



Bank of Russia



BANKING SECTOR LIQUIDITY AND FINANCIAL MARKETS

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Information and analytical commentary

14 May 2021

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

- In April, liquidity surplus expanded on the back of decreased balances in credit institutions' correspondent accounts with the Bank of Russia and the respective increase in the balances of their deposit accounts following the Bank of Russia key rate hike. Demand for cash was up before the May holidays; however, the inflow of funds via the fiscal channel partially offset this liquidity outflow.
- The liquidity surplus forecast for the end of 2021 was raised by 0.1 trillion rubles to 0.9–1.5 trillion rubles. Adjustment was made to the assumptions regarding the pace at which part of cash will return to banks after the elevated demand for cash during the pandemic and a rise in temporarily available budgetary funds to be placed with banks.
- The average spread of interbank lending (IBL) rates to the Bank of Russia key rate widened, and money market interest rate curves grew along their entire length in anticipation of the key rate hike in April. The Bank of Russia Board of Directors' decision of 23 April to raise the key rate by 50 bp was expected by the market and, therefore, did not produce a considerable impact on its rates.
- The foreign currency liquidity situation remains favourable. The spread between interest rates in the FX swap and the IBL segments contracted to +3 bp on average as a result of non-residents' restoring their long ruble positions.
- In April, the OFZ yield curve grew in the short segment on the back of expectations of an earlier return to neutral monetary policy and dropped in the long segment because of a decrease in sanctions risks and lower yields on US government bonds. The movements of the ruble exchange rate during the month were mainly determined by the geopolitical situation.
- In March, interest rates on ruble deposits remained low, though a certain upward trend emerged in some market segments. The annual growth of retail deposits continued to be limited by households' elevated interest in alternative savings instruments.
- In 2021 Q1, long-term interest rates on corporate loans demonstrated certain growth. In March, interest rates continued to decline across all segments of the retail lending market.
- In March, the growth of retail lending continued to accelerate due to high activity in both the mortgage and the consumer lending segments. The growth of the corporate loan portfolio slowed down in annualised terms due to the exhaustion of the effect of growth in borrowing at the beginning of the pandemic.
- The growth of money supply in the national definition slowed down in March to 11.3% staying in the forecast range for 2021.

Banking sector liquidity and money market

Ruble liquidity. On average, in the March required reserve (RR) averaging period (AP), the structural liquidity surplus came in at **1.6 trillion rubles** (vs 1.7 trillion rubles in the March AP). In early May, liquidity surplus grew by 0.5 trillion rubles to **2.0 trillion rubles** vs early April (Table 2).

The increase in the liquidity surplus in late April was primarily caused by the expectations of a key rate hike by the Bank of Russia Board of Directors at its meeting on 23 April. As a result, similar to the previous month, banks averaged their RRs slightly ahead of schedule, increasing supply at one-week deposit auctions and decreasing their balances in correspondent accounts with the Bank of Russia only after the said meeting.

The demand for cash was up in the run up to the May holidays. As in the same periods of previous years, credit institutions replenished their cash offices and ATMs. However, because of a larger number of announced non-work days, liquidity outflow from banks exceeded average seasonal readings (in April 2016–2019, 0.3 trillion rubles) and totalled 0.4 trillion rubles. This increase in cash in circulation is expected to be short-lived, with all these funds to return to banks in May. This is supported by high-frequency data for the first two weeks of May.

In April, the outflow of funds was also facilitated by large tax payments, which exceeded budget expenditures. The operations of the Russian Ministry of Finance (MinFin) to place federal government bonds (OFZs) were offset by the placements of temporarily available budgetary funds by the Federal Treasury (FT) and local budgets at banks, as well as fiscal rule-based purchases of foreign currency. As a result, budget operations caused the net inflow of liquidity to banks of 0.2 trillion rubles at the month-end.

In April, the Bank of Russia reduced the maximum amount of funds provided at its one-month repo auction from 1.5 to 0.1 trillion rubles. The increased inflow of funds due to FT operations made it possible for banks to reduce considerably their outstanding amounts under these operations already in February. In the future, where needed, the limits at one-month and one-year repo auctions may be revised depending on the liquidity situation in the banking sector.

Money market. The spread of short-term IBL rates¹ to the Bank of Russia key rate widened to -22 bp (in the March AP: -15 bp; year to date: -16 bp; for 2020: -15 bp) (Chart 3). The spread volatility rose to 23 bp (in the March AP: 9 bp; year to date: 19 bp; for 2020: 18 bp).

In anticipation of the key rate increase in the first half of the April AP, the supply at Bank of Russia deposit auctions was considerably below the established limits; and correspondent account balances increased. Turnovers in the money market was rather low, therefore an

upward pressure on interest rates was exerted by relatively small-value liquidity-raising operations conducted by banks.

Following the key rate hike, banks expanded supply at one-week deposit auctions. The spread to the key rate during the second half of the AP slightly widened given the accumulated considerable averaging of RR.

OIS curve. As of the end-month, the OIS curve² gained 34–53 bp depending on maturity (Chart 6); this trend reflected expectations of a faster return to neutral monetary policy. At the same time, the curve was growing almost throughout the month, and the Bank of Russia's decision to raise the key rate by 50 bp did not have any notable effect on it, which means that at the time of the meeting the decision was expected by the market. Expectations derived from the OIS curve set the key rate in June at 5.25% both before and after the April Board of Director's meeting. Expectations for its level at the year-end slightly increased from 6.00 to 6.25% p.a. The **MosPrime – OIS 3M** spread for the month remained virtually unchanged at 63 bp.

Other market indicators (Table 1) also suggest the expectations of the key rate growth to 5.25% in June and to 5.75–6.25% by the end of the year. Analysts surveyed by Bloomberg and Thomson Reuters are so far expecting the key rate at the level of 5.50% at the end of the year.

The structural liquidity surplus forecast for the end of 2021 was raised by 0.1 trillion rubles to 0.9–1.5 trillion rubles.³ This is due to the revision of the estimated volume of temporarily available budgetary funds that can be additionally placed by the FT with credit institutions in 2021. It is expected that the FT will be able to reduce the balances of budgetary funds in the accounts with the Bank of Russia. As before, the Bank of Russia's forecast factors in the assumption that a part of cash will be gradually returning to banks during the next few years, after the elevated demand for it during the pandemic period. However, given the actual data since the beginning of the year, the forecast

¹ The IBL rate is the interest rate charged on unsecured loans in the money market.

² The OIS (ROISfix) curve represents indicative rates (fixing) for RUONIA IR swaps.

³ See [Monetary Policy Report No. 2 \(34\), April 2021](#).

amount of cash to be returned to banks was reduced by 0.2 trillion rubles.

The foreign currency liquidity situation remains favourable. The level of highly liquid assets has not changed for the second month in a row (Chart 7). The interest rate spread in the FX swap and IBL (basis) segments narrowed to +3 bp on average (vs +5 bp in the March AP; year to date: +2 bp; for 2020: -17 bp) (Chart 4).

Additionally, at the beginning of the AP, the basis was at +10–17 bp and, by the end of the AP, it turned negative and totalled -19 bp. As in the March AP, the main drivers were non-residents' operations in the FX swap market. After geopolitical risks diminished in mid-April, foreign investors started to build up their long ruble positions, compensating for half of the reduction of late March – early April.

COMPARED TO ANALYSTS, MARKET PARTICIPANTS EXPECT A MORE CONSIDERABLE TIGHTENING OF MONETARY POLICY

Table 1

1. Expectations based on market indicators,* interest rate (instrument)	June 2021	December 2021
– MosPrime 3M (FRA)	5.59 (5.21)	6.31 (5.73)
– RUONIA (ROISfix)	5.38 (5.19)	6.30 (5.95)
– RUONIA (futures)	5.29 (4.97)	5.84 (5.45)
2. Analysts' key rate expectations*	As of 30.06.2021	As of 31.12.2021
– Bloomberg survey	5.25 (4.75)	5.50 (5.00)
– Reuters survey	5.25 (4.75)	5.50 (5.00)

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

IN APRIL 2021, 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	01.04.2021	01.05.2021
Structural liquidity deficit (+) / surplus (-)	-2,639	-3,016	-2,761	-204	-1,461	-1,974
Bank of Russia claims on credit institutions	10	21	18	976	349	160
Auction-based facilities	-	-	-	847	103	154
– repos and FX swaps	-	-	-	847	103	154
– secured loans	-	-	-	-	-	-
Fixed interest rate facilities	10	21	18	129	246	6
– repos and FX swaps	4	8	13	118	0	1
– secured loans	5	13	5	10	246	5
Credit institutions claims on the Bank of Russia	2,729	3,293	2,983	1,796	2,417	2,684
Deposits	2,372	1,902	1,026	1,221	1,772	2,025
– auction-based	2,125	1,478	697	844	1,650	1,870
– fixed interest rate	247	424	330	377	122	155
BoR coupon bonds	357	1,391	1,956	575	645	659
Standing reverse facilities, other than standard monetary policy instruments of the Bank of Russia*	81	256	204	616	607	550

* These transactions include the Bank of Russia's specialised refinancing instruments, loans granted by the Bank of Russia within irrevocable credit lines, and USD/RUB and EUR/RUB sell/buy FX swaps.
Source: Bank of Russia calculations.

THE FORECAST OF THE STRUCTURAL LIQUIDITY SURPLUS FOR THE END OF 2021 IS INCREASED BY 0.1 TRILLION RUBLES TO 0.9–1.5 TRILLION RUBLES AND FACTORS IN THE REVISED ASSUMPTIONS THAT A PART OF CASH WILL RETURN TO BANKS, AFTER THE RISE IN THE DEMAND FOR CASH DURING THE PANDEMIC PERIOD, AND THAT VOLUME OF TEMPORARILY AVAILABLE BUDGETARY FUNDS PLACED AT BANKS WILL INCREASE

Table 3

(TRILLIONS OF RUBLES)

	2020 (actual)	January-April 2021	April 2021	2021 (forecast)
1. Liquidity factors	-2.6	1.5	-0.2	[1.3; 1.8]
– change in the balances of funds in general government accounts with the Bank of Russia, and other operations*	0	1.8	0.2	[1.6; 1.9]
– change in the amount of cash in circulation	-2.6	-0.3	-0.4	[-0.2; 0.0]
– Bank of Russia interventions in the domestic FX market and monetary gold purchases**	0.1	-	-	-
– regulation of banks' required reserves with the Bank of Russia	-0.1	0.0	0.0	-0.1
2. Change in free bank reserves (correspondent accounts)*** (demand)	-0.1	-0.3	-0.7	[0.5; 0.6]
3. Change in banks' claims on deposits with the Bank of Russia and coupon OBRs	1.2	0.9	0.3	[-0.7; -0.1]
4. Change in outstanding amounts on Bank of Russia refinancing operations (4 = 2 + 3 - 1)	1.4	-0.9	-0.2	-1.4
Structural liquidity deficit (+) / surplus (-) (as of the period-end)	-0.2	-2.0		[-1.5; -0.9]

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

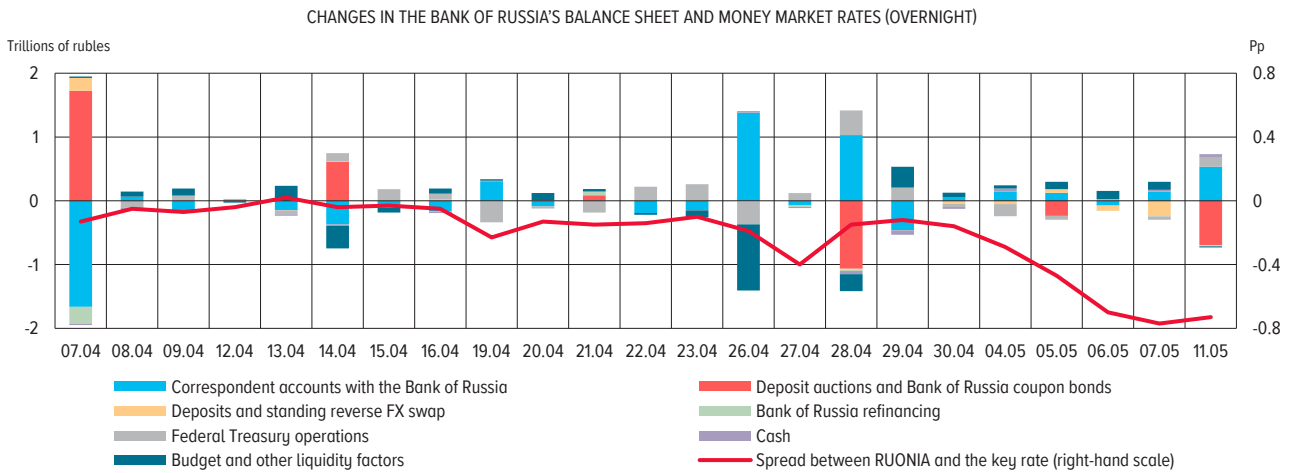
** Forecast values of the indicator are in line with the actual amount of operations conducted.

*** The forecast for the end of the year implies the uniform averaging of required reserves by banks and correspondent account balances close to the required ratio.

Source: Bank of Russia calculations.

IN APRIL 2021, BUDGET OPERATIONS CAUSED A NET INFLOW OF LIQUIDITY TO THE BANKING SECTOR, WHEREAS THE VOLUME OF CASH IN CIRCULATION EXPANDED IN THE RUN UP TO THE MAY HOLIDAYS

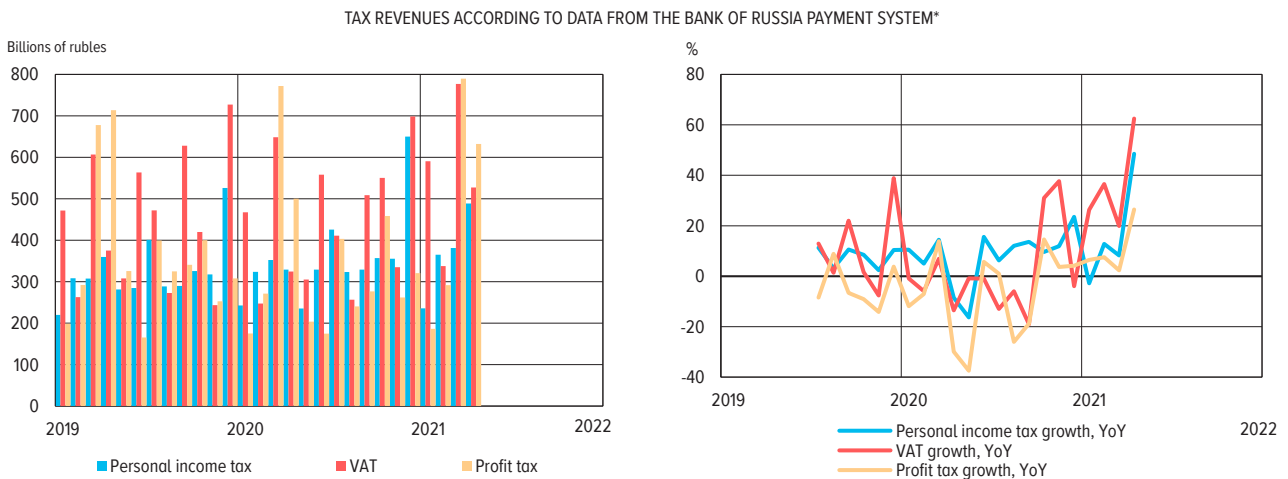
Chart 1



Source: Bank of Russia calculations.

APRIL 2021 SAW AN ACCELERATION IN THE GROWTH OF VAT, PROFIT TAX AND PERSONAL INCOME TAX AGAINST THE LOW BASE OF 2020

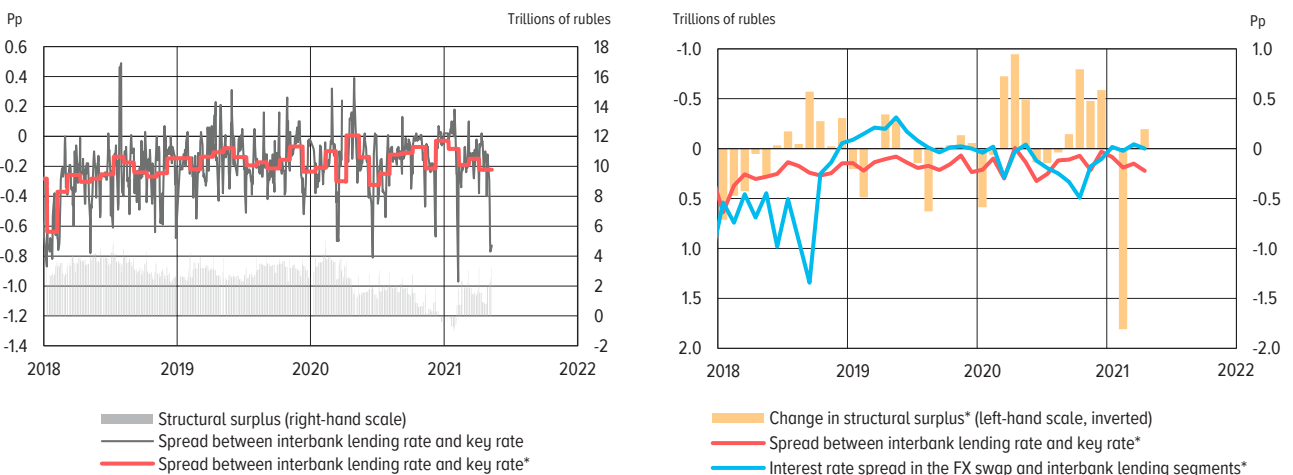
Chart 2



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

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

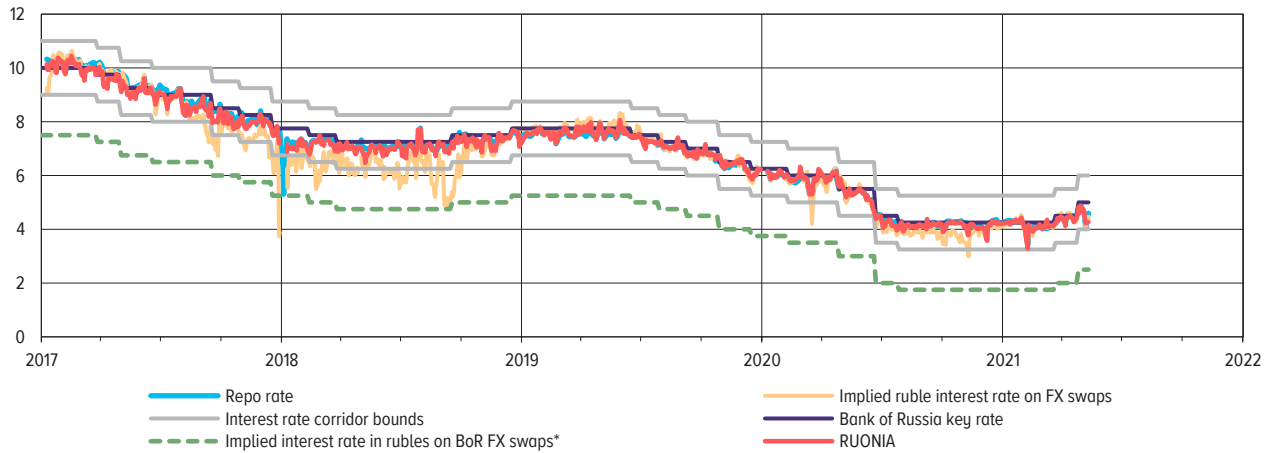
Chart 3



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

THE INTEREST RATE SPREAD IN THE FX SWAP AND IBL (BASIS) SEGMENTS NARROWED (% P.A.)

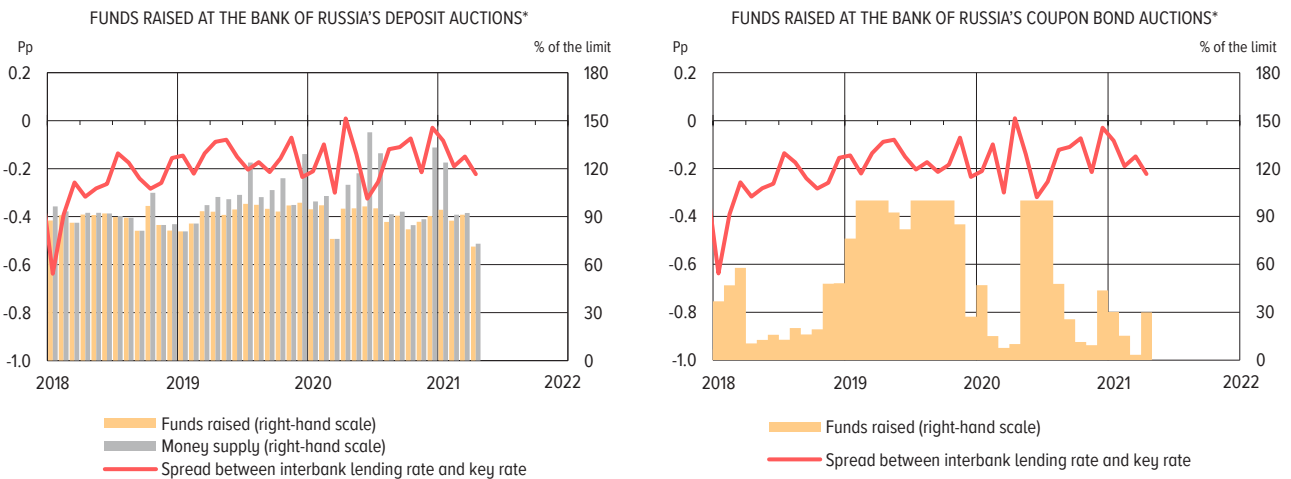
Chart 4



* Implied rate on BoR reverse FX swap = ruble lending rate – foreign currency borrowing rate + LIBOR (from 19.12.2016: key rate – 1 pp - (LIBOR + 1.5 pp) + LIBOR = key rate – 2.5 pp).
Source: Bank of Russia calculations.

BANKS' SUPPLY AT BANK OF RUSSIA ONE-WEEK DEPOSIT AUCTIONS WAS BELOW THE ESTABLISHED LIMITS IN THE FIRST HALF OF AP

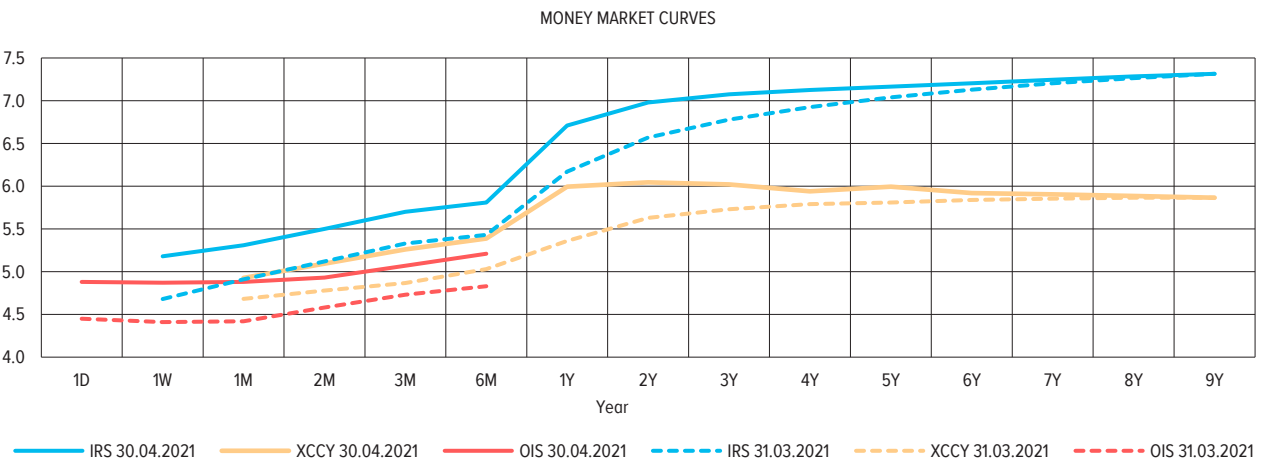
Chart 5



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

MONEY MARKET CURVES GREW AT THE SHORT END IN ANTICIPATION OF AN EARLIER RETURN TO NEUTRAL MONETARY POLICY (% P.A.)

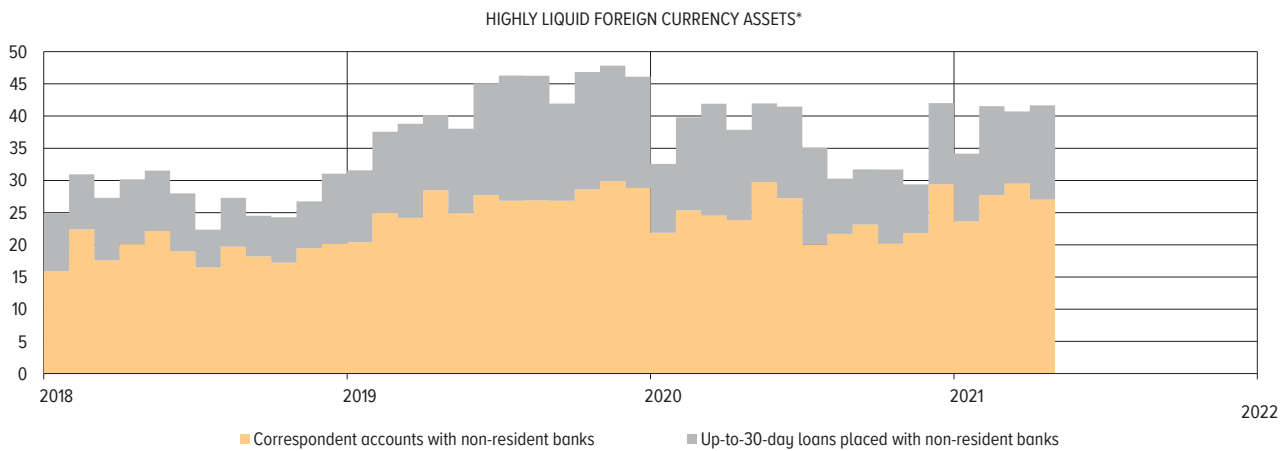
Chart 6



Source: Bloomberg.

THE AMOUNT OF HIGHLY LIQUID FOREIGN CURRENCY ASSETS REMAINS UNCHANGED SINCE FEBRUARY 2021
(ACCORDING TO DATA AS OF 1 APRIL)
(BILLIONS OF US DOLLARS)

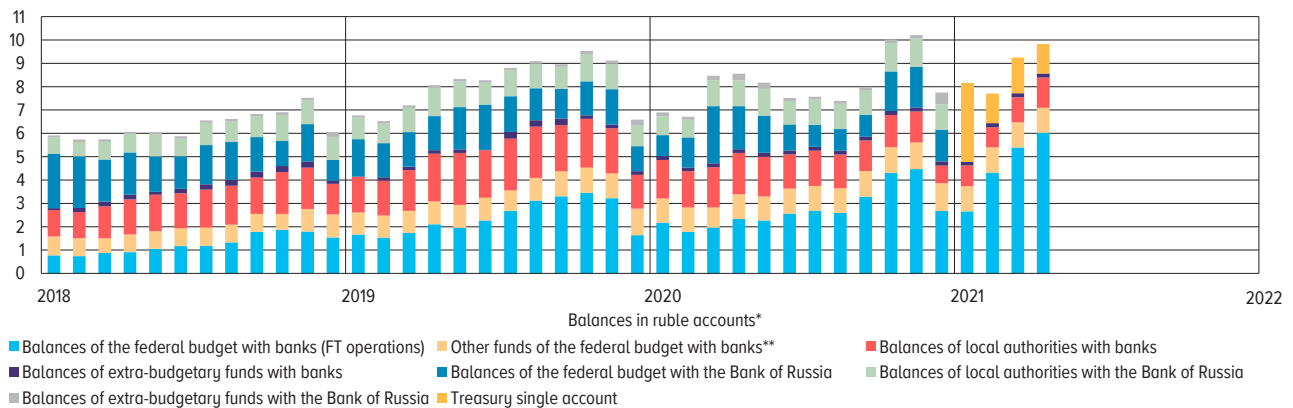
Chart 7



* Excluding cash foreign currency in credit institutions cash desks.
Sources: Federal Treasury, Bank of Russia calculations.

IN APRIL 2021, TOTAL BALANCES OF BUDGETARY FUNDS GREW AS A RESULT OF THE INCREASE IN TAX RECEIPTS AND
OFZ PLACEMENTS BY RUSSIAN MINFIN
(TRILLIONS OF RUBLES, AS OF THE MONTH-END)

Chart 8

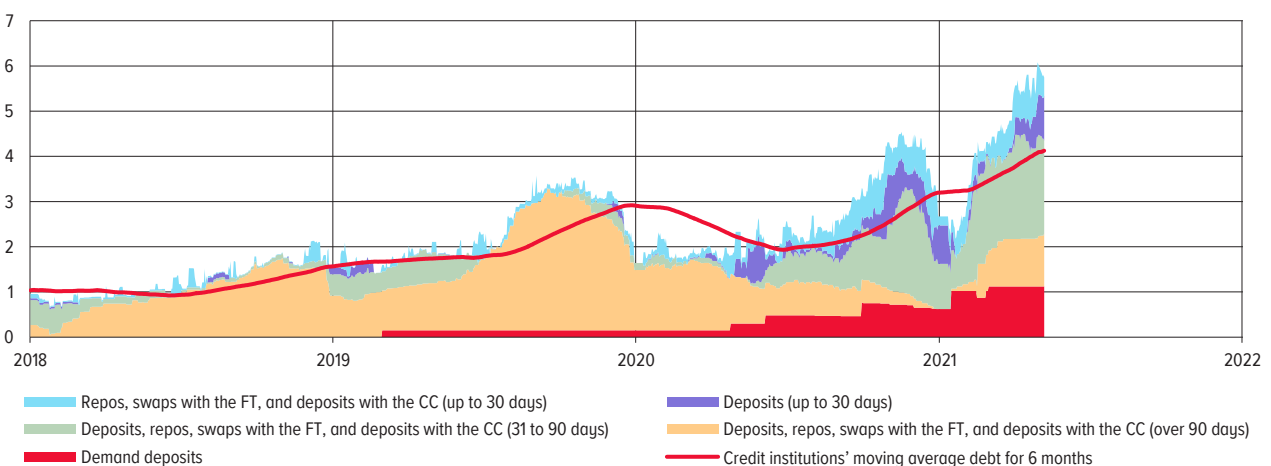


* According to banking reporting form 0409301 'Performance indicators of a credit institution' and the Bank of Russia's daily balance sheet.

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

CREDIT INSTITUTIONS' DEBT TO THE FT INCREASED BY 0.6 TRILLION RUBLES IN APRIL 2021
(TRILLIONS OF RUBLES)

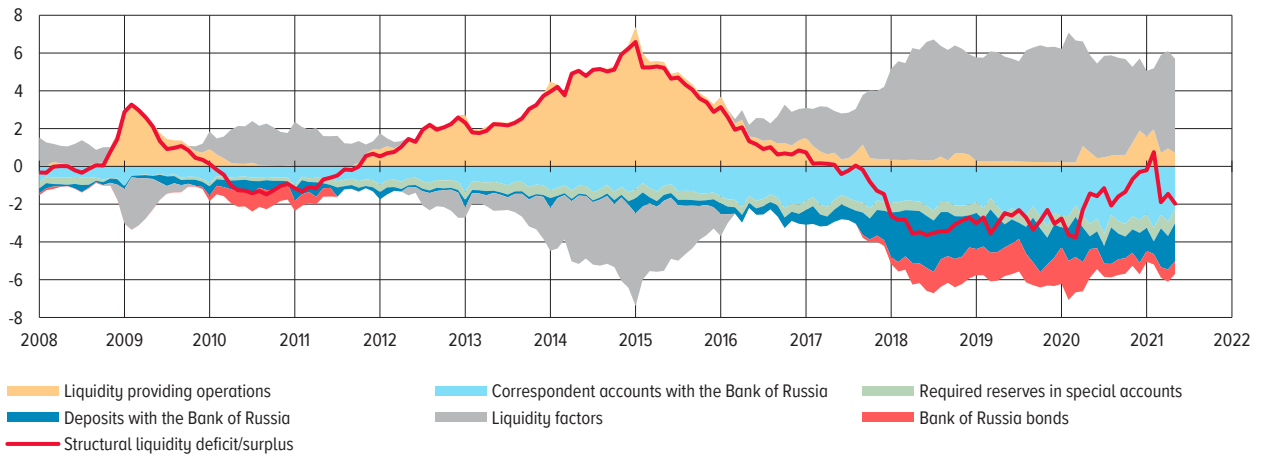
Chart 9



Sources: Federal Treasury, Bank of Russia calculations.

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

Chart 10



Source: Bank of Russia calculations.

Foreign exchange and stock markets

Federal government bonds. In April, the change of the OFZ yield curve was not as considerable as in the previous two months (Chart 11): OFZ 2Y – 5.83% (+10 bp), OFZ 5Y – 6.67% (-7 bp), and OFZ 10Y – 7.21% (-2 bp). During the month, the yield dynamics were mixed amid changes in the sanctions and geopolitical situation.

In the first half of the month, given expectations of new US sanctions against Russian government bonds and the escalation of the situation in Ukraine, the OFZ yield curve mostly grew along its entire length. At its highest point, the growth of the curve reached 17–21 bp depending on maturity compared to the beginning of the month. In this period, **5-year CDS spread** rose to 117 bp, the highest level since October 2020. However, when it became known that the new sanctions would only affect the primary OFZ market and not the purchase of securities in the secondary market, OFZ yields, especially long-term, sharply went down. An additional positive factor was the reduction in geopolitical risks. This also influenced the CDS spread, which returned to 99 bp.

Another important factor that influenced long-term OFZ yields was the decrease in the **yields of US government bonds**. Following almost two months of continuous growth (from 1.05% to 1.74% as of 31.03.2021), the yields of OFZ 10Y dropped by 13 bp to 1.62% as of end-April despite robust macroeconomic statistics. The spread between yields on 10Y US and Russian government bonds (Chart 11) remained virtually unchanged at 558 bp (+9 bp) during the month.

The decision of the Bank of Russia Board of Directors **to raise the key rate** had a greater impact on short-term issues. During the month, OFZ 1Y yields increased by 27 bp, 2Y – by 10 bp. Before the key rate decision, the **slope of the curve** (10Y – 2Y) was relatively stable (145–155 bp); however, after the decision, it fell to 129 bp, its lowest value since June 2020.

The IRS curve¹ grew mostly at the long end (Chart 6), reflecting the return to neutral monetary policy: 1Y – 6.71% (+54 bp); 5Y – 7.17% (+13 bp); 10Y – 7.29% (-7 bp).

In April, the OFZ placement volume remained high. MinFin placed securities worth 530 billion rubles (vs 563 billion rubles in March), which totals more than a half of the quarterly borrowing plan. Most of the securities (73%) were placed at auctions on 14 April after the news of a possible meeting of the presidents of Russia and the USA. At the following auctions, when sanctions risks picked up again, the volume of securities placement did not exceed 30 billion rubles. Russia's MinFin still prefers fixed-coupon securities (OFZ-PD). Last time, variable coupon-income bonds (OFZ-PK) were placed in November 2020. The weighted average maturity of placed securities increased to 9.3 years (vs 9.1 years in March). Systemically important banks remained the main buyers, accounting for 80% of all purchases.

Sales by **foreign investors** accelerated (Chart 17). In April, they reduced their OFZ holdings by 130 billion rubles (vs 125 billion rubles in March). At the same time, from 27 April, sales ended and were replaced by relatively large purchases. Over that period, foreign holdings grew by 26 billion rubles. Last time, non-residents were as active in February 2021.

Exchange rate. By the end of Month, the ruble-to-US dollar exchange rate rose by 0.6% to 75.21 rubles against the US dollar, ranging from 74.2 to 78.1 rubles to the US dollar. The ruble weakened by 1.9% against the euro and by 0.7% against the Chinese yuan.

Geopolitical factors had a significant impact on the exchange rate movements during the month. Fundamental factors mainly contributed to the ruble's strengthening. Specifically, in April, the JP Morgan EM Currency Index grew by 1.3% (Chart 12), Brent crude – by 6.3%, whereas Russia's CDS spread declined by 12 bp. Additionally, the attractiveness of carry-trade deals increased, but the contribution of this factor was insignificant.

¹ The IRS curve represents the maturity structure of IRS interest rates.

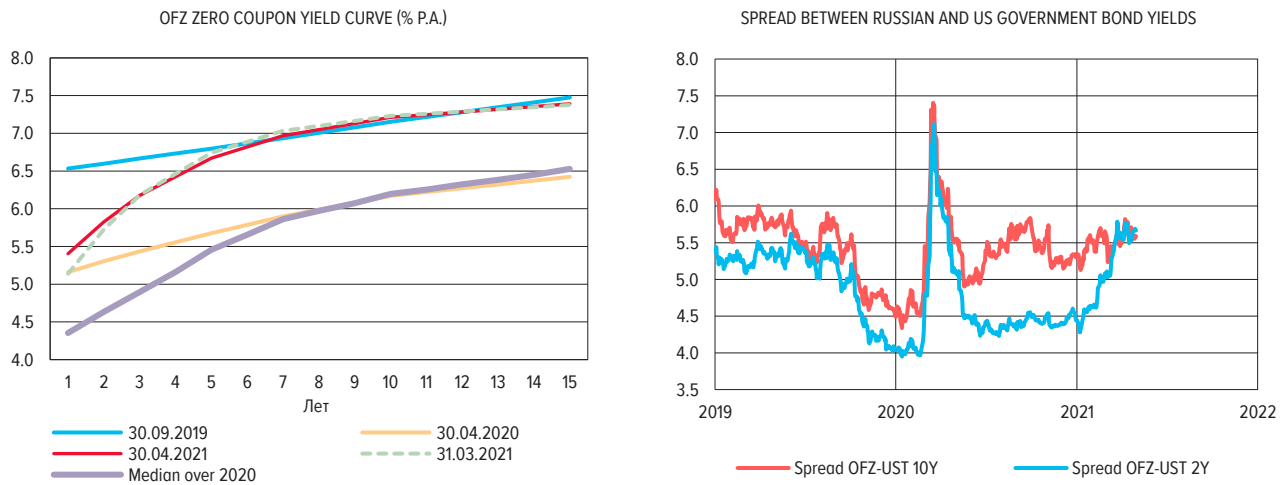
Due to the decline in geopolitical tensions in the second half of the month foreign investors stopped actively buying foreign currency in the domestic market, which became one of the factors underlying the ruble's strengthening (Chart 13).

Stocks. Stock markets in most countries rallied following the US market and the overall

'risk on' sentiment. Once again, the S&P index rose by 5.2% to a new historic high. Emerging market economies (EMEs) managed to recover partially the decline of February–March. The MSCI EM index gained 2.4%, the MOEX index 0.1%, and the RTS index 0.5%.

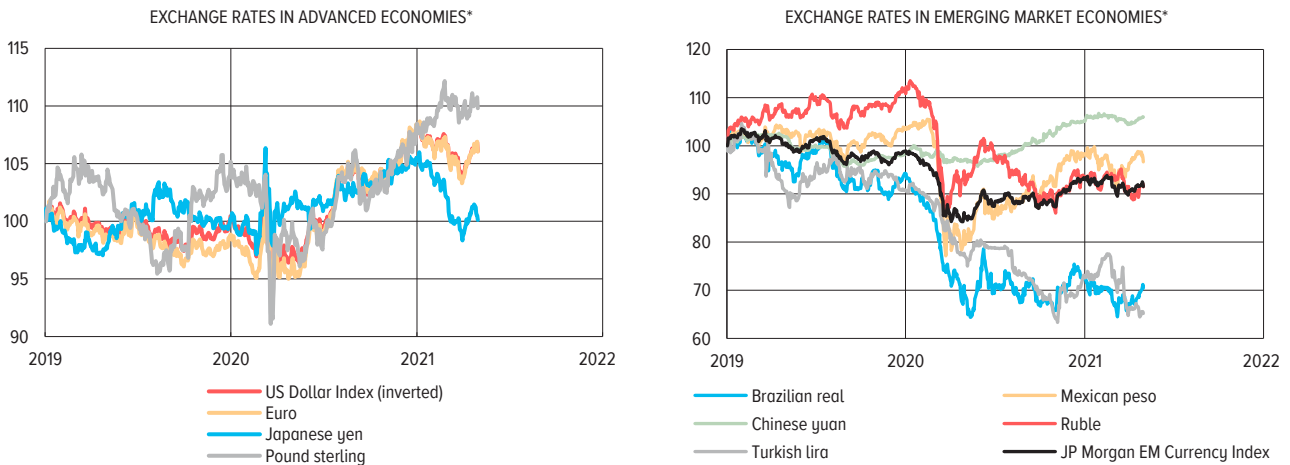
SHORT-TERM OFZ YIELDS INCREASED, WHILE LONG-TERM OFZ YIELDS REMAINED ALMOST THE SAME

Chart 11



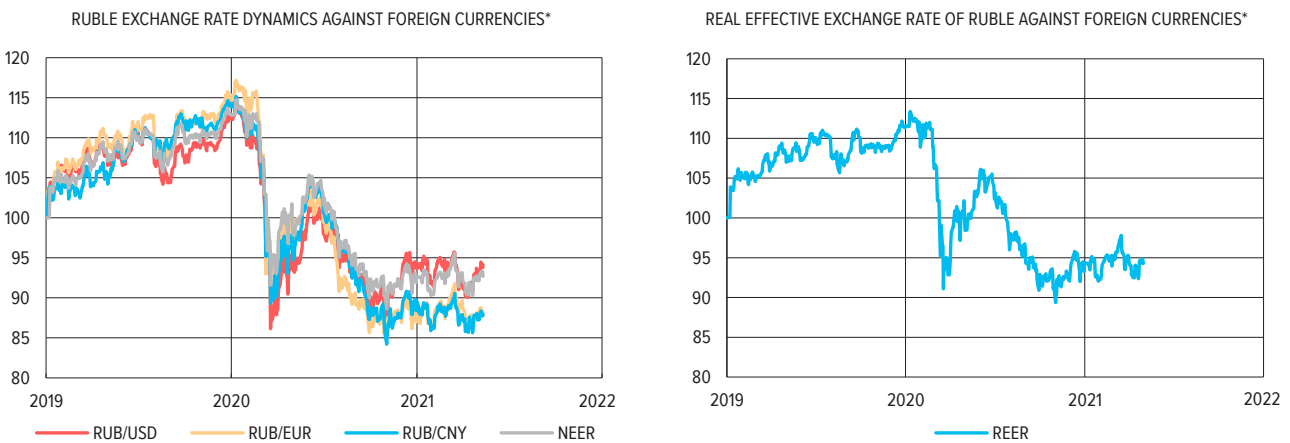
IN APRIL, THE RUBLE STRENGTHENED SIMILAR TO OTHER EME CURRENCIES
(02.01.2019 = 100)

Chart 12



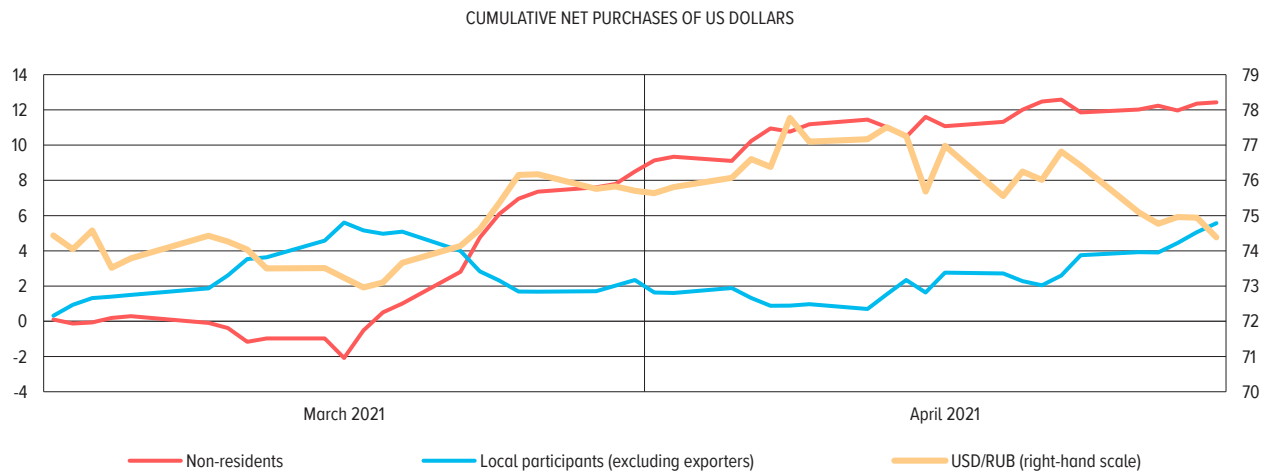
AT END-MONTH, THE REAL EFFECTIVE RUBLE EXCHANGE RATE WAS VIRTUALLY UNCHANGED
(02.01.2019 = 100)

Chart 13



THE TERMINATION OF ACTIVE FX PURCHASES BY NON-RESIDENTS IN THE SECOND HALF OF APRIL LED TO THE RUBLE'S STRENGTHENING

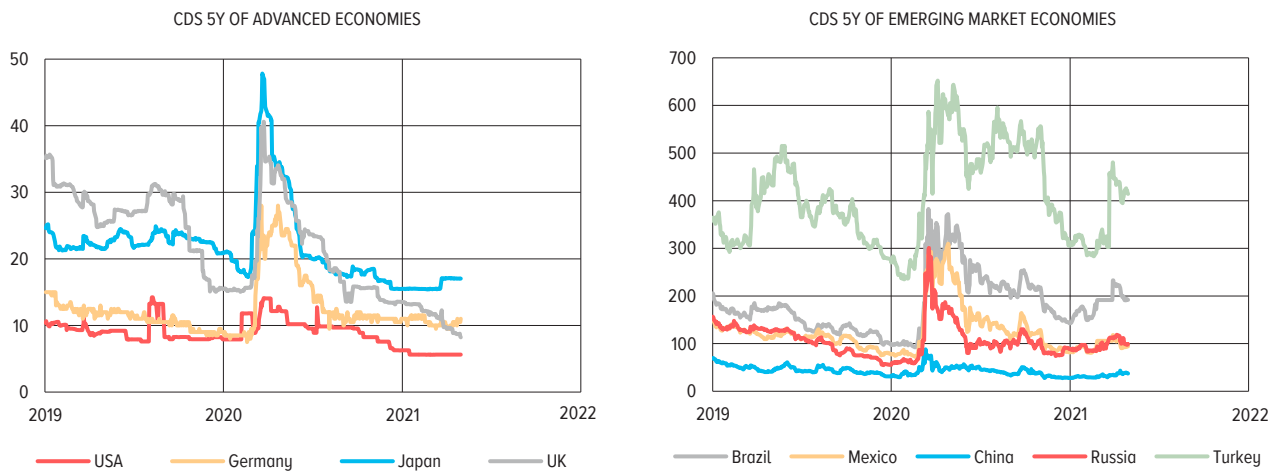
Chart 14



Sources: PJSC Moscow Exchange, Bank of Russia calculations.

RUSSIA'S CDS 5Y SPREAD RETURNED TO THE LEVEL OF 99 BP (BP)

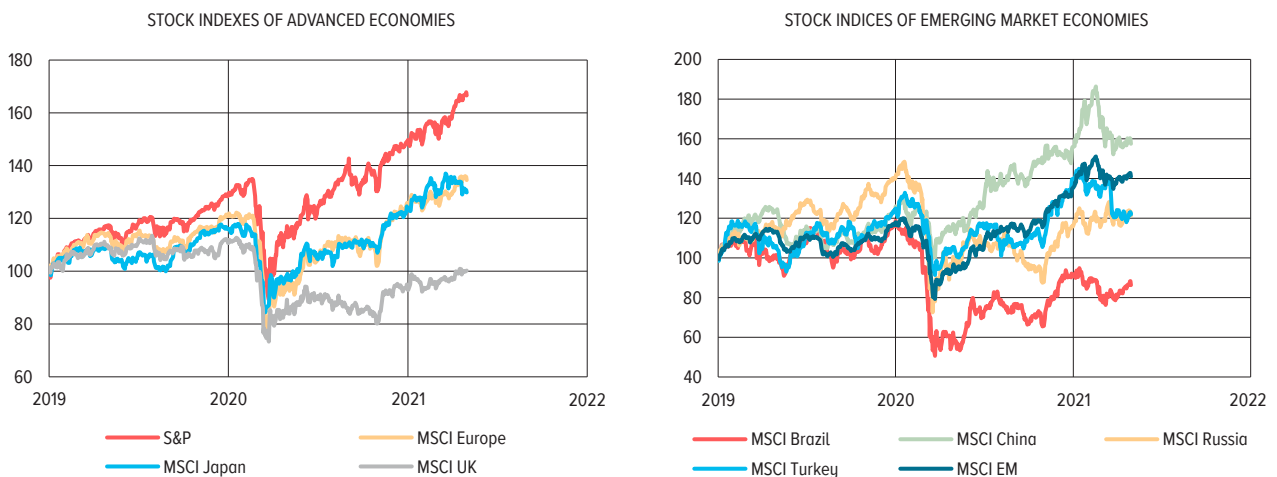
Chart 15



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

STOCK MARKETS OF MOST COUNTRIES GREW BY END-MONTH (02.01.2019 = 100)

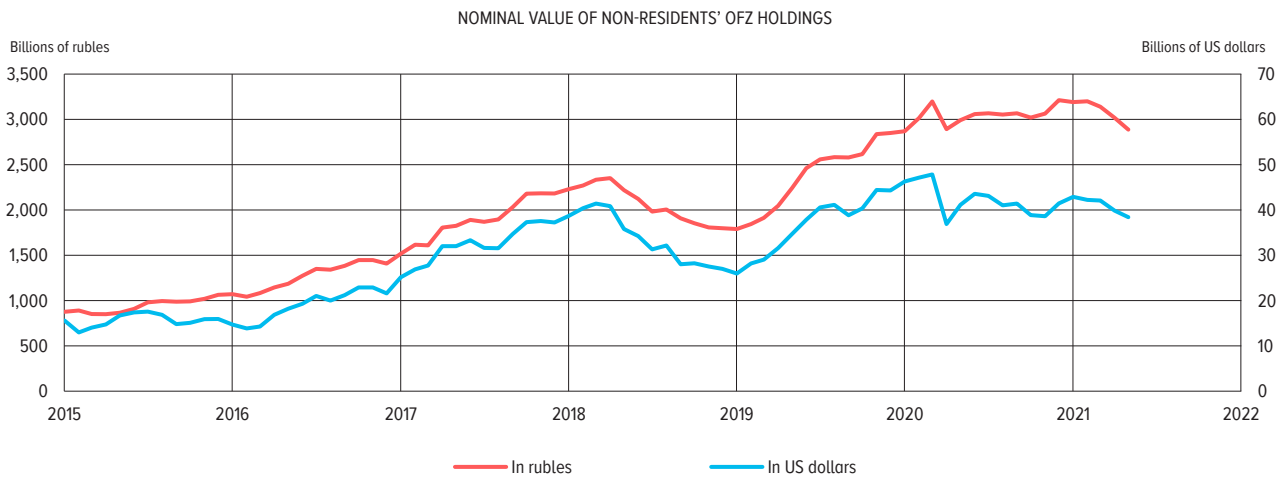
Chart 16



Sources: Bloomberg, Bank of Russia calculations.

FOREIGN INVESTORS CONTINUES TO SELL OFZS, HOWEVER THE SITUATION FIRMED UP AT END-APRIL

Chart 17



Sources: PJSC Moscow Exchange, Bank of Russia calculations.

IN APRIL, THE SITUATION IN GLOBAL FINANCIAL MARKETS WAS FAVOURABLE

Table 4

Indicator		30.04.2021	1M	3M	6M	YTD	1Y
Russian financial market							
RUB/USD exchange rate		75.30	0.3	0.8	5.2	-1.5	-2.8
MOEX Index		3544	0.1	8.1	31.7	7.8	33.1
RTS Index		1485	0.5	8.6	39.2	7.0	29.7
Government bond yield		6.85	0	71	101	109	95
Corporate bond yield		6.87	31	66	55	76	24
Regional bond yield		6.81	23	81	101	113	30
CDS spread		99	-12	3	-7	10	-65
RVI		28	-3	-8	-13	-5	-16
Exchange rates (per US dollar, % change, '+' – appreciation, '-' – depreciation)							
AEs*	US Dollar Index	91.28	-2.1	0.8	-2.9	1.5	-8.3
	Euro	1.20	2.3	-1.0	3.2	-1.7	10.8
	Japanese yen	109.31	1.2	-4.2	-4.3	-5.5	-2.4
	Pound sterling	1.38	0.2	0.8	6.8	1.3	11.2
EMEs	JP Morgan EM Currency Index	56.85	1.3	-0.4	4.7	-1.8	6.3
	Ruble	75.30	0.3	0.8	5.2	-1.5	-2.8
	Brazilian real	5.44	4.9	1.0	6.2	-4.1	0.2
	Mexican peso	20.25	0.9	1.7	4.6	-1.6	18.3
	Chinese yuan	6.47	1.2	-0.7	3.4	0.8	9.3
	Turkish lira	8.29	-0.3	-11.6	1.2	-10.1	-15.8
	South African rand	14.50	1.9	4.7	12.1	1.2	26.1
10-year bond yield (% p.a., change in bp, '+' – increase, '-' – decrease)							
AEs	USA	1.63	-11	56	75	71	100
	Germany	-0.20	9	32	43	37	29
	Japan	0.09	0	4	5	7	14
	UK	0.84	0	52	58	65	56
EMEs	Russia	7.11	7	84	96	119	101
	Brazil	8.95	-19	167	130	235	144
	Mexico	6.89	5	130	61	137	24
	China	3.15	-3	-3	-2	1	68
	Turkey	12.93	0	0	-108	0	162
	South Africa	9.28	-21	55	-2	54	-123
5Y CDS spreads (bp, change in bp, '+' – increase, '-' – decrease)							
AEs	USA	6	0	0	-3	-1	-7
	Germany	11	1	0	1	0	-13
	Japan	17	0	2	-1	2	-17
	UK	8	-2	-5	-7	-5	-24
EMEs	Russia	99	-12	3	-7	10	-65
	Brazil	192	-33	18	-26	49	-133
	Mexico	94	-20	-1	-33	13	-176
	China	37	3	5	-3	9	-8
	Turkey	414	-54	107	-138	109	-156
	South Africa	213	-26	-14	-63	11	-195
Stock indices (points, % change, '+' – increase, '-' – decrease)							
AEs	S&P	4,181	5.2	12.6	27.9	11.3	42.2
	MSCI Europe	1,983	4.1	9.4	31.8	7.8	38.1
	MSCI Japan	1,162	-2.59	4.7	21.4	5.1	32.5
	MSCI UK	1,954	3.7	8.7	25.1	7.9	12.4
EMEs	MSCI EM	1,348	2.4	1.4	22.1	4.4	46.5
	MSCI Russia	700	-0.1	7.8	38.7	4.7	20.7
	MSCI Brazil	1,766	5.8	2.2	31.8	-5.9	38.2
	MSCI Mexico	4,871	2.5	11.3	35.3	6.6	52.3
	MSCI China	110	1.2	-5.9	6.7	1.0	34.5
	MSCI Turkey	1,482,345	0.7	-7.6	15.5	-12.4	15.4
	MSCI South Africa	1,485	-2.3	4.0	20.0	9.4	23.5

* Advanced economies.

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

Credit and deposit market

Deposit rates. In March, many banks raised interest rates on ruble household deposits, though this growth was comparatively weak. Due to fluctuations in the market structure, the average market rate on long-term deposits¹ even slightly dropped (by less than 0.1 pp), whereas the short-term segment of the market demonstrated a slight increase in rates (Chart 18). Interest rates grew steadily only in the most competitive market segments, i.e. in the segment of demand deposits which are relatively cheap and popular among households (an increase of more than 0.1 pp) and in the segment of deposits for more than three years that are a source of long-term funding (an increase of more than 0.4 pp).

The March and April hikes of the Bank of Russia key rate coupled with the expectations of its further return to neutral level are conducive to faster growth of interest rates in the deposit market. According to the recent monitoring of deposit rates, in April and in early May, the number of banks raising deposit rates expanded. This sets grounds for expecting a more pronounced growth in deposit rates in the next months.

In March, interest rates on foreign currency deposits remained low, not exceeding 0.6% p.a. in both the US dollar and the euro deposit segments.

Deposit operations. Changes in household deposits remained moderate in March. At the end of the month, the annual growth in the portfolio of retail deposits² was 3.5% (Chart 19), which is above the end-February level, but is close to local minimums.³

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

² Hereinafter, deposits exclude escrow accounts under equity construction contracts.

³ 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.

Households' interest in bank deposits was contained by competing interest in alternative savings instruments. Individuals continued to build up their investment in real estate both using their own funds and attracting mortgage loans. As a result, the proportion of household funds spent to finance the mortgage down payment or to service previously attracted loans increased. The inflow of funds to escrow accounts continued to expand: in March, the balances of these accounts increased by more than 180 billion rubles. Individuals also continued to increase their investment in securities, primarily in bonds, a debt instrument, which is the closest alternative to bank deposits. By the end of March, [*the number of individuals holding brokerage accounts on the Moscow Exchange*](#) exceeded 11 million persons (vs less than 9 million persons at end-2020).

March saw the continuation of main trends in the change of household deposits structure observed at end-2020 and in early 2021. Ruble deposits continued to outpace foreign currency-denominated ones: at end-March, the formers' annual growth rate amounted to 4.2% vs 1.4% of the latter's growth rate. As a result, despite a decline in the nominal ruble exchange rate in March, the share of foreign currency in the retail deposit portfolio grew by mere 0.1 pp to 21.3% over the month. Given the outlined increase in interest rates on ruble deposits and the persistently low interest rates on foreign currency deposits, one can expect a faster growth in the ruble share of the retail deposit portfolio.

The maturity structure of the deposit market did not change either. In both the ruble and foreign currency market segments, the annual growth was ensured by current accounts and deposits for more than three years, with regard to which banks pursued the most active interest rate policy. Time deposits for up to three year continued to shrink in March. As the medium-term certainty improves and the Bank of Russia returns to neutral monetary policy, we can expect a gradual recovery in the interest in time deposits, which generally have more attractive conditions than current accounts.

Credit rates. In February, interest rates on ruble loans in the corporate segment⁴ moved diversely, primarily shaped by changes in interest rates on large borrowers' loans. The average cost of a short-term loan decreased by 0.09 pp to 6.01% p.a. remaining close to an all-time low. Conversely, in February, interest rates on long-term loans continued to grow by 0.25 pp to 7.23% (Chart 18). The upward dynamics of interest rates on more-than-one-year loans suspended the easing of bank lending conditions (BLC) for corporate borrowers, which is seen from the results of BLC survey conducted in 2021 Q1 (Chart 22). In the segment of small business lending, short-term interest rates decreased, whereas long-term ones were unchanged.

In March, interest rates continued to decrease in all retail lending segments, most noticeably in the segment of up-to-one-year loans (by 0.47 pp). A small reduction in long-term interest rates (by 0.04 pp) was explained by a slight decline in the mortgage interest rate from 7.26% in February to 7.23% in March.

The decisions made by the Bank of Russia to raise the key rate in March and in April, coupled with the rising government bond yields, create prerequisites for a gradual increase in interest rates on bank operations, including lending. As a result, the expectations of banks, which took part in the BLC survey regarding future changes in lending conditions, were adjusted towards their tightening over the horizon of 2021 Q2–Q3 (Chart 22). That said, competition between banks for the most reliable borrowers will continue to exert a restraining effect on the growth of credit rates.

Corporate lending. In March, the growth of corporate lending was weak,⁵ with the annualised growth of the credit portfolio of non-financial organisations slowing down considerably from 8.4% to 5.9% (Chart 20). This slowdown was mainly caused by short-term ruble lending due to last year's high base effect (at the start of the pandemic, businesses were actively expanding their loan portfolios to finance current expenses). Long-term ruble

lending continued to expand at a steady pace, so that by end-March, the portfolio increased by 9.6% in annualised terms vs 9.9% a month earlier.

Amid the uncertainty of exchange-rate expectations, interest in foreign currency lending was low: the annual growth of portfolio of foreign currency loans slowed down from 3.7% to 2.2%, with its positive growth rates mainly ensured by short-term lending.

The quality of the corporate loan portfolio slightly improved in March (Chart 20): the share of overdue corporate loans in the portfolio declined by 0.1 pp to 7.4% over the month.

In terms of borrower category, amid the ongoing recovery of economic activity, transactions with small and medium-sized enterprises (SMEs) continued to make a considerable contribution to the dynamics of the corporate portfolio. In early March, the SME loan portfolio was up 25.9% in annualised terms, which is almost thrice as high as the same indicator for loans to large borrowers. This difference in dynamics can be in part explained by the ongoing expansion of borrowings in the bond market (an alternative to the credit market), which is mainly used by large companies. At end-March, the market portfolio of bonds of non-financial issuers totalled roughly 12.5 trillion rubles, having increased by 1.7 trillion rubles over the moving 12 months.

Over the short-term horizon, the activity of credit market participants will be shaped by the nature of recovery of domestic demand, banks' preparedness to expand lending, and the adjustment of interest rates in the conditions of a return to neutral monetary policy.

Retail lending. March saw high activity of retail credit market participants: the annual growth rate of the loan portfolio⁶ was 14.4% vs 13.8% a month earlier (Chart 20). Moreover, the pickup in portfolio growth was facilitated by both mortgage and consumer lending. In March, more than 178 thousand new mortgage loans were issued worth roughly 501 billion rubles, which exceeds the average monthly results of 2020 and the first two months of 2021. Therefore,

⁴ Hereinafter, the corporate segment of the credit market implies lending to non-financial organisations.

⁵ Hereinafter, growth of corporate lending strips out credit claims acquired by credit institutions.

⁶ Hereinafter, growth of retail lending strips out credit claims acquired by credit institutions.

households continued to demonstrate high interest in mortgages. Given the increased real estate prices and the continuing easing of non-price lending conditions with interest rates close to all-time lows, the average loan amount hit the new maximum of 2.81 million rubles. As a result, in March, the growth of the mortgage portfolio⁷ accelerated by one pp to 23.2% in annualised terms. The dynamics of mortgage lending are also supported by the gradual development of the mortgage-backed bond market: in late March, the volume of issued mortgage bonds⁸ was 673 billion rubles, which is 143 billion rubles more than a year earlier.

Increased consumer activity led to a noticeable acceleration in the growth of unsecured consumer lending:⁹ portfolio growth was 1.9% in March, higher than the average monthly growth before the pandemic in 2019. In addition, the activity in this market segment was assisted by a marked easing of price and a certain easing of non-price BLC for consumer loans in 2021 Q1. As a result, the contribution of this segment of the retail lending to the growth of the household loan portfolio slightly increased in March (Chart 21).

The quality of the retail loan portfolio remains stable: over the month, the proportion of overdue liabilities in the portfolio contracted by 0.1 pp to 4.6% (Chart 20).

In the coming months, changes in the retail lending will be determined by, on the one hand, the growth in demand for borrowed funds after the seasonal decline at the beginning of the year and, on the other hand, by a likely increase in lending rates in the situation of the return

to neutral monetary policy. Moreover, the faster growth of mortgage will remain in the portfolio structure due to the existing programmes of preferential lending.

Money supply. In March, the annual growth of claims on the economy¹⁰ slowed down, which was primarily associated with the exhaustion of the effect of the sharp surge in claims on businesses in March 2020. At the end of the month, the annual growth rate of the banking system's claims on businesses was 8.9% p.a., returning to the level observed in the last months of 2020. The annual growth of the banking system's claims on households continued to pick up, reaching 13.5% at end-March vs 13.2% a month earlier.

The effect of budgetary operations on the dynamics of money supply was diverse in March due to the growth of budget revenue.¹¹ At the end of the month, the contribution of net claims on general government to annual money supply growth slightly contracted, though remaining considerable.

The ongoing flow of household funds to the real estate market had a restraining effect on money supply growth, which led to the growth of escrow account balances not included in money supply. As a result, at end-March, there was a slowdown in the growth of monetary aggregates: the annual growth of M2X dropped to 11.0% and the same indicator for M2 – to 11.3% (Chart 23). That said, the most liquid components of money supply, primarily the cash money M0 (22.7% at end-March vs 29.6% a month earlier), slowed down at a faster pace.

⁷ Housing mortgage loans, net of claims on such loans acquired by banks.

⁸ At the outstanding face value according to the information of the agency Cbonds.ru.

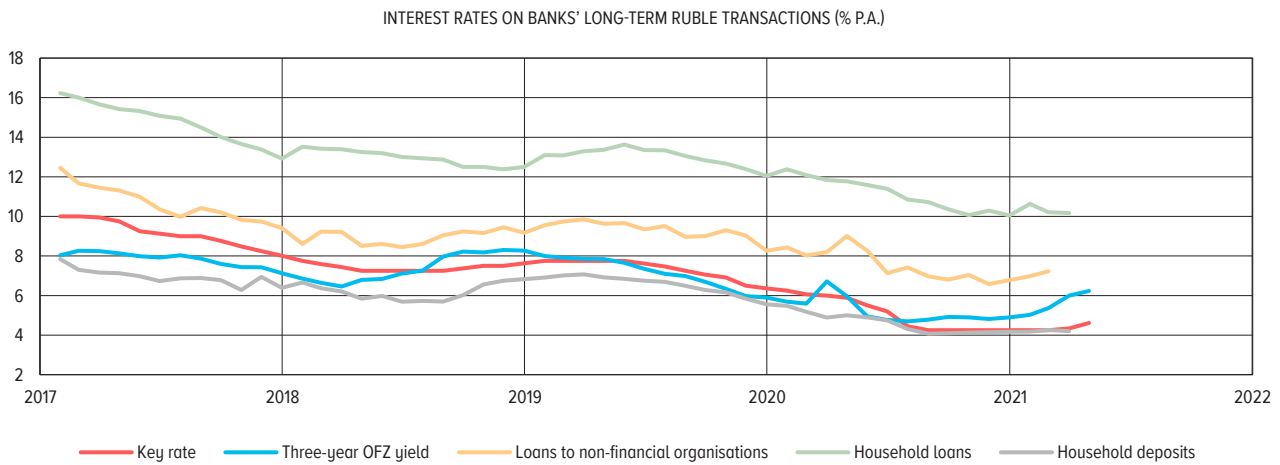
⁹ Standard loans grouped into homogeneous loan portfolios.

¹⁰ Banking sector claims on the economy mean all claims of the banking system on non-financial and financial organisations and households in Russian rubles, foreign currency, and precious metals, which include loans issued (including overdue loans), overdue interest on loans, credit institutions' investment in debt and equity securities and promissory notes, as well as other forms of participation in non-financial and financial organisations' equity, and other receivables under settlement operations with non-financial and financial organisations and households.

¹¹ See the information and analytical commentary *Banking Sector Liquidity and Financial Markets*, No. 3 (61), March 2021.

IN MARCH, RETAIL DEPOSIT RATES REMAINED LOW, DESPITE SIGNS OF THEIR INCREASE IN CERTAIN SEGMENTS

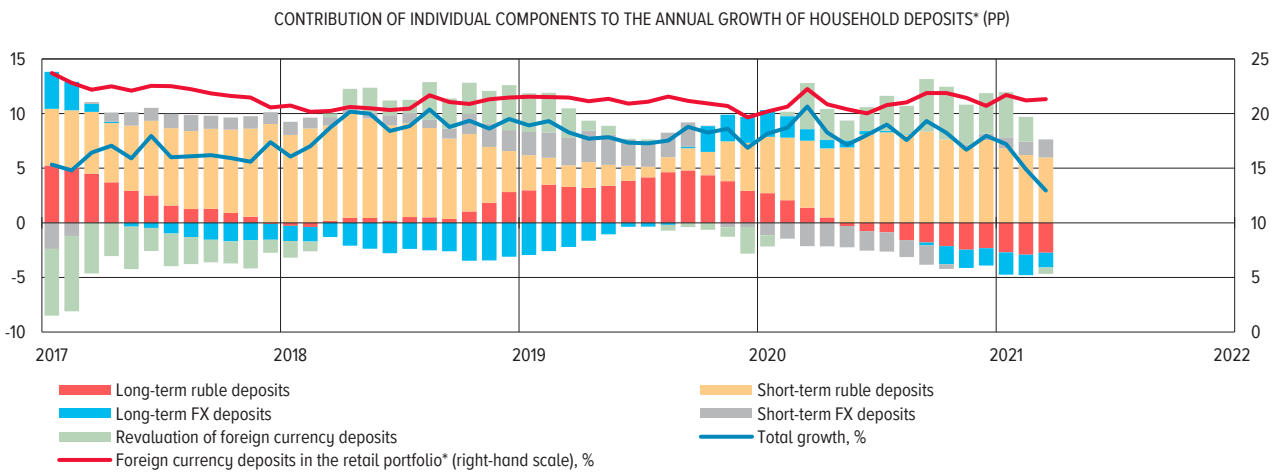
Chart 18



Source: Bank of Russia.

IN EARLY 2021, THE INFLOW OF FUNDS TO RETAIL DEPOSITS WAS AT LOCAL ALL-TIME LOWS

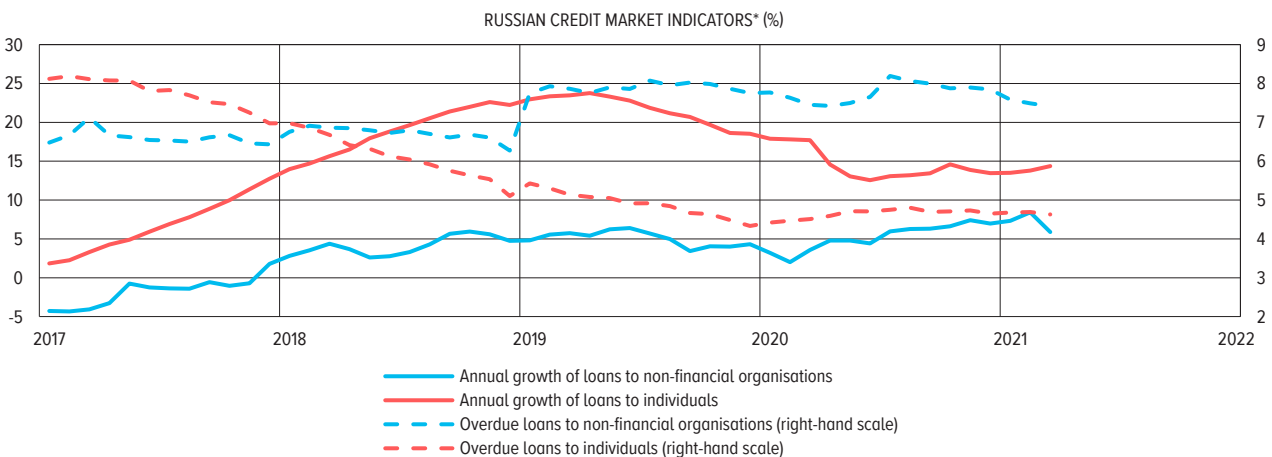
Chart 19



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

IN MARCH, THE ANNUAL GROWTH RATE OF CORPORATE LENDING SLOWED DOWN DUE TO THE EXHAUSTION OF THE EFFECT OF GROWTH OF LOAN DEBT AT THE BEGINNING OF THE PANDEMIC

Chart 20

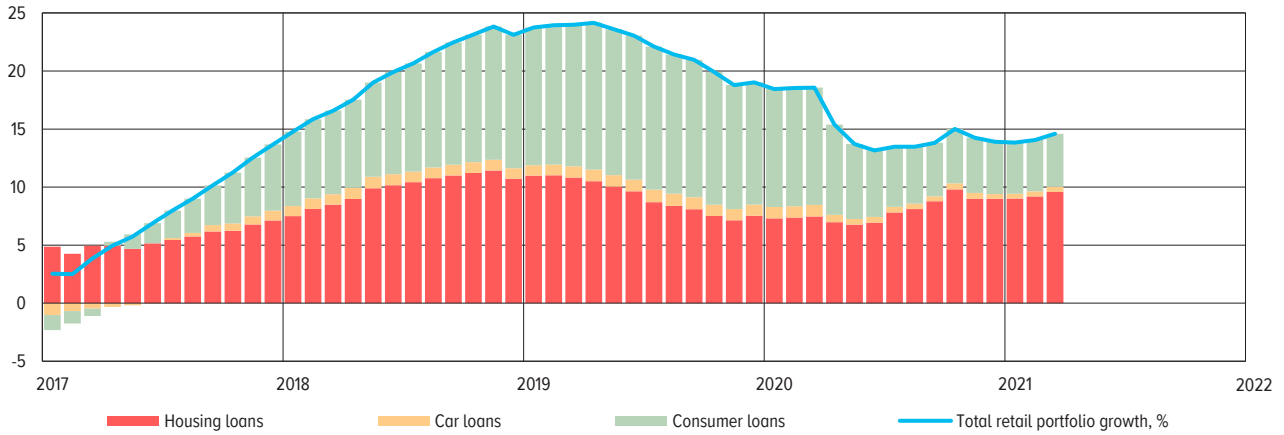


* From 1 February 2021, the portfolio of loans to non-financial organisations and households includes acquired claims. The calculation of portfolio growth is net of acquired claims.
Source: Bank of Russia calculations.

IN MARCH, THE PICKUP IN RETAIL LENDING PORTFOLIO GROWTH WAS FACILITATED BY BOTH MORTGAGE AND CONSUMER LENDING

Chart 21

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

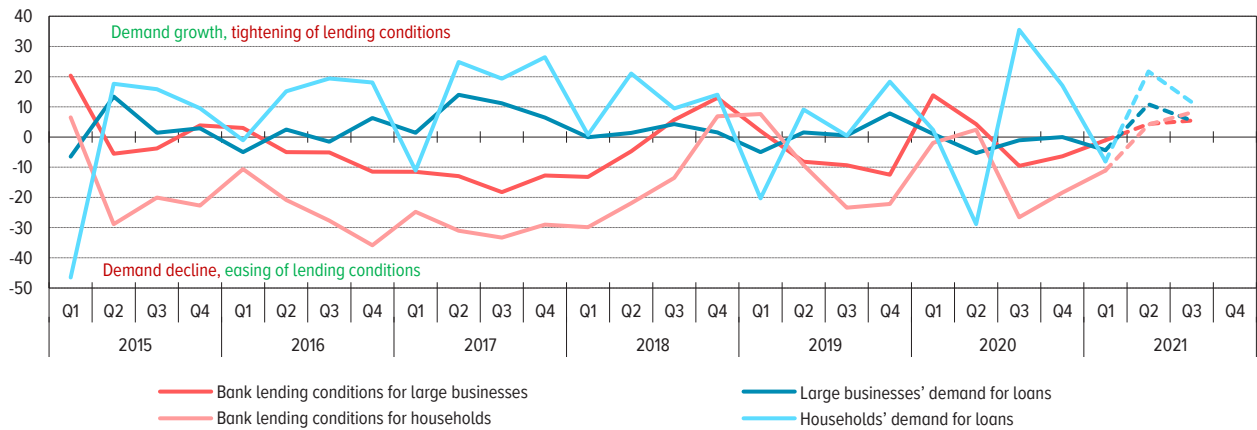


* For loans grouped into homogeneous loan portfolios.
Source: Bank of Russia calculations.

IN 2021 Q2-Q3, BANKS EXPECT THE TIGHTENING OF LENDING CONDITIONS FOR MAIN BORROWER CATEGORIES

Chart 22

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

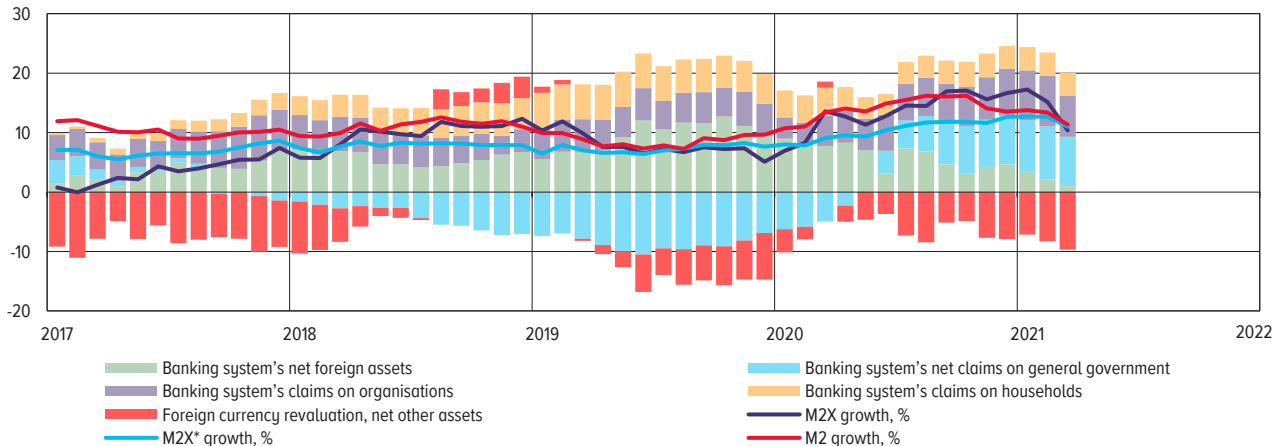


* The dotted lines signify respondent banks' expectations regarding changes in lending conditions and demand for loans in 2021 Q1.
Source: Bank of Russia.

IN MARCH, THE GROWTH OF MONEY SUPPLY CONTINUED TO SLOW DOWN

Chart 23

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



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

CREDIT AND DEPOSIT MARKET INDICATORS

Table 5

		December 2020	January 2021	February 2021	March 2021
Interest rates on banks' long-term ruble transactions					
– household deposits	% p.a.	4.2	4.2	4.3	4.2
– household loans	% p.a.	10.1	10.6	10.2	10.2
– corporate loans	% p.a.	6.8	7.0	7.2	-
Household deposits*	% YoY, AFCR	4.3	3.1	2.6	3.5
– in rubles*	% YoY	6.5	5.2	4.1	4.2
– in foreign currency	% YoY	-4.6	-4.7	-2.9	1.4
– share of foreign currency*	%	20.7	21.7	21.2	21.3
Loans to non-financial organisations**	% YoY, AFCR	7.0	7.3	8.4	5.9
– short-term (up to 1 year)	% YoY, AFCR	10.6	12.1	13.0	2.2
– long-term (more than 1 year)	% YoY, AFCR	5.7	5.9	7.2	6.6
– overdue loans	%	7.8	7.6	7.5	7.4
Household loans**	% YoY, AFCR	13.5	13.5	13.8	14.4
– housing mortgage loans	% YoY, AFCR	21.6	21.8	22.2	23.2
– unsecured consumer loans	% YoY	8.8	8.6	8.6	8.9
– overdue loans	%	4.7	4.7	4.7	4.6
Banking system's claims on the economy	% YoY, AFCR	10.9	11.5	11.7	10.2
– on businesses	% YoY, AFCR	10.2	10.9	11.1	8.9
– on households	% YoY, AFCR	12.9	13.0	13.2	13.5
Money supply (M2 monetary aggregate)	% YoY	13.5	13.8	13.4	11.3
Broad money	% YoY, AFCR	12.6	12.7	12.6	11.0

* Excluding escrow accounts.

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

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

Source: Bank of Russia calculations.

Data cut-off dates:

- Banking sector liquidity and money market' section – 11.05.2021 (reserve requirements are an important part of the Bank of Russia's 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 April-May 2021, this period is from 07.04.2021 to 11.05.2021);
- 'Foreign exchange and stock markets' section – 30.04.2021;
- 'Credit and deposit market' section – 01.04.2021.

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

This commentary was prepared by the Monetary Policy Department.

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