



Bank of Russia



BANKING SECTOR LIQUIDITY AND FINANCIAL MARKETS

No. 5 (63) • May 2021

Information and analytical commentary

16 June 2021

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

- In May, transactions over budget accounts and a decrease in the amount of cash in circulation led to an inflow of funds into the banking sector. However, in early June, liquidity surplus temporarily declined due to an increase in bank account balances and a corresponding reduction in the balances on banks' deposit accounts.
- The liquidity surplus forecast for the end of 2021 remains at the level of 0.9–1.5 trillion rubles.
- The average spread of interbank lending (IBL) interest rates to the Bank of Russia key rate narrowed due to a temporary increase in demand from one major market participant.
- The foreign currency liquidity situation remained favourable. The spread between interest rates in the FX swap and the IBL segments was negative as a result of non-residents' building their long ruble positions in FX swaps.
- The OFZ yield curve continued to rise at its short end amid expectations of a faster key rate hike. At the same time, this growth could be exacerbated by the actions of certain OFZ market participants. The long end of the OFZ curve changed only slightly.
- The return on retail deposits rose in April on the back of the key rate hike. Annual growth of household deposits continued to accelerate at the expense of current accounts.
- In March–April, credit rates remained low, but in May there were signs of their gradual increase.
- In April, there was a noticeable increase in corporate lending, primarily due to the expansion of long-term operations. Households increased borrowing in all major market segments with mortgage lending still being the largest contributor to growth.

Banking sector liquidity and money market

Ruble liquidity. On average, in the May required reserve (RR) averaging period (AP), the structural liquidity surplus came in at **1.6 trillion rubles** (vs 1.6 trillion rubles in the April AP). In early June, liquidity surplus declined by 0.6 trillion rubles to **1.4 trillion rubles** vs early May (Table 2).

The drop in the liquidity surplus at the end of May was due to the desire of certain banks to maintain high balances in their correspondent accounts and to perform the RR averaging ahead of schedule. This led to a corresponding decrease in the balance of funds in deposit accounts with the Bank of Russia. In addition, higher demand for the Bank of Russia's fixed-rate loans from some banks, including as a result of the compliance by systemically important credit institutions (SICIs) with liquidity coverage ratio requirements, contributed to the growth of balances in correspondent accounts on certain days of the AP.

In May, operations via the fiscal channel resulted in a net inflow of liquidity to the banking sector in the amount of 0.5 trillion rubles. Budget revenues rose, including due to the transfer of Sberbank's dividends to the budget in the amount of 0.2 trillion rubles. However, as a result of increased budget expenditures, including the payment of subsidies to banks under the Payroll 2.0¹ programme in the amount of 0.4 trillion rubles, as well as higher placements of temporarily available budgetary funds with banks by the Federal Treasury (FT), the inflow of liquidity to the banking sector through the fiscal channel exceeded its outflow.

The volume of cash in circulation in May decreased as expected: the inflow of funds to banks amounted to 0.2 trillion rubles. At the end of April, before the long holidays, the demand for cash increased markedly, but after that,

¹ Payroll 2.0 is a credit programme aimed at supporting employment (loans at a rate of 2% for borrowers with a write-off, provided that they maintain their employees).

the funds returned to banks in a comparable amount.²

Money market. The spread of short-term IBL rates³ to the Bank of Russia key rate narrowed to -17 bp (in the April AP: -22 bp; year to date: -16 bp; for 2020: -15 bp) (Chart 3). The spread volatility declined to 13 bp (in the April AP: 23 bp; year to date: 18 bp; for 2020: 18 bp).

In the first half of the May AP, one of the major market participants significantly increased the volume of its operations, raising funds at rates close to the key rate, which was probably due to the strategy of early compliance with the RR averaging requirements.

In the second half of the AP, large tax and dividend payments contributed to maintaining a narrower rate spread. However, the significant inflow of funds under FT operations and other budget inflows that followed at the end of the month (see the 'Ruble liquidity' section) offset the impact of the above-mentioned factors and exerted downward pressure on interest rates.

OIS curve. As of the end-month, the OIS curve⁴ gained 12–15 bp for the maturities of 2 to 6 months (Chart 6); this trend reflected expectations of a faster key rate hike until the end of the year. The main growth of the curve occurred in the third decade of May. During this period, there were several factors that could lead to a change in expectations: inflation continued

to be elevated; Bank of Russia representatives made statements that inflation would remain near the current level until autumn and that maintaining soft monetary policy might lead to negative consequences. In addition, prices for a significant part of food products and raw materials in global commodity markets continued to rise, which may later translate into higher prices in Russia. The **MosPrime – OIS 3M** spread remained virtually unchanged at 39 bp at the end of the month (vs 49 bp in April) with the average value of 48 bp (vs 43 bp in April).

Other market indicators (Table 1) also indicate expectations of a more significant increase in the key rate. While at the end of April, prices of money market instruments indicated the possibility that the key rate could be raised to 6.25% p.a. at year-end, 6.5% p.a. is now more likely.

The forecast of the structural liquidity surplus for the end of 2021 remains at the level of 0.9–1.5 trillion rubles.

The foreign currency liquidity situation remains favourable (Chart 7). The interest rate spread in the FX swap and IBL (basis) segments was mainly negative and averaged -4 bp (vs +3 bp in the April AP; year to date: 0 bp; for 2020: -17 bp) (Chart 4). The negative basis could be explained by non-residents' building their long ruble positions in the FX swap market.

² See *Banking Sector Liquidity and Financial Markets, information and analytical commentary, No. 4 (62), April 2021.*

³ The IBL interest rate is the RUONIA (Ruble Overnight Index Average) rate, which is the weighted interest rate of one-day interbank loans (deposits) in rubles, reflecting the estimated cost of unsecured borrowing on overnight terms.

⁴ The OIS (ROISfix) curve represents indicative rates (fixing) for RUONIA IR swaps.

MARKET PARTICIPANTS STILL EXPECT A MORE PRONOUNCED TIGHTENING OF MONETARY POLICY THAN ANALYSTS

Table 1

1. Expectations based on market indicators,* interest rate (instrument)	June 2021	December 2021
– MosPrime 3M (FRA)	5.42 (5.59)	6.42 (6.31)
– RUONIA (ROISfix)	5.35 (5.38)	6.60 (6.30)
– RUONIA (futures)	5.26 (5.29)	6.04 (5.84)
2. Analysts' key rate expectations*	As of 30.06.2021	As of 31.12.2021
– Bloomberg survey	5.25 (5.25)	5.63 (5.50)
– Reuters survey	5.25 (5.25)	5.50 (5.50)

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

IN MAY 2021, THE BANKING SECTOR'S STRUCTURAL LIQUIDITY SURPLUS DECREASED
(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	01.06.2021
Structural liquidity deficit (+) / surplus (-)	-2,639	-3,016	-2,761	-204	-1,461	-1,974	-1,364
Bank of Russia claims on credit institutions	10	21	18	976	349	160	159
Auction-based facilities	-	-	-	847	103	154	154
– repos and FX swaps	-	-	-	847	103	154	154
– secured loans	-	-	-	-	-	-	-
Fixed interest rate facilities	10	21	18	129	246	6	6
– repos and FX swaps	4	8	13	118	0	1	1
– secured loans	5	13	5	10	246	5	5
Credit institutions claims on the Bank of Russia	2,729	3,293	2,983	1,796	2,417	2,684	1,896
Deposits	2,372	1,902	1,026	1,221	1,772	2,025	1,219
– auction-based	2,125	1,478	697	844	1,650	1,870	1,104
– fixed interest rate	247	424	330	377	122	155	115
BoR coupon bonds	357	1,391	1,956	575	645	659	677
Standing reverse facilities, other than standard monetary policy instruments of the Bank of Russia*	81	256	204	616	607	550	372

* 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 REMAINS AT THE LEVEL OF 0.9–1.5 TRILLION RUBLES
(TRILLIONS OF RUBLES)

Table 3

	2020 (actual)	January-May 2021	May 2021	2021 (forecast)
1. Liquidity factors	-2.6	2.2	0.7	[1.3; 1.8]
– change in the balances of funds in general government accounts with the Bank of Russia, and other operations*	0	2.4	0.6	[1.6; 1.9]
– change in the amount of cash in circulation	-2.6	-0.1	0.2	[-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	-0.1	0.0	-0.1
2. Change in free bank reserves (correspondent accounts)*** (demand)	-0.1	1.1	1.3	[0.5; 0.6]
3. Change in banks' claims on deposits with the Bank of Russia and coupon OBRs	1.2	0.1	-0.8	[-0.7; -0.1]
4. Change in outstanding amounts on Bank of Russia refinancing operations (4 = 2 + 3 - 1)	1.4	-1.1	-0.2	-1.4
Structural liquidity deficit (+) / surplus (-) (as of the period-end)	-0.2	-1.4		[-1.5; -0.9]

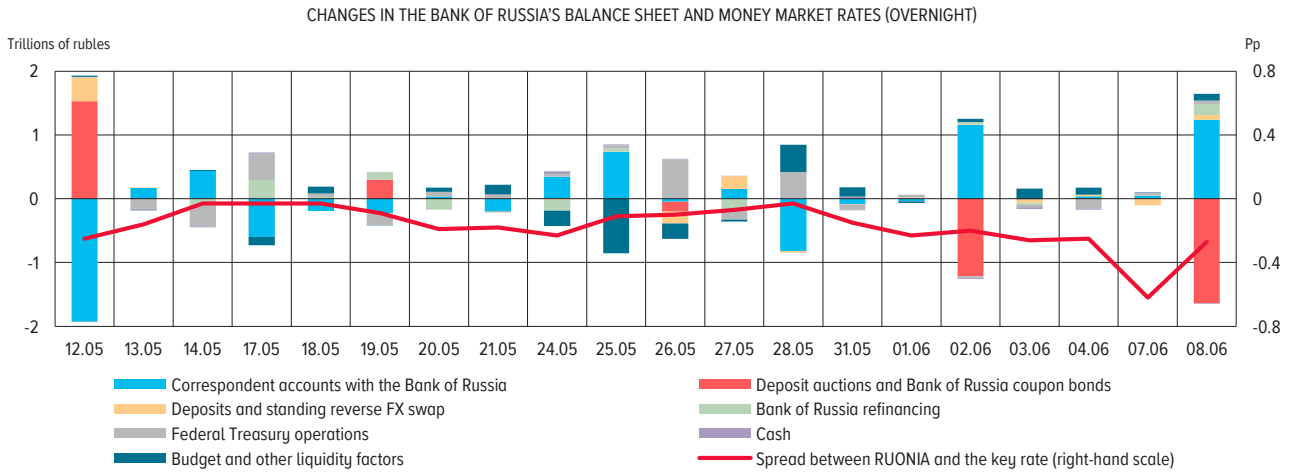
* Including fiscal rule-based operations to buy (sell) foreign currency in the domestic FX market, settlements on Bank of Russia USD/RUB FX swaps, and other operations.

** 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.

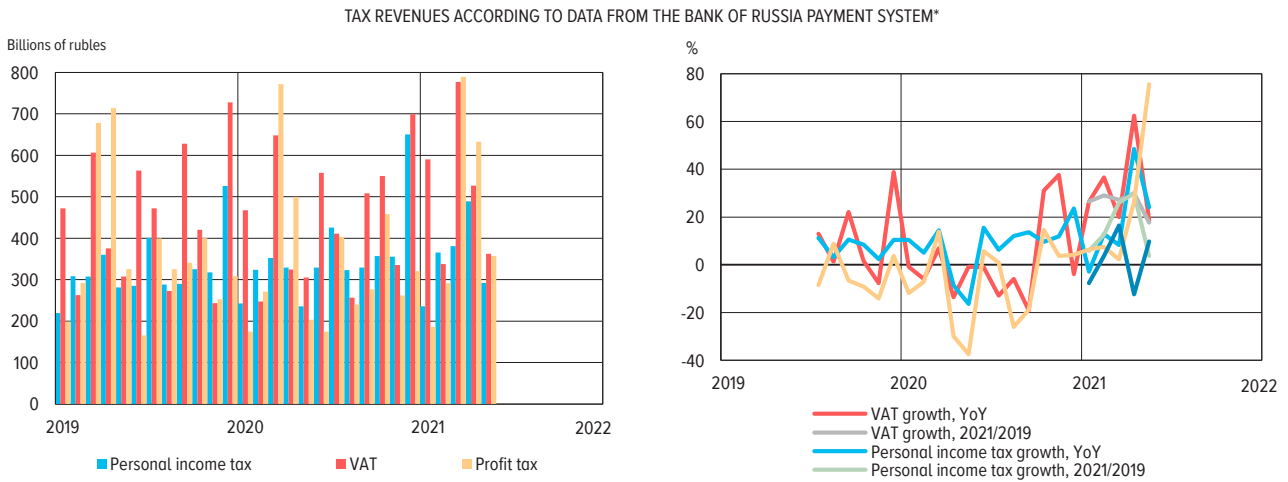
Source: Bank of Russia calculations.

IN MAY, TRANSACTIONS OVER THE FISCAL CHANNEL AND A DECREASE IN THE AMOUNT OF CASH IN CIRCULATION LED TO AN INFLOW OF LIQUIDITY INTO THE BANKING SECTOR Chart 1



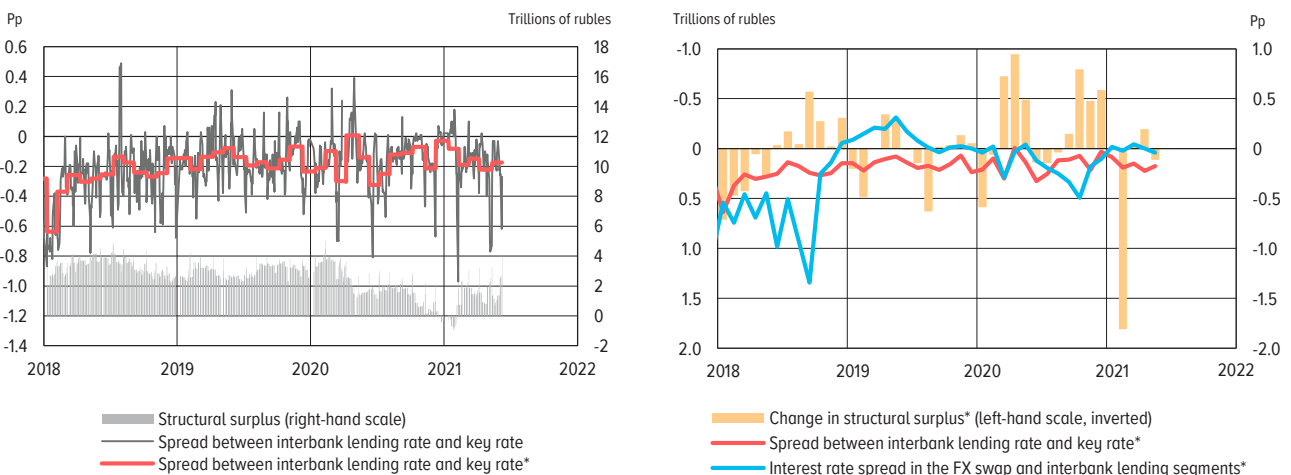
Source: Bank of Russia calculations.

IN MAY 2021, THE GROWTH OF VAT AND PERSONAL INCOME TAX SLOWED DOWN, WHILE THAT OF PROFIT TAX ACCELERATED DUE TO 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.

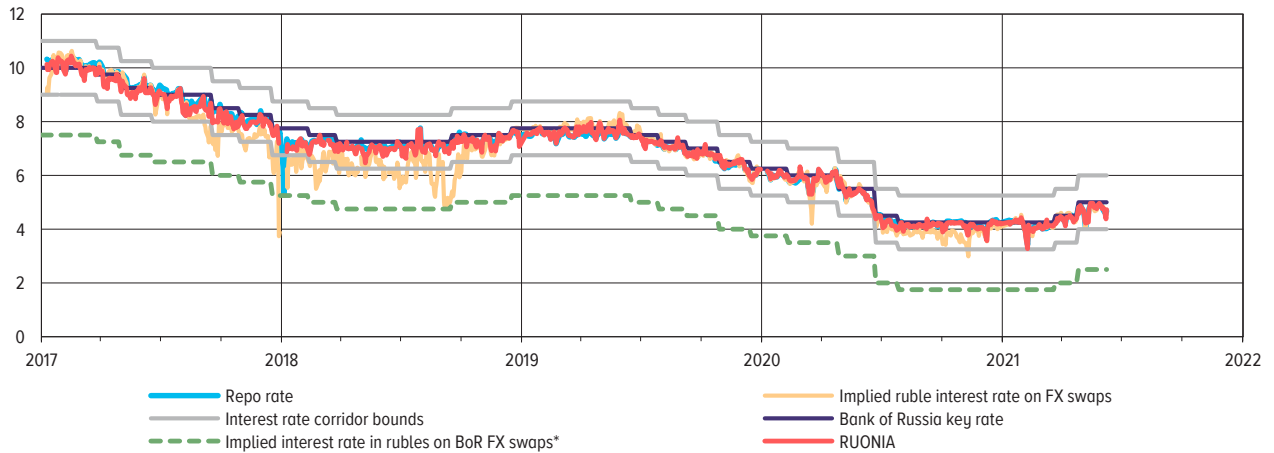
THE SPREAD BETWEEN IBL RATES AND THE BANK OF RUSSIA KEY RATE NARROWED Chart 3



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

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

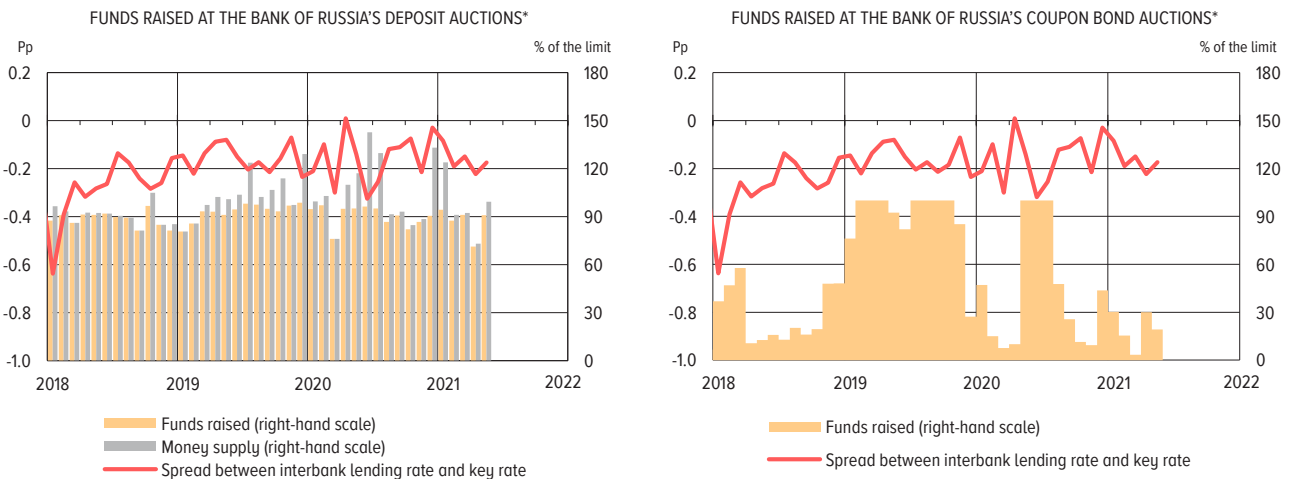
Chart 4



* 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.

THE AMOUNT OF FUNDS RAISED AT THE BANK OF RUSSIA'S WEEKLY DEPOSIT AUCTIONS WAS BELOW THE ESTABLISHED LIMITS

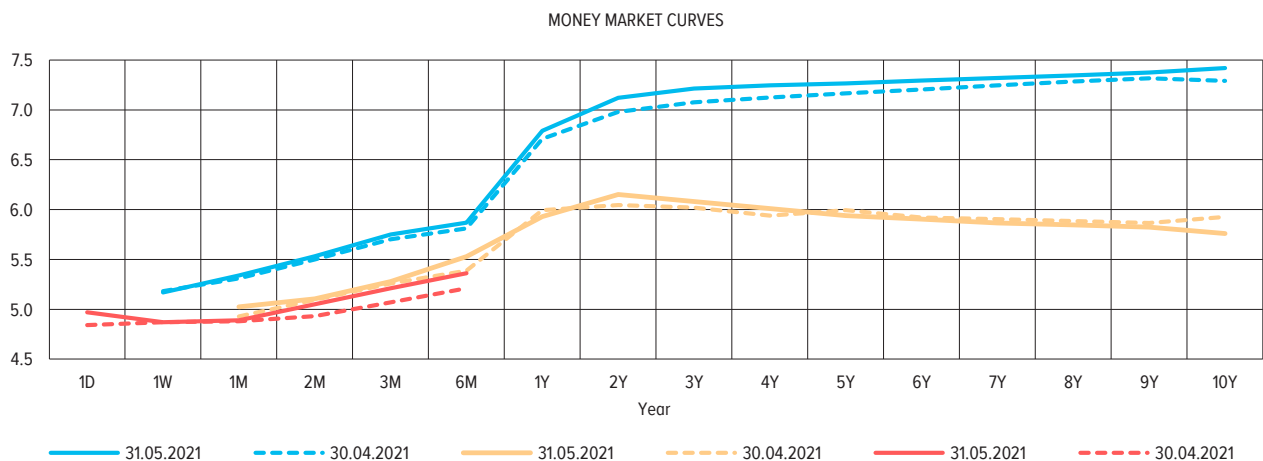
Chart 5



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

THE OIS CURVE INCREASED FOR THE MATURITIES OF 2-6 MONTHS, REFLECTING EXPECTATIONS OF A FASTER BANK OF RUSSIA KEY RATE HIKE

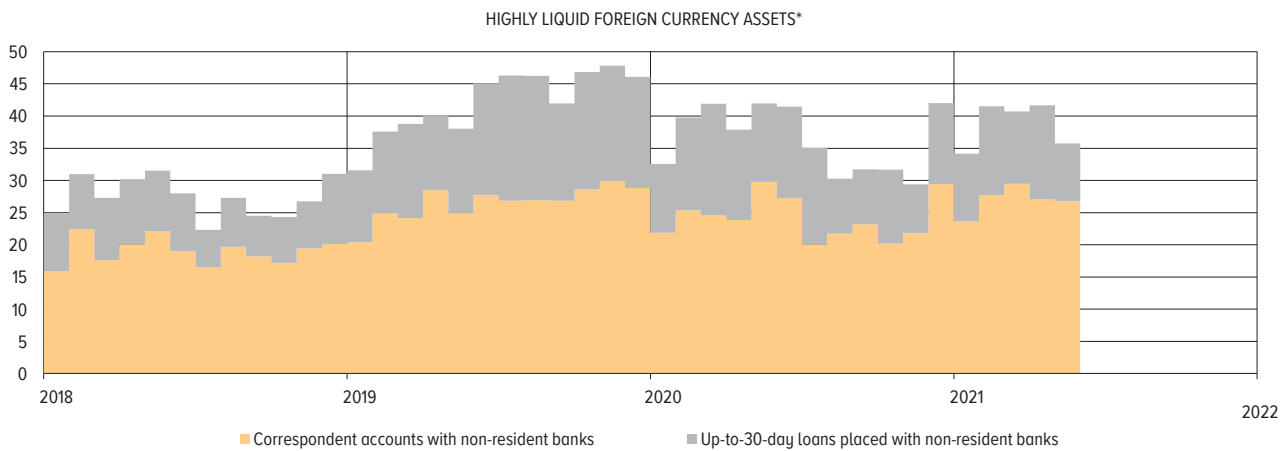
Chart 6



Source: Bloomberg.

THE AMOUNT OF HIGHLY LIQUID ASSETS IN FOREIGN CURRENCY DECREASED BUT REMAINS AT A COMFORTABLE LEVEL (AS OF 1 MAY)
(BILLIONS OF US DOLLARS)

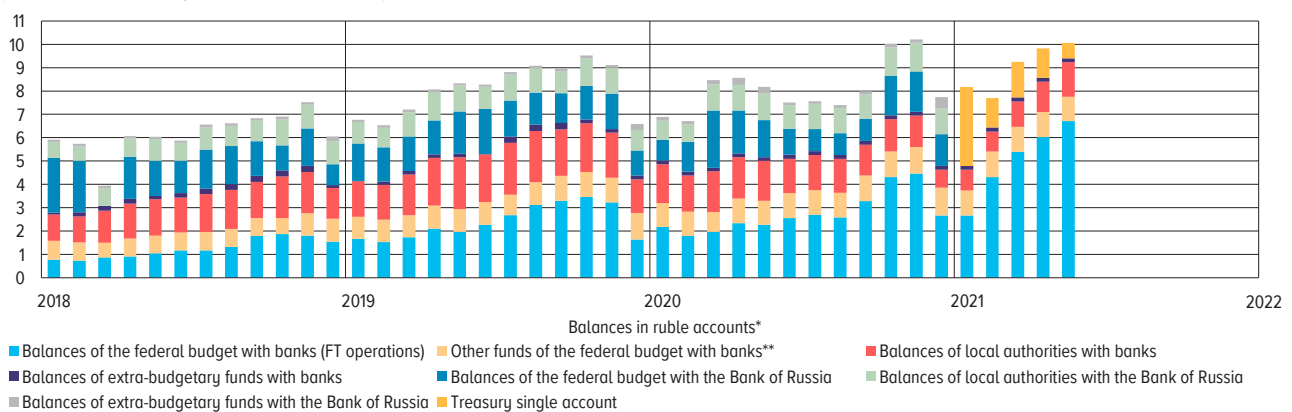
Chart 7



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

IN MAY 2021, BALANCES OF FUNDS IN THE TSA DECLINED DUE TO THE PAYMENT OF SUBSIDIES UNDER THE PAYROLL 2.0 PROGRAMME AND THE PLACEMENT OF TEMPORARILY AVAILABLE BUDGETARY FUNDS WITH BANKS AS PART OF FT OPERATIONS
(TRILLIONS OF RUBLES, AS OF THE MONTH-END)

Chart 8

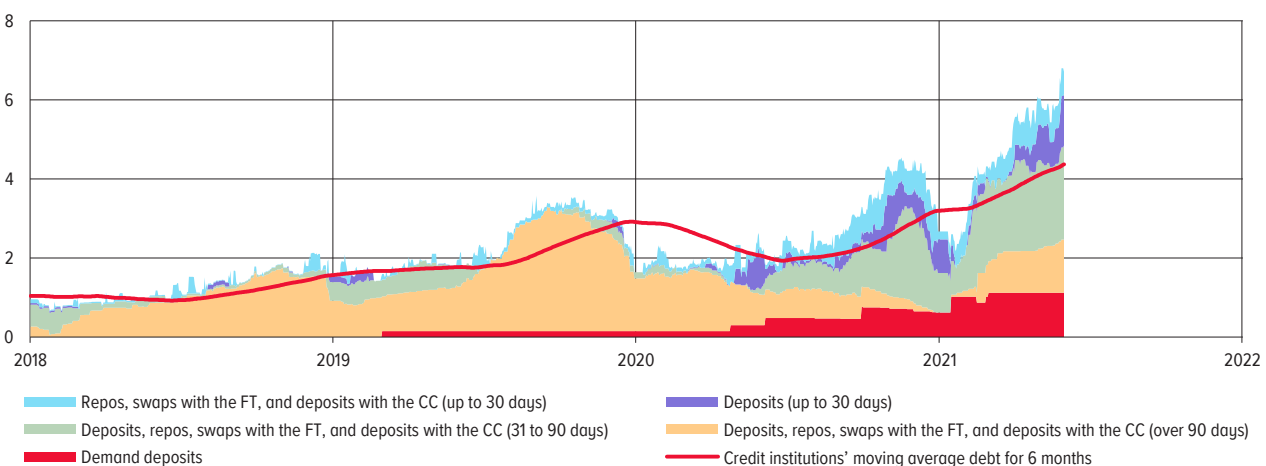


* According to banking reporting form 0409301 'Performance indicators of a credit institution' and the Bank of Russia's daily balance sheet.

** 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.

IN MAY 2021, THE DEBT OF CREDIT INSTITUTIONS TO FT INCREASED BY 0.7 TRILLION RUBLES
(TRILLIONS OF RUBLES)

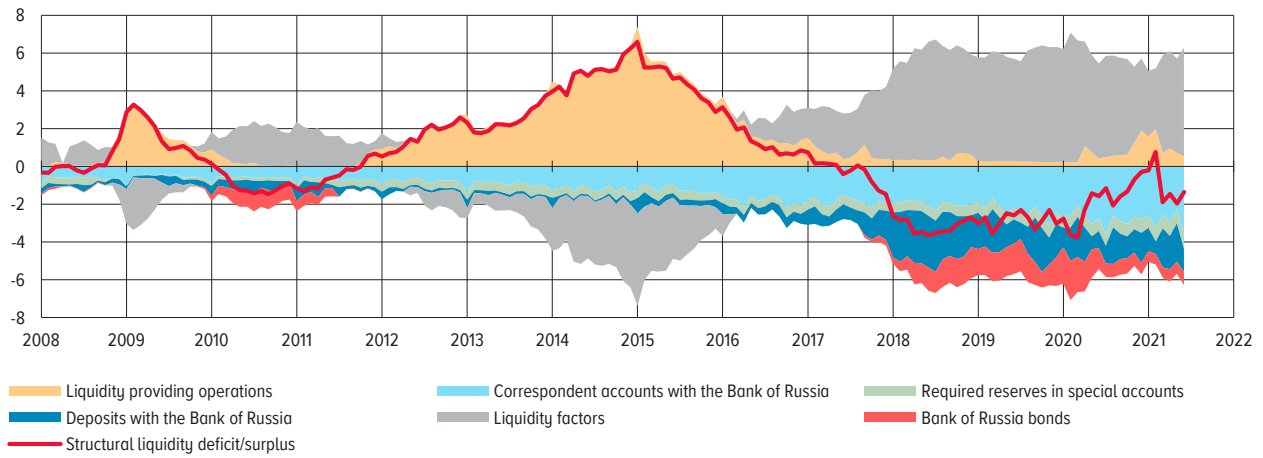
Chart 9



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. The OFZ yield curve rose in May for all maturities. The most significant growth was observed at the short end of the curve (Chart 11): OFZ 1Y – 5.86% (+46 bp), OFZ 2Y – 6.13% (+30 bp), OFZ 5Y – 6.77% (+8 bp), and OFZ 10Y – 7.25% (+2 bp). This growth of the OFZ yield curve was mainly related to expectations of a faster key rate hike by the Bank of Russia. At the same time, the growth of the short end of the OFZ curve looks somewhat excessive when compared with the money market interest rates movements. Thus, the **IRS curve**¹ rose 6-13 bp: 1Y – 6.79% (+8 bp); 2Y – 7.12% (+14 bp); 5Y – 7.27% (+10 bp); 10Y – 7.42% (+13 bp).

A significant rise in the yield of short OFZs could be associated with the actions of individual market participants. From 27 May to 28 May, OFZ 1Y yields rose 20 bps, with the main contribution made by OFZ 25083. According to the Moscow Exchange data, during this period, two management companies sold these securities for 0.9 billion rubles with the average daily turnover being 1 billion rubles. At the same time, the long end of the OFZ curve was more stable, as expected. Long-term OFZ yields are less affected by current changes in the key rate. It is important for market participants in this segment to be confident that the central bank is able to keep inflation at the target level in the long term. Therefore, decisive actions by the central bank to achieve its goal ensure the stability of long-term interest rates.

Amid the gradual reduction of sanctions risks, **foreign investors stopped selling OFZs** and began to gradually restore their investments. According to the NSD data, in May, foreign investors increased their OFZ holdings by 49 billion rubles. (Chart 17). The gradual improvement in investor sentiment is also evidenced by the fact that **Russia's 5Y CDS spread** has stayed below 100 bps since mid-April (Chart 15). In May, it fell 2 bp, to 97 basis points.

Long-term yields in the US and the Euro area remained virtually unchanged despite the acceleration of inflation. Currently, investors consider the acceleration in inflation as a temporary factor that will not lead to an earlier normalisation of monetary policy in developed countries. In this context, the yield of 10-year US government bonds decreased by 3 bp to 1.60% for the month, while that of German bonds rose 2 bp to -0.19%. The spread between the yields of Russian and the US 10-year government bonds (Chart 11) changed insignificantly (+10 bp to 558 bp).

The **slope of the OFZ curve** (10Y – 2Y) continued to decline, reflecting expectations of a faster key rate hike. While in early May it was at 138 bp, by the end of the month it fell to 110 bp, the lowest level since June 2020.

The volume of **OFZ placement** in May significantly dropped compared to the previous months. The aggregate amount of placements was 133 billion rubles, while in March and April it exceeded 500 billion rubles. The main reason was the decision of the Ministry of Finance to make additional placements of previously issued securities, as a result of which the maximum amount offered at auctions did not exceed 31 billion rubles. The structure of buyers changed somewhat. The share of SICIs fell from 77-80% in March–April to 52% in May. As a result, the share of the remaining groups increased, although their purchases were lower in absolute terms. The share of foreign investors rose from 9% to 22%.

Exchange rate. By the end of the month, the ruble-to-US dollar exchange rate rose by 2.4% to 73.43 rubles against the US dollar. To a lesser extent, the ruble strengthened against the euro and the Chinese yuan – by 0.8% (Chart 13).

In general, the strengthening of the ruble was explained by positive external conditions and reduced sanctions risks. Most currencies of the emerging market economies (EMEs) strengthened against the US dollar. The JP Morgan EM Currency Index grew by 1.9% (Chart 12). Oil prices also continued to rise, while interest rate differential expanded on the back of monetary policy tightening in Russia.

According to data on foreign currency purchases at the exchange and OTC markets, for-

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

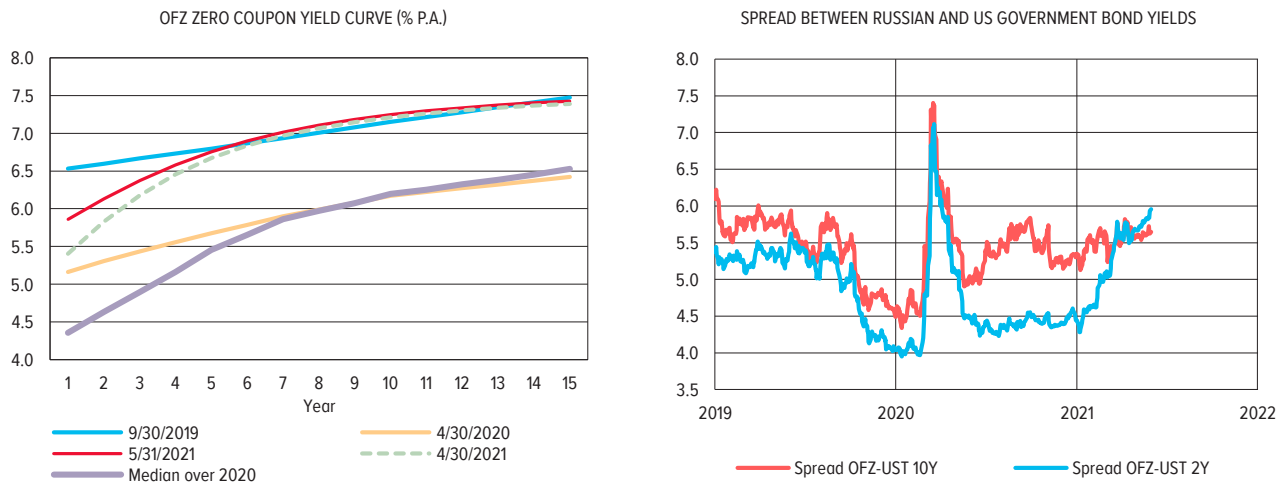
foreign investors were net sellers of currency on the market for the first time since November 2020 (Chart 14). In addition, their long ruble positions in the FX swap market continued to grow.

Stocks. Stock markets in most countries continued to rally on the back of a quick recovery of the global economy. Most stock index-

es rose in both national and foreign currencies. The Chilean and Indonesian markets were the exception due to local factors. The MOEX index gained 5.0% and the RTS index 7.6%. At the end of May, the RTS index exceeded the pre-pandemic level and approached its highest level since 2012.

THE OFZ YIELD CURVE ROSE MOST SIGNIFICANTLY AT THE SHORT END

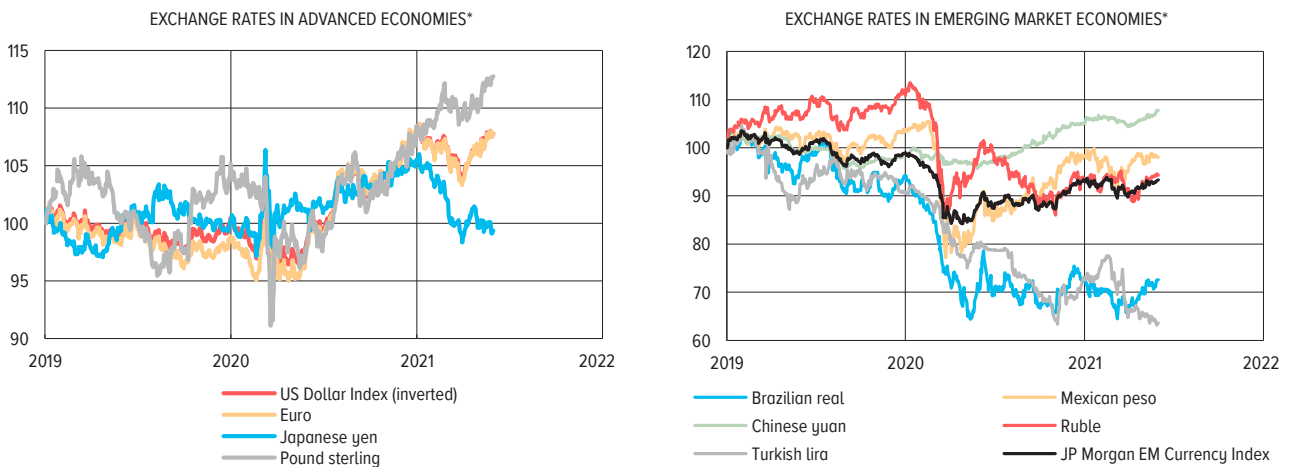
Chart 11



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

IN MAY, MOST CURRENCIES STRENGTHENED AGAINST THE US DOLLAR (02.01.2019 = 100)

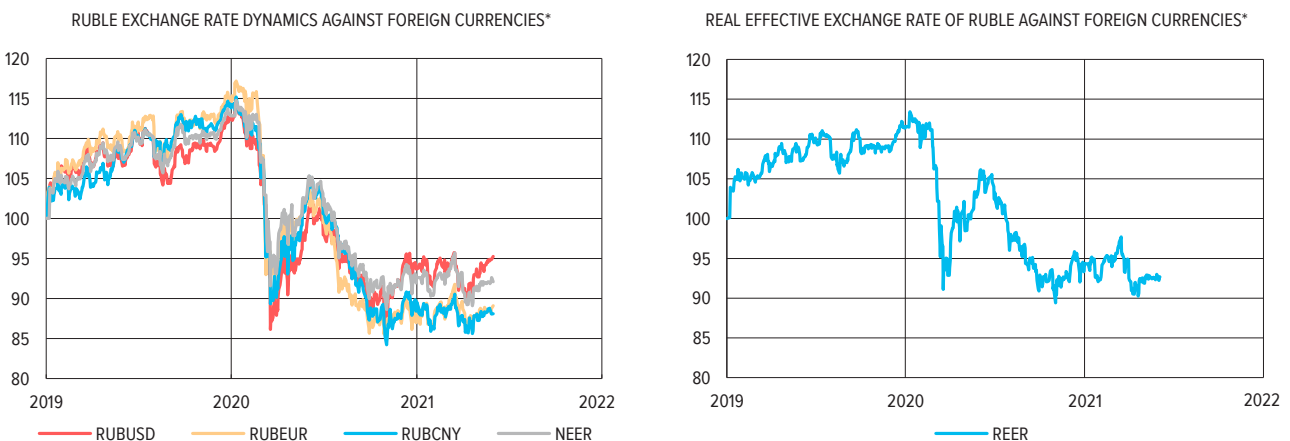
Chart 12



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

THE RUBLE HAS SIGNIFICANTLY STRENGTHENED AGAINST THE US DOLLAR AND, TO A LESSE EXTENT, AGAINST THE EURO AND THE YUAN (02.01.2019 = 100)

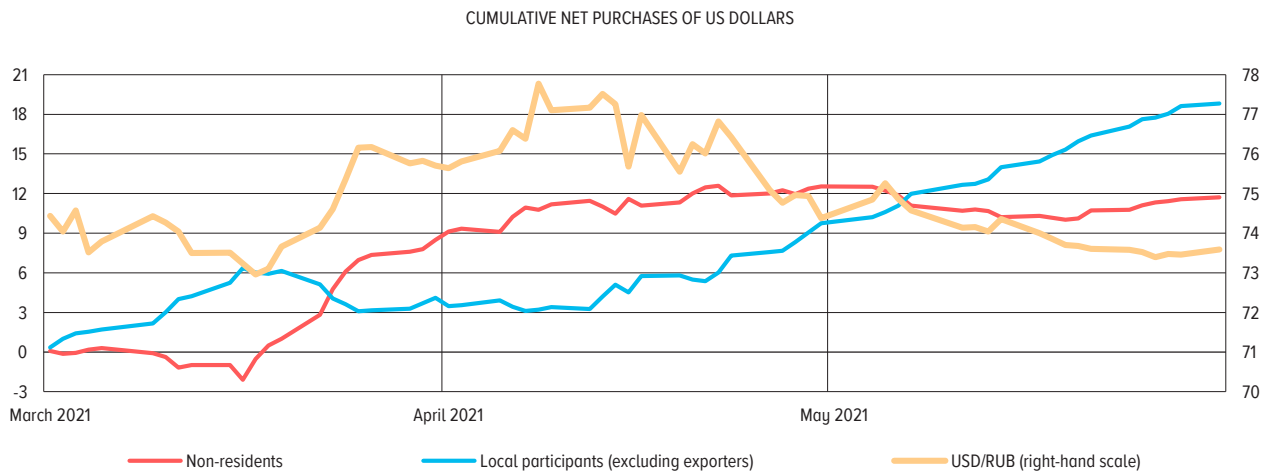
Chart 13



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

FOR THE FIRST TIME SINCE NOVEMBER 2020, NON-RESIDENTS WERE NET SELLERS OF FOREIGN CURRENCY

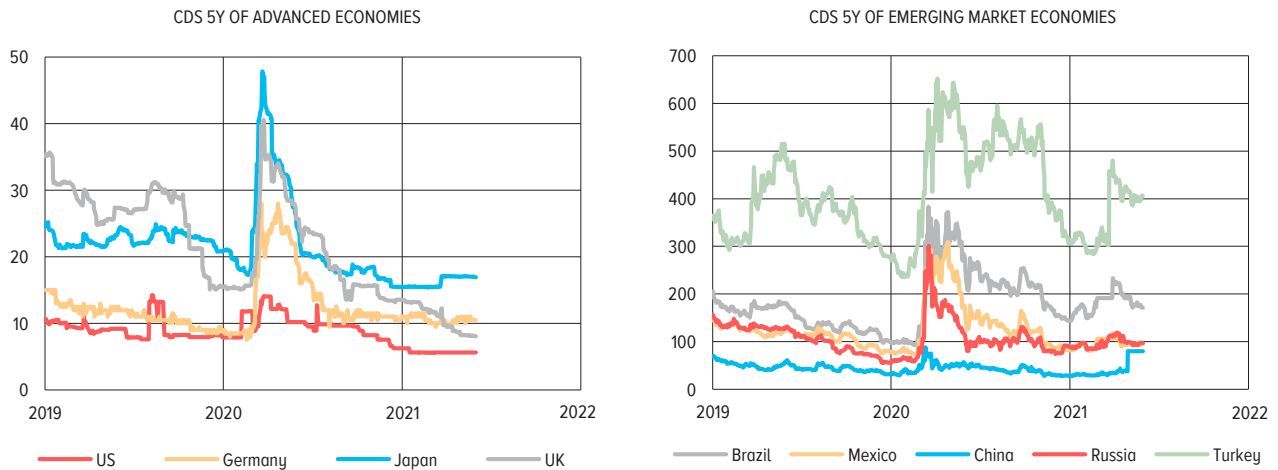
Chart 14



Sources: PJSC Moscow Exchange, Bank of Russia calculations.

RUSSIA'S 5Y CDS SPREAD REMAINED BELOW 100 BP

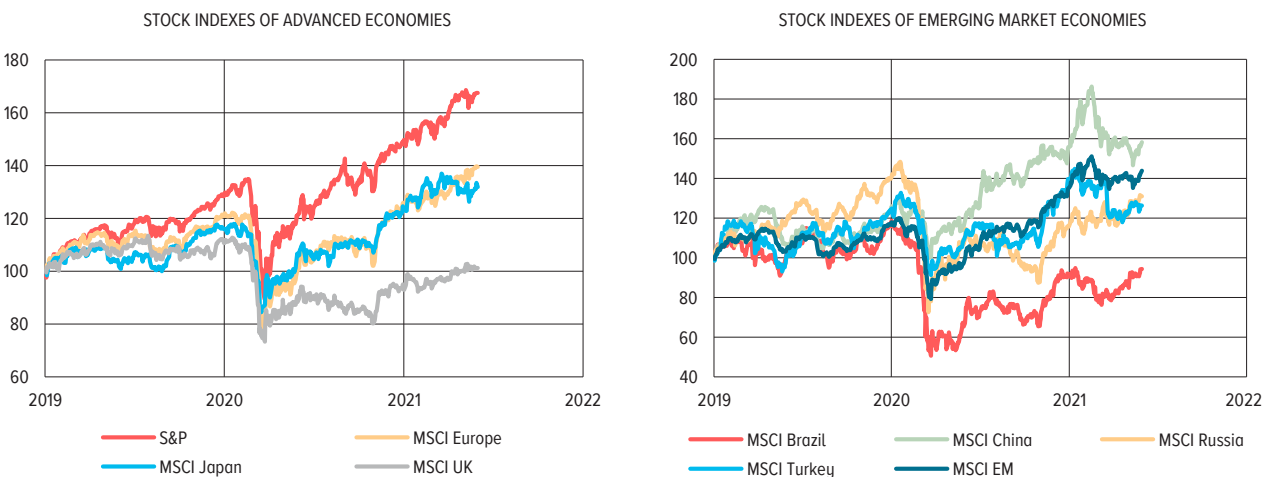
Chart 15



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

STOCK MARKETS IN MOST COUNTRIES CONTINUED TO GROW IN MAY

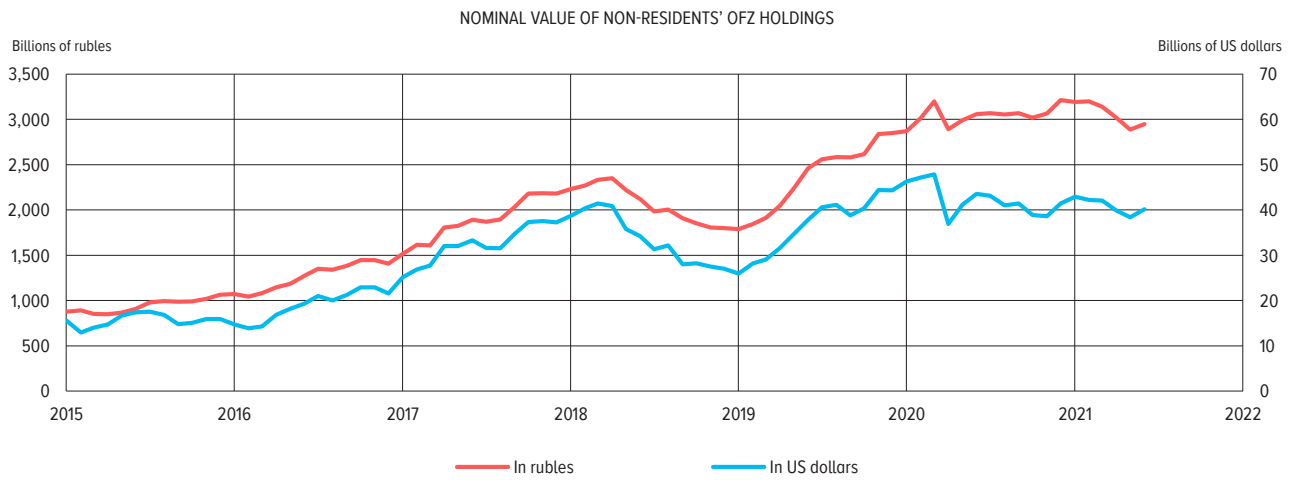
Chart 16



Sources: Bloomberg, Bank of Russia calculations.

FOREIGN INVESTORS INCREASED THEIR OFZ HOLDINGS FOR THE FIRST TIME SINCE JANUARY 2021

Chart 17



Sources: PJSC Moscow Exchange, Bank of Russia calculations.

THE SITUATION IN THE GLOBAL FINANCIAL MARKETS WAS RELATIVELY FAVOURABLE

Table 4

Indicator		31.05.2021	1M	3M	6M	YTD	1Y
Russian financial market							
RUB/USD exchange rate		73.43	2.4	1.0	3.9	1.3	-4.2
MOEX Index		3722	5.0	9.9	19.8	13.2	33.9
RTS Index		1598	7.6	10.7	24.6	15.1	28.7
Government bond yield		6.93	8	36	128	117	158
Corporate bond yield		6.93	6	43	73	82	86
Regional bond yield		6.98	17	63	118	130	116
CDS spread		97	-2	8	17	8	-23
RVI		25	-2	-8	-5	-7	-10
Exchange rates (per US dollar, % change, '+' – appreciation, '-' – depreciation)							
AEs*	US Dollar Index	89.83	-1.6	-1.3	-2.2	-0.1	-8.7
	Euro	1.22	1.7	1.5	2.5	0.1	10.4
	Japanese yen	109.58	-0.2	-2.6	-4.8	-5.7	-1.8
	Pound sterling	1.42	2.8	2.1	6.7	4.0	15.3
EMEs	JP Morgan EM Currency Index	57.95	1.9	2.0	2.8	0.0	6.2
	Ruble	73.43	2.4	1.0	3.9	1.3	-4.2
	Brazilian real	5.22	4.2	8.1	2.2	-0.5	3.6
	Mexican peso	19.95	1.5	3.5	1.2	-0.3	11.3
	Chinese yuan	6.37	1.6	1.5	3.3	2.5	12.2
	Turkish lira	8.49	-2.3	-14.2	-7.8	-12.5	-19.8
	South African rand	13.74	5.5	9.3	12.6	6.9	27.5
10-year bond yield (% p.a., change in bp, '+' – increase, '-' – decrease)							
AEs	USA	1.60	-3	18	76	68	90
	Germany	-0.19	2	15	38	38	23
	Japan	0.08	-1	-7	5	6	8
	UK	0.79	-5	4	49	60	59
EMEs	Russia	7.19	9	44	136	128	164
	Brazil	8.92	-3	50	129	233	183
	Mexico	6.58	-32	45	79	105	41
	China	3.07	-8	-18	-20	-7	38
	Turkey	12.93	0	0	136	0	91
	South Africa	9.27	-1	31	30	53	34
5Y CDS spreads (bp, change in bp, '+' – increase, '-' – decrease)							
AEs	USA	6	0	0	-2	-1	-5
	Germany	11	-1	1	-1	-1	-9
	Japan	17	0	1	1	1	-9
	UK	8	0	-4	-5	-5	-18
EMEs	Russia	97	-2	8	17	8	-23
	Brazil	172	-20	-20	5	28	-100
	Mexico	95	1	-11	6	13	-77
	China	80	0	49	49	52	27
	Turkey	406	-8	105	24	101	-135
	South Africa	191	-22	-30	-36	-11	-149
Stock indices (points, % change, '+' – increase, '-' – decrease)							
AEs	S&P	4,204	0.5	7.7	16.1	11.9	38.8
	MSCI Europe	2,057	3.7	9.7	16.9	11.8	38.0
	MSCI Japan	1,180	1.56	1.0	9.9	6.7	23.7
	MSCI UK	1,972	1.0	6.7	12.0	9.0	11.8
EMEs	MSCI EM	1,376	2.1	1.0	14.2	6.6	48.7
	MSCI Russia	756	7.9	11.1	23.9	13.0	20.1
	MSCI Brazil	1,932	9.4	19.0	16.6	3.0	42.7
	MSCI Mexico	5,248	7.7	17.4	22.1	14.8	53.3
	MSCI China	110	0.5	-7.4	4.4	1.5	38.7
	MSCI Turkey	1,536,137	3.6	-6.8	3.9	-9.2	16.7
	MSCI South Africa	1,505	1.3	-0.9	15.4	10.9	25.0

* Advanced economies.

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

Credit and deposit market

Deposit rates. As expected, the Bank of Russia key rate hikes in March and April led to a resumption of growth in interest rates on retail ruble deposits. In April, the average market rate on long-term deposits¹ rose 0.29 pp to 4.49% p.a., and on short-term deposits – by 0.11 pp to 3.36% (Chart 18). As in the previous month, in April, the most noticeable increase in rates was observed in the segment of deposits for over three years.

According to high-frequency monitoring data, in May, banks continued to raise rates on their deposit products. In the short term, the realised increase in the key rate, as well as expectations of a return to neutral monetary policy, will contribute to a further increase in returns on deposit for retail investors, supported by banks' competition for depositors.

Interest rates on foreign currency deposits remained low in April, limiting the attractiveness of savings in foreign currency compared to the ruble.

Deposit operations. In April, the inflow of funds in retail deposits² accelerated: at the end of the month the portfolio of household deposits increased by 5.4%³ vs 3.5% in March (Chart 19), annualised. The main segment supporting the retail deposits trends is still ruble-denominated current accounts due to the high popularity of debit cards with interest accrual and savings accounts in the context of low deposit rates on term deposits. However, as the returns on deposits, especially long-term ones, gradually rise, the activity in the segment of ruble deposits for over three years is seeing signs of recovery: in annual terms, in April, the in-

crease was 17.7% vs 11.2% a month earlier. The outflow of funds from deposits for up to three years continued, as a result of which the share of term deposits in the household deposit portfolio kept declining.

In the coming months, a gradual recovery in the share of term deposits in the structure of household savings is likely as a result of a return to neutral monetary policy and further growth in deposit rates, seasonal spending from current accounts during the holiday period, as well as higher certainty due to the ongoing large-scale vaccination. However, this process will also depend on the degree of public interest in alternative savings instruments. In April, real estate investments remained high, supported by the current programme of preferential mortgages for new buildings: the balances in escrow accounts under equity construction agreements increased by 208 billion rubles. Stock market instruments also remained popular: the number of individuals with brokerage accounts continued to grow in April and came close to 12 million people.⁴

The currency structure of household savings changed only slightly in April: despite the weak inflow over the month, the annual growth rate of foreign currency deposits was still lower than that of ruble deposits. At the end of April, the share of foreign currency in the retail deposit portfolio decreased by 0.7 pp to 20.6%, including due to the strengthening of the ruble.

Credit rates. By 2021 Q1, the downward trend in ruble lending rates that prevailed in the previous year was exhausted (Chart 18). The emerging expectations of key rate hikes and competition for depositors which limited the possibility of cheaper funding exerted upward pressure on credit rates. At the same time, the competition in the credit market restrained the growth of interest rates. As a result, in the first months of 2021, rates in the main segments of the credit market fluctuated around the level established by the end of 2020. Interest rate fluctuations in the first months of 2021 were largely determined by changes in the market structure.

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.

⁴ According to PJSC Moscow Exchange.

In particular, in the corporate segment⁵ of the market in March, the rate on long-term loans was 7.0% p.a., including 7.6% p.a. on loans to small and medium-sized enterprises. The interest rate on mortgage loans was 7.2% p.a. (including 5.9% on loans in the primary market). The rate on long-term car loans was 11.8% p.a. All the above-mentioned rates were within the range of values for the previous three months.

The decisions taken by the Bank of Russia to raise the key rate in March and April created the prerequisites for credit rates to rise. At the end of April, the interest rate on household loans for up to 1 year was 13.7% p.a. (a monthly increase of 0.57 pp), on short-term car loans – 8.5% p.a., and on long-term ones – 12.1% (an increase of 0.51 and 0.28 pp, respectively). These rates exceeded the maximum level of the first quarter or reached the upper limit of the quarterly values, reflecting a change in the trend in interest rate dynamics. The exception was the segment of mortgage loans with equity participation agreements (EPAs), where banks, competing for borrowers under preferential lending programmes, mainly reduced rates. Further growth in mortgage lending (see the ‘Retail lending’ section), fuelled by expectations of the termination of preferential lending programmes and banks’ competition for borrowers, and a corresponding increase in their share in market turnover led to a slight decrease in the average interest rate on retail long-term loans.

In May, major banks continued to adjust their interest rate policy by raising rates on non-preferential mortgage loans and other standard credit products. In combination with rising deposit rates and, consequently, rising cost of bank funding, an increase in credit rates at the end of 2021 Q2 and in Q3 can be expected, commensurate with the increase in inflation and the key rate, which will restrain excessive demand growth and the associated risks to price and financial stability.

Corporate lending. In April, the corporate lending segment experienced a significant recovery. Over the month, the portfolio of bank loans to non-financial organisations increased

by more than 1 trillion rubles. At the end of April, the annual growth of the corporate loan portfolio⁶ was 7.9% vs 5.9% at the beginning of the month (Chart 20).

The main contribution to the expansion of corporate lending in April was made by the segment of loans for more than three years (about 80% of the growth in the corporate portfolio). In annual terms, the growth of the portfolio of such loans increased from 6.7% at the beginning of April to 10.5% at the end of the month.

The increase in credit activity in April could be facilitated by the desire of borrowers to make use of credit rates near historical lows, as well as the emerging recovery in economic activity which supported the demand for financing investment projects.

Another factor that contributed to the growth of lending could be a shift in the preferences of companies in their choice of borrowing instruments. The market portfolio of non-bank bonds,⁷ which has been growing over the past years, amounted to 12.3 trillion rubles in April (0.2 trillion rubles less than a month earlier).

The borrowers who accumulated loans in April were from different industries, including export-oriented ones. This contributed to the growth of demand for loans in foreign currency. At the end of April, the annual growth rates of the ruble and foreign currency components of the corporate loan portfolio were comparable, which contributes to the preservation of its current currency structure (the share of foreign currency loans is about 25%).

Amid the expansion of the loan portfolio, the volume of overdue corporate debt decreased slightly. As a result, the share of overdue debt in the portfolio dropped by more than 0.2 pp over a month (Chart 20). The improving quality of the loan portfolio may have been one of the factors contributing to the continued interest of banks in corporate lending.

In mid-2021, banks expect a steady increase in companies’ demand for loans (Chart 22). Combined with the recovery in economic

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

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

⁷ According to the information of the agency Cbonds.ru.

activity, this allows expecting further growth in corporate lending in the short term.

Retail lending. At the end of April, the annual growth of the retail loan portfolio⁸ increased sharply, amounting to 17.6% vs 14.4% a month earlier. However, this growth was not due to the expanding retail lending (the April increase in the loan portfolio did not differ much from the same indicator in March), but rather to the low-base effect: in April 2020, amid the first wave of the COVID-19 pandemic, the portfolio of household loans decreased.

In April, as before, mortgage made the largest contribution to the growth of retail lending (Chart 21). During the month, more than 190 thousand new mortgage loans were issued totalling over 550 billion rubles. The activity of mortgage market participants was supported by further easing of non-price lending conditions (in April, the average mortgage loan term was 19.8 years, reaching another historical high) and preferential mortgage programmes. In addition, in the context of rising real estate prices, the demand for larger loans rose (in April, the average amount of a mortgage loan was 2.88 million rubles vs 2.81 million rubles a month earlier). As a result, the annual growth rate of the mortgage loan portfolio⁹ at the end of April was 25.7%, 2.5 pp higher than at the beginning of the month.

Other segments of the retail market also saw a recovery in April. During the month, households increased their obligations on consumer loans¹⁰ by 1.6%, and on car loans by 2.4%.

One of the factors that encourage banks to increase retail lending is the preservation of a high level of payment discipline of borrowers: over the month, overdue obligations on household loans decreased slightly, their share in the retail loan portfolio declined by 0.1 pp (Chart 20).

In the coming months, a further increase in retail lending can be expected, although as market credit rates rise, the attractiveness of borrowing for households will fall.

⁸ Hereinafter, growth of retail lending strips out credit claims acquired by credit institutions.

⁹ Housing mortgage loans, net of claims on such loans acquired by banks.

¹⁰ Standard loans grouped into homogeneous loan portfolios.

Money supply. In April, the growth of claims on the economy¹¹ accelerated again at the expense of claims on organisations and households. At the end of the month, the annual growth rate of claims on organisations was 9.9%, up 1 pp vs March, which was mainly due to the expansion of lending to non-financial companies. The banking system's claims on households also showed a marked acceleration in annual terms to 16.4% from 13.5% in March, which was due to both high credit activity in April and the effect of the low base of last year at the beginning of the pandemic.

Due to high tax revenues in April,¹² budget operations had a restraining effect on money supply dynamics for the month, which led to a decrease in the positive contribution of net claims on general government to the annual growth of money supply. However, thanks to the increase in lending to the economy, April saw a slight acceleration in the growth of the main monetary aggregates: the annual growth of M2X rose 0.7 pp to 11.7% over a month, and that of M2 added 0.5 pp to 11.8% (Chart 23).

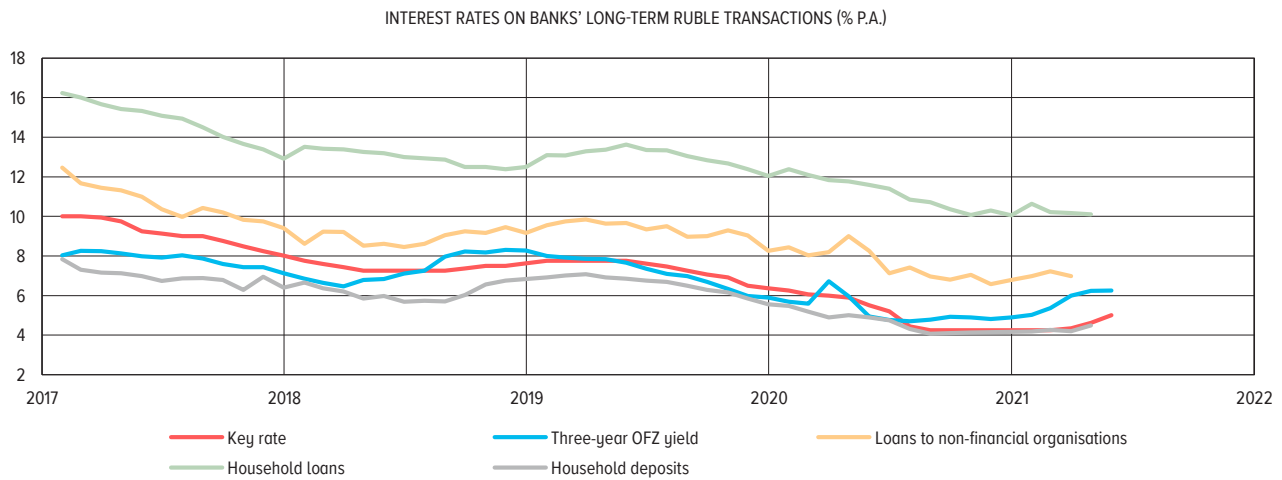
In the structure of money supply, there were signs of a gradual recovery of the contribution of ruble household deposits to the annual growth of monetary aggregates with a decrease in the contribution of cash rubles outside the banking system. Over the month, the seasonal growth of the M0 aggregate was close to typical for April in 2017–2019, and the annual slowdown from 22.7% to 17.9% at the end of April was due to a noticeable accumulation of M0 in the first months of the pandemic. The inflow of funds to escrow accounts that are not included in money supply continued and still had a restraining effect on money supply growth.

¹¹ Banking sector claims on the economy mean all claims of the banking system on non-financial and financial organisations and households in Russian rubles, foreign currency, and precious metals, which include loans extended (including overdue loans), overdue interest on loans, credit institutions' investment in debt and equity securities and promissory notes, as well as other forms of participation in non-financial and financial organisations' equity, and other receivables under settlement operations with non-financial and financial organisations and households.

¹² See *Banking Sector Liquidity and Financial Markets, information and analytical commentary, No. 4 (62), April 2021.*

IN APRIL, RETURNS ON RETAIL DEPOSITS INCREASED FOLLOWING THE KEY RATE HIKE

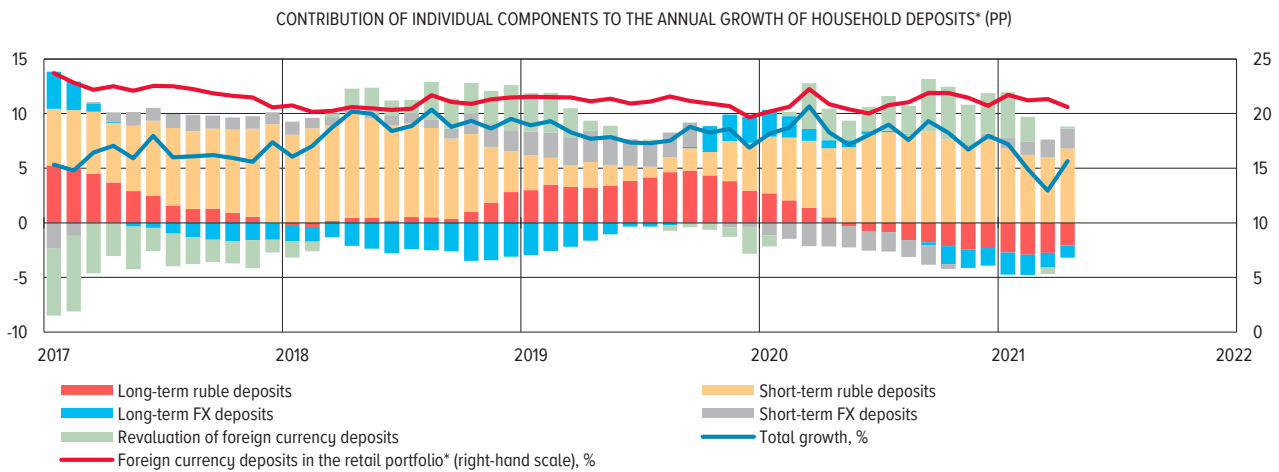
Chart 18



Source: Bank of Russia.

THE INFLOW OF FUNDS IN RETAIL DEPOSITS ACCELERATED IN APRIL

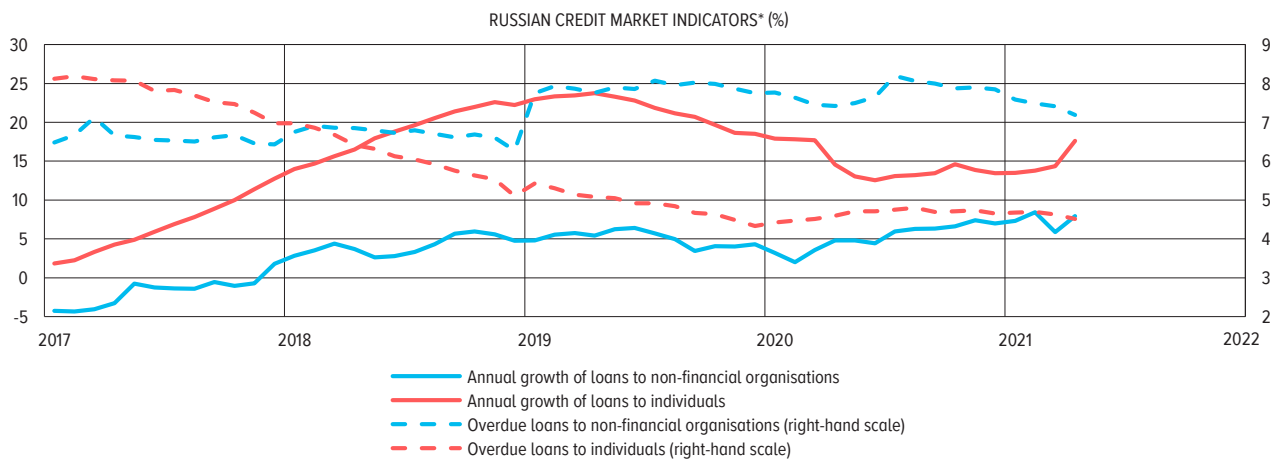
Chart 19



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

IN APRIL, THERE WAS AN ACCELERATION IN THE ANNUAL GROWTH RATES OF BOTH CORPORATE AND RETAIL LENDING

Chart 20

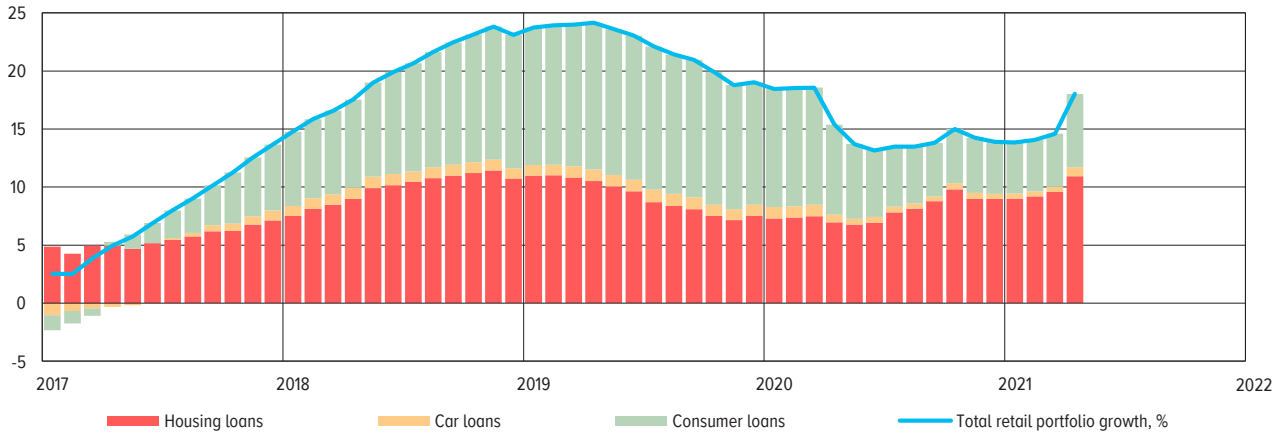


* From 1 February 2021, the portfolio of loans to non-financial organisations and households includes acquired claims. The calculation of portfolio growth is net of acquired claims.
Source: Bank of Russia calculations.

IN APRIL, HOUSEHOLDS INCREASED BORROWING IN ALL MARKET SEGMENTS WITH MORTGAGE STILL BEING THE LARGEST CONTRIBUTOR TO THE GROWTH OF RETAIL LENDING

Chart 21

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

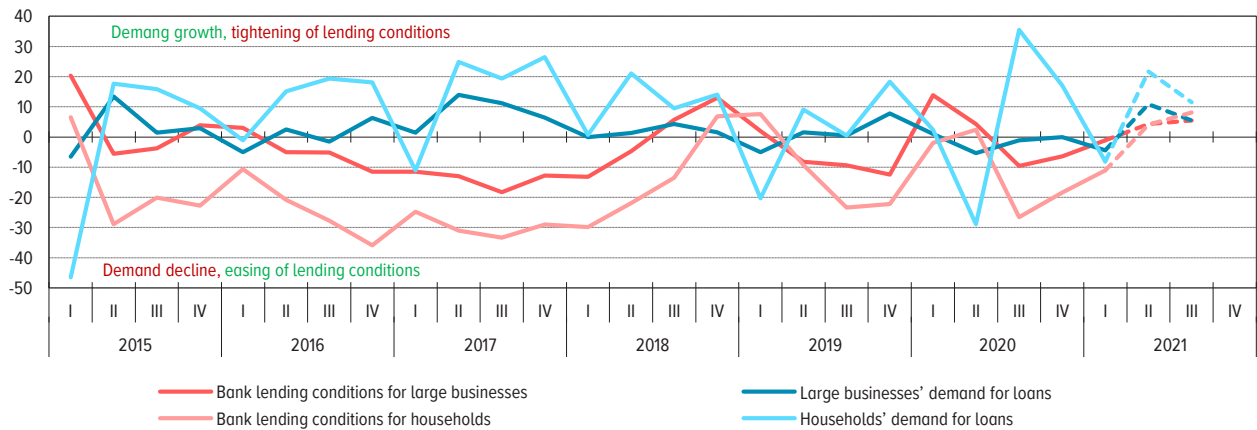


* For loans grouped into homogeneous loan portfolios.
Source: Bank of Russia calculations.

BANKS EXPECT AN INCREASE IN DEMAND FROM THE MAIN CATEGORIES OF BORROWERS IN 2021 Q2–Q3

Chart 22

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

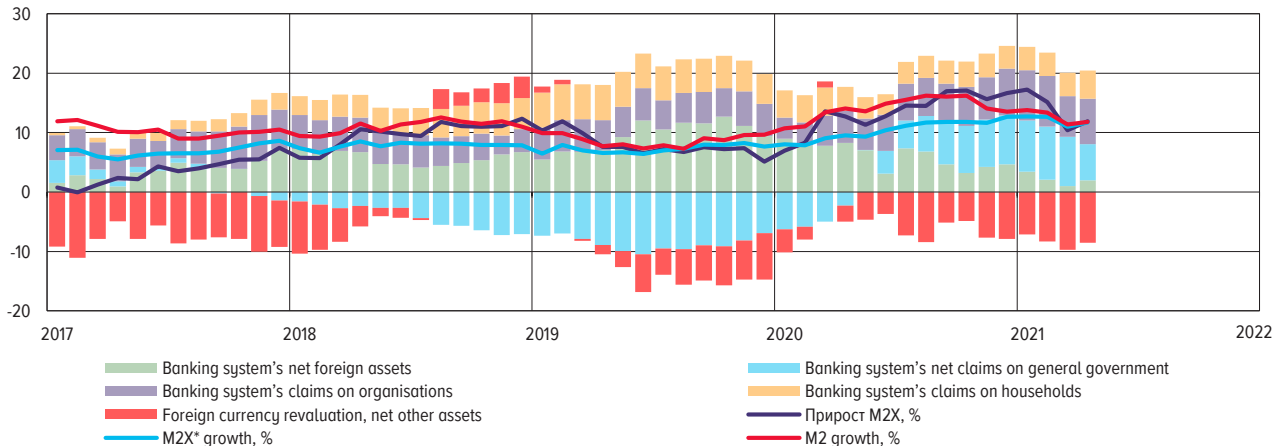


* The dotted lines signify respondent banks' expectations regarding changes in lending conditions and demand for loans in 2021 Q1.
Source: Bank of Russia.

IN APRIL, THE GROWTH OF MONEY SUPPLY ACCELERATED DUE TO LENDING TO THE ECONOMY

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

		January 2021	February 2021	March 2021	April 2021
Interest rates on banks' long-term ruble transactions					
– household deposits	% p.a.	4.2	4.3	4.2	4.5
– household loans	% p.a.	10.6	10.2	10.2	10.1
– corporate loans	% p.a.	7.0	7.2	7.0	-
Household deposits*	% YoY, AFRC	3.1	2.6	3.5	5.4
– in rubles*	% YoY	5.2	4.1	4.2	6.0
– in foreign currency	% YoY	-4.7	-2.9	1.4	3.4
– share of foreign currency*	%	21.7	21.2	21.3	20.6
Loans to non-financial organisations**	% YoY, AFRC	7.3	8.4	5.9	7.9
– short-term (up to 1 year)	% YoY, AFRC	12.1	13.0	2.2	1.6
– long-term (more than 1 year)	% YoY, AFRC	5.9	7.2	6.6	9.5
– overdue loans	%	7.6	7.5	7.4	7.2
Household loans**	% YoY, AFRC	13.5	13.8	14.4	17.6
– housing mortgage loans	% YoY, AFRC	21.8	22.2	23.2	25.7
– unsecured consumer loans	% YoY	8.6	8.6	8.9	12.5
– overdue loans	%	4.7	4.7	4.6	4.5
Banking system's claims on the economy	% YoY, AFRC	11.5	11.7	10.2	11.6
– on businesses	% YoY, AFRC	10.9	11.1	8.9	9.9
– on households	% YoY, AFRC	13.0	13.2	13.5	16.4
Money supply (M2 monetary aggregate)	% YoY	13.8	13.4	11.3	11.8
Broad money	% YoY, AFRC	12.7	12.6	11.0	11.7

* Excluding escrow accounts.

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

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

Source: Bank of Russia calculations.

Data cut-off dates:

- Banking sector liquidity and money market' section – 08.06.2021 (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 May-June 2021, this period is from 12.05.2021 to 08.06.2021);
- 'Foreign exchange and stock markets' section – 31.05.2021;
- 'Credit and deposit market' section – 01.05.2021.

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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