

RUSSIAN BANKS IN JANUARY 2014

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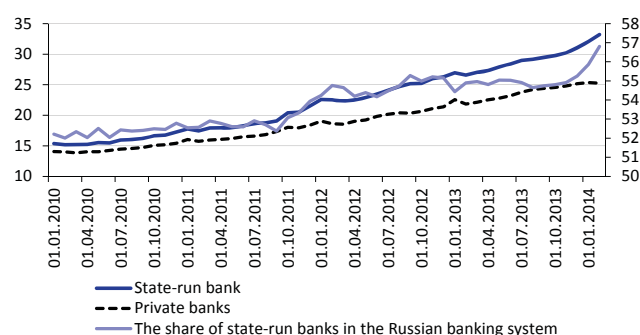
In January 2014, banks generated extra revenues of Rb 39bn from the devaluation of the ruble, whereas adverse dynamics of household disposable incomes triggered worsening of the quality of retail loans. Banks keep being dependent on monetary authorities' resources.

In January 2014, the number of operating credit institutions contracted from 923 to 915, eight less. The Central Bank of Russia revoked the banking license of five banks and a non-bank credit institution, while two non-bank institutions ceased to exist by decision of their owners. As of January 1, 2014, the revoked-license banks' assets amounted to Rb 39bn or less than 0.1% of the total assets in the banking sector (Rb 57,4 trillion).

The banking sector's total assets increased Rb 1 trillion (1.8%) in January 2014. However, the entire growth was determined by the revaluation of accounts denominated in foreign exchange – official USD exchange rate increased 7.7% in January 2014, and banks' assets grew, as adjusted for the revaluation, at a rate of 0.0% in January 2014.

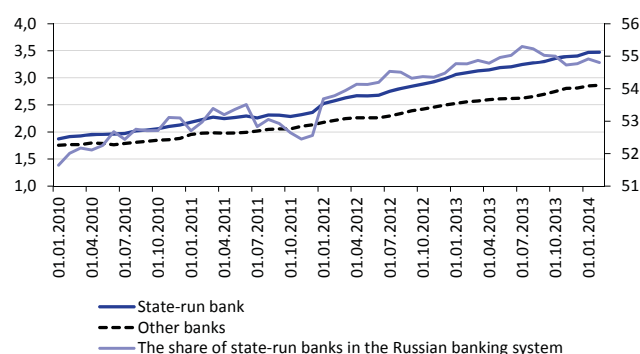
The assets of large state-run banks saw a higher than expected growth rate in January 2014. Their assets gained, as adjusted for the revaluation, 1.4% during the month. The assets of large foreign banks contracted 3.8%, and the assets of large and small Russian banks lowered 1.6% and 1.1% respectively. As a result, state-run banks accounted to 56.8% of the total assets, making a new historical highest.

The Russian banking sector generated Rb 94bn of profit in January 2014, corresponding to ROA at 2.0% p.a. and ROE at 17.9% p.a., overtaking slightly the values observed at 2013 year's-end when ROA stood at 1.9 p.a. and ROE at 16.9% p.a. It should be noted that in January 2014 the amount of contributions to the provisions for losses on loans and other assets increased markedly to Rb 122bn, 3.5-times as much as the average value observed in 2013 (Rb 34bn). This is indicative of a record profit prior to the creation of provisions (Rb 216bn), almost doubling the average monthly value observed in 2013 (Rb 117bn). This in part can be explained by the income from revaluation of accounts denominated in foreign exchange amounting to Rb 39bn during the month.



Source: Bank of Russia, bank's statements, Gaidar Institute's estimates.

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



Source: Bank of Russia, bank's statements, Gaidar Institute's estimates.

Fig. 2. Dynamics of state-run banks' and other banks' equity capital¹ (trillions of rubles), and state-run banks' equity stake (% , right-hand scale)

Fundraising

Retail bank accounts and deposits saw a 3.1% contraction (as adjusted for the revaluation) in January 2014, showing the slowest growth rate since the fall of 2008 in retail accounts and deposits with banks. Even in January 2009 the bank deposit base contracted less (2.4%). Annual growth rate in retain accounts

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

and deposits dropped to 14.7%, the lowest value since the fall of 2009.

The contraction in retail deposits was accompanied by the redistribution from ruble denominated to foreign exchange denominated deposits. Deposits denominated rubles contracted 4.2%, whereas deposits denominated in foreign exchange expressed in US dollars increased 2.2%. The share of deposits denominated in foreign exchange increased 2.1 p.p. to 19.7% during the month. To compare, in January 2009 the share of deposits denominated in foreign exchange increased 7.2 p.p. to 33.5%. It therefore is too soon to speak about a mass “fleeing the ruble”.

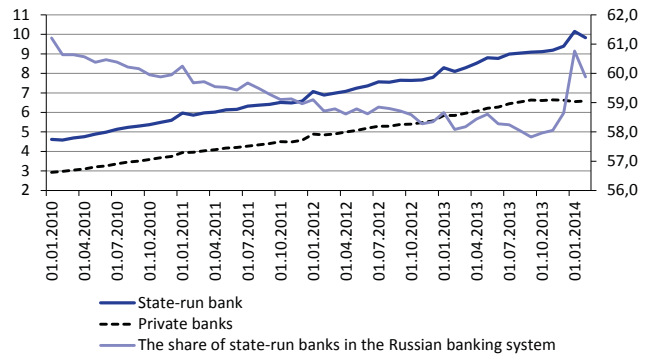
The contraction in bank deposits in January 2014 had an impact on all groups of banks. Curiously enough, however, it was major state-run banks that saw the most of it, above all, Sberbank whose deposits declined 5.1%. As a result, the market share of state-run banks dropped to 59.9%, but is still much bigger than in the final months of the previous year.

Corporate customers’ accounts and deposits with banks saw no changes in January 2014, accounts denominated in foreign exchange saw no growth, as adjusted for the revaluation. Furthermore, annual growth rate was 15.4%.

Stable total amount of corporate accounts and deposits was accompanied by strong migration from ruble-denominated accounts to foreign-currency accounts. Accounts and deposits denominated in rubles fell 3.5%, whereas a dollar equivalent of accounts denominated in foreign exchange increased 14.4%. The share of corporate customers’ accounts denominated in foreign exchange increased 4.3 p.p. to 25.3%.

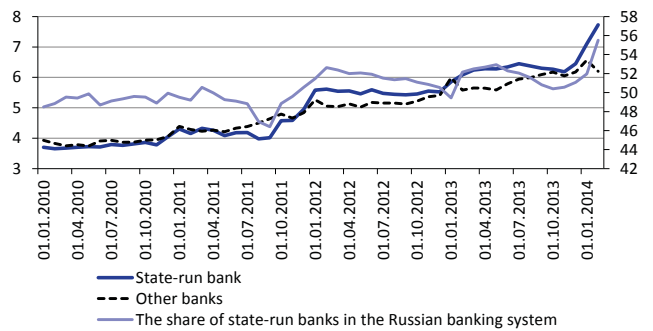
Migration of customers to state-run banks was another structural change in placing corporate funds in January 2014. Accounts and deposits with state-run banks increased 6.2%, whereas other groups of banks saw a substantial contraction in this type of liabilities: by 9.2% in foreign banks, 8.1% in large private banks, and 4.3% in small and medium-sized banks.

Banks’ debt to the monetary authorities – the Bank of Russia and the Ministry of Finance of Russia – changed insignificantly in January 2014. Its total amount increased Rb 28bn to Rb 4,6 trillion, or 7.9% of the banking sector’s assets. Additionally, the resources allocated by the Central Bank of Russia on repo operations were partially replaced by Bank of Russia’s loans and Ministry of Finance of Russia (Minfin) deposits. For instance, banks’ total debt on repo operations with the Central Bank contracted Rb 237bn, banks’ debt under Bank of Russia’s loans increased Rb 85bn while Minfin’s deposits went up Rb 185bn.



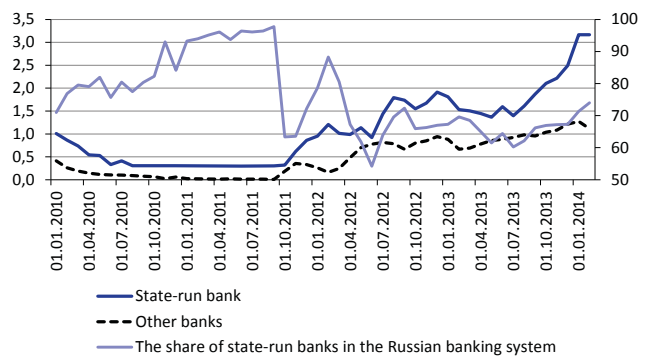
Source: Bank of Russia, bank’s statements, Gaidar Institute’s estimates.

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



Source: Bank of Russia, bank’s statements, Gaidar Institute’s estimates.

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



Source: Central Bank of Russia, Gaidar Institute’s estimates.

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

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	06.13	09.13	10.13	11.13	12.13	01.14
Liabilities, billions of rubles	28022	29430	33805	41628	44266	49510	49839	52744	54348	54981	56259	57423	58445
Equity	14.1	19.3	18.7	16.9	16.8	16.2	16.7	16.3	16.5	16.5	16.2	16.0	16.1
Loans from the Bank of Russia	12.0	4.8	1.0	2.9	5.1	5.4	4.5	4.4	5.8	6.0	6.6	7.7	7.4
Interbank operations	4.4	4.8	5.5	5.7	4.8	5.6	5.4	5.2	5.1	5.2	5.4	5.1	5.2
Foreign liabilities	16.4	12.1	11.8	11.1	11.3	10.8	10.4	10.8	10.1	10.0	10.3	9.9	10.3
Retail accounts and deposits	21.5	25.9	29.6	29.1	29.4	28.9	29.6	29.6	29.3	29.2	28.9	29.4	28.7
Corporate accounts and deposits	23.6	25.9	25.7	26.0	24.0	24	23.9	23.5	22.9	22.3	22.4	23.8	24.1
Accounts and deposits of government agencies and local government authorities	1.0	1.0	1.5	2.3	1.5	1.6	1.4	2.4	2.9	3.2	2.6	0.9	1.4
Outstanding securities	4.1	4.1	4.0	3.7	4.5	4.9	5.2	5.1	4.7	4.8	4.7	4.5	4.5

Source: Central Bank of Russia, Gaidar Institute's estimates.

Loans issued

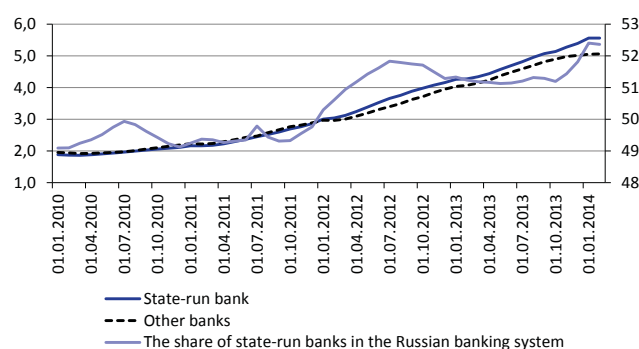
Households' loan debt to banks increased Rb 14bn (0.1%) in January 2014. This can be explained by the revaluation of a small amount of loans denominated in foreign exchange. The amount of retail loans, as adjusted for the revaluation, remained the same. Growth rate in retail bank loans kept slowing down, falling another 0.9 p.p. to 26.8% as of the end of January 2014.

The quality of bank's credit portfolio deteriorated in January 2014. The amount of overdue debt increased 5.9% while the amount of built up provisions for losses went up 6.4%. This triggered an increase in the share of overdue debt from 4.5% to 4.7%, while the provisions to credit portfolio ratio expanded from 7.2% to 7.6%. The January deterioration of borrowers' capacity to repay might have been triggered by contraction of household disposable income (by 1.5% as compared with January 2013).

Corporate borrowers' debt volume on loans from banks increased 0.6% (as adjusted for the revaluation) in January 2014. Annual growth rate stood at 12.5% as of the end of January. Annual growth rates have been remaining below 13% for two consecutive months, the lowest growth rate in the corporate segment of credit portfolio since February 2011.

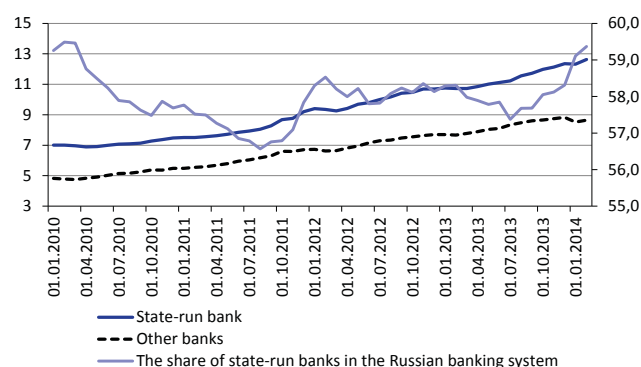
The quality of loans in the corporate segment also deteriorated in January 2014, but not as much as it did in retail lending. Overdue loans increased 3.7% during the month, increasing their share from 4.0% to 4.1% in the total amount of loans. The volume of provisions for losses in January 2014 increased 4.2% while the provisions to debt ratio went up from 6.9% to 7.1%.

Banks' liquid assets saw a contraction from 6.1% to 4.6% of the total bank assets. Such a dynamics is typical of the first month of a year after accumulation of surplus liquidity in December. Furthermore, the



Source: Bank of Russia, bank's statements, Gaidar Institute's estimates.

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



Source: Bank of Russia, bank's statements, Gaidar Institute's estimates.

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

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	03.13	06.13	09.13	10.13	11.13	12.13	01.14
	28022	29430	33805	41628	44266	49510	49839	52744	54348	54981	56259	57423	58445
Assets, billions of rubles	3.0	2.7	2.7	2.9	2.5	3.1	2.5	2.4	2.3	2.3	2.2	2.8	2.3
Cash and precious metals	7.5	6.9	7.1	4.2	3.0	4.4	3.3	3.3	3.5	3.1	3.0	3.9	3.0
Deposits with the Bank of Russia	5.2	5.4	6.5	6.4	5.8	6.8	6.4	6.0	5.8	6.0	6.1	5.7	6.1
Interbank operations	13.8	14.1	13.4	14.3	14.2	13.0	14.5	15.1	13.6	13.4	13.7	13.3	14.7
Foreign assets	15.5	13.1	13.0	14.4	16.0	16.8	17.4	17.9	18.5	18.7	18.5	18.5	18.4
Retail sector	44.5	44.5	43.6	44.0	43.6	41.3	41.9	40.8	41.2	41.5	41.0	39.3	40.0
Corporate sector	2.0	4.2	5.1	5.0	3.8	3.2	3.2	3.2	2.9	3.1	3.0	3.1	3.3
State	1.9	2.7	2.6	2.3	2.3	2.2	2.2	2.2	2.1	2.1	2.1	2.0	2.0

Source: Central Bank of Russia, Gaidar Institute's estimates.

amount of liquid assets fails to cover their debt owed to the monetary authorities for all groups of banks, short of small and medium-sized ones. This means that all large banks are unable to keep operating with-

out state support. The lowest level of "own" liquidity was observed in state-run banks, where its negative value exceeded 6% of total assets. ●