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MONETARY CONDITIONS AND MONETARY POLICY TRANSMISSION MECHANISM

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MONETARY CONDITIONS AND MONETARY POLICY TRANSMISSION MECHANISM (AUGUST 2022)

- According to the Bank of Russia, monetary conditions eased on average in August primarily due to lower rates in the credit and deposit market during July–August and volatility in the money and foreign exchange markets.
- The average spread between RUONIA and the key rate for the August averaging period (AP) was -9 bp (in the July AP: -10 bp). Money market overnight rates stay close to the key rate in the IBL segment; this ensures an effective impact of the Bank of Russia key rate decisions on changes in rates in the economy and the achievement of inflation targets.
- In August, the debt market yields increased, which could be explained by the expectations that the Russian Ministry of Finance would enter the primary market in September, as well as by fears of significant sales by non-residents from friendly countries and trends in global markets.
- Compared to July, the monthly historical volatility of the ruble has almost halved, but the risks of its growth remain.
- The easing of monetary conditions with some improvement in the confidence among both lenders and borrowers boosted the growth of ruble lending and money supply. The increase in money supply was also owing to the inflow of funds into the economy through the budget channel.

MONETARY POLICY TRANSMISSION

The monetary policy transmission mechanism (or monetary policy transmission) is a sequence of links in the economy through which monetary policy influences demand and, accordingly, inflation. This mechanism is based on rates and yields in the key market segments, influencing each other (the key rate directly influences short-term money market rates; short-term rates influence long-term rates and OFZ yields; OFZ yields influence corporate bond yields; bond yields and long-term money market rates influence credit and deposit rates). Rates, in turn, influence the attractiveness of savings, consumption, and investment (*interest rate channel* of the transmission mechanism), the ability of borrowers to provide high quality

collateral, and of banks – to expand lending (*credit and balance-sheet channels*), as well as the wealth of investors (*wealth channel*), and the ruble exchange rate stability (*foreign exchange channel*).¹

Through any of these channels, higher market rates constrain demand and inflation, while lower ones stimulate them, creating conditions a rise in inflation. In addition to monetary policy and demand, inflation and financial market trends are influenced by many other factors which are taken into account by the Bank of Russia when deciding on the key rate.

This material briefly describes the monetary policy transmission mechanism and the conditions of its functioning.

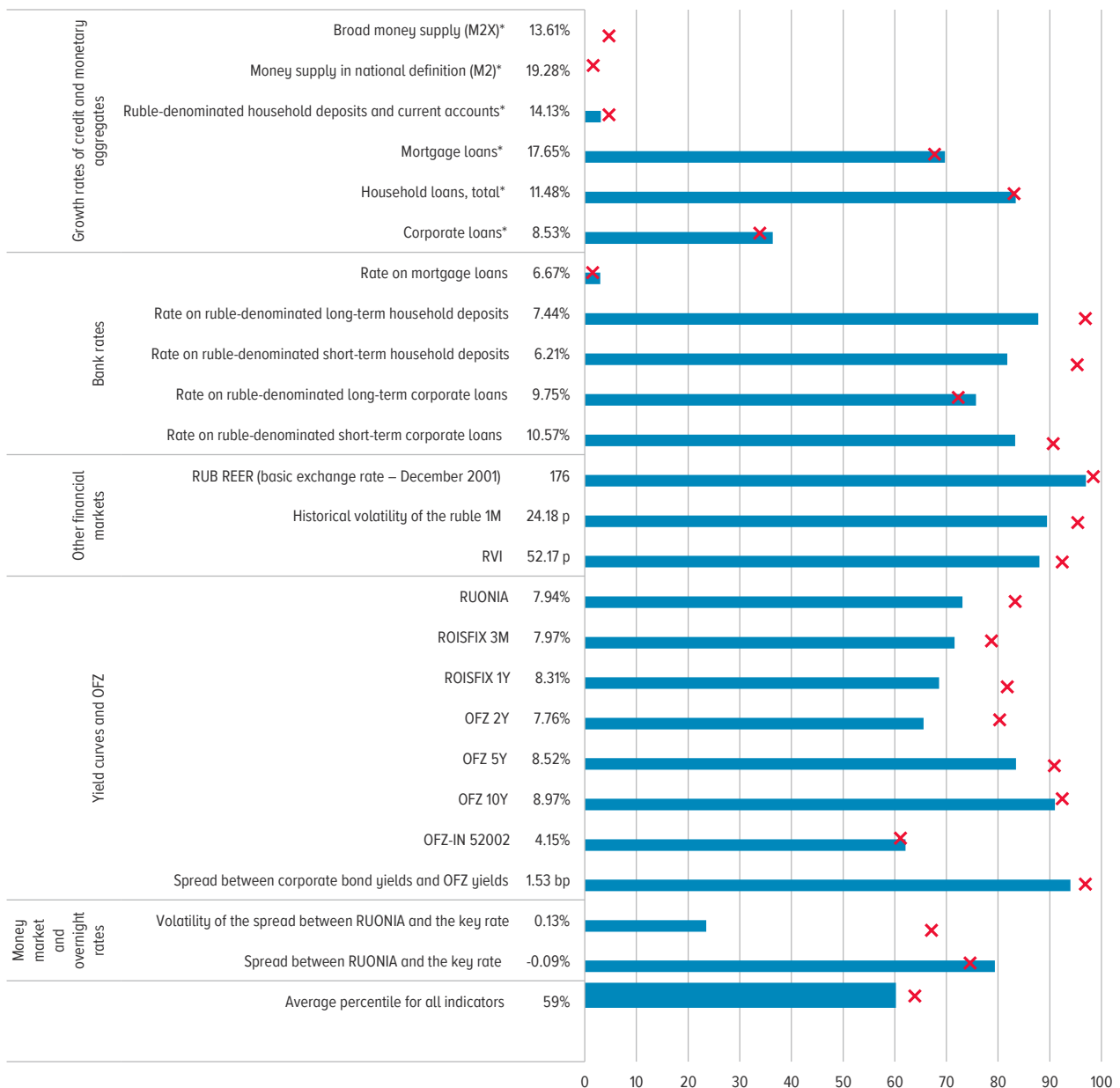
¹ Refer to Appendix 1 to [the Monetary Policy Guidelines for 2022–2024](#).

MONETARY CONDITIONS

As of the end of August, monetary conditions eased on average amid lower rates and volatility of the money and debt markets due to the gradual adjustment of the Russian economy to the changed macroeconomic environment (Chart 1). The decision made by the Bank of Russia Board of Directors to reduce the key rate by 150 bp to 8% in late July influenced the easing of monetary conditions in August. It is expected that monetary conditions will continue to gradually ease, including as a result of the transmission of earlier decisions to reduce the key rate, in the conditions of calm market environment.

AS OF THE END OF AUGUST 2022, MONETARY CONDITIONS EASED

Chart 1



* The inverse percentile was calculated from the indicators.

Note. The chart shows the current level of the indicator (in percentiles) relative to the distribution of values since 2017.

Source: Bank of Russia calculations.

INTEREST RATE CHANNEL OF MONETARY POLICY TRANSMISSION MECHANISM

1. Key rate

In August, the Bank of Russia Board of Directors did not hold a key rate review meeting. The next meeting was scheduled for 16 September 2022. During the month, the key rate remained at the same level – 8% per annum after the July cut by 150 bp.

According to the financial market indicators as of the end of August 2022, market participants expect the average key rate for 2022 to be within the range of 7.75–8.00% (Table 1).

ANALYSTS DECREASED KEY RATE EXPECTATIONS IN AUGUST

Table 1

Key rate expectations based on market indicators (instrument)	December 2022	June 2023
ROISFIX	7.75 (7.75)	8.00 (7.75)
Analysts' key rate expectations*	2022 average	2023 average
Survey by the Bank of Russia	10.5 (11.0)	6.8 (7.5)

* Survey dates: 31 August–6 September 2022. Brackets are used to show the results of the survey conducted on 6–12 July 2022.
Sources: Bank of Russia calculations, NFA.

2. Money market and overnight rates (RUONIA)

In the August required reserve (RR) averaging period (AP), the spread between RUONIA¹ (the Bank of Russia's operational benchmark) and the Bank of Russia² key rate was -9 bp (in the July AP: -10 bp; year-to-date: -24 bp) (Chart 4). The spread volatility dropped to 13 bp (in the July AP: 19 bp; year to date: 37 bp).

The structural liquidity surplus over the August AP increased to **2.8 trillion rubles** (for the July AP: 2.5 trillion rubles). As of early September, the structural liquidity surplus was 2.8 trillion rubles (Table 2).

In the August AP, RUONIA was close to the key rate, while the spread volatility declined because banks performed RR averaging more evenly than in the previous AP. This was due to several reasons. First, in August and early September, the RR averaging strategy was not impacted by banks' expectations of changes in the key rate, as it happened in the July AP. Second, the Federal Treasury (hereinafter, the FT) promptly offset the liquidity outflow from banks on tax payment days through placements of budgetary funds.³ Furthermore, the spread took a positive value on certain days due to a temporary rise in demand of large participants for short-term borrowings in the IBL segment. On the AP's last day, many banks performed RR averaging. The Bank of Russia held a 'fine-tuning' deposit auction to narrow the gap between RUONIA and the key rate.

The volume of transactions in the secured repo segment of the Moscow Exchange decreased. In addition, the IBL segment recorded an increase in the volume of transactions for maturities

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 operational 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 Usually, during the tax period, the cost of borrowings in the IBL segment increases because liquidity returns to banks as expenses and FT transactions with a several day lag rather than immediately.

exceeding overnight. This may be due to the fact that banks gradually became more certain about future liquidity flows. However, the number of participants in the IBL segment is still less than at the beginning of the year. Some banks prefer to use standing deposit facilities of the Bank of Russia as more reliable short-term instruments to place their excess liquidity. This in turn contains the growth in supply in the money market.

In August 2022, as in the previous month, budget expenditures⁴ continued to rise, while revenues continued to decline year-on-year. The growth in expenses was driven, among other things, by investments from the National Wealth Fund (NWF) in shares of JSC GTLK.⁵ Revenues declined mainly due to a reduction in dividends and customs payments. This resulted in a budget deficit. Concurrently, in August, the FT decreased the amount of funds placed with banks, which mitigated the impact of budgetary and other operations on liquidity. Demand for cash in August remained close to its seasonal values and led to a liquidity outflow in the amount of 0.1 trillion rubles.

The forecast of the structural liquidity surplus for the end of 2022 equals 3.2–3.8 trillion rubles.⁶

3. Money and debt market yield curves

OIS (ROISFIX) curve.⁷ In August, the ROISFIX curve again showed a downward trend, but less significant than in the previous periods. One- and two-week yields decreased by 6–8 bp, and those over one month – by 2–6 bp (Chart 6). Market participants expected the key rate to remain close to current levels in the medium term despite disinflationary trends. This shows that the market regards the low price growth rates as temporary, and inflationary pressure may therefore increase in the near future.

RUSFAR curve. As of the end of August, the RUSFAR 3M rate fell by 9 bp to 7.8%. According to the market indicator, in the next quarter, market participants expect the key rate to remain in the range of 7.75% to 8.00%, taking into account the existing balance of disinflationary and proinflationary factors.

OFZ yield curve. In August, the zero-coupon yield curve adjusted upwards along its entire length, most notably for short term maturities (Chart 10): OFZ 1Y – 7.69% (+50 bp); OFZ 2Y – 7.84% (+32 bp); OFZ 5Y – 8.51% (+14 bp), and OFZ 10Y – 9.11% (+22 bp). This is associated with a rise in yields in global markets on fears of a global recession and expectations of further tightening of monetary policy in advanced economies. The spread between ten-year and two-year OFZ yields shrank to 127 bp (138 bp in late July) due to more intensive growth in the short section. The slope of the curve remained elevated relative to the median level since 2017 (64 bp), demonstrating that the market did not assume a considerable key rate reduction, expecting the disinflationary trend to reverse.

In the absence of short-term price drivers, investors' activity in the OFZ market was low. In August, the average daily turnover was about 11.2 billion rubles (16.5 billion rubles in July). The most active trades took place in the first half of the month amid concerns regarding the admission of non-residents from friendly countries to the market and significant sales on their part. The last two weeks of August were mostly calm. There were no major changes in the structure of OFZ holders. Non-bank credit institutions demonstrated slightly higher demand for medium-term OFZ-PD, which could be explained by excessive yields in this section of the curve. The expectations that the

⁴ In this section, budget revenues and expenditures are given according to the Bank of Russia Payment System data.

⁵ [On the Results of Investments from the National Wealth Fund.](#)

⁶ See [Monetary Policy Report No. 3 \(39\), July 2022.](#)

⁷ The OIS (ROISfix) curve represents indicative rates (fixing) on RUONIA IR swaps.

Russian Ministry of Finance would enter the primary market in September exerted pressure on the OFZ market during this period.⁸

Primary OFZ market. The Russian Ministry of Finance plans to resume activity in the primary market in the second half of September owing to macroeconomic stabilisation. However, the scale of borrowings is expected to be below the levels established by law⁹ (no more than 10–30 billion rubles). For this reason, the NWF funds and other liquid balances of budgetary funds remain the main source for financing the budget deficit, as well as for debt repayments.

Implied inflation. As of the end of August, implied inflation for OFZ-IN-52002 (2028) was actually unchanged at 4.78% (4.8% in July), remaining at a level exceeding the target value. Such implied inflation exerts pressure on the far end of OFZ 10Y curve, which keeps OFZ 10Y yields near 9%.

4. Corporate bond market

Secondary market. As of the end of August, the average yield of corporate bonds slightly increased, reflecting the movements of OFZ yields. The IFX-Cbonds index was 9.19% (+7 bp), remaining close to its lows recorded in the second half of January 2022. The spread between the yields of corporate and government bonds shrank by 37 bp to 148 bp during the month (vs 185 bp in late July), demonstrating stabilisation of the macroeconomic situation and a decrease in the risk premium which, nevertheless, remains at a higher level compared to 2021 (36 bp on average for 2021). In the short run, appetite for corporate bonds will be supported by lower deposit rates amid monetary policy easing.

Primary market. Since May, there has been a gradual recovery in issuing activity after the debt market slump from January to April. In August, the volume of new issues increased by almost 2.5 times to 460 billion rubles (vs 192 billion rubles in July) with nearly a half of the total placements being available to a wide range of investors (220 billion rubles in August vs 175 billion rubles in July). The main debt issuers were companies of the real sector, in particular, telecommunications and energy providers, but large financial institutions were active as well. The borrowers included companies of the real sector which, in order to reduce operational risks, placed bonds in Chinese yuan rather than in the main reserve currencies (US dollars, euros).

5. Credit and deposit market

Deposit rates. Following the key rate decrease on 22 July by 1.5 pp and a consequent decline in the OFZ yield curve, banks were actively revising rates on their deposit products. This led to a drop in average market ruble rates on retail deposits in the short-term¹⁰ and long-term segments by 0.8 and 1.1 pp, respectively, in July (Chart 12).

According to real-time monitoring data, in August, banks did not reduce deposit rates so massively because market participants expected the key rate to slightly decrease or remain unchanged in the coming months, as well as due to increased competition for stable funding. Eventually, the FRG100¹¹ yield index for one-year deposits fell by 0.2 pp after a 0.5 pp drop in July (Chart 13). As a result, deposit rates are expected to stabilise near current levels in the short run, primarily in the segment of deposits with maturities of over one year, while for deposits with maturities of up to one year, there is still some space for rate cuts.

⁸ For the first time since February 2022, the Russian Ministry of Finance entered the primary debt market on 14 September, offering a standard OFZ-PD issue for 10 billion rubles with the maturity in 2031. The entire issue was bought by the market participants with a demand of 24.8 billion rubles.

⁹ See [Federal Law No. 390-FZ, dated 6 December 2021, 'On the Federal Budget for 2022 and the 2023–2024 Planning Period'](#).

¹⁰ Short-term deposits imply deposits with any maturities of up to one year, excluding demand deposits; long-term deposits are deposits with any maturities of over one year.

¹¹ 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.

Deposit operations. In July, households' propensity to save slightly decreased:¹² the inflow of funds into banks¹³ continued, but was weaker than a month earlier, due to the ongoing reduction in deposit rates, seasonal expenses during the holiday period, preparations for the school year, and a decrease in foreign currency balances in accounts and deposits. Customers were still transferring their funds from short-term ruble deposits opened in March–April at high interest rates to current accounts and long-term deposits. Nevertheless, deposits for up to one year still remained major contributors to the annual increase¹⁴ in household funds with banks, which amounted to 6.7% in July versus 7.2% in June (Chart 14).

Households' appetite for foreign currency deposits remained low due to unattractive rates on such deposits and fees imposed by some banks for servicing foreign currency accounts. This helped maintain the share of foreign currency in the deposit portfolio near its historical low: as of the end of July, the share of foreign currency in households' deposits and accounts was 12.8%, having increased by 1.4 pp, due to the revaluation of foreign exchange savings following some depreciation of ruble. Part of households' savings was still used for buying real estate: the amount of credits to escrow accounts continued to grow as the mortgage market recovered.

In the coming months, we can expect a continued inflow of households' savings into banks and a further recovery of individuals' interest in long-term deposits and stabilisation of inflation and inflation expectations.

Credit rates. In July–August, banks decreased interest rates on loans in response to the changes in the money and stock market rates following the key rate cuts in previous months. The pace of rate cuts slowed down somewhat compared to June, which may generally mean weaker expectations for further easing of monetary policy. In certain market segments where banks had weakly responded to the key rate spike from the very beginning or promptly lowered the credit rates, the changes were generally insignificant. Expectations for financial market rates also indicate that market participants currently assess the potential for a key rate decrease as low (see subsections 'Key rate' and 'Money and debt market yield curves'). In some market segments, subsidised lending programmes continued to play a significant role, and the dynamics of the average rate were determined not only by the pricing policy of banks, but also by changes in subsidised programme parameters or in the proportion of market-based and subsidised lending amounts.

Rates on short-term business loans decreased by 0.9 pp in July, while those on long-term loans remained actually unchanged (Chart 12). According to real time monitoring data, interest rates on business loans gradually declined in August. The potential for market rate cuts due to monetary policy easing has been largely unlocked so far (the June rates fell below the February figures), and in the short term, the dynamics of average market lending rates will be influenced by other factors: a rise in the share of market-based loans in the market turnover amid the structural transformation of the economy, an improvement in the credit quality of corporate liabilities, stabilisation of inflation and inflation expectations (and, accordingly, a reduction in the inflation risk premium included in credit rates).

Rates in the retail market changed unevenly. The average mortgage rate in July increased by 0.3 pp, amounting to 6.7% per annum. However, according to market monitoring data, standard market-based and subsidised mortgage rates did not change significantly (Chart 13). The increase in the average mortgage rate may be associated with a change in the structure of new loans, including

¹² See [Inflation Expectations and Consumer Sentiment No. 7 \(67\), July 2022](#).

¹³ Hereinafter, household funds with banks include balances in time deposits, demand deposits and current accounts, but exclude escrow accounts under equity construction contracts.

¹⁴ 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.

a growing share of the market-based mortgage loans in the market volumes (see the subsection ‘Retail lending’). According to recent estimates, mortgage rates declined slightly in August. Rates on unsecured consumer loans decreased in July–August, but still exceeded the February level.

Corporate lending. Corporate lending continued to recover in July, but its monthly growth was still slower than in July 2022. As a result, the annual change in corporate lending¹⁵ was 8.5% in July versus 8.8% in June. The corporate portfolio continued to grow owing to ruble loans. The share of foreign currency in the corporate loan portfolio continued to decrease. The annual drop in foreign currency loans in July amounted to 12.2%, having accelerated compared to June. According to recent data, in August, the growth of ruble lending to businesses continued and even sped up.

Growth in corporate lending will be promoted by a gradual increase in demand as organisations gain confidence in the sustainability of future supplies and orders. Supply-side constraints will not be a significant factor for corporate lending, especially for large borrowers, due to the long-term and sustainable nature of relationship between banks and their clients. In market segments associated with high credit risk, banks can pursue a more conservative lending policy. However, subsidised lending programmes will provide support to certain groups of corporate borrowers, ensuring their ongoing lending.

Retail lending. Retail lending also increased in July (Chart 16). Growth in retail lending was supported by both lower lending rates and the realisation of pent-up demand. According to recent estimates, the retail market remained active in August.

In the mortgage segment, 40% more loans were issued in July (92,000) than in June; the amount of loans issued reached about 340 billion rubles. As a result, the mortgage portfolio increased by 1.4% in July (vs 0.7% in June).¹⁶ In addition, the amount of transactions in the secondary segment of the market increased, which may be due to growth in prices for housing under construction, which makes transactions in the primary segment less attractive.

The portfolio of unsecured consumer lending grew by 0.7% in July (by 0.2% in June), which could be driven by a recovery in consumer confidence. However, in 2022, the monthly increases in the consumer loan portfolio were lower than in the same months of the previous year, while the annual growth of the portfolio of unsecured consumer loans continued to decline, amounting to 6.6% in July versus 7.7% in June. Consumer loans may continue to be in demand in the future as a way to compensate for the drop in real incomes to maintain the previous level of consumption. Nevertheless, banks may independently continue to limit the issue of a part of consumer loans with higher risks due to the need to manage capital when overcoming the crisis.

OTHER FINANCIAL MARKET SEGMENTS

1. Exchange rate (foreign exchange channel)

In August, the ruble strengthened by 2.3% and reached 60.23 rubles per US dollar, contributing to tighter monetary conditions (Chart 20). The exchange rate at 60 rubles per US dollar is due to a significant trade surplus with a substantial decrease in imports amid sanctions and high prices for Russian exports, primarily for oil and gas (January–July 2022 estimate: 166.6 billion US dollars; January–July 2021 actual: 50.2 billion US dollars). In addition, according to the foreign exchange market trading data, August saw a decline in households’ demand for foreign currency. In July, the amount of their net purchases totalled 237 billion rubles, however, in August, it fell to 68 billion rubles. In the current environment, the Bank of Russia continued to ease foreign exchange control.

¹⁵ Hereinafter, the growth of lending to non-financial and financial institutions and individual entrepreneurs does not include claims acquired by banks.

¹⁶ Hereinafter, growth excludes claims on loans to individuals acquired by banks.

Among other things, it allowed non-residents from friendly countries, as well as non-residents whose ultimate beneficiaries are Russian individuals and legal entities, to trade on the Moscow Exchange.

By the end of August, the monthly realised exchange rate volatility almost halved compared to the previous month and amounted to 24.2% (vs 43.2% in July), while remaining elevated. This value is comparable to the level of volatility in March–June 2015 which witnessed more intense sanction pressure, lower commodity prices, and the transition to the floating exchange rate. However, the likelihood of increased volatility in the ruble exchange rate remains due to the stronger influence of world commodity market environment as a result of the suspension of the fiscal rule.

The share of trading in the Chinese yuan continued to grow as trade flows were redirected to Asia (26% at the end of August; 6% at the end of April) and due to high risks of using US dollars and euros as a means of payment or savings. At the same time, the share of trades in USD/RUB and EUR/RUB significantly reduced as a result of the natural process of dedollarisation.

2. Capital market (welfare channel)

In August, the Moscow Exchange index rose by 8.4% (-36.6% YTD, -38.9% YoY). The growth of sectoral indices was caused by companies' positive performance indicators included in their calculation. Also, the positive changes in quotes of individual indices, among other things, were due to the announcement of dividend payments by companies from various industries, as well as expectations of corresponding decisions to be made by other blue chips. In August, volatility in the Russian stock market was mainly driven by participants' expectations related to adjustments in global oil prices, the start of automatic conversion of depositary receipts into shares, and expectations about the admission of non-residents to trading on the Moscow Exchange.

At the end of August, there was a gradual increase in demand for shares of Chinese and Hong Kong companies primarily listed on HKEX (five most liquid shares were in great demand), which were traded for the first time on the PJSC SPB Exchange in late June. Currently, 350 securities of international companies are available for on-exchange trades, 12 of them are primarily listed on HKEX. All else being equal, growth in the stock market eases monetary conditions as it increases the value of investors' portfolios and the purchasing power of their savings. However, in Russia, the influence of this channel is not as significant as in advanced economies.

Foreign markets

Central banks worldwide generally tend to tighten monetary policy. Since the beginning of the year, more than 40 central banks have raised their policy rates by more than 0.75% per meeting.

As of the end of the month, several regulators continued increasing their policy rates amid ongoing inflation growth. The average policy rate reached 1.43% in advanced economies, 10.54% in Latin America, 4.63% in South and Southeast Asia, 8.37% in Central and Eastern Europe and Central Asia, and 7.92% in African countries.

Following the speech by the US Fed's Chair at the annual global central banking conference in August, US financial markets reflected expectations of US monetary policy tightening that slowed down economic growth and worsened conditions in the overheated labour market. The yield curve in the US debt market was inverted: in August, the yields on two-year and ten-year US Treasury bonds increased to 3.39% (+50 bp) and 3.15% (+52 bp), respectively. The level of yields was determined by higher recession risks in the USA amid a slowdown in economic growth (as of 26 July, the IMF forecast was 2.3% for 2022 and 1% for 2023; previously: 3.7% for 2022, 2.3% for 2023), as well as by rising inflation (8.5% in July, 9.1% in June). The Fed's Quantitative Tightening (QT) programme will hit its monthly high in September, when 95 billion US dollars in securities will mature.

In August, stock indices in national currencies showed a negative trend. The reasons were fears in European markets of a global recession and expectations of a significant increase in the ECB interest rate, as well as the aggravation of the energy crisis. By the end of the month, S&P 500 fell by 4.2%, Stoxx 600 – by 5.3%, while MSCI EM remained at the same level (Chart 21).

Contrary to expectations, the People's Bank of China cut interest rates for the second time this year to keep banking system liquidity at a sufficient level, as the economy was still suffering from the consequences of coronavirus pandemic. The Chinese stock market co-moved with the global indices and decreased by 1.6%. This is associated with a slowdown in the export boom in Asia and a decline in demand in the high-tech sector.

Currencies of emerging market economies have mostly weakened against the US dollar (Chart 19). The Chinese yuan and the Turkish lira demonstrated the most significant weakening (-2.2% and -1.5%, respectively) due to rapidly rising inflation (80.21% in August and 79% in July) under the accommodative monetary policy (the Central Bank of Turkey cut its policy rate by 100 bp to 13% for the first time since December 2021).

MONEY SUPPLY

In July, the annual growth of the banking system's claims on the economy¹⁷ continued to slow down both in the retail and corporate segments, but was less obvious than a month earlier. Thus, in July, the annual growth rate of claims on the economy lowered by 0.5 pp to 10.9%, compared to a decrease of 0.9 pp in June. Lending to the economy, supported by the ongoing easing of monetary conditions, remains a key source of money supply growth.

The inflow of money into the economy through the budget channel amid the expansion of a budget deficit and the investment of funds from the National Welfare Fund in July had a stimulating effect on the change in the money supply. In combination with a significant positive contribution of the net foreign assets of credit institutions to the money supply dynamics amid the current account surplus, this promoted the acceleration of the growth of monetary aggregates. As of the end of the month, the annual growth of the money supply in the national definition M2 increased from 16.8% to 19.3% (the maximum since mid-2012), and broad money supply M2X – from 12.5% to 13.6%, which could support the aggregate demand in the economy (Chart 18). A more noticeable acceleration of M2 is due to the continued decline in balances in foreign currency deposits and accounts of the non-financial sector, while the role of ruble deposits of households and businesses in the structure of monetary aggregates continues to rise. This enhances the efficiency of the transmission mechanism, mitigating the impact of external economic environment on the preferences of households and businesses.

¹⁷ The banking system claims on the economy mean all claims of the banking system on non-financial and financial institutions 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 institutions' equity, and other receivables under settlement operations with non-financial and financial institutions and households.

CHARTS AND TABLES

IN AUGUST 2022, THE BANKING SECTOR'S STRUCTURAL LIQUIDITY SURPLUS INCREASED
(START OF BUSINESS, BILLIONS OF RUBLES)

Table 2

	01.01.2018	01.01.2019	01.01.2020	01.01.2021	01.01.2022	01.04.2022	01.07.2022	01.08.2022	01.09.2022
Structural liquidity deficit (+) / surplus (-)	-2,639	-3,016	-2,761	-204	-1,691	-280	-2,384	-2,244	-2,757
Bank of Russia claims on credit institutions	10	21	18	976	909	2,484	280	180	291
Auction-based facilities	-	-	-	847	116	2,298	171	68	70
– repos and FX swaps	-	-	-	847	116	2,298	171	68	70
Fixed interest rate facilities	10	21	18	129	793	186	109	111	221
– repos and FX swaps	4	8	13	118	3	92	10	7	1
– secured loans	5	13	5	10	790	94	99	104	220
Credit institutions claims on the Bank of Russia	2,729	3,293	2,983	1,796	2,804	3,108	3,180	2,824	3,414
Deposits	2,372	1,902	1,026	1,221	2,804	3,108	3,180	2,824	3,414
– auction-based	2,125	1,478	697	844	1,626	-	1,838	1,637	2,295
– fixed interest rate	247	424	330	377	1,178	3,108	1,341	1,187	1,119
Coupon OBRs	357	1,391	1,956	575	-	-	-	-	-
Standing reverse facilities, other than standard monetary policy instruments of the Bank of Russia*	81	256	204	616	204	343	516	401	366

* This type of transactions includes specialised refinancing instruments of the Bank of Russia, loans provided by the Bank of Russia within irrevocable credit lines.
Source: Bank of Russia calculations.

THE STRUCTURAL LIQUIDITY SURPLUS FORECAST FOR THE END OF 2022 IS 3.2–3.8 TRILLION RUBLES
(TRILLIONS OF RUBLES)

Table 3

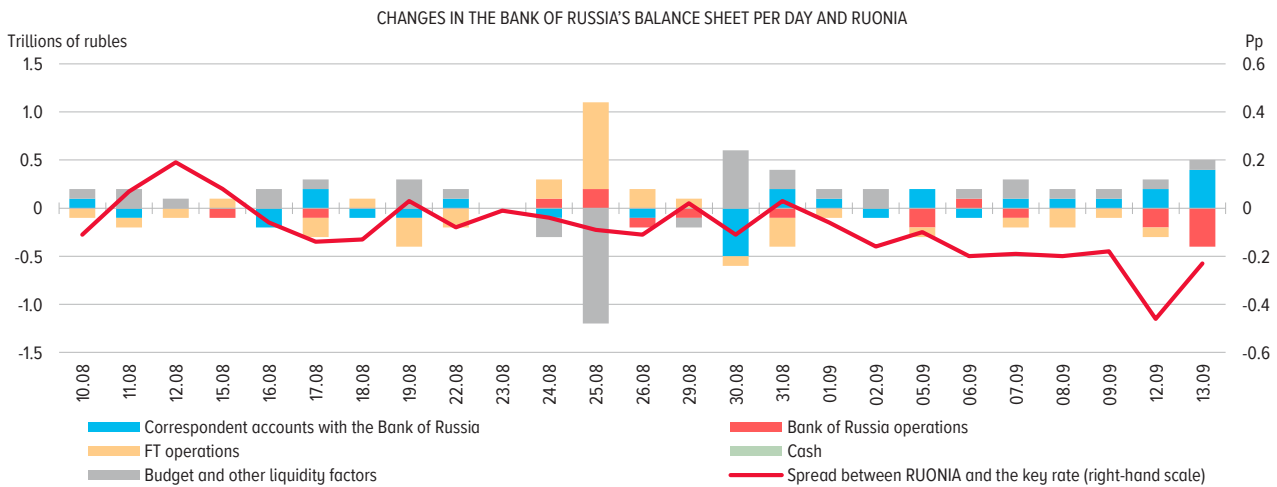
	2021 (actual)	January – August 2022	August 2022	2022 (forecast)
1. Liquidity factors	1.6	0.5	0.5	[1.4; 1.8]
– change in the balances of funds in general government accounts with the Bank of Russia, and other operations*	2.3	0.1	0.6	[1.5; 1.7]
– change in the amount of cash in circulation	-0.7	-0.2	-0.1	[-0.7; -0.5]
– Bank of Russia interventions in the domestic FX market and monetary gold purchases**	-	-0.1	-	-0.1
– regulation of banks' required reserves with the Bank of Russia	-0.1	0.7	0.0	0.7
2. Change in free bank reserves (correspondent accounts) (demand)	0.1	-0.6	0.0	[-0.4; -0.2]
3. Change in banks' claims on deposits with the Bank of Russia and BoR coupon bonds	1.0	0.6	0.6	[1.4; 2.0]
4. Change in outstanding amounts on Bank of Russia refinancing operations	-0.5	-0.5	0.1	-0.2
Structural liquidity deficit (+) / surplus (-)	-1.7	-2.8		[-3.8; -3.2]

* Including fiscal rule-based operations to buy (sell) foreign currency in the domestic FX market and other operations.

** 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 AUGUST 2022, THE LIQUIDITY OUTFLOW DUE TO CASH DEMAND AMOUNTED TO 0.1 TRILLION RUBLES

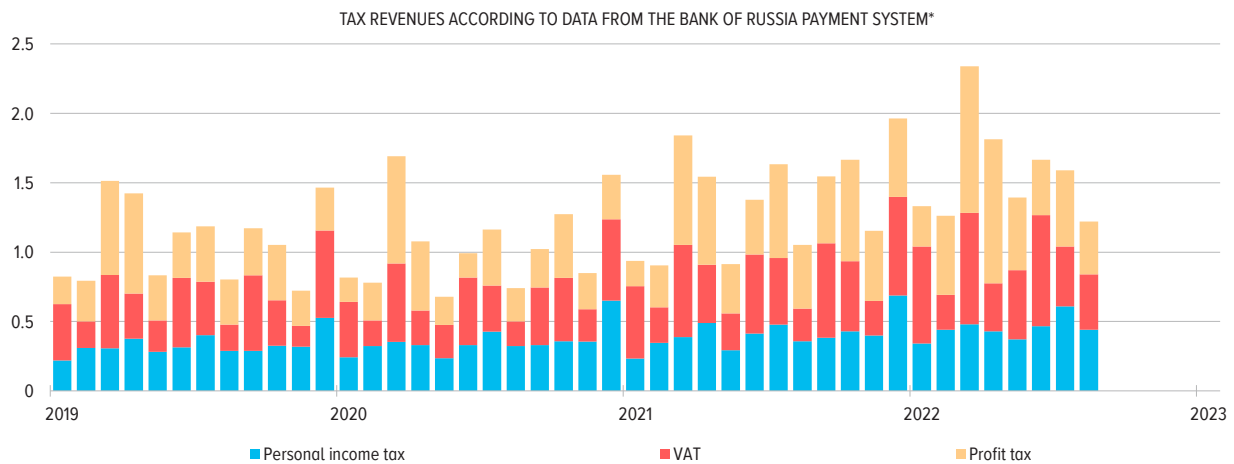
Chart 2



Source: Bank of Russia calculations.

IN AUGUST 2022, INCOME TAX (IT) REVENUES DECREASED YEAR-ON-YEAR, WHILE VAT AND PIT PAYMENTS INCREASED (TRILLIONS OF RUBLES)

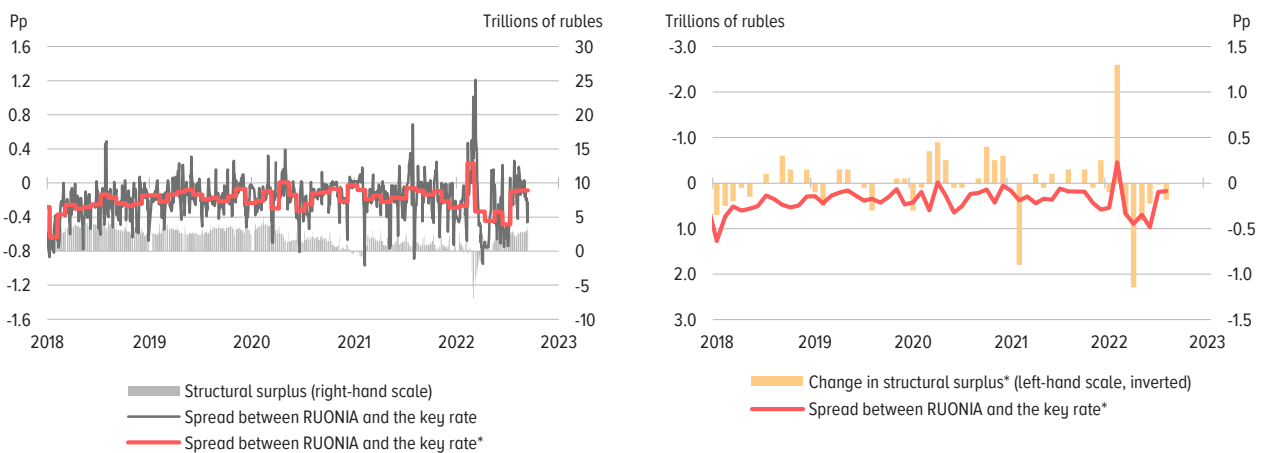
Chart 3



* Funds transfers from credit institutions' accounts to the fiscal system's accounts with budget classification codes corresponding to the above taxes.
Source: Bank of Russia calculations.

THE SPREAD BETWEEN RUONIA AND THE BANK OF RUSSIA KEY RATE SLIGHTLY CONTRACTED

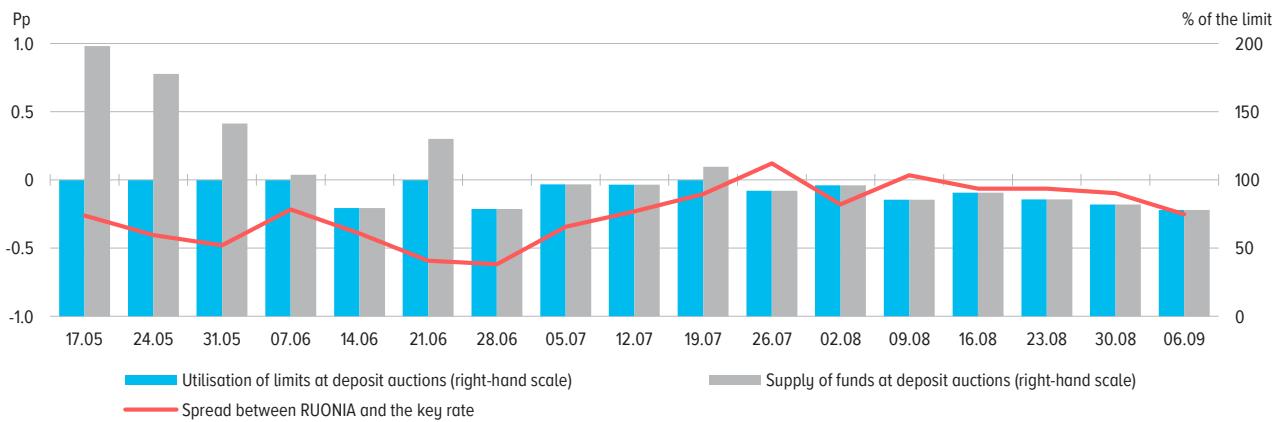
Chart 4



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

UTILISATION OF LIMITS AT THE BANK OF RUSSIA DEPOSIT AUCTIONS IN 2022 (AVERAGE PER TRADING WEEK)

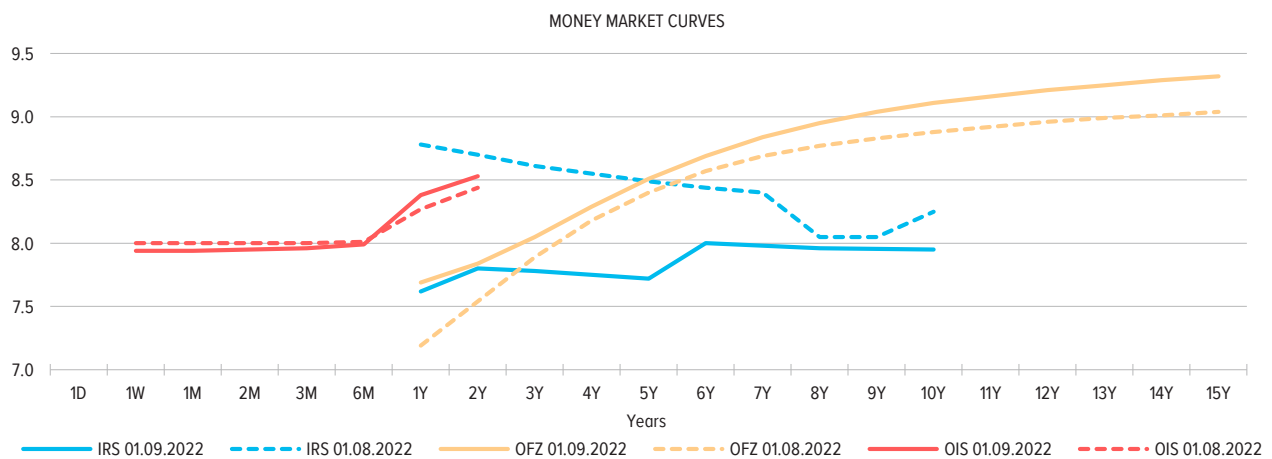
Chart 5



Note. The data are provided on one-week deposit and fine-tuning repo auctions. Operation weeks are marked by dates of regular weekly auctions. Fine-tuning auctions are taken into account together with the one-week auction, the settlements under which were made over the corresponding trading week.
Source: Bank of Russia calculations.

CURVES MOVED DOWN SLIGHTLY IN AUGUST (% P.A.)

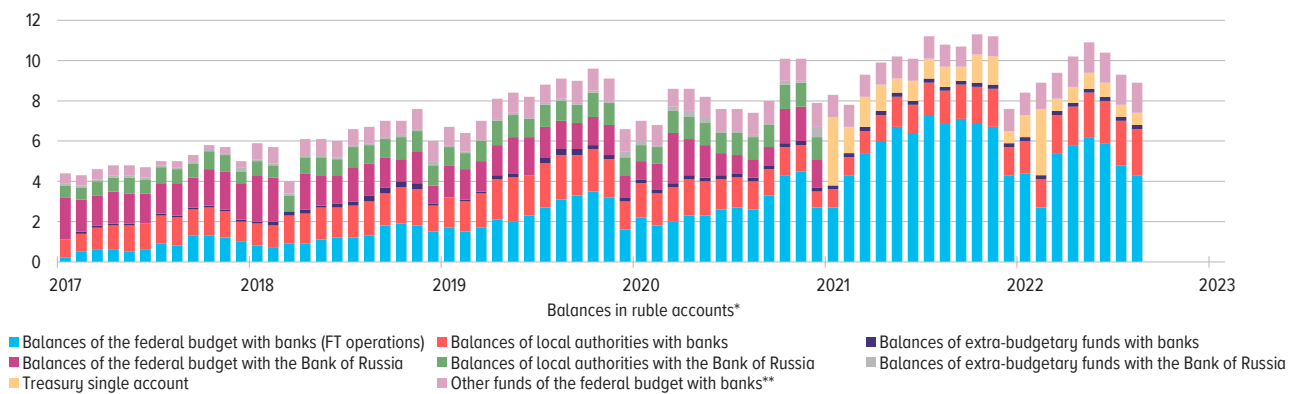
Chart 6



Note. The IRS curve for maturities of up to one year is built using MosPrime rates with respective maturities.
Sources: Cbonds, NFA, Bank of Russia calculations.

IN AUGUST 2022, BUDGET ACCOUNT BALANCES CONTINUED TO DECLINE DUE TO INCREASED EXPENSES AND REDUCED INCOMES (TRILLIONS OF RUBLES, AS OF THE PERIOD END)

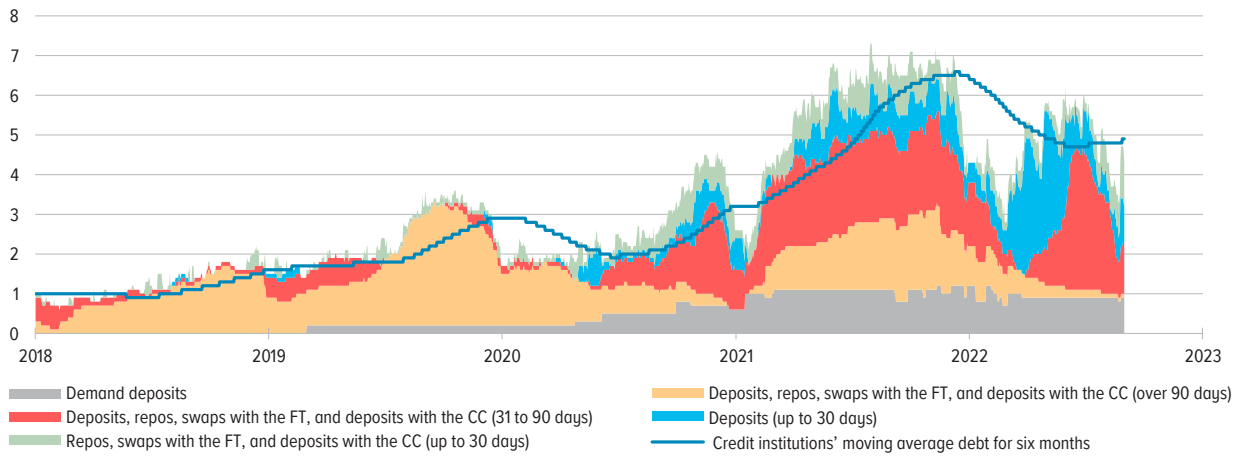
Chart 7



* According to Banking Reporting Form 0409301 'Performance indicators of a credit institution'.
** 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.

IN AUGUST 2022, CREDIT INSTITUTIONS' DEBT TO THE FT SHRANK BY 0.6 TRILLION RUBLES
(TRILLIONS OF RUBLES)

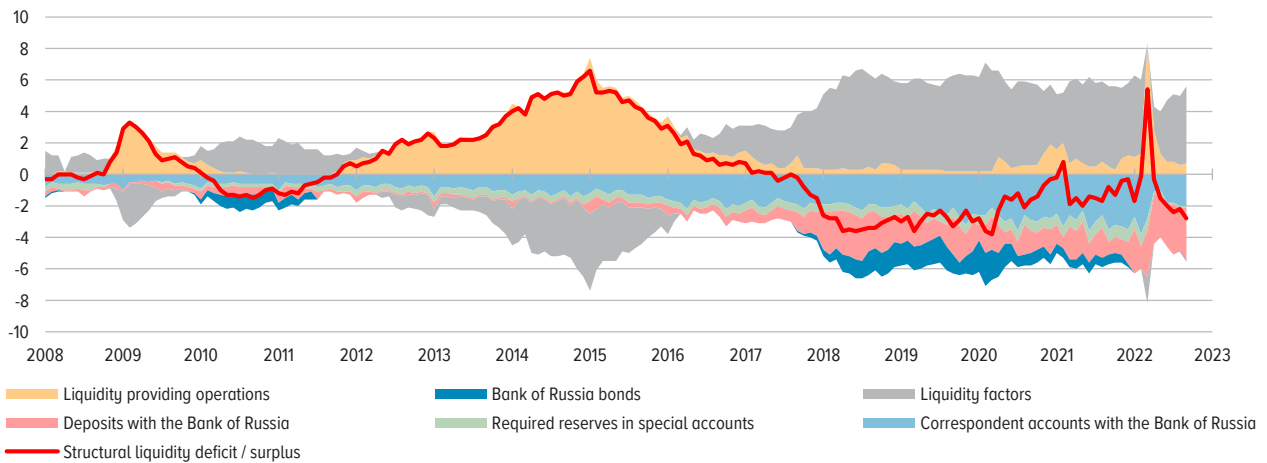
Chart 8



Sources: Federal Treasury, Bank of Russia calculations.

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

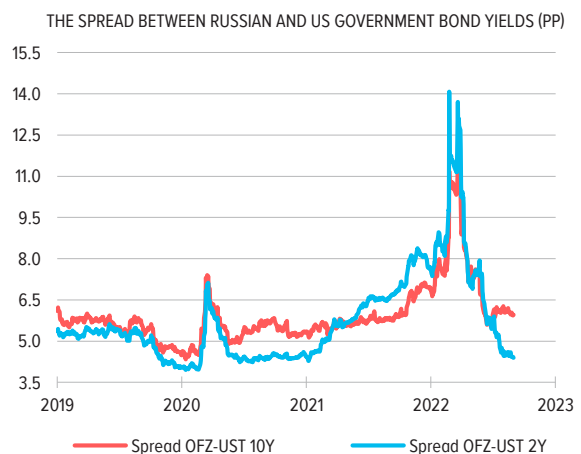
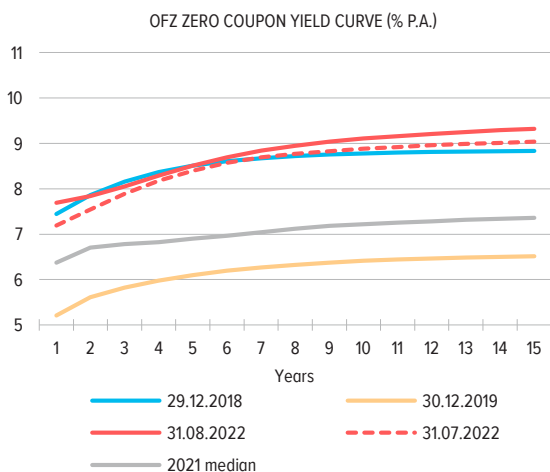
Chart 9



Source: Bank of Russia calculations.

OFZ YIELD CURVE ADJUSTED UPWARDS ALONG ITS ENTIRE LENGTH, MOST NOTABLY FOR SHORT-TERM MATURITIES

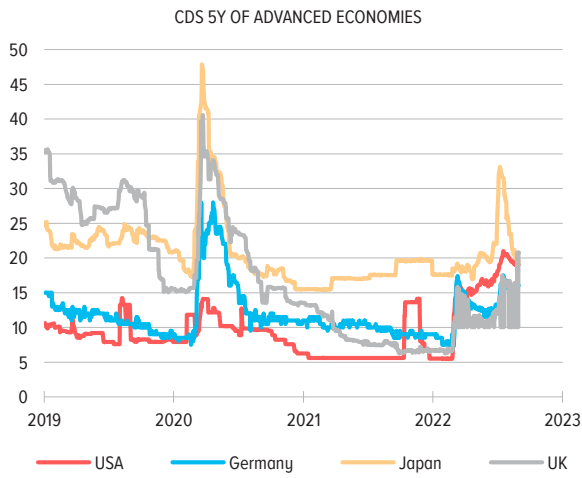
Chart 10



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

CDS SPREADS OF EMES MOSTLY EDGED DOWN, EXCEPT CHINA AND MEXICO
 (BP)

Chart 11



Sources: Cbonds, Bank of Russia calculations.

THE RUSSIAN EQUITY MARKET SHOWED POSITIVE TRENDS

Table 4

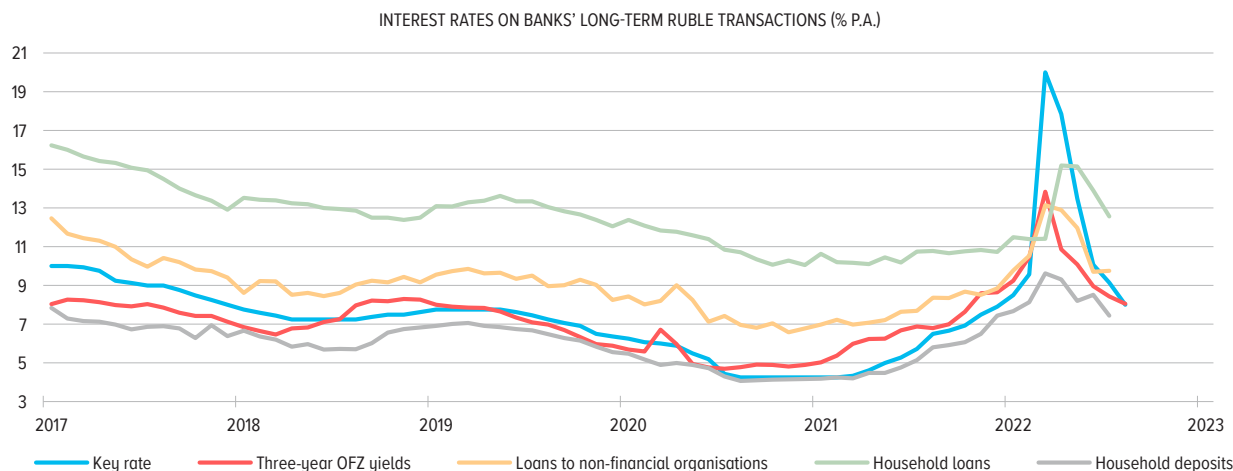
Indicator		31.08.2022	1M	3M	6M	YTD	1Y
Russian financial market							
RUB/USD exchange rate		60.23	2.3	2.8	41.4	19.3	18.1
MOEX Index		2,400	8.4	1.9	-2.8	-36.6	-38.9
RTS Index		1,258	11.4	4.2	34.3	-21.1	-25.3
Government bond yields		8.69	16	-95	-481	28	170
Corporate bond yields		9.19	7	-266	-493	34	161
Regional bond yields		8.86	26	-206	-461	23	150
RVI		50	-7	-17	-72	17	27
Exchange rates (per US dollar, per cent change, '+' – appreciation, '-' – depreciation)							
AEs*	US Dollar Index	108.70	2.6	6.8	11.6	13.6	17.3
	Euro	1.01	-1.7	-6.0	-9.5	-11.6	-14.8
	Japanese yen	138.95	4.3	8.0	20.3	20.7	26.4
	Pound sterling	1.16	-4.6	-7.8	-13.3	-14.1	-15.5
EMEs	Ruble	60.23	2.3	2.8	41.4	19.3	18.1
	Brazilian real	5.18	-0.3	-9.6	-1.7	6.9	0.0
	Mexican peso	20.14	1.0	-2.5	2.5	1.7	0.0
	Chinese yuan	6.89	-2.2	-3.3	-9.0	-8.3	-6.6
	Turkish lira	18.20	-1.5	-10.9	-30.0	-36.5	-117.3
	South African rand	17.11	-3.1	-9.5	-11.8	-7.0	-16.7
10-year bond yields (% p.a., change in bp, '+' – increase, '-' – decrease)							
AEs	USA	3.15	48	30	129	163	186
	Germany	1.54	72	50	152	172	196
	Japan	0.22	4	-1	8	15	20
	UK	2.80	94	81	154	183	222
EMEs	Russia	9.11	22	-37	911	67	199
	Brazil	12.28	-90	-25	1228	202	207
	Mexico	9.39	49	62	114	155	222
	China	2.66	-12	-16	-19	-13	-22
	Turkey	13.04	-488	-970	-1151	-1164	-435
	South Africa	10.44	8	60	84	101	167
5Y CDS spreads (bp, change in bp, '+' – increase, '-' – decrease)							
AEs	USA	19	-1	2	7	7	9
	Germany	16	0	4	7	7	6
	Japan	20	-7	0	2	2	2
	UK	21	4	10	10	11	12
EMEs	Brazil	249	-9	37	36	54	83
	Mexico	155	5	35	48	69	73
	China	75	3	4	15	34	41
	Turkey	749	-49	59	178	204	394
	South Africa	282	-13	49	53	82	93
Stock indices (points, % change, '+' – increase, '-' – decrease)							
AEs	S&P 500	3,955	-4.2	-4.3	-9.8	-17.0	-12.7
	Stoxx 600	415	-5.3	-6.4	-7.0	-14.9	-12.2
	Nikkei 225	28,059	1.0	2.9	6.3	-2.5	1.0
	FTSE 100	7,284	-1.9	-4.3	-2.0	-1.4	1.9
EMEs	MSCI EM	994	0.0	-7.8	-14.9	-19.3	-22.7
	Bovespa	109,523	6.2	-1.6	-4.9	4.5	-8.5
	IPC Mexico	44,919	-6.7	-13.2	-15.7	-15.7	-14.6
	SSE Composite	3,202	-1.6	0.5	-8.1	-12.0	-9.2
	BIST 100	3,171	22.3	24.5	59.7	70.7	117.5
	FTSE / JSE	67,257	-2.4	-6.7	-13.3	-8.8	0.3

* Advanced economies.

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

IN JULY 2022, CREDIT AND DEPOSIT MARKET RATES CONTINUED TO DECLINE

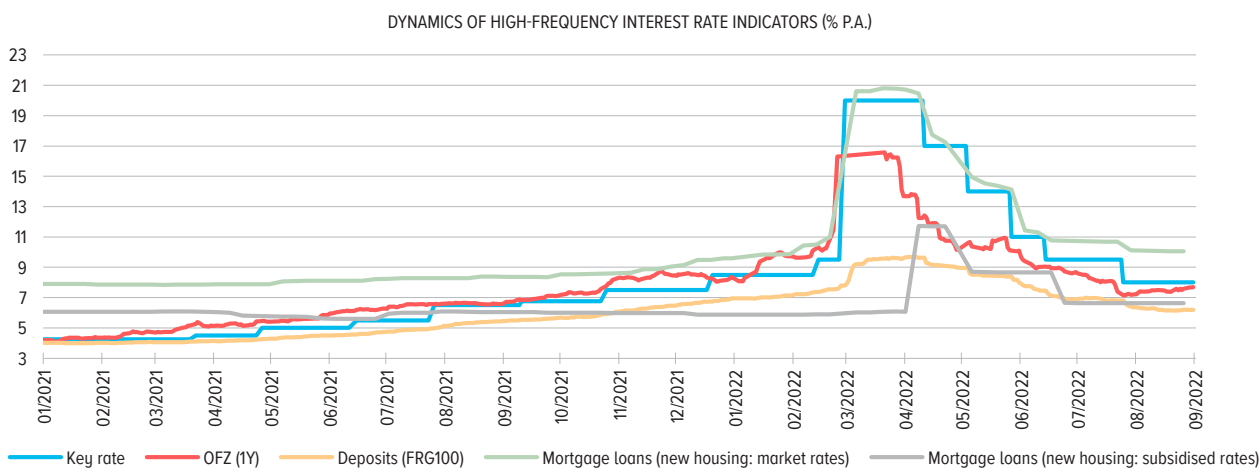
Chart 12



Source: Bank of Russia.

THE PACE OF RATE CUTS EDGED DOWN SLIGHTLY COMPARED TO JUNE

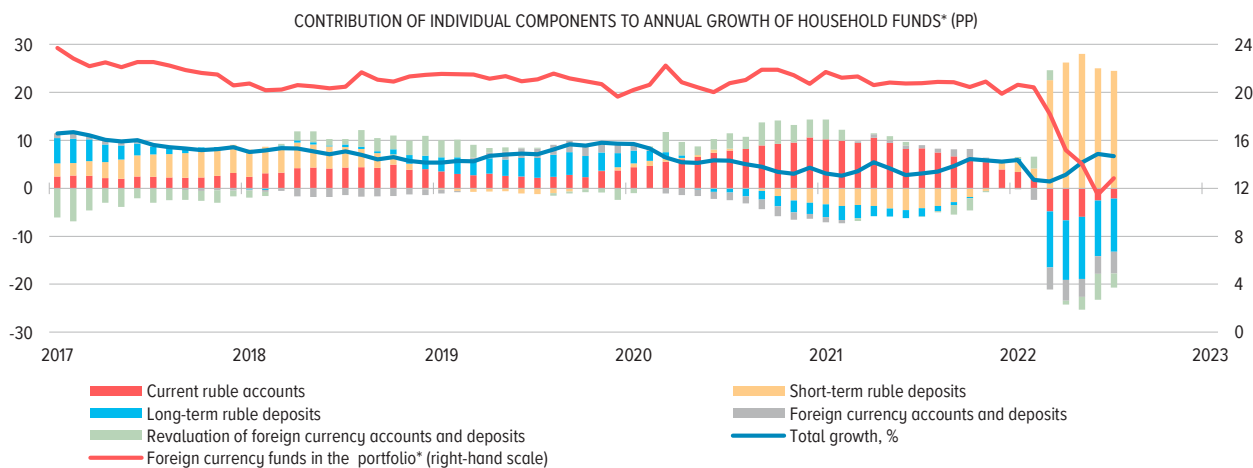
Chart 13



Sources: Bank of Russia, Frank RG, DOM.RF.

HOUSEHOLDS' SAVING ACTIVITY DECLINED INSIGNIFICANTLY IN JULY

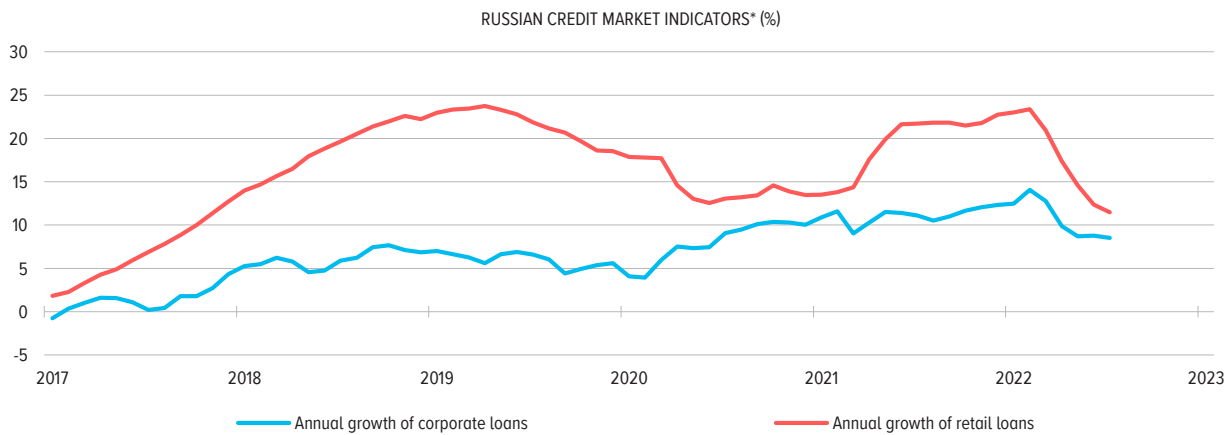
Chart 14



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

IN JULY 2022, CORPORATE LENDING CONTINUED TO GROW

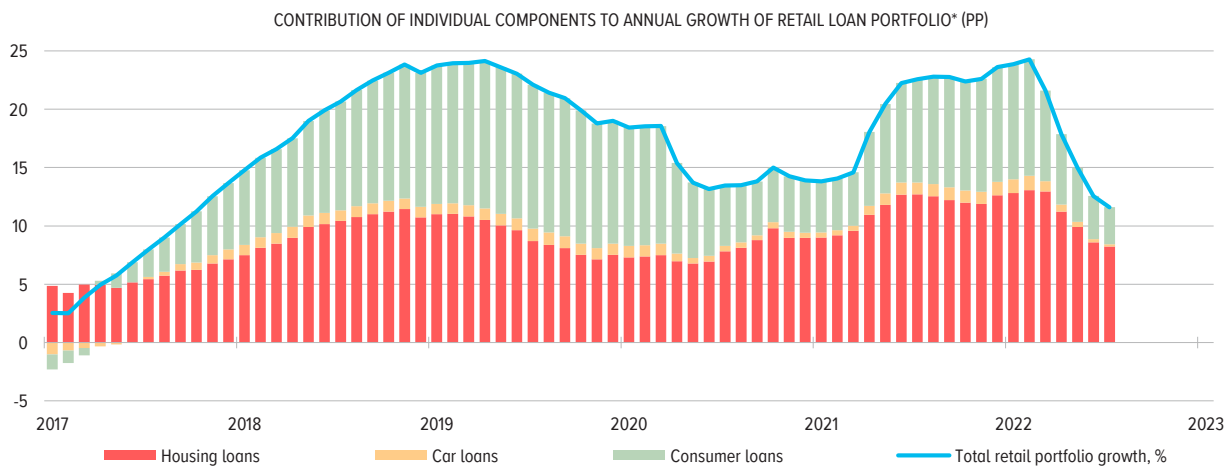
Chart 15



* Since 1 February 2021, the corporate and household loan portfolio includes acquired claims. The portfolio growth was calculated net of acquired claims.
Source: Bank of Russia calculations.

THE CONTRIBUTION OF MORTGAGE LENDING TO RETAIL PORTFOLIO GROWTH SURPASSED CONSUMER LOAN PROVISION

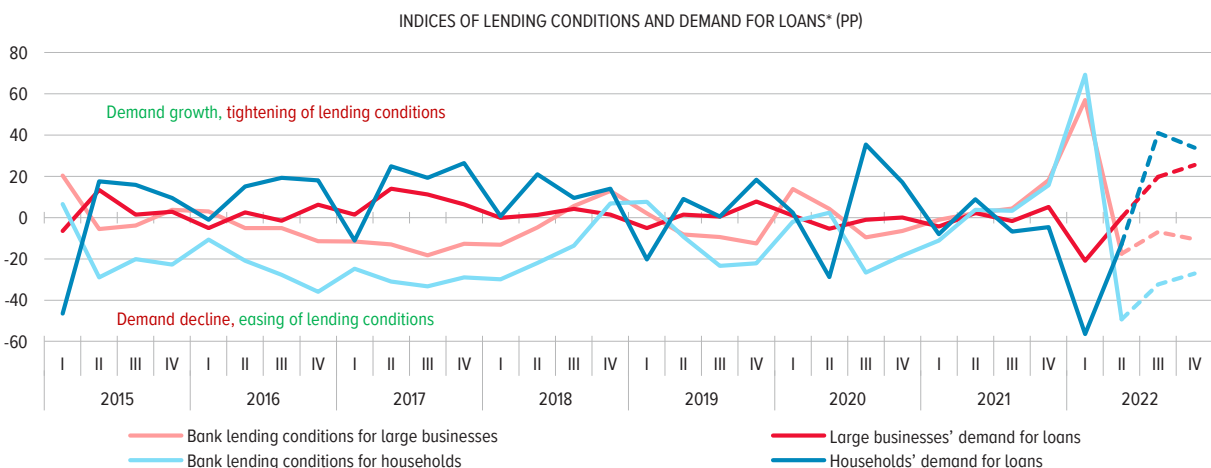
Chart 16



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

IN 2022 Q2, BANKS CONFIRMED THE EASING OF LENDING CONDITIONS COMPARED TO 2022 Q1

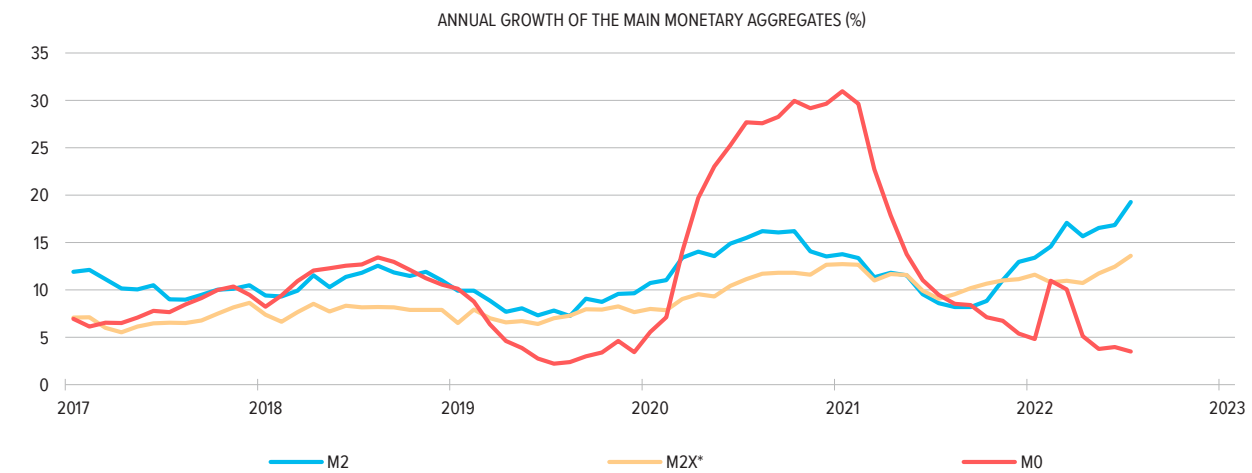
Chart 17



* The dotted lines signify respondent banks' expectations regarding changes in lending conditions and demand for loans in 2022 Q2.
Source: Bank of Russia.

IN JULY 2022, THE INFLOW OF MONEY INTO THE ECONOMY THROUGH THE BUDGET CHANNEL SPED UP THE BROAD MONEY EXPANSION

Chart 18



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

INDICATORS OF THE CREDIT AND DEPOSIT MARKETS

Table 5

		April 2022	May 2022	June 2022	July 2022
Interest rates on banks' long-term ruble transactions					
household deposits	% p.a.	9.3	8.2	8.5	7.4
household loans	% p.a.	15.2	15.1	13.9	12.6
corporate loans	% p.a.	12.9	12.0	9.7	9.8
Households' funds*	% YoY, AFCR	2.8	5.4	7.2	6.7
in rubles*	% YoY	9.0	11.5	13.6	14.1
in foreign currency	% YoY	-21.3	-19.2	-20.4	-23.6
share of foreign currency*	%	15.2	14.0	11.5	12.8
Corporate loans**	% YoY, AFCR	9.9	8.7	8.8	8.5
short-term (up to 1 year)	% YoY, AFCR	4.9	3.9	4.8	5.6
long-term (more than 1 year)	% YoY, AFCR	12.3	11.1	11.7	10.2
Household loans**	% YoY, AFCR	17.4	14.6	12.4	11.5
housing mortgage loans	% YoY, AFCR	23.5	20.8	18.3	17.6
unsecured consumer loans	% YoY	12.5	9.7	7.7	6.6
Banking system's claims on the economy	% YoY, AFCR	14.1	12.4	11.5	10.9
on businesses	% YoY, AFCR	12.9	11.6	11.1	10.8
on households	% YoY, AFCR	17.0	14.4	12.2	11.3
Money supply (monetary aggregate M2)	% YoY	15.7	16.6	16.8	19.3
Broad money	% YoY, AFCR	10.7	11.8	12.5	13.6

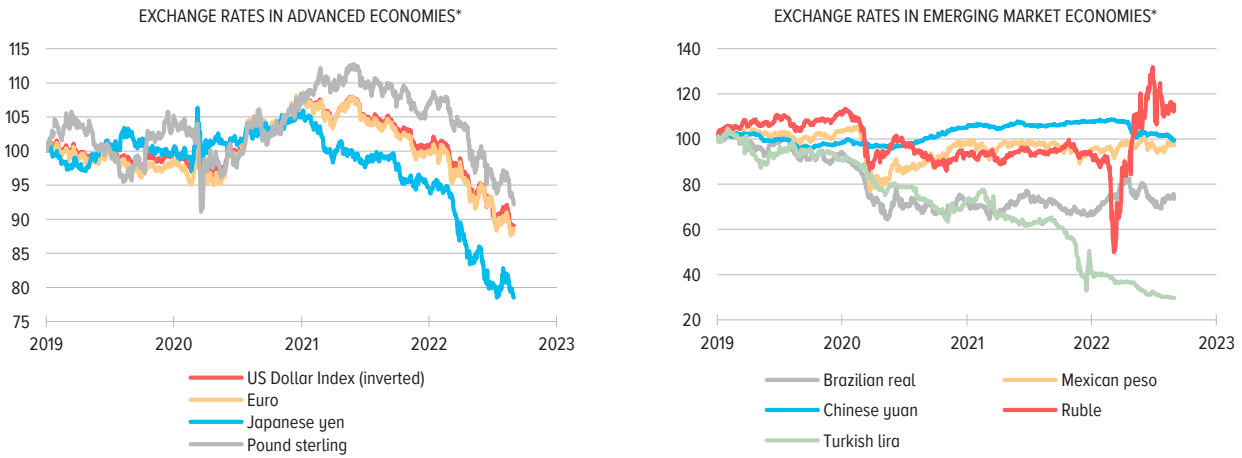
* Excluding escrow accounts.

** Since 1 February 2021, the portfolio of corporate and retail loans includes acquired claims. The portfolio growth was calculated 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.

IN AUGUST 2022, EME CURRENCIES MOSTLY WEAKENED AGAINST THE US DOLLAR, EXCEPT THE RUSSIAN RUBLE AND THE MEXICAN PESO
(02.01.2019 = 100)

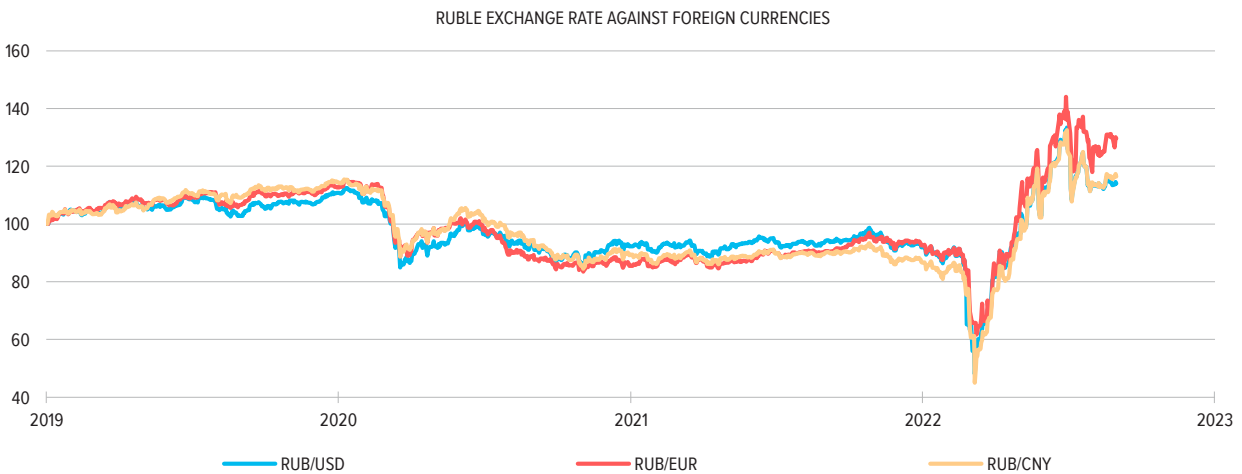
Chart 19



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

THE RUBLE APPRECIATED BY THE END OF AUGUST 2022
(02.01.2019 = 100)

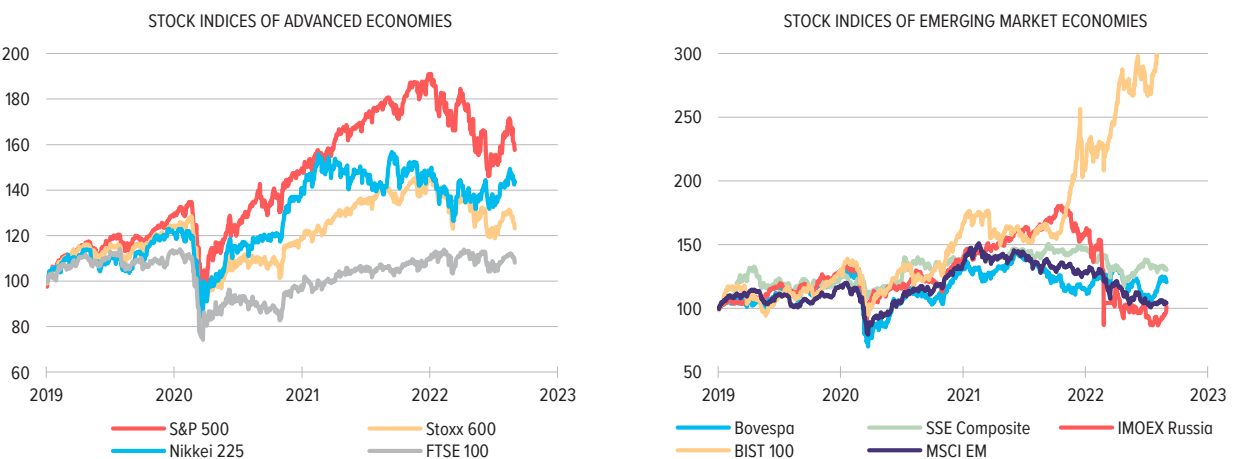
Chart 20



Sources: Cbonds, Bank of Russia calculations.

STOCK INDICES IN MOST EMES DECLINED, EXCEPT IN RUSSIA, TURKEY AND BRAZIL
(02.01.2019 = 100)

Chart 21



Note. Stock indices are specified in national currencies.
Sources: Cbonds, Bank of Russia calculations.

Data cut-off dates:

- 'Money market and overnight rates (RUONIA)' section – 13 September 2022 (mandatory reserve requirements are an important part of the 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 August–September 2022, this period was from 10 August 2022 to 13 September 2022);
- 'Money market yield curves and key rate expectations' and 'Other financial market segments' sections – 31 August 2022;
- 'Credit and deposit market' section – 1 August 2022.

The 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.

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12 Neglinnaya Street, 107016, Moscow

Bank of Russia website: www.cbr.ru

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