



Bank of Russia



July 2022

MONETARY CONDITIONS AND MONETARY POLICY TRANSMISSION MECHANISM

Information and analytical commentary

Moscow
2022

MONETARY CONDITIONS AND MONETARY POLICY TRANSMISSION MECHANISM (JULY 2022)¹

- The average spread between RUONIA and the Bank of Russia key rate was -10 bp (in the June AP: -49 bp; year to date: -26 bp).
- In July, the liquidity inflow from budget operations and changes in the amount of cash in circulation was less than 0.1 trillion rubles. On average, over the AP, the structural liquidity surplus increased by a comparable amount and totalled 2.5 trillion rubles.
- In July, money and debt market yield curves continued to edge down, mainly on the short end amid tangible cuts in the key rate. Long-term OFZ yields and money market rates remained almost unchanged, reflecting a geopolitical and sanction risk premium. The ruble's volatility in the first half of the month was due to the uneven demand for ruble liquidity, including from households.
- Households continue to increase their ruble funds in banks. Low appetite for foreign currency savings, coupled with a stronger ruble in May–June, led to a decrease in the share of foreign currency to a new historical low.
- The main segments of the credit market demonstrated the first signs of recovery associated with a decrease in lending rates and an improvement in households' and businesses' sentiment.
- In June, the slowdown in the annual growth of claims on the economy continued, however, growth in money supply accelerated due to an increase in foreign assets of credit institutions and budget expenditures.

MONETARY POLICY TRANSMISSION

The monetary policy transmission mechanism (monetary policy transmission) is a sequence of links in the economy through which monetary policy influences demand and, accordingly, inflation. This mechanism is based on rates and yields in the main market segments, influencing each other (the key rate directly influences short-term money market rates; short-term rates influence long-term rates and OFZ yields; OFZ yields influence corporate bond yields; bond yields and long-term money market rates influence credit and deposit rates). Rates, in turn, influence the attractiveness of savings, consumption, and investment (the interest rate channel of the transmission mechanism), the ability of borrowers to provide quality collateral, and of banks – to expand lending (credit and balance-sheet channels), build up the welfare of investors (welfare channel), and maintain the ruble exchange rate stability (foreign exchange channel).²

Through any of these channels, growth in market rates constrains demand, while their reduction stimulates demand, which, all else being equal, respectively, decreases or increases the level of inflationary pressure in the economy. In addition to monetary policy and demand, inflation and financial market conditions are influenced by many other factors which are taken into account by the Bank of Russia when deciding on the key rate.

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

¹ This material, describing the monetary policy transmission mechanism in more detail, will be regularly published from August 2022 instead of the information and analytical commentary *Banking Sector Liquidity and Financial Markets: Facts, Assessment and Comments*.

² For details, see Annex 1 to the MPG for 2022–2024.

INTEREST RATE CHANNEL OF MONETARY POLICY TRANSMISSION MECHANISM (MPTM)

1. Key rate

On 22 July 2022, the Bank of Russia Board of Directors decided to cut the key rate from 9.5% to 8.0% per annum amid limited inflationary risks, including due to continuously moderate consumer demand and lower inflation expectations. The average monthly key rate in July was 9.2% (vs 10.2% in June).

The cut in the key rate was more significant than expected by the market, which assumed it to be from -50 to -100 basis points. According to the financial market indicators, as of the end of July 2022, market participants expect the average key rate for 2022 to be within a range of 7.75–8.00% (Table 1).

ANALYSTS DECREASED KEY RATE EXPECTATIONS IN JULY

Table 1

| Key rate expectations based on market indicators (instrument) | June 2022 | December 2022 |
|---|----------------|----------------|
| ROISfix | 7.75 (10.0) | 7.75 (9.75) |
| Analysts' key rate expectations* | 2022 | 2023 |
| Survey by the Bank of Russia | 11.0 (11.1) | 7.5 (8.0) |

* Survey dates: 6–12 July 2022. Brackets are used to show the results of the survey conducted on 25 – 31 May 2022.
Sources: Bank of Russia calculations, NFA.

2. Money market and overnight rates (RUONIA)

In the July averaging period (AP) of required reserves (RR), the spread between RUONIA³ (the Bank of Russia's operational benchmark) and the Bank of Russia⁴ key rate shrank to **-10 bp** (in the June AP: -49 bp; year to date: -26 bp) (Chart 3). The spread volatility dropped to 19 bp (in the June AP: 25 bp; year to date: 39 bp).

The structural liquidity surplus over the the July AP increased to **2.5 trillion rubles** (for the June AP: 2.4 trillion rubles). As of early August, the structural liquidity surplus was 2.2 trillion rubles (Table 2).

In the July AP, money market rates were influenced by banks' expectations regarding the key rate cut at the Bank of Russia Board of Directors' meeting on 22 July.⁵ Traditionally, in such a situation, credit institutions opted to postpone the RR averaging until the second half of AP. Banks with excess liquidity wanted to invest more funds in deposits with the Bank of Russia at the 'old' high key rate, while banks with a liquidity deficit raised less funds in the first half of the AP. Eventually, activity in both the secured and unsecured segments of the money market remained low until July 22. As in the past AP, banks continued to place funds in the Bank of Russia's standing deposit facilities. Consequently, market rates were below the key rate. Some upward pressure on rates during this period was due to the transactions conducted by certain major market participants, raising funds in the segment of unsecured interbank lending (IBL) at higher rates than other market participants.

³ RUONIA (Ruble OverNight Index Average) is the weighted average interest rate on overnight interbank ruble loans (deposits) reflecting the cost of unsecured overnight borrowing.

⁴ 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 market close to the Bank of Russia key rate.

⁵ From the beginning of the July AP until the key rate cut, the average spread between RUONIA and the Bank of Russia key rate was -23 bp, and since 25 July until the end of the AP, it was -1 bp.

In the second half of the AP, after the key rate cut, the spread turned positive and turnovers in the IBL segment increased, reflecting higher demand for liquidity from market participants who sought to maintain required reserves. In addition, large outflows of funds during the tax week also had an impact on growth in the cost of borrowings. Furthermore, some banks sought to raise funds primarily in the money market secured segment, which led to a significantly higher activity in the repo segment of the Moscow Exchange. In the last AP days, due to the accumulated averaging of required reserves, the negative spread expanded, and on 9 August, the Bank of Russia held a fine-tuning deposit auction in order to bring RUONIA closer to the key rate.

In July 2022, according to data of the Bank of Russia Payment System, budget expenditures continued to grow, while revenues continued to decline year-on-year. It resulted in a budget deficit as in the previous month. The OFZ redemption led to an additional inflow of funds to banks in the amount of 0.5 trillion rubles. In July, the Federal Treasury (hereinafter, the FT) reduced the amount of funds placed with banks in order to cover the increased expenses, which significantly mitigated the impact of budget operations on liquidity. As a result, banks totally received 0.2 trillion rubles through the fiscal channel. Changes in the amount of cash in circulation in July remained close to the seasonal ones. In general, the liquidity inflow to banks due to autonomous factors was less than 0.1 trillion rubles,

The structural liquidity surplus forecast for the end of 2022 was lowered by 0.3 trillion rubles and is assessed to range from 3.2 to 3.8 trillion rubles.⁶

3. Money and debt market yield curves

OIS (ROISfix) curve.⁷ In July, the ROISfix curve continued to edge down, helping to ease monetary conditions, with one- and two-week yields lowering by 130–140 bp, and over one-month yields by 110–130 bp (Chart 5). This was mainly due to a more significant cut in the key rate than the market expected.

RUSFAR curve. As of the end of July, the RUSFAR 3M rate fell by 103 bp to 7.89%. According to the market indicator, the scenario expected by the market over the incoming quarter is to maintain the key rate at the current level, taking into account the existing balance of proinflationary and disinflationary risks.

OFZ yield curve. In July, the zero-coupon yield curve edged down for short and medium term maturities (Chart 9): OFZ 1Y – 7.19% (-150 bp); OFZ 2Y – 7.51% (-114 bp); OFZ 5Y – 8.4% (-37 bp). Concurrently, the long end of the curve adjusted upward: OFZ 10Y – 8.89% (+10 bp). The decision of the Bank of Russia to cut the key rate by 150 bp at a time caused a decline over the entire OFZ yield curve, which also confirms that the market did not expect such a move. The yields on two-year and ten-year issues responded with a decline by 40 bp and 15 bp, respectively. Furthermore, from late June until the Board of Directors' meeting, the yield on long-term OFZ issues mainly increased, having gained about 20 bp during this period.

In July, the OFZ curve took a 'normal' bell-shaped form. The spread between ten-year and two-year OFZ yields increased to 138 bp (14 bp a month earlier), which is the highest since May 2021. The shape of the current OFZ yield curve is also comparable to that of May 2021, but is 150–170 bp higher across all maturities. Such a shape of the curve indicates that the market either does not expect a significant easing of monetary policy in the short and medium term or implies high risk premiums in medium- and long-term OFZ issues.

In July, the average daily turnover grew to 16.5 billion rubles (vs 14.5 billion rubles in June), and in the first half of the month, its major share consisted of short-term bonds due to the outflow of investors from OFZ with upcoming maturity dates. On average, medium-term OFZ-PD bonds were in the highest demand. On the day of the key rate cut, the trading amount reached almost 40 billion

⁶ For more details, see [Monetary Policy Report, No. 3 \(39\), July 2022](#).

⁷ The OIS (ROISfix) curve – indicative rates (fixing) on RUONIA interest rate swaps.

rubles, which is the highest since February 2022 and slightly above the average recorded in January–February 2022. This also indicates that many investors did not expect a 150 bp cut in the key rate and decided to adjust their investments in OFZ.

Primary OFZ market. Since February, the Russian Ministry of Finance has not placed OFZ bonds due to volatility in the financial markets. However, due to the stabilisation of the macroeconomic situation, it plans to gradually return to the market with small volumes (10–30 billion rubles) in the second half of September.

Implied inflation. As of the end of July, implied inflation for OFZ-IN-52002 (2028) decreased to 4.8% (against 5.3% a month earlier). This is more likely due to a sharp downward shift in the middle section of the OFZ-PD curve amid monetary policy easing rather than a decline in medium-term inflation expectations. Owing to low liquidity, the OFZ-IN curve did not have time to adjust to the changed macroeconomic environment.

4. Corporate bond market

Secondary market. Corporate bond yields declined in July following the government bond yields. This reflected the decision of the Bank of Russia Board of Directors on the key rate. The IFX–Cbonds index was 9.12% (-110 bp), the lowest since the second half of January 2022. Furthermore, corporate bonds fully compensated for the decline in OFZ yields, as their spread to government bond yields shrank to an average of 60 bp (vs 155 bp in June). The spread dynamics as a market risk indicator demonstrated the stabilisation of markets and a decrease in the risk premium, which, nevertheless, remains at a higher level compared to 2021 (36 bp on average in 2021).

Primary market. After almost zero issuing activity from January to April, it gradually recovered in May–July: 192 billion rubles in July; 116 billion rubles in June; and 140 billion rubles in May. Concurrently, market issues available to a wide range of investors accounted for the major part of placements: 175 billion rubles in July; 97 billion rubles in June; and 140 billion rubles in May. The number of borrowers grew along with the increase in new primary issues: 29 in July, 23 in June, and 13 in May. Companies in the real sectors, primarily oil and gas and telecommunications, remained the main debt issuers. In the past two months, the activity of financial institutions has significantly expanded, including banks, MFOs and leasing companies. Their share in the total volume of initial placements amounted to 46% in July, 20% in June, and 2% in May.

5. Credit and deposit market

Deposit rates. In June, the change in ruble deposit rates was uneven. On the one hand, short-term deposit⁸ rates continued to decrease following the change in the key rate. Concurrently, similar to the key rate reduction, the scale of this reduction (about one percentage point) was noticeably inferior to the April–May readings (Chart 11).

On the other hand, although the downward trend in related segments of the financial market remained moderate, long-term deposit rates did not decrease. One of the reasons could be the intention of banks to maintain the interest of households in such deposits during the period of mass maturity of high-yield short-term deposits opened in early spring, and thereby provide themselves with more stable funding by transferring some part of households' savings from short-term to long-term deposits.

According to real-time monitoring data, diverse adjustments of deposit rates continued in July. As a result, the FRG100⁹ yield index for one-year deposits fell by 0.5 pp to 6.4% during the month. Specifically, this happened on the days following the decision of the Bank of Russia to cut the key

⁸ 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.

⁹ The average interest rate of the 54 largest deposit banks on one-year deposits in an amount of at least 100,000 rubles, according to the Frank RG news agency.

rate to 8.0% per annum at the meeting on 22 July (Chart 12). This preserves the potential for a further reduction in average market rates on deposits, but mainly for the shortest maturities, while in the long term deposits' segment, the rates are likely to fluctuate near the levels prevailing in June due to intensified competition for depositors among market participants.

Deposit operations. In June, households continued to demonstrate a high propensity for saving and considered ruble funds in banks as one of the key forms of savings.¹⁰ As a result, by the end of the month, the annual growth¹¹ of households' funds with banks¹² increased from 5.4% to 7.2%. In June, households continued to transfer funds from short-term deposits to current accounts, which can be explained by a partial redistribution of households' funds from high-yield short-term deposits opened in March as they matured. This transfer only partially offset the change in the structure of retail deposits: short-term ruble deposits continued to be the main contributor to the annual growth of households' savings in banks (Chart 13).

Nevertheless, there was also a rise in activity in the segment of long-term ruble deposits. This can be explained by a partial redistribution of households' funds from high-yield deposits, which matured in early summer. Such a rise in activity helped the portfolio of long-term deposits to demonstrate positive dynamics month-on-month for the first time since the beginning of the year.

Concurrently, households' appetite for savings in foreign currency remained low. Near-zero interest rates and the intention of banks to limit their foreign exchange transactions by introducing fees for servicing foreign currency accounts made deposits in foreign currency largely unattractive for depositors. Together with a stronger ruble, this helped decrease the share of foreign currency in the retail deposit portfolio from 14.0% to 11.5% hitting a new record low since late 2007 (12.9%).

Taking into account the limited potential for a further reduction of interest rates on long-term ruble deposits, we can expect a shrinkage of the spread between them and yields on bonds that are an alternative to deposits, especially considering the faster transmission of key rate decisions to the deposit-related segments of the financial market (see the section 'Deposit rates'). This will contribute to a smooth recovery of the attractiveness of long-term ruble deposits for depositors and an overall increase in the maturity of the banking sector's retail deposit portfolio.

Credit rates. In May–July 2022, loan rates continued to decline. The key driver of the decline was a further easing of monetary policy. In addition, demand for loans remained weak amid persistent uncertainty (Chart 16). This intensified competition among banks for borrowers. Lower market expectations on rates allowed banks to use price competition tools more actively. Finally, subsidised lending programmes were an important factor in reducing lending rates.

The reduction in rates in the segment of loans to non-financial organisations contributed to the formation of their maturity structure. Short-term loan rates, which rose sharply in March, subsequently dropped at a faster pace. By the end of June, the rates on short-term and long-term ruble loans decreased by more than 7 pp and by almost 3.5 pp, respectively, compared to the peak level in March. (Chart 11). Such rate movements demonstrate the confidence of market participants in the Bank of Russia's monetary policy: throughout the first six months of the year, banks perceived the rise in inflation as a temporary phenomenon and did not include a significant premium for inflation risk in long-term rates.

¹⁰ See ['Inflation Expectations and Consumer Sentiment', No. 6 \(66\). June 2022; Inflation Expectations and Consumer Sentiment as Measured Based on Household Surveys \(report by InFOM\) for June 2022.](#)

¹¹ 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.

¹² Hereinafter, household deposits include balances in time deposits, demand deposits, and current accounts but exclude balances in escrow accounts under equity construction agreements.

A significant contributor to the reduction of mortgage market rates was the repeated revision of the parameters of subsidised new housing mortgage loans¹³ (Chart 12), which accounted for almost a third of all mortgage market turnover in Q2. The joint programmes of banks with developers maintained their importance. As a result, the decrease in average market mortgage rates in March–May was 2 pp. The June reduction in the subsidised mortgage lending rate will further decrease the average market mortgage rates. In the consumer lending segment, the rates demonstrated more uneven dynamics, although rates on these loans were also moving down and gradually returning to the level of early 2022.

Corporate lending. The March–May slowdown in corporate lending stopped by June. The annual increase in corporate lending¹⁴ in late June was 8.8%, slightly exceeding the same indicator in May. The recovery of lending activity was supported by lowering lending rates and the gradual improvement in companies' sentiment.¹⁵ The share of foreign currency in the corporate lending market continued to decrease: the annual growth of the ruble loan portfolio exceeded 14%, while the portfolio of foreign currency loans was still contracting. The corporate lending maturities continued to extend, with the growth rate of the long-term loan portfolio significantly exceeding that of the short-term portfolio.

In the short run, the potential for a further growth in corporate retail lending remains. On the one hand, banks expect demand for loans to recover in the second half of the year (Chart 16). On the other hand, the decline in market lending rates and the implementation of subsidised lending programmes promote the growing attractiveness of loans. Growth in corporate lending will support further restructuring of the Russian economy.

Retail lending. The retail lending market was slightly recovering in mid-2022 as well. This process was supported by lower rates and expectations of an improvement of the situation in the national economy.¹⁶ The most intensive recovery of activity was noted in the mortgage lending segment (Chart 15), where the decline in market rates was accompanied with the improvement of conditions for subsidised lending programmes.¹⁷ In June, more than 65,000 mortgage loans were issued for a total amount of more than 250 billion rubles (almost twice as much as in May). The banking portfolio of mortgage loans¹⁸ increased by 0.7% over the month. The recovery was weaker in the consumer lending segment, while car loans continued to shrink.

Despite the gradual recovery of activity in certain segments of the retail lending market, the volume of transactions in June 2022 was significantly lower than in the same month a year earlier, and the annual growth rate of the retail loan portfolio continued to decline. Thus, the annual increase in the mortgage portfolio edged down from 20.9% to 18.3% over the month, with that of the entire retail loan portfolio declining from 14.6% to 12.4%.

In the short run, we can expect a recovery in retail lending, mainly due to the mortgage market segment. This will be facilitated by the ongoing reduction in rates and the gradual improvement in consumer sentiment. At the same time, the continuing high propensity of households to save (see the subsection 'Deposit operations') will hold back the growth of retail lending.

¹³ The key rate was reduced from 12% to 9% since 30 April 2022 and from 9% to 7% per annum on 21 June (Resolutions of the Government of the Russian Federation No. 806, dated 30 April 2022, and No. 1109, dated 20 June 2022).

¹⁴ Hereinafter, the growth of lending to non-financial and financial organisations and individual entrepreneurs does not include claims acquired by banks.

¹⁵ [Review Monitoring of Businesses No.3, July 2022.](#)

¹⁶ [Inflation Expectations and Consumer Sentiment as Measured Based on Household Surveys \(report by InFOM\) for July 2022.](#)

¹⁷ Since 1 May, the maximum loan amount has been increased to 30 million rubles (in Moscow, the Moscow Region, Saint Petersburg and the Leningrad Region) and to 15 million rubles (in other regions) from 12 million and 6 million rubles, respectively (Resolution of the Government of the Russian Federation No. 806 dated 30 April 2022). From 21 June, the rate under the Subsidised Mortgage programme was reduced from 9% to 7% per annum (Resolution of the Government of the Russian Federation No. 1109 dated 20 June 2022).

¹⁸ Hereinafter, growth excludes claims on loans to individuals acquired by banks.

OTHER FINANCIAL MARKET SEGMENTS

1. Exchange rate (foreign exchange channel)

In July, the ruble weakened by 19.8%, reaching 61.62 rubles per US dollar (Chart 19). First of all, this is due to significant purchases of foreign currency by households amid the ongoing summer holiday season and the relaxation of currency control measures by the Bank of Russia and the Government in order to dedollarise Russia's banking system. During the first week of the month, there was an elevated volatility of the exchange rate (weakening from 54.6 rubles to 63.35 rubles per US dollar) due to uneven demand for ruble liquidity, including for the main dividend payments.

Although the key rate cut exceeded expectations, it did not have a significant impact on the ruble. Right after the Bank of Russia Board of Directors' decision was published, the exchange rate responded with a short-time weakening by about one ruble against the US dollar. However, by the end of the day it returned to the level of 57 rubles per US dollar.

The share of trading in yuan both in the on-exchange and OTC markets increased significantly. The supply of yuan was ensured by exporters who increased its share in foreign exchange earnings by redirecting trade flows to Asia, and the demand was provided by households, transforming the structure of their savings in favour of 'friendly' currencies. The level of the ruble exchange rate helped tighten monetary conditions, as it undermined the attractiveness of Russian export goods and the replenishment of the federal budget.

2. Capital market (welfare channel)

In July, the sanctions continued to put pressure on the Russian stock market: the Moscow Exchange index adjusted by +0.4%. This was caused by a significant decline in prices for securities of metallurgical, gold mining companies and airlines due to the restrictions imposed by the USA and European countries (for instance, a ban on the import of Russian gold, the use of Western airspace, the sale of aircraft and spare parts to Russian companies). All else being equal, the stock market downturn results in tighter monetary conditions, as it leads to a decrease in the value of investors' portfolios, their investment activity and increases the propensity to consume amid investors' reluctance to acquire risky assets. However, for Russia, the influence of this channel is not as significant as for advanced economies.

MONEY SUPPLY

In June, the slowdown in the annual dynamics of the banking system's claims on the economy continued.¹⁹ At the end of the month, their annual growth amounted to 11.5% after 12.4% in May. Growth rates of claims both on households and businesses decreased. However, lending to the economy was still the main contributor to money supply. In the next few months, we can expect this trend will be maintained, with a gradual revival in lending activity associated with lower lending rates in response to the monetary policy easing and the implementation of the government subsidised lending programmes (see subsections 'Corporate lending' and 'Retail lending').

Furthermore, due to the increase in budget expenditures,²⁰ the dynamics of net claims on general government continued to support the growth in money supply. In addition, a noticeable positive contribution to the annual growth of monetary aggregates was maintained by the banking system's

¹⁹ *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.*

²⁰ See [Banking Sector Liquidity and Financial Markets: Facts, Assessments and Comments, No. 6 \(67\), June 2022](#).

net foreign assets due to the accumulation of foreign assets by credit institutions following the growth in the current account surplus. The restraining influence of other liabilities of the banking system on money supply also somewhat weakened. This was contributed by a decrease in the inflow of households' funds into escrow accounts and the release of such accounts upon completion of housing projects.

Under the influence of the factors mentioned above, in June, the monthly growth of money supply increased again – by 0.16 pp to 0.91%. The annual growth of the M2 aggregate rose from 16.6% to 16.8%. The M2X aggregate also accelerated from 11.8% to 12.5% (Chart 17). Concurrently, the role of ruble-denominated deposits of households and businesses in the structure of monetary aggregates continued to grow.

Foreign markets

Central banks worldwide generally intend to tighten monetary policy. At the end of the month, more than 10 regulators around the world decided to raise their policy rates amid the continuing significant escalation of inflation. The average policy rate reached 1.43% in advanced economies, 10% in Latin America, 4.16% in South and Southeast Asia, 7.78% in Central and Eastern Europe and Central Asia, and 7.98% in Africa.

The ECB raised its policy rate for the first time since 2011 (+50bp), and this rise was sharper than anticipated. This put pressure on the EUR/USD exchange rate (average for July – 1.02 US dollar).

Following the meeting in July, the US Fed raised its base rate (+75 bp to 2.25 – 2.5%) in line with market participants' expectations. US financial markets responded moderately to the results of the meeting. The yield curve in the US debt market is inverted: in July, the yields on two-year and ten-year US Treasury bonds decreased to 2.89% (-31 bp) and 2.67% (-3 bp), respectively. The level of yields was determined by increased recession risks in the USA amid a slowdown in economic growth (IMF forecast as of 26 July was 2.3% for 2022 and 1% for 2023; previously: 3.7% for 2022 and 2.3% for 2023), as well as by rising inflation (9.1% in June, 8.6% in May).

In July, stock indices in national currencies mostly grew. The positive trends in the US and EU stock markets were due to the publication of satisfactory corporate reports and profit forecasts for US companies. Due to fears of a global recession, securities of the high-tech and cyclical sectors, which are the most sensitive to economic fluctuations, were sold off. By the end of the month, S&P 500 edged up by 9.1%, Stoxx 600 – by 7.6%, while MSCI EM edged down by 0.7% (Chart 20).

Asia's largest central banks do not intend to tighten their monetary policy in the current environment as economies are still reeling from the impacts of the coronavirus pandemic. Thus, the Bank of Japan continues to pursue its ultra-soft monetary policy (the policy rate is maintained at -0.1%). The People's Bank of China also maintained its base interest rate.

The Chinese stock market showed opposite dynamics to the global indices, decreasing by 4.3%. This is primarily due to the growing mortgage crisis (boycott on mortgage payments), the refusal of investors to restructure the debts of the major Chinese developer Evergrande, large fines for violating antitrust laws by technological giants Alibaba and Tencent, as well as the tightening of anti-COVID measures, including the closure of all enterprises in Macau.

EMEs' currencies weakened against the US dollar (Chart 18). The Turkish lira demonstrated the most significant weakening (-7.4%) due to rapidly rising inflation (79% in July and 78.6% in June) under the accommodative monetary policy (the policy rate as of 21 July was 14%).

CHARTS AND TABLES

IN JULY 2022, THE BANKING SECTOR'S STRUCTURAL LIQUIDITY SURPLUS SLIGHTLY DECREASED
(START OF BUSINESS, BILLIONS OF RUBLES)

Table 2

| | 01.01.2018 | 01.01.2019 | 01.01.2020 | 01.01.2021 | 01.01.2022 | 01.04.2022 | 01.07.2022 | 01.08.2022 |
|--|---------------|---------------|---------------|--------------|---------------|--------------|---------------|---------------|
| Structural liquidity deficit (+) / surplus (-) | -2,639 | -3,016 | -2,761 | -204 | -1,691 | -280 | -2,384 | -2,244 |
| Bank of Russia claims on credit institutions | 10 | 21 | 18 | 976 | 909 | 2,484 | 280 | 180 |
| Auction-based facilities | - | - | - | 847 | 116 | 2,298 | 171 | 68 |
| – repos and FX swaps | - | - | - | 847 | 116 | 2,298 | 171 | 68 |
| Fixed interest rate facilities | 10 | 21 | 18 | 129 | 793 | 186 | 109 | 111 |
| – repos and FX swaps | 4 | 8 | 13 | 118 | 3 | 92 | 10 | 7 |
| – secured loans | 5 | 13 | 5 | 10 | 790 | 94 | 99 | 104 |
| Credit institutions claims on the Bank of Russia | 2,729 | 3,293 | 2,983 | 1,796 | 2,804 | 3,108 | 3,180 | 2,824 |
| Deposits | 2,372 | 1,902 | 1,026 | 1,221 | 2,804 | 3,108 | 3,180 | 2,824 |
| – auction-based | 2,125 | 1,478 | 697 | 844 | 1,626 | - | 1,838 | 1,637 |
| – fixed interest rate | 247 | 424 | 330 | 377 | 1,178 | 3,108 | 1,341 | 1,187 |
| Coupon OBRs | 357 | 1,391 | 1,956 | 575 | - | - | - | - |
| Standing reverse facilities, other than standard monetary policy instruments of the Bank of Russia* | 81 | 256 | 204 | 616 | 204 | 343 | 516 | 401 |

* This type of transactions includes specialised refinancing instruments of the Bank of Russia, loans provided by the Bank of Russia within irrevocable credit lines.
Source: Bank of Russia calculations.

THE STRUCTURAL LIQUIDITY SURPLUS FORECAST FOR THE END OF 2022 WAS LOWERED BY 0.3 TRILLION RUBLES
AND AMOUNTS TO 3.2–3.8 TRILLION RUBLES)
(TRILLION RUBLES)

Table 3

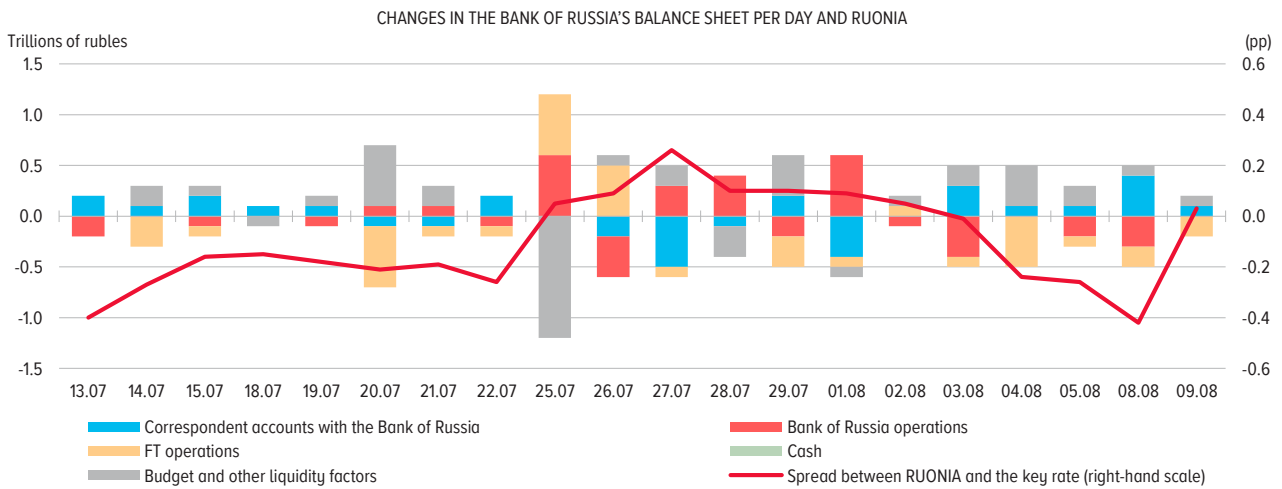
| | 2021 (actual) | January– July 2022 | July 2022 | 2022 (forecast) |
|---|------------------|-----------------------|-------------|---------------------|
| 1. Liquidity factors | 1.6 | -0.1 | 0.1 | [1.4; 1.8] |
| – change in the balances of funds in general government accounts with the Bank of Russia, and other operations* | 2.3 | -0.5 | 0.2 | [1.5; 1.7] |
| – change in the amount of cash in circulation | -0.7 | -0.1 | -0.1 | [-0.7; -0.5] |
| – Bank of Russia interventions in the domestic FX market and monetary gold purchases** | - | -0.1 | - | -0.1 |
| – regulation of banks' required reserves with the Bank of Russia | -0.1 | 0.7 | 0.0 | 0.7 |
| 2. Change in free bank reserves (correspondent accounts) (demand) | 0.1 | -0.6 | 0.2 | [-0.4; -0.2] |
| 3. Change in banks' claims on deposits with the Bank of Russia and BoR coupon bonds | 1.0 | 0.0 | -0.4 | [1.4; 2.0] |
| 4. Change in outstanding amounts on Bank of Russia refinancing operations | -0.5 | -0.5 | -0.2 | -0.2 |
| Structural liquidity deficit (+) / surplus (-) | -1.7 | | -2.2 | [-3.8; -3.2] |

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

** 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 JULY, THE LIQUIDITY INFLOW FROM BUDGET OPERATIONS AND CHANGES IN THE AMOUNT OF CASH IN CIRCULATION AMOUNTED TO LESS THAN 0.1 TRILLION RUBLES

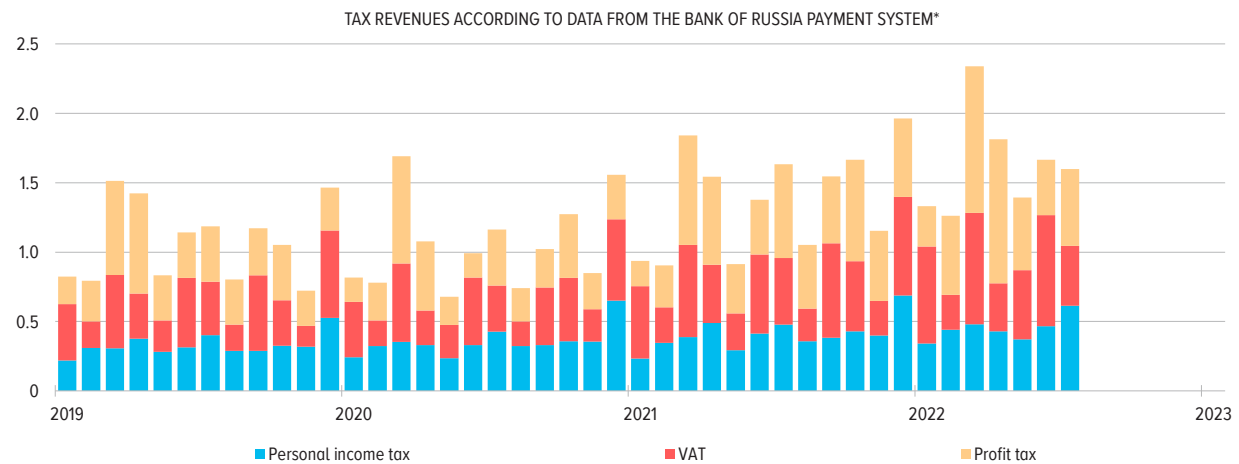
Chart 1



Source: Bank of Russia calculations.

IN JULY 2022, VAT AND INCOME TAX (IT) REVENUES DECREASED YEAR-ON-YEAR, PERSONAL INCOME TAX CONTINUED TO GROW (TRILLIONS OF RUBLES)

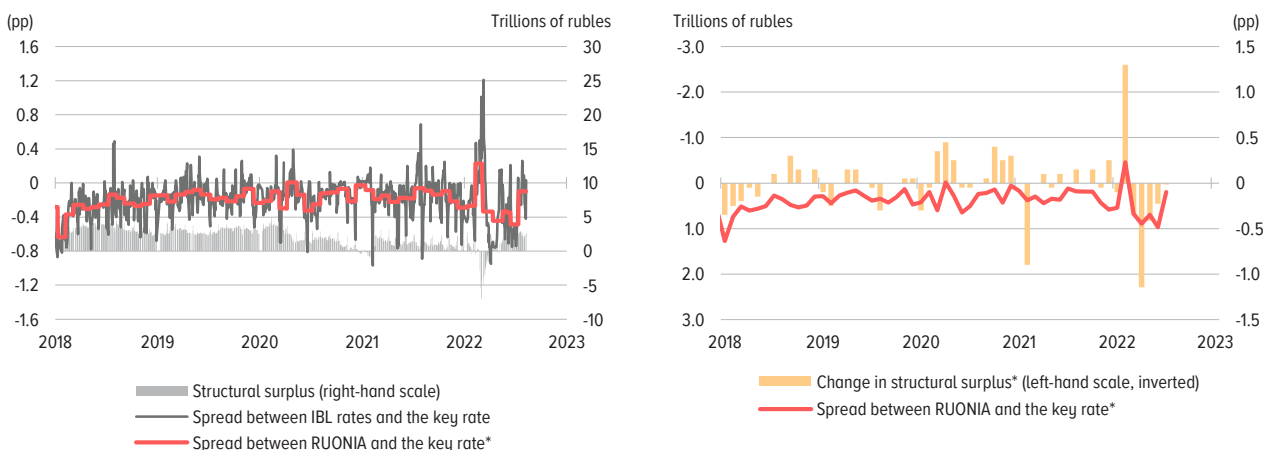
Chart 2



* Funds transfers from credit institutions' accounts to the fiscal 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 CONTRACTED

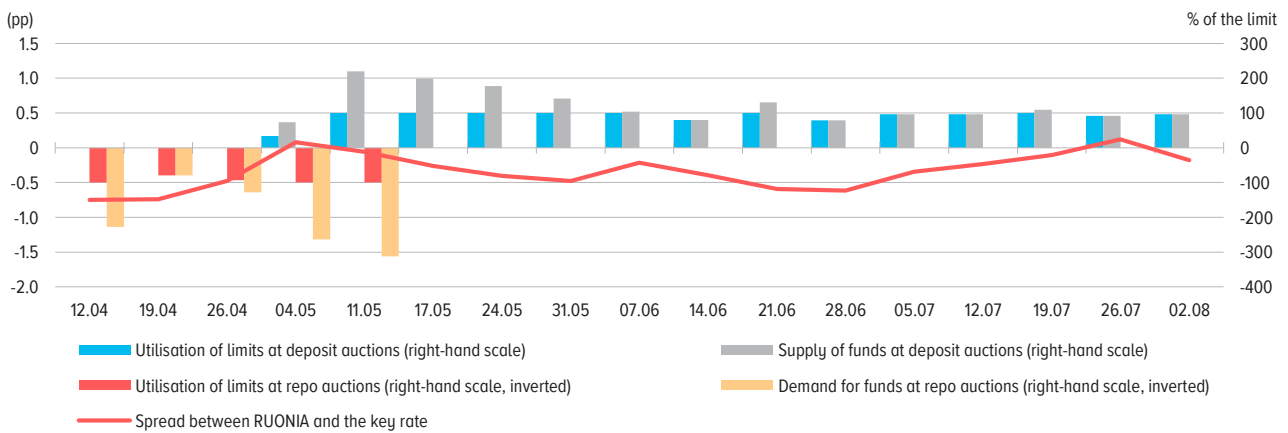
Chart 3



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

BANKS' SUPPLY AT THE BANK OF RUSSIA DEPOSIT AUCTIONS WAS GENERATED CLOSE TO THE ESTABLISHED LIMITS (AVERAGE FOR OPERATION WEEKS)

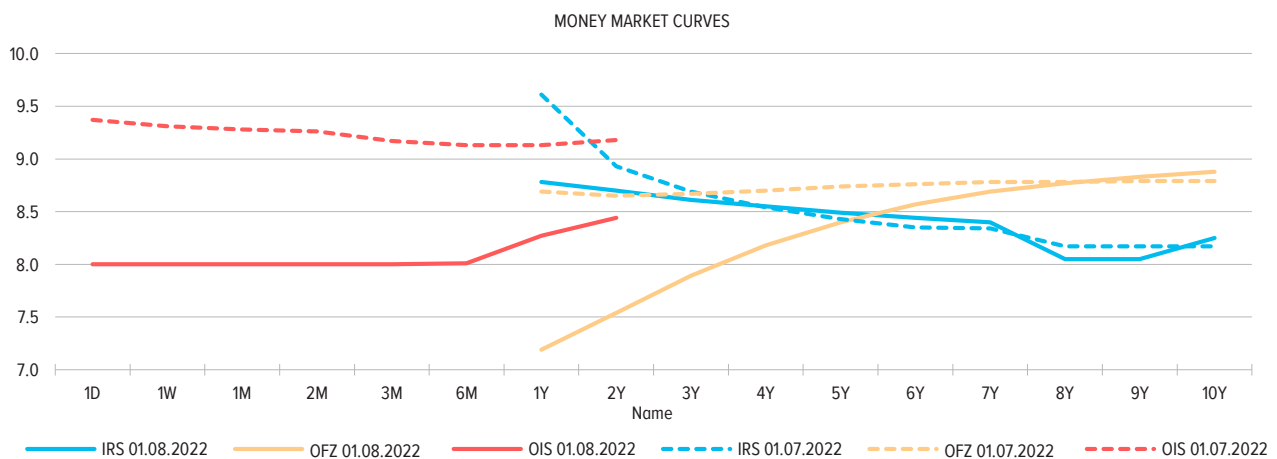
Chart 4



Note. The data are provided on one-week deposit and fine-tuning repo auctions. Operation weeks are marked by dates of regular weekly auctions. Fine-tuning auctions are taken into account together with the one-week auction, the settlements under which were made over the corresponding trading week.
Source: Bank of Russia calculations.

IN JUNE, THE CURVES SUBSTANTIALLY DROPPED, REFLECTING THE KEY RATE PATH (PER CENT P.A.)

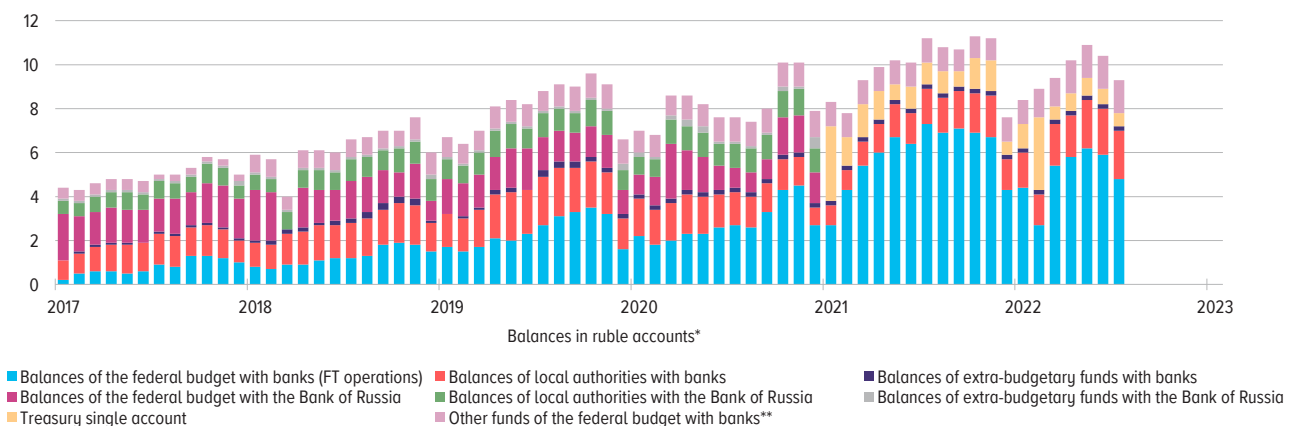
Chart 5



Note. The IRS curve for maturities of up to one year is built using MosPrime rates with respective maturities.
Sources: Cbonds, NFA, Bank of Russia calculations.

IN JULY 2022, BUDGET ACCOUNT BALANCES LOWERED DUE TO INCREASED SPENDING (TRILLIONS OF RUBLES, AS OF THE PERIOD END)

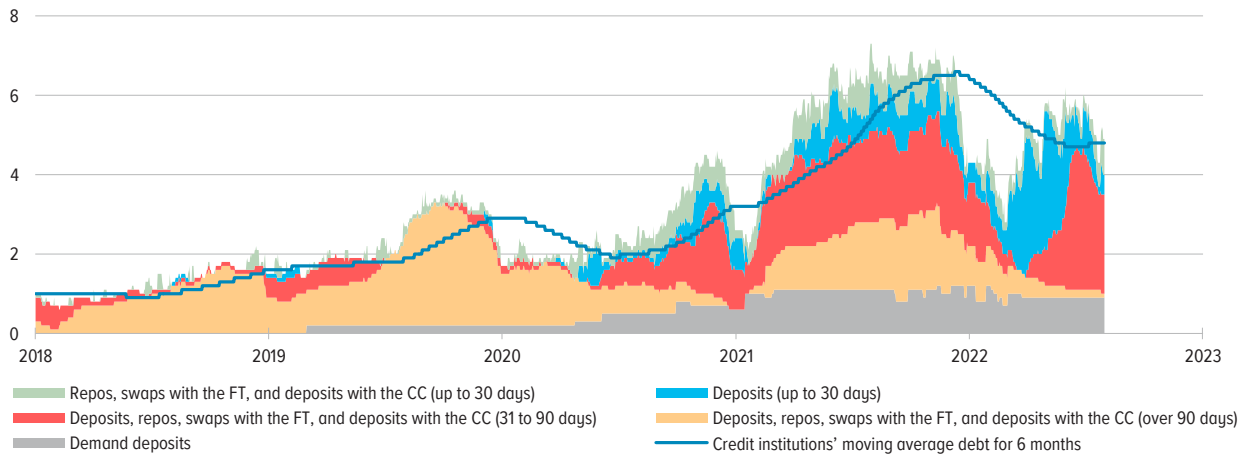
Chart 6



* According to Banking Reporting Form 0409301 'Performance indicators of a credit institution'.
** 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 JULY 2022, CREDIT INSTITUTIONS' DEBT TO THE FT WAS UP BY 1.1 TRILLION RUBLES
(TRILLIONS OF RUBLES)

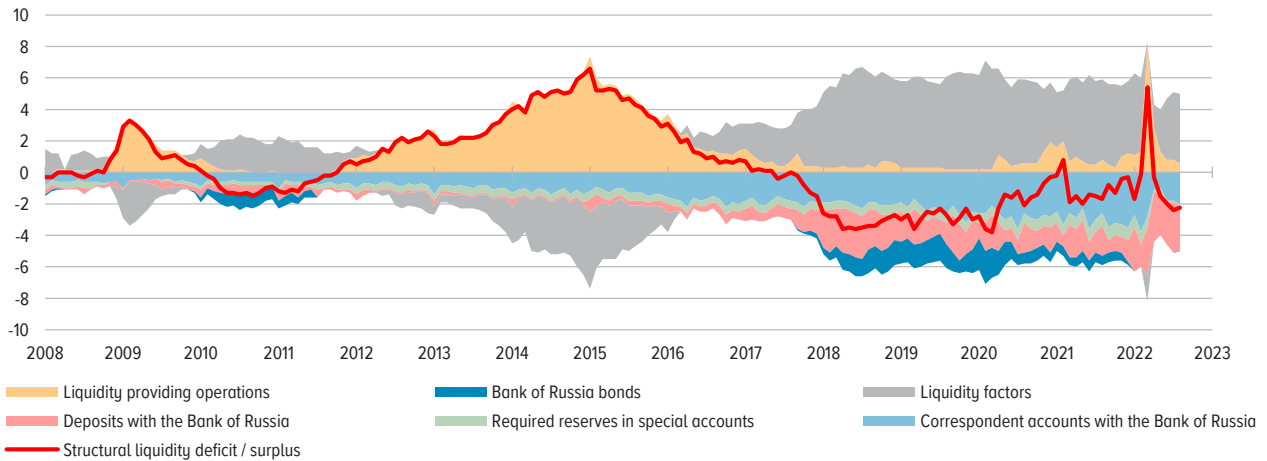
Chart 7



Sources: Federal Treasury, Bank of Russia calculations.

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

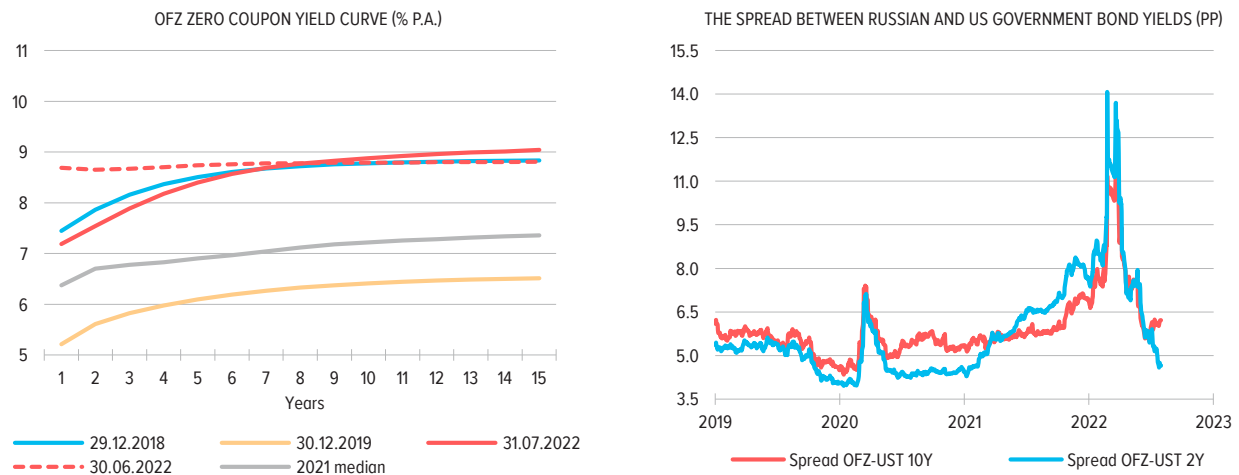
Chart 8



Source: Bank of Russia calculations.

THE SHORT AND MEDIUM TERM OFZ CURVE SIGNIFICANTLY DECREASED

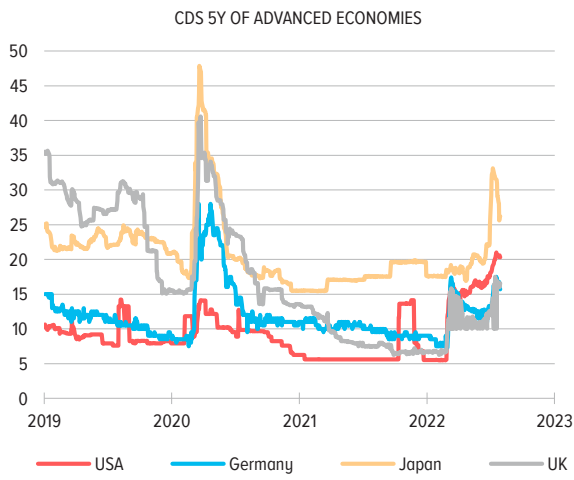
Chart 9



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

5Y CDS SPREADS OF EMES GREW MODERATELY
(BP)

Chart 10



Sources: Cbonds, Bank of Russia calculations.

THE RUSSIAN EQUITY MARKET CONTINUED TO DEMONSTRATE A DECLINE

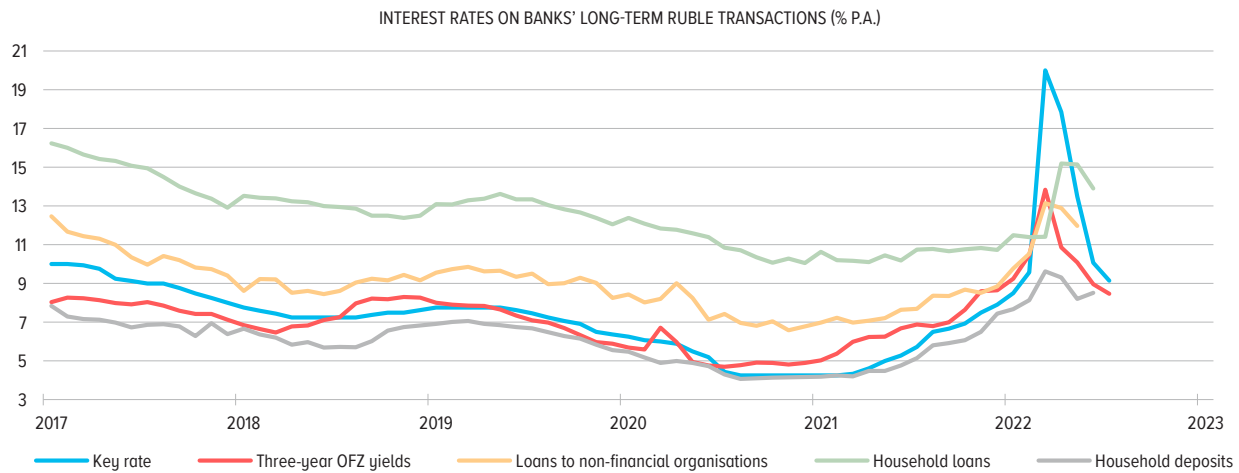
Table 4

| Indicator | | 31.07.2022 | 1M | 3M | 6M | YTD | 1Y |
|--|--------------------|------------|-------|-------|-------|-------|--------|
| Russian financial market | | | | | | | |
| RUB/USD exchange rate | | 61.62 | -19.8 | 13.2 | 20.4 | 17.5 | 15.8 |
| MOEX Index | | 2,214 | 0.4 | -9.5 | -37.3 | -41.5 | -41.8 |
| RTS Index | | 1,129 | -16.0 | 4.4 | -21.3 | -29.2 | -31.1 |
| Government bond yields | | 8.53 | -14 | -162 | -98 | 12 | 167 |
| Corporate bond yields | | 9.12 | -110 | -341 | -107 | 27 | 168 |
| Regional bond yields | | 8.60 | -81 | -283 | -109 | -3 | 126 |
| RVI | | 57 | -4 | -14 | 8 | 24 | 36 |
| Exchange rates (per US dollar, per cent change, '+' – appreciation, '-' – depreciation) | | | | | | | |
| AEs* | US Dollar Index | 105.90 | 1.2 | 2.9 | 9.7 | 10.7 | 15.3 |
| | Euro | 1.02 | -2.5 | -2.7 | -9.0 | -10.1 | -14.1 |
| | Japanese yen | 133.32 | -1.8 | 2.7 | 15.9 | 15.8 | 21.9 |
| | Pound sterling | 1.22 | -0.1 | -3.4 | -9.5 | -10.0 | -12.9 |
| EMEs | Ruble | 61.62 | -19.8 | 13.2 | 20.4 | 17.5 | 15.8 |
| | Brazilian real | 5.17 | 1.6 | -4.0 | 2.5 | 7.2 | -1.7 |
| | Mexican peso | 20.38 | -1.4 | 0.2 | 1.1 | 0.6 | -2.6 |
| | Chinese yuan | 6.74 | -0.7 | -1.6 | -5.8 | -6.0 | -4.4 |
| | Turkish lira | 17.93 | -7.4 | -20.7 | -33.3 | -34.5 | -112.5 |
| | South African rand | 16.58 | -1.8 | -4.9 | -7.8 | -3.7 | -13.9 |
| 10-year bond yields (% p.a., change in bp, '+' – increase, '-' – decrease) | | | | | | | |
| AEs | USA | 2.67 | -31 | -22 | 88 | 115 | 139 |
| | Germany | 0.81 | -70 | -13 | 80 | 99 | 126 |
| | Japan | 0.18 | -5 | -4 | 1 | 11 | 16 |
| | UK | 1.86 | -52 | -4 | 56 | 89 | 129 |
| EMEs | Russia | 8.89 | 10 | -143 | -54 | 45 | 193 |
| | Brazil | 13.18 | -3 | 98 | 176 | 292 | 389 |
| | Mexico | 8.90 | -46 | -51 | 95 | 106 | 179 |
| | China | 2.77 | -6 | -9 | 4 | -2 | -14 |
| | Turkey | 17.92 | -145 | -345 | -585 | -676 | 24 |
| | South Africa | 10.36 | -22 | 40 | 97 | 93 | 149 |
| 5Y CDS spreads (bp, change in bp, '+' – increase, '-' – decrease) | | | | | | | |
| AEs | USA | 20 | 3 | 5 | 9 | 9 | 11 |
| | Germany | 16 | 3 | 3 | 9 | 7 | 6 |
| | Japan | 26 | 1 | 7 | 9 | 9 | 9 |
| | UK | 17 | 5 | 5 | 7 | 7 | 8 |
| EMEs | Brazil | 258 | -19 | 41 | 42 | 63 | 94 |
| | Mexico | 150 | -17 | 17 | 49 | 63 | 60 |
| | China | 72 | -14 | -6 | 22 | 31 | 33 |
| | Turkey | 798 | -27 | 204 | 283 | 253 | 431 |
| | South Africa | 295 | -17 | 47 | 87 | 95 | 96 |
| Stock indices (points, % change, '+' – increase, '-' – decrease) | | | | | | | |
| AEs | S&P 500 | 4,130 | 9.1 | 0.0 | -8.5 | -13.3 | -6.5 |
| | Stoxx 600 | 438 | 7.6 | -2.7 | -6.5 | -10.1 | -5.5 |
| | Nikkei 225 | 27,772 | 5.2 | 3.4 | 2.9 | -3.5 | 0.0 |
| | FTSE 100 | 7,423 | 3.5 | -1.6 | -0.5 | 0.5 | 4.9 |
| EMEs | MSCI EM | 994 | -0.7 | -7.7 | -17.7 | -19.3 | -23.3 |
| | Bovespa | 103,165 | 4.7 | -4.4 | -8.0 | -1.6 | -17.9 |
| | IPC Mexico | 48,144 | 1.3 | -6.4 | -6.2 | -9.6 | -6.8 |
| | SSE Composite | 3,253 | -4.3 | 6.8 | -3.2 | -10.6 | -4.6 |
| | BIST 100 | 2,592 | 7.8 | 6.7 | 29.4 | 39.6 | 86.3 |
| | FTSE / JSE | 68,934 | 4.1 | -4.8 | -7.2 | -6.5 | -0.9 |

* Advanced economies.

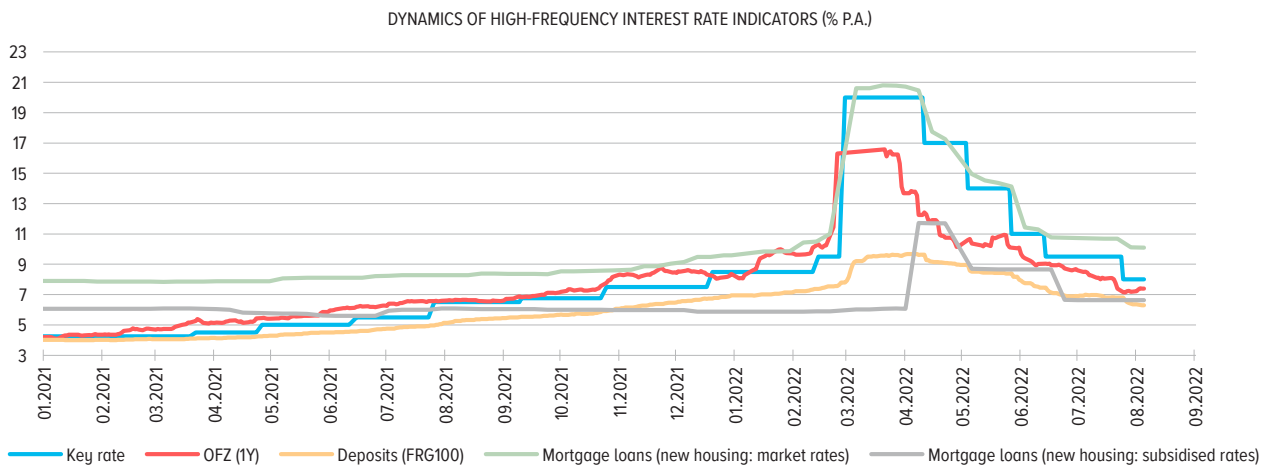
Sources: PJSC Moscow Exchange, Cbonds, Bank of Russia calculations.

IN JUNE, IN MOST SEGMENTS OF THE CREDIT AND DEPOSIT MARKET, RATES CONTINUED TO DECLINE FOLLOWING THE KEY RATE Chart 11



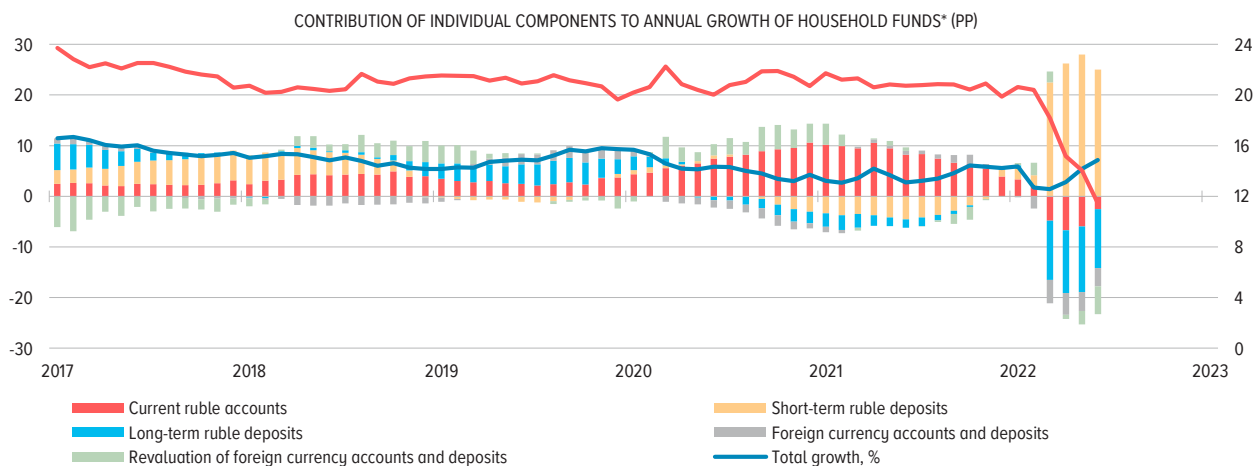
Source: Bank of Russia.

RATES ON BANKING PRODUCTS DECREASE DUE TO THE EASING OF MONETARY POLICY AND SUBSIDISED LENDING PROGRAMMES PARAMETERS Chart 12



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

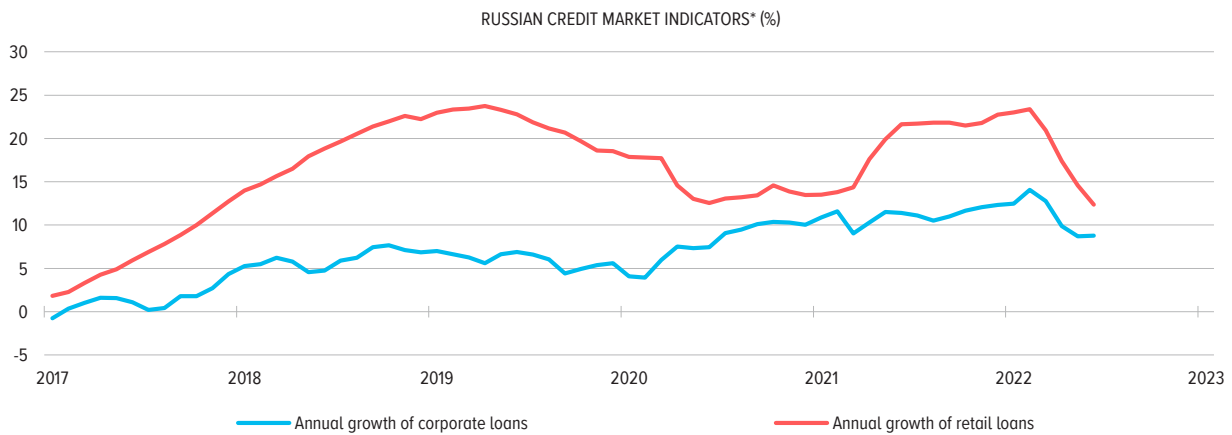
IN JUNE, THE SHARE OF FOREIGN CURRENCY IN THE RETAIL DEPOSIT PORTFOLIO FELL TO A RECORD LOW Chart 13



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

LENDING SLOWDOWN WAS SUSPENDED IN JUNE

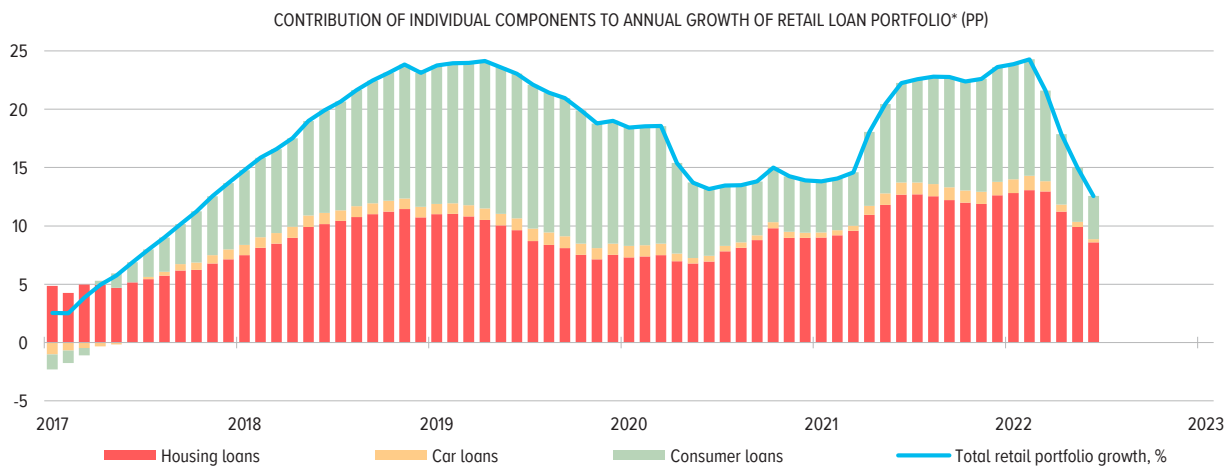
Chart 14



* Since 1 February 2021, the corporate and household loan portfolio includes acquired claims. The portfolio growth was calculated net of acquired claims.
Source: Bank of Russia calculations.

IN JUNE, THE REVIVAL OF LENDING ACTIVITY AFFECTED THE MORTGAGE SEGMENT TO A GREATER EXTENT THAN CONSUMER LENDING

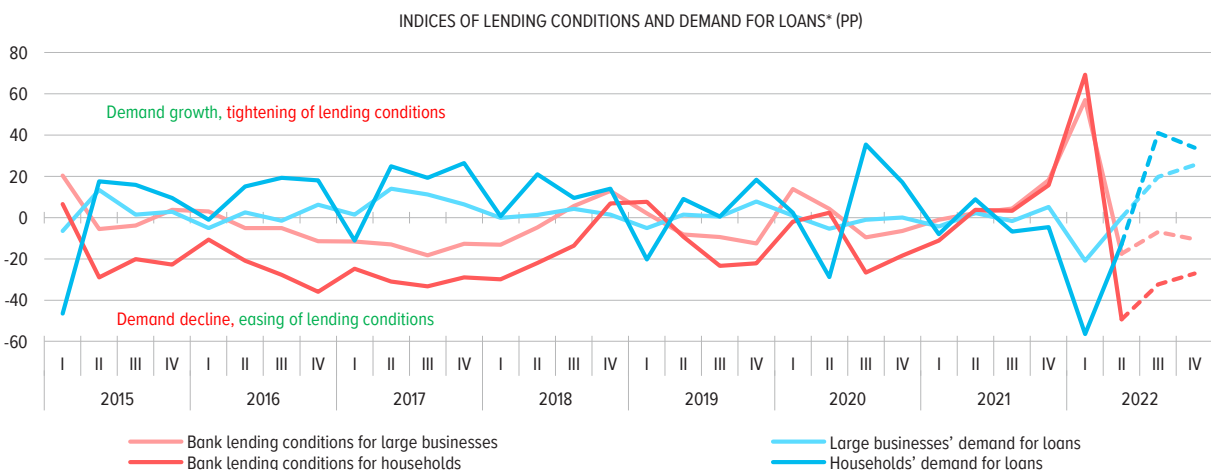
Chart 15



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

IN 2022 Q2, BANKS CONFIRMED THE EASING OF LENDING CONDITIONS COMPARED TO Q1

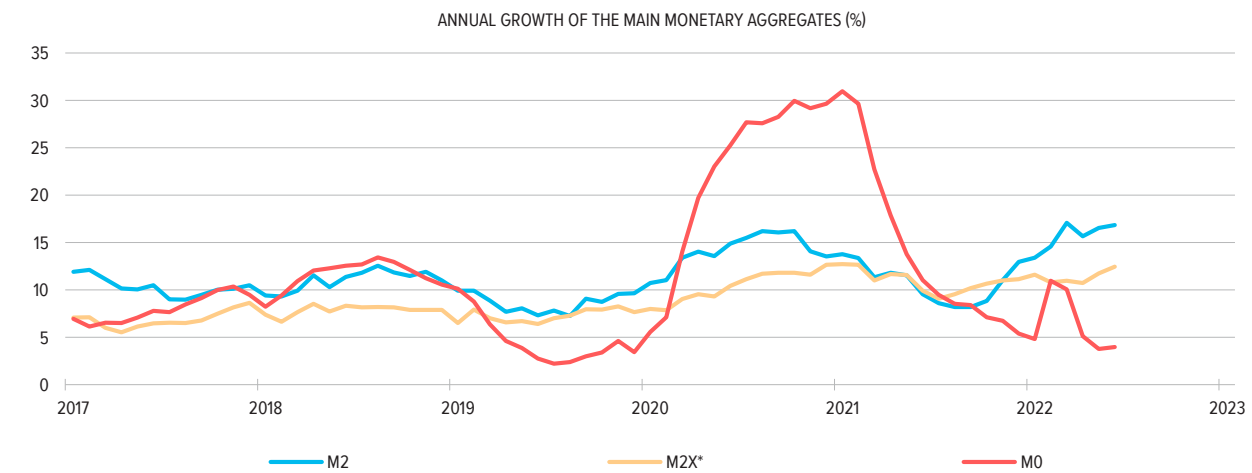
Chart 16



* The dotted lines signify respondent banks' expectations regarding changes in lending conditions and demand for loans in 2022 Q2.
Source: Bank of Russia.

MONEY SUPPLY CONTINUED TO ACCELERATE IN JUNE

Chart 17



* Adjusted for foreign currency revaluation.

Source: Bank of Russia calculations.

INDICATORS OF THE CREDIT AND DEPOSIT MARKETS

Table 5

| | | March 2022 | April 2022 | May 2022 | June 2022 |
|--|--------------------|-------------|-------------|-------------|-------------|
| Interest rates on banks' long-term ruble transactions | | | | | |
| household deposits | % p.a. | 9.6 | 9.3 | 8.2 | 8.5 |
| household loans | % p.a. | 11.4 | 15.2 | 15.1 | 13.9 |
| corporate loans | % p.a. | 13.2 | 12.9 | 12.0 | |
| Households' funds* | % YoY, AFCR | 1.4 | 2.8 | 5.4 | 7.2 |
| in rubles* | % YoY | 7.6 | 9.0 | 11.5 | 13.6 |
| in foreign currency | % YoY | -20.5 | -21.3 | -19.2 | -20.4 |
| share of foreign currency* | % | 18.2 | 15.2 | 14.0 | 11.5 |
| Corporate loans** | % YoY, AFCR | 12.8 | 9.9 | 8.7 | 8.8 |
| short-term (up to 1 year) | % YoY, AFCR | 7.3 | 4.9 | 3.9 | 4.8 |
| long-term (more than 1 year) | % YoY, AFCR | 15.4 | 12.3 | 11.1 | 11.7 |
| Household loans** | % YoY, AFCR | 20.9 | 17.4 | 14.6 | 12.4 |
| housing mortgage loans | % YoY, AFCR | 27.2 | 23.5 | 20.9 | 18.3 |
| unsecured consumer loans | % YoY | 16.0 | 12.5 | 9.7 | 7.7 |
| Banking system's claims on the economy | % YoY, AFCR | 15.7 | 14.1 | 12.4 | 11.5 |
| on businesses | % YoY, AFCR | 14.0 | 12.9 | 11.6 | 11.1 |
| on households | % YoY, AFCR | 20.2 | 17.0 | 14.4 | 12.2 |
| Money supply (monetary aggregate M2) | % YoY | 17.1 | 15.7 | 16.6 | 16.8 |
| Broad money | % YoY, AFCR | 11.0 | 10.7 | 11.8 | 12.5 |

* Excluding escrow accounts.

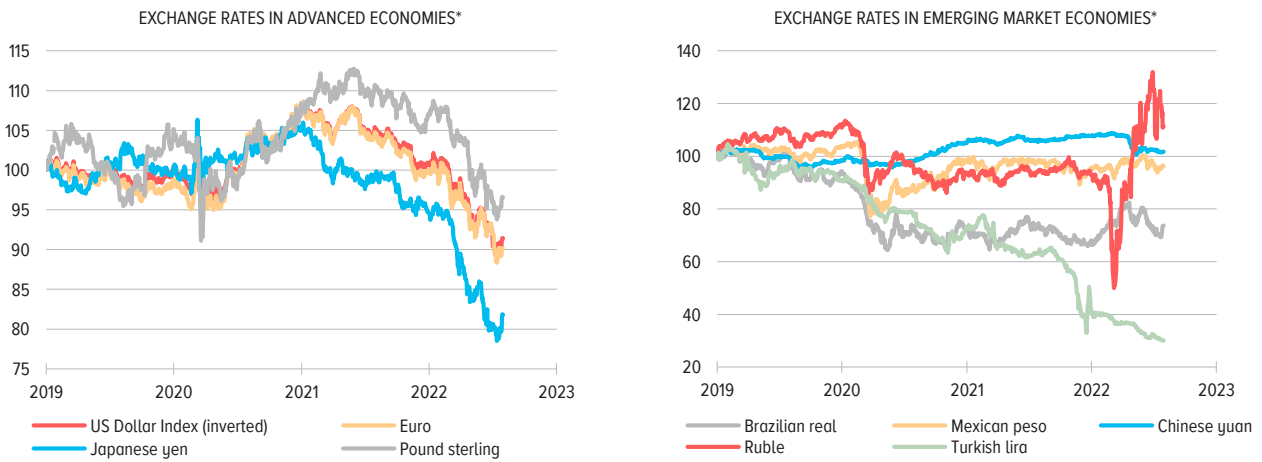
** Since 1 February 2021, the portfolio of corporate and retail loans includes acquired claims. The portfolio growth was calculated net of acquired claims.

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.

EMES' CURRENCIES, EXCLUDING THE BRAZILIAN REAL, MOSTLY WEAKENED AGAINST THE US DOLLAR IN JULY
(02.01.2019 = 100)

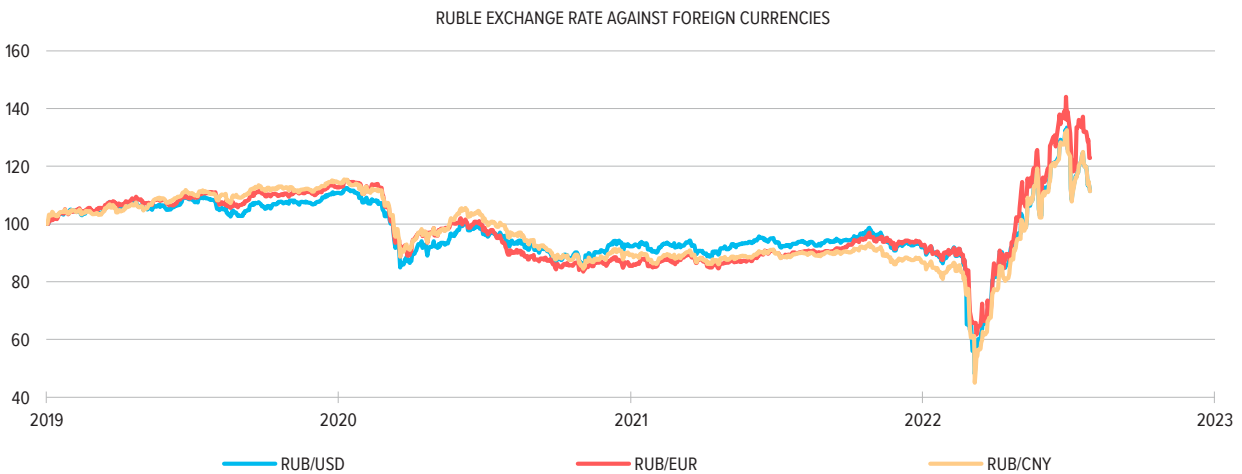
Chart 18



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

THE RUBLE WEAKENED BY THE END OF JULY 2022
(02.01.2019 = 100)

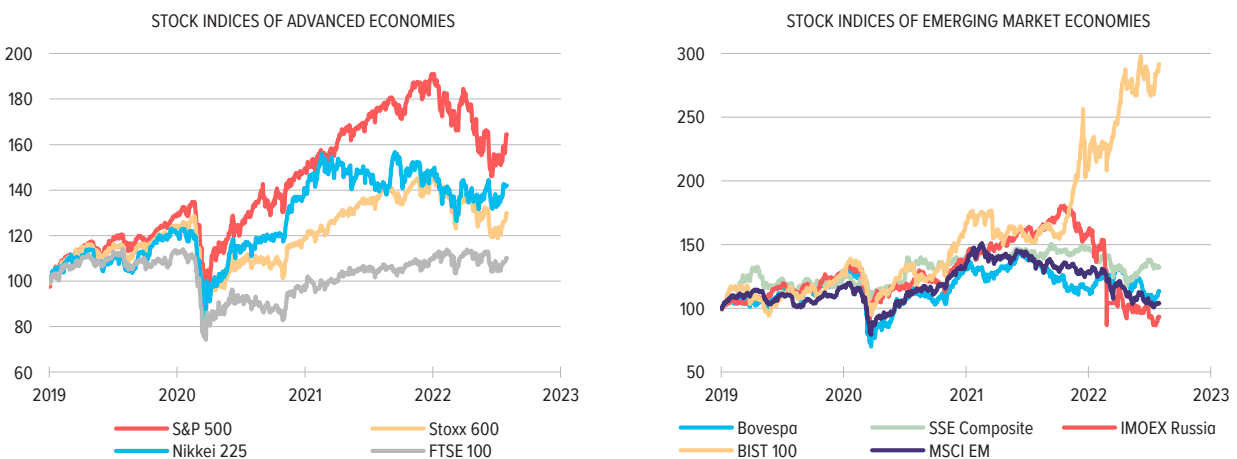
Chart 19



Sources: Cbonds, Bank of Russia calculations.

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

Chart 20



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

Data cut-off dates:

- 'Money market and overnight rates (RUONIA)' section – 9 August 2022 (mandatory reserve requirements are an important part of Bank of Russia 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 June–August 2022, this period is from 13 July 2022 to 9 August 2022);
- 'Money market yield curves and key rate expectations' and 'Other financial market segments' sections – 31 July 2022;

'Credit and deposit market' section – 1 July 2022.

The electronic version of the [information and analytical commentary](#) is available on the Bank of Russia website.

Please send your comments and suggestions to svc_analysis@cbr.ru.

This commentary was prepared by the Monetary Policy Department.

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