

THE RUSSIAN BANKING SECTOR IN AUGUST 2013

M.Khromov

In August 2013, Russia's banking sector witnessed a continuation of the trends observed over the several previous months. As in July, a considerable proportion of growth in total banking liabilities was accounted for by the Bank of Russia and the RF Ministry of Finance. The role of retail loans in financing current household consumption expenditure continued to grow. At the same time, the banking sector's capital adequacy and return on equity were declining.

In August, the growth rate of banks' assets became even lower than in July, amounting to only 0.8%¹. Over the past 12 months, the size of the banking sector's assets increased by 17.5%. In August, the monetary authorities carried on their lending activity, thus further boosting the growth of bank assets. When taken without the increased liabilities to the Bank of Russia and the RF Ministry of Finance, bank asset growth over that month amounts to only 0.3%; meanwhile, the 12-month growth of bank assets less the share of government support as seen by the month-end results amounts to 15.9%, which represents its record low since late 2010.

Over the course of August, the regulatory capital of the banking sector² increased by 1.3%, while the risk adjusted value of assets grew at a faster rate, and so increased by 2.5%. As a result, capital adequacy norm (N1) dwindled by another 0.2 p.p. to 13.2%.

In August 2013, the banking sector's profit amounted to Rb 82bn. This roughly corresponds to its mean value for the period since the year's beginning. The aggregate profit received by banks over the first 8 months of 2013 amounts to Rb 654bn, which is by Rb 24bn less than the same index for the first 8 months of 2012. Accordingly, return on bank assets in 2013 dropped on the previous year. Over the first 8 months of 2013, return on assets amounted to 1.9% per annum, which is by 0.5 pp. below the same index for 2012. Return on equity for banks over the same period of 2013 is by 3.6 pp. less than the same index for 2012 (16.9% against 20.5% per annum).

Attracted Funds

In August 2013, the bank accounts and deposits of the population increased by Rb 126bn (growth by

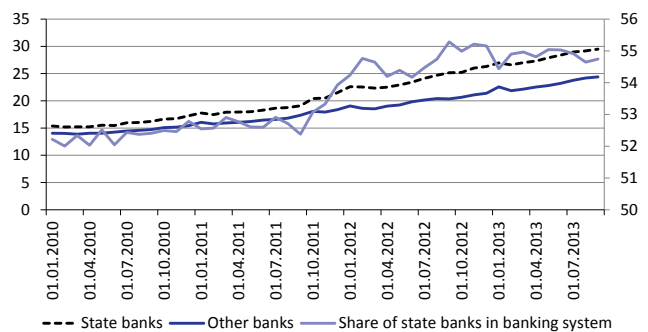


Fig. 1. The Movement of Bank Assets (State Banks vs Other Banks, Trillion Rb) and State Banks' Share in Aggregate Assets (% , Right-hand Scale)

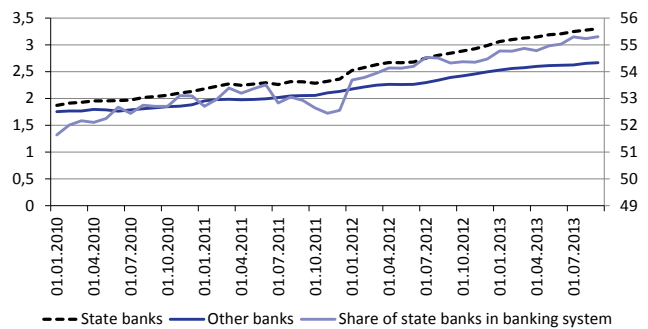


Fig. 2. The Movement of Equity³ of State and Other Banks (Trillion Rb), and State Banks' Share in Equity (% , Right-hand Scale)

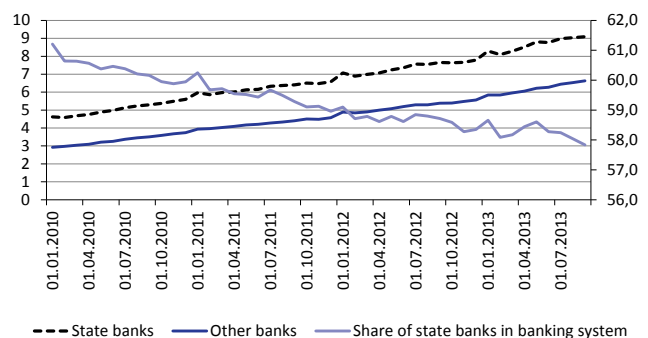


Fig. 3. The Movement of Individual Deposits with State and Other Banks (Trillion Rb), and State Banks' Share in the Market for Physical Persons' Deposits (% , Right-hand Scale)

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).

0.8%). The per annum rate of growth of the population's monies on bank accounts increased stays at a level of approximately 20%.

The household saving norm for bank deposits over the first 8 months of 2013 amounts to 5.6% of disposable income (since the year's beginning, a total of Rb 1,346bn was placed in bank accounts). One year earlier, the saving norm amounted to 4.8% of disposable income, while the inflow of the population's monies into banks was 30% less than now (Rb 1,034bn over the same period of 2012).

The outflow of corporate clients' monies from their bank accounts continued as before. The monies kept in their current and settlement accounts kept on shrinking for a second month in a row, their volume declining in August by Rb 142bn (-1.2%). The same index for fixed date deposits, on the contrary, rose by Rb 128bn (+1.1%), but this was no compensation for the cash outflow from current accounts. The share of fixed date deposits in the aggregate funds of corporate clients increased to 55.3%, thus nearly hitting its record high achieved in May 2013 (55.5%).

Over August, the banking sector's debt to the Bank of Russia increased by Rb 237bn. This growth occurred in the main due to the increased volume of one-week direct repo operations. Over the course of that month, the liabilities against deposits with the RF Ministry of Finance also climbed – by Rb 45bn. The total amount of funds placed with banks by the Bank of Russia and the RF Ministry of Finance as of 1 September 2013 exceeded the level of Rb 3.5 trillion. Thus, the total amount of government support received by the banking sector nearly reached its crisis level of early 2009 (Rb 3.65 trillion). As a percentage of the banking sector's aggregate assets, it amounts to approximately one-half of the sum of government support received

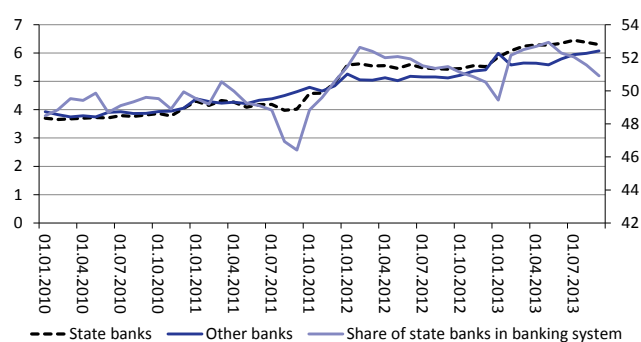


Fig. 4. The Movement of Corporate Clients' Deposits with State and Other Banks (Trillion Rb), and State Banks' Share in the Market for Corporate Clients' Accounts (% , Right-hand Scale)

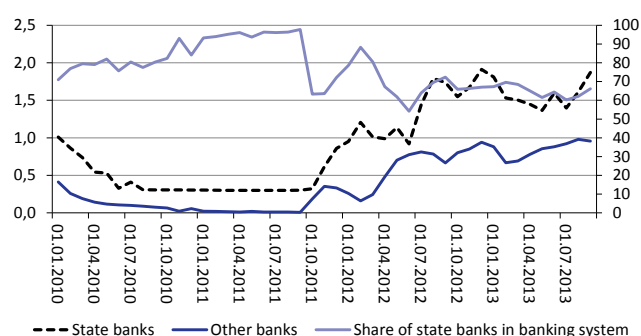


Fig. 5. The Movement of the Bank of Russia's Loans to State and Other Banks (Trillion Rb), and State Banks' Share in the Loans Issued by the Bank of Russia (% , Right-hand Scale)

at the time of crisis (6.5% against 12.3%), but its current level actually represents a record high since the year's beginning.

Invested Monies

Over the course of August 2013, the amount of outstanding debt of physical persons against bank loans

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	12.12	03.13	04.13	05.13	06.13	07.13	08.13
Liabilities, bn Rb	28,022	29,430	33,805	41,628	44,266	49,510	49,839	50,693	51,587	52,744	53,353	53,876
Equity	14.1	19.3	18.7	16.9	16.8	16.2	16.7	16.6	16.5	16.3	16.3	16.3
Credits allotted by Bank of Russia	12.0	4.8	1.0	2.9	5.1	5.4	4.5	4.4	4.8	4.4	4.9	5.3
Interbank operations	4.4	4.8	5.5	5.7	4.8	5.6	5.4	5.0	4.9	5.2	5.1	5.1
Foreign liabilities	16.4	12.1	11.8	11.1	11.3	10.8	10.4	10.8	10.7	10.8	10.6	10.4
Physical persons' monies	21.5	25.9	29.6	29.1	29.4	28.9	29.6	30.0	29.5	29.6	29.6	29.6
Enterprises and organizations' monies	23.6	25.9	25.7	26.0	24.0	24	23.9	23.4	23.5	23.5	23.2	23.0
Accounts and deposits of state administrative bodies and local governments	1.0	1.0	1.5	2.3	1.5	1.6	1.4	1.9	2.0	2.4	2.6	2.7
Securities issued	4.1	4.1	4.0	3.7	4.5	4.9	5.2	5.2	5.1	5.1	4.9	4.9

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

issued to them increased by 2.4%, or by Rb 234bn. Its per annum growth rate, as shown by the month-end results, declined to 31.7%.

The quality of the retail credit portfolio in August changed only slightly. The growth rate of the number of credits with repayment in arrears over that month remained at the level of 4.4%¹, although it is higher than the lending volume growth rate on the whole (3.7%). The ratio of reserves against potential losses to payables increased in August by 0.1 pp. to 7.0%, while the amount of reserves itself increased over the same month by 4.1%.

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 expenditure is still on the rise. Thus, according to preliminary estimates, newly issued bank loans in August amounted to 30% 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 28%. A year earlier, these two indices amounted to 27% and 25% respectively.

The interest rates on bank loans issued to physical persons remain high. Thus, in July 2013, the average weighted interest rates on ruble-denominated retail loans varied between 16% and 27% per annum. Besides, over the period of July-August 2013, banks issued loans at interest rates above 25% per annum in the total amount of at least Rb 320bn; of these, more than Rb 35bn was loaned at rates above 60% per annum.

The volume of corporate debt against bank loans issued over August amounts to 1.4% (Rb 278bn). The per annum growth rate of corporate payables as of 1 September 2013 was 13.2% – a figure close to that index's record low of the past 2.5 years (13.1% as of 1 July 2013).

The formal indicators of credit portfolio quality in the market's corporate segment continue to improve:

¹ Which resulted from the fact that the share of repayment in arrears was rounded off to the nearest 1/10th of a percent.

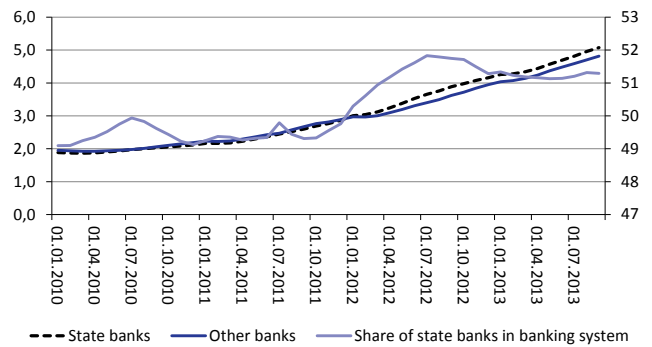


Fig. 6. The Movement of Retail Loans Issued by State and Other Banks (Trillion Rb), and State Banks' Share in Retail Lending (%), Right-hand Scale)

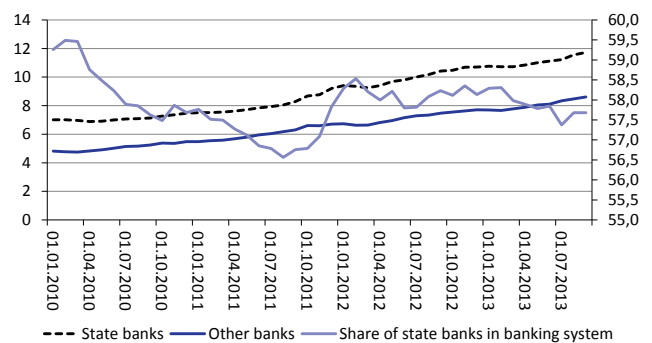


Fig. 7. The Movement of Loans Issued to Enterprises and Organizations by State and Other Banks (Trillion Rb), and State Banks' Share in the Market for Loans to Enterprises and Organizations (%), Right-hand Scale)

in August, reserves against potential losses were increasing at a slower rate than payables, while the amount of outstanding debt over that month even declined by Rb 10bn. As a result, the share of outstanding debt shrank by 0.1 pp. to 4.3%, while the ratio of reserves to the size of credit portfolio – also by 0.1 pp. to 7.1%.

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	12.12	03.13	04.13	05.13	06.13	07.13	08.13
Assets, bn Rb	28,022	29,430	33,805	41,628	44,266	49,510	49,839	50,693	51,587	52,744	53,353	53,876
Cash and precious metals	3.0	2.7	2.7	2.9	2.5	3.1	2.5	2.7	2.4	2.4	2.3	2.3
Monies placed with Bank of Russia	7.5	6.9	7.1	4.2	3.0	4.4	3.3	3.0	3.1	3.3	3.0	2.9
Interbank operations	5.2	5.4	6.5	6.4	5.8	6.8	6.4	6.1	6.0	6.0	5.9	5.8
Foreign assets	13.8	14.1	13.4	14.3	14.2	13.0	14.5	15.0	15.6	15.1	15.0	14.5
Population	15.5	13.1	13.0	14.4	16.0	16.8	17.4	17.7	17.8	17.9	18.1	18.4
Corporate sector	44.5	44.5	43.6	44.0	43.6	41.3	41.9	41.5	40.9	40.9	41.0	41.1
State	2.0	4.2	5.1	5.0	3.8	3.2	3.2	2.9	2.8	3.2	3.4	3.0
Property	1.9	2.7	2.6	2.3	2.3	2.2	2.2	2.2	2.2	2.2	2.1	2.1

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