

RUSSIAN BANKING SECTOR IN APRIL 2013

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In April 2013, the Russian banking sector was driven by the same principal trends that were observed in the first quarter of the year. Real sector lending kept slowing down in spite of higher growth rates in household savings. In addition, allowances for provisions for losses on loans and other assets began to have an increasingly inhibitory effect on the financial efficiency of the Russian banking sector.

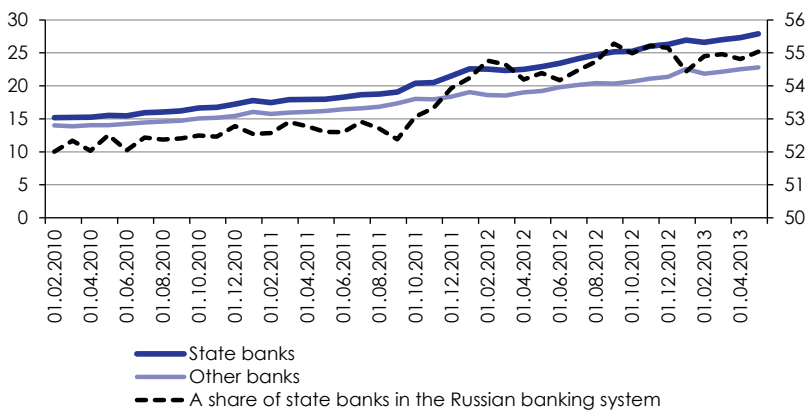


Fig. 1. Dynamics in state and other banks' assets (Rb trillion), and a share of state banks in the assets (%), right-hand grid

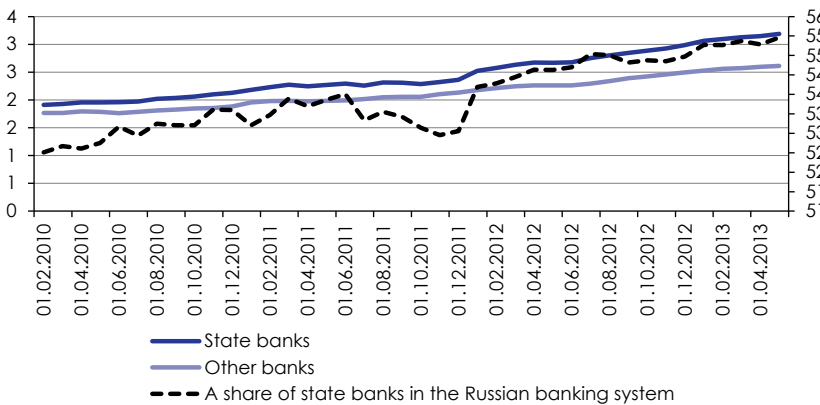


Fig. 2. Dynamics in state and other banks' equity capital (Rb trillion), and a share of state banks in capital (%), right-hand grid

Total assets in the Russian banking sector increased 1.7% in April 2013, gaining Rb 870bn in absolute terms and reaching Rb 50.7 trillion in total volume. The assets in the Russian banking system increased 19.0% over the past 12 months. Annual growth rates ranged within 18 to 19% over the first four months of the year. This means that early in the year the Russian banking system saw approximately the same growth rates as in the preceding year.

Banks' equity capital increased 1.0% in April 2013. Profit remained the principal source of equity growth. Given capitalized profits of previous periods, banks' profit increased 1.5% during the month, whereas capital and surplus increased no more than 0.5%.

Russian banking sector's profit amounted to Rb 84bn in April 2013, being equal to the average value during the past six months. However, banks' net allowances for provisions for losses on loans and other assets kept growing. They grew up to Rb 50bn in volumes in April 2013, being highest over the past year and a half.

Fundraising

The growth in household bank deposits which was reported in the previous review continued in April 2013. Household bank deposits reached their highest growth value of 3.1% (Rb 458bn) during the month. Ignoring year-end peak gains, it was the highest growth rates in bank deposits since the spring of 2010. Annual growth rates reached 21.0%, thereby resuming the values of the fall of 2011.

Balances of corporate accounts were reduced by 0.4% (-Rb 51bn) in response to seasonal tax payments to the federal budget during the month. Nevertheless, annual growth rates in this type of liabilities increased up to 12.1%. However, it is too soon to speak about any steady growth dy-

namics in corporate accounts and deposits.

A shift from current accounts in favor of term deposits was observed in the term structure of corporate accounts and deposits in April 2013. Balances of settlement and current accounts contracted 3.1% (Rb 359bn), whereas deposits increased 2.5% (Rb 296bn). As a result, term deposits accounted for more than 55% of total corporate accounts and deposits at banks, reaching a new highest.

Annual growth rate in bank retail loans in arrears dropped to 36% at the end of April 2013. Unsecured loans declined faster than others, falling from their 2012 summertime peak values of more than 60% down to 47% at the end of the first quarter of 2013.

Slowed down bank lending in the retail market was followed by growth in borrowing costs. For example, weighted average cost of retail loans was 16.5% p.a. in Q1 2012 against 17.7% p.a. in Q1 2013, being higher than the pre-crisis values, despite a markedly lower inflation.

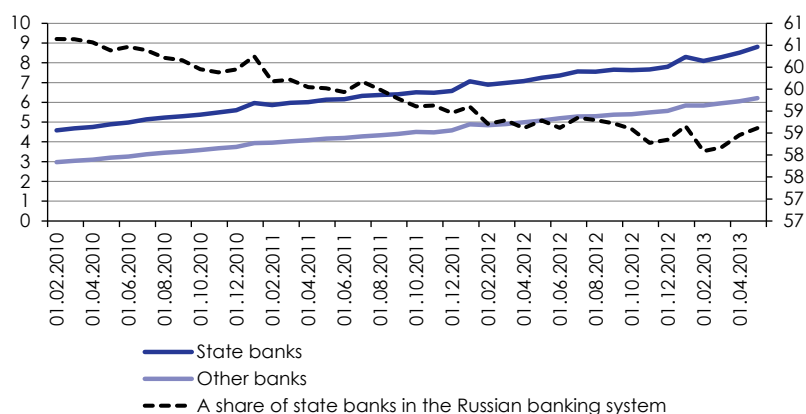


Fig. 3. Dynamics in state and other banks' retail deposits (Rb trillion), and a share of state banks in the retail deposit market (%; right-hand grid)

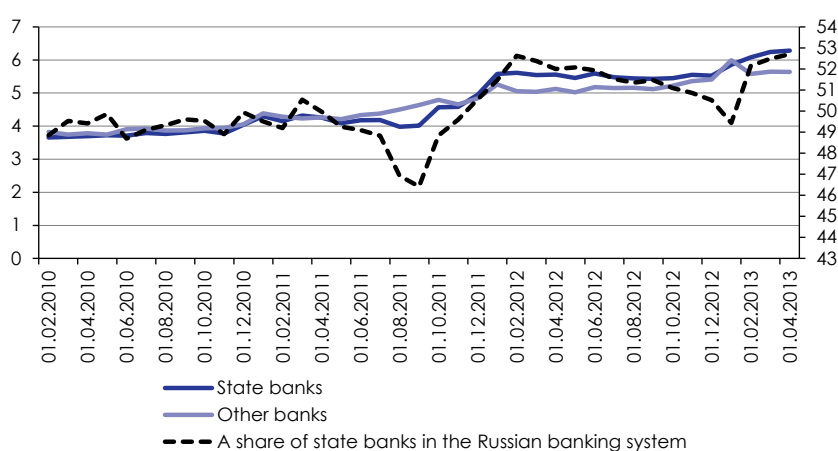


Fig. 4. Dynamics in corporate accounts with state and other banks (Rb trillion), and a share of state banks in the corporate account market (%; right-hand grid)

Table 1

RUSSIAN BANKING SYSTEM'S STRUCTURE OF LIABILITIES (AT MONTH END), AS PERCENTAGE OF TOTAL

	12.08	12.09	12.10	12.11	03.12	06.12	09.12	12.12	01.13	02.13	03.13	04.13
Liabilities, Rb trillion	28022	29430	33805	41628	41533	44266	45861	49510	48429	49165	49839	50693
Equity	14.1	19.3	18.7	16.9	17.5	16.8	16.9	16.2	16.8	16.7	16.7	16.6
Loans from the Bank of Russia	12.0	4.8	1.0	2.9	3.5	5.1	5.1	5.4	4.5	4.5	4.5	4.4
Interbank operations	4.4	4.8	5.5	5.7	5.1	4.8	5.1	5.6	5.4	5.4	5.4	5.0
Foreign liabilities	16.4	12.1	11.8	11.1	10.2	11.3	11.0	10.8	10.5	10.6	10.4	10.8
Retail accounts and deposits	21.5	25.9	29.6	29.1	29.4	29.4	28.7	28.9	29.1	29.3	29.6	30.0
Corporate accounts and deposits	23.6	25.9	25.7	26.0	25.7	24.0	23.3	24	24.1	24.2	23.9	23.4
Accounts and deposits of government agencies and local government authorities	1.0	1.0	1.5	2.3	1.4	1.5	2.5	1.6	1.1	1.0	1.4	1.9
Outstanding securities	4.1	4.1	4.0	3.7	4.8	4.5	4.8	4.9	5.2	5.3	5.2	5.2

Source: Central Bank of Russia, IET's estimates.

Loans issued

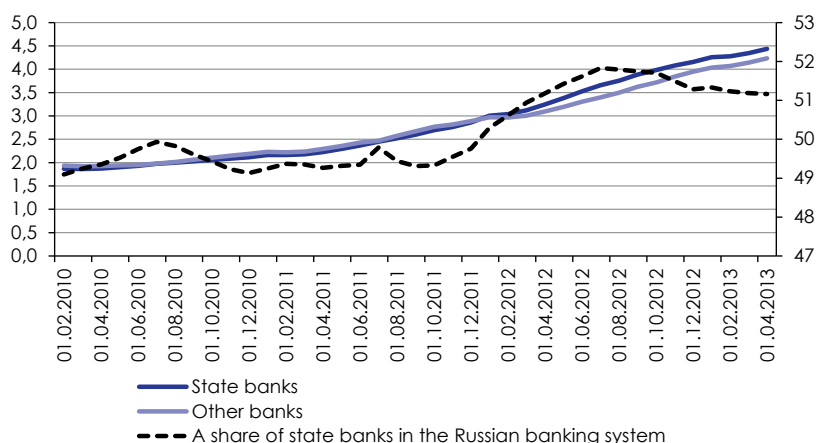


Fig. 5. Dynamics in state and other banks' retail loans, (Rb trillion), and a share of state banks in the retail loan market (% , right-hand grid)



Fig. 6. Dynamics in state and other banks' corporate loans (Rb trillion), and a share of state banks in the corporate loan market (% , right-hand grid)

Lending to corporate customers kept slowing down. Loans in arrears increased 1.7% (Rb 311bn) in April, whereas annual growth rates in loans in arrears declined to 13.4%, being equal to the value observed early in 2011. Nevertheless, the quality of credit portfolio remained stable in the corporate segment of the market. Loans in arrears remained at 4.4%, while loan loss provisions accounted for 7.2% of total credit portfolio.

A combination of high interest rates and a substantial nominal volume of indebtedness entailed a heavier debt burden upon household income. In Q1 2013, scheduled (according to loan repayment schedules) household expenditures on bank loan service accounted for 12% of disposable household income (Rb 976bn) against 9% (Rb 473bn) at the height of the crisis in Q1 2009.

Higher debt burden upon household income degraded the quality of retail credit portfolio. A share of retail loans in arrears and volume of provisions for losses on retail loans began to grow early in the year. These values grew up in response to a higher growth rate in values of the loans in arrears and the provisions rather than slower growth in total credit portfolio. For example, the value of loans in arrears increased 15% since May 1, 2013 against just 6% during the preceding year.

The retail credit portfolio might grow at slower rates with gradual deterioration of its quality by the end of year. The occurrence of a large-scale bad debt crisis in this loan market segment will depend on the dynamics in household income and financial ability to timely discharge obligations to banks.

Table 2

RUSSIAN BANKING SYSTEM'S STRUCTURE OF ASSETS (AT MONTH END), AS % OF TOTAL

	12.08	12.09	12.10	12.11	03.12	06.12	09.12	10.12	01.13	02.13	03.13	04.13
Assets, Rb trillion	28022	29430	33805	41628	41533	44266	45861	47096	48429	49165	49839	50 693
Cash and precious metals	3.0	2.7	2.7	2.9	2.4	2.5	2.6	2.6	2.6	2.5	2.5	2.7
Deposits in the Bank of Russia	7.5	6.9	7.1	4.2	3.2	3.0	2.8	2.7	2.9	3.1	3.3	3.0
Interbank operations	5.2	5.4	6.5	6.4	6.2	5.8	5.8	6.1	6.7	6.6	6.4	6.1
Foreign assets	13.8	14.1	13.4	14.3	14.2	14.2	13.9	14.3	14.0	14.6	14.5	15.0

Table 2, cont'd

	12.08	12.09	12.10	12.11	03.12	06.12	09.12	10.12	01.13	02.13	03.13	04.13
Households	15.5	13.1	13.0	14.4	15.3	16.0	16.8	16.8	17.3	17.3	17.4	17.7
Corporate sector	44.5	44.5	43.6	44.0	44.4	43.6	43.4	42.9	42.3	42.1	41.9	41.5
State	2.0	4.2	5.1	5.0	4.9	3.8	3.3	3.2	3.7	3.3	3.2	2.9
Property	1.9	2.7	2.6	2.3	2.4	2.3	2.3	2.3	2.3	2.3	2.2	2.2

Source: Central Bank of Russia, IET's estimates. ●