

RUSSIA'S BANKING SECTOR IN OCTOBER 2013

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Growth rate in banks' assets in October 2013 was accelerated with the resources of the Bank of Russia and the Ministry of Finance of Russia. Credit portfolio's quality has deteriorated in both the retail and corporate segments of the lending market. Banking business keeps losing its cost-effectiveness.

In October 2013, banks' assets saw a growth rate¹ of 1.5%, having reached the lowest value over the last four months, as compared to a 1.1% monthly growth rate in Q3 2013. However, banks' assets growth rates kept slowing down in the mid run: at October month-end annual growth rates slowed down to 16.1%, the lowest since the beginning of 2011.

Like in the previous months, money authorities' resources were responsible for the growth in banks' assets in October 2013. Without considering these resources, banks' assets increased 1.1% during the month, and 13.8% during 12 months, the lowest as early as the beginning of 2010².

In October 2013, the banking sector's equity gained 1.4% and risk-weighted assets 1.9%. This made capital adequacy lower from 13.4% to 13.3%. Over more than year the capital adequacy value has been remaining within a range of 13.1% to 13.7% at a threshold of 10%, which means that the owners of banks still manage to maintain the capital dynamics at an adequate level to be able to compensate for risk growth. However, capital adequacy is lower than it was prior to the crisis in 2008, when it was kept at a 14% or higher level³.

In October 2013, the banking sector's profit amounted to Rb 69bn (in Q3 2013, an average monthly profit amounted to Rb 87bn) and visibly declined against the previous months due to both growth in the contributions paid to supply reserves (Rb 50bn against an average of Rb 45bn in Q3 2013) and lower profit from reserve-supplying operations (118 against 132). The return on banking sector's equity dropped to 13% on a year-over-year basis in October 2013. Furthermore, at 10-month end in 2013 the banking sector generated less profit than it made during the corresponding period in 2012: Rb 820bn against Rb 833bn in the preceding year.

1 Hereinafter, unless otherwise indicated, growth rates in balance sheet figures are presented with allowance for revaluation of the foreign currency component.

2 In the second half of 2009, and in 2010, the banking system cut back its liabilities to the regulator. Therefore, without consideration for the resources of the Bank of Russia and the Ministry of Finance, growth rates were higher than the growth rate in total assets.

3 Calculated according to balance-sheet accounts (form No. 101).

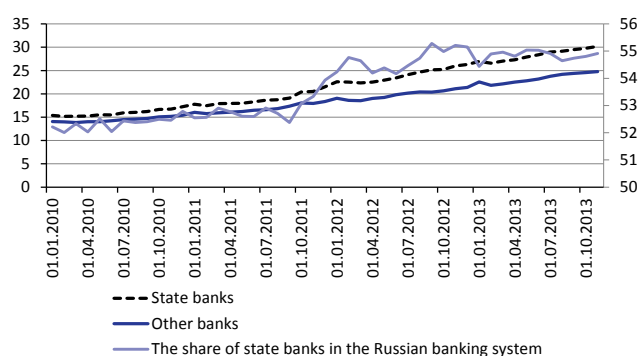


Fig. 1. Dynamics of state banks' and other banks' assets (trillions of rubles), and the share of state banks in the assets (% , right-hand scale)

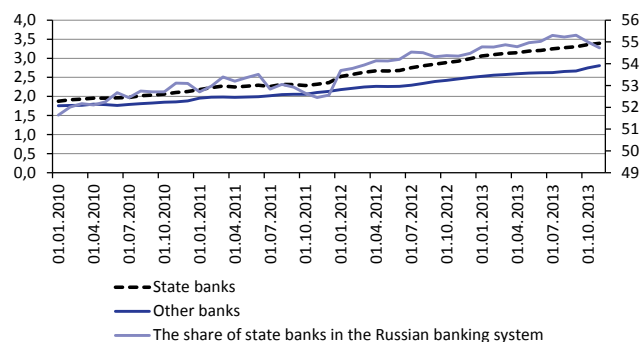


Fig. 2. Dynamics of state banks' and other banks' equity capital³ (trillions of rubles), and the share of state banks in the capital (% , right-hand scale)

Fundraising

Retail bank accounts and deposits increased 0.9% (Rb 141bn) during the month, annual growth rate remained around a level of 20% (20.1% at October month-end).

Like in the previous months, retail foreign-currency denominated bank accounts and deposits were growing at a faster rate than ruble-denominated ones. For instance, the amount of retail ruble-denominated bank accounts increased 0.6% (Rb 83bn), whereas USD accounts 2.0% (\$1,8bn) in October 2013.

At October month-end, the amount of retail bank accounts denominated in foreign currencies reached

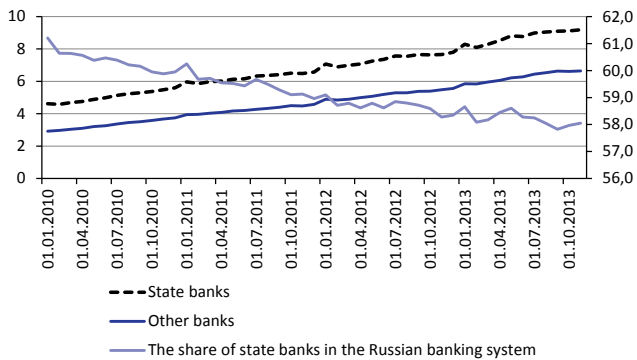


Fig. 3. Dynamics of state banks' and other banks' retail deposits (trillions of rubles), and the share of state banks in the retail deposit market (% , right-hand scale)

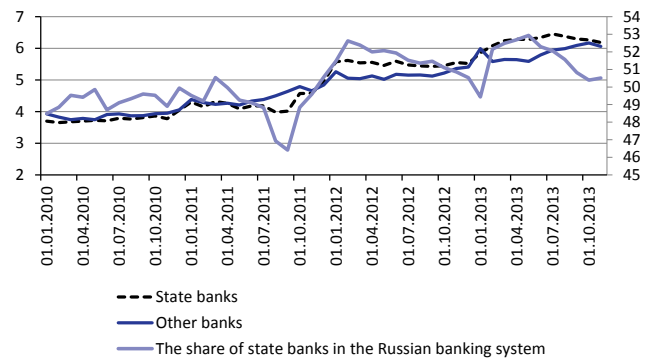


Fig. 4. Dynamics of corporate accounts with state and other banks (trillions of rubles), and the share of state banks in the corporate account market (% , right-hand scale)

another highest level of \$93bn and total retail bank deposits exceeded Rb 16 trillion for the first time.

We forecast that dynamics of retail bank deposits will slow down in November 2013 in response to the revocation of the banking license of Master Bank and a few smaller banks and depositors' mounting concerns about their savings in the banking sector. This also may result in growth in the share of state banks in the saving market. In October 2013, the amount of corporate bank accounts dropped 1.3% and annual growth rates fell to 11.7%. Like retail customers, in October 2013 corporate customers also preferred bank accounts denominated in foreign currencies whose volume increased 1.1% in US dollars terms, whereas the amount of ruble-denominated bank accounts declined 2.0%.

The October reduction of corporate bank accounts had an adverse effect on both current accounts and fixed-term deposits. However, cash outflows from bank accounts was more intensive: 2.1% (Rb 117bn) against 0.6% (Rb 37bn) of fixed-term deposits of non-bank legal entities. Therefore, fixed-term deposits still

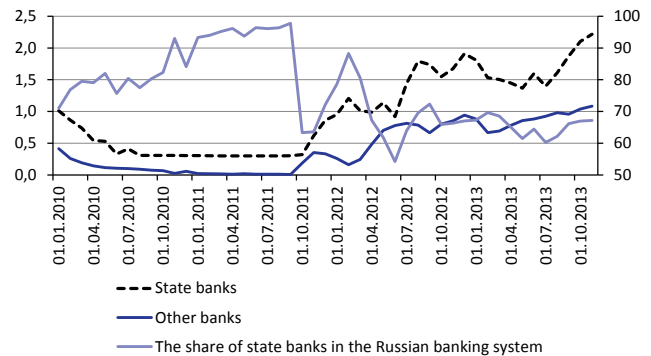


Fig. 5. Dynamics of Bank of Russia's loans extended to state and other banks (trillions of rubles), and the share of state banks in Bank of Russia's loans (% , right-hand scale)

account for a major part (54%) of the structure of corporate customers' bank accounts.

Banks' debt owed to the Bank of Russia and the Ministry of Finance of Russia increased Rb 208bn in October 2013, having reached another record in nominal terms (Rb 4,23 trillion). Money authorities' resources accounted for 7.7% of the banking sector's

Table 1

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

	12.08	12.09	12.10	12.11	06.12	12.12	03.13	05.13	06.13	07.13	08.13	09.13	10.13
Liabilities, billions of rubles	28022	29430	33805	41628	44266	49510	49839	51587	52744	53353	53876	54348	54981
Equity	14.1	19.3	18.7	16.9	16.8	16.2	16.7	16.5	16.3	16.3	16.3	16.5	16.5
Loans from the Bank of Russia	12.0	4.8	1.0	2.9	5.1	5.4	4.5	4.8	4.4	4.9	5.3	5.8	6.0
Interbank operations	4.4	4.8	5.5	5.7	4.8	5.6	5.4	4.9	5.2	5.1	5.1	5.1	5.2
Foreign liabilities	16.4	12.1	11.8	11.1	11.3	10.8	10.4	10.7	10.8	10.6	10.4	10.1	10.0
Retail accounts and deposits	21.5	25.9	29.6	29.1	29.4	28.9	29.6	29.5	29.6	29.6	29.6	29.3	29.2
Corporate accounts and deposits	23.6	25.9	25.7	26.0	24.0	24	23.9	23.5	23.5	23.2	23.0	22.9	22.3
Accounts and deposits of government agencies and local government authorities	1.0	1.0	1.5	2.3	1.5	1.6	1.4	2.0	2.4	2.6	2.7	2.9	3.2
Outstanding securities	4.1	4.1	4.0	3.7	4.5	4.9	5.2	5.1	5.1	4.9	4.9	4.7	4.8

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

total assets, having returned to the level observed in the summer of 2009.

Repo operations have gradually been replaced with loans secured by non-market assets in the structure of borrowings from the Bank of Russia, which reflects a new refinancing system in the banking sector. For instance, in mid-October banks borrowed Rb 500bn of such loans for a 3-month term at 5.76% p.a. As of 1.11.2013, banks' loan debt to the Bank of Russia totaled Rb 818bn (net of Sberbank's Rb 300bn subordinated loan), and Rb 2,1 trillion under repo operations.

Loans issued

Households' loan debt to banks increased 2.2% (Rb 222bn) in October 2013. This indicator's annual growth rates dropped below 30% (29.4% at October month-end) for the first time since August 2011. The quality of credit portfolio kept deteriorating. Overdue debt increased 3.2% in nominal terms during the month, and provisions for losses shrank 2.5%. As a result, the share of overdue debt increased from 4.5 to 4.6% while the ratio of provisions for losses to total loans from 7.1 to 7.2%. Furthermore, the volume of loans with overdue payments for longer than 90 days was growing fast, 4.4% during the month and 58.8% since the beginning of the year. As of 1.11.2013, the amount of such loans reached Rb 531bn, accounting for 5.8% of the total retail loans.

The amount of loans extended to corporate borrowers increased 1.4% during the month. Annual growth rates in corporate loans remained stable within a range of 13.0–14.0% since the spring 2013. In October 2013, the quality of the credit portfolio's corporate segment stopped deteriorating for the first

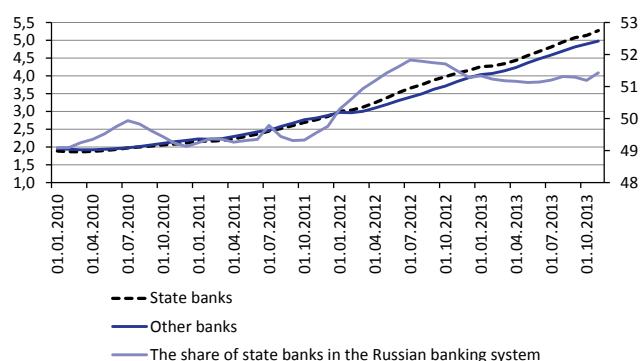


Fig. 6. Dynamics of state banks' and other banks' retail loans, (trillions of rubles), and the share of state banks in the retail loan market (% , right-hand scale)

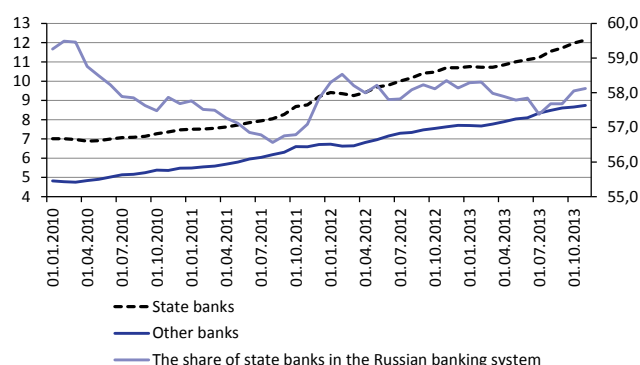


Fig. 7. Dynamics of state banks' and other banks' corporate loans (trillions of rubles), and the share of state banks in the corporate loan market (% , right-hand scale)

time over a long period (since the beginning of 2012). On the contrary, the key indicators of bad loans such as the share of overdue debt and provisions for losses against loan volumes increased 0.1 p.p. to 4.3% and 7.1% respectively, during the month.

Table 2

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

	12.08	12.09	12.10	12.11	06.12	12.12	04.13	05.13	06.13	07.13	08.13	09.13	10.13
Assets, billions of rubles	28022	29430	33805	41628	44266	49510	50 693	51587	52744	53353	53876	54348	59481
Cash and precious metals	3.0	2.7	2.7	2.9	2.5	3.1	2.7	2.4	2.4	2.3	2.3	2.3	2.3
Deposits in the Bank of Russia	7.5	6.9	7.1	4.2	3.0	4.4	3.0	3.1	3.3	3.0	2.9	3.5	3.1
Interbank operations	5.2	5.4	6.5	6.4	5.8	6.8	6.1	6.0	6.0	5.9	5.8	5.8	6.0
Foreign assets	13.8	14.1	13.4	14.3	14.2	13.0	15.0	15.6	15.1	15.0	14.5	13.6	13.4
Retail sector	15.5	13.1	13.0	14.4	16.0	16.8	17.7	17.8	17.9	18.1	18.4	18.5	18.7
Corporate sector	44.5	44.5	43.6	44.0	43.6	41.3	41.5	40.9	40.9	41.0	41.1	41.2	41.5
State	2.0	4.2	5.1	5.0	3.8	3.2	2.9	2.8	3.2	3.4	3.0	2.9	3.1
Property	1.9	2.7	2.6	2.3	2.3	2.2	2.2	2.2	2.2	2.1	2.1	2.1	2.1

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