



Bank of Russia



BANKING SECTOR LIQUIDITY AND FINANCIAL MARKETS

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Information and analytical commentary

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

- The average spread between RUONIA and the Bank of Russia key rate expanded to -29 bp (vs -22 bp in the November averaging period; over 2021: -15 bp).
- In December, the structural liquidity surplus increased, driven by an inflow of budgetary funds and a reduction in the balances in banks' correspondent accounts.
- The forecast of the structural liquidity surplus for the end of 2022 equals 0.8–1.4 trillion rubles.
- The situation with foreign currency liquidity remains stable. The spread between interest rates in the FX swap and RUONIA (basis) segments was predominantly positive. As of early December, the amount of highly liquid foreign currency assets reached a two-year high.
- In December, money market curves continued to shift upwards for all maturities. The most significant rise was demonstrated by interest rates for up to six months due to the Bank of Russia's signal about a possible further tightening of monetary policy. Yields on long-term federal government bonds (OFZ) remained almost unchanged, reflecting market participants' expectations of a gradual monetary policy normalisation in the case of a slowdown of inflation.
- The main trends observed in the market of ruble deposits in the previous months also continued in November. Higher deposit rates further sped up the inflow of households' funds into banks as customers gradually transferred their funds from current accounts to time deposits. Retail customers' demand for foreign currency deposits trended downwards.
- The acceleration of the retail lending expansion in recent months paused. Contrastingly, the annual growth rate of corporate lending continue to go up. In the short run, the tightening of monetary policy will contain a further rise in credit activity.
- As before, the increase in money supply in November was mostly driven by the expansion of bank lending to the economy. The annual growth of broad money reached 11.0% as of the end of the month, as compared to 10.7% in October. The increase in money supply was primarily driven by ruble deposits, whereas the demand for foreign currency deposits and cash rubles declined.

MONEY MARKET AND OVERNIGHT (RUONIA) RATES

Over the December averaging period (AP) of required reserves (RR), the spread between RUONIA¹ (the Bank of Russia's operational benchmark) and the Bank of Russia key rate² expanded to **-29 bp** (vs -22 bp in the November AP; -15 bp over 2021; and -15 bp over 2020) (Chart 3). The spread volatility increased to **23 bp** (vs 15 bp in the November AP; 21 bp over 2021; and 18 bp over 2020).

The structural liquidity surplus averaged **0.9 trillion rubles** over the December AP (vs 0.9 trillion rubles in the November AP). As of early January, the liquidity surplus increased by 1.4 trillion rubles as compared to the beginning of the previous month, reaching 1.7 trillion rubles. This rise was driven by the inflow of budgetary funds at the end of December and lower balances in banks' correspondent accounts (Table 2). This figure is above the Bank of Russia's forecast of 0.6–1.0 trillion rubles. The average surplus over the December AP was within the forecast range. The average value of the balance of liquidity over the AP enables a more objective assessment (as compared to the analysis of the value as of a specific date) of how steady factors (namely budget operations and changes in the amount of cash in circulation) influence the banking sector liquidity and smooths out the effects of strategies pursued by individual credit institutions to manage balances of funds in their correspondent accounts over the AP.

The actual value of the surplus as of the end of the year deviated from the forecast because budget expenditures in December surpassed the forecast and the balances in banks' correspondent accounts decreased. As expected, the Federal Treasury (FT) reduced the balances of budgetary funds in the Treasury Single Account (TSA) with the Bank of Russia. As a result, an additional amount of 1.7 trillion rubles was placed with banks over 2021. The estimate of the correspondent account balance was based on the assumption that banks would make RR averaging uniformly. However, expecting the key rate to rise, banks maintained relatively high balances in correspondent accounts over the first part of the December AP, and lower balances – in the second part of the AP. As a result, banks deposited excess funds with the Bank of Russia at the end of the year.

In the first half of the December AP, the spread between RUONIA and the key rate contracted, staying in negative territory. Furthermore, in the October and July APs, banks expected the Bank of Russia Board of Directors to raise the key rate at its meeting on 17 December. However, in contrast to the said AP, this did not cause a surge in RUONIA in the December AP as the structure of participants in the IBL segment changed. Individual lending banks expanded supply in the IBL segment, while some borrowing banks, to the contrary, lowered demand, including due to an increase in Bank of Russia loans raised at a fixed rate and the need to maintain correspondent account balances close to the level required for RR averaging to comply with the liquidity coverage ratio. This put downward pressure on RUONIA. In the second half of the December AP, as banks made their RR averaging earlier, individual banks had excess liquidity in their correspondent accounts. However, as budget expenditures and incomes were highly volatile and the largest portion of these funds was received during a few days at the end of the month, banks opted not to place all excess funds at the Bank of Russia's one-week deposit auctions. Eventually, the spread between RUONIA and the key rate expanded, and the Bank of Russia held fine-tuning deposit auctions on 24 December 2021 and then on 10 and 11 January 2022.

Budget operations in December caused an inflow of liquidity into banks amounting to 0.9 trillion rubles. The outflow of funds due to a reduction in banks' debt to the FT was completely offset by seasonally adjusted large budget expenditures which soared as compared to previous years. Furthermore, the main taxes also increased. The growth of personal income tax sped up slightly in

¹ RUONIA (Ruble OverNight Index Average) is the weighted average interest rate on overnight interbank ruble loans (deposits) reflecting the cost of unsecured overnight borrowing.

² The operational objective of the Bank of Russia's monetary policy within the inflation targeting strategy is to maintain interest rates in the unsecured overnight segment of the interbank lending (IBL) market close to the Bank of Russia key rate.

December 2021 year-on-year. Conversely, the rise in VAT and profit tax slowed down, which was associated with the high base of 2019 due to a relatively low amount of VAT and profit tax refunds in 2019.

The amount of cash in circulation increased by 0.4 trillion rubles in December, which is typical of this season. Credit institutions were replenishing their cash offices and ATMs before the New Year holidays. Nonetheless, at the beginning of 2022, after the collection of retailers' earnings, these funds returned to banks in comparable amounts.

In December, the growth of the amount of cash in circulation was in line with the Bank of Russia's forecast and generally close to last year's averages. Cash is expected to gradually return to banks in 2022–2023, after the rise in the demand for it during the pandemic period in 2020. Considering this and assuming that budget operations will have a neutral effect on liquidity and banks will uniformly average required reserves, the forecast of the structural liquidity surplus for the end of 2022 equals 0.8–1.4 trillion rubles.

MONEY MARKET YIELD CURVES AND KEY RATE EXPECTATIONS

OIS (ROISFIX) curve.³ In December, the ROISFIX curve continued to go up, with one- and two-week yields growing by 100 bp, and over one-month yields – by 40–64 bp (Chart 5). The rise in yields was primarily driven by the increase in the key rate and the revision of expectations about its further changes amid high inflation and communication signals from the Bank of Russia. The **MosPrime 3M – OIS 3M spread** averaged 72 bp in December (vs 54 bp in November, 53 bp over 2021 H1), fluctuating from 55 to 84 bp over the month. The spread volatility was predominantly associated with the uncertainty about key rate changes at the next meetings of the Bank of Russia Board of Directors and a higher volatility of liquidity inflows and outflows in the banking sector in December.

IRS curve.⁴ As of the end of December, the short end of the IRS curve also went up, with two to six month yields growing by 61–77 bp and longer-term yields (one to ten years) changing less significantly (from +7 to +39 bp). The long end of the curve was less volatile because market participants maintained their expectations about the start of monetary policy easing in 2022 when inflation starts to slow down.

MARKET PARTICIPANTS AND ANALYSTS CONTINUED TO RAISE THEIR KEY RATE EXPECTATIONS

Table 1

Key rate expectations based on market indicators,* indicator (instrument)	June 2022	September 2022
– MosPrime 3M (FRA)	9.13 (8.35)	8.92 (8.35)
– RUONIA (ROISfix)	9.63 (8.96)	9.26 (9.22)
– RUONIA (futures)	9.10 (9.25)	9.10 (9.25)
Analysts' key rate expectations*	As of 31.06.2022	As of 30.09.2022
– Bloomberg survey	8.50 (8.00)	8.00 (7.50)
– Refinitiv survey	8.75 (8.00)	8.50 (7.63)

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

³ The OIS (ROISfix) curve – indicative rates (fixing) on RUONIA interest rate swaps.

⁴ The IRS curve represents market prices for interest rate swaps against MosPrime 3M.

Market participants and analysts continued to raise their key rate expectations. According to financial market indicators as of the end of 2021, market participants expected that the key rate would average 8.25–9.00% in 2022 H1, which is in line with the expectations of analysts surveyed by Bloomberg and Refinitiv (Table 1).

PUBLIC DEBT MARKET

OFZ yield curve. In December, short- and medium-term OFZ yields went down (Chart 9): OFZ 1Y – 8.18% (-29 bp), OFZ 2Y – 8.35 bp (-36 bp), and OFZ 5Y – 8.44 bp (-14 bp). Contrastingly, long-term yields rose: OFZ 10Y – 8.44% (+12 bp). As yields on short-term issues declined, the OFZ curve was no longer inverted and returned to ‘normal’: the spread between ten- and two-year OFZ yields equalled 9 BP (vs -39 bp in the previous month).

Before the meeting of the Bank of Russia Board of Directors (17 December), the shift in the yield curve of OFZ bonds with up to five-year maturities was moderate (no more than 9 bp), which might be caused by the purchase of resold short- and medium-term bonds. Despite the tough signal from the Bank of Russia with regard to a further rise in the key rate, the decline in the yield curve of OFZ bonds (with maturities of up to 5 years) accelerated in the second half of the month (about 15–30 bp). This was associated with relatively large purchases of OFZ bonds by collective investors and is not a sign of a decrease in expectations as the interest rate swap market did not demonstrate a similar drop in rates.

As of the end of December, **yields** on two-year **U.S. Treasury bonds** were up to 0.89% (+18 bp), and yields on ten-year bonds – to 1.51% (+11 bp), which is the maximum reading since the second half of November 2021. This might be related to market participants’ expectations about a sharper rise in US Fed rates.

As in the previous two months, **foreign investors reduced their investments in OFZ bonds** in December. The reduction by 108 billion rubles in December was comparable with the outflow of non-residents’ investments in the previous month (Chart 11). Non-residents were actually selling OFZ bonds during the entire month, which was explained by higher geopolitical risks, as well as expectations of an earlier tightening of US monetary policy.

In December, **OFZ placements** increased by 61.3 billion rubles as compared to November, reaching 128.5 billion rubles. As in the previous months, OFZ bonds were mostly purchased at auctions by domestic investors, in particular systemically important credit institutions (26.5%), other credit institutions (24.7%), and non-financial organisations (22.6%).

Other financial markets

Foreign currency liquidity. In November, highly liquid foreign currency assets increased by 6 billion US dollars, reaching the December 2019 high (Chart B-1-1). Moreover, the spread between interest rates in the FX swap and RUONIA (basis) segments expanded in November, which is typically observed when the situation with foreign currency liquidity worsens. As was noted in the previous issue of the commentary,¹ the expansion of the basis was caused by a decline in non-residents' long ruble positions in the FX swap market, rather than by lower foreign currency liquidity, which was confirmed by November 2021 data. In December–early January, the situation with foreign currency liquidity, apparently, remained almost unchanged, as the basis contracted slightly as compared to November and ranged from -11 to 21 bp. The average basis equalled 5 bp in the December AP (vs 13 bp in the November AP, and -4 bp over 2021).

Foreign exchange market. As in the previous month, the ruble exchange rate predominantly declined throughout December, dropping to RUB/USD 74.68 (-0.8%). The exchange rate reached its minimum at the end of the year (30 December) – RUB/USD 75.13. Russia's country risk premium (5Y CDS spread) continued to rise (+12 bp), as in November, reaching 127 bp, which was driven by intensifying geopolitical tensions and sanction risks.

Conversely, other EME currencies strengthened by 0.3% on average (Chart B-1-3). The Mexican peso strengthened most significantly (+4.5%): the country's central bank (Banxico) raised the policy rate by 50 bp at a time (vs expected +25 bp) to 5.5% amid growing proinflationary risks.

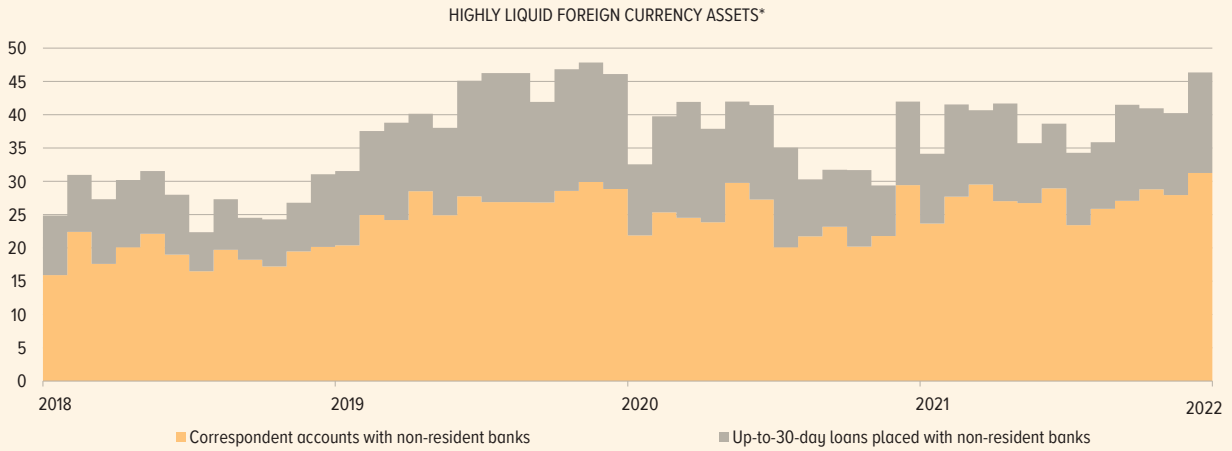
According to data on foreign currency purchases in the on-exchange and over-the-counter markets (Chart B-1-4), non-residents were gradually increasing their foreign currency purchases in December as the geopolitical situation was unstable.

Equity market. In December, stock indices in the majority of economies trended upwards. S&P 500 added 4.4%, MSCI Europe – 6.6%, and MSCI EM – 1.6% (Chart B-1-6). Conversely, Russian exchanges reported a decline, with the MOEX Index and the RTS Index losing 2.7% and 3.0%, respectively. Higher geopolitical risks were the main reason behind negative sentiment in the Russian market. Expectations of a faster tightening of US monetary policy had a limiting effect on EMEs' assets.

¹ The information and analytical commentary [Banking Sector Liquidity and Financial Markets](#), No. 11 (69), November 2021.

**HIGHLY LIQUID FOREIGN CURRENCY ASSETS REACHED THE PEAK RECORDED IN DECEMBER 2019
(AS OF 1 DECEMBER)**
(BILLIONS OF US DOLLARS)

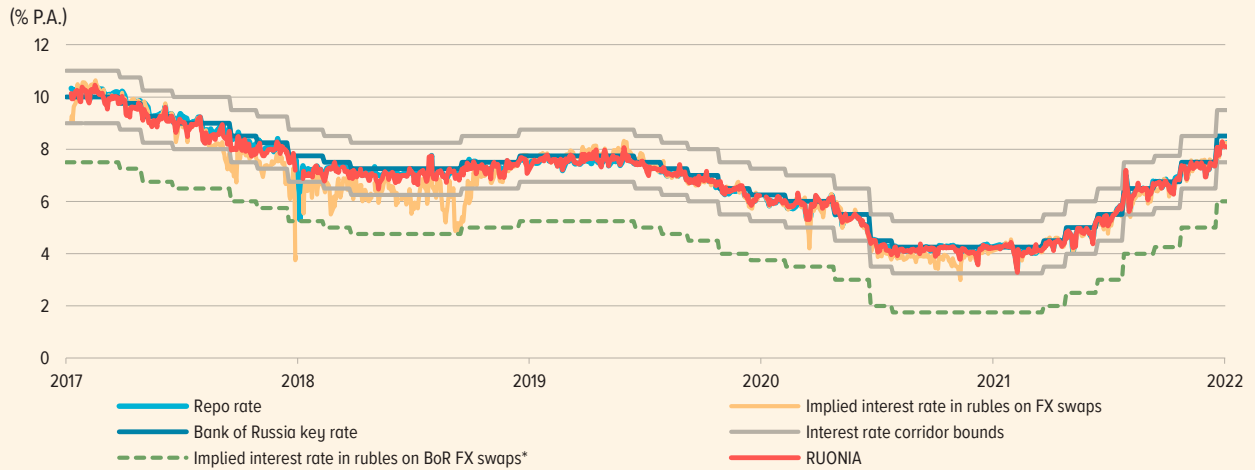
Chart B-1-1



* Excluding foreign currency cash at credit institutions' cash offices.
Source: Bank of Russia calculations.

**THE SPREAD BETWEEN INTEREST RATES IN THE FX SWAP AND RUONIA (BASIS) SEGMENTS
WAS PREDOMINANTLY POSITIVE**

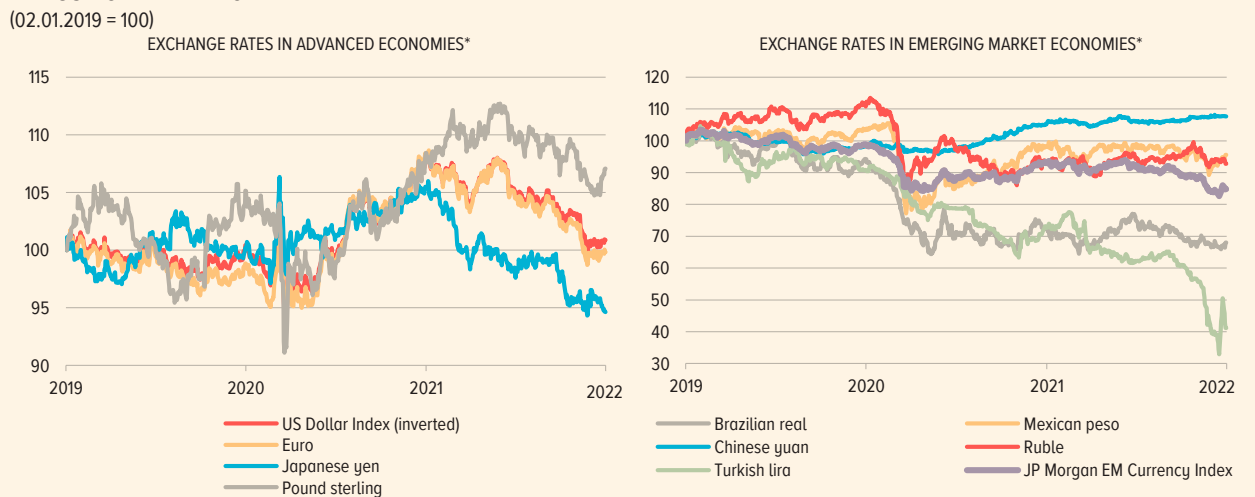
Chart B-1-2



* Implied rate = 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.

**EMES' CURRENCIES, EXCLUDING THE RUSSIAN RUBLE, MOSTLY STRENGTHENED AGAINST
THE US DOLLAR IN DECEMBER**

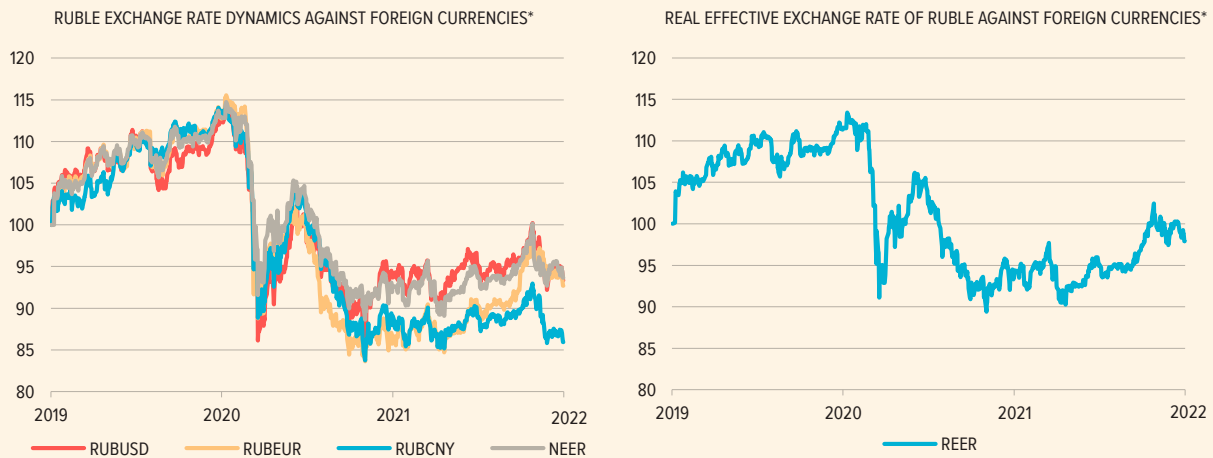
Chart B-1-3



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

THE EFFECTIVE RUBLE EXCHANGE RATE REMAINS AT THE LEVEL OF THE SECOND HALF OF AUGUST 2020
(02.01.2019 = 100)

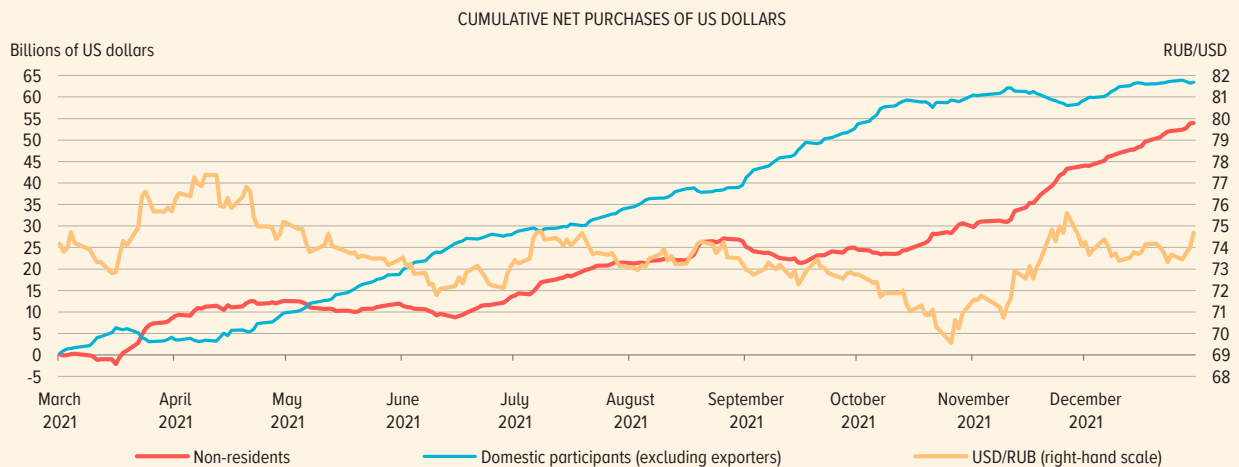
Chart B-1-4



* The nominal and real effective exchange rate of the ruble (NEER and REER, respectively) are calculated based on market exchange rates and recent monthly inflation data available.
Sources: Bloomberg, Bank of Russia calculations.

NON-RESIDENTS MOSTLY BOUGHT FOREIGN CURRENCY

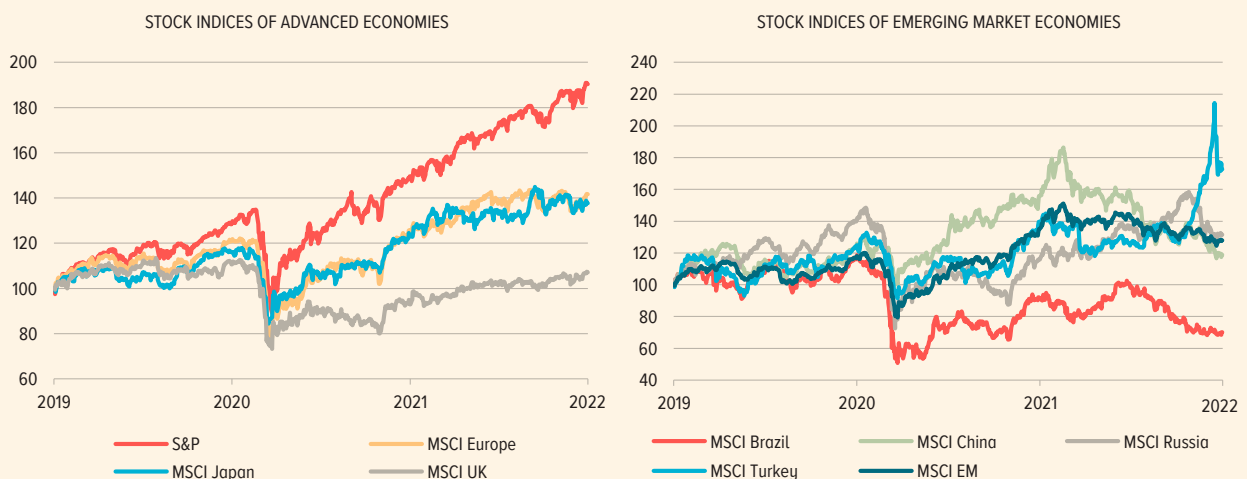
Chart B-1-5



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

STOCK INDICES IN MOST EMES, EXCLUDING RUSSIA AND CHINA, EDGED UP
(02.01.2019 = 100)

Chart B-1-6



Sources: Bloomberg, Bank of Russia calculations.

CREDIT AND DEPOSIT MARKET

Deposit rates. In November–December, banks continued to raise interest rates on ruble deposits. The increase in deposit rates amid stabilising or moderately declining interest rates in the related market segments was associated with a slower transmission of monetary policy impulses to the deposit market, as compared to the bond market or the long-term IBL market. Previously, deposit rates also continued to change for several months after other market segments had completely adjusted to changes in the key rate or expectations about its future movements. The catch-up growth of deposit rates contributed to the contraction of the spread between deposit rates and bond yields (Chart 12).

As in previous months, interest rates on long-term deposits¹ demonstrated a substantial rise in November. The average market interest rate on short-term deposits rose by 26 bp in November, reaching 4.6% p.a. The average market interest rate on long-term deposits increased by 43 bp to 6.5% p.a. Deposit rates continued to trend upwards in December: the deposit index FRG100² added 50 bp over the month (Chart 12).

Amid growing deposit rates, banks implemented more diversified marketing policies, seeking to maintain their competitiveness in the deposit market, while containing the rise in interest expenses. Many banks offered deposits at increased interest rates, with the specific conditions of deposit agreements (a considerable deposit amount, funds transfer from other banks, and using additional services provided by banks) limiting the range of potential depositors and the opportunity to update contractual conditions for the existing deposits. Coupled with the expanded supply of promotional deposits, which is typical of the period on the eve of the New Year, this increased the segmentation of the deposit market. As a result, deposit rates might move diversely in the first months of 2022, while preserving a certain potential for a further rise.

Interest rates on foreign currency deposits remained close to their record lows in November–December. Near-zero interest rates on foreign currency deposits amid the growth of ruble deposit rates were one of the factors supporting the relative attractiveness of savings in the national currency.

Deposit operations. The increase in deposit rates contributed to the further inflow of households' ruble funds³ into banks. The annual growth of balances in households' ruble accounts and deposits⁴ reached 6.3% by the end of November, as compared to 5.5% in the previous month. Conversely, the segment of foreign currency deposits recorded a substantial outflow of depositors' funds: over the month, households' funds with banks contracted by 2.5 billion US dollars, and the annual growth of balances in foreign currency deposits slowed down from 8.8% in early November to 4.2% by the end of the month. The combined effect of these two trends slightly slowed down the overall annual inflow of households' funds into banks, which equalled 5.8% in November vs 6.1% in the previous month (Chart 14).

In the ruble segment of the deposit market, customers continued to transfer funds from current accounts to time deposits, as in 2021 Q3, which was driven by rising returns on deposits. As in October, depositors preferred not to increase longer-term deposits. Specifically, deposits for up

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

² The average interest rate of 54 largest deposit banks on deposits for up to one year in an amount of at least 100,000 rubles, [according to information from the information agency Frank RG](#).

³ Hereinafter, households' funds with banks include balances in time deposits, demand deposits and current accounts, but do not include escrow accounts under equity construction contracts.

⁴ 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.

to three years accounted for the entire inflow of households' ruble funds into banks. Balances in deposits for over three years continued to shrink.

In the short run, higher deposit rates and the contracted spread between deposit rates and yields on bonds (Chart 12), which are an alternative to deposits, will support the attractiveness of deposits, contributing to the overall acceleration of the inflow of households' ruble funds into banks. Maturities of household deposits may be expected to extend gradually as a result of both a further transfer of funds from current accounts to time deposits and a recovery of customers' demand for longer-term deposits.

Credit rates. Loan rates in 2021 Q4 were impacted by the further tightening of the Bank of Russia's monetary policy. The Bank of Russia's tough signal amid rising inflation which hit new local peaks influenced market participants' expectations about interest rates that started to rise more considerably, including at the beginning of 2022 (see the section 'Money market yield curves and key rate expectations'). Higher rates on market transactions contributed to the increase in average rates on ruble-denominated corporate⁵ and retail loans, although some market segments recorded a local reduction in average interest rates. This was associated with the growth of transactions on special terms, including within government subsidised lending programmes, as well as with market structure fluctuations.

Specifically, interest rates on ruble-denominated mortgage loans averaged 7.6% in November, as compared to 7.7% in October (Chart 13). The reduction in the average interest rate was caused by a slight expansion of lending within subsidised programmes.⁶ Moreover, as market rates continued to rise, banks became more interested in subsidised lending, as these programmes allowed banks to eliminate interest rate risk. Therefore, banks continued to decrease minimum interest rates on subsidised mortgage loans. Another factor limiting the growth of average market rates was a further expansion of lending programmes at reduced interest rates offered by banks jointly with developers. Concurrently, banks raised interest rates on mortgage loans not covered by subsidised programmes. According to the monitoring of high-frequency indicators,⁷ in December, market mortgage rates increased by nearly 53 bp in the primary market and by about 25 bp in the secondary market, reaching 9.58% and 9.62%, respectively (Chart 12).

Interest rates on ruble-denominated consumer loans continued to rise in November. As there was an increase in special offerings typical of the period on the eve of the New Year, this slowed down the rise in average market rates. Interest rates on car loans continued to trend upwards. Another driver of interest rates in this segment was a larger portion of loan applications from customers wishing to buy used cars⁸ because lending conditions in this segment are less attractive.

Increased interest rates on alternative financial instruments and a further rise in deposit rates making bank funding more expensive will continue to put upward pressure on average interest rates on ruble loans which will move diversely in various credit market segments.

Corporate lending. The annual growth of corporate lending⁹ hit a new high in November, rising to 11.7% from 11.5% in October (Chart 15). The demand for borrowings remained high both due to still low real interest rates amid high inflation and as a result of higher demand for funding driven by the expansion of economic activity. The monthly increase in corporate lending slowed down slightly as compared to October, which was mainly associated with the repayment of a number of large short-term loans by non-financial organisations. The portion of overdue debt in the portfolio of loans issued to non-financial organisations continued to shrink, edging down to 6.1% in November from 6.2% in October.

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

⁶ The programmes Subsidised Mortgage and Family Mortgage accounting for the largest part of subsidised mortgage loans.

⁷ According to [weekly monitoring of market rates of supply in the mortgage market](#) published by DOM.RF.

⁸ According to the [assessment](#) by the National Bureau of Credit Histories.

⁹ Hereinafter, the growth of lending to non-bank financial institutions does not include claims acquired by banks.

As before, ruble loans accounted for nearly the entire growth rate of corporate lending. The ruble loan portfolio expanded by 15.7% as of the end of November vs 15.1% in the previous month. The increase in corporate foreign currency lending decelerated to 0.7% in November from 2.4% in October. The maturities of ruble loans continued to extend in November, with the growth rate of the long-term loan portfolio significantly exceeding that of the short-term portfolio.

Lending to small and medium-sized enterprises (SMEs) continued to increase at a considerable pace. The annual growth of the SME loan portfolio sped up to 24.8% by the beginning of November, as compared to 22.7% in October. The rise in lending to large corporates accelerated less significantly, specifically from 9.9% as of early October to 10.5% as of early November. SME lending could also be supported by the subsidised 3% p.a. lending programme¹⁰ that was resumed on 1 November.

In the short run, a further expansion of the corporate loan portfolio might be constrained by higher credit rates. Corporates' demand for loans will also depend on economic growth prospects, heterogeneity across industries, and the parameters of government-supported lending programmes.

Retail lending. The annual growth of the retail loan portfolio¹¹ equalled 21.8% in November, staying close to its peak reached at the beginning of 2021 Q4 (Chart 15). The rise in retail lending was driven by subsidised lending programmes and promotional offerings typical of the season at the end of the year. The percentage of households' overdue debt was 4.2%, remaining near its lowest readings since 2013.

As before, mortgage lending was the most significant contributor to the expansion of retail lending (Chart 16). Specifically, banks issued 157,000 new loans in November, totalling 510 billion rubles. Moreover, lending within the subsidised and family mortgage programmes expanded. The annual increase in the mortgage loan portfolio¹² remained almost the same, namely 25.1% vs 25.3% in October. The attractiveness of mortgage loans for banks was supported by securitisation transactions reducing burden on banks' capital: the amount of mortgage-backed bonds in circulation¹³ surged by nearly a fourth in 2021 to 892.8 billion rubles.

The amounts of transactions in other segments of the retail market (unsecured consumer loans and car loans) remained substantial as well (Chart 16). Although their contribution to the expansion of retail lending was less significant as compared to mortgage lending, this difference was decreasing gradually.

The rise in interest rates as banks adjust to monetary policy tightening, the diminishing impact of seasonal factors, and the influence of macroprudential policy¹⁴ on consumer lending will gradually decelerate the expansion of the retail loan segment.

Money supply. As before, the increase in money supply was predominantly driven by the expansion of banks' claims on the economy. The total annual growth of claims on the economy edged down from 14.7% in early November to 14.3% at the end of the month. The main contributor to this reduction was the deceleration of foreign currency lending to financial institutions, due to which the overall annual growth of claims on organisations declined to 11.9% as compared to the peak reached in the previous month. The annual increase in the banking system's claims on households sped up slightly to 20.7% as of the end of November.

As before, net foreign assets and claims on general government were only minor contributors to the formation of money supply. The growth of balances in escrow accounts not included in money supply continued to limit the expansion of money supply, but the impact of this factor on monetary

¹⁰ Resolution of the Government of the Russian Federation No. 1850, dated 28 October 2021.

¹¹ Hereinafter, the growth of household lending does not include claims acquired by banks.

¹² Housing mortgage loans, net of claims on such loans acquired by banks.

¹³ Unredeemed face value according to the information agency Cbonds.ru.

¹⁴ The increase in risk weight add-ons for unsecured consumer loans from 1 October 2021 and the tightening of requirements for calculating individual borrowers' payment-to-income ratios since 1 January and 1 February 2022.

aggregates is weakening owing to the completion of a large number of residential construction projects and the release of escrow accounts.

As a result of the combined effect of these factors, the annual growth of broad money (the M2X aggregate) accelerated to 11.0% as of the end of November (vs 10.7% in October) (Chart 18). The increase in money supply was mostly driven by ruble deposits: the annual growth of money supply (in the national definition) (the M2 aggregate) sped up notably, reaching 11.0% by the end of the month (vs 8.8% in the previous month). The amount of cash in circulation (the M0 aggregate) edged down in November. The annual growth of this aggregate continued to decelerate, declining to 6.8% by the end of the month.

CHARTS AND TABLES

THE BANKING SECTOR'S STRUCTURAL LIQUIDITY SURPLUS INCREASED IN DECEMBER 2021
(AS OF START OF BUSINESS, BILLIONS OF RUBLES)

Table 2

	01.01.2018	01.01.2019	01.01.2020	01.01.2021	01.04.2021	01.07.2021	01.10.2021	01.12.2021	01.01.2022
Structural liquidity deficit (+)/ surplus (-)	-2,639	-3,016	-2,761	-204	-1,461	-1,454	-1,283	-339	-1,691
Bank of Russia claims on credit institutions	10	21	18	976	349	154	154	1,029	909
Auction-based facilities	-	-	-	847	103	148	108	127	116
– repos and FX swaps	-	-	-	847	103	148	108	127	116
Fixed interest rate facilities	10	21	18	129	246	6	46	902	793
– repos and FX swaps	4	8	13	118	0	0	11	46	3
– secured loans	5	13	5	10	246	5	35	856	790
Credit institutions' claims on the Bank of Russia	2,729	3,293	2,983	1,796	2,417	1,941	1,626	1,547	2,804
Deposits	2,372	1,902	1,026	1,221	1,772	1,314	1,023	1,383	2,804
– auction-based	2,125	1,478	697	844	1,650	1,191	780	1,240	1,626
– fixed interest rate	247	424	330	377	122	123	243	143	1,178
BoR coupon bonds	357	1,391	1,956	575	645	626	603	164	-
Standing reverse facilities, other than standard monetary policy instruments of the Bank of Russia*	81	256	204	616	607	332	190	179	204

* These transactions include Bank of Russia specialised refinancing facilities, loans granted by the Bank of Russia as part of irrevocable credit lines, and USD/RUB and EUR/RUB sell/buy FX swaps conducted by the Bank of Russia.
Source: Bank of Russia calculations.

THE INFLOW THROUGH THE BUDGET CHANNEL SLIGHTLY EXCEEDED THE FORECAST
(TRILLIONS OF RUBLES)

Table 3

	2020 (actual)	2021 (actual)	December 2021	2022 (forecast)
1. Liquidity factors	-2.6	1.6	0.5	[0.4; 0.8]
– change in the balances of funds in the general government accounts with the Bank of Russia, and other operations*	0	2.3	0.9	[0.0; 0.2]
– change in the amount of cash in circulation	-2.6	-0.7	-0.4	[0.1; 0.3]
– 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	0.4
2. Change in free bank reserves (correspondent accounts)*** (demand)	-0.1	0.1	-0.8	[1.2; 1.4]
3. Change in banks' claims on deposits with the Bank of Russia and coupon OBRs	1.2	1.0	1.3	[-1.8; -1.2]
4. Change in outstanding amounts on Bank of Russia refinancing operations (4=2+3-1)	1.4	-0.5	-0.1	-0.8
Structural liquidity deficit (+) / surplus (-) (as of end-period)	-0.2		-1.7	[-1.4; -0.8]

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

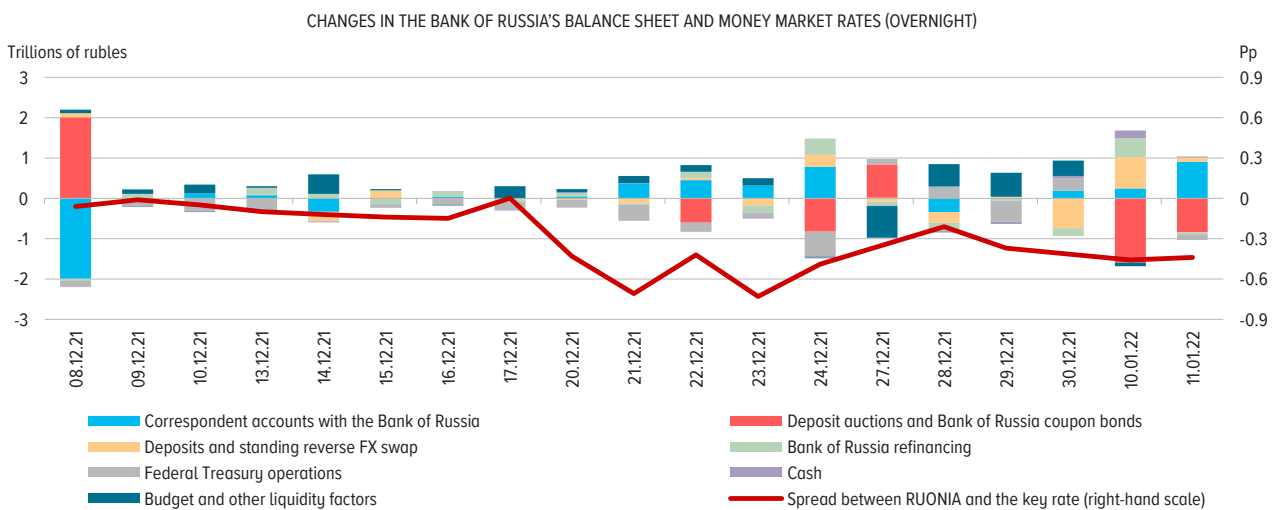
** Forecast values of the indicator are in line with the actual amount of operations conducted.

*** 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.

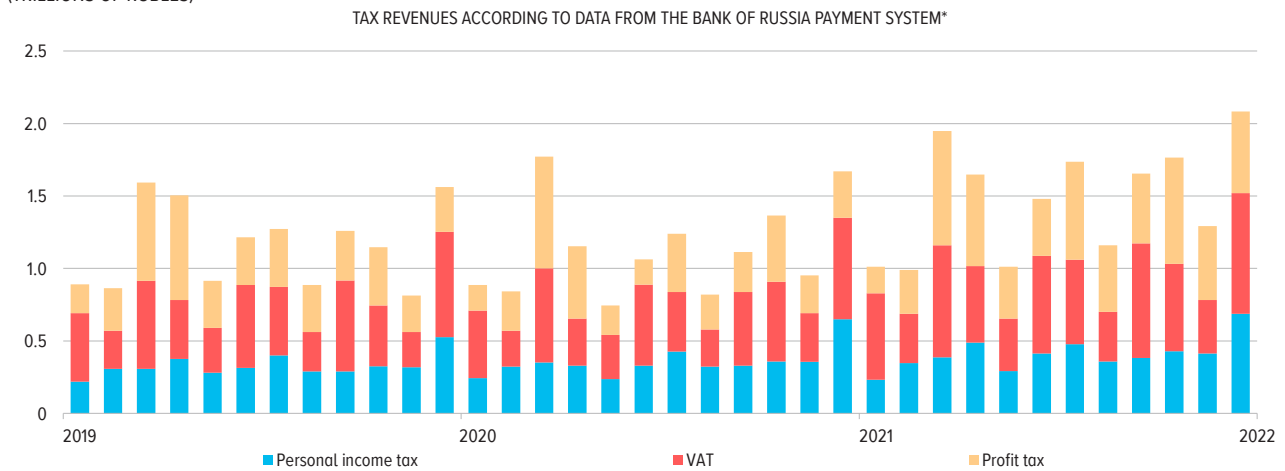
BUDGET OPERATIONS CAUSED AN INFLOW OF LIQUIDITY INTO BANKS IN DECEMBER 2021

Chart 1



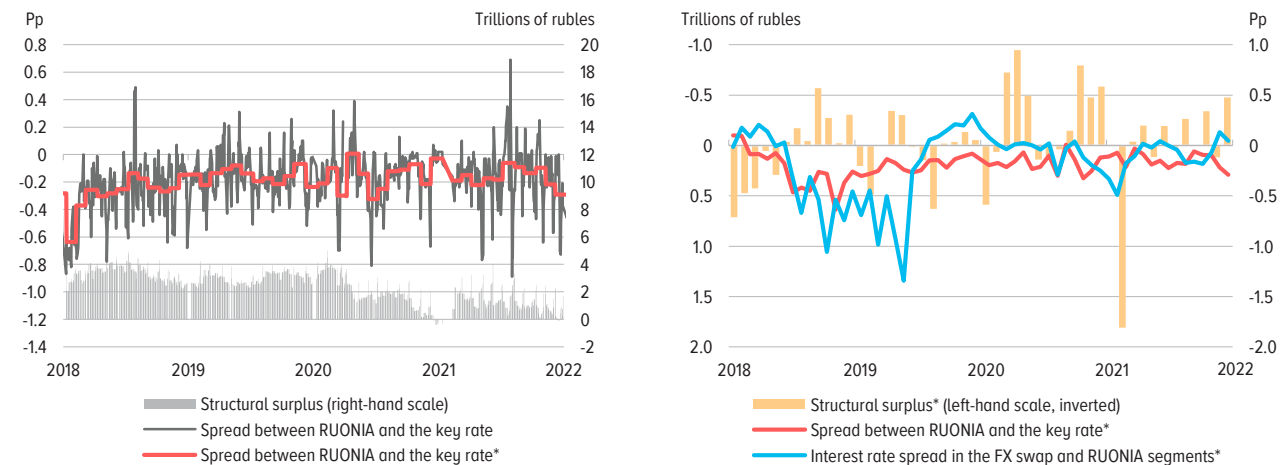
Source: Bank of Russia calculations.

VAT AND PROFIT TAX GROWTH SLOWED DOWN IN DECEMBER 2021 VS 2019. PERSONAL INCOME TAX GROWTH SPED UP SLIGHTLY Chart 2
(TRILLIONS OF RUBLES)



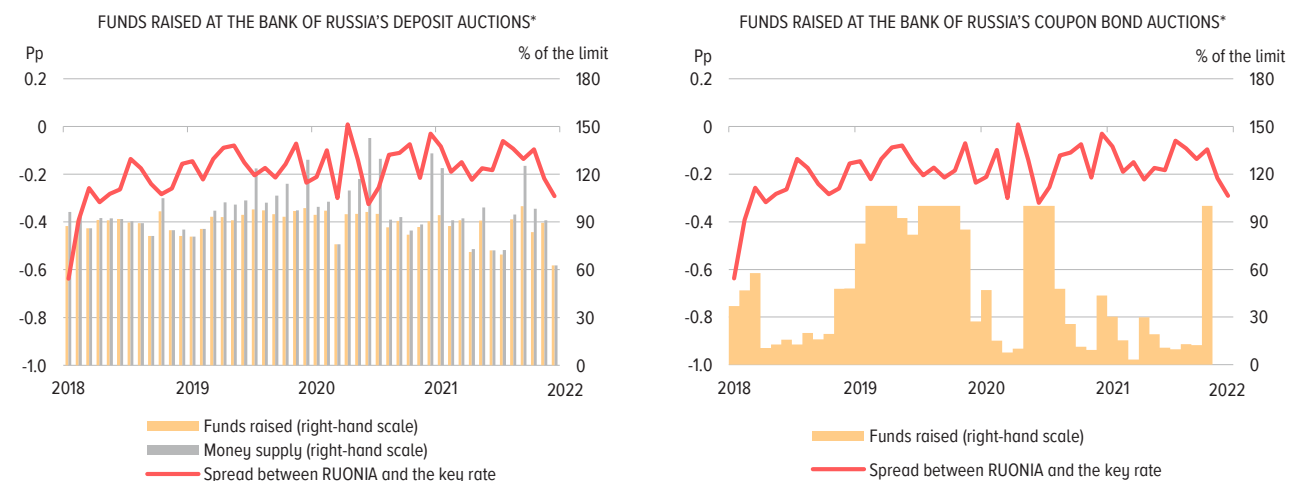
* Funds transfers from credit institutions' accounts to the budget system's accounts with budget classification codes corresponding to the above taxes.
Source: Bank of Russia calculations.

THE SPREAD BETWEEN RUONIA AND THE BANK OF RUSSIA KEY RATE EXPANDED Chart 3



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

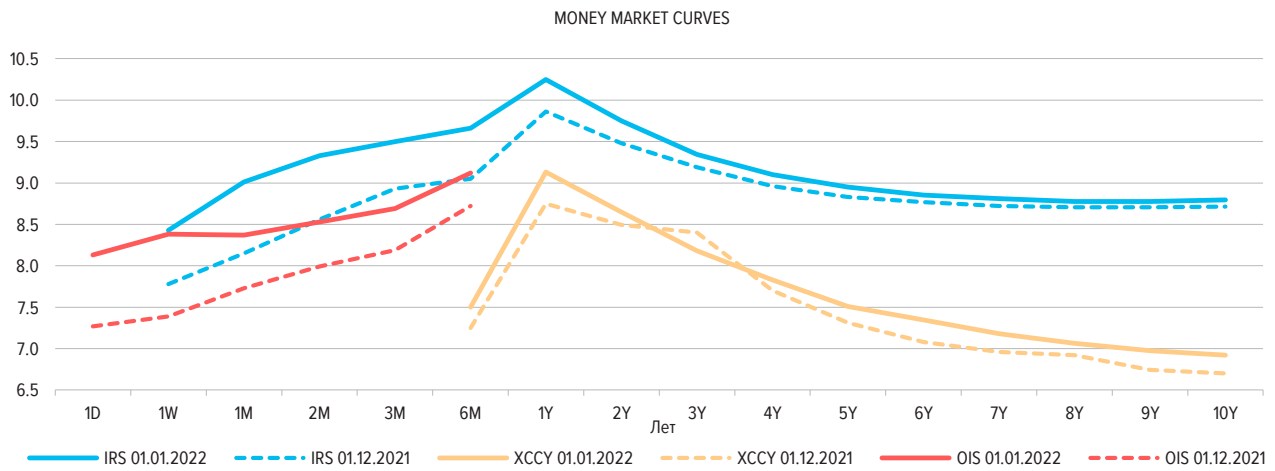
BANKS' SUPPLY AT THE BANK OF RUSSIA'S ONE-WEEK DEPOSIT AUCTIONS WAS BELOW THE ESTABLISHED LIMITS Chart 4



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

YIELD CURVES, ESPECIALLY SHORT-TERM YIELDS, ROSE IN DECEMBER
(% P.A.)

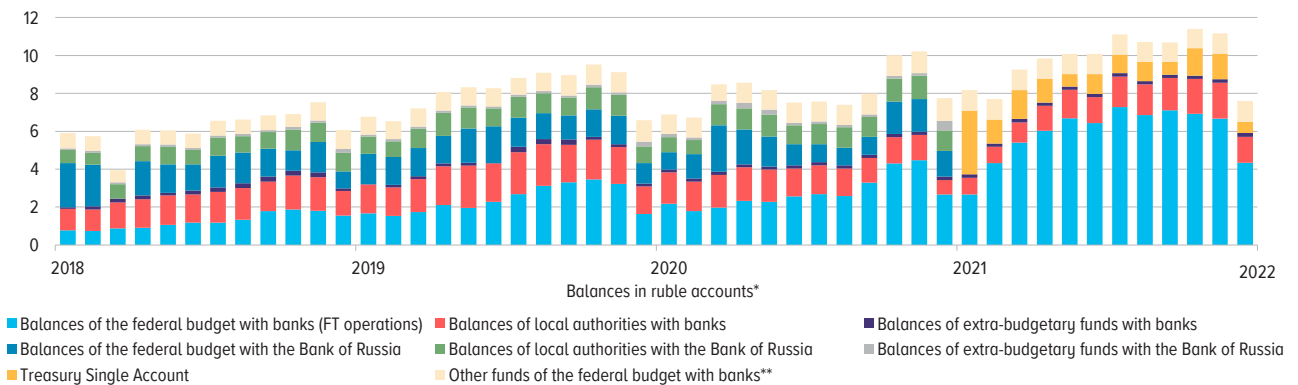
Chart 5



Note: to build the IRS curve for maturities of up to 1Y, MosPrime rates for respective maturities are used.
Source: Bloomberg.

BUDGET BALANCES IN THE TSA AND WITH BANKS DECLINED IN DECEMBER 2021 AS A RESULT OF SEASONALLY LARGE BUDGET EXPENDITURES
(TRILLIONS OF RUBLES, AS OF THE MONTH-END)

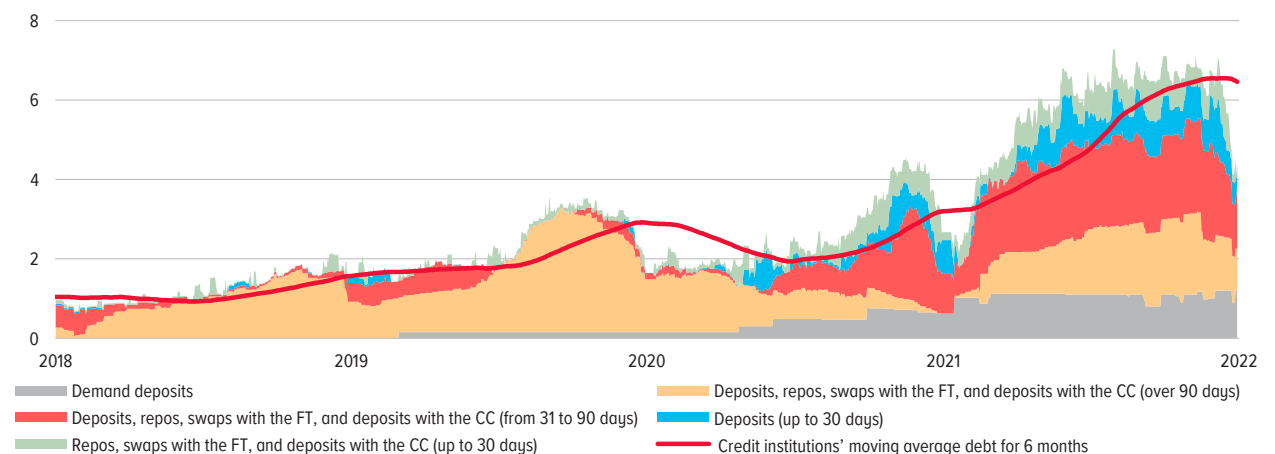
Chart 6



* 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 SHRANK BY 2.3 TRILLION RUBLES IN DECEMBER 2021
(TRILLIONS OF RUBLES)

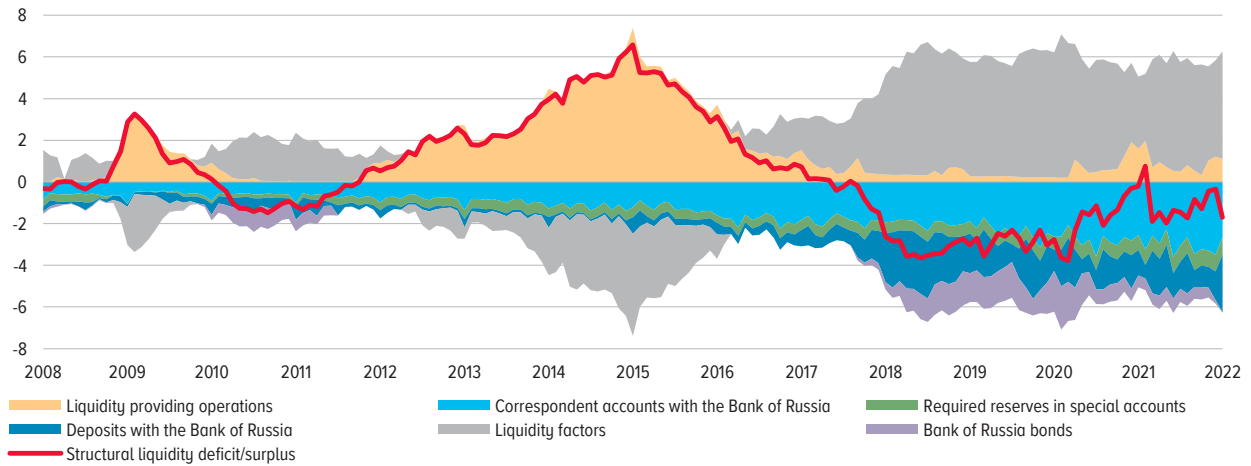
Chart 7



Sources: Federal Treasury, Bank of Russia calculations.

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

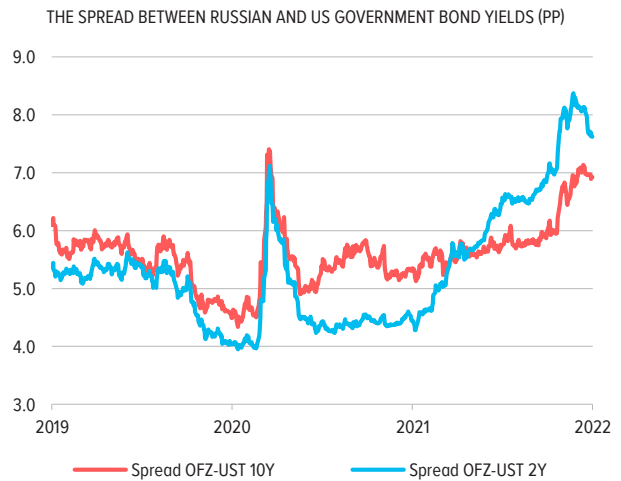
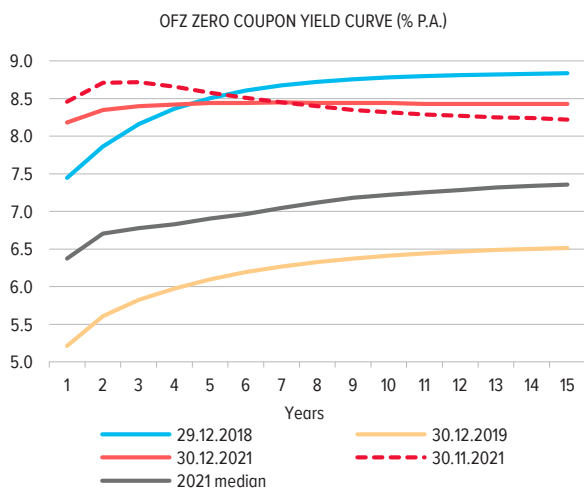
Chart 8



Source: Bank of Russia calculations.

THE YIELD CURVE OF MEDIUM-TERM (UP TO 5Y) OFZ BONDS EDGED DOWN

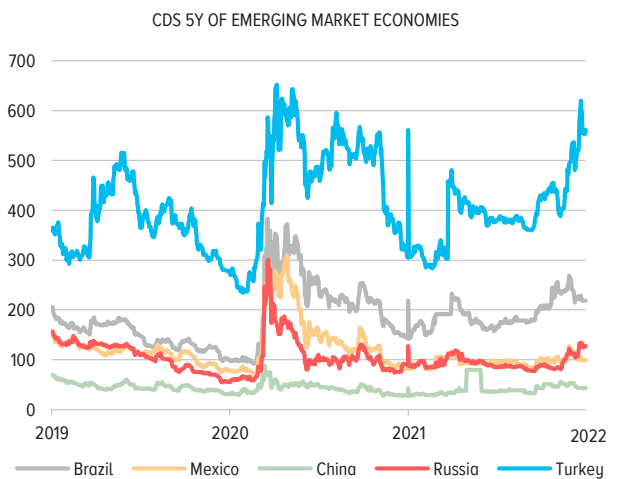
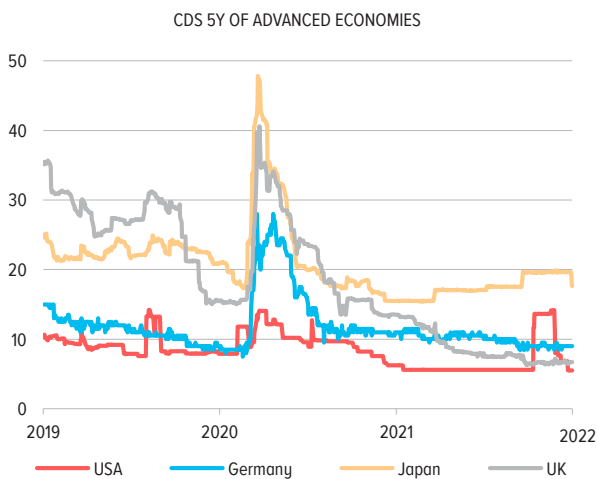
Chart 9



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

RUSSIA'S 5Y CDS SPREAD EXPANDED TO THE LEVEL OF THE SECOND HALF OF SEPTEMBER 2020
(BP)

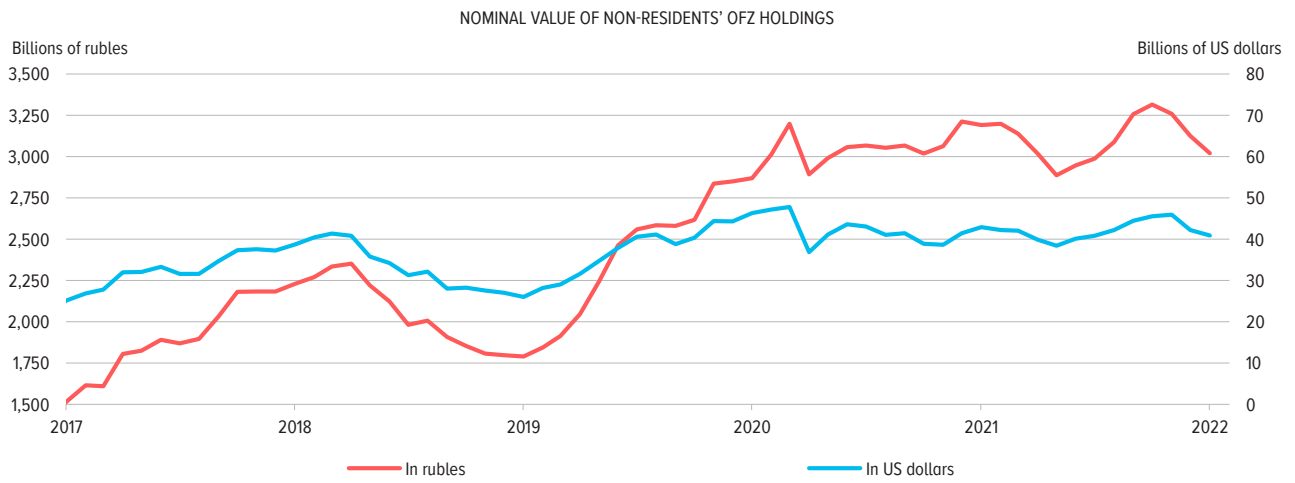
Chart 10



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

FOREIGN INVESTORS REDUCED THEIR OFZ INVESTMENTS BY THE END OF THE MONTH

Chart 11



Source: Bank of Russia calculations.

THE RUSSIAN FINANCIAL MARKET DEMONSTRATED NEGATIVE DYNAMICS IN THE FOREIGN EXCHANGE AND EQUITY SEGMENTS

Table 4

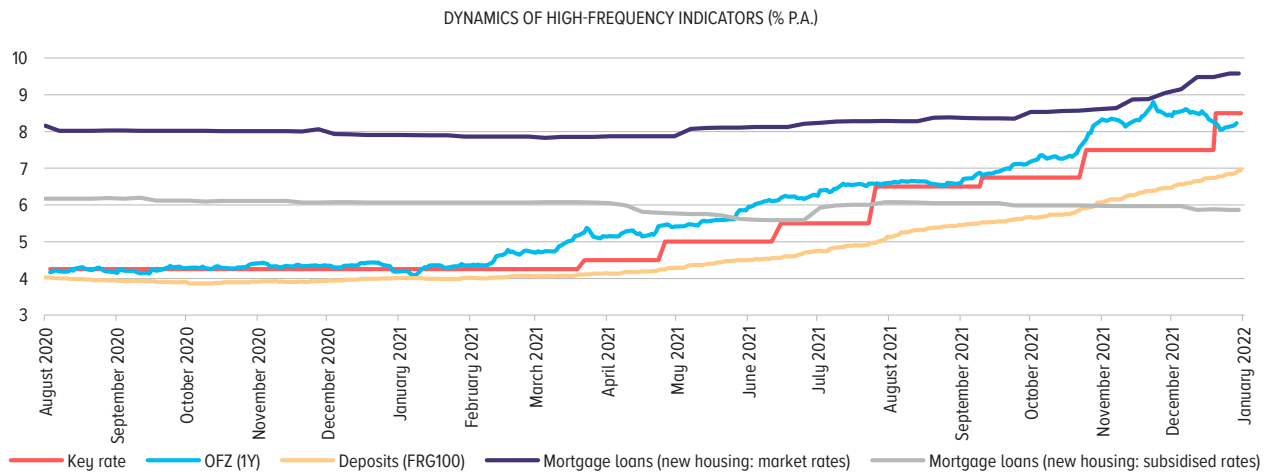
Indicator		31.12.2021	1M	3M	6M	YTD	1Y
Russian financial market							
RUB/USD exchange rate		74.68	-0.8	-2.7	-1.9	-0.4	-0.4
MOEX Index		3,787	-2.7	-7.3	-2.0	15.1	15.1
RTS Index		1,596	-3.0	-9.9	-3.9	15.0	15.0
Government bond yield		8.85	39	146	176	309	309
Corporate bond yield		8.63	-81	67	132	252	252
Regional bond yield		8.41	-68	63	123	273	273
CDS spread		127	12	38	41	37	37
RVI		33	-3	8	12	0	0
Exchange rates (per US dollar, % change, '+' – appreciation, '-' – depreciation)							
AEs*	US Dollar Index	95.67	-0.3	1.7	3.7	6.4	6.7
	Euro	1.14	0.3	-1.9	-4.2	-6.9	-7.5
	Japanese yen	115.08	-1.7	-3.5	-3.6	-10.2	-10.3
	Pound sterling	1.35	1.8	-0.1	-2.1	-1.0	-0.7
EMEs	JP Morgan EM Currency Index	52.57	0.3	-5.5	-8.1	-9.2	-9.4
	Ruble	74.68	-0.8	-2.7	-1.9	-0.4	-0.4
	Brazilian real	5.58	1.0	-3.7	-9.2	-6.8	-6.8
	Mexican peso	20.53	4.5	-0.3	-3.6	-3.0	-3.0
	Chinese yuan	6.36	0.1	1.4	1.8	2.7	2.6
	Turkish lira	13.30	1.2	-33.5	-34.7	-44.2	-44.6
	South African rand	15.94	-0.4	-6.7	-10.7	-7.9	-8.3
10-year bond yield (% p.a., change in bp, '+' – increase, '-' – decrease)							
AEs	USA	1.51	6	5	9	60	59
	Germany	-0.18	17	4	5	39	39
	Japan	0.07	1	1	3	5	5
	UK	0.97	16	-3	27	78	76
EMEs	Russia	8.45	6	110	126	253	253
	Brazil	10.84	-46	-15	166	393	393
	Mexico	7.56	5	16	53	203	202
	China	2.77	-9	-10	-31	-37	-35
	Turkey	23.22	305	552	638	1,077	1,077
	South Africa	9.80	-43	21	51	106	105
5Y CDS spreads (bp, change in bp, '+' – increase, '-' – decrease)							
AEs	USA	6	-3	0	0	-1	-1
	Germany	9	0	0	-1	-2	-2
	Japan	18	-2	-2	1	2	2
	UK	7	0	0	-1	-7	-7
EMEs	Russia	127	12	38	41	37	37
	Brazil	205	-56	3	39	61	61
	Mexico	90	-30	-10	-2	9	8
	China	43	-9	0	7	15	15
	Turkey	560	59	131	178	254	254
	South Africa	200	-41	-9	15	-3	-3
Stock indices (points, % change, '+' – increase, '-' – decrease)							
AEs	S&P 500	4,766	4.4	9.4	9.5	26.9	27.7
	MSCI Europe	2,093	6.6	5.7	2.6	13.8	12.8
	MSCI Japan	1,232	3.2	1.2	2.6	11.4	11.4
	MSCI UK	2,081	4.7	5.5	4.0	15.0	13.3
EMEs	MSCI EM	1,232	1.6	-1.2	-9.1	-4.6	-4.4
	MSCI Russia	758	-3.2	-10.0	-3.7	13.3	13.5
	MSCI Brazil	1,435	2.3	-11.0	-29.1	-23.5	-23.8
	MSCI Mexico	5,462	12.9	5.8	6.1	19.5	17.6
	MSCI China	84	-3.2	-5.8	-21.2	-22.4	-22.0
	MSCI Turkey	2,077,993	2.8	32.5	35.4	22.8	22.3
	MSCI South Africa	1,488	3.7	6.3	3.5	9.6	9.7

* Advanced economies.

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

INTEREST RATES ON MARKET LOANS AND DEPOSITS CONTINUED TO RISE IN NOVEMBER–DECEMBER DUE TO MONETARY POLICY TIGHTENING

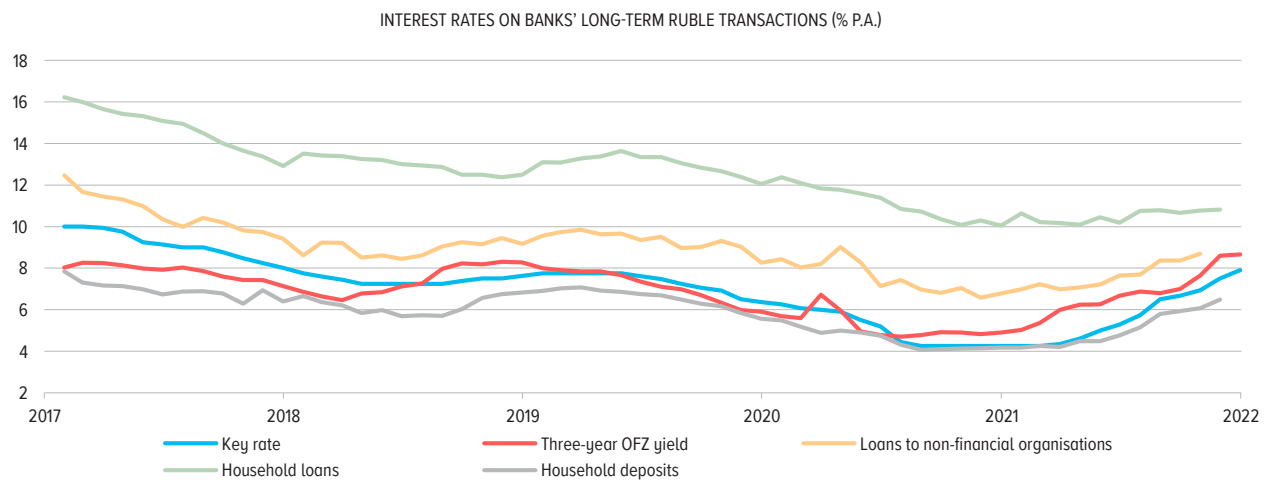
Chart 12



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

AVERAGE MARKET CREDIT AND DEPOSIT RATES GRADUALLY ADJUSTED IN NOVEMBER TO THE RISE IN MARKET RATES

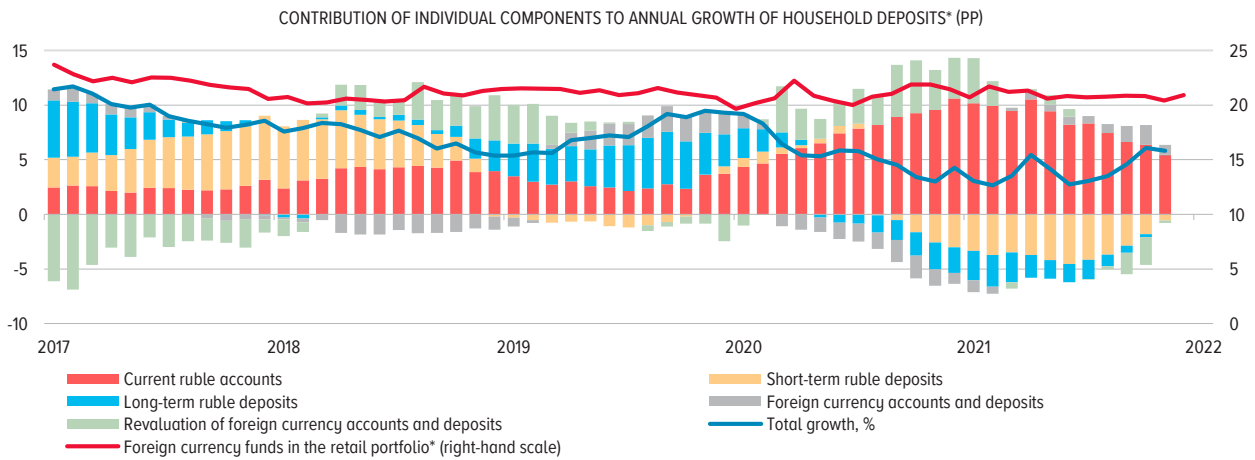
Chart 13



Source: Bank of Russia.

THE TRANSFER OF FUNDS FROM CURRENT ACCOUNTS TO TIME DEPOSITS CONTINUED IN NOVEMBER

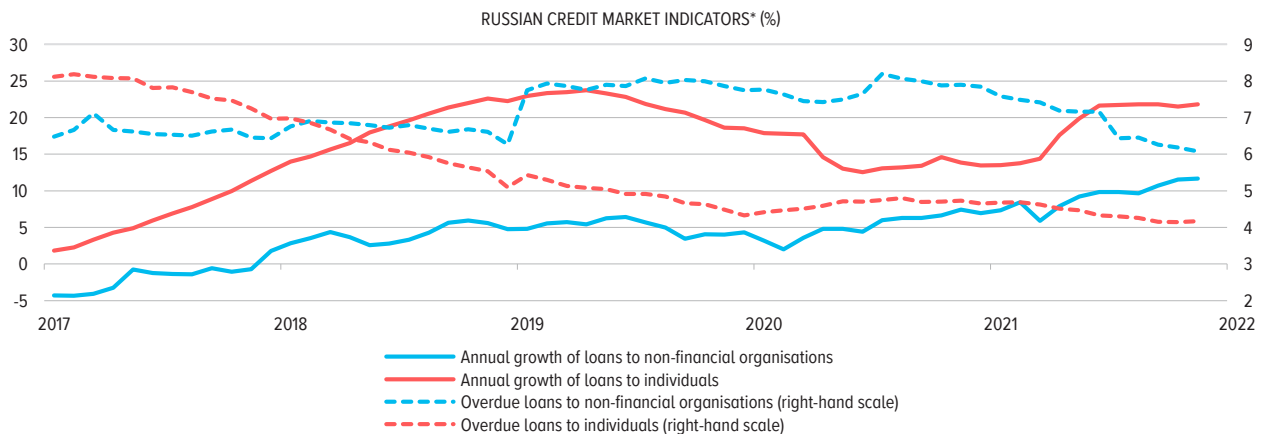
Chart 14



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

THE ANNUAL GROWTH RATE OF CORPORATE LENDING HIT A NEW HIGH IN NOVEMBER, WHEREAS THAT OF RETAIL LENDING REMAINED ALMOST UNCHANGED IN 2021 H2

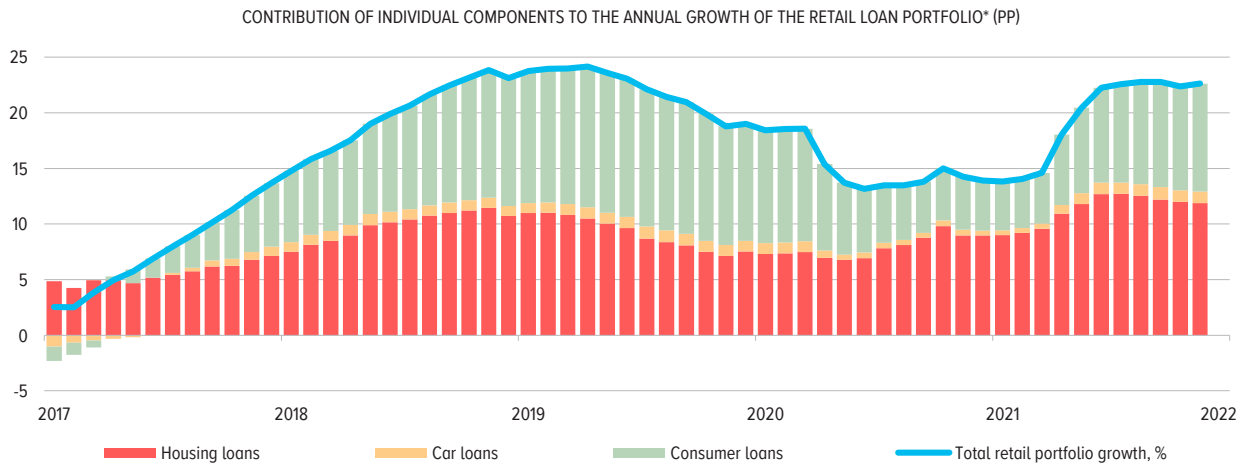
Chart 15



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

THE ANNUAL GROWTH RATE OF CONSUMER LENDING IN NOVEMBER WAS CLOSE TO THE READINGS OF THE PREVIOUS MONTHS

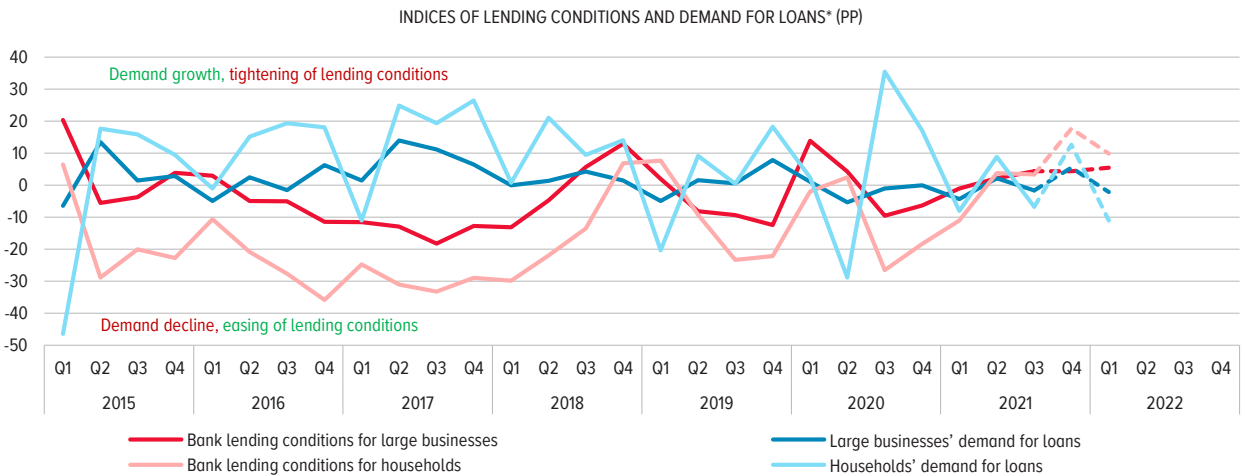
Chart 16



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

BANKS EXPECT LENDING CONDITIONS TO TOUGHEN FOR BOTH CORPORATE AND RETAIL BORROWERS UNTIL THE END OF 2022 Q1

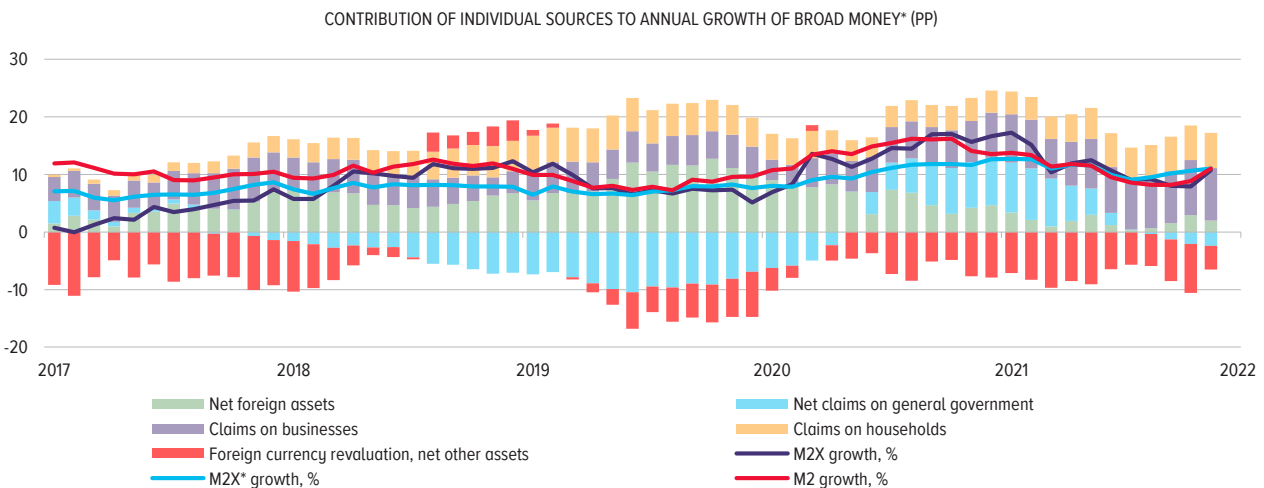
Chart 17



* The dotted lines signify respondent banks' expectations regarding changes in lending conditions and demand for loans in 2021 Q3.
Source: Bank of Russia.

MONEY SUPPLY GROWTH IS STILL DRIVEN BY INCREASING CLAIMS ON THE ECONOMY

Chart 18



* Adjusted for foreign currency revaluation. Change in assets is calculated for the overall banking system.
Source: Bank of Russia.

MONEY SUPPLY GROWTH IS STILL DRIVEN BY INCREASING CLAIMS ON THE ECONOMY

Table 5

Indicator		August 2021	September 2021	October 2021	November 2021
Interest rates on banks' long-term ruble transactions					
– household deposits	% p.a.	5.8	5.9	6.1	6.5
– household loans	% p.a.	10.8	10.7	10.8	10.8
– corporate loans	% p.a.	8.4	8.4	8.7	-
Household deposits*	% YoY, AFCR	3.5	4.6	6.1	5.8
– in rubles*	% YoY	3.4	4.0	5.5	6.3
– in foreign currency	% YoY	3.9	7.0	8.8	4.2
– share of foreign currency*	%	20.9	20.8	20.4	20.9
Loans to non-financial organisations**	% YoY, AFCR	9.6	10.7	11.5	11.7
– short-term (up to 1 year)	% YoY, AFCR	10.4	11.5	14.2	12.6
– long-term (more than 1 year)	% YoY, AFCR	11.8	13.2	13.5	14.2
– overdue loans	%	6.5	6.3	6.2	6.1
Household loans**	% YoY, AFCR	21.8	21.8	21.5	21.8
– housing mortgage loans	% YoY, AFCR	27.8	26.7	25.3	25.1
– unsecured consumer loans	% YoY	18.5	19.2	19.0	19.7
– overdue loans	%	4.3	4.2	4.1	4.2
Banking system's claims on the economy	% YoY, AFCR	13.7	14.3	14.7	14.3
– on businesses	% YoY, AFCR	11.0	11.9	12.5	11.9
– on households	% YoY, AFCR	20.7	20.7	20.5	20.7
Money supply (monetary aggregate M2)	% YoY	8.2	8.2	8.8	11.0
Broad money	% YoY, AFCR	9.5	10.2	10.7	11.0

* Excluding escrow accounts

** Since 1 February 2021, the portfolio of loans to non-financial organisations and households includes acquired claims. The portfolio growth was calculated net of acquired claims.

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

Source: Bank of Russia calculations.

Data cut-off dates:

- 'Money market and overnight (RUONIA) rates' section – 11.01.2022 (The reserve requirements are an important part of the Bank of Russia's instruments for managing banking sector liquidity and money market rates. Therefore, the operational procedure of the Bank of Russia's monetary policy should be analysed for efficiency with account of required reserves averaging periods. In December 2021–January 2022, this period is from 18.12.2021 to 11.01.2022);
- 'Money market yield curves and key rate expectations' and 'Public debt market' sections – 30.12.2021;
- 'Credit and deposit market' section – 10.01.2022.

The electronic 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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