



Bank of Russia



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MONETARY CONDITIONS AND MONETARY POLICY TRANSMISSION MECHANISM

Information and analytical commentary

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MONETARY CONDITIONS AND MONETARY POLICY TRANSMISSION MECHANISM (FEBRUARY 2024)

In January–February, indicators of the monetary policy stance in the Russian economy continued to shift towards tightening (Chart 1). The continued signal from the Bank of Russia, which it intended to maintain tight monetary conditions for long supported the further transmission of the key rate increase in 2023 H2.

Both nominal and real OFZ yields were rising. Nevertheless, the latter showed stronger growth, suggesting a decrease in medium-term market-implied inflation expectations. In February, other indicators of inflation expectations were also down but still remained elevated. Lending activity remained subdued. The annual growth rate of monetary aggregates slowed down slightly, though remaining above the values of 2017–2019.

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.

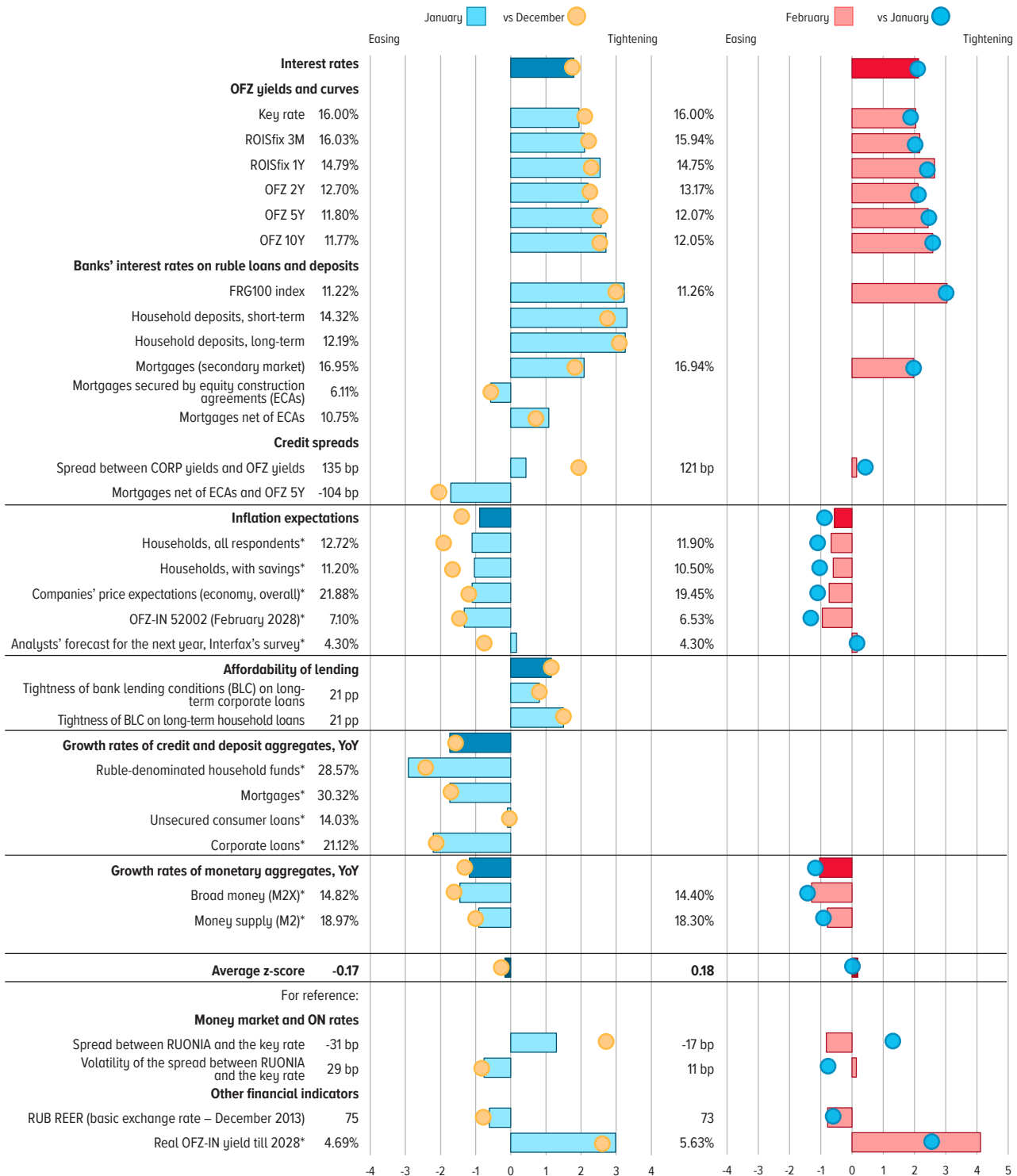
This material briefly describes the monetary policy transmission and the conditions of its functioning.

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

INDICATORS OF MONETARY TIGHTNESS

SOME INDICATORS OF MONETARY TIGHTNESS AND THEIR CHANGES IN DECEMBER 2023–JANUARY 2024

Chart 1



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

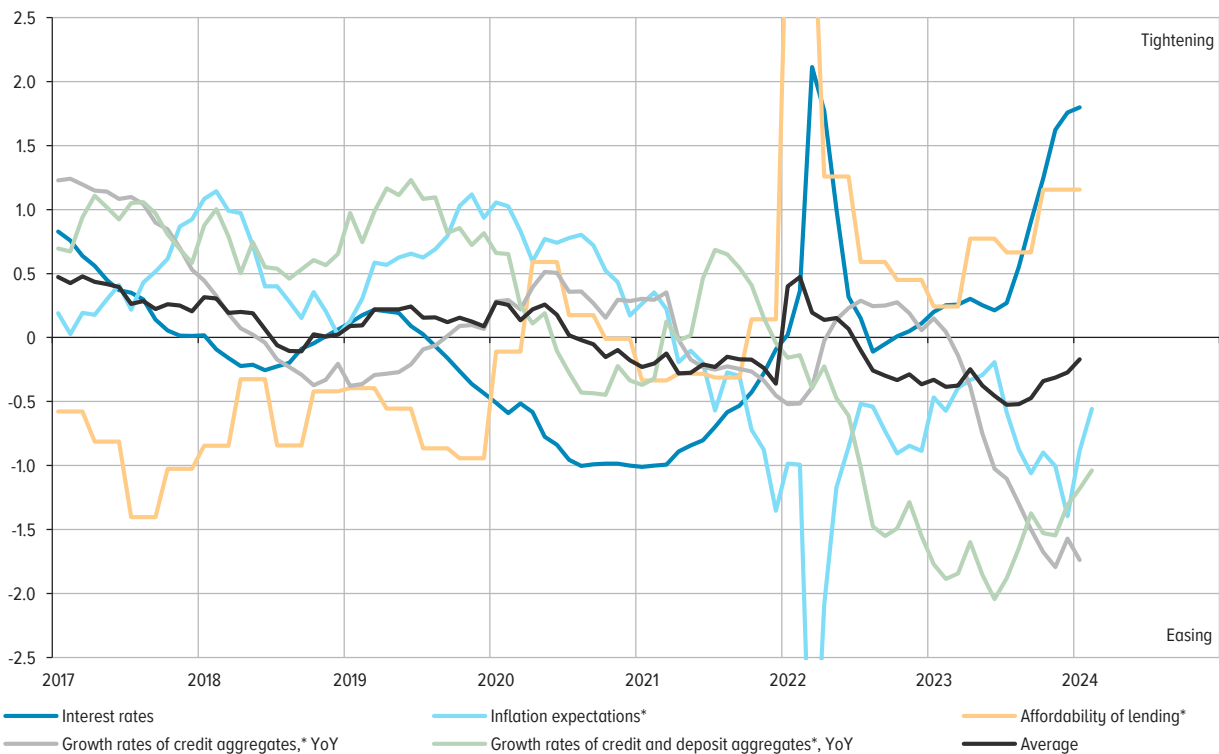
Note. The indicator panel represents one possible summary visualisation of key indicators to help assess the monetary conditions and their changes. It should not be considered a comprehensive presentation of all types of indicators that may be used to assess the nature and changes of monetary conditions.

The chart shows the level of the indicator (z-score) relative to the distribution of values from January 2017 to January 2024 (left-hand chart) and to February 2024 (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 TIGHTNESS

Chart 2



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

INTEREST RATES

- Monetary policy and key rate.** On 16 February 2024, the Bank of Russia Board of Directors decided to keep the key rate at 16.0% per annum, since current inflation pressures remained high despite an insignificant decrease from the peak values of the autumn months. Domestic demand was still outstripping the capacity to expand supply of goods and services. To make disinflationary processes sustainable, it was necessary for the regulator to maintain tight monetary conditions for a longer period. The Board of Directors' decision was anticipated by market participants. Moreover, considering the signal from the Bank of Russia, many market participants began to expect rates to remain high for long.
- Banking sector liquidity and overnight rates (RUONIA).** The average spread between RUONIA and the key rate narrowed to -17 bp in February (January: -31 bp) (Chart 4). The spread volatility decreased to 11 bp (January: 29 bp). In the first half of the month, RUONIA was close to the key rate. At the beginning of the February¹ averaging period (AP), demand for liquidity decreased and the spread widened. The average liquidity surplus grew to ₺1.5 trillion (January: ₺1.2 trillion). This was in part due to the dynamics of budgetary funds' inflow into banks in January–February and the uneven averaging of required reserves (RRs) by banks during the month. During the February AP, the liquidity surplus was decreasing on average, primarily because the Bank of Russia was mirroring transactions conducted using money from the National Wealth Fund (NWF)² in 2023. In addition, RRs increased due to growth in the deposit base. The amount of cash in circulation remained actually the same in February (the liquidity inflow totalled ₺0.5 trillion in January),

¹ From 14 February 2024 to 12 March 2024.

² See [Bank of Russia comments, dated 28 December 2023](#).

whereas a low seasonal outflow of liquidity to cash is typical for February. Still-high deposit rates supported the trend towards returning some cash to banks. It is expected that by the end of 2024, the banking sector will have a structural liquidity deficit³ from ₺0.6 trillion to ₺1.4 trillion (Table 1).

- **Money market.** As of the end of February, the ROISfix curve slightly shifted downwards for maturities up to six months (from -1 bp to -14 bp) and upwards for longer terms (from 25 bp to 31 bp): 3M – 15.94%; 6M – 15.63%; 1Y – 14.9%; 2Y – 13.31% (Chart 6). Notably, there was a decrease in average monthly rates for maturities from two months (from -2 bp to -28 bp). Market participants consider the current level of the key rate as the peak of the monetary policy tightening cycle. However, after the Board of Directors' key rate meeting, their expectations pushed the start of monetary policy easing to a later date.
- **OFZ.** In February, average monthly yields rose for all maturities (by 20–60 bp), with the least changes occurring in the segment of medium-term securities. The upward shift in the yield curve was generally associated with the revision of market expectations regarding the future key rate path. Market participants began to allow for a longer period of high rates after the corresponding signal from the Bank of Russia following the February key rate meeting. The real yield on OFZ-IN was up again in February (to 5.6% on average), indicating a tightening of monetary conditions. The structure of the OFZ secondary market participants changed. Collective investors were the major net buyers, while individuals, SICs and other credit institutions were the net sellers. In the primary market, the Russian Ministry of Finance raised almost the same amount as in the previous month (revenue in February: ₺247 billion; in January: ₺216 billion; YtD: ₺0.54 trillion; i.e. 12% of the annual borrowing plan). Activity in the market was supported by a large redemption of OFZs in the amount of ₺0.3 trillion. Demand for standard OFZ-PD issues mainly came from SICs. Securities were offered with the standard premium to the secondary market yield (3–5 bp). Collective investors demonstrated a keen interest in OFZ-IN issues.
- **Corporate bond market.** Based on the IFX–Cbonds index, corporate bond yields edged up to 14.78% (9 bp) as of the end of February. The monthly average spread between them and government bond yields narrowed slightly (February: 121 bp, January: 135 bp). In the primary market, corporate borrowers raised less funds in February year-on-year (February 2024: ₺378 billion; February 2023: ₺463 billion).

BANKS' INTEREST RATES ON RUBLE LOANS AND DEPOSITS

- **Deposit rates.** According to preliminary data, interest rates on household deposits increased in January, more significantly – on short-term deposits. Banks may have adjusted their deposit rates, in part because of their adaptation to the need to comply with the liquidity coverage ratio from 3 January 2024. Deposit rates remained actually unchanged in February, with the FRG100 index fluctuation amounting to -0.02 pp (Charts 9 and 10).
- **Corporate loan rates.** The higher cost of bank funding passed through to lending rates, though with a lag. In December, corporate loan rates rose more significantly than in October–November (Chart 9). According to recent data, corporate loan rates continued to grow in January–February.
- **Retail loan rates.** According to preliminary data, retail loan rates were still rising in January (Charts 9 and 10). Interest rates on ruble-denominated mortgage loans increased to 8.43% in January from 7.91% in December. However, they generally stayed at a lower level because of a large proportion of subsidised facilities in new loans. Rates on consumer loans grew more noticeably.

³ For details, see the [Commentary on the Bank of Russia's Medium-term Forecast, dated 27 February 2024](#).

GROWTH RATES OF CREDIT AND DEPOSIT AGGREGATES

- **Client deposits with banks.** Households' propensity to save was in part supported by a continuously high level of deposit rates backed by the current monetary policy stance. The annual increase in household funds with banks⁴ reached 23.3% in January compared to 20.1% in December 2023.⁵ The monthly change in household ruble balances with banks was -0.7%, which was noticeably less than the seasonal decrease in the said balances in January 2019–2022. As in previous months, annual growth in household funds with banks was largely driven by time ruble deposits for up to one year. The share of foreign currency remained near historical lows (Chart 11).
- **Corporate lending.** The annual increase in corporate loans amounted to 21.1% in January vs 20.7% in December 2023. This was fuelled by slightly faster annual growth in ruble corporate loans compared to December. According to recent data, corporate lending showed moderate dynamics in February, including due to sizeable transfers of budgetary funds to advance money for public procurement (Chart 12).
- **Retail lending.** Lending activity in the retail segment was seasonally low in January. Nevertheless, annual growth in the mortgage loan portfolio did not change significantly in January, amounting to 30.4% after 30.1% in December. New mortgage loans totalled ₹272 billion in January vs ₹785 billion in December 2023. The proportion of government-subsidised loans dropped to 71% from 85% in December 2023 in response to changes in the subsidised mortgage conditions. Unsecured consumer loans increased by 0.9% in January compared to -0.1%⁶ in December. However, this increase is generally associated with historical seasonality and does not suggest that consumer lending is returning to the accelerated growth path (Charts 12 and 13).

GROWTH RATES OF MONETARY AGGREGATES

- **Money supply.** In January, annual growth of money supply aggregates M2 and M2X slowed down to 19.0% (19.4% in December 2023) and 14.8% (15.4% in December 2023), respectively. In January, slower growth in money supply was in part caused by the continuing decline in the fiscal impulse amid a decreased contribution of lending to the economy. According to recent data, money supply growth continued to slow down gradually in February 2024, but in annualised terms, it remained significantly higher than the values of 2017–2019 when inflation was close to 4% (Chart 15).

⁴ Hereinafter, individuals' funds with banks include balances in time deposits, demand deposits and current accounts, but do not include escrow accounts under equity construction contracts.

⁵ 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.

⁶ Adjusted for a large securitisation transaction.

- **Exchange rate (foreign exchange channel)**

After a slight strengthening in January, the ruble exchange rate somewhat weakened by the end of February 2024 and amounted to 91.2 rubles per US dollar (+1.3%), 98.6 rubles per euro (+1.1%), and 12.6 rubles per yuan (+0.6%). The monthly average exchange rate of the ruble against the US dollar showed the similar trend (+2.4% MoM).

The **real effective exchange rate of the ruble (REER)**, calculated against the currencies of the main foreign trade partners, strengthened by 2.4% in January (-15.8% YoY). According to preliminary data, the REER decreased by 2.5% in February compared to January, staying close to its median value of the recent years (-4% vs the median of January 2015–January 2024).

Foreign markets

The GDP-weighted average policy rates almost remained unchanged worldwide. In advanced economies, the policy rate stayed at the same level in February (4.46%; 0 bp – only the Czech National Bank reduced the policy rate by 50 bp). In emerging market economies, the weighted average policy rate decreased by 2 bp to 8.19% mainly under the impact of policy rates cuts by 100 bp by the Magyar Nemzeti Bank (the central bank of Hungary) and by 50 bp by the National Bank of Kazakhstan.

As of the end of February, the US Treasury yield curve rose along its entire length, most significantly – in the medium-term segment (UST 2Y: 4.64%, 37 bp MoM; UST 10Y: 3.99%, 26 bp MoM). The DXY Index continued to grow and totalled 104.2 (+0.85%) as of the end of the month. European yield curves generally showed similar dynamics. Given central bank communications and persistent inflationary pressures in the US and the euro area, market participants revised their expectations regarding the start of policy rate cuts by the US Fed and the ECB and began to anticipate that policy rates would remain at elevated levels for a longer period. Nevertheless, active growth in stock markets continued in February (S&P 500: +5.2%; Stoxx 600: +1.8%; Nikkei 225: +7.9%) (Chart 20). Key stock indices hit historical highs.

In emerging market economies, currencies demonstrated mixed dynamics against the US dollar (BRL: -0.3%; MXN: +0.9%; CNY: -1.3% MoM). Stock indices in national currencies were mainly rising (MSCI EM: +4.6%; Bovespa: +1.0%; IPC Mexico: -3.4%; SSE Composite: +8.1%; BIST 100: +8.2%) (Chart 20).

CHARTS AND TABLES

THE STRUCTURAL LIQUIDITY DEFICIT IS EXPECTED FROM ₺0.6 TRILLION TO ₺1.4 TRILLION AS OF THE END OF 2024

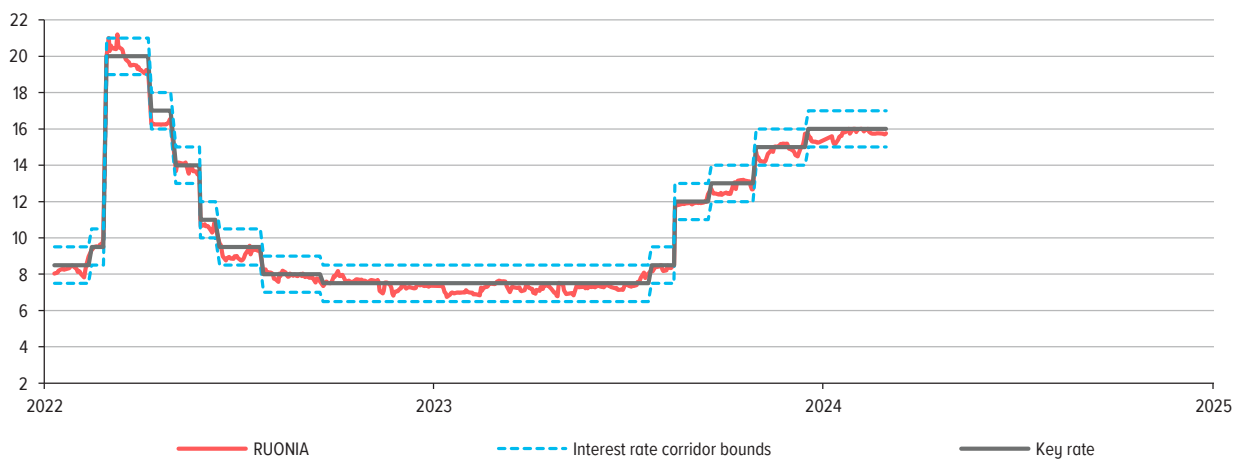
Table 1

	2023	January–February 2024	February 2024	2024 (forecast)
Liquidity deficit (+)/surplus (-) (at period start)	-3.5	0.0	-1.7	0.0
Liquidity inflow (+)/outflow (-):	-3.4	0.7	-1.0	[-1.5; -0.7]
– change in the balances of funds in general government accounts with the Bank of Russia and other operations*	1.0	0.3	-1.0	[0.7; 0.9]
– change in cash in circulation	-2.0	0.5	0.0	[-1.6; -1.2]
– change in required reserves	-2.4	-0.1	-0.1	[-0.6; -0.4]
Liquidity deficit (+)/surplus (-) (at period end)	0.0		-0.7	[0.6; 1.4]

* 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
(%)

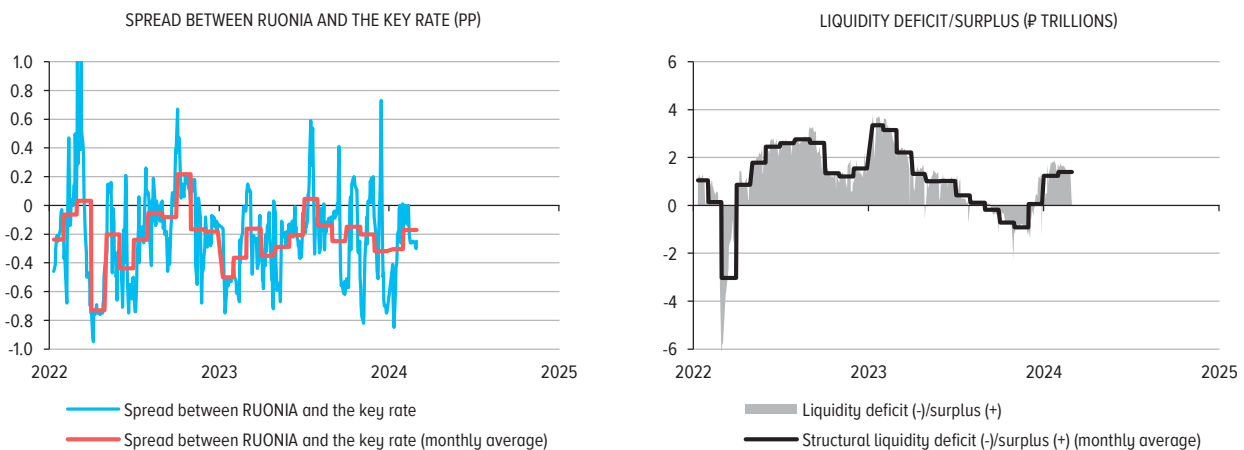
Chart 3



Source: Bank of Russia calculations.

THE AVERAGE SPREAD BETWEEN RUONIA AND THE BANK OF RUSSIA KEY RATE NARROWED OVER FEBRUARY

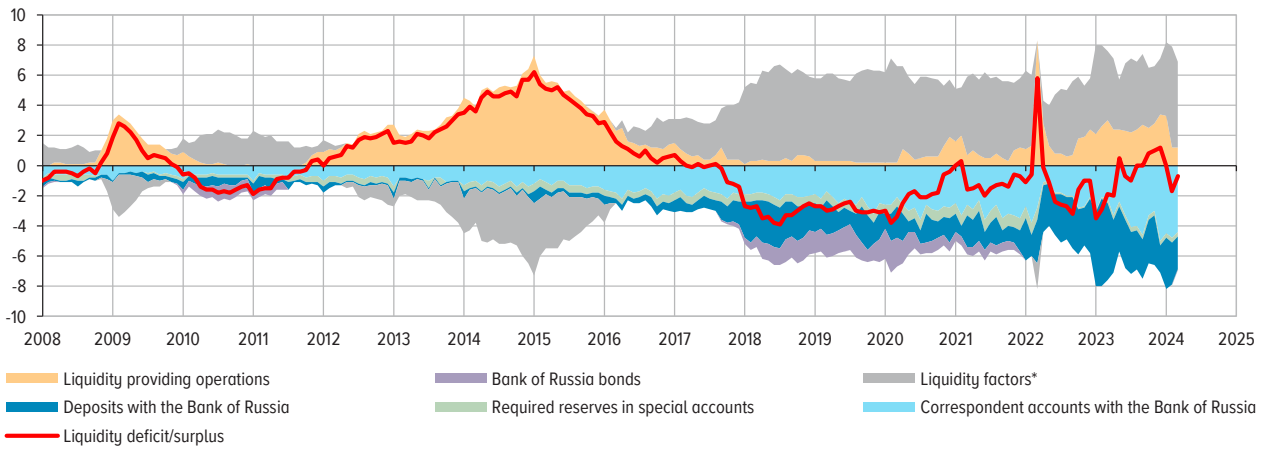
Chart 4



Source: Bank of Russia calculations.

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

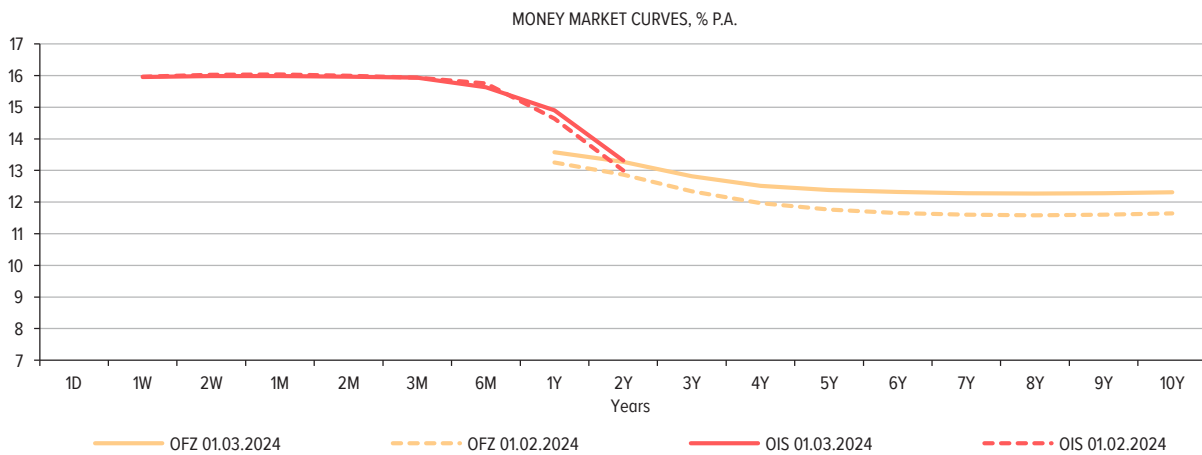
Chart 5



* 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 FEBRUARY, MONEY MARKET CURVES SHIFTED UPWARDS IN THE LONG-TERM SEGMENT

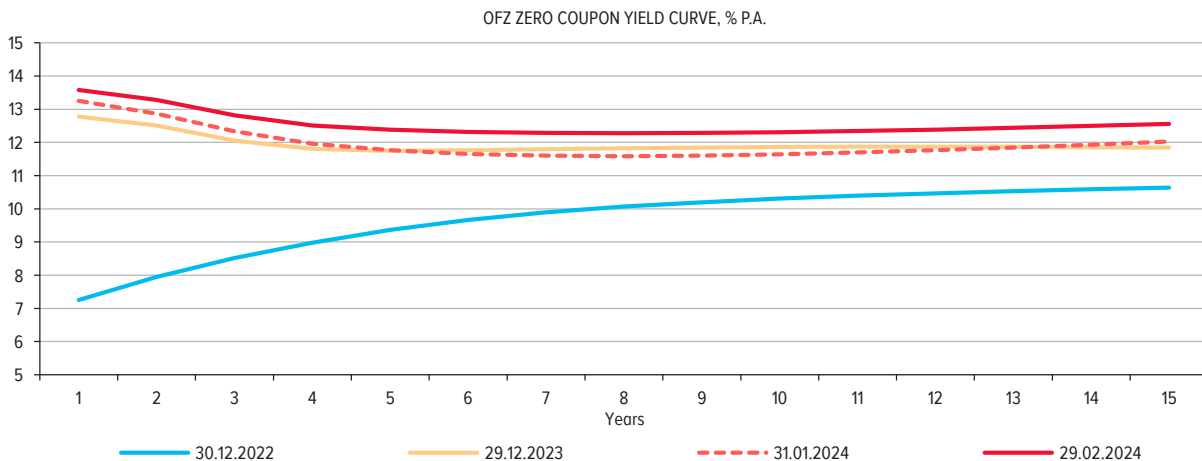
Chart 6



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 CURVE MOVED UPWARDS ALONG ITS ENTIRE LENGTH

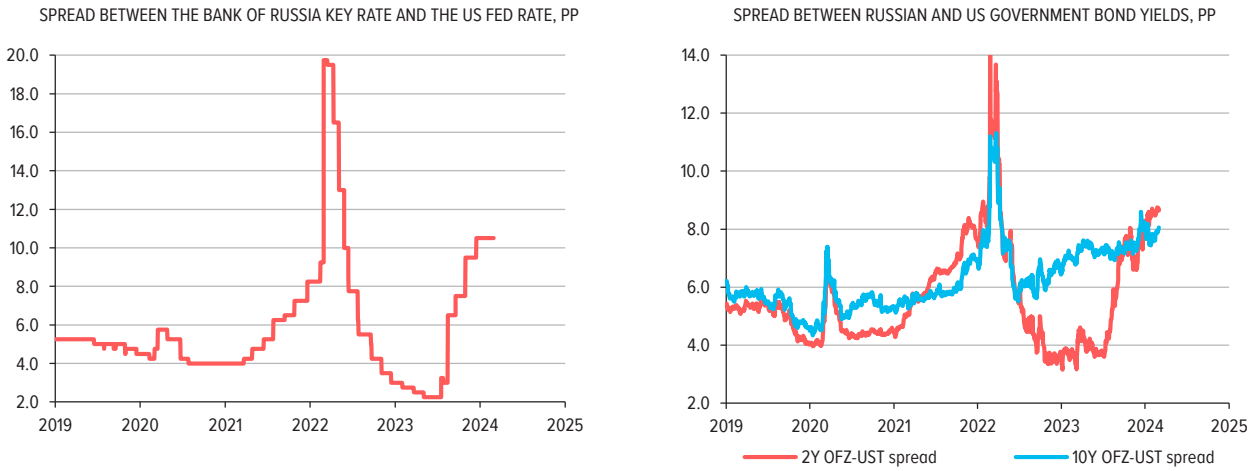
Chart 7



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

THE SPREAD BETWEEN RUSSIAN AND US GOVERNMENT BOND YIELDS REMAINED AT THE SAME LEVEL

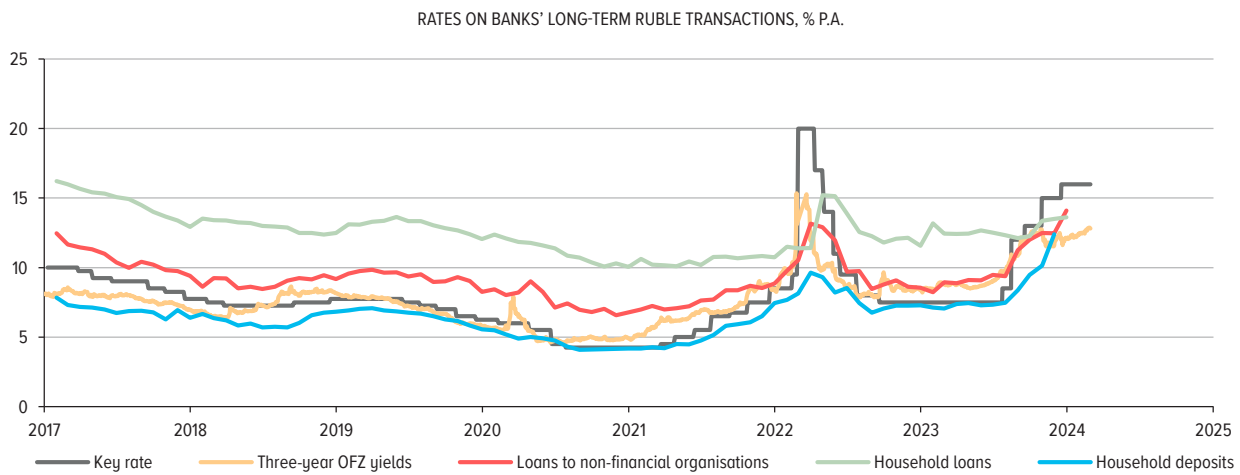
Chart 8



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

CREDIT AND DEPOSIT RATES WERE RISING IN JANUARY

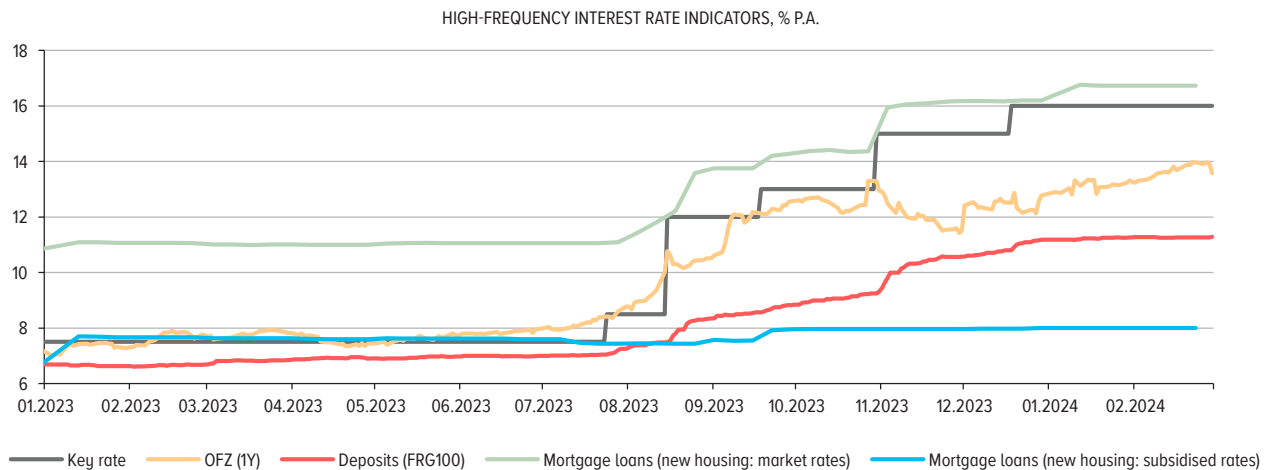
Chart 9



Source: Bank of Russia.

MARKET-BASED BANK RATES CONTINUED TO GROW IN FEBRUARY

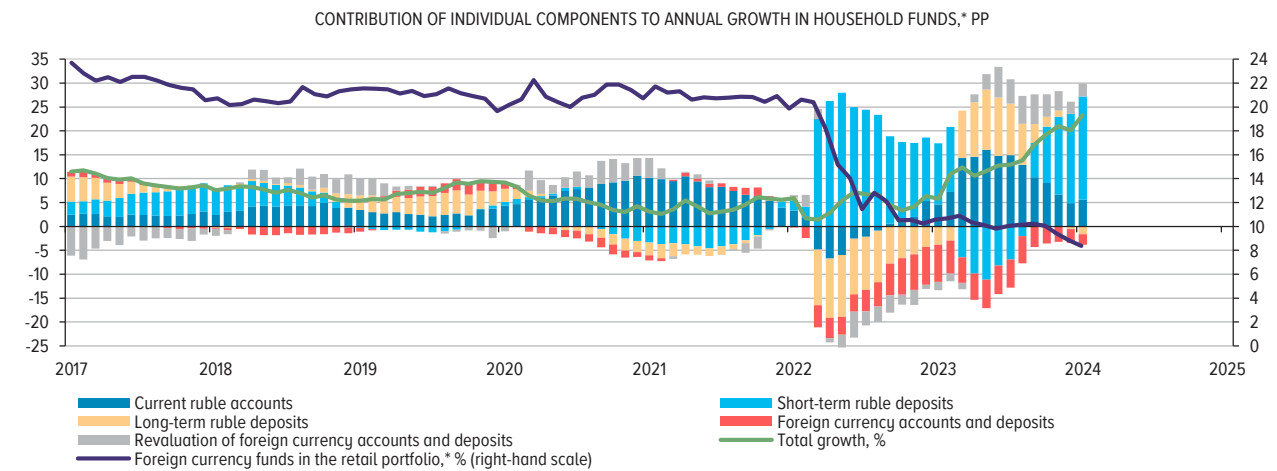
Chart 10



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

TIME DEPOSITS WERE THE KEY DRIVER OF ANNUAL GROWTH IN HOUSEHOLD FUNDS WITH BANKS

Chart 11



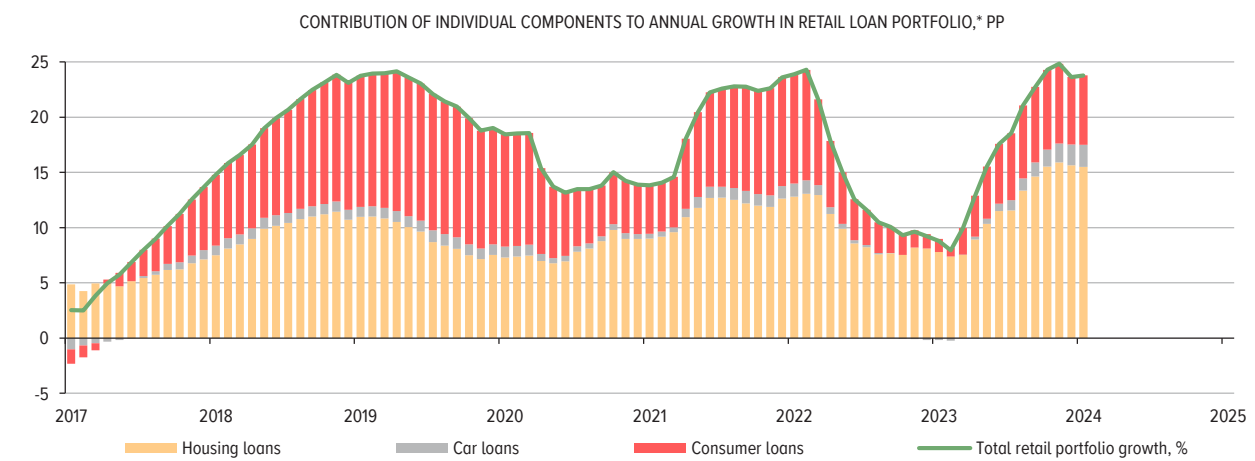
LENDING DYNAMICS WERE MODERATE IN JANUARY

Chart 12



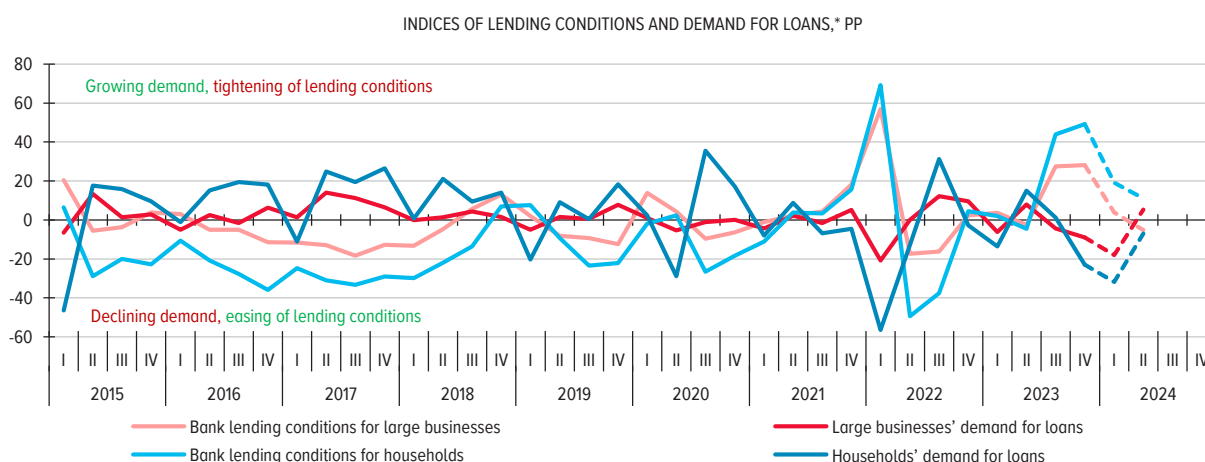
MORTGAGE LENDING CONTINUED TO BE THE MAIN CONTRIBUTOR TO CHANGES IN THE RETAIL LOAN PORTFOLIO

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

		October 2023	November 2023	December 2023	January 2024
Interest rates on banks' long-term ruble transactions					
household deposits	% p.a.	10.1	12.4	11.9	-
household loans	% p.a.	13.4	13.5	13.6	-
corporate loans	% p.a.	12.5	12.5	14.1	-
Household funds*	% YoY, AFCR	19.4	21.0	20.1	23.3
in rubles*	% YoY	25.7	27.0	25.7	28.6
in foreign currency	% YoY	-27.0	-25.9	-23.8	-17.9
share of foreign currency*	%	9.4	8.8	8.4	8.9
Corporate loans**	% YoY, AFCR	20.8	21.7	20.7	21.1
short-term (up to 1 year)	% YoY, AFCR	12.9	14.7	21.8	24.5
long-term (over 1 year)	% YoY, AFCR	25.0	25.5	22.4	22.1
Household loans**	% YoY, AFCR	24.5	24.7	23.4	23.5
housing mortgage loans	% YoY, AFCR	30.6	31.0	30.1	30.4
unsecured consumer loans	% YoY	15.9	15.9	13.6	14.0
Banking system's claims on the economy	% YoY, AFCR	21.8	23.5	22.9	23.1
on businesses	% YoY, AFCR	21.0	23.2	22.8	23.0
on households	% YoY, AFCR	23.7	24.3	23.0	23.2
Money supply (M2)	% YoY	20.5	20.4	19.4	19.0
Broad money (M2X)	% YoY, AFCR	16.1	16.3	15.4	14.8

* Excluding escrow accounts.

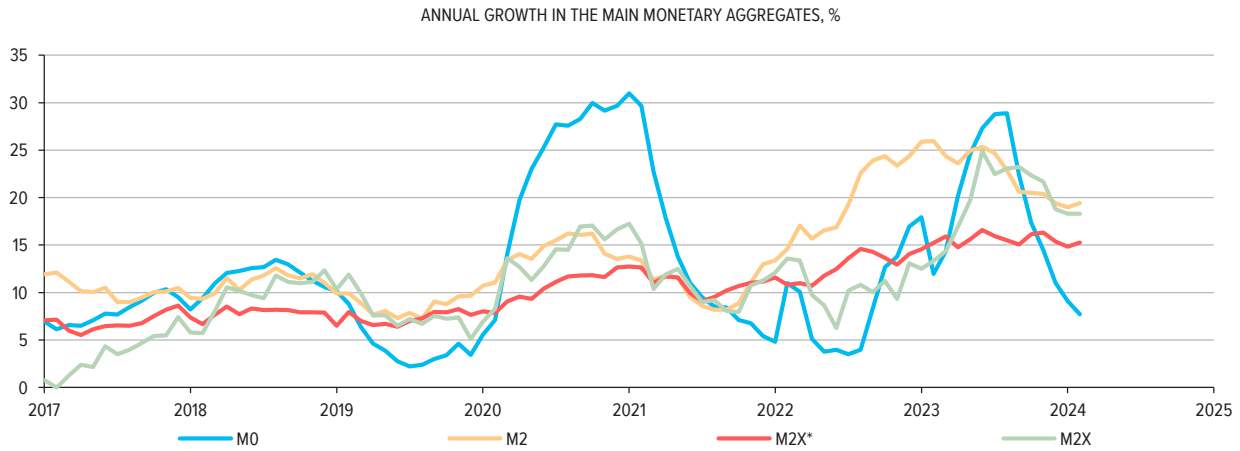
** Since 1 February 2021, the portfolios of corporate and retail loans include acquired claims. The portfolios' increases were calculated net of acquired claims.

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.

MONETARY AGGREGATES SLOWED DOWN IN JANUARY

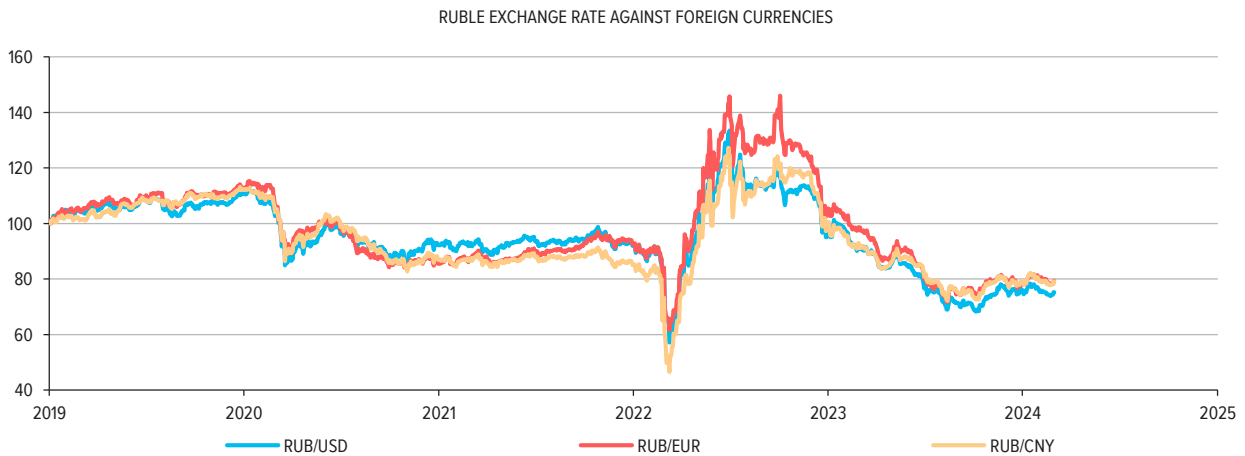
Chart 15



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

THE RUBLE WEAKENED SLIGHTLY IN FEBRUARY
(02.01.2019 = 100)

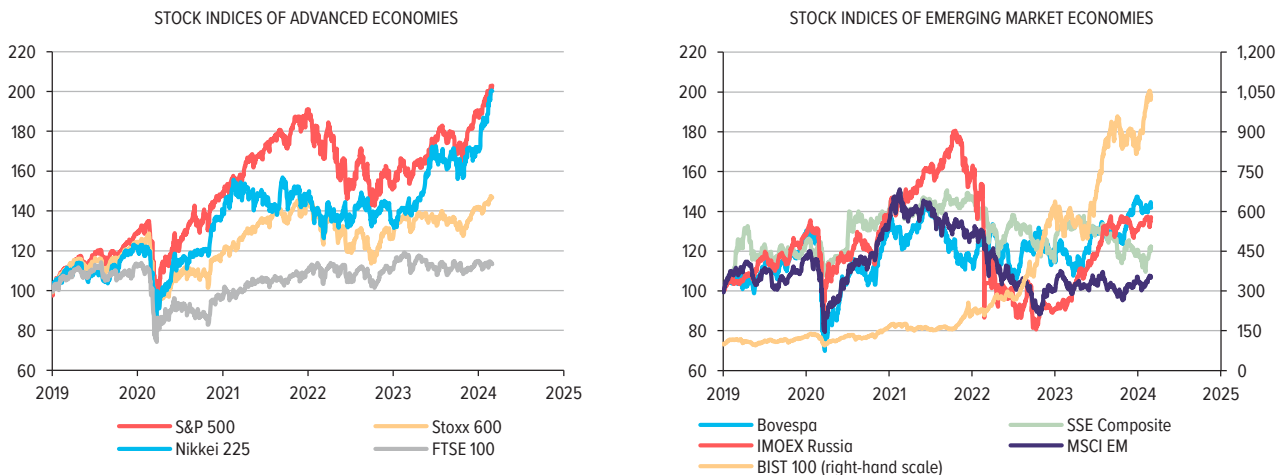
Chart 16



Sources: Cbonds, Bank of Russia calculations.

IN JANUARY, INDICES CONTINUED TO GROW MAINLY 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 NEGATIVE TRENDS, EXCEPT THE STOCK MARKET

Table 3

Measure		29.02.2024	1M	3M	6M	YTD	1Y
Russian financial market ('+' – positive trends, '-' – negative trends)							
RUB/USD exchange rate		91.15	-1.3	-2.9	5.1	-0.9	-21.6
MOEX Index, bp		3,257	1.3	2.6	0.9	5.1	44.5
RTS Index, bp		1,127	0.2	-0.1	6.7	4.0	19.1
Government bond yields, %		12.51	50	84	130	53	249
Corporate bond yields, %		14.78	9	91	345	60	474
Regional bond yields, %		13.48	44	66	259	86	410
RVI, p		21	-2	-4	-4	-7	-24
Exchange rates (per US dollar, % change, '+' – appreciation, '-' – depreciation)							
AEs*	US Dollar Index	104.16	0.9	1.4	0.5	2.8	-0.7
	Euro	1.08	0.0	-1.5	-0.3	-2.1	1.9
	Japanese yen	149.92	1.8	1.8	3.0	6.4	10.1
	Pound sterling	1.26	-0.4	-0.5	-0.4	-1.0	5.2
EMEs	Ruble	91.15	-1.3	-2.9	5.1	-0.9	-21.6
	Brazilian real	4.97	-0.3	-1.3	-0.3	-2.4	4.4
	Mexican peso	17.05	0.9	1.5	0.0	-0.4	7.2
	Chinese yuan	7.19	-1.3	-1.4	0.3	-1.5	-3.7
	Turkish lira	31.23	-2.9	-7.9	-17.0	-5.9	-65.4
	South African rand	19.18	-2.5	-2.3	-1.6	-4.8	-4.4
10-year bond yield (% p.a., change in bp, '+' – growth, '-' – decline)							
AEs	USA	4.25	26	-2	16	37	33
	Germany	2.41	25	-2	-5	39	-24
	Japan	0.71	-3	1	6	10	21
	UK	4.12	33	3	-24	59	30
EMEs	Russia	12.31	67	60	87	44	144
	Brazil	10.81	21	-17	-35	44	-246
	Mexico	9.50	-4	-26	-19	24	-16
	China	2.37	-8	-34	-23	-23	-57
	Turkey	26.88	17	-123	777	175	1,635
	South Africa	10.14	39	12	-14	37	3
5Y CDS spreads (bp, change in bp, '+' – increase, '-' – decrease)							
AEs	USA	36	-2	-10	16	-7	3
	Germany	12	-1	-7	-5	-5	4
	Japan	20	-2	-7	-1	-5	3
	UK	30	-4	-5	1	-7	23
EMEs	Brazil	120	-11	-15	-41	-6	-98
	Mexico	82	-4	-10	-15	-4	-29
	China	67	1	7	-9	6	-5
	Turkey	279	-38	-38	-86	11	-263
	South Africa	228	1	0	-16	31	-26
Stock indices (points, % change, '+' – increase, '-' – decrease)							
AEs	S&P 500	5,096	5.17	12.0	13.1	6.8	28.4
	Stoxx 600	495	1.84	7.7	7.9	3.3	7.3
	Nikkei 225	39,166	7.94	17.5	20.1	17.0	42.7
	FTSE 100	7,630	-0.01	2.8	2.6	-1.3	-3.1
EMEs	MSCI EM	1,021	4.63	3.9	4.1	-0.3	5.9
	Bovespa	129,020	0.99	2.3	11.5	-3.8	23.0
	IPC Mexico	55,414	-3.41	5.0	4.5	-3.4	5.0
	SSE Composite	3,015	8.13	-0.2	-3.4	1.4	-8.1
	BIST 100	9,194	8.20	14.8	16.1	23.1	75.5
	FTSE/JSE	72,730	-2.45	-3.3	-3.0	-5.4	-6.4

* Advanced economies.

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

Data cut-off dates:

- Interest rates – 29 February 2024;
- Banks' interest rates on ruble loans and deposits – 1 February 2024, high-frequency data – 29 February 2024.

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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Bldg V, 12 Neglinnaya Street, Moscow, 107016

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