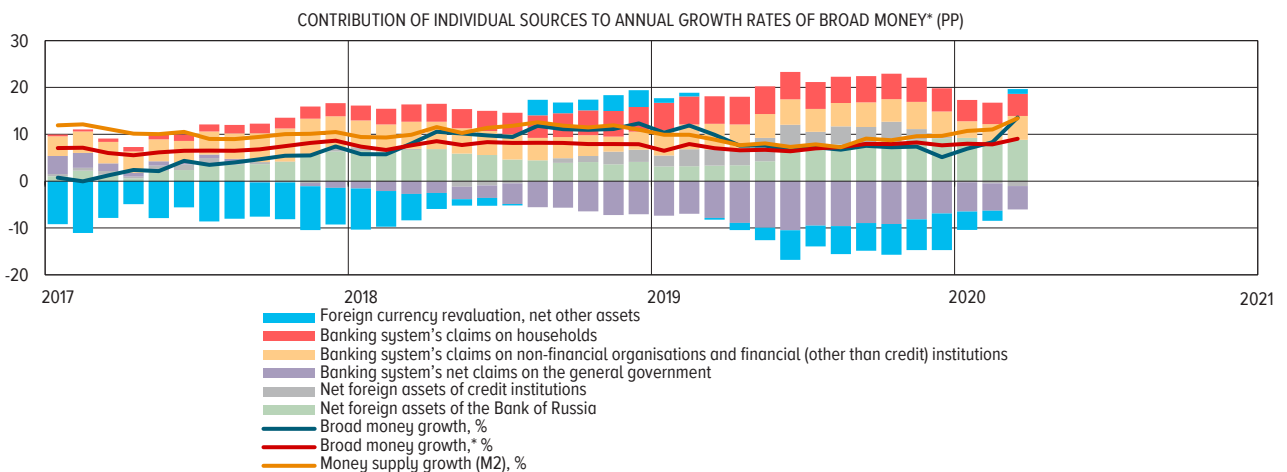
Chart 18



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

CLAIMS OF THE BANKING SYSTEM ON THE ECONOMY SPED UP THE GROWTH OF BROAD MONEY

Chart 19



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

## CREDIT AND DEPOSIT MARKET INDICATORS

Table 5

		December 2019	January 2020	February 2020	March 2020
<b>Rates on banks' long-term ruble transactions</b>					
– household deposits	% p.a.	5.6	5.5	5.2	
– household loans	% p.a.	12.1	12.4	12.1	
– corporate loans	% p.a.	8.3	8.4	8.0	
<b>Household deposits</b>	<b>% YoY, AFCR</b>	<b>9.8</b>	<b>9.8</b>	<b>9.0</b>	<b>7.3</b>
– in rubles	% YoY	9.9	10.8	10.8	10.7
– in foreign currency	% YoY	9.8	6.3	2.3	-4.6
– share of foreign currency	%	19.6	20.1	20.5	22.1
<b>Loans to non-financial organisations</b>	<b>% YoY, AFCR</b>	<b>4.3</b>	<b>3.2</b>	<b>2.0</b>	<b>3.6</b>
– short-term (up to 1 year)	% YoY, AFCR	0.4	4.9	3.3	9.8
– long-term (more than 1 year)	% YoY, AFCR	3.2	2.8	1.9	2.3
– overdue loans	%	7.8	7.8	7.6	7.5
<b>Household loans</b>	<b>% YoY, AFCR</b>	<b>18.5</b>	<b>17.9</b>	<b>17.8</b>	<b>17.7</b>
– housing mortgage loans	% YoY, AFCR	16.9	15.6	15.4	15.2
– unsecured consumer loans	% YoY	20.8	20.1	20.2	20.0
– overdue loans	%	4.3	4.4	4.5	4.5
<b>Banking system's claims on the economy</b>	<b>% YoY, AFCR</b>	<b>10.1</b>	<b>7.5</b>	<b>7.9</b>	<b>9.1</b>
– on businesses	% YoY, AFCR	7.1	4.4	4.9	6.3
– on households	% YoY, AFCR	19.0	16.4	16.6	16.8
<b>Money supply (monetary aggregate M2)</b>	<b>% YoY</b>	<b>9.7</b>	<b>10.7</b>	<b>11.0</b>	<b>13.4</b>
<b>Broad money</b>	<b>% YoY, AFCR</b>	<b>7.6</b>	<b>8.0</b>	<b>7.9</b>	<b>9.1</b>

Note: YoY – year-over-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.

## Data cut-off dates:

- 'Banking sector liquidity and money market' section – 12.05.2020 (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 April – May 2020, this period is from 08.04.2020 to 12.05.2020);
- 'Foreign exchange and stock markets' section – 30.04.2020;
- 'Credit and deposit market' section – 01.04.2020.

A soft copy of the information and analytical commentary is available on the Bank of Russia website (<http://www.cbr.ru/> DKP). Please send your comments and suggestions to [svc\\_analysis@cbr.ru](mailto:svc_analysis@cbr.ru).

This commentary was prepared by the Monetary Policy Department.

Cover photo: A. Nikitin, Bank of Russia

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