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The review “Russian Economy. Trends and Outlooks” has been published by the Gaidar Institute since 1991. This is the 44th issue. This publication provides a detailed analysis of main trends in Russian economy, global trends in social and economic development. The paper contains 5 big sections that highlight different aspects of Russia’s economic development, which allow to monitor all angles of ongoing events over a prolonged period: the monetary and budget spheres; financial markets and institutions; the real sector; social sphere; institutional changes. The paper employs a huge mass of statistical data that forms the basis of original computation and numerous charts confirming the conclusions.

Reviewer:

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Russian banking sector in 2022¹

2.3.1. Key indicators and financial performance of the banking sector

At the end of 2022, there were 361 credit institutions in the Russian banking system. A year earlier their number amounted to 370 units (a decrease by 9 units during the year, in 2021 — by 37 units). There were 3 revocations of licenses (in 2021 — 26), the number of voluntary revocation of licenses came to 9 (in 2021 — 11). There were 225 banks with universal license as of the end of the year (232 banks as of the beginning of the year) and 101 banks with the basic license (103 banks as of the beginning of the year). The number of non-bank credit institutions was 35, the same as in the previous year (*Fig. 57*).

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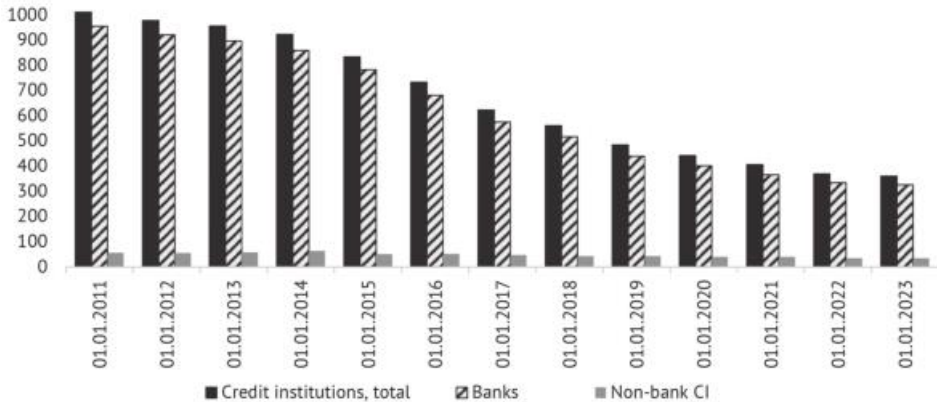


Fig. 57. Dynamics of the number of credit institutions over the last 12 years

Source: Bank of Russia. URL: https://cbr.ru/statistics/bank_sector/lic/

A slight reduction in the total number of banking credit institutions was accompanied by consolidation of the banking sector. 2022 saw an increase in assets, (information on equity and profit is not published). Due to the rapid recovery of the economy, total assets of credit institutions last year increased by 14.7% (in 2021 the increase amounted to 15.9%). Thus, the growth rate of assets remained approximately at the level of the previous year.

Over January-June, the losses of the banking sector exceeded Rb1.5 trillion, the negative financial result is largely due to the Western sanctions against the largest Russian credit institutions, revaluation of currency positions due to a sharp change in the exchange rate of the ruble, as well as the outrunning growth of funding costs over the return on assets due to the growth of the key rate. In H2 2022, as the economic situation stabilized, the aggregate loss gradually decreased, and at the end of the year the banking sector recorded a profit at the level of Rb203 bn, the share of profitable credit institutions stood at 78%.

2.3.2. Corporate lending

The aggregate credit indebtedness of corporate borrowers to Russian banks as of January 1, 2023 reached Rb50.8 trillion. The increment of the corporate credit portfolio in 2022 reached Rb8,110.3 bn, or 19.0%. A year earlier, the corporate credit portfolio of Russian banks increased by Rb5,492.2 bn, or 14.7%. The record growth of the corporate credit portfolio was largely ensured by the replacement of external borrowings by the corporate sector. A significant role was also played by the provision of state subsidies, which were allocated to support systemic enterprises affected by sanctions. During the past year, banks provided loans under this program in an amount exceeding Rb1.5 trillion. Businesses were given loans at 10—11% of the amount up to Rb10 bn, up to Rb30 bn — for holding structures.

Another factor was the support of project financing of developers with targeted loans of Rb2.2 trillion at concessional interest rates (4—5% per annum), secured by the balance of the buyers of housing on escrow accounts.

However, the volume of loans provided last year amounted to Rb 65.9 trillion, which is 23.1% less than in 2021 (Rb85.6 trillion), the decrease in the volume of loans in rubles (Rb58.2 trillion against Rb77.1 trillion in the previous year), the issue of foreign currency loans has decreased by 10.7% (Rb7.6 trillion against Rb8.6 trillion in 2021). Thus, we can conclude that the growth of the total loan portfolio of legal entities with a decrease in the volume of granted loans is due to the restructuring of debt (provision of vacations, credit extensions) in the context of the financial crisis associated with the geopolitical conflict. The total volume of restructuring, according to the Central Bank of Russia, amounted to Rb13.4 trillion, or 23% of the corporate loan portfolio.¹ Banks were actively restructuring loans to large businesses, SMEs and individual entrepreneurs² as part of the plan of priority actions to ensure the development of the Russian economy under external sanction pressure, both under the state and their own programs.

The level of overdue debt declined by 2.2% compared to the beginning of the year (the previous year growth was 21.4%) and reached Rb2.8 trillion, which is 5.5% of the total credit portfolio (a year ago — 6.7%) (*Fig. 58*). These figures indicate some improvement in the quality of the loan portfolio, which, however, is largely due to the indulgence of the Central Bank, in particular, the permission not to reflect the deterioration of the quality of loans, if the borrower has problems

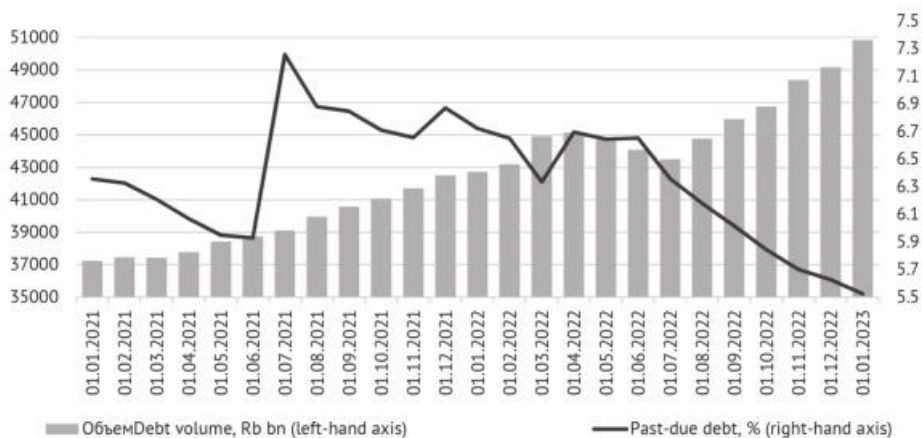


Fig. 58. Corporate lending dynamic and past-due debt in 2021–2022

Sources: Bank of Russia, own calculations.

¹ URL: https://www.cbr.ru/Collection/Collection/File/43816/analytical_review_bs-2022.pdf

² Called up for military service by mobilization in the Armed Forces of the Russian Federation or contracted on a voluntary basis to perform the tasks assigned to the Armed Forces of the Russian Federation.

due to restrictions associated with sanctions imposed by Western countries. Another factor in improving the quality of the loan portfolio was an increase in the volume of transactions for the sale of bad debts on the securities market, as well as some large write-offs of bad debts.

The sectoral structure of corporate loans did not undergo significant changes compared to the previous year. The leaders in terms of debt as of January 1, 2023 are manufacturing companies (Rb12.6 trillion, or 24.8% of the total corporate debt), financial and insurance companies (Rb8.3 trillion, or 16.2%), and wholesale and retail trade companies (Rb5.4 trillion, or 10.7%).

At year-end 2022, companies engaged in financial and insurance activities are leading by volume of attracted loans (Rb20.7 trillion, or 31.4% of the total amount of loans), the wholesale and retail trade (Rb14.4 trillion, or 21.9%) and manufacturing businesses (Rb11.9 trillion, or 18.1%).

The rise of market rates after the increase of the key rate to 20% at the end of February, as well as more cautious approach of banks to the selection of borrowers against the backdrop of growing uncertainty about the financial stability of enterprises led to a decrease in the volume of corporate credit debt during March-May 2022. This decline was especially noticeable in foreign currency loans. Further, some support to corporate borrowers was provided by the state programs of concessional lending to systemic enterprises (industry, trade and agro-industrial complex), adopted by the RF Government, which provided for the origination of loans worth about Rb1.4 trillion.¹

Since June there has been a gradual adaptation of enterprises in a wide range of industries to structural changes in the economy, which led to a revival of economic activity and a partial recovery in the volume of corporate lending. Despite the fact that the volume of lending never returned to the 2021 level, in general, we can conclude that the crisis is over and, in the absence of new shocks, about the growth of corporate lending in 2023. In particular, the market stabilization is indicated by the fact that some changes were recorded in the term structure of corporate lending – while the overall lending grew the volume of short-term lending contracted (up to 6 months) and went up the share of long-term loans (over 1 year — to 70.5% against 68.9% by the end of 2021).

The changes taking place (aggravation of the geopolitical conflict and international situation, “partial mobilization”) increase the rate of uncertainty in the sphere of corporate business. Despite the fact that, in general, the banking sector has managed to adapt to the ongoing changes and maintain the volume of lending in the context of aggravating credit risks, the potential threat in the form of accumulation of bad debts is still relevant. It cannot be ruled out that the banking sector may face a delayed effect of sanction pressure on Russian business, which, in turn, will lead to veiled accumulation of bad loans in bank balance sheets. In this regard, the government and the Central Bank need to develop additional macroprudential regulation measures and, possibly, new programs to support enterprises through concessional lending.

¹ RF Government Decrees of 16.03.2022 No. 375 and of 17.03.2022 No. 393, RF Government Edict of 18.03.2022 No. 532-p.

In recent months, the Russian government and the Central Bank have managed to neutralize banking risks and maintain the level of lending to the corporate sector. However, the high concentration of corporate liabilities is still a potential source of systemic risk for the domestic banking sector. In the near term, measures will be needed to encourage diversification of the corporate loan portfolio of banks, which, in turn, will largely depend on the development of small and medium-sized enterprises, as well as on the implementation of the country's competition and antitrust strategy.

2.3.3. Retail lending

As of January 1, 2023, the total volume of retail bank loans hit Rb26.9 trillion. Over the past year, the volume of lending increased by Rb2.4 trillion, or 9.7%, which is significantly lower than the increase in 2021 (Rb4.6 bn, or 22.9%).

The increase in the total retail loan portfolio is ensured primarily by mortgage lending (increase — 17.5%), while the volume of debt on consumer loans has grown merely by 2.7%, and the debt on car loans has decreased by 3.8%.

The growth in the volume of retail debt is entirely in the ruble segment — the volatility of the ruble, high currency risks and a significant reduction of payments in dollars and euros have led to a virtually complete rejection of foreign currency loans, which during the year dipped by 53.5% (in 2021 the downturn was 22.5%) and amounted to only Rb22.0 bn.

During the past year, the dynamics of interest rates on loans was unstable and was determined by political events and administrative decisions of the Central Bank. The record burst of interest rates was recorded in late February — early March, when the Bank of Russia decided to hike its key rate to 20%. Subsequently, as the monetary policy was softening and the key rate was reduced, banks were cutting interest rates on retail loans. However, in September, after the decision to start “partial mobilization”, there was a growth of interest rates on retail loans again, which was reflected in short-term lending rates (*Fig. 59*)

Since the beginning of 2022, the increment in past-due debt amounted to 14.7%, its total volume hitting Rb1,083.7 bn (*Fig. 60*). The share of past-due debt in the credit portfolio has grown insignificantly and as of January 01, 2023 comes to 4.0%, while a year ago this figure was 3.8%. The NPL90+ is also relatively low at 8.8%, which is less than in the crisis year of 2020 on the back of epidemiological factors. However, despite the relatively high quality of the loan portfolio, the Central Bank in Q3 2022 recorded alarming signals:¹ the growth of the volume of lending to borrowers with high non-performing loans (NPL)² (such level is considered the NPL above 80%) by 4 p.p. to 32%, as well as the growth of Payment-to-Income Index³ (PTI) by 14 p.p. to 42%. These indicators may show the hidden nature of the issues in the field of credit policy of banks and the potential growth of arrears in the future.

1 URL: https://www.cbr.ru/Collection/Collection/File/43512/2q_3q_2022.pdf

2 Debt load ratio is calculated as the ratio of the average monthly payments of the borrower on all credits and loans (including the requested credit) to the average monthly income of the borrower.

3 Payment-to-income index calculated by credit institutions according to their own methods.

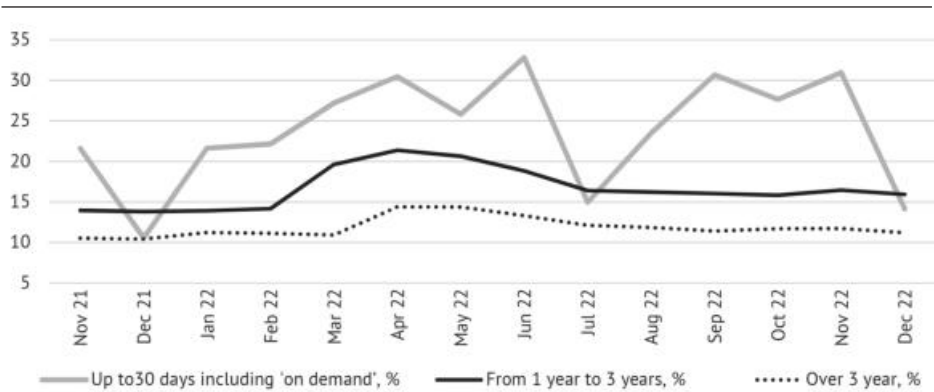


Fig. 59. Weighted average interest rates on loans provided by credit institutions to individuals in rubles, %

Source: Bank of Russia.

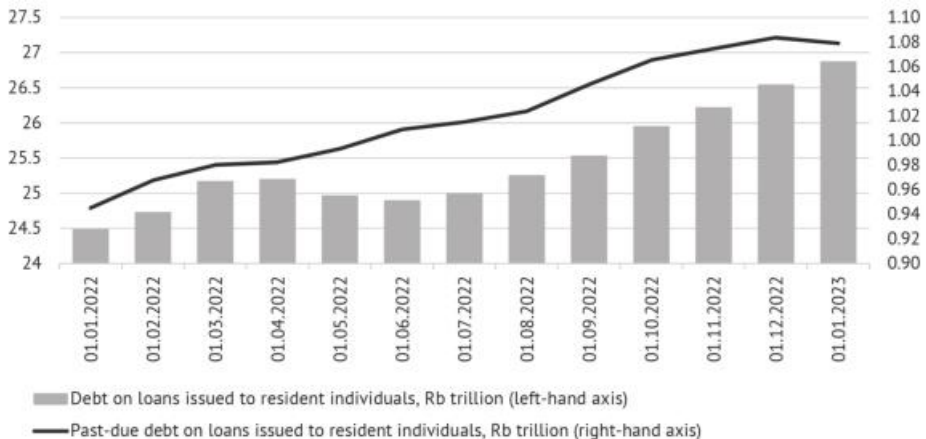


Fig. 60. Total debt and overdue debt on loans to resident individuals, Rb trillion

Source: Bank of Russia.

Last year banks approved credit applications from citizens less frequently: according to the National Bureau of Credit Histories (NBKI),¹ during the analyzed period, banks approved only 26% of citizens' applications for a loan, which is 7 p.p. lower than the corresponding index of 2021. Decreased level of approval of credit applications indicates a more cautious credit policy of banks in terms of political and financial instability. The main reasons for refusal: bad credit history (or lack thereof), low personal credit rating (PCR) and high debt burden of borrowers relative to disposable income.

1 URL: <https://nbki.ru/company/news/?id=1567769>

Given that by the end of 2022, the average number of retail loans per borrower in Russia amounted to 2.3 loans (an increase of 0.1 unit as compared with the end of 2021),¹ we can conclude that the banks' customer base currently does not have prospects for growth and in a tightening of bank lending standards even with a high demand for credit, the number of borrowers will stagnate, this, in turn, may lead to over credit borrowers with a relatively high personal credit rating and acceptable level of debt.

Due to the fact that the growth of debt overburden in the context of financial and economic instability can create additional macroeconomic risks and in the future affect the sustainability of the banking sector, the Board of Directors of the Central Bank decided to establish quantitative limits on issuing unsecured consumer loans in Q1 2023.²

In accordance with the decision of the Bank of Russia, the limit for loans with a DLR of more than 80% will be 25% of the total volume of consumer loans. At the same time, the volume of consumer loans originated with 5-year maturity should not exceed 10%.

The introduction of macroprudential limits will restrict the growth of consumer indebtedness by discouraging lending to borrowers with a high debt load and artificially lengthening the term of loans, which will make the structure of consumer lending more balanced, while not creating additional requirements to the capital of banks.

This limitation is set only for banks with a universal license. For banks with a basic license the introduction of such limits is inexpedient due to their insignificant contribution to the debt load of the population.

The decision on the possible extension of this limitation for Q2 2023 will be considered by the Central Bank in February 2023, taking into account the dynamics of the debt load of the population and lending standards.

In the meantime, the Central Bank prepared draft amendments to Directive 5782-U, aimed at expanding the ability of banks to use the model approach to assess the income of the borrower for the purposes of calculating the DLR.³ This decision can be regarded as a loosening, which would allow banks to vary their own methods and in some cases make credit more accessible to borrowers with ambiguous financial situation. It is assumed that banks will be able to calculate the NPL for consumer loans using internal models for assessing income after the validation of these models in the Central Bank.

In general, the aggregate retail loan portfolio increased in 2022 despite the crisis. This is largely due to the stable development of the banking system in the previous crisis years, as well as the fact that in the context of stagnating incomes of the households faced a shortage of funds to cover expenses and have a need for borrowed funds to maintain the previous level of consumption. Besides, in the periods of crisis aggravation and growth of inflationary expectations, there is an increased demand for consumer goods and, accordingly, a demand for bank loans.

1 URL: <https://nbki.ru/company/news/?id=1597722>

2 URL: <https://www.cbr.ru/press/pr/?file=638046460634914087FINSTAB.htm>

3 URL: <https://www.garant.ru/products/ipo/prime/doc/405654369/#review>

Taking into account the aggressive lending policy of some banks in the context of rather high competition and at the same time low potential for expansion of the client base, this fact may negatively affect the quality of credit servicing in the nearest future. In general, the Central Bank’s decisions to cool the consumer lending market in early 2023 look timely and will allow banks to maintain the quality of their loan portfolios at the required level.

2.3.4. Mortgage lending

As of January 1, 2023, the aggregate portfolio of mortgage housing loans (MHL) amounted to Rb13.8 trillion. The increase in the aggregate portfolio for the year amounted to Rb2.0 trillion, or 17.5%, which is somewhat lower than the respective index for 2021 (at that time the mortgage loan portfolio increased by Rb2.5 trillion, or 26.6%). Despite the decrease in the market growth rate, the share of the debt on mortgage housing loans in the total debt on retail loans increased throughout the year and reached 51.5% (47.5% by the end of 2021).

During the past year 1.5 million mortgages worth of Rb4.8 trillion were originated, the respective figure for the previous year was 1.9 million loans worth of Rb5.7 trillion; the reduction amounted to 15.6% (*Fig. 61*). The structure of originations has undergone some changes: under the effect of the extension of state programs with lower interest rates, the volume of mortgage loans on the primary market (MHL under co-investment contract) amounted to 42.9% of the total volume of originations (in 2021 the figure came to 33.1%).

Almost all transactions were concluded in the ruble segment; the total volume of mortgage loans extended in foreign currency in 2022 amounted to Rb77 mn. During the year, the debt on MHL in foreign currency decreased by Rb8.8 bn to Rb6.7 bn (less than 0.1% of the total MHL portfolio). Foreign currency loans will

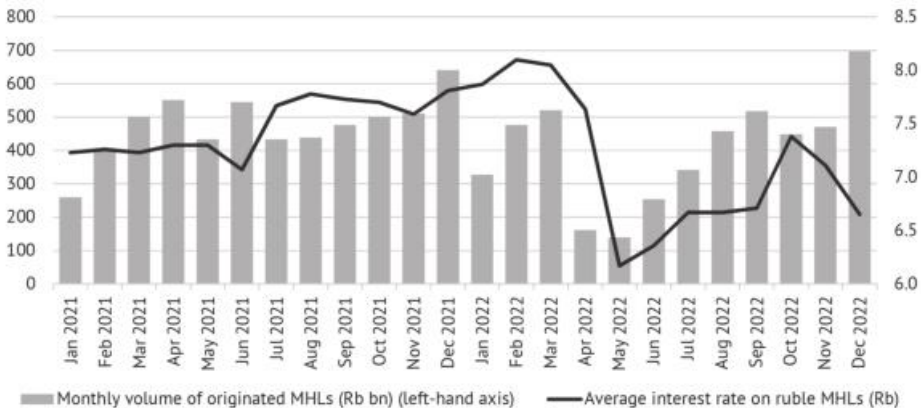


Fig. 61. Dynamics of monthly lending volumes and interest rates in the housing mortgage lending market in 2021–2022

Source: Mortgage housing lending. URL: <https://www.cbr.ru/statistics/pdco/Mortgage/ML/>

remain unprofitable due to the barrier add-on to the risk ratios (from 200% and higher depending on the total cost of credit).

The average size of mortgage loan for the year went up by 18.6% to Rb3.95 mn (at the end of 2021 — Rb3.33 mn), which also contributed to the growth in housing prices at the primary (for the year increased by 37.3%) and the secondary market (the annual increase — 23.1%).

The weighted average loan term has increased, in December it was 311.3 months, and a year earlier — 262.8 months (an increase of 18.5%). The increase in the term of the loan allows to reduce the monthly debt burden on borrowers, thereby reducing the risk of loan defaults.

A positive 2022 trend is the growth in the volume of securitization transactions. This type of operations allows banks to unload their balance sheets and obtain additional liquidity for lending. In 2023, the volume of securitization may increase due to securities with privileged mortgages as the underlying asset. However, the rapid growth in securitization of mortgage assets leads to an expansion of the market and the hyperactivity of banks in mortgage lending, which in turn will lead to an increase in the volume of the portfolio at the expense of loans of dubious quality. Moreover, the secondary mortgage market may become a source of crisis, as it was in the U.S. in 2006—2007.

The quality of the loan portfolio remains at an acceptable level — overdue debt over the past year shrank by 8.4% and as of January 1, 2023 amounted to only 0.4% of the total debt on MHL (0.6% as of the beginning of 2022), which is much lower than in other types of bank loans (from 4 to 7%). The share of non-performing loans (NPL 90+) also remained at a minimum level — about 0.7%.

The average weighted interest rate on mortgage loans in the primary market fell to 4.3%, which is generally lower than in 2021 and was ensured by the softening of the monetary policy of the Central Bank of Russia (a decrease in the key rate), implementation of partnership programs of major developers and banks at rates from 0.01 to 2% (the rate is subsidized by the developer through selling the apartment at a higher price) and renewal of preferential mortgage programs for the population with relatively low interest rates.

On the secondary market, the opposite rate dynamic was observed. However, no significant growth was recorded; the increase in rates during the sharp aggravation of the geopolitical conflict and the imposition of anti-Russian sanctions on loans offered led to a drop in the volume of loans. In general, by the end of the year the rate rose to 9.3%, which is higher than in 2021 by 1 p.p.

During the year, in order to stimulate mortgage lending, the government took a number of measures concerning the reformatting of the state preferential programs. As a result, plans for curtailing preferential mortgage lending were revised, and at the end of 2022, the preferential mortgage on new buildings was extended until July 1, 2024. Under the new conditions, the rate on loans increased from 7 to 8%, the loan amount went up to Rb12 mn for Moscow and St. Petersburg, in other regions — up to Rb6 mn (the loan amount may be increased to Rb30 mn and Rb15 mn respectively, using other mortgage programs), the amount of down payment — 15%. Since 2023, family mortgages became available to parents with

two children or more under the age of 18 years on the date of the contract. The annual rate under the program — 6%.

One of the main innovations was the launch of a preferential mortgage program for the construction of private houses by private housing construction, without a contract with professional developers. Despite the mortgage market slowdown, the volume of mortgages on private housing projects and ready-made houses in 2022 increased by 8% to the level of 2021.

Another stimulus for the development of the mortgage market was the introduction of a mortgage program for IT specialists at the rate of 5% with a down payment of at least 15%. However, this program is not yet in demand due to complicated loan conditions and the availability of IT corporations' own mortgage programs. In total, at the end of 2022 in Russia under the program 5 thousand loans were originated worth of Rb44.79 bn.¹ In December 2022, the Russian Government reduced the plan for granting preferential mortgages for IT specialists.

In the process of fighting for clients, banks develop new marketing solutions, while taking on additional risks. In the past year, the “mortgage with a passport” program was especially popular. The essence of the program is that the borrower does not need to confirm employment or income. As a rule, it is applied to transactions with ready-made real estate. Such practice is fraught with risks, since a full analysis of client's creditworthiness is not carried out, which can lead to inadequate assessment of the borrower and possible issues with loan repayment.

Another area that banks are exploring is digital mortgages. The introduction of digital services in the mortgage process makes it possible to reduce the time for its implementation, simplify the procedure of evaluation, registration and insurance of real estate and to obtain a loan without visiting the office (with electronic signature and biometric characteristics of the client). However, in this connection the operational risks are actualized — the digital transformation can be accompanied by a violation of communication between software developers, front-office specialists and decision-makers. In the near future, the Central Bank will have to take measures to curb the possible negative consequences of a hasty and unsystematic digitalization of the banking sector.

Another trend of the past year was the growing influence of ESG² on the Russian banking sector. At the initiative of the Central Bank, it is proposed to launch a new type of housing loan — a “green” mortgage, which is a subsidy for the purchase of housing in houses that meet green building standards. The program may be tested in the Far East as part of the existing state mortgage subsidy program.

At the suggestion of the President of the Russian Federation, the government is launching a new tool to support industrial enterprises — industrial mortgages. Russian organizations will be able to obtain long-term preferential loans for the purchase of industrial real estate. It is planned that loans will be issued for up to 7 years at a preferential rate of 5% per annum, while for innovative technology

¹ URL: https://www.kommersant.ru/doc/5864435?from=top_main_1

² ESG – Environmental, Social, and Corporate Governance.

companies the rate will be even lower — 3%, the upper limit of industrial mortgages is proposed to be set at Rb500 mn.

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, development of mortgage marketplaces, introduction of blockchain technology and other products and processes. The introduction of these tools will optimize banking business processes, simplify and accelerate the processing of loan transactions, which will translate into lower rates and increase the affordability of mortgage loans for a wide range of borrowers.

At present, in the context of such negative phenomena as GDP decline, high inflation, reduction of real incomes of the population, the government and the regulator should promote the development of the mortgage market not only to stimulate its further growth, but also to increase the affordability of housing. In general, mortgages improve the welfare of the population by improving housing conditions, motivate citizens to maintain high incomes by entering into long-term credit relations, and facilitate labor migration. However, forcing the growth of lending through low interest rates, abolishing the initial payment, simplifying the procedure of issuing credit and reducing monthly payments is dangerous, because of the high credit risks, the accumulation of imbalances that can lead to a mortgage bubble. In this regard, in the near future, the Central Bank will continue to build a comprehensive system of regulation of the mortgage market. As the political and macroeconomic situation stabilizes, the gradual reduction of state subsidized programs and the transition of mortgage lending to market principles is possible.

2.3.5. Bank resources

The main resource of credit institutions still remains the funds of clients (individuals and legal entities) in bank accounts and deposits. At the end of the year, the total amount of customer funds amounted to Rb97.1 trillion, having increased since the beginning of the year by 13.0%. This is slightly lower than the same indicator for 2021, which recorded an increase of 16.5%.

The total volume of retail funds (excluding funds in escrow accounts) as of January 1, 2023 hit Rb36.8 trillion, an increase of Rb1.9 trillion, or 5.5% in absolute terms, which corresponds to the data for 2021 (an increase of Rb1.9 trillion, or 5.7%). The total annual growth is almost entirely provided by the December increase when the households' funds moved up by Rb2.5 trillion. This growth is due to the advance payment of pensions and social benefits. Seasonal inflow of funds to deposits in December 2022 was more intense compared to December of the previous year.

The total amount of funds in deposits of legal entities (excluding the funds of government agencies and individual entrepreneurs) during the past year has grown more significantly — by Rb5.1 trillion, or 20.9%, to the level of 29.3 trillion rubles, which also corresponds to the rate of 2021 (an increase of Rb4.2 trillion, or 20.9%).

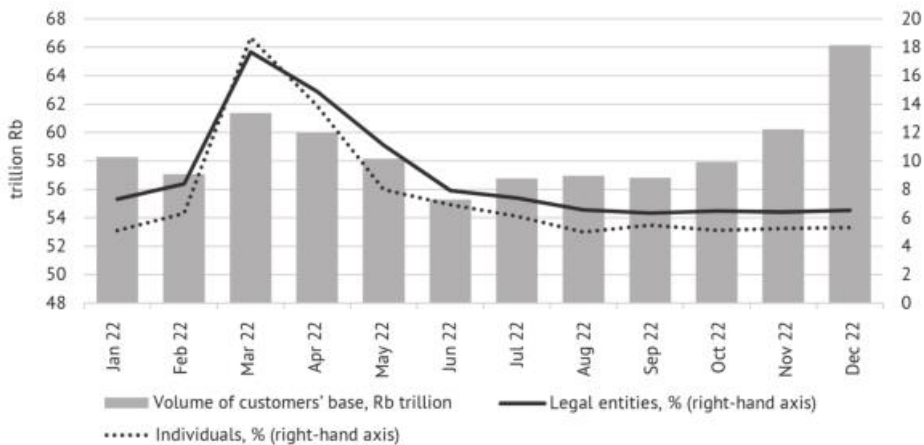
Against the backdrop of record high rates of money emission, balances in settlement and current accounts of corporate clients continued to grow in 2022. Over the year, they rose by Rb3.0 trillion (by 19.2%), reaching Rb18.5 trillion, which repeats the growth dynamic in 2021 (by Rb2.5 trillion, or 18.9%).

During 2022, the term structure of client funds changed in favor of short-term deposits. Individual customers have significantly (by 30.4%) reduced investments in medium- and long-term deposits (over 1 year) to the level of Rb7.9 trillion, which, as of January 1, 2023 amounted to only 21.6% of the total volume of individuals' deposits (a year ago, the volume of deposits with the term of 1 year or more amounted to Rb11.4 trillion, or 32.8% of the total volume). The maximum increase in short-term deposits was recorded on the terms of 3 to 6 months.

The structure of corporate deposits changed in a similar way. The reduction of deposits over 1 year amounted to 14.6%, and their value in the total volume declined to 23.3% (32.0% at the beginning of the year). The greatest demand was for short-term deposits of 1 to 3 months (an increase of 85.5%).

Funds in escrow accounts continued to grow last year and hit Rb4.0 trillion. However, the growth rate nosedived markedly (32.7%) compared to the previous year (157.9%), which is due to the mortgage market slowdown.

A sharp increase in the key rate to 20% at the end of February 2022 contributed to the growth of interest rates (the maximum yield on some proposals reached 24% per annum, *Fig. 62*). The interest of bank customers in fixed-income instruments



* For December – own estimates.

Fig. 62. Dynamics of interest rates on short-term (up to 1 year, including “on demand”) deposits of individuals and legal entities* and the total volume of banks’ debt on deposits of individuals and legal entities at the end of the month in 2022

Source: Bank of Russia. URL: https://cbr.ru/vfs/statistics/BankSector/Borrowings/02_01_Funds_all.xlsx и URL: <http://www.cbr.ru/Collection/Collection/File/43719/Bbs2301r.pdf>

increased significantly, as well. Also, the abolition of personal income tax on bank deposits income and accounts received in 2021 and 2022 (the tax on bond coupons was retained) contributed to a shift in interest in favor of retail deposits. The decline in the Russian securities market, as well as sanctions against National settlement depository (NSD)¹ and major brokers largely undermined confidence in the stock market, which contributed to the outflow of funds from brokerage and trust management accounts to term and savings deposits. Last year the geopolitical and economic uncertainty forced Russians to adhere to the savings model of consumer behavior and to accumulate savings. Overheating of the mortgage market and declining interest in real estate investments, which, like the stock market, are an alternative to bank deposits, played their part on the behavior of individual clients.

Funds of individual customers in rubles reached Rb32.7 trillion, an increase of 17.8% over the year, while in 2021 the growth was markedly lower — 6.8%. Foreign currency deposits fell to Rb4.1 trillion (the fall over the year — by 42.8%, in the previous year — an increase of 1.4%). Currency deposits of legal entities were in a similar vein, their decline over the year constituted 20.9% (as opposed to the growth of 6.3% in 2021). In 2022, the share of ruble funds in the total amount of the customers' funds on deposits rose from 76.8% to 86.0%.

The reduction in foreign currency deposits was partially due to the outflow of funds abroad on the back of the imposition of Western sanctions and the disruption of the usual investment formats: investments in securities of Western countries became unavailable to Russian investors. Russian banks due to the lack of opportunities to place foreign currency funds in Western banks-counterparties reduced rates on foreign currency deposits almost to zero values. At the same time, additional commissions were introduced for servicing foreign currency accounts. Customers were thus forced to convert their foreign currency deposits into ruble deposits or to keep their foreign currency funds in cash. During the year, the Central Bank twice raised mandatory reserve requirements in respect of liabilities in foreign currency (from August 1, 2023 to 5% of the liability), which also reduced the attractiveness of borrowing in foreign currency for the banks. Another factor in the devaluation of client deposits was the strengthening of the ruble against the dollar and euro against the beginning of the year.

In Q1 2022, major banks with state participation incurred losses owing to the sanctions imposed on them, which provide for asset freezing. In general, the Russian banking system faced a serious indirect impact of sanctions in the form of asset impairment, growth of credit and other financial risks. In this connection, the issue of the need for systemic additional capitalization of the banking sector has become more relevant. According to estimates of the Central Bank of Russia, the total need for additional capitalization amounted to about Rb700 bn.² However, during the year banks successfully pursued a policy of risk minimization and

1 National settlement depository – central depository of Russia, keeps records of ownership rights to Russian securities, makes settlements on transactions, performs functions of safekeeping foreign securities, and is a paying agent for Russian eurobonds.

2 URL: <https://www.forbes.ru/finansy/481880-cb-ocenil-vozmoznuu-potrebnost-bankov-v-dokapitalizacii-v-700-mlrd-rublej>

carried out active measures to replenish capital, interacting with their owners on the issues of additional capitalization. Last year, 29 banks received additional capitalization, the total volume of the authorized capital increase amounted to 180 billion rubles, mainly at the expense of additional issues and other investments in the capital.

At year-end 2022, Russian banks recorded a net profit of Rb203 bn, driven by growth of interest and commission income amid falling interest rates, the recovery of business activity in H2 2022, as well as regulatory easing by the Central Bank. At present, systemic additional capitalization of the banking sector is not required, and we can talk about “point solutions” for individual banks in the form of financial support from shareholders.¹

In 2023, in the absence of new shocks, a large-scale outflow of funds of citizens is not expected, which will allow banks to maintain a stable positive trend in customer deposits. The likelihood that confidence in the stock market will be fully restored in the near future is low due to the instability of political and geopolitical factors. Meanwhile, the government forecasts an increase in the real incomes of its citizens. Under such conditions, instruments with fixed yield in the presence of the state deposit insurance system will remain the most attractive form of placement of free assets due to the lack of more profitable and reliable alternatives.

1 URL: <https://tass.ru/ekonomika/15627499>