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R95 **Russian Economy in 2021. Trends and outlooks**. **(Issue 43)** / [V. Mau et al; scientific editing by Kudrin A.L., Doctor of sciences (economics), Radygin A.D., Doctor of sciences (economics), Sinelnikov-Murylev S.G., Doctor of sciences (economics)]; Gaidar Institute. – Moscow: Gaidar Institute Publishers, 2022. – 568 pp.: illust.

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The review “Russian Economy. Trends and Outlooks” has been published by the Gaidar Institute since 1991. This is the 43th issue. This publication provides a detailed analysis of the most significant trends in the Russian economy, global trends in the social and economic development. The work contains 6 big sections that highlight different aspects of Russia’s economic development, which allow to monitor all angles of ongoing events over a prolonged period: global economic and political challenges and national responses, economic growth and economic crisis; the monetary and budget spheres; financial markets and institutions; the real sector; social sphere; institutional changes. The work is based on an extensive array of statistical data that forms the basis of original computation and numerous charts confirming the conclusions.

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Sergey Zubov

3.2. Russia's banking sector in 2021[1]

3.2.1. Key indicators and financial performance of the banking sector

At the end of 2021, the Russian banking system boasted of 370 credit institutions. A year earlier, their number constituted 406. During the year, the number of active credit institutions decreased by 36. The number of license revocations amounted to 26, voluntary revocation of licenses — 11. The number of banks with a universal license at the end of the year stood at 232 banks (248 at the beginning of the year), and with a basic license - 103 banks (118 at the beginning of the year). The number of non-bank credit institutions dropped by 5 to 35 (*Fig. 64*)

The reduction in the total number of credit institutions was accompanied by the consolidation of the banking sector — in 2021, there was an increase in assets, own funds and profits. Due to the rapid economic recovery, last year total assets of credit institutions gained 15.9% (in 2020 the increase amounted to 16.5%), banks' own funds went up by 12.2% (in 2019 — by 11.3%). Thus, the growth rates of assets and capital approximately remained at the level of the previous year.

1 This section was written by: *Zubov S.A.*, Candidate of Economic Sciences. Senior Researcher, Structural Studies Department, IAES RANEPA.

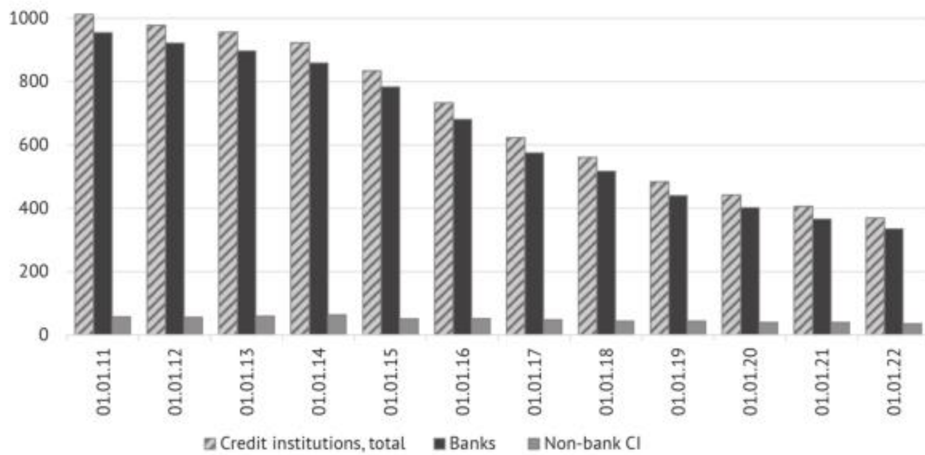

Fig. 64. Dynamics of the number of credit institutions over the last 11 years

Source: Bank of Russia.

As of January 1, 2022, the aggregate profit of the banking sector amounted to Rb2,362.9 bn (in 2020 — Rb1,608.1 bn), at the end of 2021, the number of profitable banks came to 84% (in 2020 — 80%). At present, approximately 20% of the sector (of the total number) consists of loss-making banks and banks with low operating efficiency, which are in the default zone and, in all likelihood, most of them will cease to exist as credit institutions during 2022.

Throughout the year, banks maintained a high level of profit (around Rb200 bn monthly). At the end of the year, the stock market crisis significantly adjusted the volume of bank profits downward (*Fig. 65*).

On the whole, Russia's banking sector was prepared for a long-term crisis largely thanks to the stabilization policy of the Central Bank of Russia implemented in recent years. Maintaining a high level of liquidity, liquidation of insolvent banks, as well as increased requirements to the quality of banking products and services by implementing the Basel standards made the domestic banking system more resilient. Increased business volumes and high transactional activity in the context of economic recovery contributed to the growth of positive financial performance of banks.

Profit upsurge has significantly exceeded the growth of assets and capital, which affected the growth of bank profitability: at the end of 2021, ROA[1] constituted 2.2% (1.4% a year earlier), ROE[2] — 21.7% (at the end of 2020 — 15.1%). The Russian banking sector remains one of the most profitable in the world, compared to the average return on capital for banks in the U.S. which is 12—13%, and for European banks — 6—8%.

1 ROA (Return on assets) – return on assets, the ratio of net profit to total assets of the credit institution.

2 ROE (Return on equity) – return on equity, the ratio of net profit to equity (capital) of a credit institution.

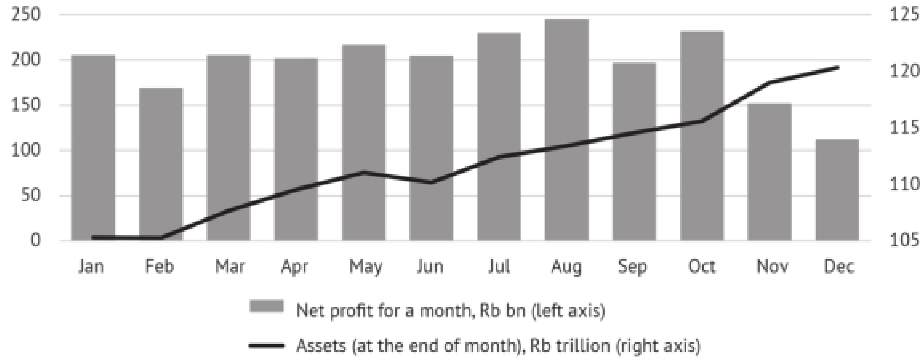

Fig. 65. Net profit (per month, Rb bn) and the volume of total assets of the banking sector (at the end of the month, Rb trillion) in 2021.

Source: Bank of Russia.

The leading banks managed to take advantage of the current situation in different ways. At the end of the year, the top five most profitable credit institutions were the same banks as a year earlier: Sberbank (52.4% of total banking sector profit, annual growth of 58.3%), VTB (10.3%, annual growth of 332.4%), Alfa-Bank (5.7%, annual growth of 14.5%), Gazprombank (3.9%, annual growth of 45.0%) and FC Otkrytie (3.6%, annual growth of 4.4%).

In terms of return on capital, the leaders are small banks and non-bank credit institutions offering a wide range of payment and settlement services, as well as business on marketplaces. The highest return on equity at the end of 2021 demonstrated — NCO Mobile Card (ROE — 395.6%), NCO Settlement Solutions (83.11%), Modulbank (67.5%), NCO Western Union DP East (62.17%), Kiwi Bank (58.0%). These institutions and similar small banks and non-bank credit institutions markedly raised the level of profitability in 2021.

Let’s analyze the main components of the net profit of banks in 2021.

Net interest income amounted to Rb4,075.1 bn, or by 15.1% (Rb533.8 bn in absolute terms), exceeding the value of the preceding year (Rb3,541.3 bn). In the context of low interest rates on loans, the growth rate of interest income was not so high: interest income from corporate lending grew over the year by 5.3%, while that from retail loans — by 7.3%. The growth of these indexes was provided by the growth in the volume of loans and the end of favorable conditions for loan restructuring due to the pandemic of rapid economic recovery.

Having said that, low interest rates allowed banks to significantly optimize interest expenses by reducing the rates on term deposits of households and enterprises; the short-term increase in interest rates on open-end and savings accounts in the first half of the year did not affect the overall reduction of interest expenses — interest expenses on accounts and deposits of enterprises fell by 14.4%, and on accounts and deposits of households by 14.7%. Thus, the overall reduction of market rates on attracted resources contributed to the growth of net interest income. It should be noted that the banks managed to significantly increase fee and commission income on credit operations, thus compensating for the losses from the low interest margin. For example, in 2021 the growth of fee and commission income on corporate loans was 41.6% and on retail loans — 82.7%. This type of income includes fees for services provided when granting loans (for consideration of an application, SMS-notification, credit card service, etc.).

Due to the development of electronic settlement forms and high transactional activity of bank customers, the net fee and commission income from intermediary transactions (money transfers, brokerage services, issuance of guarantees) spiked, growing by Rb252.1 bn to Rb1,536.8 bn by the end of the year under review (Rb1,284.7 bn by the end of 2020), and its annual growth amounted to 19.6%.

In 2021, the most significant contribution to the growth of bank profits was associated with the recovery of reserves. In absolute terms, their total volume decreased by Rb740.9 bn, or 60.1% against 2020, amounting to Rb491.4 bn. The reason behind this phenomenon was the preventive provisioning for potentially high-risk debts during 2020, which was restored in 2021 on the back of the improvement in the overall economic situation, as well as the activity of debt collectors and the possibility of assigning problem loans.

The most significant contribution, reducing the financial performance of banks in absolute terms (for the year — Rb2,568.2 bn), were operating costs associated with the provision of credit institutions. The annual growth amounted to Rb304 bn, or 18.1% (1.4% growth a year ago), while personnel costs rose by 10.0% (2.8% growth in 2020). Thus, the reduction in the number of departments and personnel of banks does not yet give a noticeable positive effect from the introduction of the latest IT-technologies.

The situation on the stock market was not so favorable for the banks. Starting from the Q3, banks faced a negative revaluation of securities due to the growth in yields of OFZs because of the increase in the key rate, as well as owing to the fall of the stock market in Q4. As of the end of 2021, the net income from operations with securities was lower than the expenses on the issued securities. The final negative result of operations with securities amounted to Rb65.2 bn (in 2020 a positive result was registered — Rb115.4 bn).

In the near term, banks will face pressure on margins due to a slowdown in the high-yield unsecured lending sector and the need to raise deposit rates. The situation on the stock market at the beginning of 2022 significantly deteriorated and will remain extremely tense in the context of increased geopolitical risks and sanctions pressure. In February this year, Russian systemically banks proposed the Central Bank of Russia not to take into account the negative revaluation of securities when calculating the capital adequacy ratio, fixing the securities value as of the beginning of the year. The capital reserve (norms H20.0,[1] H20.1[2] and H20.2[3]) has remained at a low level recently, forcing banks to curtail their market activities. On February 22, 2022, the Bank of Russia acknowledged the increased

1 H20.0 – Tier I capital adequacy ratio.
2 H20.1 – the basic capital adequacy ratio.
3 H20.2 – capital adequacy (own funds) ratio.

market volatility and announced support measures for Russian banks:[1] until October 1, 2022, banks were entitled not to recognize losses due to depreciation of securities, reporting shares and bonds at their market value as of February 18, 2022. A similar regulatory relief in the recalculation of securities at favorable quotes was used in 2015 amid a sharp increase in the key rate. Also, the regulator allowed credit institutions to use foreign currency exchange rates as of February 18, 2022 when calculating mandatory banking standards until October 1.

It is possible that a new round of geopolitical problems may trigger an increase in financial risks, for which banks will have to raise provisions for possible loan losses. Thus, in the first half of the year one should expect a decrease in the size of profits and the level of profitability of banking activities against the 2021 indexes.

3.2.2. Corporate lending

Economic recovery and the expected increase in interest rates stimulated credit demand from companies during 2021. The quality of the aggregate corporate loan portfolio of banks was improving: the average level of overdue debt was gradually declining, the level of profitability was growing.

As of January 1, 2022, the aggregate corporate credit exposure[2] to Russian banks reached Rb51.9 trillion. The growth of the corporate credit portfolio over the past year amounted to Rb7.2 trillion or 16.1%, which corresponds to the growth in total bank assets (15.9%). A year earlier, the corporate loan portfolio of Russian banks went up by Rb5.8 trillion or 14.8%. Since the high rates of the previous year were due to the currency revaluation and the state stimulation of concessional lending, we can conclude about the growth of corporate lending resulting from the improvement of the business climate in the business environment in 2021.

Since the beginning of 2021, ruble portfolio of corporate loans grew by 19.8% to Rb39.7 trillion, which exceeds the growth rate of 2020 — 11,4%. The share of ruble loans in the total loan portfolio remained virtually unchanged — 76.4%. The foreign currency portfolio in 2021 grew insignificantly by 5.3%, while in the previous year there was a spike of 25.5%, due to the depreciation of the ruble.

Loan growth, as well as higher interest rates and the introduction of a variety of bank commissions has a positive effect on the growth of bank revenues from corporate lending. After their level fell in 2019—2020 on the back of a decline in interest rates, in 2021 there was a clear change in the trend (*Fig. 66*). Also, the growth of bank revenues was due to the subsidization of loans provided under preferential government programs.

The level of outstanding debt during 2021 decreased both in absolute and relative terms. According to data reported for January 1, 2022, the volume of overdue debt on corporate loans amounted to Rb2.9 trillion, having declined over the year by Rb231.2 bn, or by 7.3%. Having said that, the ratio of outstanding debt to the total portfolio of corporate loans has also dropped from 7.1% to 5.6%. Thus, most Russian banks have generally adequately assessed the creditworthiness of their clients and managed to employ various mechanisms for dealing with bad

1 URL: https://rg.ru/2022/02/22/bank-rossii-obiavil-o-merah-podderzhki-rynka.html
2 With loans to non-financial and financial organizations, as well as individual entrepreneurs.

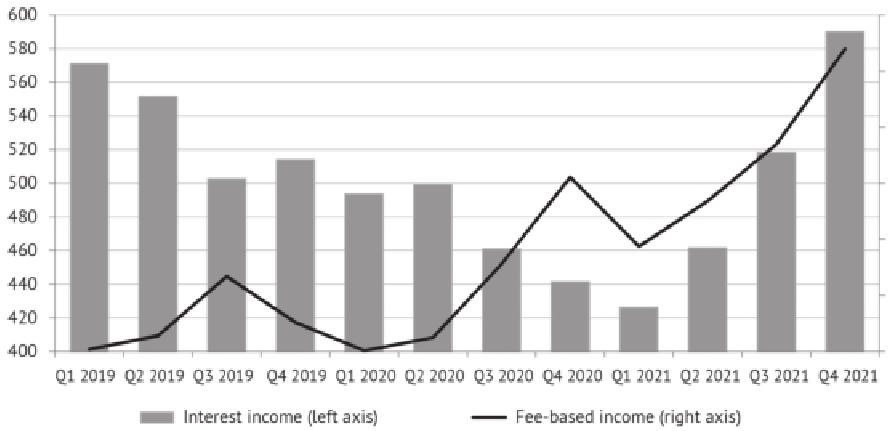

Fig. 66. Interest and fee-based income of the banking sector from corporate lending in 2019—2021, Rb bn

debts (reassignment to collectors, sale of collateral, use of insurance instruments, etc.). In general, the formed loan loss provisions covered bad loans by about 75% and do not represent a significant risk

The sectoral structure of corporate loans did not undergo significant changes compared to the previous year. The leaders in terms of the volume of loans attracted are the following industries: “Financial and Insurance Activities” (Rb41.0 trillion, or 47.9% of total loans), “Wholesale Trade, except for wholesale trade in motor vehicles and motorcycles” (Rb14.3 trillion, or 18.7%) and “Manufacturing Activities” (Rb10.5 trillion, or 13.8%).

The most significant increase in the volume of loans was recorded in the following industries: “Professional, scientific and technical activities” (an increase of 55.4%), “Provision of other services” (an increase of 42.2%), “Mining and quarrying” (an increase of 39.8%).

Despite the continuation of concessional lending programs and other support measures by the government and the Bank of Russia to enterprises in vulnerable industries in 2021, many areas of activity still experienced serious difficulties in attracting bank loans and were forced to reduce the volume of borrowing. As of January 1, 2022, 31 classes of OKVED-2 (32.3% of all types of activity) saw a decline in the amount of outstanding loans against the 2020 level. The most significant drop in volumes was recorded in the following industries: “Other activities” (down 49.9%), “Activity in the field of information and communication” (down 23.5%) and “Activity in the field of healthcare and social services” (down 17.3%).

It should be noted that the effects of the pandemic were reflected in the concentration of corporate lending: despite the portfolio growth, the total number of corporate borrowers fell by 27.6% compared to a year ago (*Fig. 67*). This is due to the fact that the main users of support programs were borrowers who had no significant credit indebtedness during the year before the pandemic.

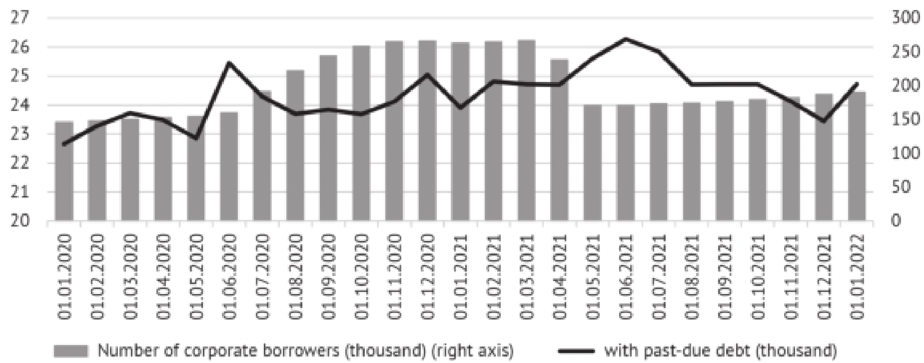

Fig. 67. Number of resident legal entities that have debts to banks (including past-due debt) in 2020—2021

Source: Bank of Russia.

Support for small and medium-sized enterprises remained one of the government's economic priorities. At the end of 2021, loans to SMEs accounted for Rb7.1 trillion, or 13.7% of the total aggregate portfolio. In this regard, the government developed new measures to support SMEs.

At the end of October 2021, the government announced the launch of the second phase of the concessional lending program "FOT 3.0", as well as the mechanism of grant support for business.[1] The difference between the second phase of the program "FOT 3.0" from the first is that the list of recipients of credit has been significantly expanded, as well as increased the term of the loan (up to 18 months) and the loan repayment period (from 6 to 12 months). The new program was valid from November 1 through December 30, 2021.

The loan was granted at the rate of one minimum wage (minimum wage – Rb12,792) for each employee, for a period of 12 months, the loan rate — 3% per annum. Under the terms of the program in the first six months the borrower can make no payments on the loan — neither interest nor on the principal, then within 12 months to repay the loan in equal installments, including interest. Meanwhile, 75% of the loan is secured by the surety of VEB.RF.

Representatives of the 17 most affected industries could receive support under the second phase of the preferential lending program "FOT 3.0" (under the first phase of the program "FOT 3.0" there were 11). At the request of businesses, the list was enlarged by such areas of activity as additional education for children and adults, day care services for children, consumer services, dry cleaning, dentistry, hairdressing and beauty salons.

During the pandemic crisis, the Russian government and the central bank managed to minimize banking risks and stimulate lending to the corporate sector. However, the high concentration of corporate liabilities is a potential source of systemic risk for the domestic banking sector. Accordingly, measures stimulating

1 URL: http://government.ru/news/43700/

diversification of the banks' corporate loan portfolio will be required in the medium term; their success will largely depend on the development of small and medium-sized enterprises, as well as on the implementation of the strategy for the development of competition and antimonopoly regulation in the country.

3.2.3. Retail lending

As of January 1, 2022, the total retail credit exposure to Russian banks hit Rb25.1 trillion. The increment of the aggregate portfolio for 2021 amounted to Rb5023.9 bn, or 25.1%, which exceeds the annual growth rate of total bank assets (15.9%), as well as the growth rate of corporate loans (16.1%). A year earlier, retail loans during the same period rose by Rb2,392.8 bn, or 13.6%. Thus, the growth rate of retail lending last year markedly exceeded the corresponding index for 2020 and is a record-breaking in the history of the Russian credit market.

The share of ruble loans accounts for Rb25.0 trillion, or 99.8% of the total volume of credit exposure. The instability of the ruble exchange rate and high currency risks led to almost complete abandonment of foreign currency loans, which during the past year fell by 40.2% and amounted to only Rb56.2 bn.

The growth of overdue debt since the beginning of the year came to 8.1%, and its total volume reached Rb1,008.3 bn. The share of overdue debt in the credit portfolio slightly dropped and made 4.0% as of 01.01.2022. As of January 01, 2012, the share of overdue debt in the credit portfolio declined slightly to 4.0%, while a year ago it stood at 4.7%. On the whole, the overdue debt ratio remains at a low level, lower than in the corporate lending segment (5.6%). However, despite the relatively high quality of the loan portfolio, systemic risks accumulate along with its growth: according to the central bank of Russia, by mid-2021 45.6% of debts are owed by borrowers with DBR[1] above 80%.

The level of profitability of credit operations on retail loans in 2021 increased (*Fig. 68*): interest income went up every quarter as the market rates surged and at the end of 2021 exceeded the level of 2020 by 7.3% (in the previous year — the increase of 6.0%), the commission income spiked more significantly — by 82.7% (in 2020 — by 23.5%).

The portfolio of consumer loans spiked by 20.1% to the level of Rb11.7 trillion, the highest growth rate at relatively low interest rates were recorded in the middle of the year (up to 2.2% in May and August), by the end of the year, when interest rates increased, the rate dropped to 0.5% (December). In general, the cost of debt service for various types of consumer loans (targeted, non-targeted, POS-loans) by the end of the year went up by 2—3 p.p. Car loans demonstrated similar dynamics in terms of growth in volume and cost of service, the annual gain amounted to 22.1% to the level of Rb1.3 trillion.

The Bank of Russia has clarified the methodology for calculating the debt service ratio (DSR) for individuals. This coefficient is the ratio of the total amount of planned payments of individuals on loans to the total income of the population. In order to avoid double count, interest payments on loans, according

1 Debt burden ratio (DBR) – the ratio of all payments on the debtor's credit obligations to his income.

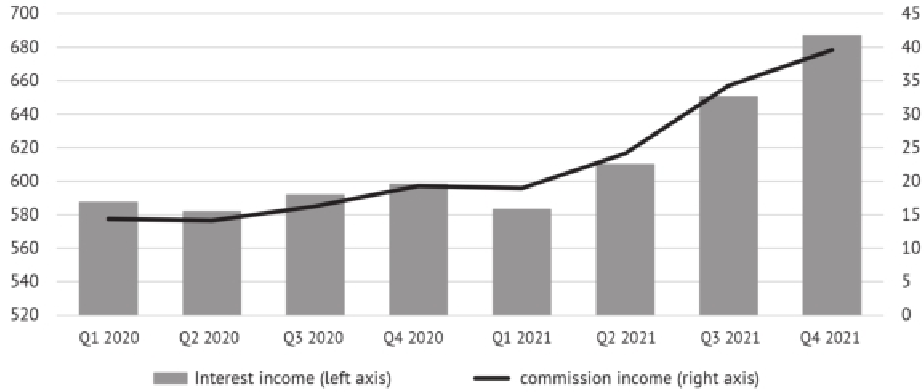

Fig. 68. Bank interest and commission income on retail loans in 2020—2021

Source: Bank of Russia.

to the new methodology, do not reduce the disposable income of households, as they are already taken into account in the amount of planned payments. The new methodology uses additional data from credit bureaus (NBKI, OKB, and Equifax), which allows you to segment the loan portfolio, and provides for the separation of scheduled payments on credit cards,[1] arrears, as well as penalties and fines. These changes lead to a decrease in the debt burden of the population (for the year DRS declined from 11.5% to 9.8%), while the overall dynamics of DSR index under the new methodology has not changed significantly and shows a steady growth over the past four years.

The acceleration in the debt growth rate is largely owing to the attraction of borrowers from new client segments, including the least secured, who spend more than 50% of their income on debt servicing. Thus, the decision made by the Board of Directors of the Bank of Russia to raise the increments to risk ratios for unsecured consumer loans extended from 1 July 2021, which was designed to reduce the risks of market overheating, has not yet affected the banking credit policy: in August we recorded a record-high 2.1 million consumer loans to the tune of Rb646.7 bn. This situation is partly due to seasonal factors (the end of the vacation season, preparation for the new school year), but at the same time, a certain incentive to the growth in demand is provided by the remaining low interest rates with their expected growth owing to the increase in the key rate of the central bank.

With nominally low interest rates on retail loans, banks increase lending margins by raising commissions, in particular, in the cost of the product increases the share of insurance, for which the bank receives commission income from insurance companies. With nominal rates of 5—12%, the average FC[2] (for all types

1 The scheduled monthly payment on the credit card is taken as 7.6% of the amount owed (the annual payment of 68% of the amount owed).

2 Finance charge (FC) — the borrower's payments under the credit agreement, the amounts and terms of which are known at the time of its conclusion, including payments in favor of third

of consumer loans) ranges around 14-15%, and for certain types of loans (non-targeted consumer loans, loans for debt refinancing) the average FC is over 20%. According to the Federal Law “On Consumer Credit (Loan)” banks can conclude contracts with one third higher than the current average market FC calculated by the Central Bank of Russia. This allows us to conclude that this index has the potential to grow and in the near future we can expect an increase in the cost of loans on the back of both growth of interest rates and growth in commissions.

Under increased sanctions pressure, the government and the central bank will be forced again, as in the case of the crisis induced by epidemiological factors, to stimulate the lending activity of banks by introducing additional anti-crisis measures to support the population.

3.2.4. Mortgage lending

As of January 1, 2022, the aggregate portfolio of mortgage housing loans (MHL) on the balance sheet of banks hit Rb12.0 trillion,[1] an increase of 26.4% over the year, which exceeds the growth in 2020 (21,1%). The growth in mortgage lending in 2021 exceeded the corresponding figures in other retail segments (consumer lending and car loans).

In H1 2021, there were still favorable conditions for mortgage growth thanks to low market rates and preferential lending programs put in place during the pandemic in 2020, correspondingly the semiannual growth came to 13.8%. In H2 2021, rising market rates, the reduction and reformatting of government programs, and an increase in risk premiums on loans with LTV[2] in the 80—85% range from August 1, 2021 contributed to a slowdown in market growth, which, however, was partially offset by high demand for real estate and the development of new offers under the partnership programs of banks and developers (growth of 11.0% in the second half of the year). Also, the growth of market rates reduced the demand for refinancing of the previously taken loans; their share in the total volume of loans fell from 14.5% to 9.9% during the year.

In H1 2021, there were still favorable conditions for mortgage growth, thanks to low market rates and concessional lending programs introduced during the pandemic in 2020, respectively, the semiannual growth of 13.8%. In H2 2021, rising market rates, the reduction and reformatting of government programs, and an increase in risk premiums on loans with LTV in the 80—85% range from August 1, 2021 contributed to a slowdown in market growth, which, however, was partially offset by high demand for real estate and the development of new offers under the partnership programs of banks and developers (growth of 11.0% in the second half of the year). Also, the growth of market rates reduced the demand for

parties, determined by the contract, if the borrower’s obligation to make such payments arises from the terms of the contract. The full value of the loan shall be calculated in annual percentage.

1 Taking into account securitization, the volume of the mortgage portfolio amounted to Rb12.9 trillion.

2 Loan-to-Value Ratio, LTV – is the percentage ratio of the principal amount of the loan to the appraised value of the asset that secures it. The LTV ratio is usually calculated by dividing the loan amount by the appraised value of its collateral. An 80% ratio requires that the loan be no more than 80% of the last purchase price of the collateral.

refinancing of the previously taken loans; their share in the total volume of loans declined from 14.5% to 9.9% during the year.

The bulk of mortgage lending accounts for the secondary segment (75%), while the share of loans issued in the primary market dropped from 27% to 25% during the past year. The quality of the mortgage portfolio remains high against the background of other retail segments — the share of debt overdue for over 90 days does not exceed 1%.[1]

In Q3 the activity of borrowers decreased noticeably, the number of mortgage transactions declined by 11.3%, and the total volume of loans originated went down by 11.8% as compared to the previous quarter. The main reason for the change in market dynamics is the new terms of the state program "Preferential mortgage" which came into effect in July and increased the interest rate from 6.5% to 7%, and the maximum loan amount for all regions was reduced to Rb3 mn, which almost completely brings to naught the implementation of this program in Moscow and St. Petersburg.[2]

At the same time, rising inflation and, as a consequence, changes in the monetary policy of the Bank of Russia (increase in the key rate) also has a cooling effect on the behavior of banks and consumer activity: market rates, having reached their historical minimum in June — 7.07%, began to rise. Until the end of the year, the growth of interest rates remained less significant (*Fig. 69*), however, we can talk about a change in the trend. Since the beginning of the year, the rates at the primary market have been growing moderately (up to 6.3%, +0.7 p.p.) and remain quite low. At the secondary market, the rates were generally higher so the banks practically did not raise them in order to support the demand (an

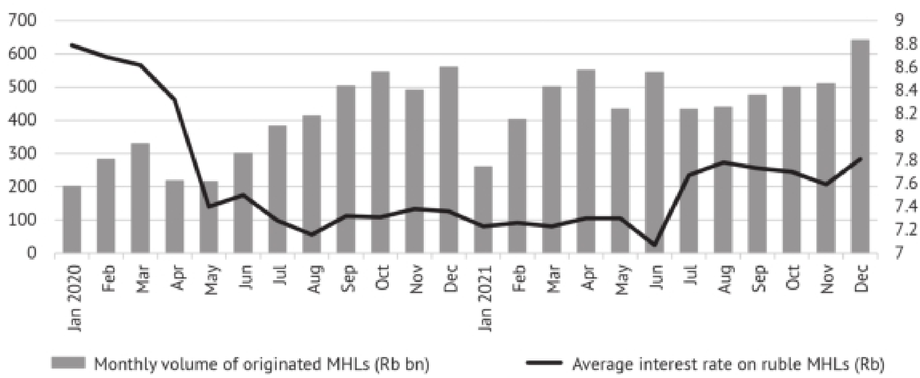

Fig. 6. Dynamics of monthly lending volumes and interest rates in the housing mortgage lending market in 2020—2021

Source: Bank of Russia.

1 URL: https://xn--d1aqf.xn--p1ai/upload/iblock/5a5/5a5d4aef263441a366e4fb5296b93270.pdf
2 Under previous terms and conditions of the program in Moscow, Moscow region, St. Petersburg and Leningrad region, the maximum loan amount was Rb12 mn, in other regions of the Federation — up to Rb6 mn.

insignificant increase to 8.3%, +0.2 p.p.). Despite the growth of interest rates, banks managed to retain their clients and, together with the developers, introduced into the market a number of offers which provided for a below-market mortgage rate for a fixed pool of apartments or a fixed term. Overall, the average rate in the ruble mortgage lending sector has increased since the beginning of the year by approximately 0.5 p.p.

During the pre-pandemic period in Russia, as well as in other countries, the dynamics of mortgage lending rates correlate with the dynamics of long-term government bond yields. Taking into account the level of risk, loan rates are usually 2-5% higher than government bond yields. However, by the end of the year, average mortgage rates were lower than government bond yields by about 1 p.p.[1] due to two main reasons.

Firstly, back in 2020, a procedure was established for compensating banks for their shortfalls in income on retail mortgages. According to the RF Government's decree No. 566 dated April 23, 2020, the bank's shortfall in income from mortgages is the difference between the key rate of the central bank moved up by 3 p.p. and the preferential mortgage rate (according to the 2021 revision, for individual houses on land plots — 5 p.p.). Thus, an increase in the key interest rate is beneficial to banks, as the government compensates for the deviation of the preferential interest rate from its market value. Although the share of subsidized loans was steadily declining in 2021 (from 37% in Q4 2020 to 18% in Q4 2021), this factor was still affecting the cost of mortgage loans.

Secondly, in recent years, banks are increasingly compensating for the low interest income by increasing the commission income (in mortgage lending — commission for consideration of the application for a loan, for reducing rates, for changes in the terms of credit and collateral agreements, for issuing bank references and consents and other services), so banks are interested in high volumes of loans and growth in the number of credit transactions.

On the whole, according to the reports, the quality of the aggregate MHL portfolio is improving. As of January 1, 2022, the overdue debt on MHL amounted to Rb67.7 bn, or 0.6% of the total debt (for comparison, the overdue debt on consumer loans — 4.4% and on corporate loans — 5.6%).

The volume of NPL 90+[2] non-performing loans remains at a fairly low level — Rb73 bn (0.9% of the total volume), in 2021 their volume decreased by Rb14 bn, primarily due to write-offs of bad debts.

The share of refinancing in early 2021 was at a relatively high level — over 16% of the total number of originated mortgage loans, by the end of the year this value decreased to 9.4%. In the near future, the demand for loans for refinancing purposes will be further supported by extending the "family mortgage" to families with one child. The terms of the program allow you to refinance a mortgage loan

1 The yield on long-term (20—30 years) government bonds is 8—8.5%.
2 NPL (non performing loans) — the volume of loans in the bank's loan portfolio for which the terms of the loan agreement are not met. As a rule, loans fall into the NPL after they are overdue for more than a certain period, usually 90 days.

issued for the purchase of housing in new buildings at a preferential rate of up to 6%.[1]

In the short term, due to the exacerbation of the crisis, depreciation of the ruble, strengthening of inflationary processes and growing construction costs, prices on the market of new construction and secondary housing will increase. In this context, banks in partnership with developers will try to stimulate demand by expanding the discount range and offering mortgages on special terms. At the same time, inflation will depreciate household savings and keep private investors interested in investing in real estate, which will also stimulate the demand at the mortgage market.

The full potential of the Russian mortgage market will be unlocked by introducing a wide range of financial instruments, which are now being actively developed by leading players: mortgage bonds, digital lending, development of mortgage marketplaces, scaling of electronic mortgages and other products and projects. The introduction of these tools will reduce average mortgage rates, make them more affordable for the borrower, simplify and accelerate the processing of mortgage transactions, raising its affordability.

As long as the international situation and macroeconomic processes stabilize and the epidemiological situation normalizes, the recovery of the population's real disposable income will gradually raise the share of mortgages in GDP to the level of developed countries, thereby improving the housing availability indexes.

3.2.5. Credit institutions resources

Slowdown in growth rates of the volume of retail deposits was owing to the policy of low rates in H1 2021 and introduction of tax on interest on retail deposits, which came into force in 2021. Increase in the Bank of Russia key rate contributed to the growth of bank interest rates on deposits and reduced the rate of outflow of funds from fixed deposit accounts. The low level of interest rates on deposits led to a gradual redistribution of resources of individual clients, which was reflected in the growing popularity of savings accounts and further promotion of bank products related to investments in the stock market.

The funds of individuals[2] remain one of the most important resources for banks: as of January 1, 2022, they amounted to 28.8% of bank liabilities. For comparison: the funds of corporate customers — 31.5%, funds of banks — 9.8%, government funds — 7.9%, loans from the Bank of Russia — 2.3%. The share of equity capital stood at 10.1%.

The total volume of retail deposits at the end of the year reached Rb34.7 trillion, in absolute terms the growth amounted to Rb1.9 trillion, or 5.7% (on January 1, 2021, there was an increase of Rb2.4 trillion, or 8.0%).

Funds in rubles amounted to Rb27.8 trillion and the past year recorded a decrease of 6.8% (in 2020 — growth of 6.5%). Foreign currency deposits amounted to Rb6.9 trillion (up by 1.4% from early 2021, up by 13.8% in 2020 on the back

1 URL: https://xn--d1aqf.xn--p1ai/upload/iblock/063/063a1e46bc8c6bd983ae41064cbd06ed.pdf (ДОМ.РФ).

2 Including deposits and funds on accounts.

of the fall of the ruble). Despite extremely low interest rates on foreign currency deposits, the level of dollarization[1] remains the same, at the beginning of 2022, the share of foreign currency deposits in the total volume of individuals' funds amounted to 19.9% (20.7% at the corresponding date of the previous year). The stability of foreign currency deposits is ensured by two main factors: the relative stability of the ruble exchange rate and rising inflationary expectations, which restrain the flow of foreign currency deposits into ruble accounts.

Significant growth was recorded in the indicator of escrow accounts of individuals under contracts of shared-equity construction, their growth amounted to Rb1,856.4 bn, or 158.2%. The growth of this indicator is largely due to the growing popularity of mortgages and extension of state support of preferential mortgage lending.

According to the Deposit Insurance Agency, the average size of a deposit placed with a single bank amounted to Rb283,000 (excluding small deposits of less than Rb1,000). The average size of depositors' funds in escrow accounts constituted Rb5.2 mn.

The attracted funds of non-resident individuals amounted to Rb547.0 bn, having decreased since the beginning of the year by 2.0%. At the same time, funds in accounts (accounts used for settlements) gained 14.1% in the period under review, while deposits (interest-bearing savings accounts) declined by 19.9%.

The number of savings certificates is also dropping. Over the year, their value fell by 52.9% to the level of Rb5.7 bn. This financial instrument has practically lost any attractiveness owing to the introduced restrictions on transferability.[2]

The term structure of deposits has not undergone serious changes. As a year ago, the greatest demand is for funds in accounts (38.5% of total deposits), the growth of which amounted to 8.2%. This category includes savings accounts, the advantages of which are relatively high interest rates (corresponding to time deposits) and the possibility of flexible account management (the number of transactions in the form of additions and withdrawals in the absence or low level of minimum balance is virtually unlimited). The share of long-term deposits with maturity over one year accounted for 34.4% of deposits, while the reduction came to 4.8%. On these deposits banks sometimes offer relatively attractive interest rates, thus ensuring stability of the resource base at low cost of funding. *Fig. 70* shows how over the past years the interest expenses on deposits have been decreasing and at the same time the share of interest expenses on accounts has been growing.

The reduction in the total number of credit institutions leads to the insured events in the market of bank deposits. The Deposit Insurance Agency (DIA) paid insurance compensation to 155 thousand depositors for the total amount of Rb52.5 bn in 2021. Last year insured events occurred in relation to 22 banks-participants of the deposit insurance system. The Agency started paying out compensations on the sixth-seventh business day after the insured event. The current limits

1 With all deposits in foreign currencies.
2 Amendments to the Civil Code (Federal Law No. 212-FZ of 26.07.2017) prohibit the sale of bearer securities from 01.06.2018.

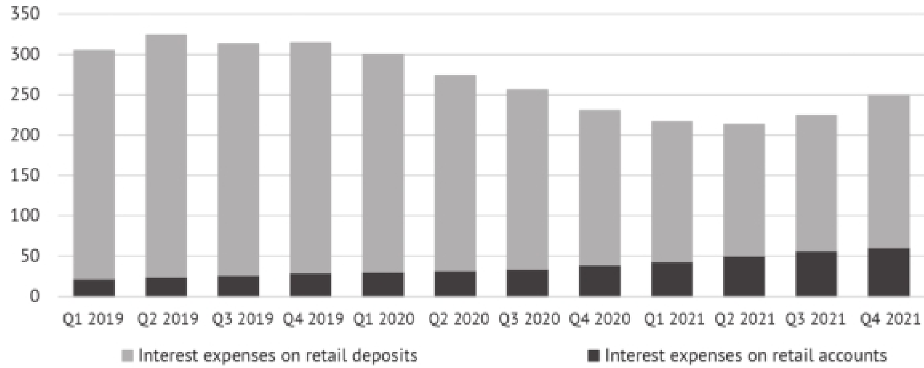

Fig. 70. Dynamics of interest expenses of banks on accounts and deposits of households in 2019—2021, Rb bn

Sources: Bank of Russia, own calculations.

of insurance coverage provided 98% of depositors with the opportunity to fully recover their funds from the mandatory deposit insurance fund.

Following the decision of the DIA Board of Directors, dated 27 April 2021, starting from Q3 2021, the basic rate of insurance premiums to the Compulsory Deposit Insurance Fund (CPIF) is raised from 0.1% to 0.12% of the estimated base. The amount of additional and increased additional rates of insurance contributions remains at the same level — 25 and 300% of the prime rate respectively. Taking into account the insignificant increase of the prime rate, this decision will not fundamentally affect the level of bank deposit rates.

No significant changes are expected in the deposit market in the absence of external shocks. At the end of 2021, the weighted average rate on retail deposits with maturities up to one year amounted to 3.86%, which is by 0.48 p.p. higher than at the end of 2020. The average rate on deposits with maturities exceeding one year increased to 5.8% (plus 1.63 p.p. against December 2020). The growth of bank interest rates associated with the increase in the key rate will probably stop the outflow of funds from the retail deposit accounts, but in the near future their real yield will be close to zero or remain in the negative zone, taking into account the expected inflation.

In the short term, there may be a slight increase in the nominal yield on deposits, which will allow balancing the outflow of funds from term deposits to savings accounts. In this context, credit institutions will be able to stabilize the structure of their resource base, as well as to reduce interest and liquidity risks.

On the whole, the bank policy with regard to household deposits will remain unchanged: low interest rates on household deposits will be combined with the active promotion of investment services, which, in particular, include trust management of client assets (for instance, investments in mutual investment funds), brokerage services (clients' independent purchase and sale operations with various financial instruments in the Russian stock market and in foreign markets), as well as various structural (comprehensive) services. On the one hand, conservatism of the population in the form of adherence to traditional products will contribute to maintenance of high volumes of funds on bank deposits and accounts, which will allow banks to continue optimization of interest expenses and increase profits. On the other hand, a gradual transition to investment banking products (mutual funds, individual investment accounts, brokerage accounts, etc.) will give banks an opportunity to diversify market risks and, at the same time, to increase their commission income on trade and intermediary operations. Another task for the bank management will be to restore customers' confidence in the structured products developed in previous years; with an increase in their transparency, banks will be able to resume offers of investment (ILI)[1] and accumulative (ILA)[2] life insurance, contributing to an increase in the long-term resource base.

1 ILI is a mixed investment and insurance product, a combination of life insurance and investments in shares and bonds of Russian issuers.

2 ILA is a long-term investment program that combines two tools: insurance protection and accumulation of money.