



Bank of Russia



# BANKING SECTOR LIQUIDITY AND FINANCIAL MARKETS

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Information and analytical commentary

13 April 2021

## BANKING SECTOR LIQUIDITY AND FINANCIAL MARKETS: FACTS, ASSESSMENTS AND COMMENTS (MARCH 2021)

- In March, liquidity surplus declined on the back of the increased balances in credit institutions' correspondent accounts with the Bank of Russia and the respective drop in the balances of their deposit accounts. The impact of budgetary operations was diverse but close to neutral at the end of the month.
- The forecast of the liquidity surplus for the end of 2021 remains at the level of 0.8–1.4 trillion rubles.
- The average spread between interbank lending (IBL) rates and the Bank of Russia key rate narrowed as a result of higher demand for liquidity from banks on the back of tax payments.
- The spread between interest rates in the FX swap and the IBL segments turned positive as a result of non-residents' cutting their long ruble positions.
- In February, the situation in global financial markets was mixed and defined largely by the epidemic situation and vaccination rates. The markets of the emerging market economies (EMEs) were influenced by the situation in Turkey, with Russia feeling additional pressure from the increased sanction risks.
- In February, interest rates on long-term ruble retail deposits started to rise. Inflow of funds in retail deposits slowed down but remained positive in annual terms.
- In early 2021, interest rates in both corporate and retail segments of the lending market remained close to historic lows. Certain categories of operations saw weak and diverse fluctuations in interest rates without any particular trend.
- The annual growth rate of the loan portfolio in the retail and corporate segments of the market increased in February. The trends towards changes in the lending structure observed in late 2020 – early 2021 persisted. In the retail segment, the share of mortgage in the loan portfolio continued to increase, while ruble lending continued to rise at an outpacing rate in the corporate segment.
- The growth of money supply in the national definition slowed down in February to 13.4% staying in the forecast range for 2021.

### Banking sector liquidity and money market

**Ruble liquidity.** On average, in the March required reserve (RR) averaging period (AP), the structural liquidity surplus came in at **1.7 trillion rubles** (vs 1.8 trillion rubles in the February period). As of early April, liquidity surplus declined by 0.4 trillion rubles to 1.5 trillion rubles vs early March (Table 2).

The decrease in the liquidity surplus in March was primarily the result of the redistribution of funds between credit institutions' correspondent and deposit accounts with the Bank of Russia. In the first half of the AP, certain banks lowered

their demand at the Bank of Russia weekly deposit auctions (probably, expecting a key rate hike at the meeting of the Bank of Russia Bank of Russia Board of Directors on 19 March) and preferred to maintain large balances in their correspondent accounts, thereby complying with the RR averaging ahead of schedule. In the second half of the AP, balances of correspondent accounts declined but remained higher compared to the beginning of the previous month. The increased demand of the banking sector for liquidity was also related to 0.1 trillion ruble growth of RR which banks are to maintain in correspondent accounts with the Bank of Russia and in specialised RR

accounts, due in part to FX revaluation of credit institutions' liabilities.

In March, operations over the fiscal channel caused mixed influence on banking sector liquidity. Tax revenues exceeded budget expenditures owing to an increase in VAT, personal income tax, and profit tax revenues, including payments under profit tax for 2020 (Chart 2). The Russian Ministry of Finance (MinFin) increased the issuance of federal government bonds (OFZs) in the domestic market, which led to the outflow of liquidity from the banking sector in the amount of 0.4 trillion rubles.

The liquidity outflow driven by the above factors was compensated by the inflow of funds under Federal Treasury (FT) operations. Debt of credit institutions under FT operations rose in March by 1.1 trillion rubles. In addition, the treasury single account (TSA) received a part of the Bank of Russia's income from selling Sberbank shares in the amount of 0.2 trillion rubles, which added to the FT's capabilities to manage temporary available budgetary funds. Additional liquidity inflow was generated as a result of the increased amounts of deposits placed by constituent territories of the Russian Federation in the amount of 0.2 trillion rubles.

The amount of cash in circulation in March slightly declined in line with the seasonal trends; its change was close to that of March 2019. At the same time, the amounts of cash receipts by/withdrawals from cash departments of Bank of Russia establishments and credit institutions decreased somewhat since the beginning of the year. This can provide indirect evidence that a part of cash reserves created during the last year can still be used for payments by households and businesses.

In March, the Bank of Russia kept the maximum amount of funding available through its one-month repo auction at 1.5 trillion rubles, to enable individual credit institutions to offset locally uneven liquidity distribution, as before. However, same as in the previous month, demand for these operations was 0.05 trillion rubles amid little changes in liquidity. At the same time, banks' demand for standing lending facilities of the Bank of Russia increased in March. Aside from liquidity factors, banks' funding

needs may be influenced by the requirements for systemically important credit institutions to comply with liquidity coverage ratios (LCR).

Banks' investments in Bank of Russia coupon bonds (coupon OBRs) in March rose by 0.1 trillion rubles and totalled 0.6 trillion rubles as of early April.

**Money market.** The spread between short-term interbank lending rates<sup>1</sup> and the Bank of Russia key rate narrowed to -15 bp (in the February averaging period: -19 bp; year to date: -14 bp; for 2020: -15 bp) (Chart 3). The spread volatility dropped to 9 bp (in the February averaging period: 10 bp; year to date: 17 bp; for 2020: 18 bp). Driven by the expectations of a key rate hike in March, certain banks chose to comply with required reserves averaging requirements ahead of schedule, in the first half of the AP. As a result, the supply of funds at Bank of Russia deposit auctions was below the established limits, and banks maintained excess liquidity in their correspondent accounts. This pushed money market rates down.

In the second half of the AP, the outflow of liquidity from the banking sector via the fiscal channel put significant upward pressure on IBL rates. At the end of March, companies transferred a large amount of taxes to the budget, including the profit tax for 2020. As a result, during the last days of the month, demand for liquidity rose and IBL rates came close to the key rate. The placement of a large amount of funds by the MinFin at OFZ auctions on 31 March was offset by the inflow of liquidity under the operations of the FT and constituent territories of the RF and did not cause any significant influence on money market rates.

**The year-end forecast of the structural liquidity surplus was kept at 0.8-1.4 trillion rubles.**

**Key rate expectations.** In March, market participants started to expect a tightening of monetary policy amid the accelerating inflation and the key rate hike by the Bank of Russia at the March meeting of its Board of Directors, which was accompanied by a signal of a potential further normalisation of monetary policy. They

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

expect that the key rate will be increased in the second quarter and in the second half of 2021 (Table 1).

**Foreign currency liquidity.** The interest rate spread in the FX swap and IBL (basis) segments turned positive and reached +5 bp on average

(vs -2 bp in the February AP; year to date: +2 bp; for 2020: -17 bp) (Chart 4). The basis widened to 19 bp in the second half of March and was accompanied by the closing of long ruble positions on the back of the increased sanction risks and the situation in Turkey.

## MARKET PARTICIPANTS EXPECT AT LEAST TWO KEY RATE HIKES IN 2021

Table 1

1. Expectations based on market indicators,* interest rate (instrument)	June 2021	December 2021
– MosPrime 3M (FRA)	5.21 (4.81)	5.73 (5.12)
– RUONIA (ROISfix)	5.19 (4.47)	5.95 (5.02)
– RUONIA (futures)	4.97 (4.56)	5.45 (4.96)
2. Analysts' key rate expectations*	As of 30.06.2021	As of 31.12.2021
– Bloomberg survey	4.75 (4.25)	5.00 (4.25)
– Reuters survey	4.75 (4.25)	5.00 (4.25)

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

IN MARCH 2021, THE BANKING SECTOR'S STRUCTURAL LIQUIDITY SURPLUS DECREASED  
(START OF BUSINESS, BILLIONS OF RUBLES)

Table 2

	01.01.2018	01.01.2019	01.01.2020	01.01.2021	01.02.2021	01.03.2021	01.04.2021
<b>Structural liquidity deficit (+) / surplus (-)</b>	<b>-2,639</b>	<b>-3,016</b>	<b>-2,761</b>	<b>-204</b>	<b>756</b>	<b>-1,895</b>	<b>-1,461</b>
<b>Bank of Russia's claims on credit institutions</b>	<b>10</b>	<b>21</b>	<b>18</b>	<b>976</b>	<b>1,361</b>	<b>104</b>	<b>349</b>
Auction-based facilities	-	-	-	847	1,154	98	103
– repos and FX swaps	-	-	-	847	1,154	98	103
– secured loans	-	-	-	-	-	-	-
Fixed interest rate facilities	10	21	18	129	207	6	246
– repos and FX swaps	4	8	13	118	-	-	0
– secured loans	5	13	5	10	207	6	246
<b>Credit institutions' claims on the Bank of Russia</b>	<b>2,729</b>	<b>3,293</b>	<b>2,983</b>	<b>1,796</b>	<b>1,217</b>	<b>2,607</b>	<b>2,417</b>
Deposits	2,372	1,902	1,026	1,221	662	2,062	1,772
– auction-based	2,125	1,478	697	844	554	1,940	1,650
– fixed interest rate	247	424	330	377	108	122	122
BoR coupon bonds	357	1,391	1,956	575	555	545	645
<b>Standing reverse facilities, other than standard monetary policy instruments of the Bank of Russia*</b>	<b>81</b>	<b>256</b>	<b>204</b>	<b>616</b>	<b>611</b>	<b>608</b>	<b>607</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 FORECAST OF THE STRUCTURAL LIQUIDITY SURPLUS FOR THE END OF 2021 REMAINS AT THE LEVEL OF 0.8–1.4 TRILLION RUBLES  
(TRILLIONS OF RUBLES)

Table 3

	2020 actual	January-March 2021	March 2021	2021 (forecast)
<b>1. Liquidity factors</b>	<b>-2.6</b>	<b>1.7</b>	<b>0.0</b>	<b>[1.0; 1.5]</b>
– change in the balances of funds in general government accounts with the Bank of Russia, and other operations*	0	1.6	0.0	[0.9; 1.2]
– change in the amount of cash in circulation	-2.6	0.1	0.0	[0.2; 0.4]
– Bank of Russia interventions in the domestic FX market and monetary gold purchases**	0.1	-	-	-
– regulation of banks' required reserves with the Bank of Russia	-0.1	0	0.0	-0.1
<b>2. Change in free bank reserves (correspondent accounts)*** (demand)</b>	<b>-0.1</b>	<b>0.4</b>	<b>0.4</b>	<b>[0.3; 0.4]</b>
<b>3. Change in banks' claims on deposits with the Bank of Russia and coupon OBRs</b>	<b>1.2</b>	<b>0.6</b>	<b>-0.2</b>	<b>[-0.8; -0.2]</b>
<b>4. Change in outstanding amounts on Bank of Russia refinancing operations (4 = 2 + 3 - 1)</b>	<b>1.4</b>	<b>-0.6</b>	<b>0.2</b>	<b>-1.4</b>
<b>Structural liquidity deficit (+) / surplus (-) (as of the period-end)</b>	<b>-0.2</b>	<b>-1.5</b>		<b>[-1.4; -0.8]</b>

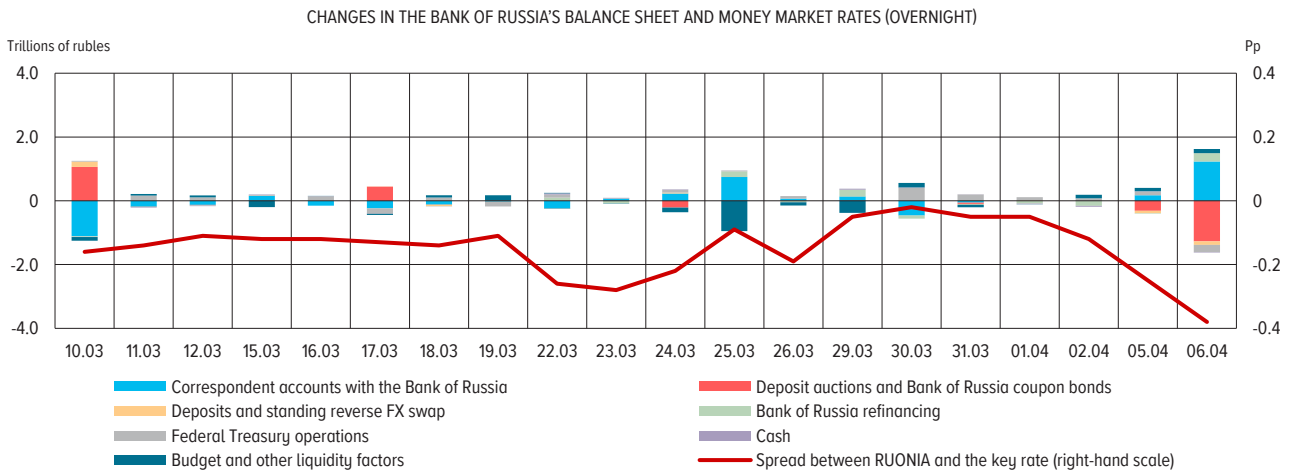
\* Including fiscal rule-based operations to buy (sell) foreign currency in the domestic FX market, settlements on Bank of Russia USD/RUB FX swaps, and other operations.

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

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

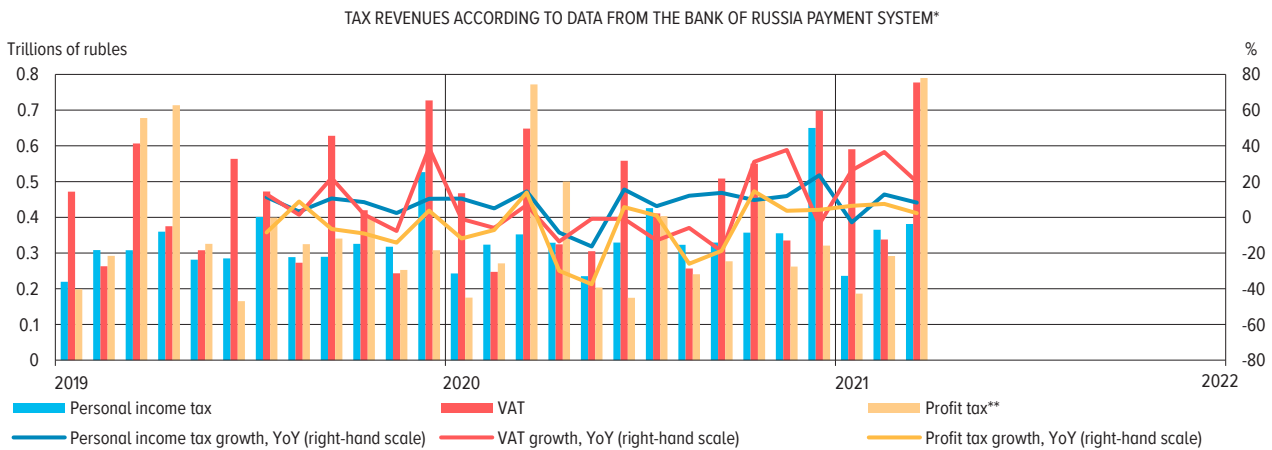
IN MARCH 2021, OPERATIONS OVER THE FISCAL CHANNEL PRODUCED A CLOSE TO NEUTRAL IMPACT ON LIQUIDITY

Chart 1



MARCH 2021 SAW AN INCREASE IN PAYMENTS UNDER CORE NON-OIL AND GAS TAXES (VAT, PROFIT TAX, AND PERSONAL INCOME TAX)

Chart 2

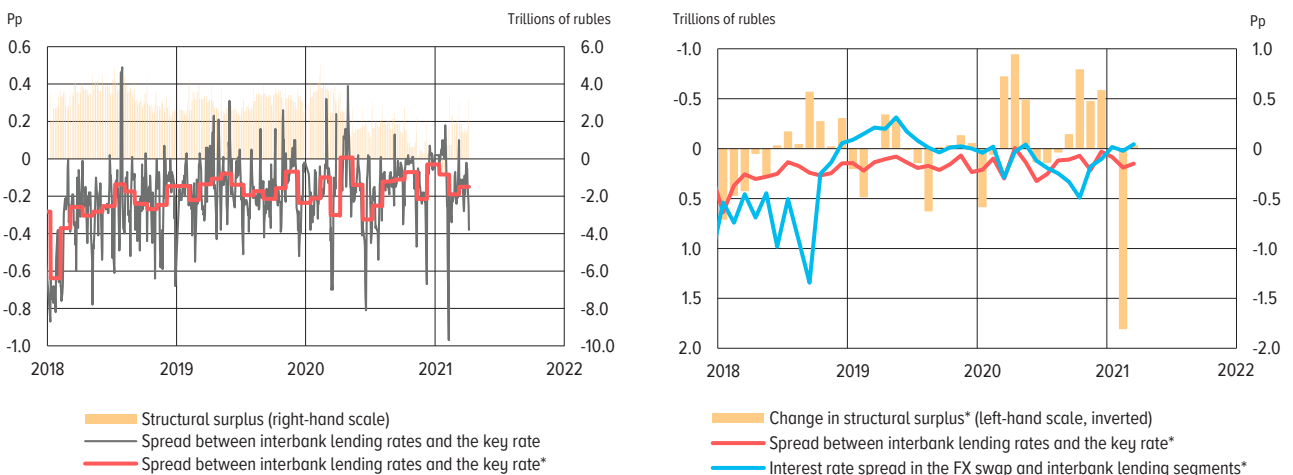


\* Credits to the budget system's accounts with budget classification codes corresponding to the above taxes.

\*\* Profit tax calculations in February and March 2021 were adjusted for the calendar factor: part of the tax payments was rescheduled to 1 March 2021, with 28 February 2021 being a day-off. Therefore, the February receipts were increased by the value of payments transferred on 1 March 2021, and the March receipts were reduced correspondingly.

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

Chart 3

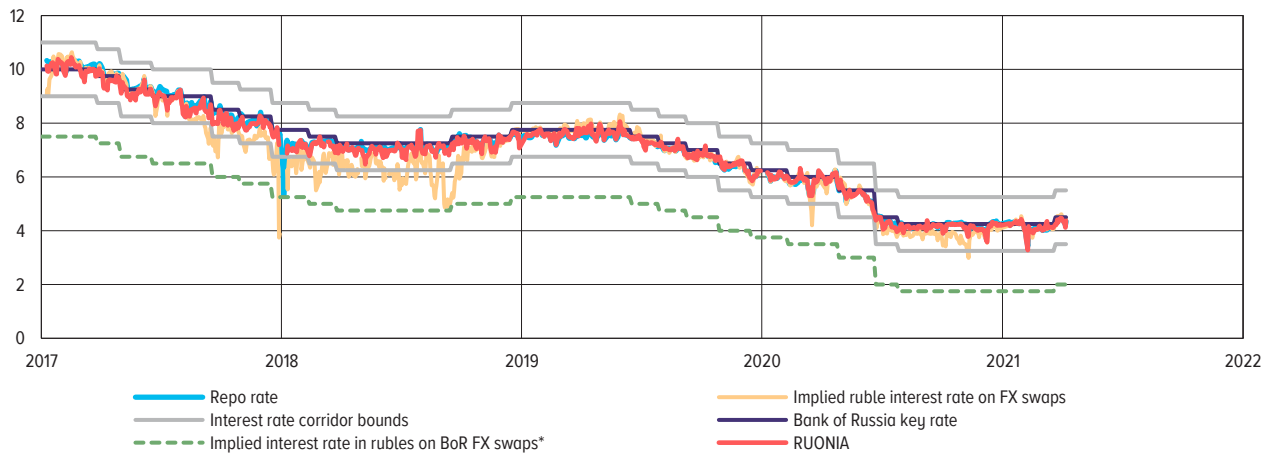


\* Average for averaging periods.

Source: Bank of Russia calculations.

THE INTEREST RATE SPREAD IN THE FX SWAP AND INTERBANK LENDING SEGMENTS TURNED POSITIVE (% P.A.)

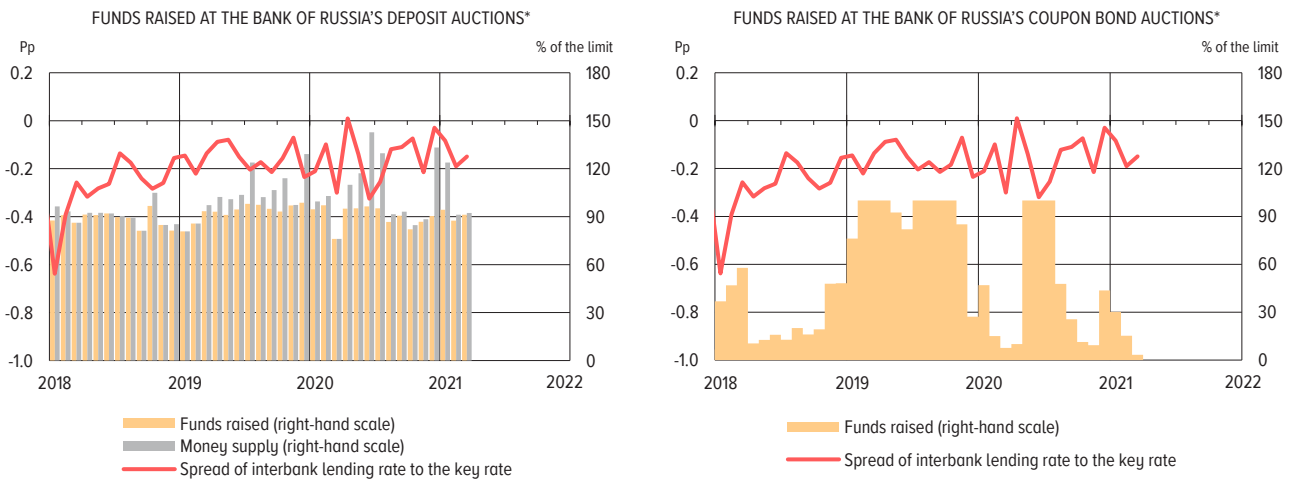
Chart 4



\* 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 THE BANK OF RUSSIA'S WEEKLY DEPOSIT AUCTIONS WAS SLIGHTLY BELOW THE ESTABLISHED LIMITS

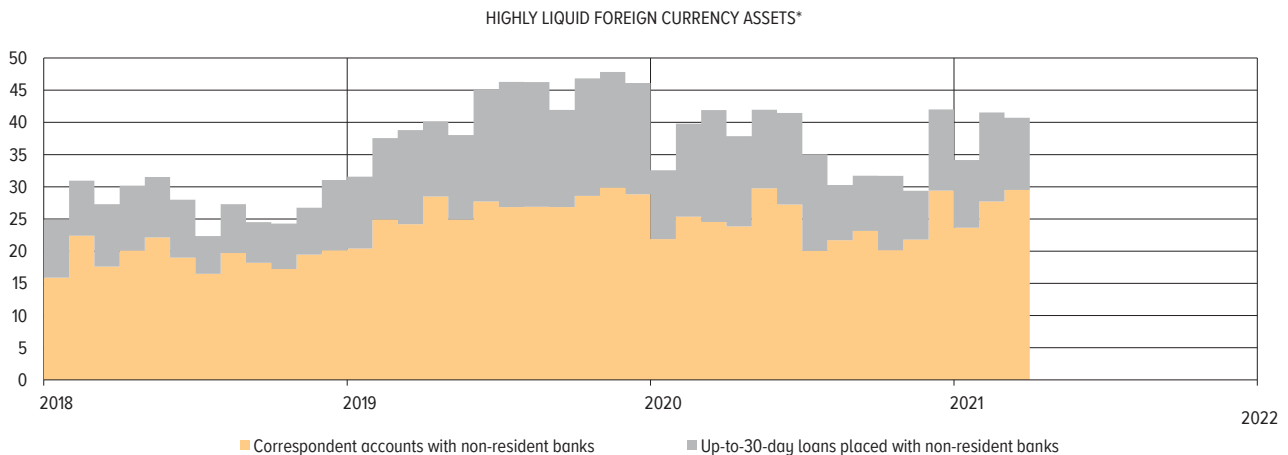
Chart 5



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

THE AMOUNT OF HIGHLY LIQUID FOREIGN CURRENCY ASSETS CHANGED ONLY SLIGHTLY IN FEBRUARY AGAINST JANUARY (ACCORDING TO DATA AS OF 1 MARCH) (BILLIONS OF US DOLLARS)

Chart 6

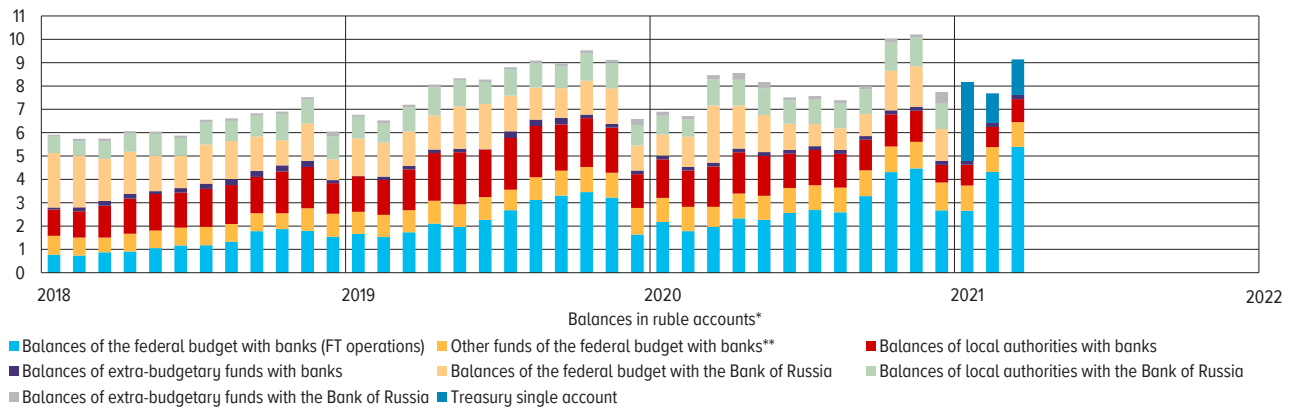


\* Excluding cash foreign currency in credit institutions cash desks.  
Source: Bank of Russia calculations.



**IN MARCH 2021, BALANCES OF BUDGET ACCOUNTS WITH THE TSA INCREASED DUE TO THE BANK OF RUSSIA'S TRANSFER OF A PART OF RECEIPTS FROM SELLING SBERBANK SHARES IN THE AMOUNT OF 0.2 TRILLION RUBLES**  
(TRILLIONS OF RUBLES, AS OF THE PERIOD-END)

Chart 7

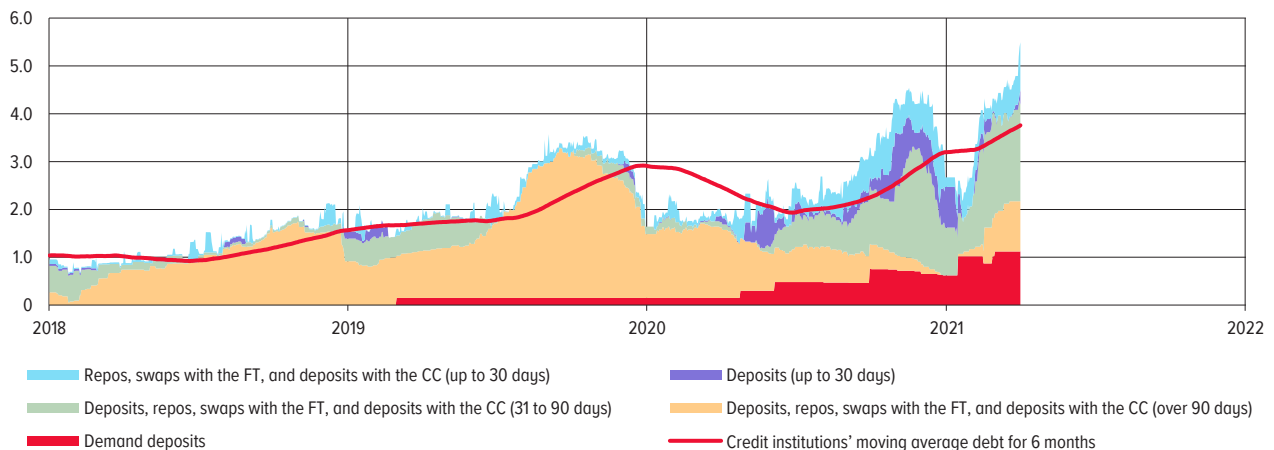


\* According to banking reporting form 0409301 'Performance indicators of a credit institution' of the Bank of Russia's daily balance sheet.

\*\* Other funds comprise VEB.RF budgetary funds, election commissions' funds, funds received for temporary use, funds for the cash transactions of Russia's Ministry of Finance, and others.  
Source: Bank of Russia calculations.

**CREDIT INSTITUTIONS' DEBT TO THE FT INCREASED BY 1.1 TRILLION RUBLES IN MARCH 2021**  
(TRILLIONS OF RUBLES)

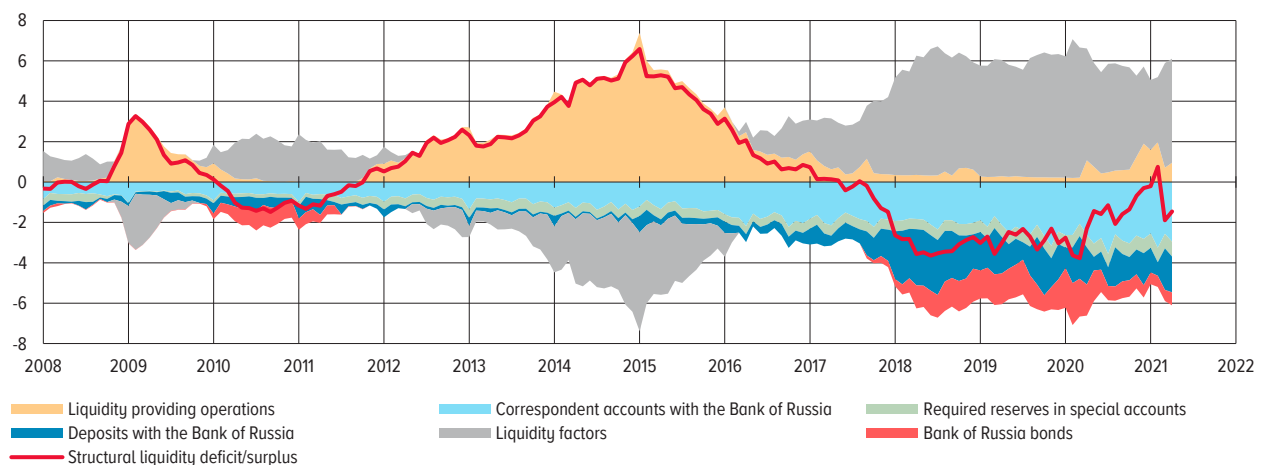
Chart 8



Sources: Federal Treasury, Bank of Russia calculations.

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

Chart 9



Source: Bank of Russia calculations.

## Foreign exchange and stock markets

In March, the situation in global financial markets was mixed. The US market looked the most confident. It was growing nearly the whole month amid the active vaccination of the population and economic support measures. Most other developed markets also grew; however, their growth rates varied depending on the epidemic situation and vaccination pace. In turn, the emerging markets were rather stable in the first half of the month; however, they were affected by the market crash in Turkey in the second half of the month. In addition, the Russian market was driven down by the increased sanction risks.

**Exchange rate.** By the end of the month, the ruble weakened 1.4% to 75.69 against the US dollar (Chart 10). During the first half of the month, the ruble was largely strengthening on the back of the growing oil prices and positive external conditions. By 16 March, the ruble reached 72.52 against the US dollar, the lowest level since July 2020. However, afterwards, the Russian currency sharply went South amid the market crash in Turkey (after the resignation of the head of the Turkish central bank) and the increased sanction risks. The exchange rate rose as high as 76.66 rubles against the US dollar. Moreover, all currencies were affected by the strengthening of the US dollar due to significantly rising yields in the US.

**Country risk premium.** As of the end of the month, Russia's 5-year CDS spread rose by 19 bp to 113 bp, having reached its maximum level since October 2020 (Chart 11). Nearly half of that increase was explained by the Turkey crisis

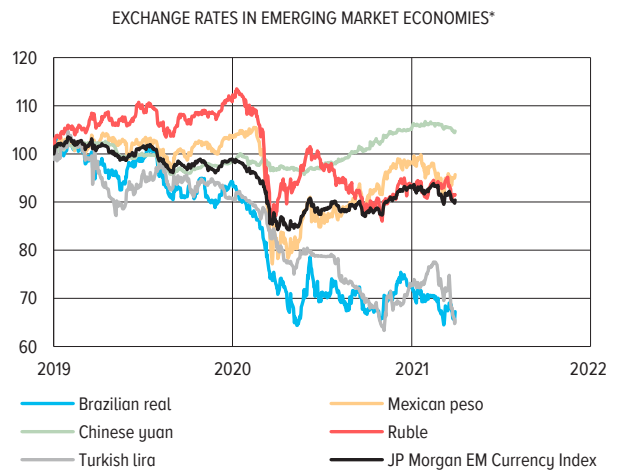
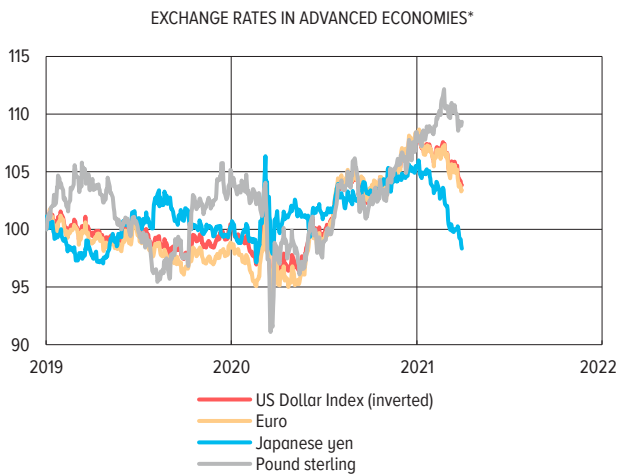
and sanction risks while the other half could be attributed to the change in the contract used as a benchmark.

**Federal government bonds.** The OFZ yield curve continued to rise (Chart 12): OFZ 2Y – 5.73% (+51 bp), OFZ 5Y – 6.74% (+35 bp), OFZ 10Y – 7.23% (+17 bp). Yields rose faster at the short-term end of the curve, which was explained by the expectations of monetary policy tightening and the actual key rate hike. In early March, the amount of OFZ placements was lower than required to fulfil the quarterly borrowing plan (1 trillion rubles). The 24 March auction was cancelled due to market volatility, and on 31 March, MinFin was able to borrow 355 billion rubles, the highest amount since November 2020. Systemically important banks were the main buyers at the last auction. They purchased 86% of the issue. Foreign investors cut their OFZ holdings. Over the month, they dropped by 125 billion rubles (Chart 14), with the positions for 107 billion rubles closed from 18 through 31 March. This is less than during the market crash in March 2020 (when OFZs for 280 billion rubles were sold) but comparable to April and August 2018 (when sanction risks also rose).

**Stocks.** Stock markets in most countries continued to rise amid global economic recovery (Chart 13). MOEX gained 5.8% and RTS 4.6%. At the same time, the MSCI EM index edged down by 1.7% (Chart 13) driven down by China (-6.1%). MSCI China has been declining since mid-February, which can be explained by growing interest rates in the US and fears of tightening of monetary conditions in China. S&P 500 rose in March by 4.2% to a new historic high.

THE US DOLLAR STRENGTHENED AGAINST MOST OF OTHER CURRENCIES AMID GROWING YIELDS IN THE US  
(02.01.2019 = 100)

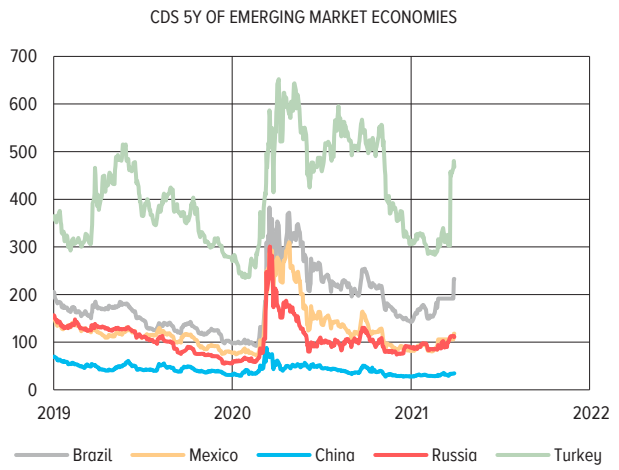
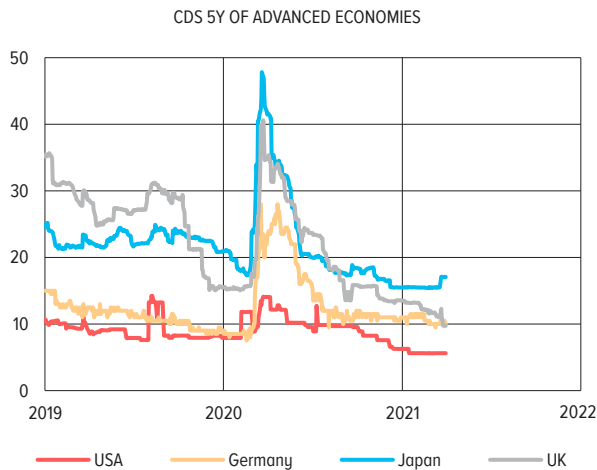
Chart 10



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

RUSSIA'S FIVE-YEAR CDS SPREAD ROSE BY 19 BP TO THE HIGHEST LEVEL SINCE OCTOBER 2020  
(BP)

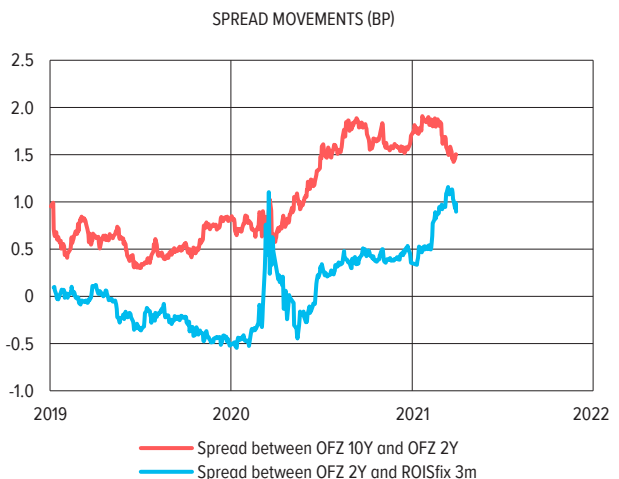
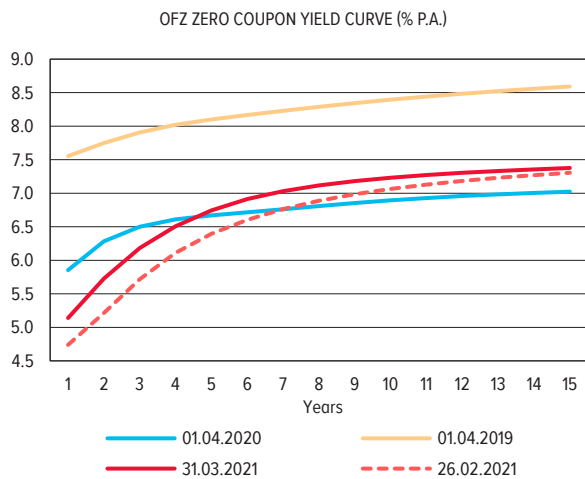
Chart 11



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

THE OFZ YIELD CURVE CONTINUED TO RISE WITH YIELDS OF SHORT ISSUES RISING FASTER

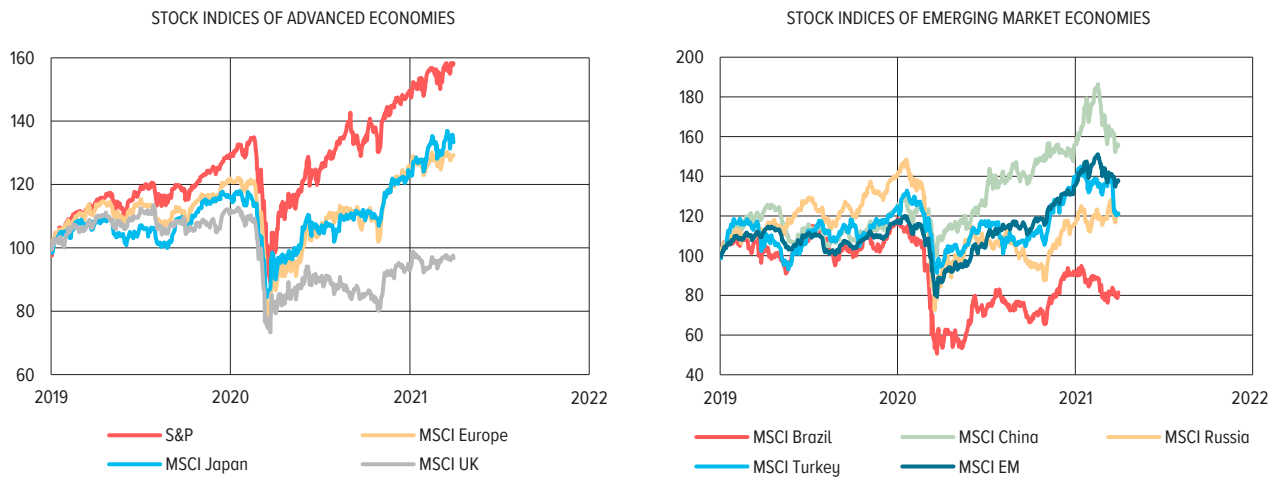
Chart 12



Source: PJSC Moscow Exchange.

STOCKS IN MOST EMES POSTED GAINS AT MONTH-END, EXCEPT FOR TURKEY AND CHINA  
(02.01.2019 = 100)

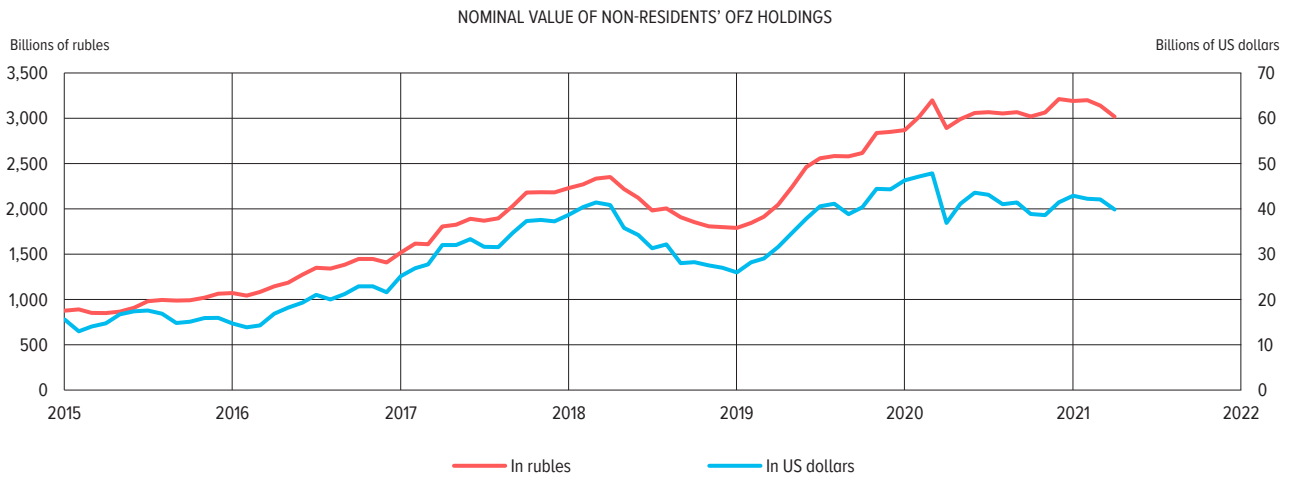
Chart 13



Sources: Bloomberg, Bank of Russia calculations.

FOREIGN INVESTORS ARE CUTTING THEIR OFZ POSITIONS FOR THE SECOND MONTH IN A ROW

Chart 14



Source: Bank of Russia calculations.

## THE SITUATION IN EMES DETERIORATED IN THE SECOND HALF OF MARCH, WHILE MOST OF THE DEVELOPED MARKETS STEADILY GREW AS OF THE MONTH-END

Table 4

Indicator		31.03.2021	1M	3M	6M	YTD	1Y
<b>Russian financial market</b>							
RUB/USD exchange rate		75.69	-1.4	-1.7	2.5	-1.7	4.6
MOEX Index		3,542	5.8	7.7	21.9	7.7	45.5
RTS Index		1,477	4.6	6.5	25.3	6.5	54.1
Government bond yield		6.85	29	109	96	109	-8
Corporate bond yield		6.56	5	45	26	45	-122
Regional bond yield		6.58	30	90	82	90	-107
CDS spread		111	17	22	-14	22	-102
RVI		30	-4	-2	-7	-2	-47
<b>Exchange rates (per US dollar, % change, '+' – appreciation, '-' – depreciation)</b>							
AEs*	US Dollar Index	93.23	2.6	4.0	-0.7	3.7	-6.0
	Euro	1.17	-2.9	-4.6	0.1	-4.0	6.2
	Japanese yen	110.72	-3.8	-6.8	-4.8	-6.7	-2.6
	Pound sterling	1.38	-1.1	1.2	6.7	0.8	11.0
EMEs	JP Morgan EM Currency Index	56.14	-1.1	-3.2	3.0	-3.1	5.2
	Ruble	75.69	-1.4	-1.7	2.5	-1.7	4.6
	Brazilian real	5.63	-0.6	-7.8	-0.4	-7.8	-7.8
	Mexican peso	20.43	2.0	-2.7	8.2	-2.7	16.3
	Chinese yuan	6.55	-1.2	-0.5	3.6	-0.4	8.3
	Turkish lira	8.25	-10.0	-10.5	-6.4	-9.9	-20.3
	South African rand	14.78	2.3	-1.0	13.4	-0.5	21.4
<b>10-year bond yield (% p.a., change in bp, '+' – increase, '-' – decrease)</b>							
AEs	USA	1.74	34	82	106	83	101
	Germany	-0.29	-3	28	23	28	20
	Japan	0.09	-7	7	8	7	9
	UK	0.84	3	63	62	65	51
EMEs	Russia	7.04	26	112	79	112	6
	Brazil	9.14	92	255	177	255	132
	Mexico	6.84	61	130	73	131	-44
	China	3.19	-9	6	5	5	57
	Turkey	12.93	0	0	7	0	-10
	South Africa	9.48	44	73	6	74	-211
<b>5Y CDS spreads (bp, change in bp, '+' – increase, '-' – decrease)</b>							
AEs	USA	6	0	-1	-4	-1	-8
	Germany	10	-1	-1	-2	-1	-12
	Japan	17	2	2	-1	2	-25
	UK	10	-2	-4	-6	-4	-25
EMEs	Russia	111	17	22	-14	22	-102
	Brazil	233	42	89	-15	89	-97
	Mexico	118	12	36	-32	37	-147
	China	35	3	7	-14	7	-24
	Turkey	468	152	163	-60	163	-77
	South Africa	239	7	36	-73	37	-188
<b>Stock indices (points, % change, '+' – increase, '-' – decrease)</b>							
AEs	S&P	3,973	4.2	6.5	18.1	5.8	51.3
	MSCI Europe	1,905	2.7	2.7	19.3	3.5	43.5
	MSCI Japan	1,193	4.07	7.9	21.5	7.9	37.5
	MSCI UK	1,884	3.4	2.5	14.3	4.1	18.5
EMEs	MSCI EM	1,316	-1.7	2.1	21.7	1.9	58.2
	MSCI Russia	701	5.2	5.0	25.1	4.8	44.0
	MSCI Brazil	1,669	3.3	-11.3	21.3	-11.1	38.4
	MSCI Mexico	4,754	8.4	2.4	35.0	4.0	61.4
	MSCI China	108	-6.1	0.4	11.0	-0.2	44.3
	MSCI Turkey	1,471,454	-7.5	-13.4	9.1	-13.0	28.1
	MSCI South Africa	1,519	2.8	12.0	20.2	11.9	50.5

\* Advanced economies.

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

## Credit and deposit market

**Deposit rates.** In February, interest rates on ruble retail deposits changed diversely. Thus, the average interest rate in the short-term segment<sup>1</sup> declined by 0.2 pp to a historic low of 3.2% p.a. mainly due to the operations of a certain bank that discontinued a seasonal deposit programme with attractive terms in February. In the long-term segment, the cost of retail funding was up 0.1 pp to 4.3% driven by the increased OFZ yields in 2021 Q1 (Chart 15). Moreover, the growth of the average rate was more noticeable in the segment of deposits for over three years, which is also evidence of the desire of banks actively competing for stable retail funding to fix returns at a higher level, while maintaining the attractiveness of this savings instrument.

The decision made by the Bank of Russia Board of Directors in March to raise the key rate coupled with the signal of a return to neutral monetary policy, as well as banks' competition for depositors in the coming months, will drive ruble deposit rates upwards.

Interest rates on retail foreign currency deposits changed only slightly and stayed close to historic lows.

**Deposit operations.** The inflow of funds into retail deposits slowed down in February. The annual growth of the retail deposit portfolio<sup>2</sup> edged down by 0.4 pp to 2.6% (Chart 16). At the same time, last months' trends continued to dominate in the structure of deposit operations. Thus, ruble current accounts were the main contributor to the growth of the deposit portfolio due to the increased attractiveness of highly liquid savings. In the segment of up to 3 years, ruble deposits continued to shrink, due to low deposit rates among other things. At the same time, the inflow of funds into ruble deposits for over three years resumed in February, as a result of which activity in this segment continued to support the dynamics of the retail deposit portfolio.

Households continued to demonstrate demand for alternative savings instruments, actively conducting operations in the stock market (in February, the number of individuals with brokerage accounts on the [Moscow Exchange](#) increased by a record 883 thousand people, with 1.6 million people that concluded transactions vs 448 thousand a year earlier). Households' investments in real estate continued to increase significantly amid the rising mortgage market turnover after the seasonal decline in January: funds in escrow accounts increased by 154 billion rubles.

Foreign currency deposits remained unattractive due to the historic low interest rates on such instruments and the uncertainty of exchange rate expectations. As of the end of February, foreign currency deposits declined by 2.9% in annualised terms vs 4.7% in the previous month. The weaker decline in foreign currency deposits in annualised terms was caused by the base effect due to a noticeable outflow of funds from such deposits at the beginning of the previous year. The maturity structure of foreign currency savings demonstrated the same outflow of funds to current accounts as for ruble deposits. The share of foreign currency in retail deposits was close to the previous month's level at 21.2% vs 21.7% in January owing to the strengthening of the ruble among other things.

**Credit rates.** The first months of 2021 did not set a clear trend in ruble interest rates fluctuations. Individual market segments saw diverse rate movements which were driven largely by changes in the market structure. Interest rates on short-term corporate loans<sup>3</sup> declined by 15 bp in January while those on long-term loans rose by 20 bp to 6.1% and 7.0% p.a. respectively (Chart 15). In the small business segment, short-term rates slightly rose while long-term rates slightly decreased.

In most segments of the retail lending market, the January increase in interest rates gave way to their decline in February. This decline was most pronounced in the segment of long-term retail loans (nearly 0.4 pp), which was associated with the recovery of the share

<sup>1</sup> Short-term deposits are deposits with any maturities of up to one year, excluding demand deposits; long-term deposits are deposits with any maturities of over one year.

<sup>2</sup> Hereinafter, deposits exclude escrow accounts under equity construction contracts.

<sup>3</sup> Hereinafter, the corporate segment of the credit market implies lending to non-financial organisations.

of mortgage loans in retail market turnover after the seasonal contraction in January (Chart 15).

The growth of government bond yields in February–March creates the prerequisites for a smooth increase in interest rates on banking operations, including credit ones. The interest rate rise will be constrained by banks' competition for high credit quality borrowers.

**Corporate lending.** The early 2021 saw a recovery in the corporate lending market. Annual growth of loans to non-financial organisations reached 8.4%<sup>4</sup> as of the end of February, its highest level since early 2015 (Chart 17).

Lending to small and medium-sized enterprises (SMEs) made a significant contribution to corporate lending growth. In early February, the annual growth of the portfolio of SME loans was more than 20%, exceeding the same indicator for loans to large businesses more than twofold. The growth of lending to SMEs was associated not only with programmes supporting lending to this category of borrowers (in January 2021, the leading growth of the SME loan portfolio persisted despite the termination of part of these programmes), but also with a higher flexibility of small businesses, which allowed them to respond faster to expectations of a recovery in the economic environment.

Activity growth in various segments of the corporate lending market remained uneven. With interest rates on ruble-denominated corporate loans close to historic lows and amid the uncertainty of long-term exchange rate expectations, the ruble market segment continued to grow at an outstripping pace. As of the end of February, the annual growth of the portfolio of corporate ruble loans was 10.0% and that of foreign currency loans 3.7% (8.5% and 3.4% the month earlier).

The growth of the loan portfolio in the foreign currency lending segment was driven by short-term loans, while the growth of long-term lending was close to zero. At the same time, the annual growth of long-term lending in the ruble segment of the market slightly exceeded that of short-term lending.

The quality of the corporate loan portfolio slightly improved in February (Chart 17): the share of overdue corporate loans declined by 0.1 pp over the month to 7.5%.

In the coming months, demand for loans by enterprises will maintain and banks will be ready to lend. The growth rates of the corporate loan portfolio will largely depend on the extent and structure of economic activity recovery.

**Retail lending.** In late February, the retail loan portfolio<sup>5</sup> grew at the annual rate of 13.8%, having accelerated slightly compared to the beginning of the month (Chart 17).

Mortgage market participants' activity increased after plunging in January. Over 140 thousand loans were issued during the month for a total amount of more than 400 billion rubles, which exceeded the average values for 2020. In addition to seasonal factors, mortgage demand could be supported by expectations of the termination of the preferential mortgage lending programme in its current form and an increase in market rates, which will affect loan costs. In addition, the ongoing rise in prices in the residential real estate market could somewhat stimulate the growth of the mortgage market due to an increase in the amounts of mortgage loans. In February, the average mortgage loan amount reached yet another historic high of 2.78 million rubles. As a result, mortgage remained the main contributor to the growth of the retail loan portfolio, and its contribution slightly increased in February (Chart 18).

Annual growth rates of portfolios of car and consumer loans<sup>6</sup> were still nearly twice as low as those of mortgage. Therefore, the share of mortgage loans in the retail portfolio continued to increase. This helped maintain the share of overdue debt in the total amount of claims on households at a low level, nearly unchanged in February (Chart 17).

Factors contributing to the faster growth of the mortgage segment compared to other retail lending areas will continue to operate in the short run. Thus, we can expect that the

<sup>4</sup> Hereinafter, growth of corporate lending strips out credit claims acquired by credit institutions.

<sup>5</sup> Hereinafter, growth of retail lending strips out credit claims acquired by credit institutions.

<sup>6</sup> Standard loans grouped into homogeneous loan portfolios.



existing structure of growth of the retail lending portfolio will be maintained.

**Money supply.** In February, the growth of claims on the economy<sup>7</sup> continued to accelerate, its main source being lending to non-financial companies due to the recovery of economic activity. Annual growth of banking system's claims on organisations at the end of the month increased by 0.2 pp to the five-year high of 11.1%. Annual growth of banking system's claims on households also accelerated from 13.0% as of late January to 13.2% at the end of February.

Along with lending to the economy, budgetary operations continued to positively influence the dynamics of money supply, with the contribution of net claims on general government to annual money supply growth slightly increasing due to higher budget expenditures in February.<sup>8</sup>

The ongoing outflow of household funds to the real estate market, resulting in the growth of balances in escrow accounts not included in money supply, exerts a restraining influence on the growth of core monetary aggregates. In February, the annual growth of M2X was close to the previous month's level at 12.6% while that of M2 slowed down over the month by 0.4 pp to 13.4% (Chart 20).

The more pronounced deceleration of the growth of money supply in the national definition is related to the inflow of foreign currency-denominated corporate deposits. In addition, the structure of money supply showed a slowdown of the M0 aggregate. Ruble-denominated deposits of the non-financial sector remain the major component of M2 and M2X.

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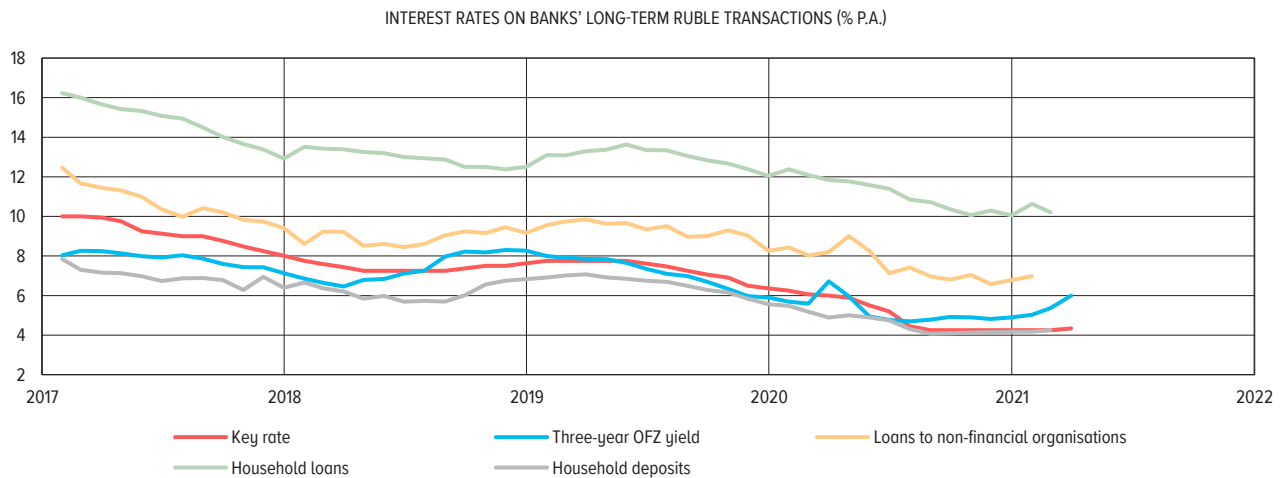
<sup>7</sup> *Banking sector claims on the economy mean all claims of the banking system on non-financial and financial organisations and households in Russian rubles, foreign currency, and precious metals, which include loans extended (including overdue loans), overdue interest on loans, credit institutions' 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>8</sup> *See Banking Sector Liquidity and Financial Markets: Facts, Assessments and Comments, No. 2 (60), February 2021.*



IN EARLY 2021, INTEREST RATES IN BOTH CORPORATE AND RETAIL SEGMENTS OF THE LENDING MARKET REMAINED CLOSE TO HISTORIC LOWS

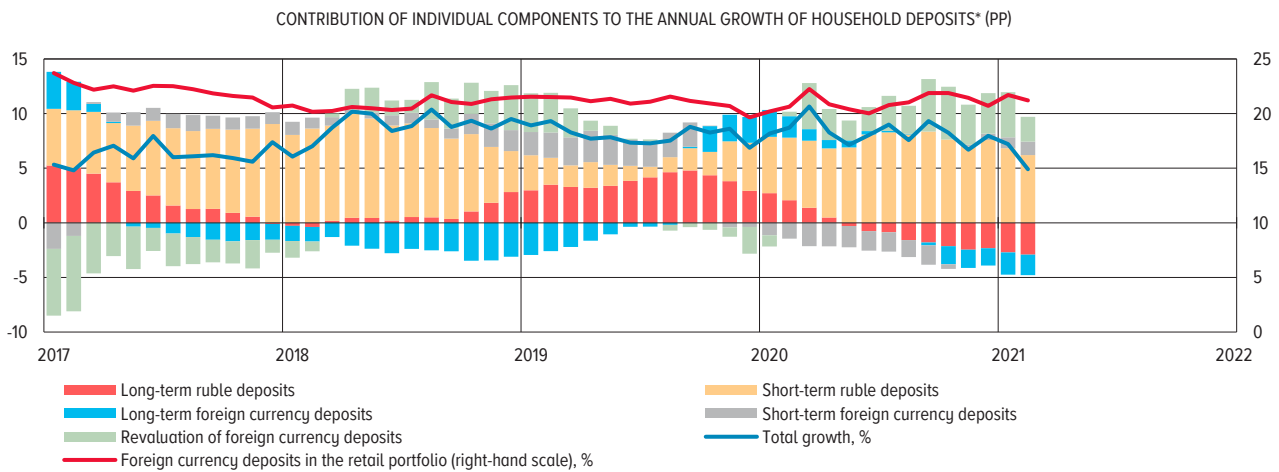
Chart 15



Source: Bank of Russia.

IN FEBRUARY, THE INFLOW OF FUNDS TO RETAIL DEPOSITS SLOWED DOWN

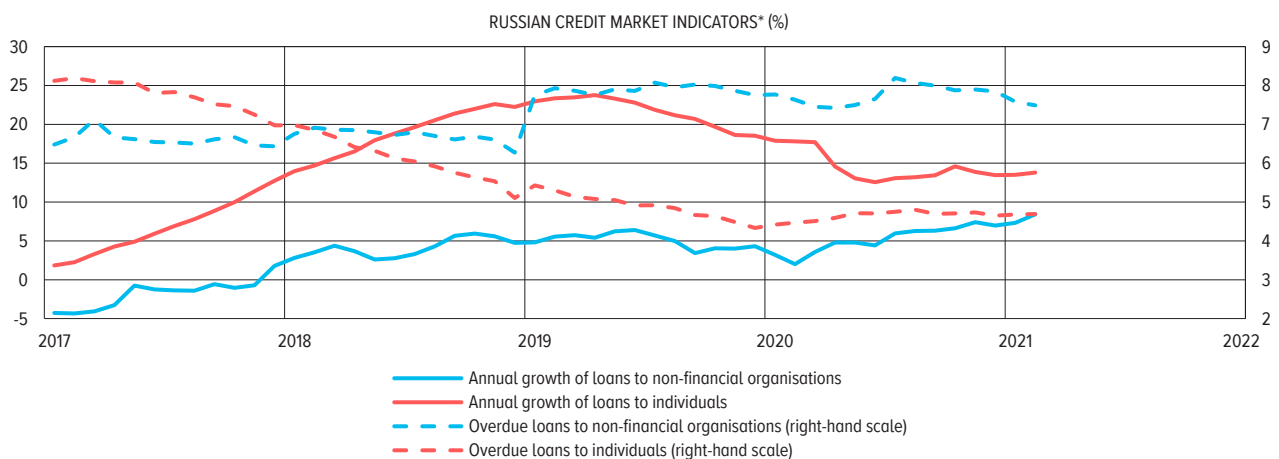
Chart 16



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

THE ANNUAL GROWTH RATE OF LENDING INCREASED BOTH IN THE RETAIL AND CORPORATE SEGMENTS

Chart 17

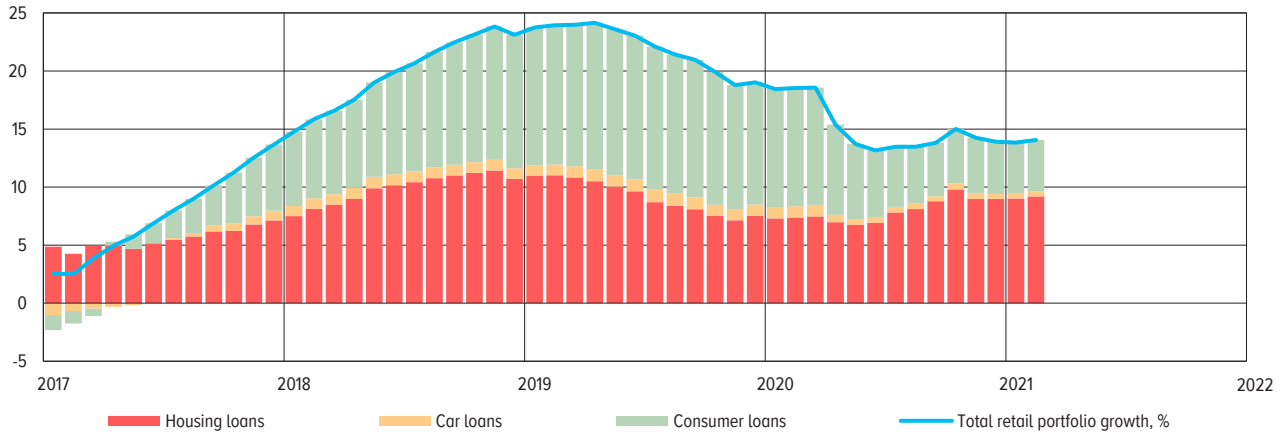


\* From 1 February 2021, the portfolio of loans to non-financial organisations includes acquired claims. The calculation of portfolio growth is net of acquired claims.  
Source: Bank of Russia calculations.

MORTGAGE LOANS REMAINED THE MAJOR DRIVER OF RETAIL LENDING IN EARLY 2021

Chart 18

CONTRIBUTION OF INDIVIDUAL COMPONENTS TO THE ANNUAL GROWTH OF THE RETAIL LOAN PORTFOLIO\* (PP)

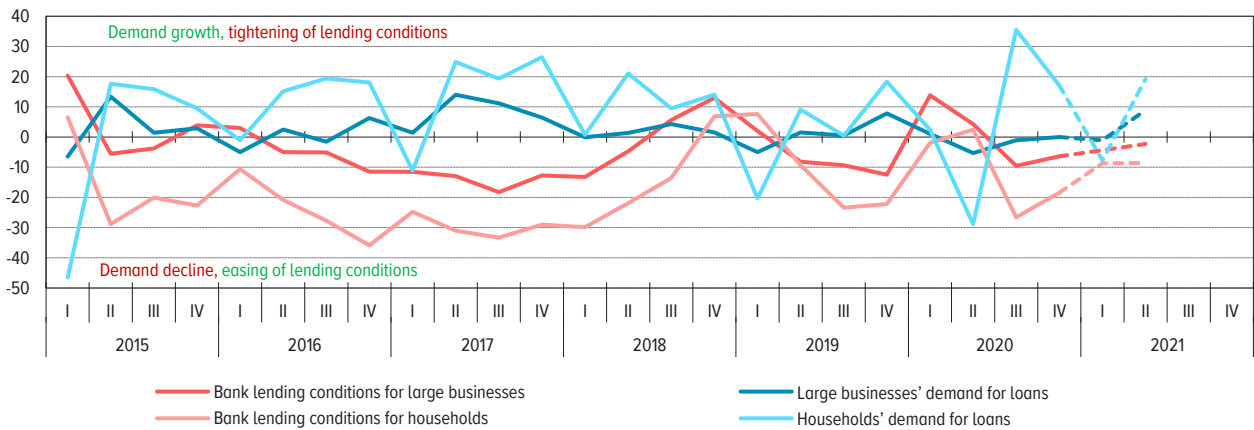


\* For loans grouped into homogeneous loan portfolios.  
 Source: Bank of Russia calculations.

BANKS EXPECT MAIN BORROWER CATEGORIES TO RAISE THEIR DEMAND FOR LOANS BY MID-2021

Chart 19

INDICES OF LENDING CONDITIONS AND DEMAND FOR LOANS\* (PP)

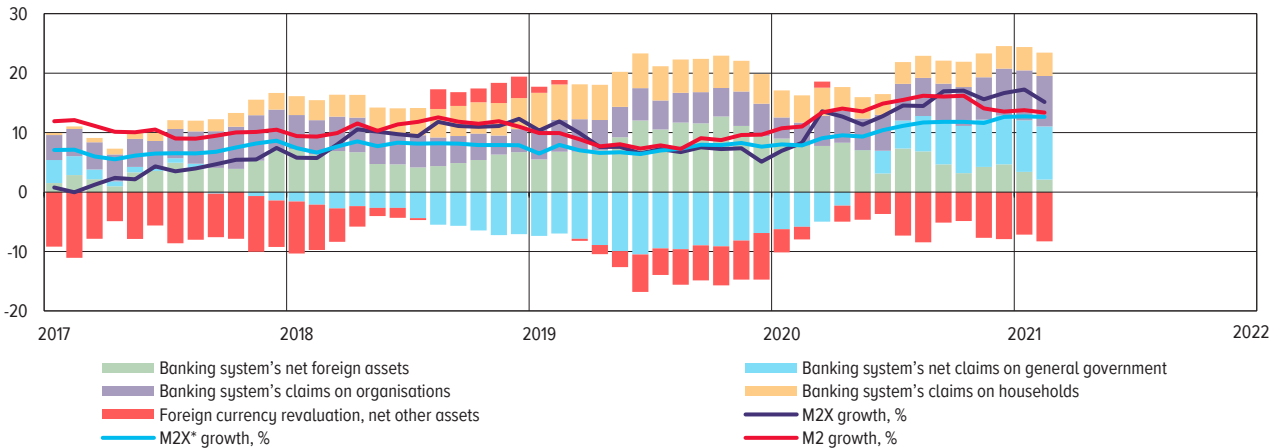


\* The dotted lines signify respondent banks' expectations regarding changes in lending conditions and demand for loans in 2020 Q3.  
 Source: Bank of Russia.

MONEY SUPPLY GROWTH SLIGHTLY SLOWED DOWN IN FEBRUARY

Chart 20

SOURCES OF BROAD MONEY (CONTRIBUTION TO THE ANNUAL GROWTH OF BROAD MONEY\* (PP)



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

## CREDIT AND DEPOSIT MARKET INDICATORS

Table 5

		November 2020	December 2020	January 2021	February 2021
<b>Interest rates on banks' long-term ruble transactions</b>					
– household deposits	% p.a.	4.2	4.2	4.2	4.3
– household loans	% p.a.	10.3	10.1	10.6	10.2
– corporate loans	% p.a.	6.6	6.8	7.0	-
<b>Household deposits*</b>	<b>% YoY, AFCR</b>	<b>3.0</b>	<b>4.3</b>	<b>3.1</b>	<b>2.6</b>
– in rubles*	% YoY	5.7	6.5	5.2	4.1
– in foreign currency	% YoY	-6.6	-4.6	-4.7	-2.9
– share of foreign currency*	%	21.4	20.7	21.7	21.2
<b>Loans to non-financial organisations**</b>	<b>% YoY, AFCR</b>	<b>7.4</b>	<b>7.0</b>	<b>7.3</b>	<b>8.4</b>
– short-term (up to 1 year)	% YoY, AFCR	13.3	10.6	12.1	13.0
– long-term (more than 1 year)	% YoY, AFCR	5.6	5.7	5.9	7.2
– overdue loans	%	7.9	7.8	7.6	7.5
<b>Household loans**</b>	<b>% YoY, AFCR</b>	<b>13.9</b>	<b>13.5</b>	<b>13.5</b>	<b>13.8</b>
– housing mortgage loans	% YoY, AFCR	21.6	21.6	21.8	22.2
– unsecured consumer loans	% YoY	9.2	8.8	8.6	8.6
– overdue loans	%	4.7	4.7	4.7	4.7
<b>Banking system's claims on the economy</b>	<b>% YoY, AFCR</b>	<b>10.2</b>	<b>10.9</b>	<b>11.5</b>	<b>11.7</b>
– on businesses	% YoY, AFCR	9.0	10.2	10.9	11.1
– on households	% YoY, AFCR	13.3	12.9	13.0	13.2
<b>Money supply (M2 monetary aggregate)</b>	<b>% YoY</b>	<b>14.1</b>	<b>13.5</b>	<b>13.8</b>	<b>13.4</b>
<b>Broad money</b>	<b>% YoY, AFCR</b>	<b>11.6</b>	<b>12.6</b>	<b>12.7</b>	<b>12.6</b>

\* Excluding escrow accounts.

\*\* From 1 February 2021, the portfolio of loans to non-financial organisations and households includes acquired claims. The calculation of portfolio growth is net of acquired claims.

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

Source: Bank of Russia calculations.

Data cut-off dates:

- 'Banking sector liquidity and money market' section – 06.04.2021 (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 required reserves averaging periods; in March-April 2021, this period is from 10.03.2021 to 06.04.2021);
- 'Foreign exchange and stock markets' section – 31.03.2021;
- 'Credit and deposit market' section – 01.03.2021.

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](mailto:svc_analysis@cbr.ru).

This commentary was prepared by the Monetary Policy Department.

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