



Bank of Russia



BANKING SECTOR LIQUIDITY AND FINANCIAL MARKETS

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Information and analytical commentary

11 August 2020

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

- In July, the structural liquidity surplus rose to 2.1 trillion rubles (+0.9 trillion rubles). This was primarily related to the fact that credit institutions redistributed funds between their correspondent and deposit accounts with the Bank of Russia as part of required reserves averaging. The impact of liquidity factors was close to neutral.
- The spread between interbank lending (IBL) rates and the Bank of Russia key rate narrowed to -25 bp (-32 bp in the June averaging period) as market participants were expecting the Bank of Russia to reduce the key rate change pace at its July Board of Directors meeting.
- The interest rate spread in the FX swap and IBL segments widened to -20 bp. Foreign currency liquidity cost was growing amid lower supply by exporter banks and non-residents as they closed their short ruble positions.
- The Russian financial market remained stable in July. However, due to the weakening ruble, dollar prices of Russian securities looked worse compared to other emerging market economies (EMEs).
- In June, amid macroeconomic uncertainty, households continued to prefer short-term ruble deposits. Activity also increased in the segment of deposits for over three years owing to growing interest rates on such deposits. Individuals remained overall reluctant to open foreign currency deposits.
- Corporate lending growth remained moderate in June, while the recovery of retail lending activity spread to the retail loan segment. The quality of bank loan portfolios remained stable.

Banking sector liquidity and money market

Ruble liquidity. The structural liquidity surplus expanded by 0.9 trillion rubles in July to total 2.1 trillion rubles (Table 2). Its amount averaged 1.9 trillion rubles over the July averaging period (vs 1.7 trillion rubles in the June averaging period).

The increase in the surplus in early August primarily resulted from the redistribution of funds between credit institutions' correspondent and deposit accounts with the Bank of Russia as part of their required reserves averaging strategies. After the key rate had been cut in June, banks by early July increased their balances in correspondent accounts to 3.6 trillion rubles and reduced the amount of their deposits. In the new averaging period, credit institutions maintained more even correspondent account balances; as of early August, they amounted to

2.6 trillion rubles (-1 trillion rubles MoM). Bank deposits placed with the Bank of Russia increased by the same amount.

At the same time, the aggregate impact of liquidity factors was close to neutral, as the outflow of funds was less than 0.1 trillion rubles. As before, fiscal channel operations supported the inflow of funds; however, it was less than in the previous month. In July, budget revenues from main taxes increased vs June. In particular, profit tax revenues recovered to the last year level. Budget expenditures somewhat declined. Among other things, this can be due to the calendar factor: as 1 July was a holiday, a part of payments to families with kids was transferred to banks in the end of June. At the same time, households received these payments in early July. As in the previous month, the excess of expenditures of the general government over its income was financed mainly by lower balances of the federal budget with the Bank of Russia, as

well as by OFZ placements and fiscal rule-based foreign currency sales. Conversely, banks' debt under Federal Treasury operations somewhat increased. The outflow of liquidity due to the increased amount of cash in circulation slightly exceeded the aggregate inflow of funds under these budgetary operations. In the second half of the month, demand for cash declined and came close to the usual seasonal trend.

It is expected that, as restrictive measures are lifted and the economic activity returns to business-as-usual, demand for cash will gradually return to the pre-pandemic levels. The amount of cash in circulation will gradually decline; however, this process will likely span the first half of 2021. That said, the forecast amount of cash in circulation for 2020 was increased from 0.4–0.6 to 1.4–1.6 trillion rubles.

Money market. The spread between short-term IBL rates¹ and the Bank of Russia key rate narrowed to -25 bp (vs -32 bp in the January averaging period) (Chart 2). Spread volatility went down to 15 bp (vs 26 bp in the June averaging period). As in the previous month, market participants' expectations of further key rate cuts exerted downward pressure on interest rates.² One week before the 24 July Board of Direc-

tors meeting, the average spread was at -43 bp. However, compared to the previous averaging period, the spread narrowed as the expected key rate cut pace was less than in June.

Foreign currency liquidity. Interest rate spreads in the FX swap and IBL (basis) segments widened on average to -20 bp (-12 bp in the June averaging period) (Chart 3). Foreign currency liquidity cost in the Russian market was growing amid lower supply by certain exporter banks on the back of lower Russian oil exports in July. Besides, non-residents also lowered their foreign currency supply as they closed their short ruble positions, which exerted additional pressure on the basis.

The forecast of the structural liquidity surplus for the end of 2020 was reduced from 2.2–2.8 to 1.4–2.0 trillion rubles. This is related to the higher estimated cash outflow from banks and additional foreign currency sales planned for October – December 2020.³

Key rate expectations. Market key rate expectations did not change in July, as the decision made by the Board of Directors of the Bank of Russia at its meeting on 24 July was expected by the majority of market participants.

¹ Interbank lending rate means the rate on unsecured loans in the money market.

² See *Banking sector liquidity and financial markets: facts, assessments and comments*, No. 6 (52), June 2020.

³ The net amount of these additional foreign currency sales will total 185 billion rubles, which is the result of offsetting the amount of foreign currency sales related to the Sberbank shares deal and the amount of fiscal rule-based purchases postponed in 2018 and in March – April 2020, as well as the amount of pre-emptive foreign currency sales under the fiscal rule.

KEY RATE EXPECTATIONS DID NOT CHANGE

Table 1

1. Expectations based on market indicators,* interest rate (instrument)	September 2020	December 2020
– MosPrime 3M (FRA)	4.35 (4.43)	4.45 (4.43)
– RUONIA (ROISfix)	4.12 (4.11)	4.01 (4.04)
– RUONIA (futures)	4.12 (4.37)	4.01 (4.31)
2. Analysts' key rate expectations*	As of 30.09.2020	As of 31.12.2020
– Bloomberg survey	4.00 (4.00)	4.00 (4.00)
– Reuters survey	4.00 (4.00)	4.00 (4.00)

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

IN JULY 2020, STRUCTURAL LIQUIDITY SURPLUS OF THE BANKING SECTOR INCREASED
(START OF BUSINESS, BILLIONS OF RUBLES)

Table 2

	01.01.2017	01.01.2018	01.01.2019	01.01.2020	01.07.2020	01.08.2020
Structural liquidity deficit (+) / surplus (-)	736	-2,639	-3,016	-2,761	-1,151	-2,076
Bank of Russia's claims on credit institutions	1,258	10	21	18	10	10
Auction-based facilities	216	-	-	-	5	5
– repos and FX swaps	-	-	-	-	5	5
– secured loans	216	-	-	-	-	-
Fixed interest rate facilities	1,042	10	21	18	5	5
– repos and FX swaps	632	4	8	13	0	0
– secured loans	411	5	13	5	5	5
Credit institutions' claims on the Bank of Russia	785	2,729	3,293	2,983	1,633	2,647
Deposits	785	2,372	1,902	1,026	925	1,939
– auction-based	397	2,125	1,478	697	773	1,750
– fixed interest rate	388	247	424	330	151	189
BoR coupon bonds	0	357	1,391	1,956	708	708
Standing reverse facilities, other than standard monetary policy instruments of the Bank of Russia*	263	81	256	204	472	561

* 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 FORECAST OF THE STRUCTURAL LIQUIDITY SURPLUS FOR YEAR-END 2020 WAS REDUCED
FROM 2.2-2.8 TO 1.4-2.0 TRILLION RUBLES
(TRILLIONS OF RUBLES)

Table 3

	2019 (actual)	January–July 2020	July 2020	2020 (forecast)
1. Liquidity factors	0.5	-0.7	-0.1	[-1.4; -0.9]
– change in the balances of funds in general government accounts with the Bank of Russia, and other operations*	0.2	1.1	0.1	[0.2; 0.5]
– change in the amount of cash in circulation	-0.1	-1.9	-0.2	[-1.6; -1.4]
– Bank of Russia 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
2. Change in free bank reserves (correspondent accounts)*** (demand)	0.7	0.0	-1.0	[-0.1; 0.0]
3. Change in banks' claims on deposits with the Bank of Russia and coupon OBRs	-0.3	-0.3	1.0	[-1.1; -0.5]
4. Change in outstanding amounts on Bank of Russia refinancing operations (4 = 2 + 3 - 1)	-0.1	0.3	0.1	0.3
Structural liquidity deficit (+) / surplus (-) (as of the period-end)	-2.8	-2.1		[-2.0; -1.4]

* 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.

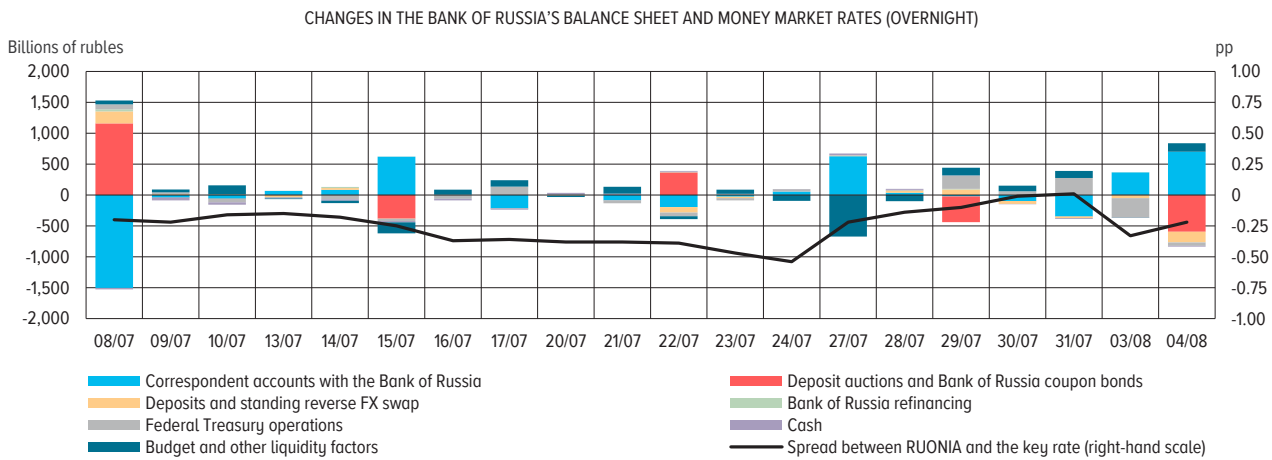
** Forecast values of the indicator are in line with the actual amount of operations conducted.

*** 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.

IN JULY 2020, THE AGGREGATE IMPACT OF LIQUIDITY FACTORS WAS CLOSE TO NEUTRAL

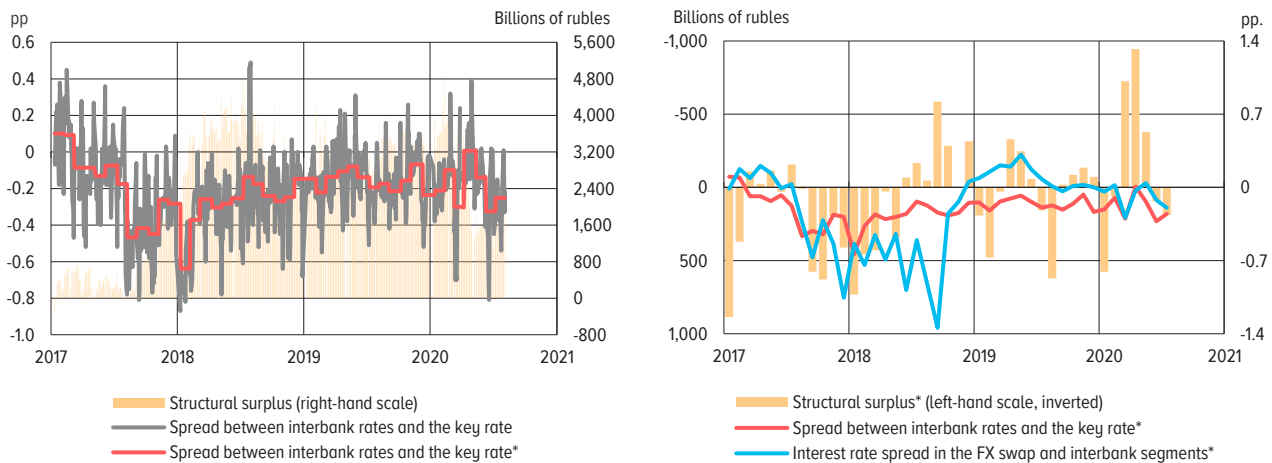
Chart 1



Source: Bank of Russia calculations.

THE SPREAD BETWEEN IBL RATES AND THE BOR KEY RATE NARROWED

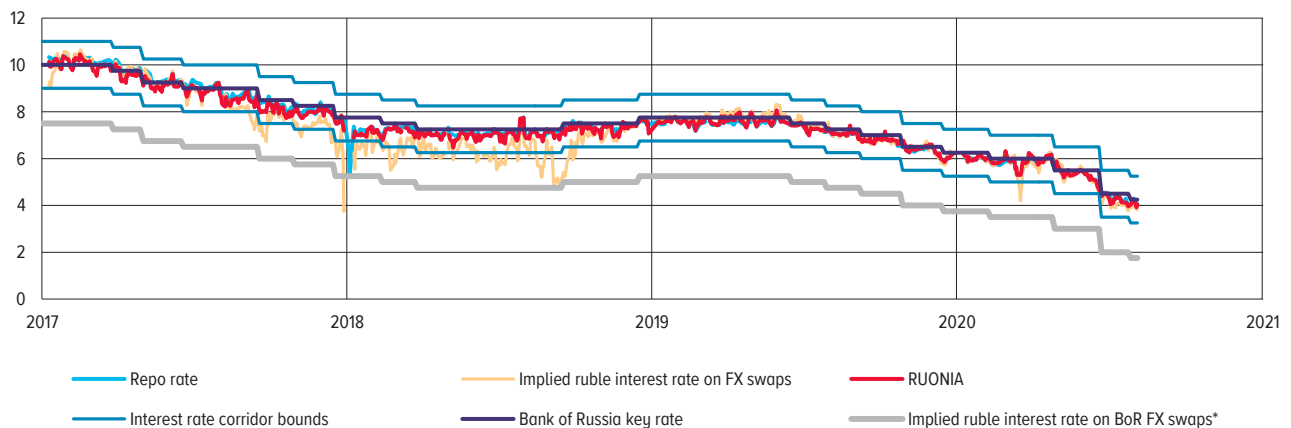
Chart 2



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

INTEREST RATE SPREADS IN THE FX SWAP AND IBL SEGMENTS WIDENED (% P.A.)

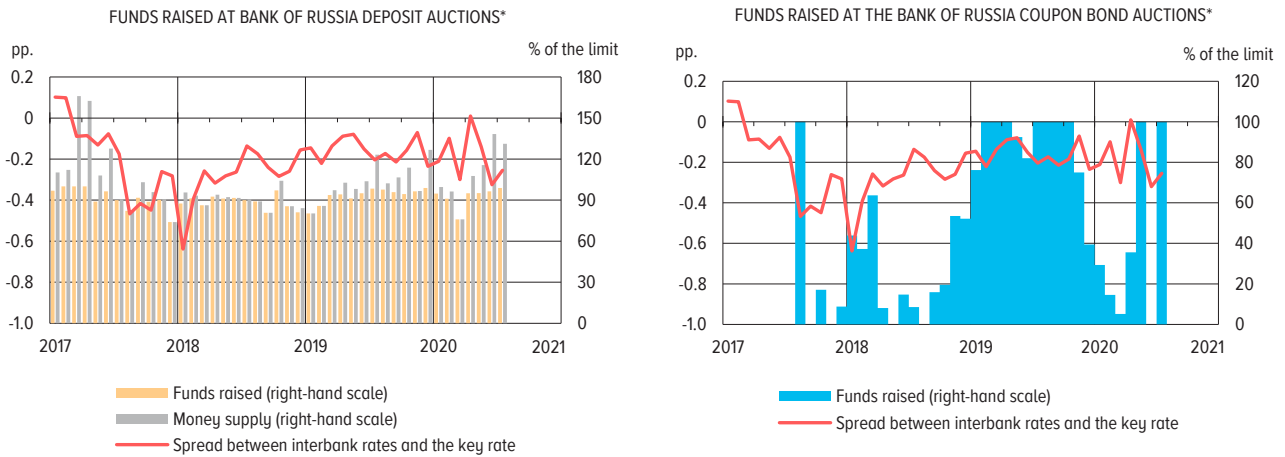
Chart 3



* Implied rate on BoR reverse FX swap = 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 BANK OF RUSSIA 1W DEPOSIT AUCTION BEFORE THE 24 JULY MEETING OF THE BOARD OF DIRECTORS SIGNIFICANTLY EXCEEDED THE ESTABLISHED LIMIT

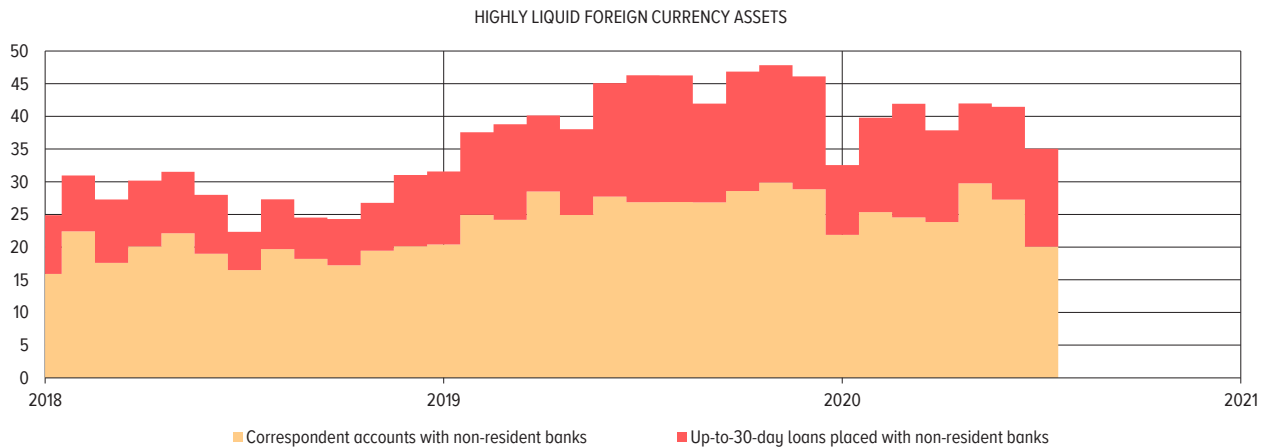
Chart 4



* Average for averaging periods.
Source: Rosstat.

THE AMOUNT OF HIGHLY LIQUID ASSETS IN FOREIGN CURRENCY DECLINED IN JUNE (AS OF 1 JULY) (BILLIONS OF US DOLLARS)

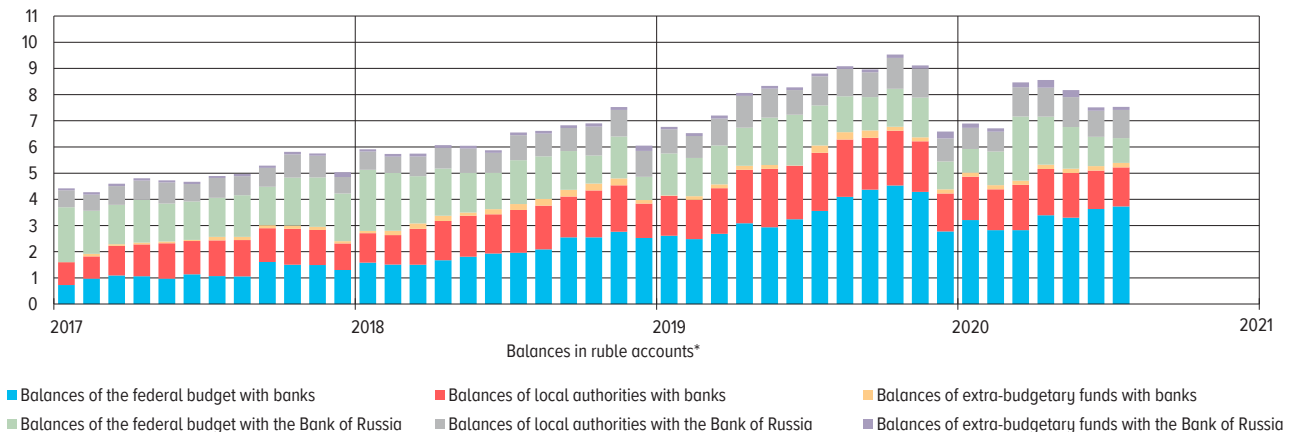
Chart 5



Source: Bank of Russia calculations

IN JULY 2020, THE EXCESS OF EXPENDITURES OF THE GENERAL GOVERNMENT OVER ITS REVENUES WAS FINANCED, AMONG OTHER THINGS, BY LOWER BALANCES OF THE FEDERAL BUDGET WITH THE BANK OF RUSSIA (TRILLIONS OF RUBLES, AS OF THE PERIOD-END)

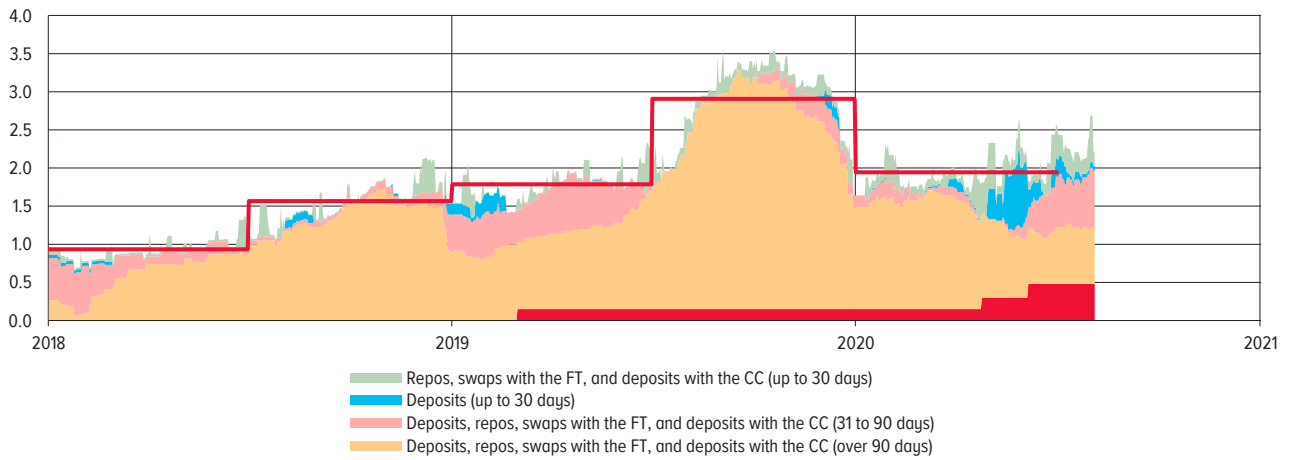
Chart 6



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

IN JULY 2020, CREDIT INSTITUTIONS' DEBT TO FT INCREASED BY 0.1 TRILLION RUBLES (TRILLIONS OF RUBLES)

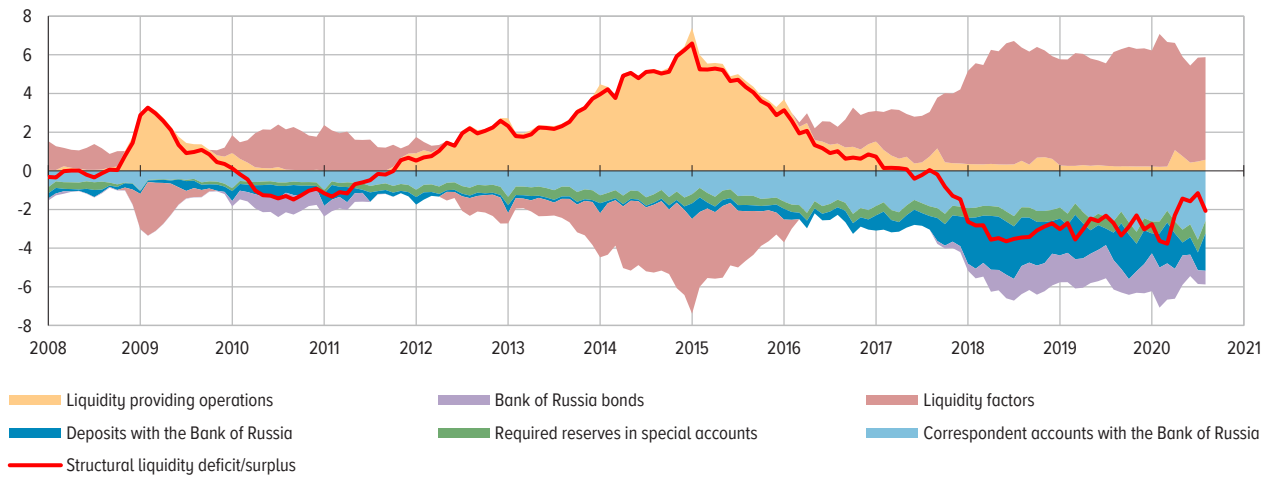
Chart 7



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

Russian financial market remained relatively stable in July. However, due to the weakening ruble, dollar prices of Russian securities looked worse compared to other emerging market economies (EMEs). Global markets were generally positive with prices gradually recovering; however, this growth was uneven across countries due to differences in the pandemic developments.

Exchange rate. The ruble declined by 4.1% to 74.13 vs the US dollar (Chart 9) despite the latter's weakening vs the majority of currencies by 4.2%. This was caused by expectations of the second wave of the coronavirus pandemic and the uncertainty with regard to when the new economy support package would be adopted. At the same time, EME currencies appreciated by 2.4%, oil prices grew by 5.2%, no significant OFZ sales were registered and the attractiveness of carry trade deals hardly changed. The weakening of the ruble could be explained by the conversion of dividend proceeds into foreign currency, gradual recovery of imports and lower amounts of sales of export proceeds compared to the previous year (in July, foreign currency sales were 42% lower than in July 2019).

Country risk premium. Russia's CDS spread shrank by 4 bp, to 105 bp (Chart 10). Over the course of the month, it fell to 89 bp; however, by the month-end, the risk premium was back to its earlier registered values, which could be explained by the weakening of the ruble. CDS

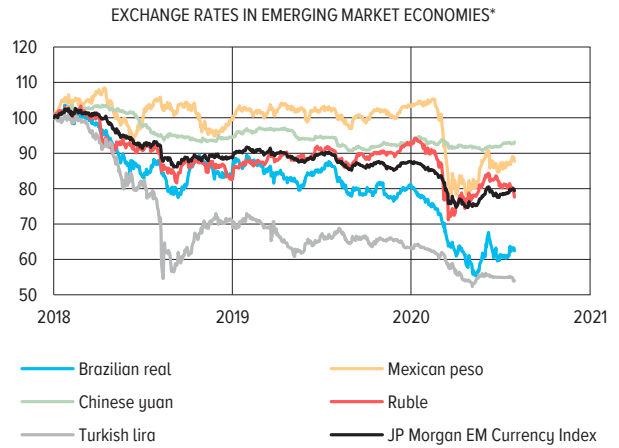
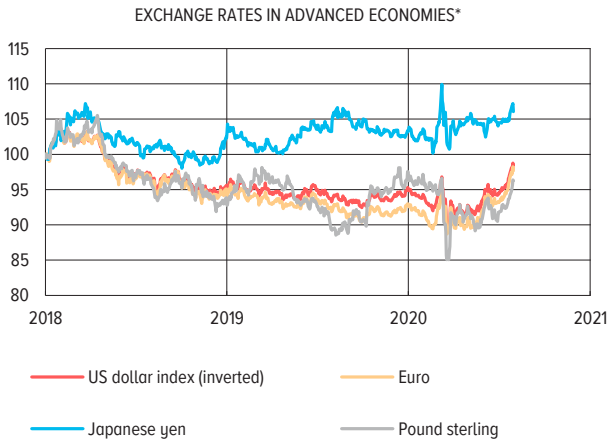
spreads of EMEs for the corresponding period rose by 7 bp; however, this growth was mainly driven by Turkey where the risk premium surged by 73 bp amid the falling national currency. Risk premiums of other EMEs did not change significantly.

Federal government bonds. OFZ yield curve remained practically unchanged. Yields on 15-year issues grew by 3 bp to 6.47%, while yields on 2-year bonds went down by 8 bp to 4.49%. OFZ placement amount declined compared to May and June despite the increased borrowing plan for the second half of the year. In July, the Ministry of Finance borrowed 231 billion rubles compared to 412 and 405 billion rubles in May and June respectively. MinFin also increased its variable coupon-income OFZ (OFZ-PK) offering, which were popular among investors: the total amount of purchase orders at three auctions was 646 billion rubles, although only 20% of orders were fulfilled. Foreign investors' OFZ holdings remained largely unchanged. In July, they declined by 4.8 billion rubles (Chart 13).

Stocks. After eight weeks of stable dynamics, the MOEX index resumed growth in the second half of July, increasing by 6.1% by the month-end. The market was driven mainly by gold producers (amid growing gold prices), IT companies (owing to the announced tax manoeuvre) and Sberbank (on the back of expected high dividends and positive financials in June). The RTS index grew by 1.8%, MSCI Russia rose by 0.3% while MSCI EM was up 8.4% (Chart 12). The EME stock index was mainly driven by the growing Chinese (+8.9%) and Brazil (+14%) markets.

IN JULY, RUBLE WEAKENED DESPITE THE GROWTH OF THE MAJORITY OF EME CURRENCIES
(02.01.2018 = 100)

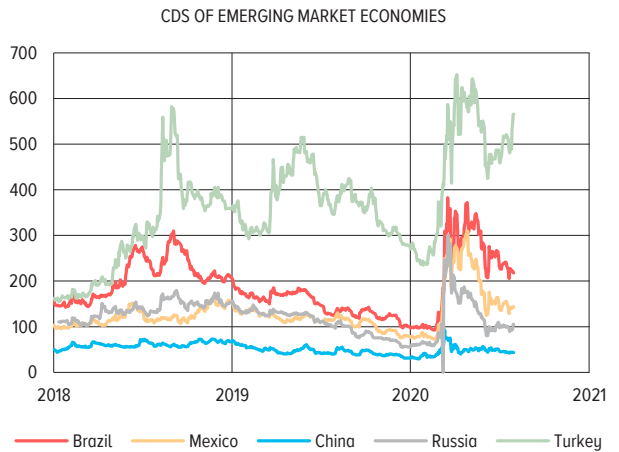
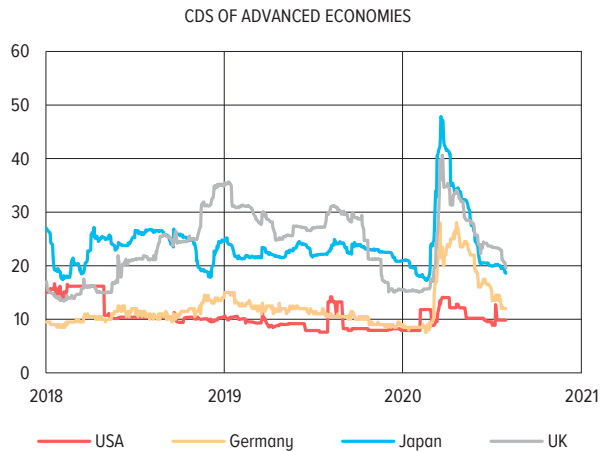
Chart 9



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

RUSSIA'S CDS SPREAD DID NOT CHANGE SIGNIFICANTLY
(BP)

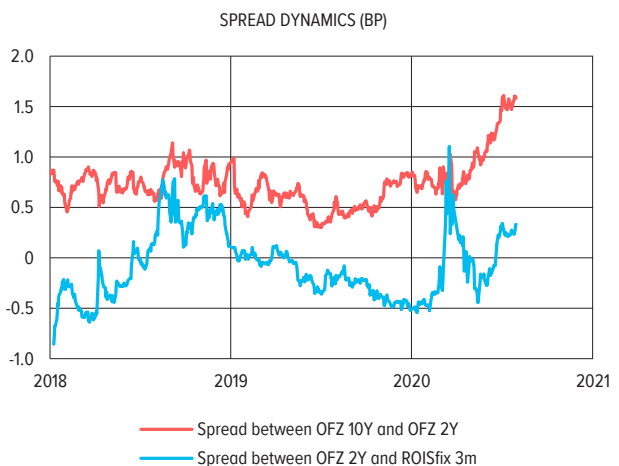
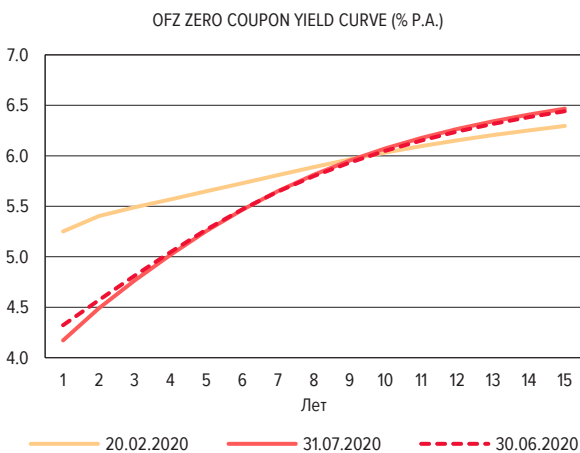
Chart 10



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

OFZ YIELD CURVE STABILISED AT 150 BP

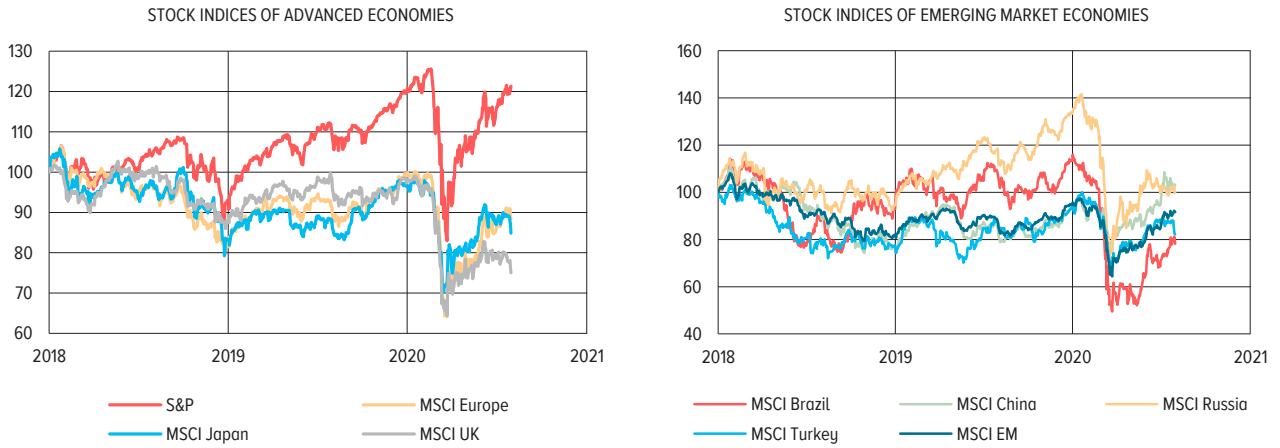
Chart 11



Source: PJSC Moscow Exchange.

MSCI RUSSIA LOOKED WORSE DUE TO THE WEAKER RUBLE COMPARED TO OTHER EMES
(02.01.2018 = 100)

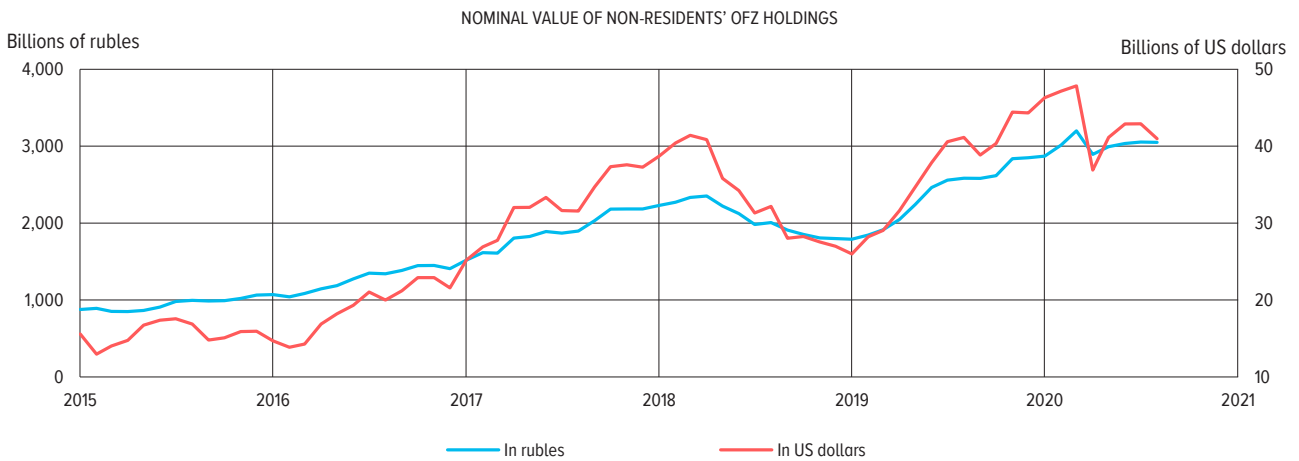
Chart 12



Sources: Bloomberg, Bank of Russia calculations.

FOREIGN INVESTORS' OFZ HOLDINGS REMAINED LARGELY UNCHANGED

Chart 13



Source: Bank of Russia calculations.

AMONG RUSSIAN FINANCIAL MARKET SEGMENTS, ONLY FX MARKET DEMONSTRATED NEGATIVE DYNAMICS

Table 4

Indicator		31.07.2020	1M	3M	6M	YTD	1Y
Russian financial market							
RUB/USD exchange rate		74.13	-4.1	1.6	-15.9	-19.7	-16.4
MOEX Index		2,912	6.1	9.8	-5.4	-4.4	6.3
RTS Index		1,234	1.8	9.7	-18.6	-20.3	-9.2
Government bond yield		5.58	2	-32	-51	-63	-167
Corporate bond yield		5.96	0	-64	-56	-77	-194
Regional bond yield		5.76	8	-59	-55	-51	-204
CDS spread		105	-4	-67	40	50	7
RVI		32	-3	-12	9	9	10
Exchange rates (per US dollar, % change, '+' – appreciation, '-' – depreciation)							
AEs*	US Dollar Index	93.35	-4.2	-5.8	-4.1	-3.2	-5.2
	Euro	1.18	4.8	7.3	6.2	5.0	6.3
	Japanese yen	105.83	2.0	1.0	2.4	2.6	2.8
	Pound sterling	1.31	5.5	4.6	-0.9	-1.3	7.6
EMEs	JP Morgan EM Currency Index	55.60	2.4	5.3	-7.0	-9.5	-10.9
	Ruble	74.13	-4.1	1.6	-15.9	-19.7	-16.4
	Brazilian real	5.22	4.6	5.1	-18.0	-23.0	-27.0
	Mexican peso	22.28	3.3	10.5	-15.4	-15.0	-14.1
	Chinese yuan	6.98	1.3	1.3	-0.9	-0.2	-1.3
	Turkish lira	6.97	-1.7	0.5	-14.2	-14.7	-19.9
	South African rand	17.07	1.6	10.2	-12.0	-18.0	-16.0
10-year bond yield (% p.a., change in bp, '+' – increase, '-' – decrease)							
AEs	USA	0.53	-13	-9	-98	-139	-149
	Germany	-0.53	-7	6	-9	-34	-8
	Japan	0.01	-1	5	9	3	17
	UK	0.10	-7	-14	-42	-71	-51
EMEs	Russia	5.94	3	-18	-33	-43	-137
	Brazil	6.27	-43	-132	-22	-41	-80
	Mexico	5.71	-11	-86	-90	-118	-179
	China	2.97	13	46	-3	-17	-19
	Turkey	12.50	104	118	259	55	-251
	South Africa	9.23	-1	-103	26	21	27
CDS spreads (% p.a., change in bp, '+' – increase, '-' – decrease)							
AEs	USA	10	0	-2	2	2	2
	Germany	12	-4	-12	4	3	1
	Japan	19	-1	-14	0	-2	-3
	UK	20	-4	-12	4	4	-10
EMEs	Russia	105	-4	-67	40	50	7
	Brazil	218	-38	-99	115	118	91
	Mexico	143	-15	-115	62	65	26
	China	43	-7	-5	1	12	3
	Turkey	566	79	-39	326	289	211
	South Africa	307	4	-121	120	144	134
Stock indices (points, % change, '+' – increase, '-' – decrease)							
AEs	S&P	3,271	5.5	15.6	1.4	1.2	9.8
	MSCI Europe	1,590	3.7	12.7	-8.5	-10.9	-3.6
	MSCI Japan	912	-3.55	5.4	-10.7	-12.1	-3.5
	MSCI UK	1,663	-4.7	1.6	-20.2	-22.9	-23.8
EMEs	MSCI EM	1,079	8.4	17.7	1.6	-3.2	4.0
	MSCI Russia	604	0.3	8.3	-22.6	-25.1	-15.8
	MSCI Brazil	1,637	14.0	34.4	-25.3	-31.0	-28.0
	MSCI Mexico	3,473	2.6	12.9	-28.0	-27.0	-21.7
	MSCI China	95	8.9	18.7	17.1	11.1	21.0
	MSCI Turkey	1,327,196	-7.1	3.4	-13.5	-11.7	-5.8
	MSCI South Africa	1,323	3.8	10.5	-1.3	-3.5	-4.3

* Advanced economies.

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

Credit and deposit market

Deposit rates. In June, amid the easing monetary policy and gradually falling returns in the adjacent financial market sectors, interest rates on retail ruble deposits continued to decline (Chart 14). In the long-term deposit segment, this decline was more pronounced, as the average market rate dropped by 0.2 pp compared to May. In the short-term deposit segment, the downward potential was already significantly exhausted in May. In June, the interest rate on these deposits dropped by only 0.1 pp. In July, a number of large market participants also decided to cut interest rates on standard deposit products, which prompts expectations that average deposit rates may drop even lower.

Although overall market interest rates were declining, May and June saw growth in the segment of ruble deposits for over three years (of nearly 0.5 pp over the course of two months). This trend could be explained by both the outpacing decline of interest rates on such deposits in the first quarter and the growing interest of banks in creating sustainable long-term liabilities.

Interest rates were also falling in the foreign currency deposits sector. In June, market average rates on both short- and long-term deposits reached their all-time lows for the Russian deposit market. This could be explained by low interest rates on US dollar-denominated assets and by low interest of banks in increasing foreign currency assets and liabilities.

Deposit operations. Despite the stable demand for cash rubles, June saw a certain recovery of the retail deposit market. By the end of the month, the annual growth of the retail deposit portfolio came in at 7.2%¹ vs 6.4% a month earlier (Chart 15).

The trends of changes in the structure of deposit operations, observed in the previous

months, maintained in June. Amid the declining interest rates on foreign currency deposits and the uncertainty with regard to exchange rate expectations, ruble deposits continued to replace foreign currency-denominated ones. The annual growth rate of ruble deposits as of end of June was 10.9% vs 9.8% in the previous month. At the same time, foreign currency deposits continued to decline in annual terms. While by the end of May they dropped 5.9% p.a., by the end of June their decline reached 6.7% p.a. Together with the ruble appreciation, this contributed to a further decrease in the share of foreign currency-denominated deposits to 19.8% as of the end of June compared to 20.2% in the previous month.

In the ruble market segment, as before, growth was ensured largely by deposits for up to one year. Amid macroeconomic uncertainty, depositors preferred saving instruments with high liquidity, while banks' price competition in the debit card market supported the attractiveness of demand deposits. However, growing interest rates for the longest-term deposits led to a certain recovery in this market segment. The annual growth rate of ruble deposits for over three years was up from 8.5% in early June to 9.3% at the end of the month. As economic uncertainty declines, the overall tenor of the deposit portfolio can be expected to increase.

Credit rates. After diverse changes in March and April, the trend towards a decline in interest rates spread in May to all main segments of the corporate loan market² (Chart 14). In particular, over the course of the month, the cost of short-term loans dropped by 0.43 pp while the cost of long-term loans fell by 0.75 pp to 7.3% and 8.3% p.a. respectively.

The outpacing decline in the cost of long-term corporate resources occurred amid a falling share of traditionally more expensive loans to small- and medium-sized enterprises in the total amount of long-term loans issued in May. At the same time, the fact that the share of short-term operations in the total market turnover continued to be relatively high indicated that the programmes of privileged short-term

¹ 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.

² Hereinafter, 'corporate loans' mean loans to non-financial organisations.

lending to the industries affected by the coronavirus pandemic maintained their significant influence on lending activity.

In the coming few months, the dynamics of average interest rates on corporate loans will largely depend on whether banks and corporate clients will be ready to increase lending activity after restrictive measures have been lifted. In turn, this will depend on the influence of the actual monetary policy easing and lending support programmes, on the one hand, and increased credit risks amid economic uncertainty, on the other hand.

Average rates continued to decline in the retail segment of the lending market in June; however, this decline turned to be more pronounced for short-term (-0.4 pp to 14.0% p.a.) rather than for long-term (-0.2 pp to 11.4% p.a.) operations (Chart 14). The slow decline in the cost of long-term lending was a result of the upward correction of interest rates on mortgage loans from the all-time lows of 7.4% to 7.5% p.a.

Average mortgage interest rates increased for the first time since the end of 2018 in the segment of housing under construction. This was a result of both changes in mortgage product parameters, introduced by certain large banks, and the growing accessibility of mortgage loans for the general public owing to the new concessional mortgage programme, which manifested itself in the significant growth of the average loan tenor and amount. At the same time, average interest rates for car loans and unsecured consumer loans for over one year declined, reflecting a gradual improvement of market conditions in higher-risk lending segments.

In the near future, dynamics of cost of retail loans will be largely determined by the scale of state support measures penetrating the mortgage market, as well as by the speed of a recovery in interest of banks seeking to balance the ratio of risk and profitability in their loan portfolios to consumer and car loans.

Corporate lending. In June, corporate lending dynamics for the most part repeated the trends observed over the last few months. The ongoing programmes to support the sectors that faced serious deterioration of operating conditions due to the coronavirus pandemic remained an important factor of lending activity in the cor-

porate segment. As a consequence, the influence of short-term ruble loans on the dynamics of the aggregate portfolio of loans to non-financial organisations continued to increase as these loans demonstrated double-digit growth rates for the third month in a row (14.6% in annual terms as of the end of June).

At the same time, growth in the long-term ruble loan portfolio was more moderate. Coupled with negative growth rates of foreign currency lending as firms avoided to expand their foreign currency liabilities amid increased macroeconomic uncertainty, this helped maintain the annual growth of the aggregate portfolio of loans to non-financial organisations at the low level of 4.4% vs 4.8% in May (Chart 16). Moderate dynamics of corporate lending reflect tightening non-price lending conditions and declining demand of large companies as well as small- and medium-sized enterprises for loans in 2020 Q2 that were registered during the latest survey of the largest banks (Chart 18).

Settlement of overdue debt liabilities as part of programmes aimed at the restructuring of loans to borrowers impacted by the coronavirus helped maintain the quality of the corporate loan portfolio at a stable level in June. The increase in the share of overdue corporate loans to 7.7% (from 7.5% as of the end of May) was largely caused by one-off large transactions and did not indicate that systemic risks were accumulating (Chart 16).

In the short term, corporate loan portfolio will be influenced by the easing monetary policy and state support programmes, on the one hand, as well as by banks maintaining their cautious approach to selecting borrowers, on the other hand. In addition, the gradual recovery of firms' demand for new loans expected by banks as economic activity improves will support lending activity in this market segment (Chart 18).

Retail lending. In June, the retail loan portfolio continued to recover, growing by nearly 1% vs 0.2% in May and compared to a reduction of 0.7% in April. By the end of 2020 H1, the slowdown of household lending became less pronounced in annual terms (Chart 16). At the same time, as in the previous month, portfolio growth was based on operations for over three years, which indicates that the key role of mortgage

lending dynamics in the process of retail lending activity recovery remains unchanged (Chart 17).

The mortgage lending segment happened to be the only one for which banks participating in the quarterly survey indicated that lending conditions were easing in 2020 Q2. The majority of banks linked this fact to lower credit rates, including owing to the launch of concessional mortgage programme at 6.5% p.a. Mainly owing to state support measures, the amount of housing mortgage loans issued to households in June (276 billion rubles) was able to come close to the maximum values for the current year registered in March (306 billion rubles), while the annual growth rate of the mortgage loan portfolio³ stopped declining and reached 13.7% vs 13.6% in May.

The car loan and unsecured consumer loan segments also registered first signs of recovery in June: portfolios of such loans increased by 1.6% and 0.4% respectively after two months of contraction (Chart 17). However, according to the survey of banks, 2020 Q2 saw a tightening of consumer lending conditions (primarily, as a result of stricter requirements for borrowers' financial standing), while retail clients were cautious about increasing their debt burden, preferring credit cards and avoiding unsecured consumer loans. Coupled with the outpacing growth of traditionally less risky mortgage lending and the practice to provide loan repayment holidays, this allowed to contain the accumulation of excess risks and ensured stable quality of the retail loan portfolio: in June, the share of overdue debt remained unchanged at 4.7% (Chart 16).

In the coming months, stable growth of mortgage lending can be expected owing to state support measures and the satisfaction of deferred household demand for housing mortgage loans at attractive interest rates. At the same time, the speed of recovery in the car and unsecured consumer lending segments will directly depend on the scale of improvement of consumer sentiment and the potential for the return of risk appetite of market participants as the macroeconomic situation recovers. Mean-

while, the results of the bank survey for 2020 Q2 indicate that banks themselves expect that retail lending conditions will be gradually easing and household demand for new loans will be growing until the end of the year (Chart 18).

Money supply. In June, the growth of the banking system's claims on the economy⁴ accelerated on the back of increased activity in the corporate lending sector. As a result, the annual growth of claims on organisations was 7.6% as of the end of June vs 6.7% in the previous month, which, amid the maintaining stable growth of lending to non-financial organisations, was caused by increased ruble-denominated claims on financial institutions (except for non-bank credit organisations). Over the course of one month, the annual growth of ruble-denominated claims on financial institutions went up 3.7 pp to 21.8%. At the same time, the growth of banking system's claims on households was still slowing down, albeit less vividly than in April and May: as of the end of June, the annual growth was 12.0% vs 12.6% in the previous month.

On the back of significantly increased budget system expenditures in June,⁵ the banking system's net claims on general government supported money supply growth. Together with the stable growth of banking system's claims on the economy, this supported further acceleration of the annual growth of broad money supply of 1.1 pp to 10.4% and money supply in the national definition of 1.3 pp to 14.9% (in June 2019, this growth was 7.3% and 6.4% respectively) (Chart 19).

Ruble deposits of the non-financial sector still remained the main component of broad money supply. Their growth over the last few months, amid overall uncertainty, was primarily determined by demand deposits. At the same

³ Includes housing mortgage loans excluding claims under such loans acquired by banks.

⁴ 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.

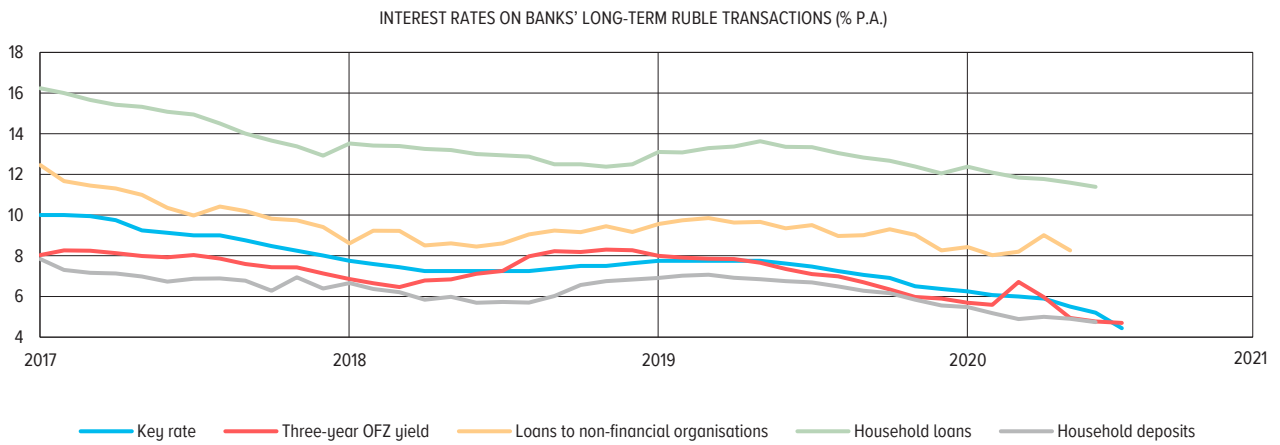
⁵ See *Banking sector liquidity and financial markets: facts, assessments and comments*, No. 6 (52), June 2020.

time, the amount of cash foreign currency in circulation continued to grow. As of the end of June, its growth rate reached 25.3%, including due to the low base effect (in June 2019, the annual growth of the M0 aggregate was 2.9%).

It is expected that, as restrictive measures are lifted and economic activity returns to business-as-usual, demand for cash will gradually return to the pre-pandemic levels.

LOAN AND DEPOSIT INTEREST RATES CONTINUE TO DECLINE AMID EASING MONETARY POLICY AND FALLING OFZ YIELDS

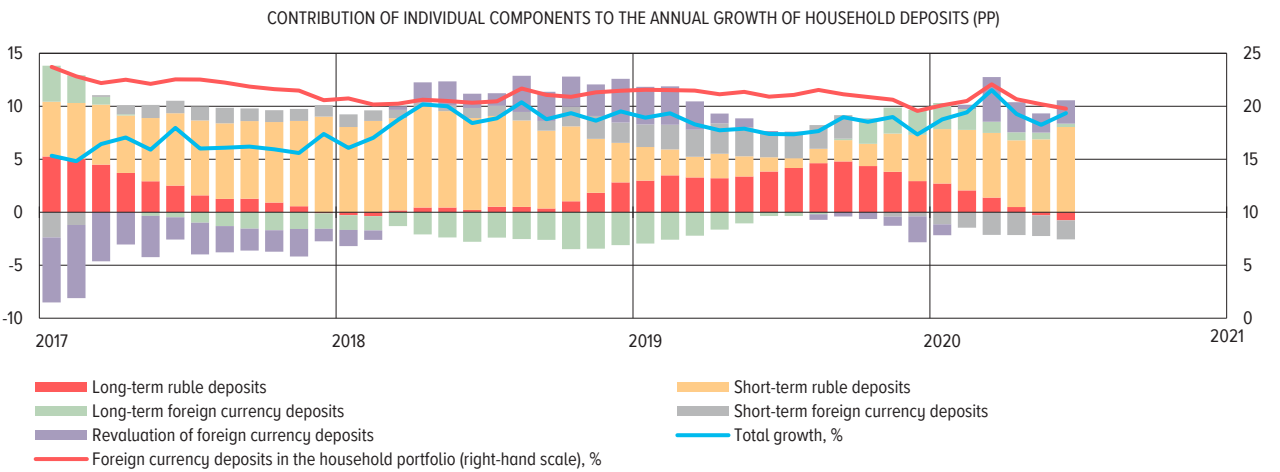
Chart 14



Source: Bank of Russia.

IN JUNE, AMID MACROECONOMIC UNCERTAINTY, DEPOSITORS MAINTAINED SUBSTANTIAL INTEREST IN SHORT-TERM DEPOSITS

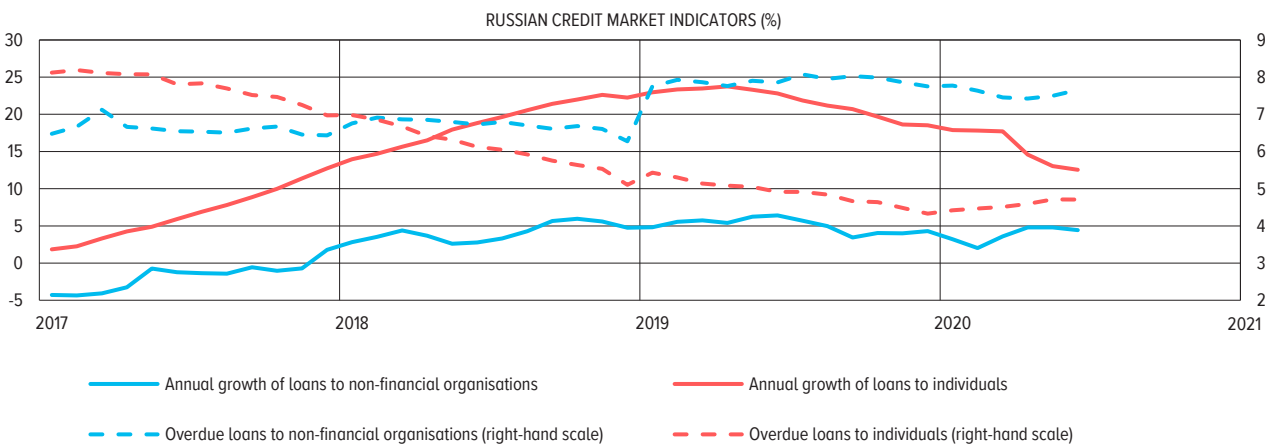
Chart 15



Source: Bank of Russia calculations.

IN JUNE, CORPORATE LENDING DYNAMICS REMAINED MODERATE WHILE THE SLOWDOWN OF RETAIL LENDING IN ANNUAL TERMS BECAME LESS PRONOUNCED

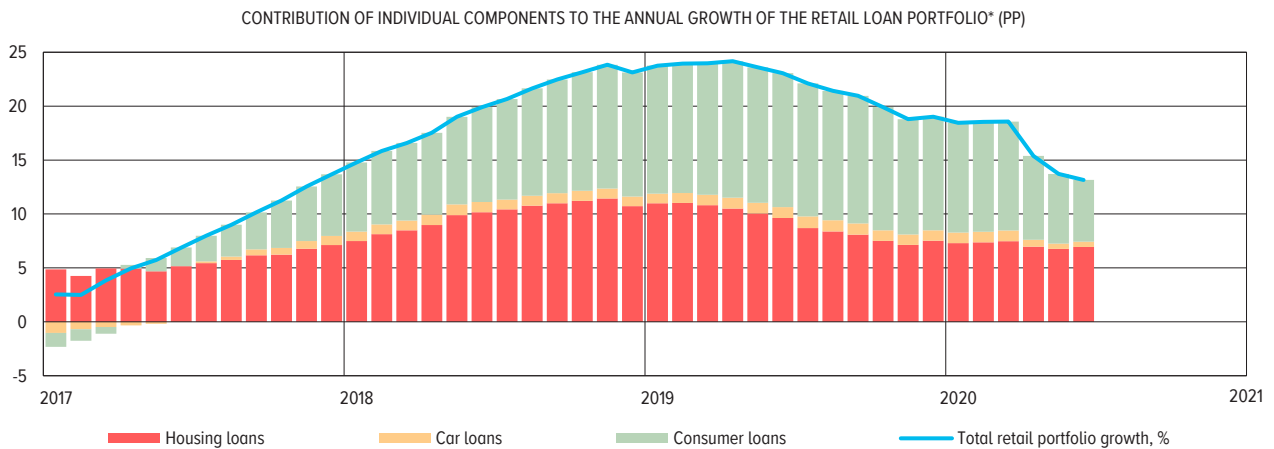
Chart 16



Source: Bank of Russia calculations.

OWING TO STATE SUPPORT MEASURES, MORTGAGE LENDING SECTOR REMAINS THE KEY DRIVER OF THE RETAIL LENDING MARKET

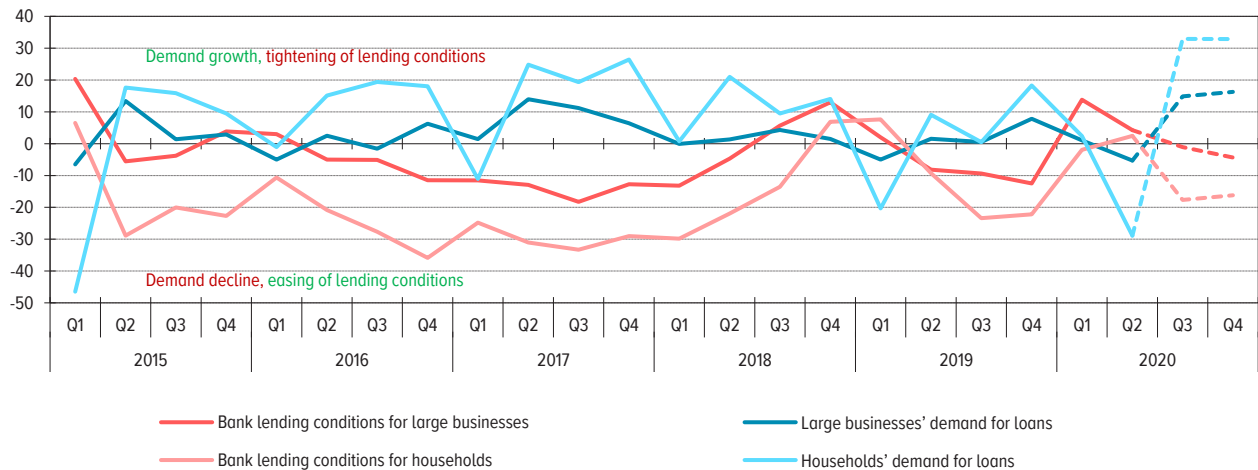
Chart 17



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

IN 2020 Q2, AMID THE DECLINING LOAN INTEREST RATES, NON-PRICE LENDING CONDITIONS CONTINUED TO TIGHTEN FOR ALL MAIN BORROWER CATEGORIES

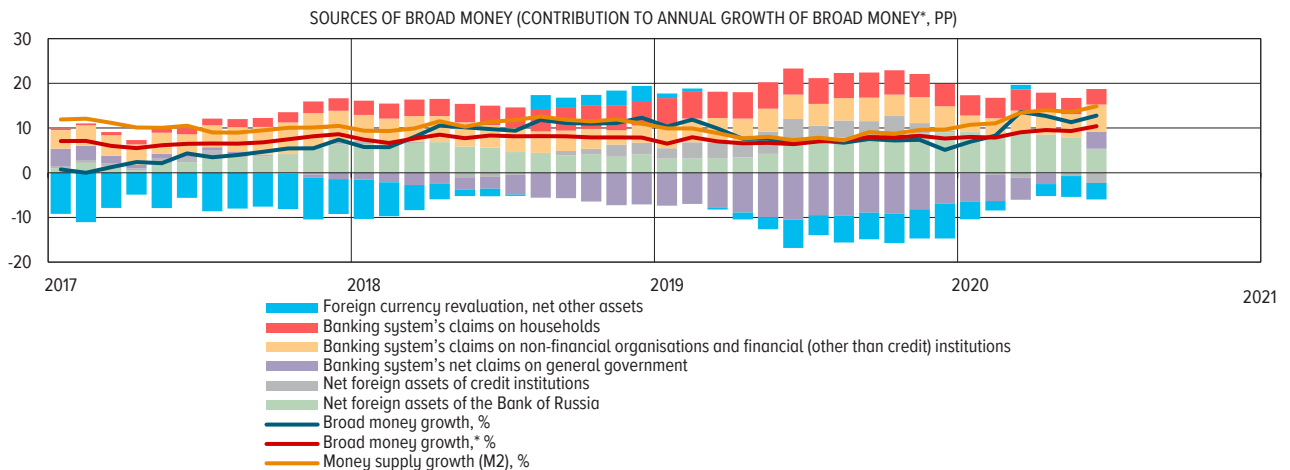
Chart 18



* The dotted lines signify respondent banks' expectations regarding changes in lending conditions and demand for loans in 2020 Q2.
Source: Bank of Russia.

IN JUNE, HIGHER EXPENDITURES OF THE BUDGET SYSTEM CONTRIBUTED TO THE ACCELERATED GROWTH OF MONEY SUPPLY

Chart 19



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

CREDIT AND DEPOSIT MARKET INDICATORS

Table 5

		March 2020	April 2020	May 2020	June 2020
Interest rates on banks' long-term ruble transactions					
– household deposits	% p.a.	4.9	5.0	4.9	4.7
– household loans	% p.a.	11.8	11.8	11.6	11.4
– corporate loans	% p.a.	8.2	9.0	8.3	-
Household deposits	% YoY, AFCR	7.3	6.4	6.4	7.2
– in rubles	% YoY	10.7	9.9	9.8	10.9
– in foreign currency	% YoY	-4.6	-6.2	-5.9	-6.7
– share of foreign currency	%	22.1	20.7	20.2	19.8
Loans to non-financial organisations	% YoY, AFCR	3.6	4.8	4.8	4.4
– short-term (up to 1 year)	% YoY, AFCR	9.8	12.4	13.9	15.0
– long-term (more than 1 year)	% YoY, AFCR	2.3	3.2	3.1	2.1
– overdue loans	%	7.5	7.4	7.5	7.7
Household loans	% YoY, AFCR	17.7	14.6	13.0	12.6
– housing mortgage loans	% YoY, AFCR	15.2	14.1	13.6	13.7
– unsecured consumer loans	% YoY	20.0	15.3	12.7	11.2
– overdue loans	%	4.5	4.6	4.7	4.7
Banking system's claims on the economy	% YoY, AFCR	9.1	8.6	8.2	8.8
– on businesses	% YoY, AFCR	6.3	6.7	6.7	7.6
– on households	% YoY, AFCR	16.8	14.0	12.6	12.0
Money supply (M2 monetary aggregate)	% YoY	13.4	14.0	13.6	14.9
Broad money	% YoY, AFCR	9.1	9.6	9.3	10.4

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 – 04.08.2020 (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 July–August 2020, that period is from 08.07.2020 to 04.08.2020)
- 'Foreign exchange and stock market' section – 31.07.2020;
- 'Credit and deposit market' section – 01.07.2020.

A soft copy 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.

Cover photo: A. Nikitin, Bank of Russia

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