

## BANKING SECTOR IN MAY 2014

M.Khromov

*The trends towards slower growth rate and deterioration of the quality the retail credit portfolio continued in May 2014. Additionally, state-run banks kept strengthening their position in this segment of the banking service market. The banking business's profitability kept declining. Furthermore, the degree of banking sector's dependence on regulators' resources stabilized, and annual growth rates in retail deposits stopped slowing down.*

More banks had their banking license revoked in May 2014. The banking license of six organizations was revoked, three of which had been eligible to raise funds of retail customers. As of the beginning of May 2014, the assets of these banks amounted to more than Rb 60bn and retail deposits more than Rb 40bn. Therefore, within five months since the beginning of the year the regulator drove 36 organizations out of the market, of which 26 banks had been involved in raising funds of retail customers.

The banking sector's total assets increased 2.3% during the month. Annual growth rate in assets reached 16.4% at the month end. The share of state-run banks in total assets shrank from 57.0 to 56.6% in response to a more slower growth in Sberbank's assets whose volume increased only 1.3%.

The banking sector's profit dropped to Rb 46bn in May 2014, the lowest value in absolute terms since September 2012. Banks' profit shrank basically because of an increase of Rb 95bn in provisions for potential losses during the month. Banks earned even a bit more than in April 2014 (Rb 141bn against Rb 137bn during the preceding month) before they had to built up provisions for losses. As a result, the return on banking sector's equity kept declining, being only 8.5% p.a. in May 2014. The return on banking sector's equity stood at 12.7% p.a. during the period since the beginning of the current year and 15.2% p.a. during 12 months since June 2013.

### Fundraising

In May 2014, the amount of money on bank accounts and deposits remained almost unchanged, seeing a timid growth of 0.1%. However, this is more likely to be the result of a seasonal factors than a renewed lack of confidence of retail bank depositors in banks. In May 2013, retail bank accounts and deposits contracted 0.3%. Annual rates of growth in bank accounts and deposits saw some increase to 8.0% at the month end, however their level was an extremely low.

The share of retail accounts and deposits denominated in foreign exchange shrank from 20.0% to 19.5% during the month due to appreciation of the ruble

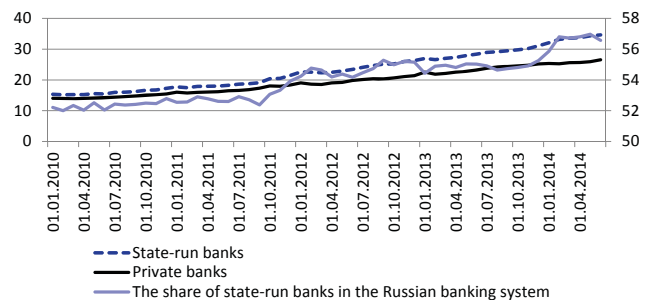


Fig. 1. Dynamics of assets in state-run banks and other banks (trillions of rubles), and the share of state-run banks in the assets (% , right-hand scale)

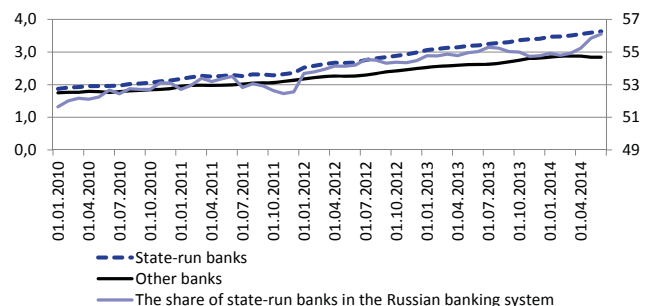


Fig. 2. Dynamics of equity<sup>1</sup> in state-run banks and other banks (trillions of rubles), and the share of state-run banks in the capital (% , right-hand scale)

exchange rate. Foreign currency accounts in terms of dollars contracted 0.2% during the month, whereas the national currency gained almost 3%. The volume of ruble accounts also saw insignificant changes, increasing by 0.1%.

The share of state-run banks in the deposit market shrank during the month thereby terminating the up-trend prevailing over the last few months. It was state-run banks that first of all were affected by a seasonal slowdown in household savings. The volume of deposits in Sberbank and other state-run banks shrank by 0.5% and 0.4% respectively during the month.

<sup>1</sup> Calculated according to balance-sheet accounts (form No. 101).

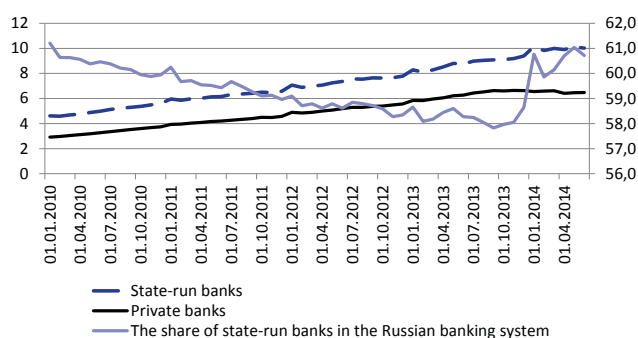


Fig. 3. Dynamics of retail deposits in state-run banks and other banks (trillions of rubles), and the share of state-run banks in the retail deposit market (%; right-hand scale)

During May 2014 corporate customers increased 2.9% the balance of their bank accounts and deposits. This type of bank assets gained 15.8% during 12 months at the month end. The share of corporate customers' funds denominated in foreign currencies increased from 26.7 to 27.0% during May 2014. At the same time, ruble accounts and deposits increased 1.8%, and a dollar equivalent of accounts denominated in foreign currency increased 6.2%. Total amount of enterprises' and organizations' funds denominated in foreign currency reached a new maximum of \$111bn.

In May 2014, banks' outstanding debt to the monetary authorities saw a substantial slowdown. Banks' debt to the Bank of Russia was reduced by Rb 33bn, and deposits of the Ministry of Finance of Russia in banks increased by Rb 110bn. Therefore, total amount of monetary authorities' funds increased by Rb 77bn to Rb 5.638bn. The share of these resources in total liabilities remained unchanged, at a level of 9.2%.

### Loans issued

The debt on retail bank loans increased 1.1% in May 2014. Annual growth rate stood at 21.7%, the lowest since April 2011.

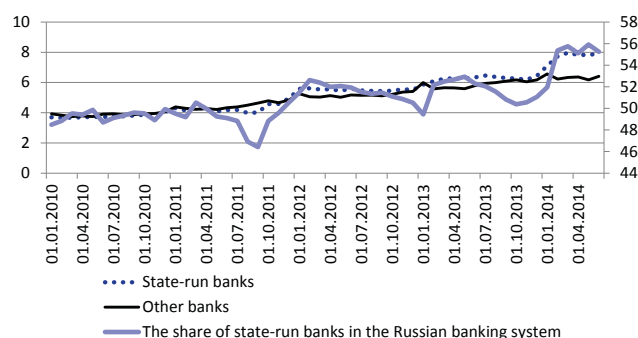


Fig. 4. Dynamics of corporate accounts with state-run banks and other banks (trillions of rubles), and the share of state-run banks in the corporate account market (%; right-hand scale)

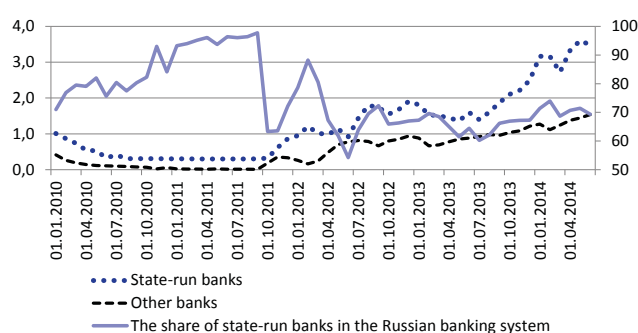


Fig. 5. Dynamics of Bank of Russia's loans extended to state-run banks and other banks (trillions of rubles), and the share of state-run banks in Bank of Russia's loans (%; right-hand scale)

Slowing down growth in retail lending was accompanied by a deterioration in the quality of the credit portfolio. For instance, in May 2014 the share of overdue loans increased from 5.1% to 5.3%. Total amount of households' overdue debt amounted to Rb 598bn. The volume of built up provisions for losses from retail loans increased up to Rb 915bn, accounting for 8.2% of the credit portfolio size compared to 7.9% in the preceding month. Since the beginning of the year the share of overdue debt increased almost 1 p.p. (from

Table 1

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

|   | 12.08 | 12.09 | 12.10 | 12.11 | 12.12 | 06.13 | 09.13 | 12.13 | 01.14 | 2.14  | 3.14  | 04.14 | 05.14 |
|---|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Liabilities, billions of rubles   | 28022 | 29430 | 33805 | 41628 | 49510 | 52744 | 54348 | 57423 | 58445 | 59137 | 59377 | 60208 | 61196 |
| Equity  | 14.1  | 19.3  | 18.7  | 16.9  | 16.2  | 16.3  | 16.5  | 16.0  | 16.1  | 16.0  | 16.0  | 15.9  | 15.9  |
| Loans from the Bank of Russia   | 12.0  | 4.8   | 1.0   | 2.9   | 5.4   | 4.4   | 5.8   | 7.7   | 7.4   | 6.7   | 7.9   | 8.4   | 8.2   |
| Interbank operations  | 4.4   | 4.8   | 5.5   | 5.7   | 5.6   | 5.2   | 5.1   | 5.1   | 5.2   | 5.0   | 4.7   | 4.8   | 5.6   |
| Foreign liabilities   | 16.4  | 12.1  | 11.8  | 11.1  | 10.8  | 10.8  | 10.1  | 9.9   | 10.3  | 10.7  | 10.6  | 10.3  | 9.8   |
| Retail accounts and deposits  | 21.5  | 25.9  | 29.6  | 29.1  | 28.9  | 29.6  | 29.3  | 29.4  | 28.7  | 28.5  | 27.8  | 27.9  | 27.3  |
| Corporate accounts and deposits   | 23.6  | 25.9  | 25.7  | 26.0  | 24    | 23.5  | 22.9  | 23.8  | 24.1  | 24.2  | 23.9  | 23.3  | 23.4  |
| Accounts and deposits of government agencies and local government authorities | 1.0   | 1.0   | 1.5   | 2.3   | 1.6   | 2.4   | 2.9   | 0.9   | 1.4   | 1.6   | 1.8   | 2.2   | 2.5   |
| Outstanding securities  | 4.1   | 4.1   | 4.0   | 3.7   | 4.9   | 5.1   | 4.7   | 4.5   | 4.5   | 4.2   | 4.2   | 4.1   | 4.0   |

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

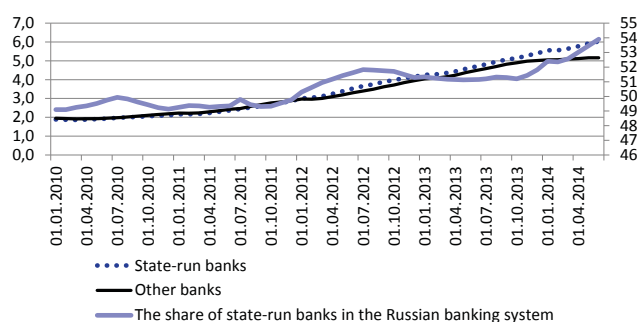


Fig. 6. Dynamics of retail loans issued by state-run banks and other banks (trillions of rubles), and the share of state-run banks in the retail loan market (% , right-hand scale)

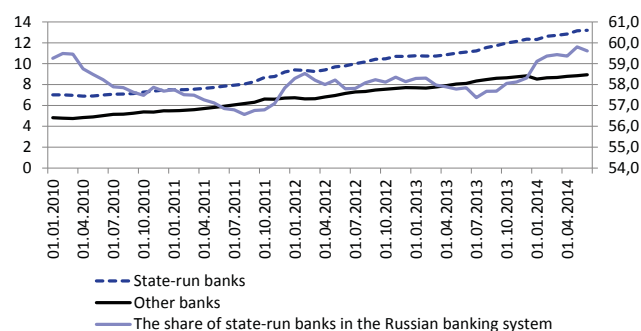


Fig. 7. Dynamics of corporate loans issued by state-run banks and other banks (trillions of rubles), and the share of state-run banks in the corporate loan market (% , right-hand scale)

4.5% as of 1.01.2014), while the provisions-to-loans ratio was up to more than 1 p.p. (from 7.1% as of 01.01.2014).

The volume of debt on corporate loans in May 2014 and during 12 months since June 2013 increased by 1.2% and 13.5% respectively. Annual growth rate of has become the maximal in the current year, being indicative of a faster growth rate in

the loan debt compared to the corresponding period in 2014.

The key indicators of the quality of loans to corporate borrowers deteriorated insignificantly. The share of overdue debt increased from 4.3 to 4.4% while the ratio of provisions for losses to total volume of loans from 6.6 to 6.7%, resuming the level observed early in the year.

Table 2

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

|                                  | 12.08 | 12.09 | 12.10 | 12.11 | 12.12 | 06.13 | 09.13 | 12.13 | 01.14 | 2.14  | 3.14  | 04.14 | 05.14 |
|----------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Assets, billions of rubles       | 28022 | 29430 | 33805 | 41628 | 49510 | 52744 | 54348 | 57423 | 58445 | 59137 | 59377 | 60208 | 61196 |
| Cash and precious metals         | 3.0   | 2.7   | 2.7   | 2.9   | 3.1   | 2.4   | 2.3   | 2.8   | 2.3   | 2.2   | 2.8   | 2.7   | 2.4   |
| Deposits with the Bank of Russia | 7.5   | 6.9   | 7.1   | 4.2   | 4.4   | 3.3   | 3.5   | 3.9   | 3.0   | 2.7   | 3.5   | 3.4   | 2.9   |
| Interbank operations             | 5.2   | 5.4   | 6.5   | 6.4   | 6.8   | 6.0   | 5.8   | 5.7   | 6.1   | 5.8   | 5.3   | 5.7   | 6.5   |
| Foreign assets                   | 13.8  | 14.1  | 13.4  | 14.3  | 13.0  | 15.1  | 13.6  | 13.3  | 14.7  | 15.5  | 14.4  | 15.1  | 14.6  |
| Retail sector                    | 15.5  | 13.1  | 13.0  | 14.4  | 16.8  | 17.9  | 18.5  | 18.5  | 18.4  | 18.2  | 18.4  | 18.4  | 18.3  |
| Corporate sector                 | 44.5  | 44.5  | 43.6  | 44.0  | 41.3  | 40.8  | 41.2  | 39.3  | 40.0  | 39.8  | 39.6  | 39.0  | 38.8  |
| State                            | 2.0   | 4.2   | 5.1   | 5.0   | 3.2   | 3.2   | 2.9   | 3.1   | 3.3   | 3.7   | 3.0   | 2.7   | 3.2   |
| Property                         | 1.9   | 2.7   | 2.6   | 2.3   | 2.2   | 2.2   | 2.1   | 2.0   | 2.0   | 1.9   | 1.9   | 1.9   | 1.9   |

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