

THE RUSSIAN BANKING SECTOR IN JULY 2013

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In July 2013, the bulk of banks' lending operations shifted towards corporate loans: the growth rate of debt against loans issued to companies for the first time over several months in a row became noticeably higher than that of the retail credit portfolio. The shrinkage of monies on corporate clients' accounts coupled with a slowdown in the rate of growth of individual deposits produced the biggest gap observed over the course of 2013 between the volumes of loans and deposits.

In July, the growth rate of banks' assets became significantly lower. Over that month, their size increased by only 0.9%¹, which represents a record low since January 2013. The growth rate of assets over the past 12 months as seen by July's results dropped to 17.4%, which is its record low since the spring of 2011.

The main cause of the slowdown in the rate of aggregate growth of bank assets was the slower growth of their resources. By way of compensation, banks had to increase their debt to the Bank of Russia and the RF Ministry of Finance.

In July, the regulatory capital of the banking sector² increased by 0.9%, while the risk adjusted value of assets grew by 1.6%. Accordingly, capital adequacy (norm N1) dwindled by 0.1 pp. to 13.4%. In this connection, the overall decline of Russia's banking sector's capital adequacy occurred due to changes experienced by its two biggest banks – *Sberbank* and *VTB*. Over that month, *Sberbank's* capital increased by 0.8%, while its capital adequacy dropped from 13.2 to 13.1%; *VTB* capital shrank by 1.8%, which in combination with an increasing volume of risky assets pushed down the level of capital adequacy from 15.2 to 14.5%. The capital of all the other banks over the same month rose by 1.4%, while their capital adequacy remained unchanged, staying at the level of 13.4%.

In July 2013, the banking sector's profit amounted to Rb 80bn. Profit less operations with reserves against potential losses (over July, these reserves grew by Rb 56bn – only slightly less than in May 2013, when reserves growth hit record high) amounted to Rb 136bn. This is also a record high for the period of more than three past years.

In June, return on assets and return on equity were 1.8% and 16.3% respectively. This fact points to a con-

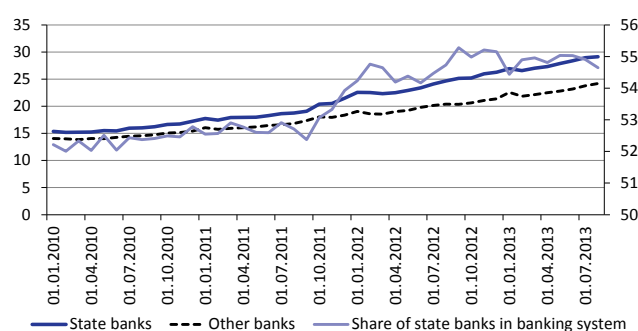


Fig. 1. Movement of Bank Assets (State Banks vs Other Banks, Trillion Rb) and State Banks' Share in Aggregate Assets (% , Right-hand Scale)

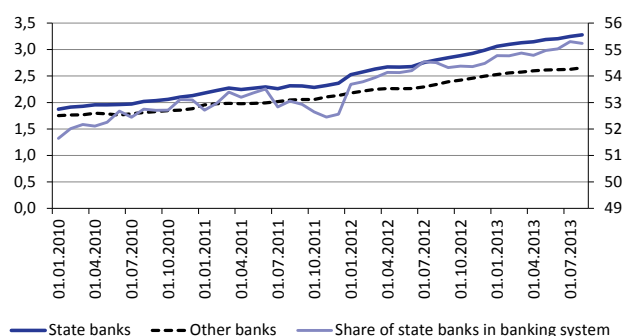


Fig. 2. The Movement of Equity³ of State and Other Banks (Trillion Rb) State Banks' Share in Equity (% , Right-hand Scale)

tinuation of the downward trend displayed by return on assets and return on equity for banks since their hitting post-crisis highs (2.5 and 20% respectively) in the summer of 2011.

Attracted Funds

In July 2013, the bank accounts and deposits of the population increased by 0.8% (Rb 129bn), which is by 0.3 pp. below that index's value observed a month earlier. This could be the effect of seasonal factors. Over recent years, the period of July-August is usually marked by a slowdown in the growth rate of the aggregate volume of individual deposits with banks. The

1 Hereinafter, if not otherwise specified, the growth rates of balance-sheet indices are adjusted by changes in the value of their components denominated in foreign currencies.

2 Calculated in accordance with Credit Institutions Financial Reporting Form No 134.

3 Calculated on the basis of balance-sheet accounts (Form No 101).

per annum rate of growth of the population's monies on bank accounts increased over July from 20.0 to 20.8%. This is an upshot of last year's situation when the growth rate of that index in July was even lower (0.2%).

A slower growth rate was displayed in the main by the ruble-denominated component of bank deposits, which fell to 0.6%. Deposits denominated in USD over the same month increased by 2.1%.

The monies of corporate clients kept on bank accounts shrank over July by Rb 57bn, or by 0.5%. The per annum growth rate of that index as of the end of July amounted to 15.8%.

The shrinkage of corporate clients' monies was observed in the main in their current and settlement accounts, whose volume declined by 1.2%. The same index for fixed date deposits, on the contrary, rose by 0.7%. As a result, the share of fixed date deposits in the aggregate funds of corporate clients increased to 54%.

Over July, the banking sector's debt to Russia's financial regulatory bodies noticeably increased. The liabilities against deposits with the RF Ministry of Finance over that month rose by Rb 40bn, or by 6.6%, to Rb 639bn. The amount of debt to the Bank of Russia increased by Rb 271bn, or by 11.7%, to Rb 2.6 trillion. Thus, the total amount of government support received by the banking sector exceeded the level of Rb 3.2 trillion, or 6.1% of aggregate bank assets.

The considerable growth of the scale of refinancing of the banking sector by the Bank of Russia resulted from the first auction where credit institutions could get loans from the Bank of Russia secured by assets or sureties at a floating interest rate. This enabled banks to obtain long-term resources for a period of 12 months at a low interest rate. The floor for interest rates at that auction was set at 5.75% per annum, which is only slightly higher than the lowest rate for overnight and one-week repo operations (5.5% per annum). At the same time, the fixed interest rate on the Bank of Russia's loans secured by assets or sureties for periods up to one year is set at present at 7.5% per annum.

Invested Monies

Over the course of July 2013, the amount of outstanding debt of physical persons against bank loans issued to them increased by Rb 248bn, or by 2.6%. Its per annum growth rate, as shown by July's results, amounted to 33.1%.

In spite of the ongoing decline in the growth rate of the population's payables owed to banks, the share of bank loans in household final consumption

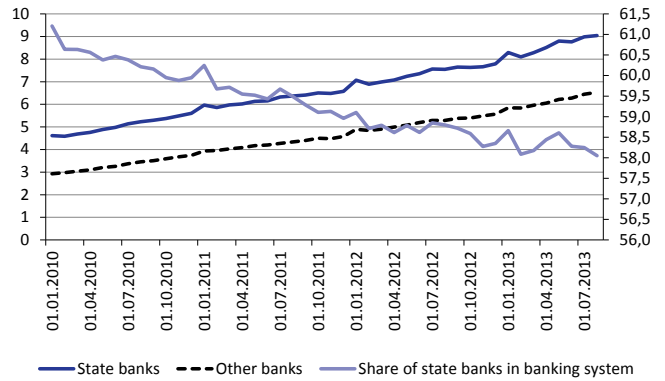


Fig. 3. The Movement of Individual Deposits¹ with State and Other Banks (Trillion Rb), and State Banks' Share in the Market for Physical Persons' Deposits (% , Right-hand Scale)

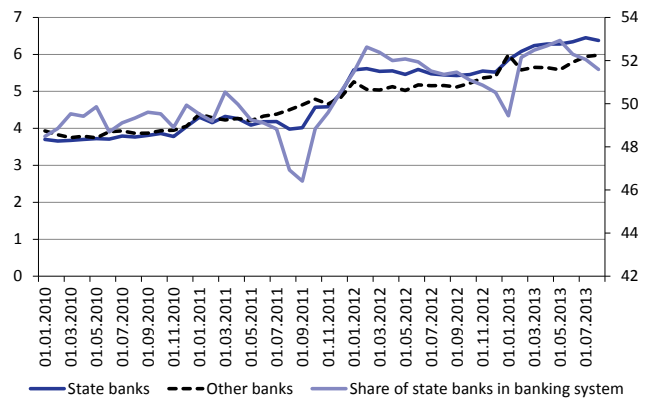


Fig. 4. The Movement of Corporate Clients' Deposits with State and Other Banks (Trillion Rb), and State Banks' Share in the Market for Corporate Clients' Accounts (% , Right-hand Scale)

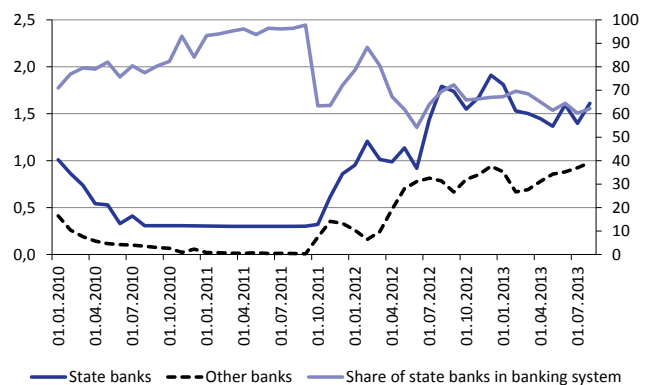


Fig. 5. The Movement of the Bank of Russia's Loans to State and Other Banks (Trillion Rb), and State Banks' Share in the Loans Issued by the Bank of Russia (% , Right-hand Scale)

1 Calculated on the basis of balance-sheet accounts (Form No 101).

Table 1

THE STRUCTURE OF RUSSIA'S BANKING SYSTEM'S LIABILITIES (AS OF MONTH'S END), AS % OF TOTAL

	12.08	12.09	12.10	12.11	06.12	09.12	12.12	03.13	04.13	05.13	06.13	07.13
Liabilities, bn Rb	28,022	29,430	33,805	41,628	44,266	45,861	49,510	49,839	50,693	51,587	52,744	53,353
Equity	14.1	19.3	18.7	16.9	16.8	16.9	16.2	16.7	16.6	16.5	16.3	16.3
Credits allotted by Bank of Russia	12.0	4.8	1.0	2.9	5.1	5.1	5.4	4.5	4.4	4.8	4.4	4.9
Interbank operations	4.4	4.8	5.5	5.7	4.8	5.1	5.6	5.4	5.0	4.9	5.2	5.1
Foreign liabilities	16.4	12.1	11.8	11.1	11.3	11.0	10.8	10.4	10.8	10.7	10.8	10.6
Physical persons' monies	21.5	25.9	29.6	29.1	29.4	28.7	28.9	29.6	30.0	29.5	29.6	29.6
Enterprises and organizations' monies	23.6	25.9	25.7	26.0	24.0	23.3	24	23.9	23.4	23.5	23.5	23.2
Accounts and deposits of state administrative bodies and local governments	1.0	1.0	1.5	2.3	1.5	2.5	1.6	1.4	1.9	2.0	2.4	2.6
Securities issued	4.1	4.1	4.0	3.7	4.5	4.8	4.9	5.2	5.2	5.1	5.1	4.9

Source: RF Central Bank; the IEP's estimates.

expenditure is on the rise. In July, newly issued bank loans amounted to 29% of household expenditures on goods, public catering and commercial services. When applied to the entire period since the year's beginning, this index amounts to 27%. By comparison with last year's index, the share of bank loans in household consumption has risen by 2 p.p.

The quality of the retail credit portfolio in July slightly worsened. The growth rate of the number of credits with repayment in arrears over that month was 5.2%, while the amount of reserves against potential loss of monies lent to physical persons in the form of credits increased by 4.6%. As a result, the share of outstanding debt as of 1 August 2013 amounted to 4.4%, and the ratio of reserves against potential losses to payables – to 6.9%.

The volume of corporate debt against bank loans over July increased by Rb 437bn, or by 2.2%. The per annum growth rate rose by 0.8 pp., but it still remains low – at the level of 13.9%.

The credit portfolio quality in the market's corporate segment in July 2013 remained practically unchanged. The share of outstanding debt remained at the level of 4.4%, while the ratio of reserves to the size of credit portfolio shrank by 0.1 pp. from 7.3% to 7.2%.

The increase, over July, of the size of corporate debt against bank loans can be explained by the upsurge of activity of big state banks in that market segment. Previously this year, the scale of corporate lending had been increasing mostly at the expense of small and medium-sized banks, which accounted for almost 80% of corporate lending growth over the first half year of 2013, whereas the share of big state banks had been only 8%. However, in July big state banks were already responsible for 50% of corporate lending growth. As part of that growth, the size of Sberbank's corporate

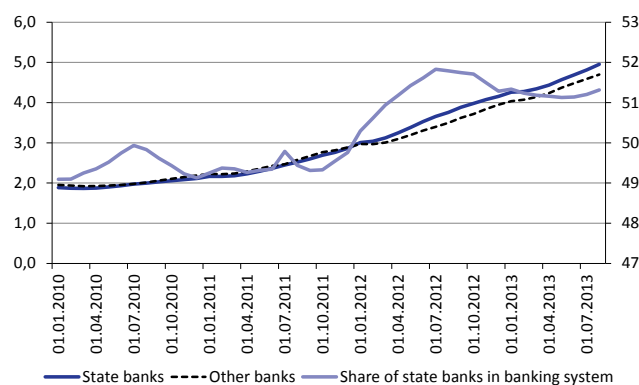


Fig. 6. The Movement of Retail Loans Issued by State and Other Banks (Trillion Rb), and State Banks' Share in Retail Lending (%), Right-hand Scale

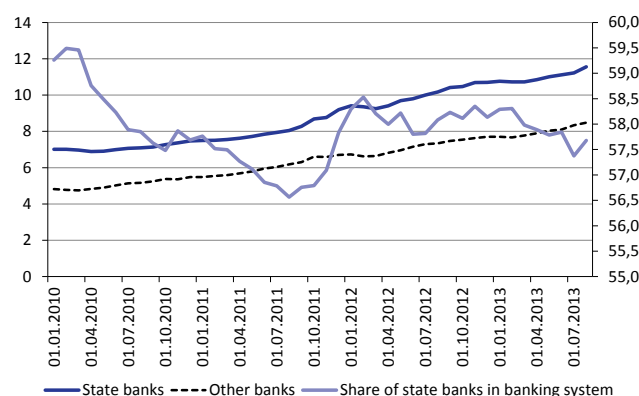


Fig. 7. The Movement of Loans Issued to Enterprises and Organizations by State and Other Banks (Trillion Rb), and State Banks' Share in the Market for Loans to Enterprises and Organizations (%), Right-hand Scale

Table 2

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

	12.08	12.09	12.10	12.11	06.12	09.12	12.12	03.13	04.13	05.13	06.13	07.13
Assets, bn Rb	28,022	29,430	33,805	41,628	44,266	45,861	49,510	49,839	50,693	51,587	52,744	53,353
Cash and precious metals	3.0	2.7	2.7	2.9	2.5	2.6	3.1	2.5	2.7	2.4	2.4	2.3
Monies placed with Bank of Russia	7.5	6.9	7.1	4.2	3.0	2.8	4.4	3.3	3.0	3.1	3.3	3.0
Interbank operations	5.2	5.4	6.5	6.4	5.8	5.8	6.8	6.4	6.1	6.0	6.0	5.9
Foreign assets	13.8	14.1	13.4	14.3	14.2	13.9	13.0	14.5	15.0	15.6	15.1	15.0
Population	15.5	13.1	13.0	14.4	16.0	16.8	16.8	17.4	17.7	17.8	17.9	18.1
Corporate sector	44.5	44.5	43.6	44.0	43.6	43.4	41.3	41.9	41.5	40.9	40.9	41.0
State	2.0	4.2	5.1	5.0	3.8	3.3	3.2	3.2	2.9	2.8	3.2	3.4
Property	1.9	2.7	2.6	2.3	2.3	2.3	2.2	2.2	2.2	2.2	2.2	2.1

Source: RF Central Bank; the IEP's estimates.

credit portfolio increased by Rb 120bn (whilst in the first half year it had shrunk by Rb 20bn). The corporate credit portfolios of other big state banks (the banks belonging to *VTB Group*, *Gazprombank* and Russian Agricultural Bank) in July increased by a total of Rb 101bn,

although their cumulative growth over the previous half year had amounted to only Rb 86bn. Thus, the aggregate growth of this index for Russia's top group of state banks over July exceeded Rb 220bn – against only Rb 66bn over the first half year of 2013. ●