

## RUSSIAN BANKS IN AUGUST 2014

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*Banks' assets contracted in August due to the shrinking of basically all key types of bank assets. It is only retail accounts and deposits that showed minor positive dynamics, although the downtrend in growth rates was still in place. This also pushed down the growth in the credit portfolio. The quality of corporate loans remained stable, whereas the quality of retail loans kept deteriorating.*

The banking license revocation process continued in August 2014. Nine credit institutions lost their license. However, only four of them provided retail services. The average size of the banks<sup>1</sup> which lost their banking license in August wasn't big, only Rb 1,8bn against Rb 8,3bn on average in the elapsed year, the average amount of deposits amounted to Rb 1,1bn, (against Rb 5.6bn in the previous year).

Total bank assets contracted 0.5%<sup>2</sup> in August while the 12-month growth rate slowed down to 13.1%.

The regulatory capital of the banking sector increased 0.9% in August. Risk-weighted assets which are factored into the capital adequacy calculation saw a 1.7% rise during the month. This led to further shrinking of the capital adequacy ratio in the banking sector to 12.6% as of September 1, 2014 from 12.7% as of August 1, 2014 and 13.5% as of January 1, 2014.

The pretax profit of the banking sector amounted to Rb 79bn in August 2014, being roughly equal to the monthly average profit in the current year (Rb 74bn). At the same time, the pre-provision profit increased to Rb 173bn in August, the highest value since February this year. Banks allocated Rb 94bn as loan loss provisions during the month (Rb 74bn monthly average in 2014), which implies that the quality of bank assets kept deteriorating.

### Fundraising

Retail bank deposits increased only 0.2% in August, thereby slowing down the annual growth rate to 6.0%. Therefore, growth in retail accounts and deposits in banks dropped below the lowest value observed during the crisis (retail accounts and deposits grew at a rate of 6.1% in the period between September 2008 and August 2009).

1 As of the latest reporting date preceding the license revocation.

2 Hereinafter growth rates in balance-sheet indicators are presented with allowance for revaluation in foreign currency, but without taking account of banks whose banking license was revoked, unless otherwise stated.

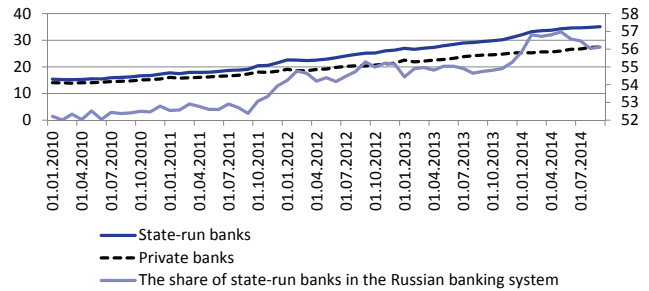


Fig. 1. Dynamics of assets in state-run banks and other banks (trillions of rubles), and the share of state-run banks in the assets (% , right-hand scale)

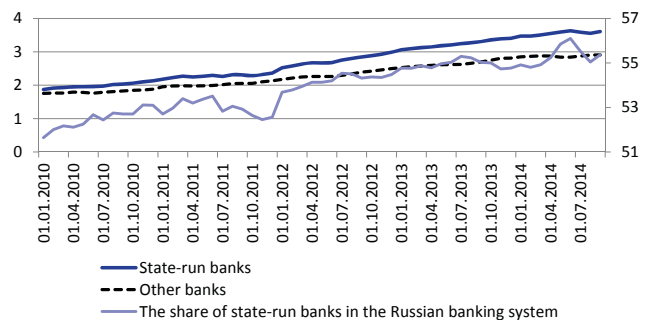


Fig. 2. Dynamics of equity<sup>3</sup> in state-run banks and other banks (trillions of rubles), and the share of state-run banks in the capital (% , right-hand scale)

Ruble-denominated retail bank deposits increased 1.0% in August while the dollar equivalent in deposits denominated in foreign currencies contracted by 3.3%. Despite the visible devaluation of the ruble in August<sup>4</sup> foreign currency denominated deposits were in little demand among customers, their volume got back to the level observed early in the year (\$91,1bn). This can be associated with excessive accumulation of foreign currencies on retail accounts earlier this year after the initial stage of the ruble devaluation. These

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

4 This year in August the ruble weakened against the US dollar and the Euro by 4.2% and 3.3% respectively.

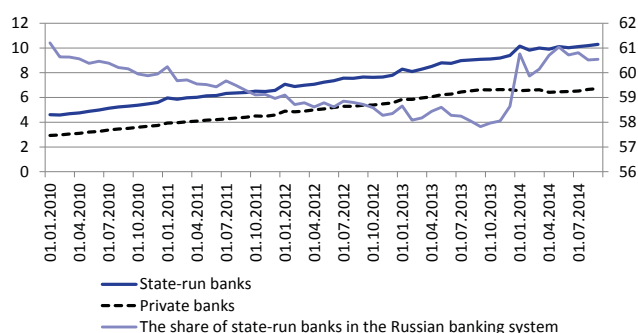


Fig. 3. Dynamics of retail deposits in state-run banks and other banks (trillions of rubles), and the share of state-run banks in the retail deposit market (% , right-hand scale)

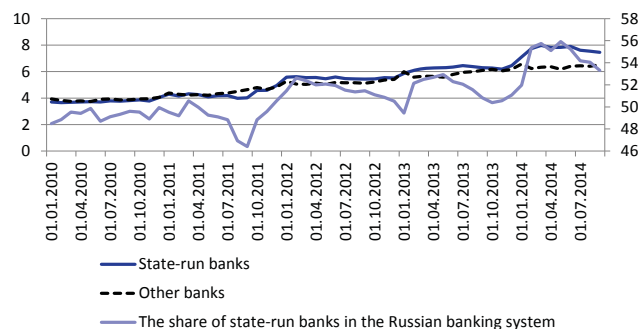


Fig. 4. Dynamics of corporate accounts with state-run banks and other banks (trillions of rubles), and the share of state-run banks in the corporate account market (% , right-hand scale)

assets were used to finance current consumption in the summer time.

Interest rates on ruble denominated bank deposits<sup>1</sup> with a maturity date exceeding one year reached another highest value of 8.9% p.a. in August, while the top-10 largest banks offered an interest rate of 9.2% p.a. in the same month.

Corporate accounts and deposits with banks shrank too in August, with a monthly growth rate of 0.8% while the annual growth rate dropped to 10.0% against 11.0% in the preceding month and 13.9% earlier this year. Unlike retail accounts and deposits, corporate customers' account balances shrank in August, both ruble (-0.4% monthly) and foreign currency account balances (-1.9% in dollar terms).

At the same time, it is current and settlement accounts that mainly saw outflow of funds, their volume contracted by 1.2%, including ruble denominated ones

1 Sberbank is not included.

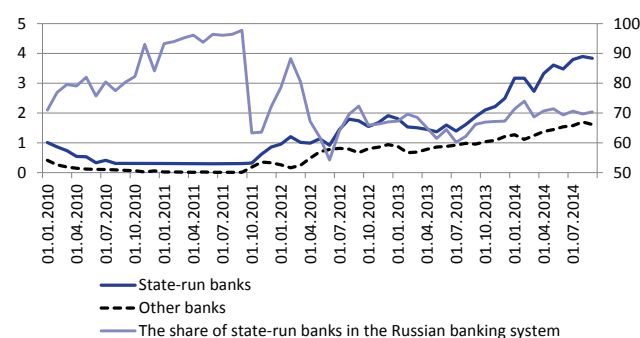


Fig. 5. Dynamics of Bank of Russia's loans extended to state-run banks and other banks (trillions of rubles), and the share of state-run banks in Bank of Russia's loans. (% , right-hand scale)

(2.0%) and foreign currency denominated ones (6.4%) in dollar terms. Bank term deposits of legal entities increased 0.2%, of which foreign currency denominated deposits contracted by 0.9%, whereas ruble denominated ones increased 1.0%.

Table 1

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

	12.08	12.09	12.10	12.11	12.12	06.13	12.13	3.14	04.14	05.14	06.14	07.14	08.14
Liabilities, billions of rubles	28022	29430	33805	41628	49510	52744	57423	59377	60208	61196	61385	62127	62464
Equity	14.1	19.3	18.7	16.9	16.2	16.3	16.0	16.0	15.9	15.9	15.8	15.8	15.9
Loans from the Bank of Russia	12.0	4.8	1.0	2.9	5.4	4.4	7.7	7.9	8.4	8.2	8.7	9.0	8.7
Interbank operations	4.4	4.8	5.5	5.7	5.6	5.2	5.1	4.7	4.8	5.6	5.9	5.5	5.6
Foreign liabilities	16.4	12.1	11.8	11.1	10.8	10.8	9.9	10.6	10.3	9.8	9.4	9.5	9.6
Retail accounts and deposits	21.5	25.9	29.6	29.1	28.9	29.6	29.4	27.8	27.9	27.3	27.4	27.5	27.6
Corporate accounts and deposits	23.6	25.9	25.7	26.0	24	23.5	23.8	23.9	23.3	23.4	22.9	22.4	22.4
Accounts and deposits of government agencies and local government authorities	1.0	1.0	1.5	2.3	1.6	2.4	0.9	1.8	2.2	2.5	2.3	2.5	2.9
Outstanding securities	4.1	4.1	4.0	3.7	4.9	5.1	4.5	4.2	4.1	4.0	3.9	3.9	3.9

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

## Loans issued

The contraction in the volume of current accounts resulted in that the share of deposits reached a record high level of 57.5% of the total corporate customers' resources. The volume of term deposits as of September 1, 2014 amounted to Rb 7,85 trillion in nominal terms.

The USD amount of foreign liabilities in the banking sector has been shrinking for five consecutive years. Since April 1, 2014 their volume declined from \$176,9bn to \$162,9bn as of September 1, 2014, including \$3,7bn in August. The share of foreign liabilities in the total volume of bank liabilities shrank from 10.6% to 9.6% during the same period. It's worth noting that the Russian banking sector currently depends less on external loans and other borrowings from non-residents than it did prior to the crisis in 2008–2009, when the biggest volume of foreign liabilities reached \$181bn while their share in the total liabilities was more than 18%.

Banks' total debt to the monetary authorities decreased in August. The volume of Minfin deposits with banks, however, increased Rb 50bn to Rb 685bn. At the same time, the debt owed to the Bank of Russia shrank by Rb 139bn through the reduction of repo operations. Total volume of monetary authorities' resources in the banking sector liabilities as of September 1, 2014 amounted to Rb 6,14 trillion.

The debt owed by individuals to banks increased 1.1% in August 2014. The annual growth rate downturn was still in place: the debt stood at 17.3% at month-end August against 18.8% in the preceding month and 27.7% at year-end 2013.

The quality of the retail credit portfolio kept deteriorating. The share of delinquent loans reached 5.7% of the total volume of loans (against 5.5% in the preceding month, 4.5% earlier this year). The share of loans with payments delinquent more than 90 days as of September 1 stood at 7.7% (against 7.4% in the

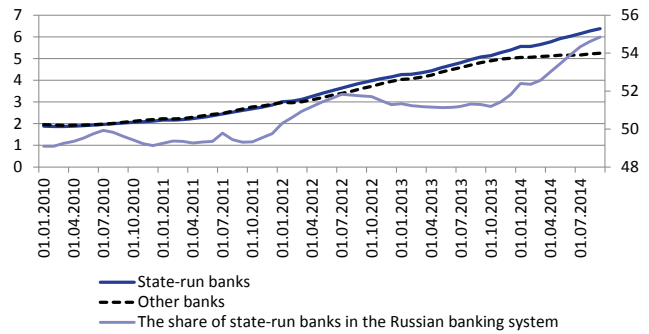


Fig. 6. Dynamics of retail loans issued by state-run banks and other banks (trillions of rubles), and the share of state-run banks in the retail loan market (% , right-hand scale)

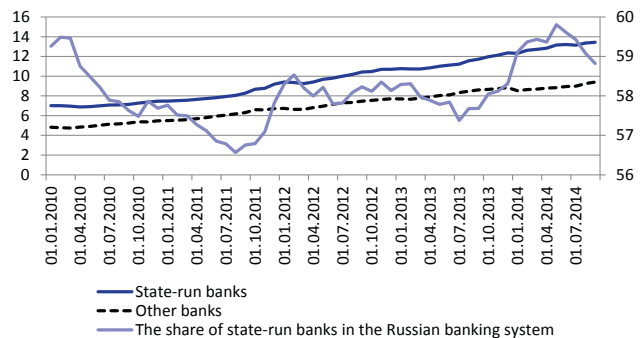


Fig. 7. Dynamics of corporate loans issued by state-run banks and other banks (trillions of rubles), and the share of state-run banks in the corporate loan market (% , right-hand scale)

preceding month, 5.8% earlier this year), and the ratio of loss provisions to loan debts went up to 8.6% from 8.5% as of August 1 and 7.1% of January 1.

The corporate credit portfolio increased 0.3% in August and 10.2% over 12 months. Annual growth rate appeared to be minimal since the beginning of 2011.

Nonetheless, the quality of corporate loans remained relatively stable. The ratio of loss provisions to total debt on loans as of September 1, 2014 remained equal to the value (6.7%) as of January 1, 2014, and

Table 2

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

	12.08	12.09	12.10	12.11	12.12	06.13	12.13	3.14	04.14	05.14	06.14	07.14	08.14
Assets, billions of rubles	28022	29430	33805	41628	49510	52744	57423	59377	60208	61196	61385	62127	62464
Cash and precious metals	3,0	2,7	2,7	2,9	3,1	2,4	2,8	2,8	2,7	2,4	2,4	2,3	2,3
Deposits with the Bank of Russia	7,5	6,9	7,1	4,2	4,4	3,3	3,9	3,5	3,4	2,9	3,3	3,1	2,8
Interbank operations	5,2	5,4	6,5	6,4	6,8	6,0	5,7	5,3	5,7	6,5	6,9	6,5	7,2
Foreign assets	13,8	14,1	13,4	14,3	13,0	15,1	13,3	14,4	15,1	14,6	14,1	14,2	13,5
Retail sector	15,5	13,1	13,0	14,4	16,8	17,9	18,5	18,4	18,4	18,3	18,5	18,5	18,7
Corporate sector	44,5	44,5	43,6	44,0	41,3	40,8	39,3	39,6	39,0	38,8	38,8	39,0	39,3
State	2,0	4,2	5,1	5,0	3,2	3,2	3,1	3,0	2,7	3,2	3,4	3,4	3,6
Property	1,9	2,7	2,6	2,3	2,2	2,2	2,0	1,9	1,9	1,9	1,9	1,9	1,9

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

the rate of delinquent loans increased since early in the year only 0.2% to 4.3%, and for the most part of 2013 this value was higher than that observed as of the latest accounting date.

Interest rates on ruble denominated loans with a maturity less than one year to non-financial organizations<sup>1</sup> lowered in August by 0.1 p.p. to 10.9% p.a., de-

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1 Sberbank is not included.

spite the fact that late in July the Bank of Russia lifted the key interest rate by 0.5 p.p. to 8.0% p.a. Therefore, the gap between loan interest rates and the regulator key interest rate narrowed since early in the year more than 1 p.p., from 4.1 p.p. in January to 2.9 p.p. in August. This implies that despite the increased share of refinancing instruments in banks' liabilities, the level of the regulated interest rate is only partially translated into interest rates on loans to end borrowers. ●