



Bank of Russia



BANKING SECTOR LIQUIDITY AND FINANCIAL MARKETS

No. 11 (69) • November 2021

Information and analytical commentary

9 December 2021

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

- The average spread between RUONIA and the Bank of Russia key rate widened to -22 bp (in the October averaging period (AP): -10 bp; year to date: -14 bp).
- In November, operations in budget accounts produced a close to neutral effect on liquidity. As a result, the structural liquidity surplus changed negligibly over the month.
- The forecast of the structural liquidity surplus for the end of 2021 remains at the level of 0.6–1.0 trillion rubles.
- In November, non-residents reduced their long ruble positions in the FX swap market. The spread between interest rates in FX swap and RUONIA (basis) segments was predominantly in positive territory.
- In November, growth in money market and debt market yield curves slowed. Yields across up-to-six-month maturities are increasing as the key-rate meeting of the Bank of Russia Board of Directors approaches. Long OFZ yields continued to rise due to geopolitical and inflation risks, as well as the worsening epidemic situation.
- In October, the annual growth of household funds in banks continued to accelerate gradually amid a further increase in deposit rates. Similar to previous months, depositors preferred time deposits in the ruble segment of the market. Balances in current accounts were virtually unchanged.
- In October, corporate lending continued to expand at the highest pace in six years. In the retail segment of the market, lending activity slightly declined due to growing lending interest rates and the restraining measures of macroprudential regulation.
- As in previous months, the expanding bank lending to the economy was the main source of money supply. At the end of the month, the annual growth of money supply in the national definition was 8.8% (vs 8.2% a month earlier). Against the background of a pickup in the growth of cashless components of money supply, the contribution of cash to the annual increase in M2 continued to decline.

MONEY MARKET AND OVERNIGHT RATES (RUONIA)

In the November required reserve (RR) averaging period (AP), the spread between RUONIA¹ (Bank of Russia operational benchmark) and the Bank of Russia key rate² widened to **-22 bp** (in the October AP: -10 bp; year to date: -14 bp; in 2020: -15 bp) (Chart 3). The spread volatility was **15 bp** (in the October AP: 22 bp; year to date: 21 bp; in 2020: 18 bp).

The structural liquidity surplus averaged **0.9 trillion rubles** over the November AP (vs 0.9 trillion rubles in the October AP). As of early December, the liquidity surplus declined by 0.1 trillion rubles to **0.3 trillion rubles** vs early November (Table 2).

In the November AP, the average spread between RUONIA and the Bank of Russia key rate widened relative to its average annual value. The spread volatility declined, because in the November AP banks performed RR averaging more evenly than in the October AP. On some days of the first half of the AP, the spread between RUONIA and the key rate narrowed due to a temporary increase in demand for liquidity on the part of several large banks. On the last days of the AP, RUONIA fell as banks had largely completed the RR averaging and the Bank of Russia held three 'fine-tuning' deposit auctions. This helped bring RUONIA close to the key rate on 3–7 December.

In November, operations in budget accounts produced a close to neutral effect on liquidity. Budget revenues exceeded expenditures due in part to an increase in revenues from main non-oil and gas taxes compared both to 2020 and 2019. As in the previous month, revenues from the mineral extraction tax continued to grow against the background of higher prices for key energy commodities. Federal Treasury (FT) operations also prompted a slight outflow of liquidity from the banking sector. The main factor underlying the inflow of liquidity in November was fiscal rule-based FX purchases by Russia's Ministry of Finance (MinFin) in the domestic market. These operations fully offset the mentioned liquidity outflow from the banking sector.

The volume of cash in circulation dropped by 0.1 trillion rubles in November, which is broadly in line with the seasonal trends and slightly exceeds the levels of previous years.

In November, demand for Bank of Russia standing lending facilities slightly grew and, as of the beginning of December, outstanding amounts on them totalled 0.9 trillion rubles.

The forecast of the structural liquidity surplus for the end of 2021 remains at 0.6–1.0 trillion rubles.

MONEY MARKET YIELD CURVES AND KEY RATE EXPECTATIONS

OIS (ROISfix) curve³. In November, the growth of the curve slowed down, with one- and two-week yields growing by 10 bp, and over one-month yields growing by 32–36 bp (Chart 5). The growth of OIS (ROISfix) curve quotes is primarily associated with market participants' expectations of another key rate increase at the next meeting of the Bank of Russia Board of Directors. **The MosPrime 3M–OIS 3M spread** averaged 54 bp in November (vs 51 bp in October; 53 bp in 2021 H1) fluctuating from 31 bp to 74 bp during the month. The spread volatility was mainly related to the inertia of MosPrime movements against the backdrop of OIS 3M volatility observed during the month.

IRS curve⁴. At the end of the month, the short segment of the IRS curve also showed growth: two- to six-month quotes were up by 37–46 bp. At the same time, inversion remained on the over-

¹ RUONIA (Ruble Overnight Index Average) is the weighted interest rate of overnight interbank loans (deposits) in rubles that reflects the estimated cost of unsecured overnight borrowing.

² The operating objective of the Bank of Russia's monetary policy within the inflation targeting strategy is to maintain rates in the unsecured overnight segment of the interbank money market close to the key rate of the Bank of Russia.

³ The OIS (ROISfix) curve represents indicative rates (fixing) on RUONIA IR swaps.

⁴ The IRS curve represents market prices for interest rate swaps against MosPrime 3M.

MARKET PARTICIPANTS' AND ANALYSTS' KEY RATE EXPECTATIONS CHANGED INSIGNIFICANTLY

Table 1

Key rate expectations based on market indicators,* indicator (instrument)	December 2021	June 2022
– MosPrime 3M (FRA)	8.55 (8.91)	8.35 (9.48)
– RUONIA (ROISfix)	8.32 (8.24)	8.96 (9.11)
– RUONIA (futures)	8.35 (8.35)	9.25 (8.85)
Analysts' key rate expectations*	As of 31.12.2021	As of 30.06.2022
– Bloomberg survey	8.00 (8.00)	8.00 (7.75)
– Refinitiv survey	8.00 (8.00)	8.00 (7.75)

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

one-year segment due to the expected start of the monetary policy easing cycle in the second half – end of 2022 (as of the end of the month, the change ranged from -11 bp to 16 bp).

Market participants' and analysts' key rate expectations changed negligibly over the month: according to financial market indicators, market participants continue to expect that the average key rate will range from 8.25% to 9.00% in 2022 H1, which is higher than the expectations of analysts surveyed by Bloomberg and Refinitiv (Table 1).

PUBLIC DEBT MARKET

OFZ yield curve. The OFZ yield curve has been rising since September (Chart 9). In November, its cumulative changes were as follows: OFZ 1Y – 8.46% (+27 bp), OFZ 2Y – 8.71% (+27 bp), OFZ 5Y – 8.58% (+25 bp), and OFZ 10Y – 8.32% (+15 bp). The yield of OFZ 10Y was the highest since January 2019. The inverted shape of the curve remained, as the spread between the yields of OFZ 10Y and OFZ 2Y expanded to -39 bp (-20 bp a month earlier). In the first half of the month (before 11 November), the yields were steadily declining along the whole length of the OFZ curve, with this movement being the most pronounced for short-term issues (20–35 bp).

In the second half of November, significant growth in OFZ yields along the entire curve resumed. The peak of this growth was reached on 23 November. The upward shift was around 70–90 bp for short- and medium-term maturities (1Y–5Y); and 60 bp for long-term maturities (10Y). The upward shift of the curve was driven by the combination of accelerating inflation and elevated geopolitical risks. Against the background of growing epidemic risks associated with the spread of a new strain of the coronavirus infection, investors somewhat scaled down their expectations regarding the pace of rate rises both in Russia and in advanced economies.

At the end of the month, **the yields of 2Y US Treasuries** grew to 0.57% (+7 bp), reaching their record high since March 2020, whereas the yields of 10Y bonds dropped to 1.45% (-10 bp). The highest yield values were registered from 23 to 25 November (UST 2Y: 0.62–0.64%; UST 10Y: 1.64–1.67%) after the announcement of J. Powell's renomination as the Fed' chair, which exacerbated investors' expectations of a faster monetary policy normalisation in the US. Additional pressure on the US bond market was produced by the newly arisen problem of raising the US public debt ceiling.

In November, as in the previous month, **foreign investors reduced their investments in OFZs**. Reduction by 106 billion rubles is twice as much as the outflow of non-residents in October (Chart 11). The main sales, worth 89 billion rubles, were conducted from 16 to 30 November. The highest sales took place on 23 and 26 November, when it was announced about the nomination of J. Powell as

the Fed's chair and about the emergence of a new strain of coronavirus infection, which spurred a global risk aversion.

In November, **the volume of OFZ placements** was comparable with the previous month and amounted to 61.3 billion rubles (vs 57 billion rubles in October). The intensifying volatility of interest rates dragged negatively on the activity of Russia's MinFin, as a result, only two one-week auctions were held (10 and 17 November). Given the instability of financial markets, investors showed elevated appetite for standard OFZ-PDs. As in the previous months, the main buyers of OFZs at auctions were SICIs; as of the end of the month, their share dropped to 42% (vs 57% in October). The shares of other credit institutions and non-bank financial institutions slightly decreased and amounted to 11% and 13%, respectively.

Situation in other financial markets

Foreign currency liquidity. In October, the amount of highly liquid foreign currency assets changed negligibly again compared to September, dropping by 0.8 billion US dollars (in September, by 0.5 billion US dollars) to 40.2 billion US dollars (Chart B-1-1). In November, the situation was probably slightly worse, as it follows from the widening spread between interest rates in the FX swaps and RUONIA (basis). By the end of the AP, the basis was predominantly positive and ranged between 10 bp and 45 bp, which was in part due to the termination of carry trade deals. This is evidenced by a decline in non-residents' long ruble positions in the FX swap market to the level of August 2021. The average basis in the November AP was 13 bp (in the October AP: -7 bp; year to date: -7 bp).

Foreign exchange market. In contrast to the previous four months, during November, the ruble was predominantly weakening and reached 74.08 rubles per US dollar, down 4.4%. The exchange rate dropped to its lowest value of 75.91 rubles per US dollar on 26 November. At the same time, Russia's country risk premium (5Y CDS spread) rose to maximum values since September 2020 (26 November: 122 bp), which is related to a local increase in geopolitical risks and deterioration in the global epidemic situation. The previous appreciation of the ruble over the year (since November 2020) by 9–10% diminished almost entirely by the end of November; in 2021, the ruble strengthened against the US dollar by 1% (compared to December 2020). By the end of the month, the ruble weakened by 1.2% against the euro and by 4.4% against the Chinese yuan. The ruble changed over the year (since November 2020) by +8.4% against the euro and by -0.5% against the Chinese yuan.

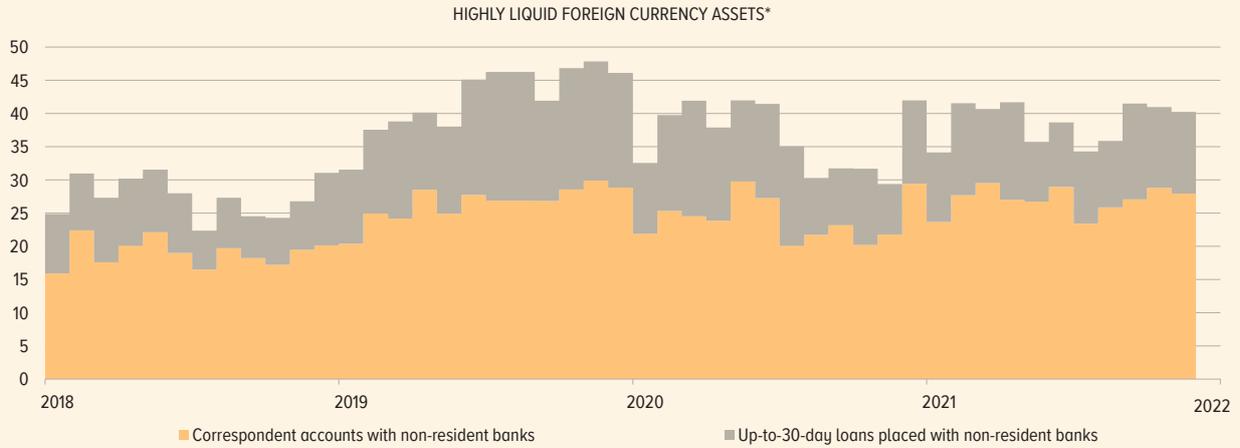
Other EME currencies weakened by 4.4% on average in November (Chart B-1-3). Turkey continued to show the fastest pace of depreciation (-28.7%). Given the double-digit consumer inflation (21.3% as of the end of November), the Turkish Central Bank continued to relax its monetary policy. Foreign exchange interventions of the Central Bank of Turkey failed to terminate the devaluation of national currency.

Based on data on foreign currency purchases in the exchange and OTC markets (Chart B-1-5), non-residents bought considerable amounts of foreign currency in November. This was in part due to OFZ sales by foreign investors amid the worsening geopolitical situation and partial termination of carry trade deals. The volume of their foreign currency purchases was comparable with February–March 2020, when the outbreak of the pandemic made the ruble depreciate from below 65 rubles per the US dollar to 80 rubles per the US dollar (Chart B-1-4).

Equity market. In October, shares of most countries demonstrated a decline. S&P 500 was down 0.8%, MSCI Europe was down 5.3%, and MSCI EM was down 4.1% (Chart B-1-6). Similar trends were observed in the Russian marketplaces: the MOEX Index dropped by 6.3%, and the RTS Index – by 10.7%. The infrastructure plan worth 1 trillions US dollars signed by J. Biden failed to appreciably support the US stock market. The main reason for the negative sentiment on the world's exchanges was the fear of the spread of a new coronavirus strain that is resistant to existing vaccines. Additional pressure on the Russian market was exerted by a decline in oil prices on the back of a possible reduction in demand and the US calls to sell part of its strategic reserves in order to stabilise prices; on the Chinese market – by the imposition of severe anti-pandemic restrictions, which could exacerbate further disruptions in global supply chains. Turkey became the exception (+ 19.1%). Growth in the national currency market there reflects devaluation and the unwinding inflationary spiral. Turkish shares lost 16.7% in US dollar terms.

THE VOLUME OF HIGHLY LIQUID FOREIGN CURRENCY ASSETS RETURNED TO THE LEVEL OF THE BEGINNING OF THE YEAR (AS OF 1 NOVEMBER)
(BILLIONS OF US DOLLARS)

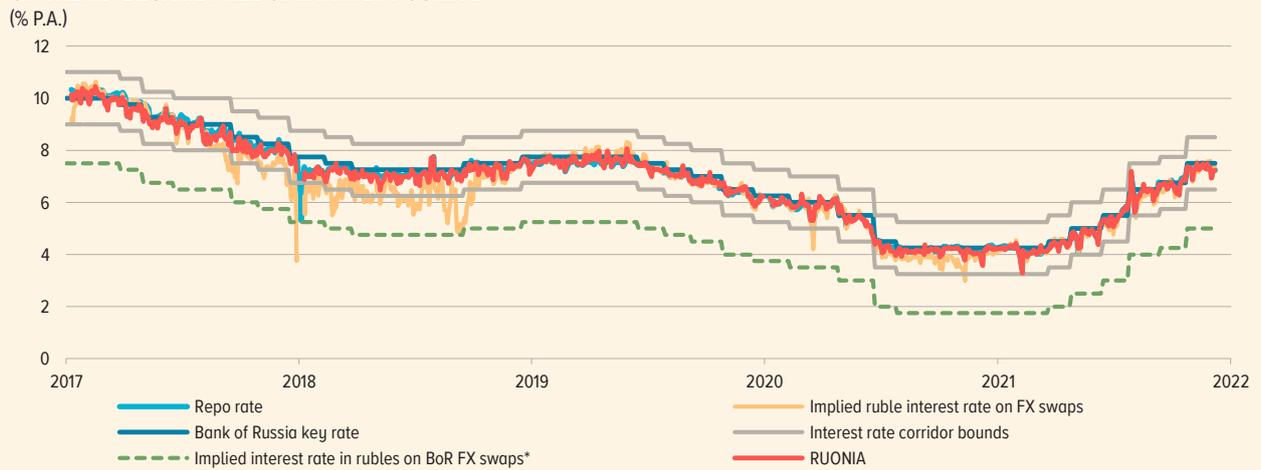
Chart B-1-1



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

THE SPREAD BETWEEN INTEREST RATES IN THE FX SWAP AND RUONIA (BASIS) SEGMENTS BY THE END OF THE AP BECAME PREDOMINANTLY POSITIVE

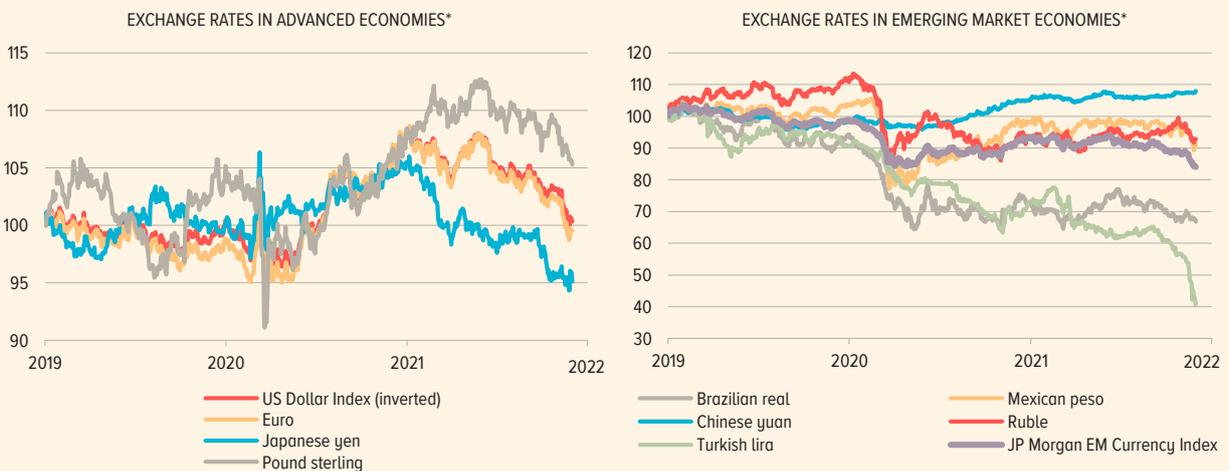
Chart B-1-2



* 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.

IN NOVEMBER, EME CURRENCIES MAINLY DEPRECIATED AGAINST THE US DOLLAR
(02.01.2019 = 100)

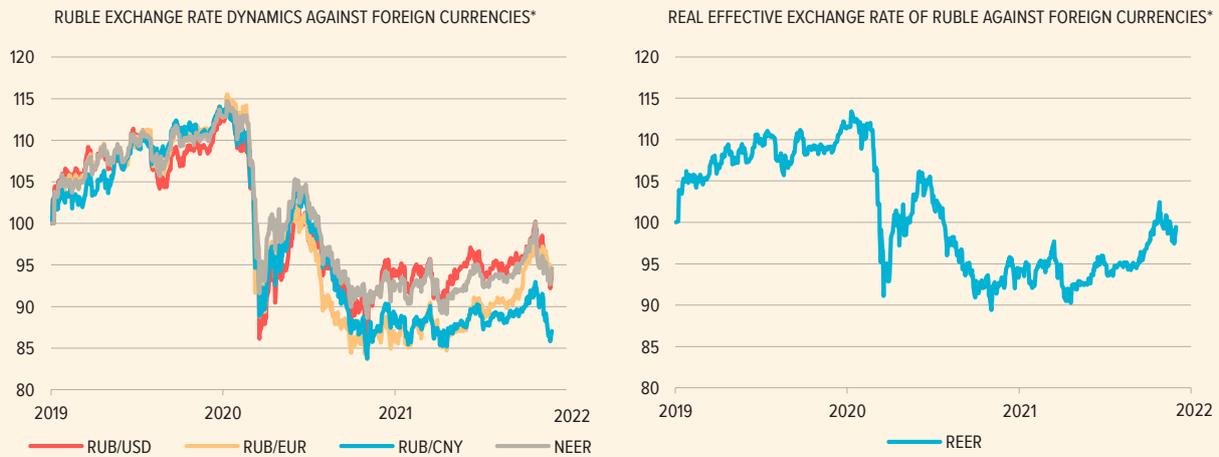
Chart B-1-3



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

THE EFFECTIVE RUBLE RATE RETURNED TO THE LEVELS OF THE SECOND HALF OF AUGUST 2020
(02.01.2019 = 100)

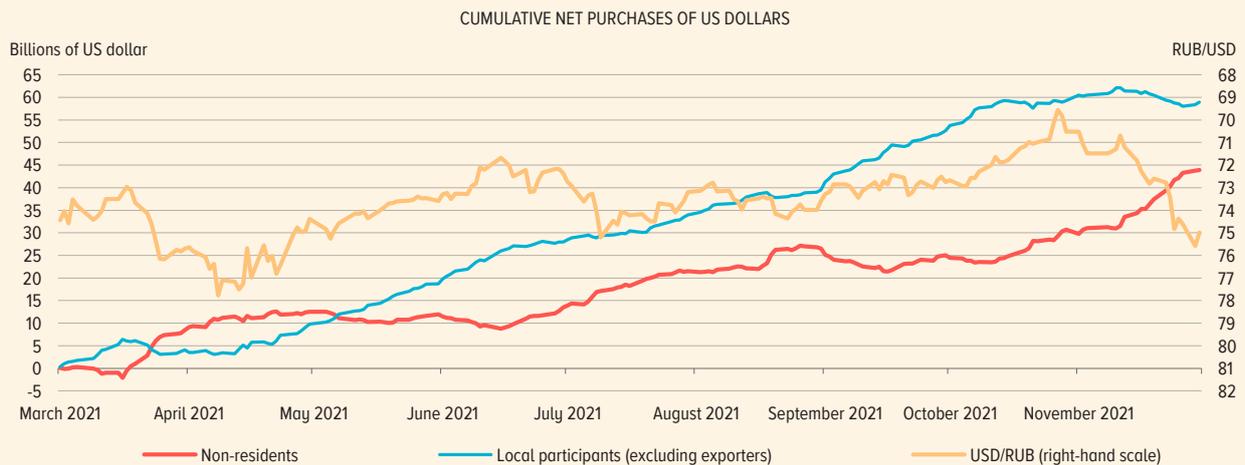
Chart B-1-4



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

NON-RESIDENTS PREDOMINANTLY PURCHASED FOREIGN CURRENCY

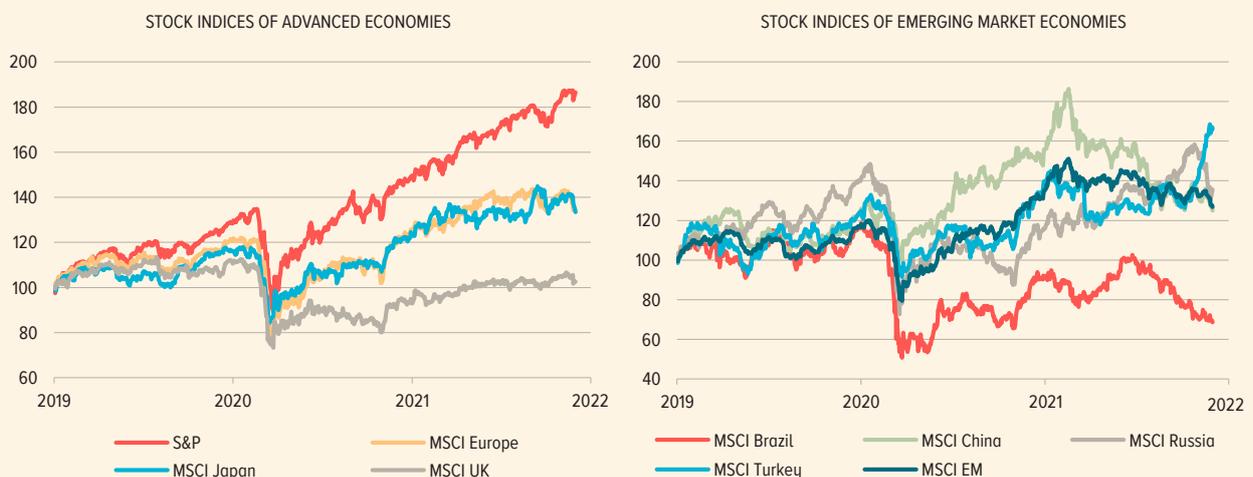
Chart B-1-5



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

STOCK INDICES OF MOST EME COUNTRIES, EXCLUDING TURKEY, WERE DECLINING
(02.01.2019 = 100)

Chart B-1-6



Sources: Bloomberg, Bank of Russia calculations.

CREDIT AND DEPOSIT MARKET

Deposit rates. In October–November, banks continued to increase their deposit rates against the background of the already implemented increase in the key rate and the expectations of its further growth which reflected on the bond yields and interest rates in adjacent market segments (long-term interbank loans, corporate deposits). On the one hand, thanks to better accessibility of the stock market to public, bonds competed for the funds of private investors with bank deposits. As bond yields grew, banks were forced to raise their deposit rates. On the other hand, the growth of deposit rates was facilitated by the competition for household funds between banks themselves, which was manifested in the appearance of promotional deposits targeting new depositors.

In October, average market ruble interest rates kept on growing more slowly than those in adjacent market segments. The interest rate on short-term household deposits¹ rose by 20 bp, reaching 4.3% per annum. The interest rate on long-term deposits was 6.1% per annum, picking up by 14 bp (Chart 13). At the same time, the entire increase in interest rates on long-term operations was ensured by the segment of deposits with one to three-year maturities, whereas the interest rate on deposits with over three-year maturities was not up by the end of the month. Such dynamics may be due to the fact that, at least, some of market participants expect inflation to stabilise in the medium term and interest rates to decline in the foreseeable future. In these conditions, banks tend to be less interested in building up expensive funding with the longest maturities. In November, deposit rates continued to rise: the FRG100² deposit return index was up 40 bp over the month and reached 6.5% (Chart 12).

Growth in deposit rates was lagging behind the rising yields in other market segments in October–November. This makes it possible to continue transferring the key rate increases made in recent months to the interest rates on ruble deposits.

In the segment of foreign currency deposits in October–November, interest rates remained close to historical lows. Near-zero interest rates on assets in foreign currency together with higher interest rates on ruble-denominated assets were supporting the relative attractiveness of savings in the national currency.

Deposit operations. Higher deposit rates drove an inflow of household funds³ to banks. By the beginning of November, the annual growth in the balances in household accounts and deposits⁴ returned to the level of the end of 2020 Q1, amounting to 6.1% vs 4.6% a month earlier (Chart 14).

In the context of increased interest rates on ruble deposits, the attractiveness of time deposits grew, allowing to fix the profitability of placed funds. In October, the entire inflow of household ruble funds to banks was accounted for by time deposits; balances of current accounts did not change at the end of the month. At the same time, depositors increased their investments across maturities for which deposit interest rates were up (up to one year and one–three years). The balances on deposits with maturities of longer than three years decreased slightly.

In the short term, the growing interest rates will support the attractiveness of deposits, contributing both to the general acceleration of the inflow of household funds to banks and the further replacement of current accounts with time deposits. However, competition on the part of

¹ 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.

² [The average interest rate of the 54 largest banks on deposits for up to one year in the amount of 100,000 rubles and more, according to the Frank RG news agency.](#)

³ Hereinafter, household deposits include balances in time deposits, demand deposits, and current accounts but exclude balances in escrow accounts under equity construction agreements.

⁴ 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.

alternative areas of savings (real estate, the securities market) will restrain the growth of household deposits.

In October, depositors continued to build up their investments in foreign currency deposits amid the strengthening of the ruble nominal exchange rate. In the situation when interest rates on deposits in the most popular currencies were close to zero, the attractiveness of foreign currency deposits was largely shaped by the potential increase in the exchange rate of foreign currencies against the ruble. Therefore, as in September, almost the entire inflow of household foreign currency funds to banks was ensured by current accounts and deposits with the shortest maturities. In October, the decline in the value of foreign currency deposits in ruble terms contributed to a reduction in the proportion of household FX deposits from 20.8% to 20.4%.

Credit rates. In October, the revision of the key rate expectations coupled with higher inflation and the tightening of monetary policy at the end of the month, boosted further growth of ruble credit rates, primarily for retail customers. In the corporate segment⁵ of the market, the upward trend in average ruble rates remained unstable due to fluctuations in the market structure by industry and the heterogeneity of subsidised lending programmes utilisation.

In the retail segment of the market, the October growth in interest rates on short-term loans still outpaced the growth of interest rates on long-term loans. As a result, at the end of the month, the average rate on loans for up to one year returned to the level of 2020 Q1. Growth in the cost of long-term borrowing for households was still restrained by the mortgage segment due to subsidised programmes (Chart 13). Moreover, a number of large banks, in partnership with developers, offered their own mortgage lending programs at reduced rates. In October, the average rate on ruble-denominated mortgage housing loans decreased slightly to 7.70% vs 7.73% a month earlier. A 10 bp increase in the average interest rate on long-term retail loans in October was ensured by the non-mortgage lending segment, reflecting the rise in long-term OFZ yields. In these conditions, the growth of interest rates on market mortgages picked up in November: according to operational monitoring data⁶, growth in the primary market amounted to 45 bp, in the secondary market – 54 bp (Chart 12). At the same time, interest rates offered for the main subsidised mortgage programmes remain close to the current levels.

In the coming months, one can expect a further increase in lending rates for corporate and retail clients. Subsidised lending programmes will have a restraining effect on interest rates.

Corporate lending. In October, companies retained their interest in borrowing. This was supported by the lack of steady growth in lending rates in real terms, expectations of interest rate rises in the next months, and a further recovery in economic activity. At the end of the month, annual growth in the corporate loan portfolio⁷ sped up by 0.8 pp to 11.5%, hitting its maximum since January 2015 (Chart 15). The proportion of overdue debt in the portfolio of loans to non-financial organisations continued to decline and amounted to 6.2% in October against 6.3% a month earlier.

Ruble borrowings continued to grow at an outstripping pace in the structure of corporate lending: their annual growth rate at the end of the month reached 15.1%, while the corresponding indicator for foreign currency loans was 2.4%. In October, the accelerating growth of the portfolio of loans to non-financial organisations was registered in the segment of both long-term and short-term ruble loans.

Small and medium-sized enterprises (SMEs) continued to make a significant contribution to the growth of loan portfolio. At the beginning of October, the annual growth of the SME loan portfolio⁸ came in at 22.7%. At the same time, there was also a slight pickup in the annual growth of lending to large corporate borrowers from 9.6% at the beginning of September to 9.9% at the beginning of October.

⁵ Hereinafter, the corporate segment of the credit market implies lending to non-financial organisations.

⁶ [According to the weekly monitoring of market rates offered in the mortgage market](#) published by DOM.RF.

⁷ Hereinafter, growth in lending to non-financial organisations strips out acquired credit claims.

⁸ Including loans issued by VEB.RU.

In the short run, the tightening of lending conditions due to higher lending rates will produce a restraining effect on the evolution of the corporate loan portfolio (Chart 17). At the same time, lending activity in this segment will be stimulated by the ongoing growth of economic activity and lending support programmes, including the subsidised lending programme at 3% per annum⁹ that was resumed from 1 November.

Retail lending. In October, continuously rising nominal lending rates and tightening macroprudential regulation measures in high-risk unsecured consumer lending segments constrained the growth of the retail loan portfolio. However, the slowdown in retail lending growth was insignificant due to attractive pricing conditions for existing subsidised mortgage programmes and banks' own programmes, as well as higher inflation and the ensuing still low lending rates in real terms. At the end of October, the annual growth in the portfolio of household loans¹⁰ decreased by 0.3 pp and amounted to 21.5% (Chart 15). The quality of the portfolio remains stable: in October, the share of overdue household liabilities decreased by 0.1 pp to 4.1%.

Mortgages continued to make the largest contribution to the growth of retail lending (Chart 16). Following the July decline due to the change in the parameters of subsidised mortgage programmes for new houses¹¹ the issuance of mortgage loans grew for three months in a row. For example, 162,000 new loans worth 501 billion rubles were issued in October. Notably, the expansion of the market turnover was mainly ensured by mortgages provided on market conditions, whereas the volume of new loans under the subsidised and family mortgage programmes remained stable. The annual growth of mortgage portfolio¹² slowed down appreciably from 26.7% in September to 25.3% in October, which was in part conditioned on mortgage asset securitisation transactions. After reaching 631 billion rubles as of the end of October, the volume of outstanding mortgage-backed bonds¹³ demonstrated an ongoing expansion in November (at end-month, the annual growth came in at 50.3%) on account of the latest large issue of mortgage-backed bonds, and continued to support the buildup in mortgage lending.

The segment of unsecured consumer lending demonstrated more pronounced signs of a slowdown in activity: for example, in October, the portfolio grew by 1.4% vs 1.7% in September (the annual growth in October dropped from 19.2% to 19.0%).

In the coming months, retail lending may be expected to show a further slowdown, as household loans will appreciate in real terms. In the segment of unsecured consumer lending, higher add-ons to risk weights for such loans implemented in October will serve as an additional slowdown factor. The subsidised mortgage lending programmes will continue to moderately support this segment.

Money supply. In October, money supply continued to be determined mainly by the increased banking system's claims on the economy. The total annual growth of claims on the economy¹⁴ rose from 14.3% at the end of September to 14.7% in October. The portion of claims on businesses in the structure of this growth was up. As of the end of the month, the annual growth of banking system's claims on households stood at 20.5%, slightly decreasing compared to the same indicator in September. The annual growth of claims on businesses went up to 12.5%, reaching the six-year high.

The contribution of claims on the general government and of net foreign assets of the banking system to money supply changed negligibly in October, remaining close to zero. Due to the completion

⁹ Resolution of the Government of the Russian Federation No. 1850, dated 28 October 2021.

¹⁰ Hereinafter, growth of corporate lending does not include acquired claims.

¹¹ Resolution of the Government of the Russian Federation No. 566, dated 23 April 2020.

¹² Housing mortgage loans, net of claims on such loans acquired by banks.

¹³ At the outstanding face value, according to the Cbonds.ru news agency.

¹⁴ 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.

of numerous housing construction projects and the release of funds from escrow accounts, the balances in these accounts, that are not included in money supply, were increasing moderately compared with the indicators of the first six months.

As a result, the annual growth of broad money supply (M2X) sped up from 10.2% in September to 10.7% in October (Chart 18). The annual growth of money supply in the national definition (M2) reached 8.8% over the month. The growth of cash in circulation continued to slow down: the annual growth of the M0 aggregate in October dropped to 7.1%, falling below the same indicator for the cashless components of money supply for the first time since onset of pandemic.

CHARTS AND TABLES

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

Table 2

	01.01.2018	01.01.2019	01.01.2020	01.01.2021	01.04.2021	01.07.2021	01.10.2021	01.11.2021	01.12.2021
Structural liquidity deficit (+)/ surplus (-)	-2,639	-3,016	-2,761	-204	-1,461	-1,454	-1,283	-439	-339
Bank of Russia claims on credit institutions	10	21	18	976	349	154	154	844	1,029
Auction-based facilities	-	-	-	847	103	148	108	127	127
– repos and FX swaps	-	-	-	847	103	148	108	127	127
Fixed interest rate facilities	10	21	18	129	246	6	46	717	902
– repos and FX swaps	4	8	13	118	0	0	11	0	46
– secured loans	5	13	5	10	246	5	35	716	856
Credit institutions' claims on the Bank of Russia	2,729	3,293	2,983	1,796	2,417	1,941	1,626	1,462	1,547
Deposits	2,372	1,902	1,026	1,221	1,772	1,314	1,023	994	1,383
– auction-based	2,125	1,478	697	844	1,650	1,191	780	820	1,240
– fixed interest rate	247	424	330	377	122	123	243	174	143
BoR coupon bonds	357	1,391	1,956	575	645	626	603	468	164
Standing reverse facilities, other than standard monetary policy instruments of the Bank of Russia*	81	256	204	616	607	332	190	179	179

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

THE FORECAST OF THE STRUCTURAL LIQUIDITY SURPLUS FOR THE END OF 2021 REMAINS AT THE LEVEL OF 0.6–1.0 TRILLION RUBLES
(TRILLIONS OF RUBLES)

Table 3

	2020 (actual)	January – November 2021	November 2021	2021 (forecast)
1. Liquidity factors	-2.6	1.1	0.1	[1.0; 1.3]
– regulation of banks' required reserves with the Bank of Russia	0	1.5	0.0	[1.8; 2.0]
– change in the amount of cash in circulation	-2.6	-0.3	0.1	[-0.7; -0.6]
– Bank of Russia interventions in the domestic FX market and monetary gold purchases**	0.1	0.0	0.0	-
– regulation of banks' required reserves with the Bank of Russia	-0.1	-0.1	0.0	-0.1
2. Change in free bank reserves (correspondent accounts)*** (demand)	-0.1	0.9	0.2	[0.5; 0.6]
3. Change in banks' claims on deposits with the Bank of Russia and coupon OBRs	1.2	-0.2	0.1	[-0.9; -0.5]
4. Change in outstanding amounts on Bank of Russia refinancing operations (4=2+3-1)	1.4	-0.4	0.2	-1.3
Structural liquidity deficit (+) / surplus (-) (as of end-period)	-0.2	-0.3		[-1.0; -0.6]

* Including fiscal rule-based operations to buy (sell) foreign currency in the domestic FX market, 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 NOVEMBER 2021, THE AMOUNT OF CASH IN CIRCULATION DECREASED

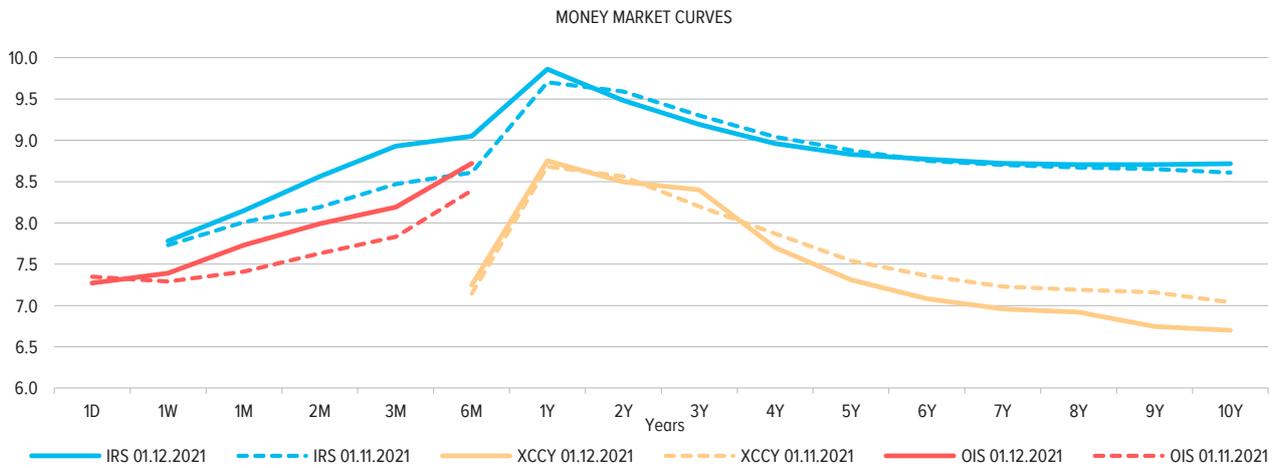
Chart 1



Source: Bank of Russia calculations.

IN NOVEMBER, THE GROWTH OF CURVES SLOWED DOWN
(% P.A.)

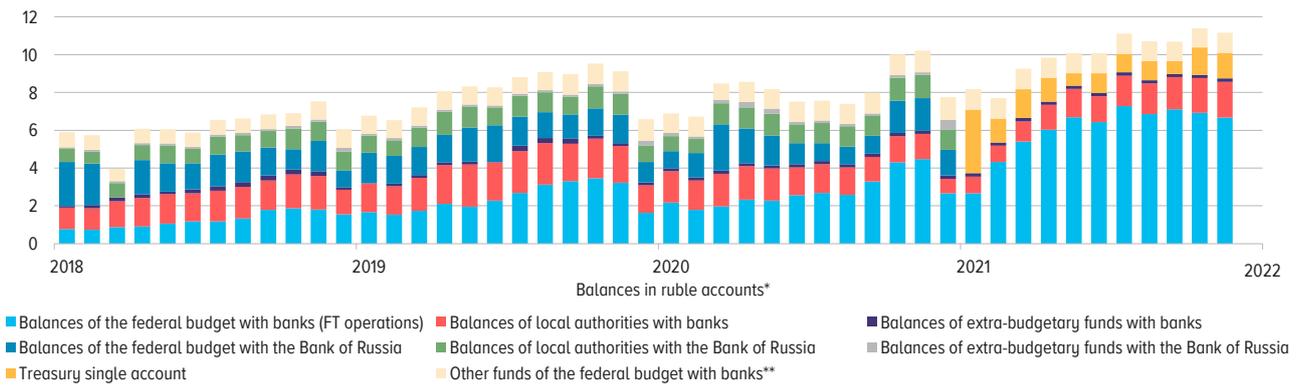
Chart 5



Note: to build the IRS curve for maturities of up to 1Y, MosPrime rates for respective maturities are used.
Source: Bloomberg.

IN NOVEMBER 2021, OPERATIONS OVER THE FISCAL CHANNEL PRODUCED A CLOSE TO NEUTRAL EFFECT ON LIQUIDITY
(TRILLIONS OF RUBLES, AS OF THE MONTH-END)

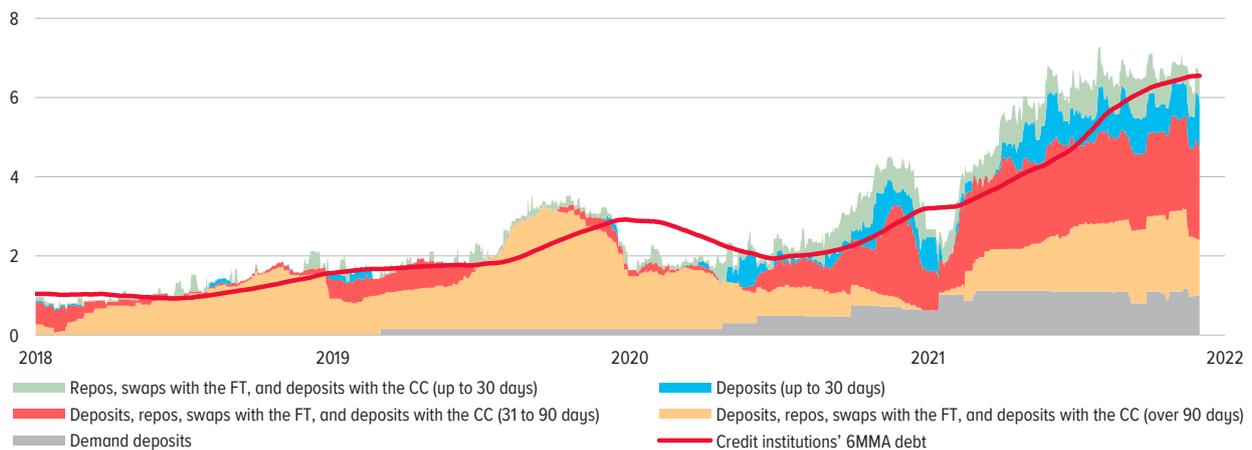
Chart 6



* According to banking reporting form 0409301 'Performance indicators of a credit institution' and the Bank of Russia's daily balance sheet.
** Other funds comprise VEB 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.

IN NOVEMBER 2021, BANKS' OUTSTANDING AMOUNTS DUE TO THE FT DECLINED BY 0.3 TRILLION RUBLES
(TRILLIONS OF RUBLES)

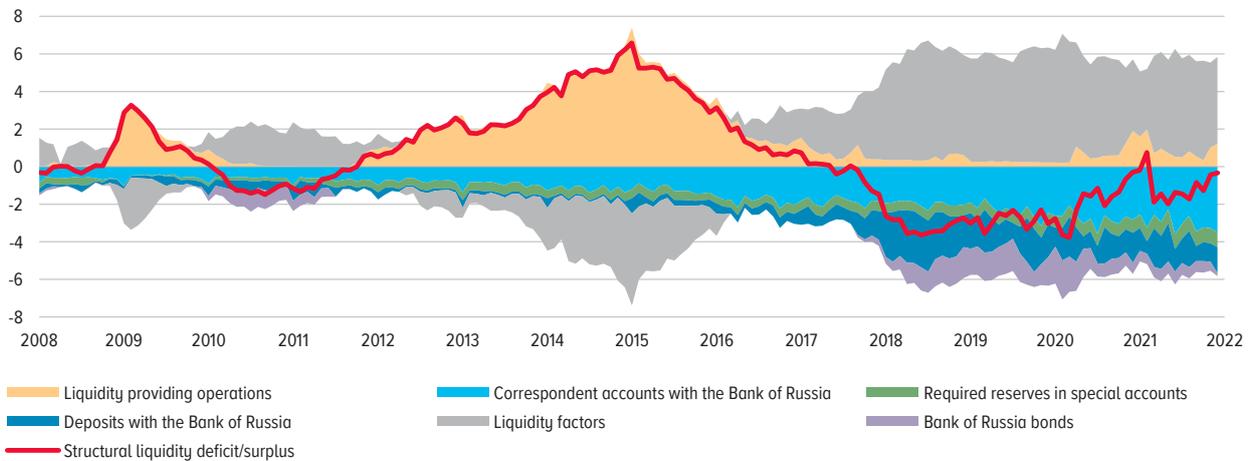
Chart 7



Sources: Federal Treasury, Bank of Russia calculations.

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

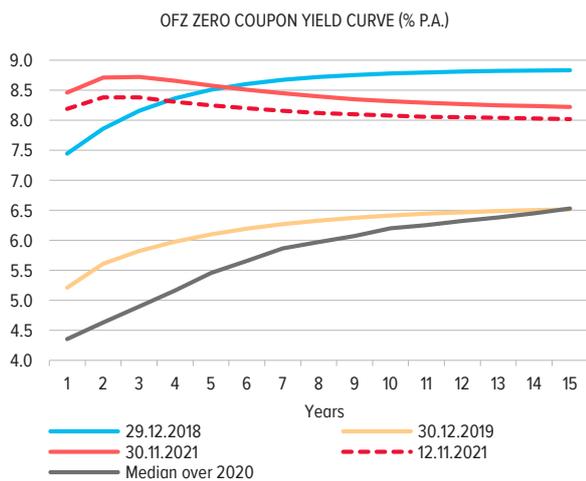
Chart 8



Source: Bank of Russia calculations.

THE OFZ YIELD CURVE CONTINUED TO RISE ACROSS ALL MATURITIES FOR THE SECOND CONSECUTIVE MONTH

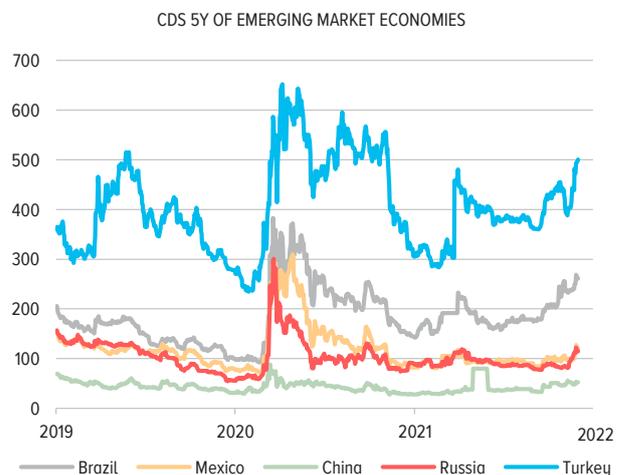
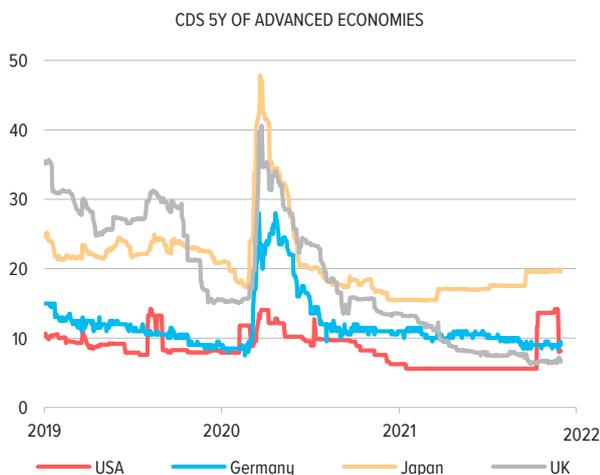
Chart 9



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

RUSSIA'S 5Y CDS SPREAD ROSE TO THE LEVELS OF SEPTEMBER 2020
(BP)

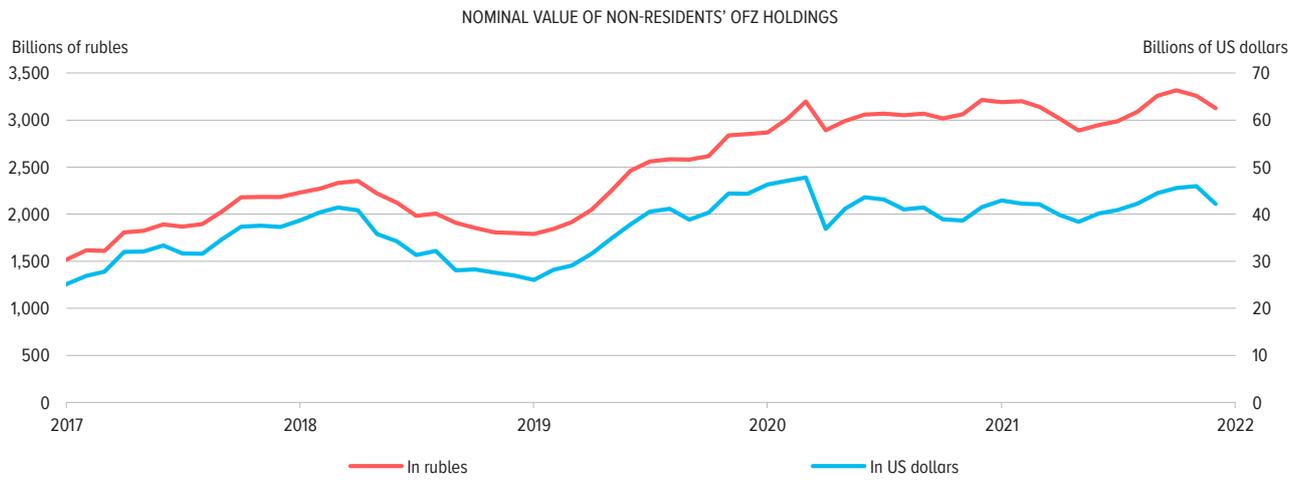
Chart 10



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

FOREIGN INVESTORS DECREASED THEIR INVESTMENT IN OFZ BY THE END OF THE MONTH

Chart 11



Source: Bank of Russia calculations.

SIMILAR TO GLOBAL MARKETS, THE RUSSIAN FINANCIAL MARKET DEMONSTRATED NEGATIVE DYNAMICS

Table 4

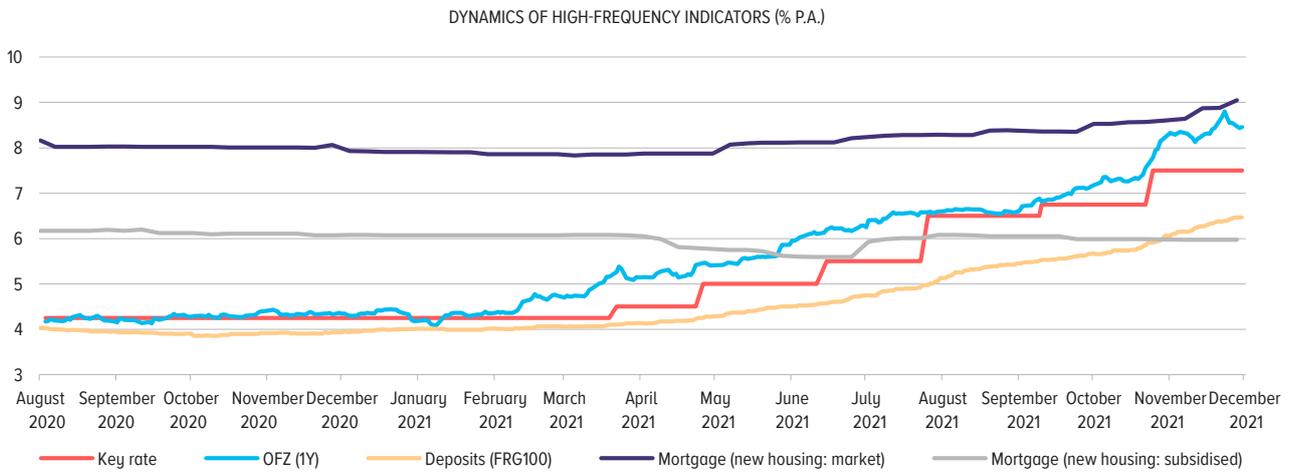
Indicator		30.11.2021	1M	3M	6M	YTD	1Y
Russian financial market							
RUB/USD exchange rate		74.08	-4.4	-1.1	-0.7	0.4	2.4
MOEX Index		3,891	-6.3	-0.7	3.3	18.3	23.8
RTS Index		1,646	-10.7	-2.3	2.0	18.6	26.4
Government bond yield		8.46	25	148	151	270	283
Corporate bond yield		9.44	59	188	243	333	322
Regional bond yield		9.09	46	177	212	341	332
CDS spread		114	32	35	18	25	34
RVI		36	10	12	11	3	6
Exchange rates (per US dollar, % change, '+' – appreciation, '-' – depreciation)							
AEs*	US Dollar Index	95.99	2.0	3.6	6.9	6.7	4.6
	Euro	1.13	-1.9	-4.0	-7.2	-7.2	-5.2
	Japanese yen	113.17	0.8	-2.8	-3.2	-8.7	-8.0
	Pound sterling	1.33	-2.8	-3.3	-6.0	-2.7	-0.1
EMEs	JP Morgan EM Currency Index	52.42	-4.4	-7.9	-9.3	-9.5	-7.0
	Ruble	74.08	-4.4	-1.1	-0.7	0.4	2.4
	Brazilian real	5.62	0.2	-8.4	-8.4	-7.6	-5.0
	Mexican peso	21.45	-4.2	-6.4	-6.9	-7.2	-6.6
	Chinese yuan	6.36	0.6	1.5	0.3	2.6	3.4
	Turkish lira	13.48	-28.7	-38.3	-36.6	-44.8	-41.8
	South African rand	15.89	-4.0	-8.6	-13.4	-7.5	-3.9
10-year bond yield (% p.a., change in bp, '+' – increase, '-' – decrease)							
AEs	USA	1.45	-11	14	-16	53	61
	Germany	-0.35	-24	3	-17	22	24
	Japan	0.05	-4	3	-2	4	3
	UK	0.81	-22	9	-2	61	52
EMEs	Russia	8.39	17	141	117	247	256
	Brazil	11.29	-92	79	224	438	335
	Mexico	7.50	1	53	94	197	167
	China	2.86	-11	1	-22	-28	-45
	Turkey	20.17	83	367	237	773	736
	South Africa	10.23	5	113	98	149	128
5Y CDS spreads (bp, change in bp, '+' – increase, '-' – decrease)							
AEs	USA	8	-5	3	3	2	1
	Germany	9	-1	-1	-1	-2	-2
	Japan	20	0	2	3	4	3
	UK	7	0	-1	-1	-7	-7
EMEs	Russia	114	32	35	18	25	34
	Brazil	261	16	87	93	117	95
	Mexico	120	17	35	28	39	32
	China	54	8	21	17	26	24
	Turkey	501	57	140	102	195	120
	South Africa	240	34	57	53	38	14
Stock indices (points, % change, '+' – increase, '-' – decrease)							
AEs	S&P 500	4,567	-0.8	1.0	8.7	21.6	25.5
	MSCI Europe	1,964	-5.3	-5.9	-5.4	6.8	10.7
	MSCI Japan	1,193	-2.9	-0.6	1.0	7.9	9.4
	MSCI UK	1,989	-2.3	-0.4	0.0	9.9	11.2
EMEs	MSCI EM	1,212	-4.1	-7.4	-12.8	-6.1	-1.5
	MSCI Russia	783	-10.9	-1.8	2.6	17.1	25.9
	MSCI Brazil	1,403	-1.8	-23.7	-29.7	-25.2	-17.5
	MSCI Mexico	4,837	-6.7	-12.7	-7.5	5.8	12.6
	MSCI China	87	-5.8	-7.8	-22.4	-19.8	-19.9
	MSCI Turkey	2,020,674	19.1	19.9	30.3	19.5	30.8
	MSCI South Africa	1,434	0.7	-0.7	-5.4	5.7	7.7

* Advanced economies.

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

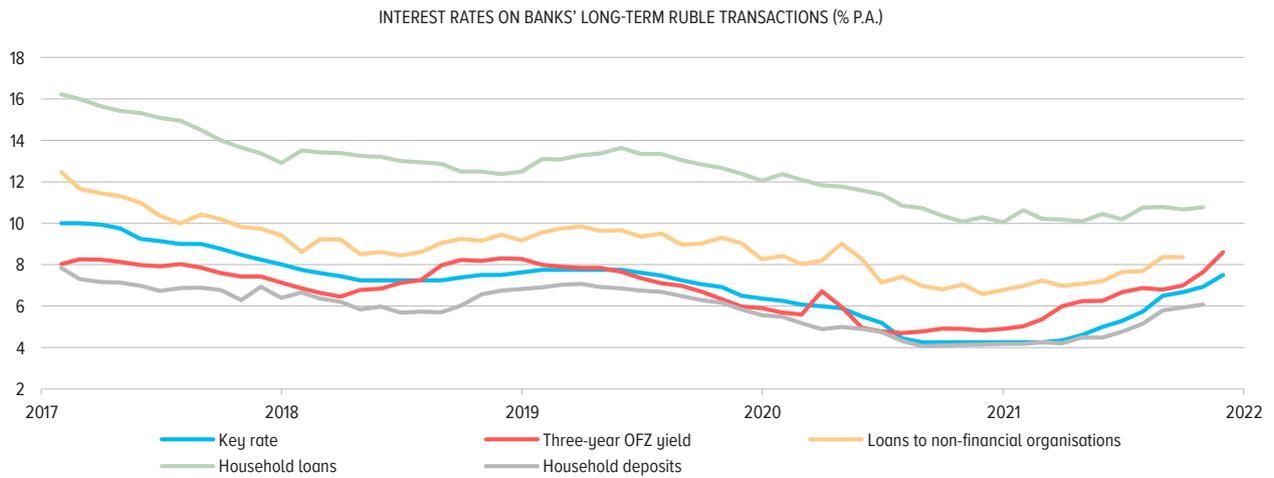
IN NOVEMBER, THE GROWTH OF INTEREST RATES ON MARKET MORTGAGES PICKED UP

Chart 12



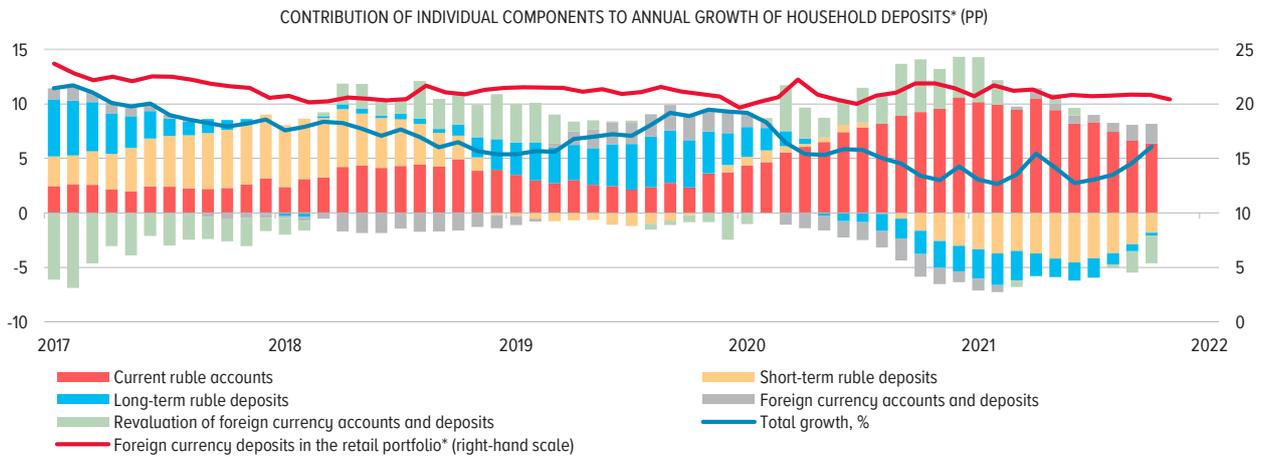
IN OCTOBER, DEPOSIT INTEREST RATES CONTINUED TO GROW

Chart 13



IN OCTOBER, THE ANNUAL GROWTH OF HOUSEHOLD FUNDS WITH BANKS CONTINUED TO GRADUALLY ACCELERATE

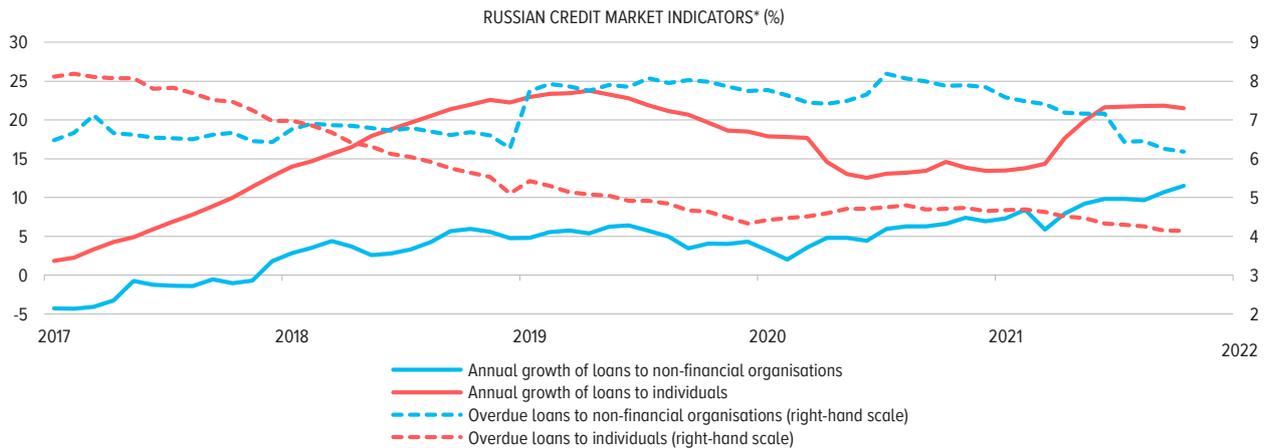
Chart 14



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

IN OCTOBER, CORPORATE BORROWERS WERE BUILDING UP THEIR LOAN PORTFOLIOS AT THE HIGHEST PACE IN SIX YEARS, WHEREAS THE GROWTH OF RETAIL LENDING SLOWED SLIGHTLY

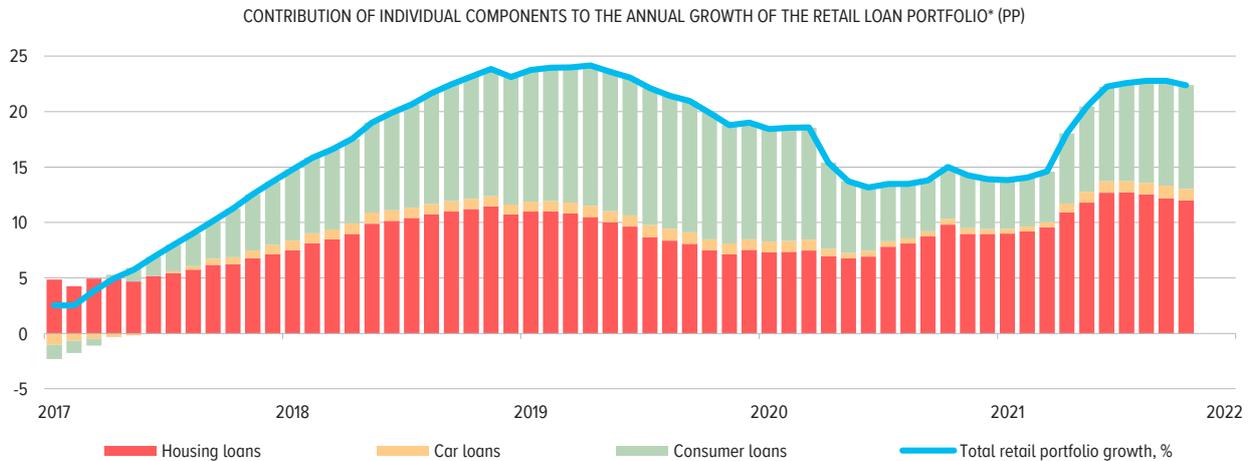
Chart 15



* 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.

IN OCTOBER, ACTIVITY IN THE CONSUMER LENDING SEGMENT CONTINUED TO SLOW DOWN

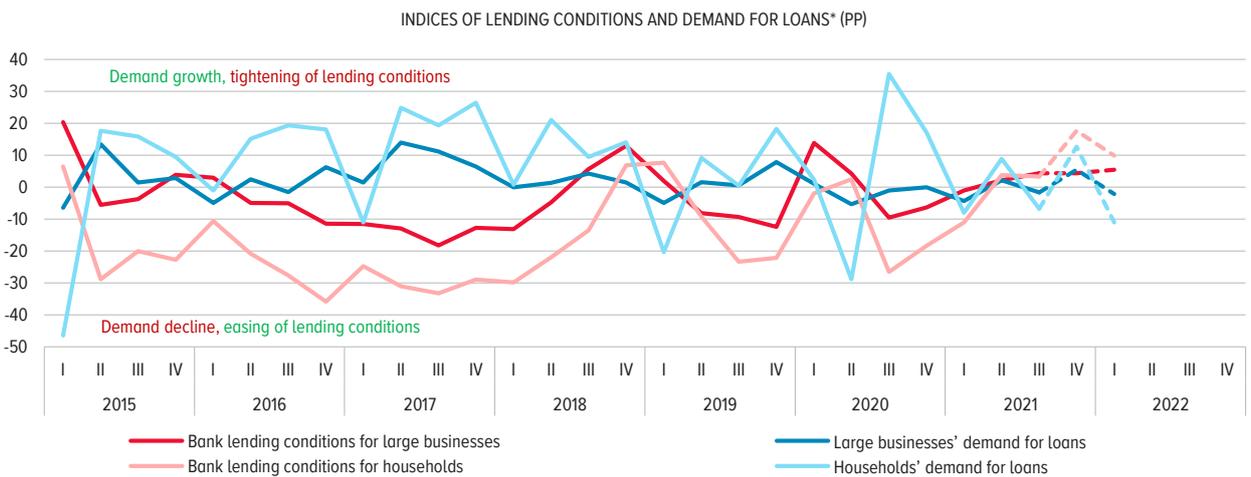
Chart 16



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

BANKS EXPECT LENDING CONDITIONS FOR CORPORATE AND RETAIL CLIENTS TO TOUGHEN TILL THE END OF 2022 Q1

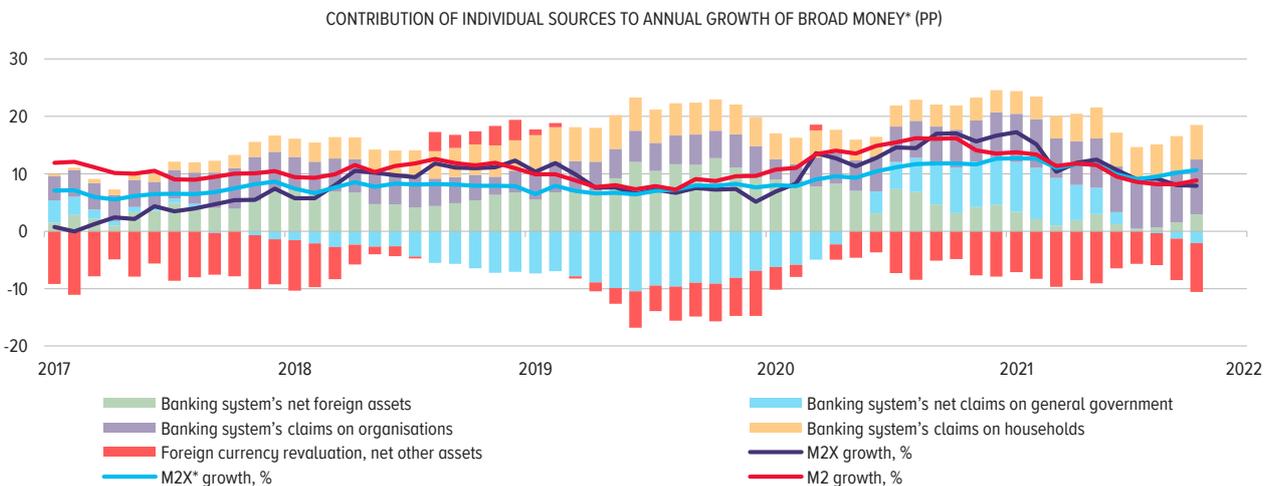
Chart 17



* The dotted lines signify respondent banks' expectations regarding changes in lending conditions and demand for loans in 2021 Q3.
 Source: Bank of Russia.

INCREASE IN CLAIMS ON THE ECONOMY REMAINS THE MAIN SOURCE OF EXPANDING MONEY SUPPLY

Chart 18



* Adjusted for foreign currency revaluation. Change in assets is calculated for the overall banking system.
 Source: Bank of Russia.

CREDIT AND DEPOSIT MARKET INDICATORS

Table 5

Indicator		July 2021	August 2021	September 2021	October 2021
Interest rates on banks' long-term ruble transactions					
– household deposits	% p.a.	5.1	5.8	5.9	6.1
– household loans	% p.a.	10.8	10.8	10.7	10.8
– corporate loans	% p.a.	7.7	8.4	8.4	-
Household deposits*	% YoY, AFRC	3.1	3.5	4.6	6.1
– in rubles*	% YoY	3.0	3.4	4.0	5.5
– in foreign currency	% YoY	3.3	3.9	7.0	8.8
– share of foreign currency*	%	20.8	20.9	20.8	20.4
Loans to non-financial organisations**	% YoY, AFRC	9.8	9.6	10.7	11.5
– short-term (up to 1 year)	% YoY, AFRC	10.7	10.4	11.5	14.2
– long-term (more than 1 year)	% YoY, AFRC	12.3	11.8	13.2	13.5
– overdue loans	%	6.4	6.5	6.3	6.2
Household loans**	% YoY, AFRC	21.7	21.8	21.8	21.5
– housing mortgage loans	% YoY, AFRC	28.7	27.8	26.7	25.3
– unsecured consumer loans	% YoY	17.8	18.5	19.2	19.0
– overdue loans	%	4.3	4.3	4.2	4.1
Banking system's claims on the economy	% YoY, AFRC	13.5	13.7	14.3	14.7
– on businesses	% YoY, AFRC	10.8	11.0	11.9	12.5
– on households	% YoY, AFRC	20.7	20.7	20.7	20.5
Money supply (monetary aggregate M2)	% YoY	8.6	8.2	8.2	8.8
Broad money	% YoY, AFRC	9.1	9.5	10.2	10.7

* 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-over-year; AFRC – 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:

- 'Money market and overnight rates (RUONIA)' section – 7 December 2021 (reserve requirements are an important part of Bank of Russia instruments to manage banking sector liquidity and money market rates. Therefore, the analysis of the effectiveness of the Bank of Russia's monetary policy operational procedure should take into account required reserves averaging periods. In November–December 2021, this period is from 10 November to 7 December 2021);
- 'Money market yield curves and key rate expectations' and 'Public debt market' sections – 30 November 2021;
- 'Credit and deposit market' section – 1 November 2021.

An electronic version of the [information and analytical commentary](#) is available on the Bank of Russia website.Please send your comments and suggestions to svc_analysis@cbr.ru.

This commentary was prepared by the Monetary Policy Department.

Cover Photo: Shutterstock/FOTODOM

12 Neglinnaya Street, Moscow 107016

Bank of Russia website: www.cbr.ru