



Bank of Russia



January 2024

MONETARY CONDITIONS AND MONETARY POLICY TRANSMISSION MECHANISM

Information and analytical commentary

9 February 2024

MONETARY CONDITIONS AND MONETARY POLICY TRANSMISSION MECHANISM (JANUARY 2024)

Between December 2023 and January 2024, indicators of monetary tightness in the Russian economy predominantly tightened (Chart 1). The implemented key rate hikes were producing an increasingly profound effect on the financial market. Money market rates (up to one year) and short-term OFZ yields continued to grow. Non-price bank lending conditions also tightened considerably in 2023 Q4. Lending activity slowed down, which was especially evident in the consumer lending. However, loan portfolio growth rates remained high until December. At the end of the year, the increase in households' inflation expectations and businesses' price expectations somewhat lessened the impact of tighter price lending conditions on borrowers' behaviour. Though gradually decreasing, the annual growth of monetary aggregates continues to significantly exceed the 2017–2019 values.

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 interest rates and yields in the key market segments, influencing each other (the key rate has a direct effect on 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 affect credit and deposit rates). Rates, in turn, influence the propensity to save, consume, and invest (interest rate channel of the transmission mechanism), the ability of borrowers to provide high-quality collateral, and that of banks – to expand lending (credit and balance-sheet channels), as well as the wealth of investors (welfare channel), and the ruble exchange rate (foreign exchange channel).¹

Through any of these channels, higher market rates constrain demand and inflation, while lower ones stimulate them. 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 and the conditions of its functioning.

¹ See Appendix 1 to the [Monetary Policy Guidelines for 2024–2026](#).

INDICATORS OF MONETARY TIGHTNESS

SOME INDICATORS OF MONETARY TIGHTNESS IN NOVEMBER 2023–JANUARY 2024

Chart 1



* The indicators were used to calculate the inverse z-score (higher values are shown to the left).

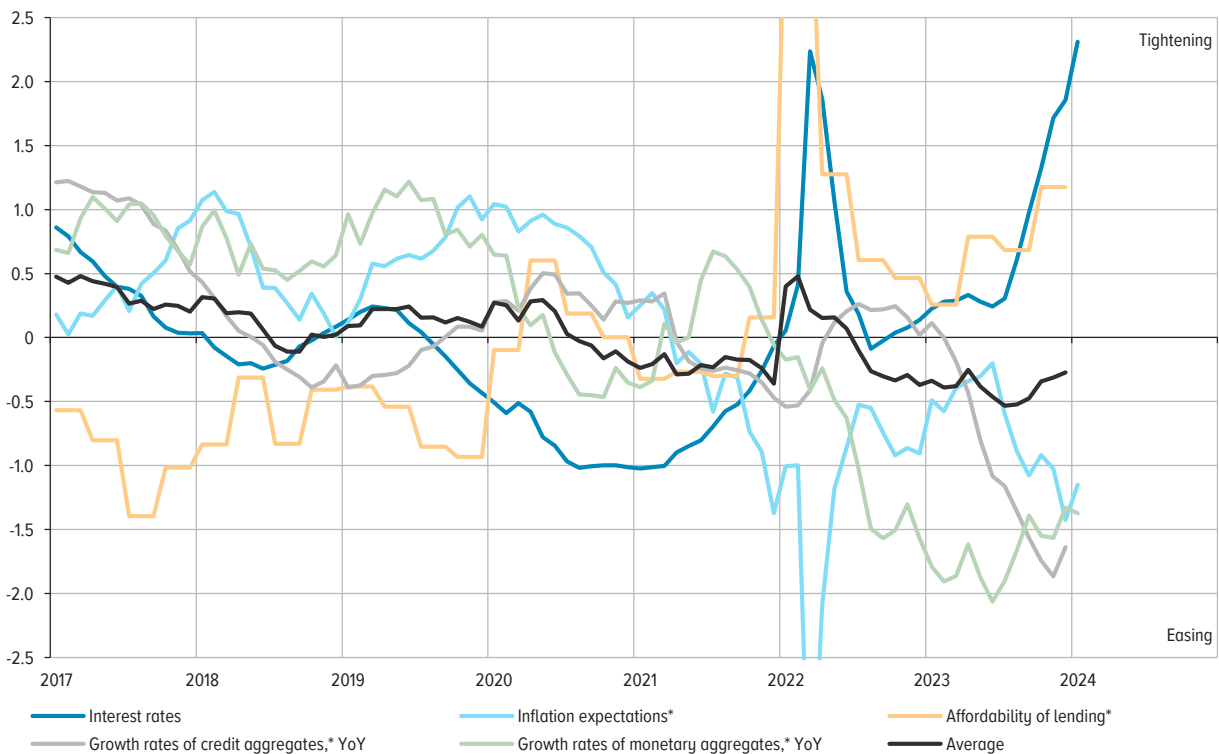
Note. The indicator panel represents one possible summary visualisation of key indicators to help assess monetary conditions and their changes. It should not be considered as a comprehensive presentation of all types of indicators that may be used to assess the nature and changes of monetary conditions.

The chart shows the level of the indicator (z-score/standardised score) relative to the distribution of values from January 2017 to November 2023 (left-hand chart) and to December 2023 (right-hand chart). The indicator's level (in standard deviation) as of the previous date is circled. A shift of the indicator to the left relative to the previous date indicates the easing of monetary conditions, a shift to the right – their tightening. Z-scores for high-frequency indicators (OFZ yields, money market rates, exchange rate, spread between CORP and OFZ yields, etc.) were calculated based on the averages for the relevant month. Z-score for the spread between RUONIA and the key rate was taken out of the calculation of the overall average indicator due to high volatility.

Source: Bank of Russia calculations.

HISTORICAL DYNAMICS OF INDIVIDUAL INDICATORS OF MONETARY POLICY TIGHTNESS

Chart 2



* The indicators were used to calculate the inverse z-score.
Source: Bank of Russia calculations.

INTEREST RATES

- Key rate.** On 15 December 2023, the Bank of Russia raised the key rate by 100 bp to 16.00% p.a. As there was no key-rate meeting of the Board of Directors in January, the key rate was not changed.
- Banking sector liquidity and overnight rates (RUONIA).** In January, the average spread between RUONIA and the key rate remained virtually unchanged compared with December at -31 bp (Chart 4). The spread volatility decreased to 29 bp (December 2023: 41 bp). At the beginning of the month, banks largely completed the averaging of required reserves, causing demand for liquidity decline and spread widen. At the beginning of the January averaging period (AP),¹ demand was up again and RUIONA came close to the key rate. The average liquidity surplus increased to ₹1.2 trillion (December 2023: ₹0.1 trillion). The funds that had been credited to budget accounts in December continued to flow into bank accounts in January as the Federal Treasury's expenses and deposits. In January, the seasonal inflow of cash into banks amounted to ₹0.5 trillion (vs the outflow of ₹0.4 trillion in December 2023) and was above the January averages in the previous years.
- Money market.** In January, the ROISfix curve slightly shifted upwards in the segments up to two months (from +4 bp to +6 bp), and shifted downwards in longer-term segments (from -7 bp to -55 bp): 1M – 16.00%; 2M – 15.98%; 3M – 15.96%; 6M – 15.77%; and 1Y – 14.65% (Chart 6). Market participants view the current level of the key rate as close to the peak of the monetary tightening cycle.

¹ The January AP of required reserves is from 17 January 2024 to 13 February 2024.

- **OFZ.** In January, average monthly short-term yields were up (by 20–50 bp), while short- and long-term yields declined (by 20–30 bp). The growth in the short-term yields of securities occurred amid the narrowing of the spread between OFZ and money market rates. The real yields on OFZ-IN were higher in January compared with December. Accordingly, the decrease in yields on the middle- and long-term segments of the OFZ-PD curve was due to lower implied inflation. The structure of the OFZ secondary market participants somewhat changed. Net sales were predominantly made by systemically important credit institutions and collective investors, while net purchases were made by other credit institutions.
In the primary market, the Russian Ministry of Finance raised ₺216 billion in cash (vs ₺84 billion in December), which is comparable with the amounts raised in January 2023. Demand for OFZ-PD issues was elevated as inflation was slowing down in recent weeks and the monetary policy tightening cycle was approaching its peak. Securities were placed at a small premium to the secondary market (no more than +5 bp). The share of collective investors was the same as in 2023 (50%).
- **Corporate bond market.** Based on the IFX-Cbonds index, corporate bond yields reached 14.69% as of the end of January (December 2023: 14.18%, November 2023: 13.93%). The average monthly spread between corporate and government bond yields decreased considerably (January: 135 bp, December: 212 bp).
In the primary market, in January, the amount of funds raised by corporate borrowers was comparable to the figure of January 2023 (January 2024: ₺174 billion, January 2023: ₺217 billion).

BANKS' INTEREST RATES ON RUBLE LOANS AND DEPOSITS

- **Deposit rates.** Expectations for monetary policy to remain tight over a short-term horizon coupled by higher OFZ yields led to a further increase in deposit rates for up to one year in December. Longer-term deposit rates reduced slightly, though staying close to the 2015 peak values. In January, the growth of deposit rates was weaker than in December immediately after the key rate hike: the FRG100 index² gained less than 0.1 pp over the month (Charts 9 and 10).
- **Corporate loan rates.** In November–December, following monetary policy tightening, interest rates on corporate loans grew mainly on short-term operations (Chart 9).
- **Retail loan rates.** Interest rates on retail loans changed diversely. In the short-term segment, average interest rates edged down amid the tightening of macroprudential regulation and a more careful selection of borrowers by banks mainly with regard to consumer loans. In the long-term segment, the weighted average credit rate grew mainly on the back of more expensive retail loans, whereas interest rates on ruble-denominated mortgage loans declined by 27 bp to 7.91% p.a. due to the further expansion of the share of loans issued at subsidised rates in total new loans. At the same time, the cost of mortgage loans issued at market rates increased, including in early 2024 (Charts 9 and 10).

² The average interest rate of the 80 largest deposit banks on deposits for up to one year in an amount over ₺100,000, according to the Frank RG news agency.

GROWTH RATES OF CREDIT AND DEPOSIT AGGREGATES

- **Deposits.** In December, high deposit rates contributed to the further accumulation of households' funds with banks³ primarily in time ruble deposits up to one year. Meanwhile the seasonal increase in current ruble account balances was markedly lower than in the previous year. At the end of December, the annual growth of households' funds amounted to 20.1%.⁴ The share of foreign currency household deposits remains at an all-time low (Chart 11).
- **Bank lending conditions (BLC).** According to the results of the quarterly survey of the largest banks⁵ in 2023 Q4, BLC for all main categories of borrowers tightened markedly again. The tightening was mainly driven by price conditions, i.e. the growth in credit rates in response to key rate hikes and higher funding costs. As for non-price conditions, the respondent banks noted an increase in requirements for borrowers' financial standing and collateral in the retail segment of the credit market amid the tightening of macroprudential regulation⁶ and an increase in the minimum down payment under subsidised mortgage loans.⁷ This made the tightness of BLC in the corporate segment comparable with, and that in the retail segment exceeding, the level of 2022 Q2. In the near term, banks anticipate a further tightening in BLC for retail clients (accompanied by an inevitable decline in households' demand for loans) and predominantly the same conditions for corporate clients (Chart 14).
- **Corporate lending.** In December, the growth of corporate ruble loan portfolio slowed down as higher budget expenditures (typical of the last month) were the source of repayment of previously raised loans, while the issuance of new loans was restrained by tighter price conditions. At the same time, the revival in lending in the currencies of friendly states continued. Over the month, the annual growth of the portfolio⁸ dropped by 1 pp to 20.7%, though remaining high. According to recent data, the slowdown in ruble-denominated corporate lending continued in January (Chart 12).
- **Retail lending.** Households' demand for mortgage loans remained high due to existing subsidised lending programmes. In December, banks issued new loans worth ₴785 billion, of which over 80% were subsidised loans. The slowdown in market-based mortgages was more noticeable. In December, the tightening of macroprudential regulation and higher credit rates reduced the portfolio of unsecured consumer loans (by 0.1%, as adjusted for a large-value securitisation transaction) after a three-month slowdown in its growth. In contrast, the car loan portfolio maintained its robust growth. According to recent data, in January, amid higher credit rates, tighter regulatory measures⁹ and changes to the parameters of subsidised mortgage lending, there was noted a near-zero growth in ruble claims on households (close to the January 2023 path, but below the growth observed in January in the previous years) (Charts 12 and 13).

³ Hereinafter, individuals' funds with banks include balances in time deposits, demand deposits and current accounts, but do not include 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 included 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.

⁵ See the [Bank Lending Conditions](#) Section on the Bank of Russia website.

⁶ [The press release of the Bank of Russia](#), dated 28 July 2023. [The press release of the Bank of Russia](#), dated 23 June 2023. [The press release of the Bank of Russia](#), dated 31 August 2023.

⁷ Resolution of the Government of the Russian Federation No. 2166, dated 15 December 2023.

⁸ Hereinafter, the growth of lending to non-financial organisations, financial institutions, and individual entrepreneurs does not include claims acquired by banks.

⁹ [The press release of the Bank of Russia](#), dated 24 November 2023.

GROWTH RATES OF MONETARY AGGREGATES

- **Money supply.** In December, the contribution of budget operations to the movements of monetary aggregates was lower year-on-year. Coupled by a slowdown in lending activity, this led to a decline in the annual growth of M2 and M2X.

According to recent data, in January, the annual growth of money supply continued to decrease. The contribution of budget operations (as change in net claims on general government) to the annual growth in money supply decreased due to higher revenues and lower expenditures compared with January 2023. The contribution of lending to the annual change in money supply remained high (Chart 15).

- **Exchange rate**

In January, the ruble fluctuated in a range which was close to the December range. At the end of January, the ruble exchange rate strengthened and amounted to 90.0 rubles per US dollar (-0.4%), 97.6 rubles per euro (-2.1%), and 12.5 rubles per yuan (-0.9%). The monthly average exchange rate of the ruble strengthened more appreciably (-1.7% MoM). Lower receipts from the sale of export revenue due to the decrease in commodities prices in the previous months did not lead to the ruble depreciation. The ruble was supported by the foreign exchange sales as part of the mirroring of operations with money from the National Wealth Fund.

[The real effective exchange rate of the ruble \(REER\)](#), calculated against the currencies of the main foreign trade partners, decreased by 0.5% in December (vs -18.3% YoY). According to preliminary data, in January, the REER increased by 1.9% vs December, staying slightly below its median value of the recent years (-4.2% vs the median of January 2015–January 2024).

- **Foreign markets**

The GDP weighted average policy rates continued to decline worldwide. In January, the policy rates in advanced economies remained almost unchanged (4.46%; -1 bp due to a 25 bp decline in the key rate by the Bank of Israel). In the emerging market economies, the weighted average rate decreased by 14 bp to 8.21% chiefly under the effect of the policy rate cut by 50 bp by the Central Bank of Brazil. Chile, Hungary, Kazakhstan, and Armenia also cut rates.

At the end of January, the yield curves of US Treasury bonds were almost the same as at the end of December (UST 2Y: 4.27%, +2 bp MoM; UST 10Y: 3.99%, +11 bp MoM). In Germany and the UK, yield curves were slightly up in the long-term segment, while their inversion slightly reduced. Stock markets mainly demonstrated positive sentiment in anticipation of the coming monetary easing by the US Fed and the ECB and amid generally favourable statistics on global growth in 2023 Q4. In January, the growth of indices in advanced economies mainly continued (S&P 500: +1.6%; Stoxx 600: +1.4%; Nikkei 225: +8.4%) (Chart 20).

Meanwhile, stock indices in national currencies of emerging market economies fell on average (MSCI EM: -4.7%; Bovespa: -4.8%; IPC Mexico: -0.0%; SSE Composite: -6.3%; BIST 100: +13.7%) (Chart 20), and their currencies weakened against the US dollar (BRL: -2.1%; MXN: -1.4%; CNY: -0.3%).

CHARTS AND TABLES

BUDGET OPERATIONS AND CASH TURNOVER IN JANUARY LED TO LIQUIDITY INFLOWS INTO BANKS
(P TRILLIONS)

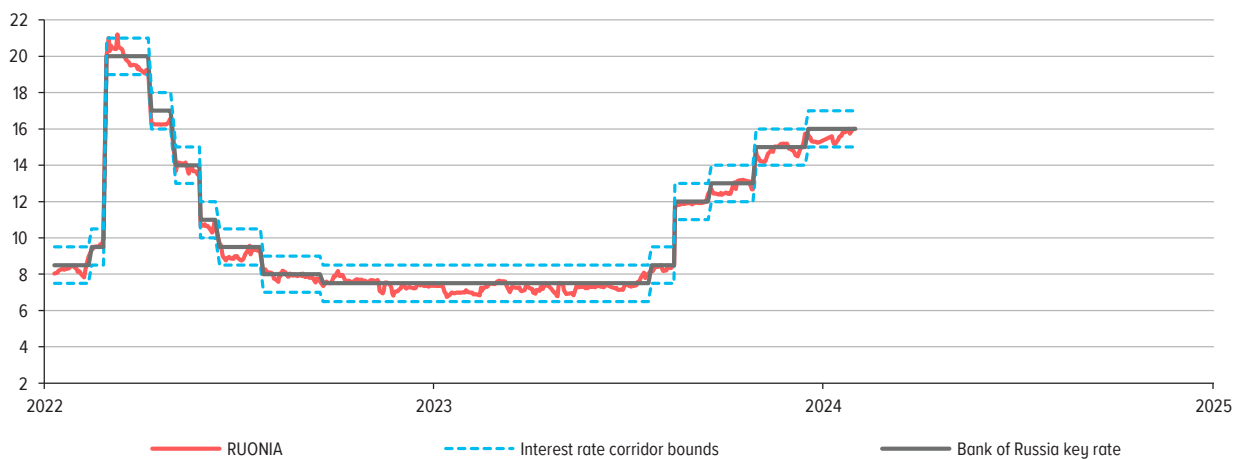
Table 1

	2023	January 2024
Liquidity deficit (+)/surplus (-) (at period start)	-3.5	0.0
Liquidity inflow (+)/outflow (-):	-3.4	1.7
– change in the balances of funds in general government accounts with the Bank of Russia and other operations*	1.0	1.3
– change in cash in circulation	-2.0	0.5
– change in required reserves	-2.4	-0.1
Liquidity deficit (+)/surplus (-) (at period end)	0.0	-1.7

* Including fiscal rule-based operations to buy (sell) foreign currency in the domestic FX market and other operations.
Source: Bank of Russia calculations.

RUONIA DYNAMICS
(%)

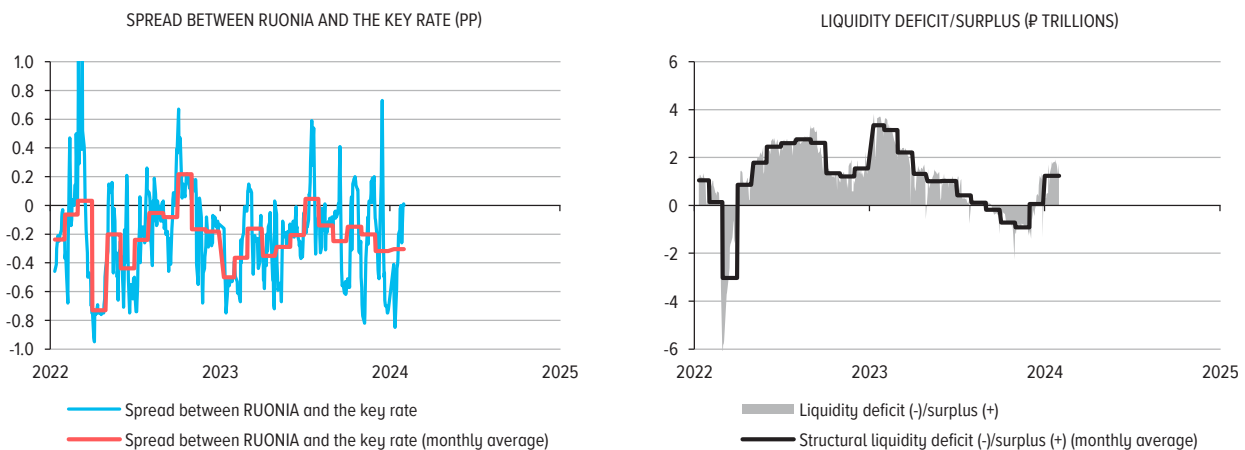
Chart 3



Source: Bank of Russia calculations.

IN JANUARY, THE AVERAGE MONTHLY SPREAD BETWEEN RUONIA AND THE BANK OF RUSSIA KEY RATE REMAINED ALMOST UNCHANGED COMPARED WITH THE PREVIOUS MONTH

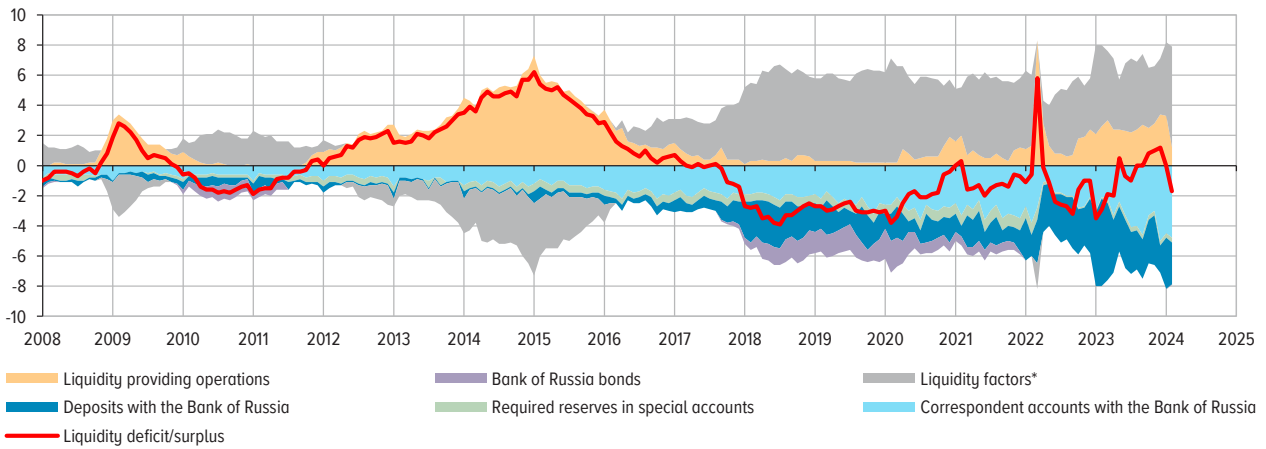
Chart 4



Source: Bank of Russia calculations.

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

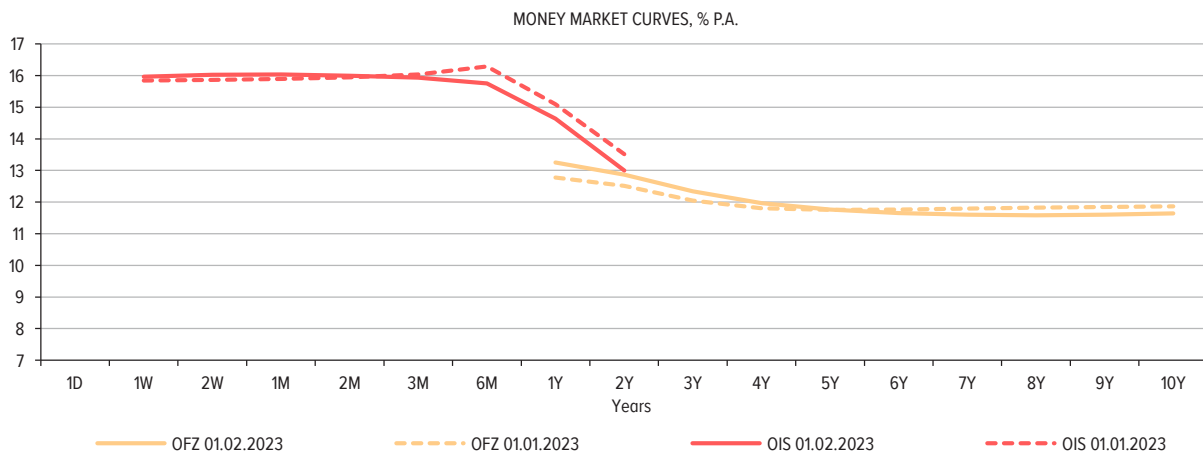
Chart 5



* This item is balancing and comprises changes in all other, not differentiated, items of the Bank of Russia's balance sheet.
Source: Bank of Russia calculations.

IN JANUARY, MONEY MARKET RATES WERE UP IN THE SHORT-TERM SEGMENT AND DOWN IN THE LONG-TERM ONE

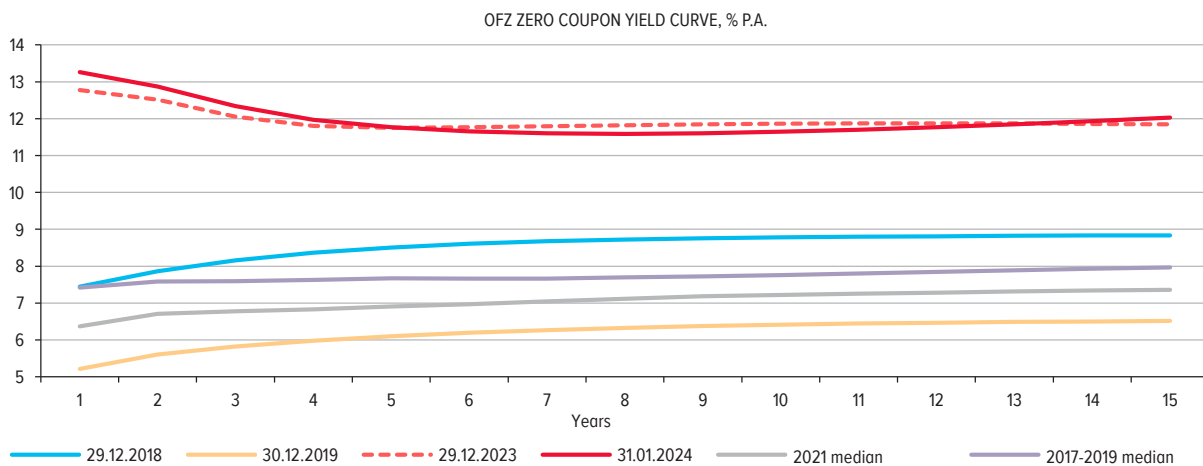
Chart 6



Note. The IRS curve for maturities of up to one year is built using ROISfix rates with respective maturities.
Sources: Moscow Exchange, NFA.

THE OFZ YIELD CURVE MOVED UPWARDS, ESPECIALLY FOR SHORT-TERM MATURITIES

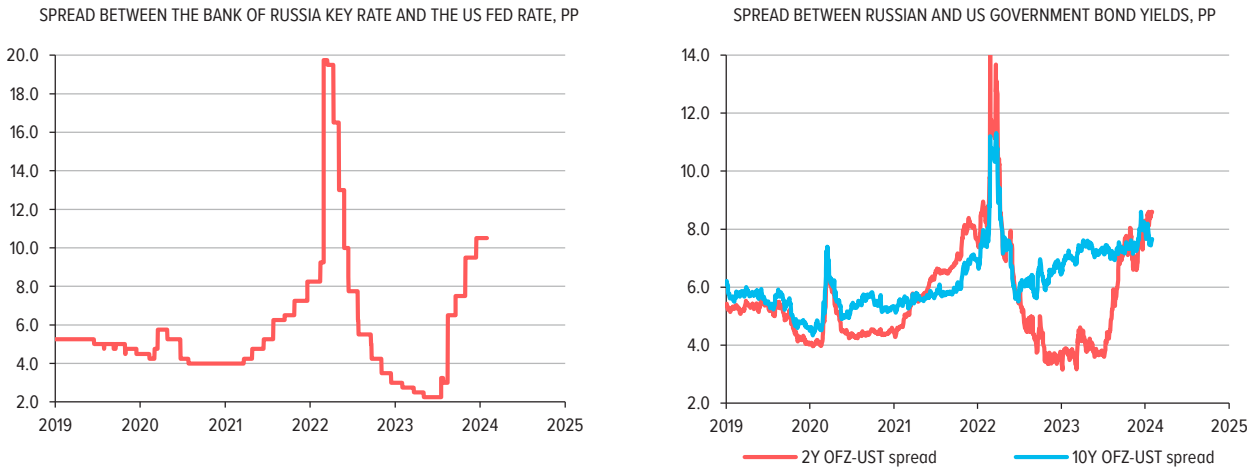
Chart 7



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

THE SPREAD BETWEEN RUSSIAN AND US GOVERNMENT BOND YIELDS REMAINED UNCHANGED

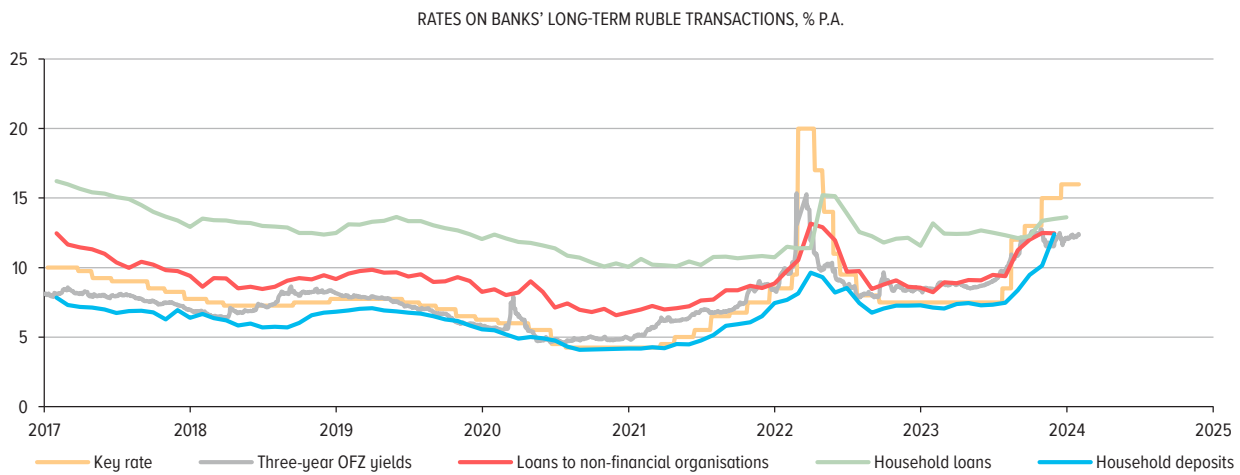
Chart 8



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

IN DECEMBER, CREDIT AND DEPOSIT RATES CONTINUED TO GROW

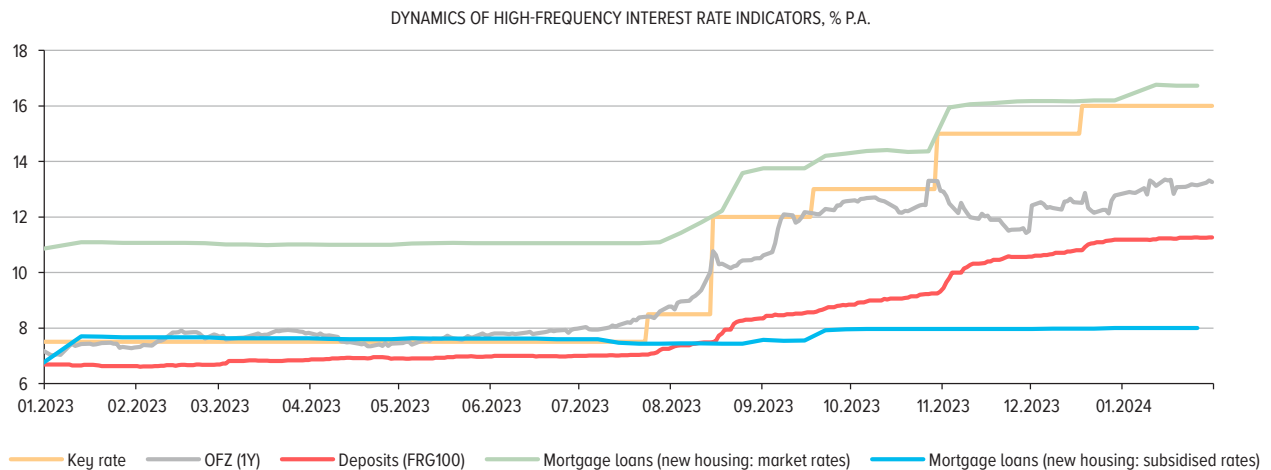
Chart 9



Source: Bank of Russia.

IN JANUARY, MARKET-BASED MORTGAGE RATES CONTINUED TO GROW

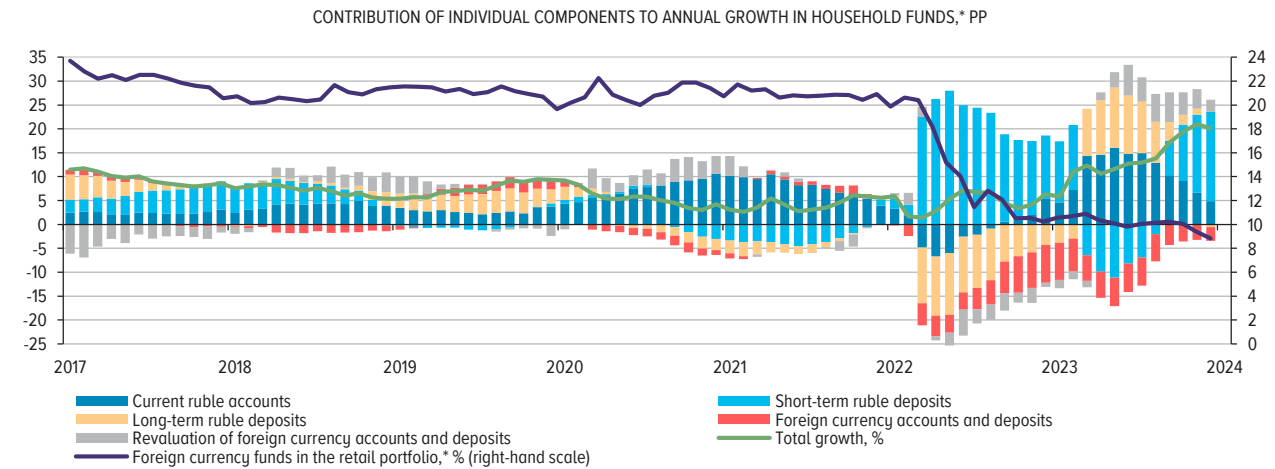
Chart 10



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

AT THE END OF DECEMBER, FUNDS IN SHORT-TERM RUBLE DEPOSITS REMAINED THE KEY DRIVER OF GROWTH IN BANK DEPOSIT PORTFOLIOS

Chart 11



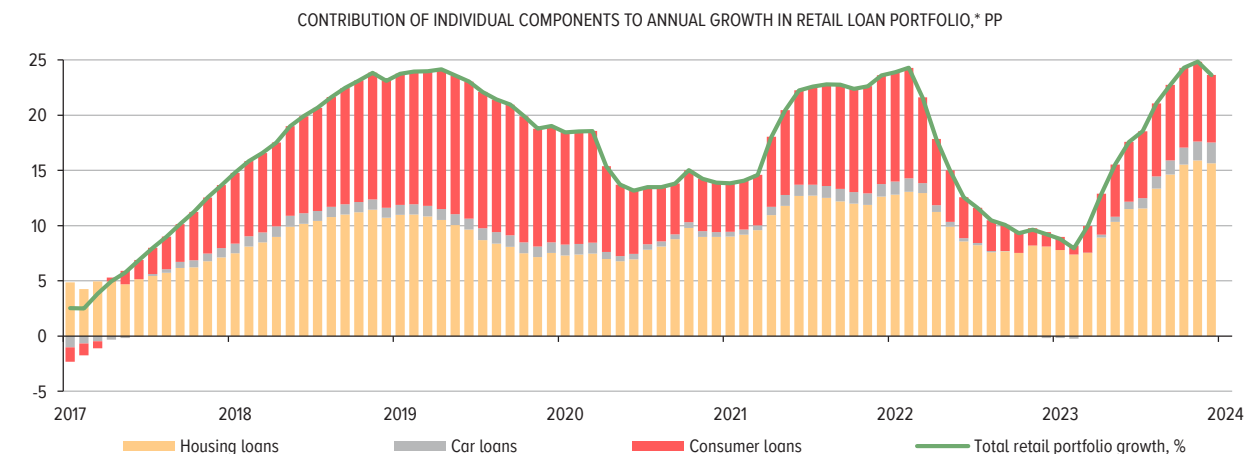
LENDING ACTIVITY SLOWED DOWN IN DECEMBER

Chart 12



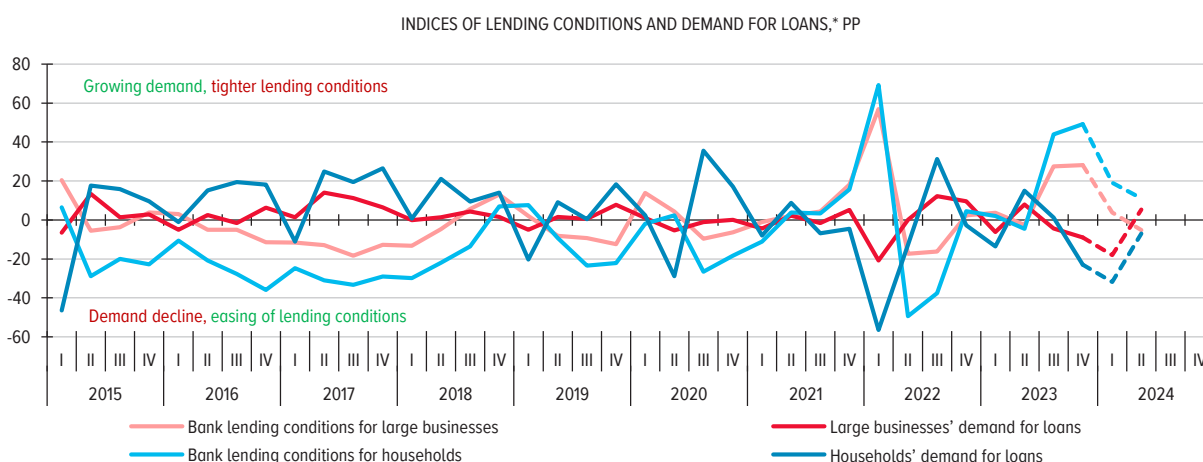
SUBSIDISED MORTGAGE PROGRAMMES WERE THE MAIN CONTRIBUTORS TO THE RETAIL LENDING DYNAMICS IN DECEMBER, THE PORTFOLIO OF CONSUMER LOANS SHRANK

Chart 13



IN 2023 Q4, LENDING CONDITIONS TIGHTENED MARKEDLY AGAIN FOR ALL KEY CATEGORIES OF BORROWERS

Chart 14



CREDIT AND DEPOSIT MARKET INDICATORS

Table 2

		September 2023	October 2023	November 2023	December 2023
Interest rates on banks' long-term ruble transactions					
household deposits	% p.a.	9.5	10.1	12.4	11.9
household loans	% p.a.	12.3	13.4	13.5	13.6
corporate loans	% p.a.	12.0	12.5	12.5	-
Household funds*	% YoY, AFCR	17.1	19.4	21.0	20.1
in rubles*	% YoY	24.0	25.7	27.0	25.7
in foreign currency	% YoY	-30.5	-27.0	-25.9	-23.8
share of foreign currency*	%	10.1	9.4	8.8	8.4
Corporate loans**	% YoY, AFCR	20.8	20.8	21.7	20.7
short-term (up to 1 year)	% YoY, AFCR	11.4	12.9	14.7	21.8
long-term (more than 1 year)	% YoY, AFCR	25.4	25.0	25.5	22.4
Household loans**	% YoY, AFCR	23.0	24.5	24.7	23.4
housing mortgage loans	% YoY, AFCR	29.1	30.6	31.0	30.1
unsecured consumer loans	% YoY	15.0	15.9	15.9	13.6
Banking system's claims on the economy	% YoY, AFCR	21.5	21.8	23.5	22.9
on businesses	% YoY, AFCR	21.2	21.0	23.2	22.8
on households	% YoY, AFCR	22.3	23.7	24.3	23.0
Money supply (M2)	% YoY	20.6	20.5	20.4	19.4
Broad money supply (M2X)	% YoY, AFCR	15.1	16.1	16.3	15.4

* Excluding escrow accounts.

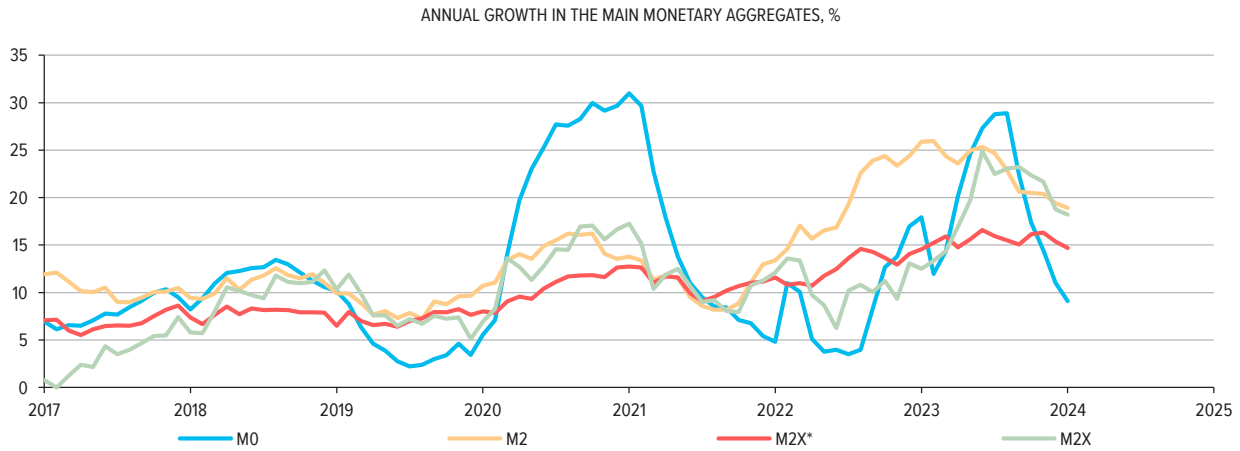
** Since 1 February 2021, the portfolios of corporate and retail loans include acquired claims. The portfolios' increases were calculated net of acquired claims.

Note. YoY – on the corresponding period of the previous 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 DECEMBER, THE GROWTH OF MONETARY AGGREGATES EDGED DOWN

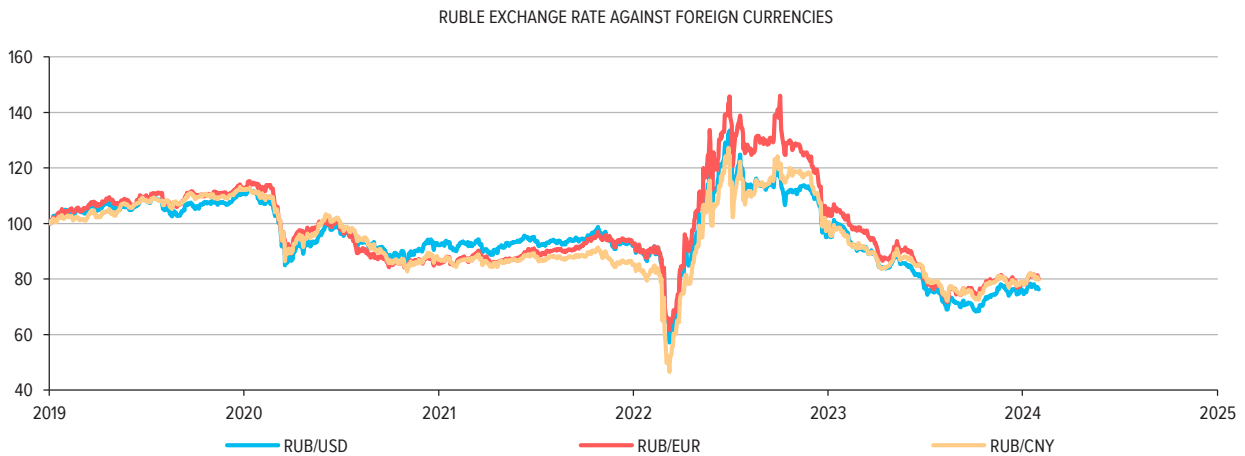
Chart 15



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

THE RUBLE WEAKENED SLIGHTLY IN DECEMBER
(02.01.2019 = 100)

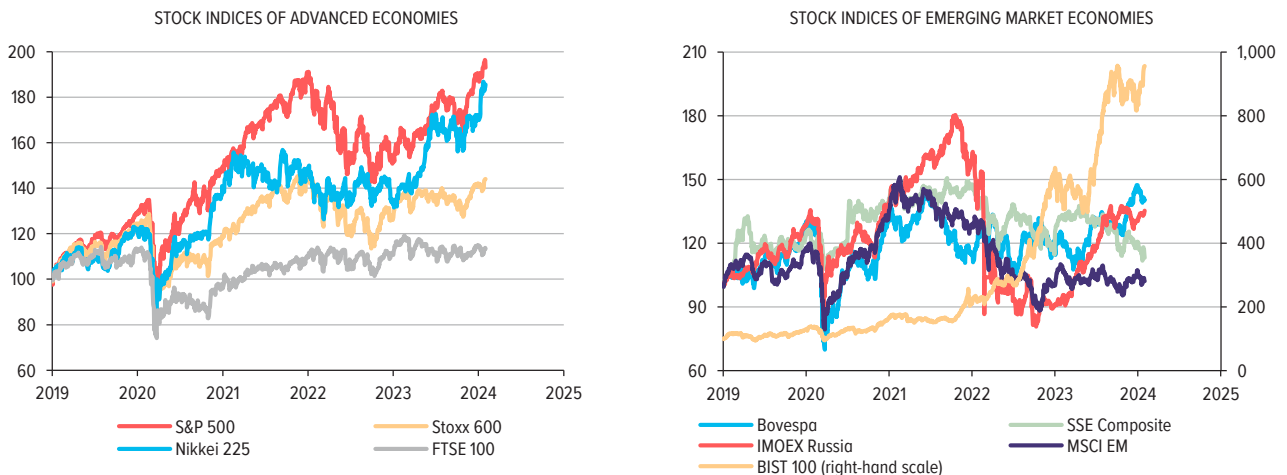
Chart 16



Sources: Cbonds, Bank of Russia calculations.

IN JANUARY, THE GROWTH OF INDICES MAINLY CONTINUED IN ADVANCED ECONOMIES
(02.01.2019 = 100)

Chart 17



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

RUSSIAN FINANCIAL MARKET SEGMENTS MOSTLY SHOWED POSITIVE TRENDS IN JANUARY

Table 3

Measure		31.01.2024	1M	3M	6M	YTD	1Y
Russian financial market ('+' – positive trends, '-' – negative trends)							
RUB/USD exchange rate		90.02	0.4	3.6	4.4	0.4	-27.9
MOEX Index, bp		3,214	3.7	0.4	3.5	3.7	45.8
RTS Index, bp		1,126	3.9	4.2	8.2	3.9	14.0
Government bond yields, %		12.01	3	-55	135	3	231
Corporate bond yields, %		14.69	51	89	467	51	498
Regional bond yields, %		13.04	42	26	322	42	389
RVI, p		22	-5	-4	-4	-5	-10
Exchange rates (per US dollar, % change, '+' – appreciation, '-' – depreciation)							
AEs*	US Dollar Index	103.27	1.9	-3.2	0.7	1.9	1.0
	Euro	1.08	-2.1	2.2	-1.2	-2.1	-0.4
	Japanese yen	147.24	4.5	-2.9	2.7	4.5	12.9
	Pound sterling	1.27	-0.6	4.3	-0.3	-0.6	2.6
EMEs	Ruble	90.02	0.4	3.6	4.4	0.4	-27.9
	Brazilian real	4.95	-2.1	1.7	-3.0	-2.1	3.2
	Mexican peso	17.21	-1.3	4.7	-1.1	-1.3	8.3
	Chinese yuan	7.10	-0.3	3.0	1.3	-0.3	-5.2
	Turkish lira	30.34	-2.9	-7.2	-12.5	-2.9	-61.5
	South African rand	18.71	-2.3	-0.4	-1.3	-2.3	-7.5
10-year bond yield (% p.a., change in bp, '+' – growth, '-' – decline)							
AEs	USA	3.99	11	-89	-9	11	44
	Germany	2.17	14	-64	-37	14	-7
	Japan	0.74	13	-20	14	13	27
	UK	3.79	26	-72	-61	26	47
EMEs	Russia	11.64	-22	-86	43	-22	108
	Brazil	10.60	24	-132	-15	24	-248
	Mexico	9.54	28	-106	31	28	48
	China	2.44	-15	-28	-26	-15	-51
	Turkey	26.71	158	-147	805	158	1,607
	South Africa	9.76	-1	-92	-61	-1	7
5Y CDS spreads (bp, change in bp, '+' – increase, '-' – decrease)							
AEs	USA	38	-5	-9	18	-5	3
	Germany	13	-4	-9	-1	-4	5
	Japan	22	-4	-8	6	-4	5
	UK	33	-3	1	6	-3	26
EMEs	Brazil	132	5	-43	-33	5	-89
	Mexico	86	1	-31	-18	1	-28
	China	65	4	-17	9	4	13
	Turkey	317	49	-67	-74	49	-221
	South Africa	227	30	-49	-18	30	-26
Stock indices (points, % change, '+' – increase, '-' – decrease)							
AEs	S&P 500	4,846	1.59	15.5	7.4	1.6	20.6
	Stoxx 600	486	1.39	12.0	5.4	1.4	6.9
	Nikkei 225	36,287	8.43	17.6	10.9	8.4	32.3
	FTSE 100	7,631	-1.33	4.2	0.9	-1.3	-2.0
EMEs	MSCI EM	976	-4.68	6.6	-4.3	-4.7	-6.5
	Bovespa	127,752	-4.79	12.9	5.7	-4.8	13.8
	IPC Mexico	57,373	-0.02	16.9	7.7	0.0	5.2
	SSE Composite	2,789	-6.27	-7.6	-14.5	-6.3	-14.7
	BIST 100	8,497	13.74	13.1	17.1	13.7	66.7
	FTSE/JSE	74,556	-3.04	7.0	-2.5	-3.0	-7.2

* Advanced economies.

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

Data cut-off dates:

- Banking sector liquidity and overnight rates (RUONIA) – 31 January 2024;
- Money and debt market yield curves – 31 January 2024;
- Credit and deposit market – 1 November 2023, high-frequency data – 31 December 2023.

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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