

RUSSIAN BANKING SECTOR IN FEBRUARY 2013

M.Khromov

In February 2013, after the January reduction, the growth of bank assets was resumed. Dynamics of loans remained rather moderate: the main growth of banks' assets was due to the increased inflow of foreign assets.

Total assets of the banking sector have decreased¹ in February 2013 by 1.1%. Herewith, the annual growth rate made 19.2%, which is by 1.1 p.p. more than in the preceding month. In our view, it is premature to speak about the turnover in the medium-term trend of slowing assets growth; it takes several months of observation over the acceleration of the annual growth rate indicators of bank assets to come to such an opinion.

The growth rate of the banking sector equity in February has decreased to 0.8%, the volume of statutory and additional capital has increased over the month by 0.3%. Therefore, the main sources of growth in assets in February were the banks' raised funds, the amount of which has increased by 1.6%.

In February the total profit of the banking sector amounted to only Rb 71bn. This corresponds to the return on banking assets of 1.7% per annum, and the return on equity of 15% in annual terms. Note that these values were much lower than the average performance indicators over

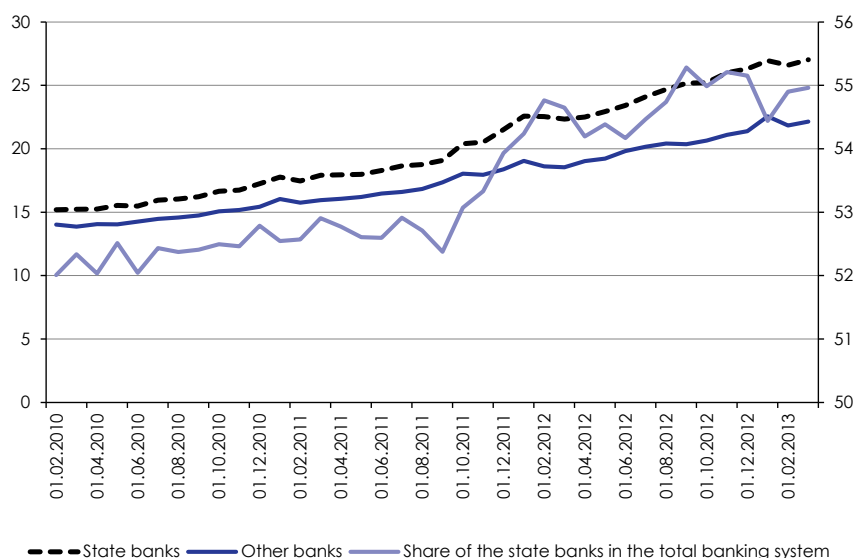


Fig. 1. Banks' assets dynamics

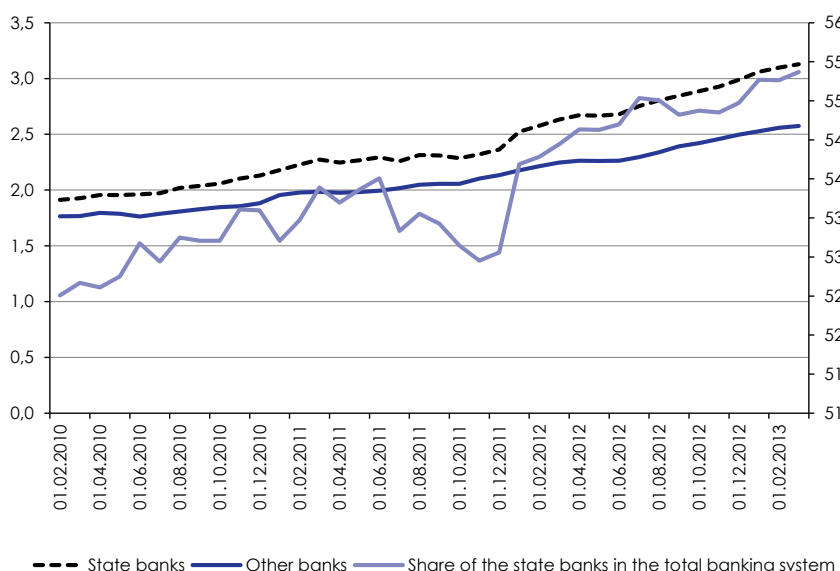


Fig. 2. Banks' equity dynamics

¹ Hereinafter growth rates of balance sheet are adjusted for exchange rate revaluation of foreign currency component, unless otherwise indicated.

the past 12 months (ROA – 2.2%, ROE – 18.7%). Herewith, as in January, a significant share of the banking sector profit was allocated for the formation of reserves for possible losses, the value of which increased by Rb 35bn (against Rb 46bn in January). Reserves extension may be a consequence of both, general deterioration in the assets' quality, and tighter regulations on the part of the Bank of Russia. In both cases, if this trend is sustained, it will have a deterrent effect on the growth of lending to the real sector of the economy.

Raised funds

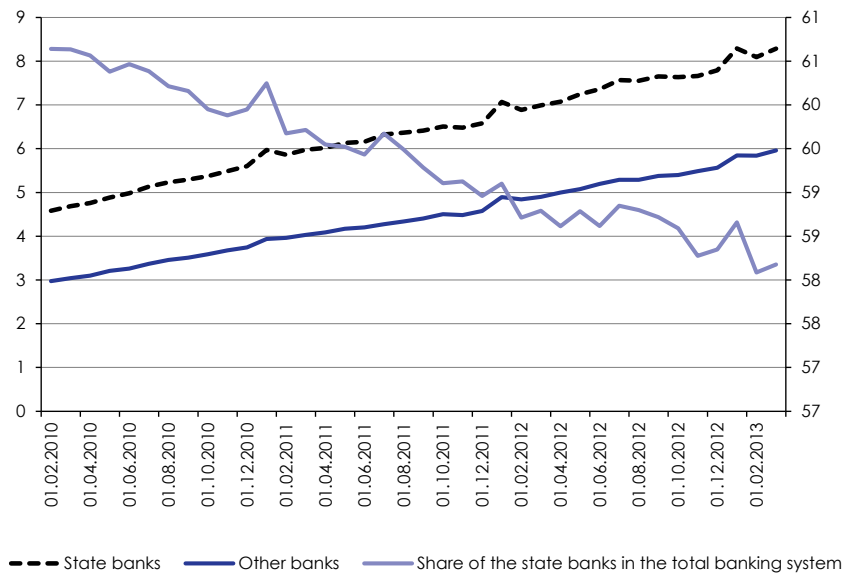


Fig. 3. Dynamics of individual deposits with the banks

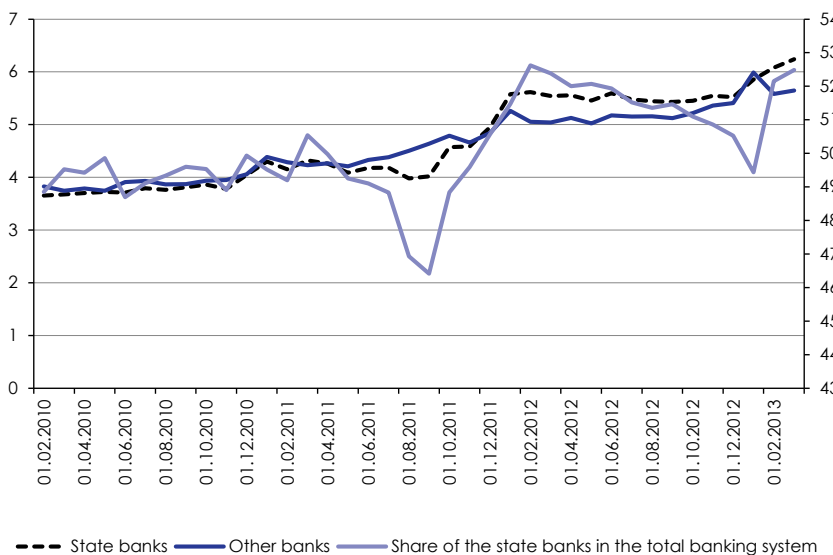


Fig. 4. Dynamics of corporate clients' deposits

growth of the corporate clients' funds in the accounts was in the term deposit and accrued interest. As opposed to that, current accounts have somewhat decreased – by Rb 30bn. As a result, the share of term deposits in the total volume of corporate customers reached 52%. For more than a year the share of term deposits of enterprises and organizations makes more than a half of corporate clients' funds.

Funds in accounts and deposits of individuals in February resumed their growth, having increased over the month by Rb 265bn or by 1.9%. The annual growth rate in the past three months remained stable at about 19%. The volume of ruble funds of individuals with the banks has increased in February by 2.3%. Funds denominated in foreign currency have remained almost unchanged, their dollar equivalent has declined by 0.3%.

The funds of corporate clients not belonging to the banking sector in the bank accounts in February increased by 1.6% (Rb 186bn). The annual growth rate has reached 11.4% as compared with 9.6% in February. Meanwhile, we can only note the failure of the January gap recovery: the amount of funds in the accounts of organizations on March 1 was only by 0.2% higher than at the beginning of the year. The annual growth rates still significantly lag behind even the fall of 2012, when they reached 15–17%, not to mention the earlier periods – in early 2012 they accounted for 24–26%.

In February the entire growth of the corporate clients' funds in the accounts was in the term deposit and accrued interest. As opposed to that, current accounts have somewhat decreased – by Rb 30bn. As a result, the share of term deposits in the total volume of corporate customers reached 52%. For more than a year the share of term deposits of enterprises and organizations makes more than a half of corporate clients' funds.

Table 1

STRUCTURE OF THE RUSSIAN BANKING SYSTEM LIABILITIES
(END OF MONTH), AS % OF TOTAL

	12.07	12.08	12.09	12.10	12.11	03.12	06.12	09.12	12.12	01.13	02.13
Liabilities, Rb bn	20125	28022	29430	33805	41628	41533	44266	45861	49510	48429	49165
Own assets	15.3	14.1	19.3	18.7	16.9	17.5	16.8	16.9	16.2	16.8	16.7
Loans of the Bank of Russia	0.2	12.0	4.8	1.0	2.9	3.5	5.1	5.1	5.4	4.5	4.5
Interbank operations	4.1	4.4	4.8	5.5	5.7	5.1	4.8	5.1	5.6	5.4	5.4
Foreign liabilities	18.1	16.4	12.1	11.8	11.1	10.2	11.3	11.0	10.8	10.5	10.6
Individual deposits	26.2	21.5	25.9	29.6	29.1	29.4	29.4	28.7	28.9	29.1	29.3
Corporate deposits	25.8	23.6	25.9	25.7	26.0	25.7	24.0	23.3	24	24.1	24.2
Accounts and deposits of state agencies and local authorities	1.5	1.0	1.0	1.5	2.3	1.4	1.5	2.5	1.6	1.1	1.0
Securities issued	5.8	4.1	4.1	4.0	3.7	4.8	4.5	4.8	4.9	5.2	5.3

Source: Central Bank of Russia, IEP estimates.

Investments

The volume of the clients' debt to the banks has increased over the month by 1.6% (by Rb 134bn). Annual growth rate of loans started gradually to decrease and made as of February results 38.2% (against 38.7% as of 1.03.2012).

The main indicators of retail loans quality in February remained unchanged. Overdue debt remained at 4.2%, and the share of the formed provisions versus the total debt made 6.4%.

Dynamics of corporate lending at the end of February is still rather moderate. Over the month, arrears of corporate clients have increased only by 0.3%, while the annual growth rates remain close to the level of 15%.

The quality of loan portfolio in corporate segment, like in the retail one, in February 2013 has remained unchanged. The amount of overdue liabilities remained at the level of 4.7%, and provisions for possible losses made 7.5% of the amount of the loan debt.

In February over Rb 300bn (\$10bn) were invested by the banks in foreign assets. Herewith, the growth of foreign debt and other raised funds from non-residents amounted to only \$2.5bn. Therefore, the net foreign assets of banks have grown over the month by \$7.5bn, having reached a record of \$74bn.

The balance of the banks' internal foreign currency assets and liabilities (i.e., foreign currency funds invested within the country and raised from the residents of the Russian Federation) remained virtually unchanged in February. As a result, virtually all growth of the net foreign assets was demonstrated in foreign exchange policy of the banks, which has increased by \$7.4bn, reflect-

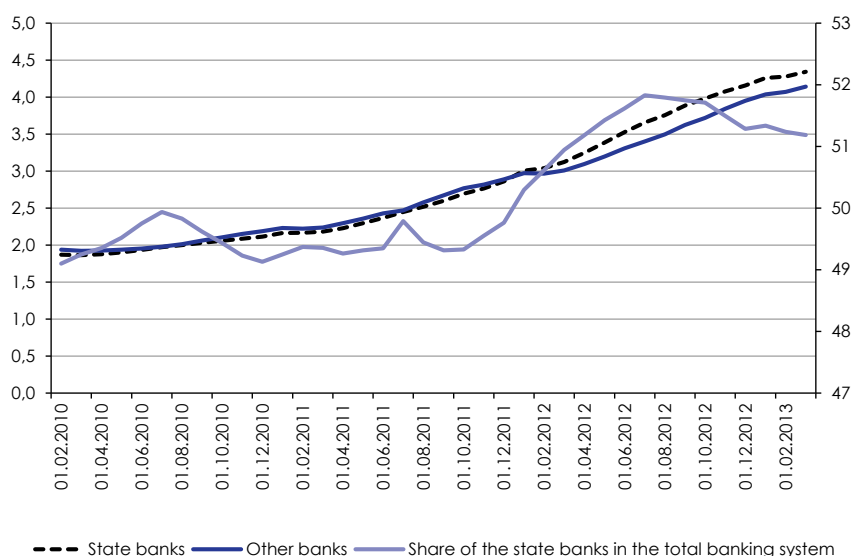


Fig. 6. Dynamics of clients' lending

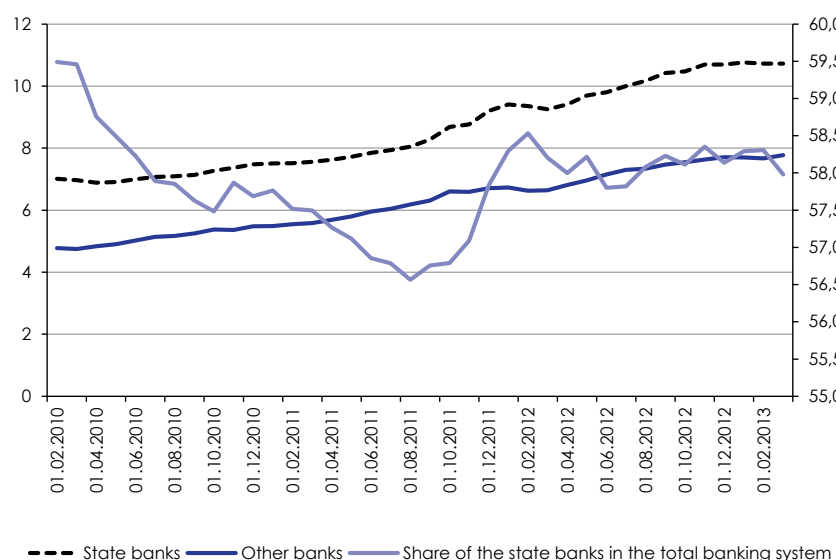


Fig. 7. Dynamics in loans to companies and organizations

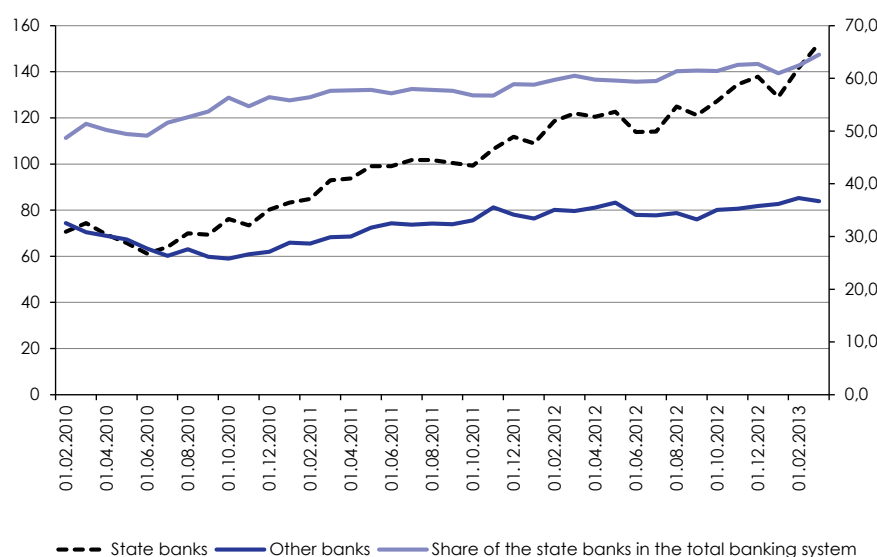


Fig. 8. Dynamics of the banks' foreign currency assets

ing the increased interest of the banks in foreign currency assets.

Capital outflow through the banking sector, which is exactly happens with the growth of foreign assets, was concentrated in the last few months only in the large state banks. Thus, only Sberbank net foreign assets have grown in February by more than \$6bn. If we add the corresponding indicators of the other major state-owned banks (Gazprombank, VTB Group and Agricultural Bank), the total outflow of capital through all those banks in February has exceeded \$8bn.

Despite the fact that all external loans of the last month were also made by the large state-owned banks, the growth of their foreign assets was higher than the growth of their foreign liabilities by several times.

Therefore, the cross-border capital flows, mediated by the banking sector, were mainly determined by the behavior of the largest state-owned banks.

Table 2

STRUCTURE OF THE RUSSIAN BANKING SYSTEM ASSETS (END OF MONTH), AS% OF TOTAL

	12.07	12.08	12.09	12.10	12.11	03.12	06.12	09.12	10.12	01.13	02.13
Assets, Rb bn	20125	28022	29430	33805	41628	41533	44266	45861	47096	48429	49165
Cash and precious metals	2.5	3.0	2.7	2.7	2.9	2.4	2.5	2.6	2.6	2.6	2.5
Deposits with the Bank of Russia	6.9	7.5	6.9	7.1	4.2	3.2	3.0	2.8	2.7	2.9	3.1
Interbank operations	5.4	5.2	5.4	6.5	6.4	6.2	5.8	5.8	6.1	6.7	6.6
Foreign assets	9.8	13.8	14.1	13.4	14.3	14.2	14.2	13.9	14.3	14.0	14.6
Individuals	16.1	15.5	13.1	13.0	14.4	15.3	16.0	16.8	16.8	17.3	17.3
Corporate sector	47.2	44.5	44.5	43.6	44.0	44.4	43.6	43.4	42.9	42.3	42.1
Government	4.1	2.0	4.2	5.1	5.0	4.9	3.8	3.3	3.2	3.7	3.3
Property	2.2	1.9	2.7	2.6	2.3	2.4	2.3	2.3	2.3	2.3	2.3

Source: Central Bank of Russia, IEP estimates.