

RUSSIA'S BANKING SECTOR IN FEBRUARY 2015 – A THIRD STRAIGHT MONTH OF INSTABILITY

M.Khromov

February 2015 saw almost all of the trends prevailing over the recent months: the retail credit portfolio saw negative growth rates, the quality of the credit portfolio kept deteriorating both in the corporate and retail segments of the credit market, the debt owed to non-residents kept declining, while the banking sector financial performance result was indicative of banks running at a loss. The only reversal in the adverse trends took place in the bank deposit market facing an uptrend for the first time over the past few months.

The dynamics of the nominal volume of banks' assets have recently been correlating largely with the dynamics of the ruble's exchange rate against foreign currencies. The devaluation of the national currency increased a ruble equivalent of banks' assets denominated in foreign currencies, whereas a stronger ruble did it in reverse, reducing the nominal volume of the assets. In February 2015, the ruble's official exchange rate gained 11.1% against the U.S. dollar, making a substantially adverse contribution to the dynamics of banks' assets, because nearly 1/3 of their volume are comprised of assets denominated in foreign currencies. For instance, the nominal volume of banks' assets in February 2015 declined by 5.4%, while the assets' growth rate versus the corresponding date last year slowed down to 28.2% as of 1.03.2015 from 38.2% as of 1.02.2015. Additionally, with allowance for the revaluation of the assets' component denominated in foreign currencies, the decline in February was more timid, 1.5%¹, while the annual growth rate dropped to 11.9% as of 1.03.2015 versus 14.7% in the previous month.

February 2015 was a third month in a row for the banking sector negative financial performance. Banks were running Rb 12bn losses during the month, the highest value of the three loss-making months (minimum absolute value of losses). The financial performance result in February was governed by substantial losses caused by the ruble's appreciation. The excess of banks' assets over liabilities, both denominated in foreign currencies, which allowed banks to make profit in times when the ruble was depreciating, resulted in

1 Growth rates in balance-sheet indicators are hereinafter presented with allowance for the revaluation in foreign currencies, but without adjustment for the banks whose banking license was revoked, unless otherwise stated. To avoid the effect of change in the ruble exchange rate, all banking sector's balance sheet components denominated in foreign currencies are converted into the U.S. dollars based on the exchange rate available at the balance sheet date, changes are calculated in U.S. dollars, while the ruble equivalent of the changes is evaluated based on the average monthly RUB/USD exchange rate.

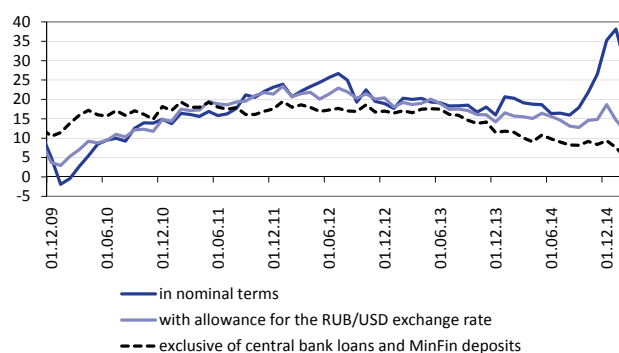


Fig. 1. The dynamics of the banking sector assets as compared to the corresponding date last year (growth, %)

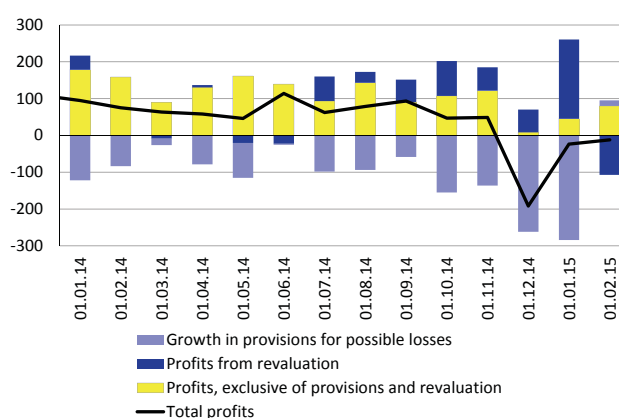


Fig. 2. The banking sector's monthly profit key components, billions of rubles

Rb 107bn of losses in February. At the same time, banks released a part of their provisions for possible losses, which might well be related to the ruble's appreciation reducing the ruble's par value in the assets denominated in foreign currencies.

At the same time, there was a positive trend of recovering volume of profits, exclusive of the accumulation of provisions and the revaluation of accounts denominated in foreign currencies. In December 2014, the volume dropped to Rb 8bn, whereas in January 2015 it was running at Rb 45bn, and in February it increased to Rb 80bn, which, however, is still below the average

monthly values seen in the recent few months (more than Rb 120bn on average within 12 months until November 2014).

Fundraising

In February 2015, the balance of retail customers' accounts showed positive dynamics for the first time since October 2014, increasing 2.0% (Rb 382bn) during the month. Furthermore, the increase offset the outflow of funds in January, and the total change in the volume of deposits became positive within the first two months of the year (0.4% earlier in the year or Rb 65bn). However, the 12-month inflow of deposits was still in the negative area – the outflow of deposits was 1.1% (Rb 185bn) in the period between March 2014 and February 2015.

The growth in the balance of retail bank accounts and deposits in February had an effect on both ruble-denominated accounts and FX accounts. The balances denominated in rubles increased 2.7% during the month, while those denominated in foreign currencies were up 0.5% in the U.S. dollar equivalent. Furthermore, the volume of ruble-denominated deposits exceeded for the first time in three months the value seen on the corresponding date last year (Rb 13,7 trillion as of 1 March 2015 against Rb 13,4 trillion as of 1 March 2015). On the two previous balance sheet dates, the amount of ruble-denominated retail bank deposits was less than that in the previous year. Additionally, the volume of funds denominated in foreign currencies was noticeably smaller than that seen earlier in 2014. On 1 March 2015, they were running at \$85bn compared to Rb 94bn in the previous year.

The balances of corporate customers' accounts and deposits increased 0.6% (Rb 126bn) in February 2015. The annual growth as of the end of February 2015 dropped a bit to 16.5% from 17.8% last month.

Enterprises in February mostly accumulated their accounts denominated in foreign currencies. Если the the amount of ruble-denominated account balances increased increased 0.3% during the month against 1.3% in the U.S. dollar equivalent. The volume of corporate customers' account balances denominated in foreign currencies reached a record \$116bn.

The structure of funds distributed between current accounts and term deposits saw mixed changes in February. Both saw an increase in monthly volume (current accounts up 0.1%, term deposits up 0.4%), except that current accounts saw an increase of Rb 167bn in volume of the balances denominated in rubles and a decrease of \$2,4bn in volume of the balances denominated in foreign currencies. By contrast, term deposits denominated in foreign currencies saw

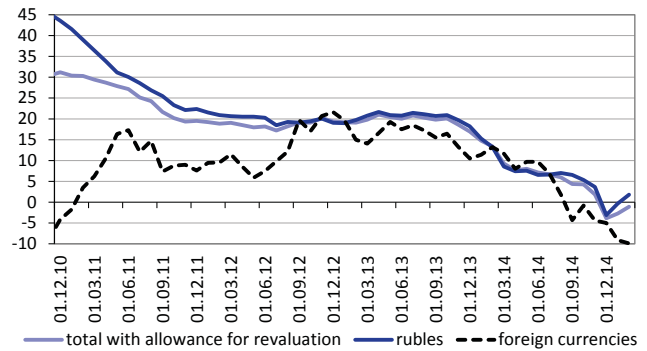


Fig. 3. The dynamics of retail deposits as compared to the corresponding date last year (growth, %)

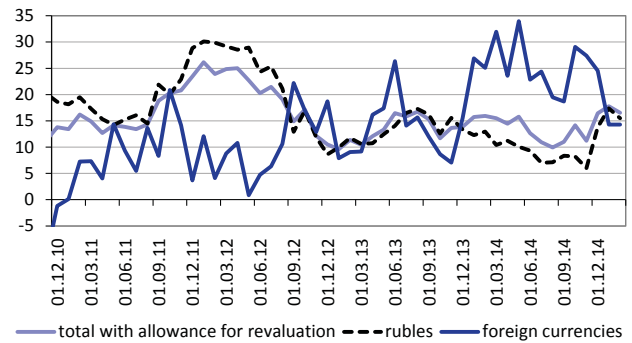


Fig. 4. The dynamics of corporate customers' accounts as compared to the corresponding date last year (growth, %)

a growth of \$3,5bn, whereas those denominated in rubles was an outflow of -Rb 141bn.

Term deposits of corporate customers accounted for 58% of the total volume of assets with banks as of 1 March, less than the record value of 63% as of 1 January 2015, which is anyway indicative of substantial withdrawal of money by the corporate sector from current operations. The volume of term deposits accounted for about 8.5–9% of the annual turnover of organizations, calculated by the Federal State Statistics Service (Rosstat).

In February, banks' debt to the monetary authorities decreased Rb 0,4 trillion, to Rb 8,3 trillion from Rb 8.7 trillion. Most of the decrease was attributed to the decline in deposits of Russia's Finance Ministry (Rb 0,37 trillion), while the nominal volume of funds raised from the Bank of Russia remained basically the same. Yet, a noticeable part of the debt to the Bank of Russia has been denominated in U.S. dollars since late in 2014, its nominal volumes in rubles depend on the exchange rate dynamics. In February, the debt owed to the Bank of Russia increased, with allowance for the revaluation, in size after all owing, first of all, to the growth in repo operations denominated in foreign currencies. According to the Gaidar Institute estimates, as of 1 March, banks owed to the Bank of Russia more

Table 1

RUSSIAN CREDIT INSTITUTIONS' 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	03.14	06.14	09.14	12.14	01.15	02.15
Liabilities, billions of rubles	28022	29430	33805	41628	49510	52744	57423	59377	61385	64073	77 663	80753	76378
Equity	14.1	19.3	18.7	16.9	16.2	16.3	16.0	16.0	15.8	16.1	13.6	13.3	14.2
Loans from the Bank of Russia	12.0	4.8	1.0	2.9	5.4	4.4	7.7	7.9	8.7	8.8	12.0	9.6	10.1
Interbank operations	4.4	4.8	5.5	5.7	5.6	5.2	5.1	4.7	5.9	5.5	6.1	4.7	4.6
Foreign liabilities	16.4	12.1	11.8	11.1	10.8	10.8	9.9	10.6	9.4	9.6	10.2	11.2	10.2
Retail accounts and deposits	21.5	25.9	29.6	29.1	28.9	29.6	29.4	27.8	27.4	26.9	23.7	23.7	24.7
Corporate accounts and deposits	23.6	25.9	25.7	26.0	24	23.5	23.8	23.9	22.9	22.6	23.8	24.9	25.4
Accounts and deposits of government administration agencies and local government authorities	1.0	1.0	1.5	2.3	1.6	2.4	0.9	1.8	2.3	2.9	1.4	2.1	1.8
Outstanding securities	4.1	4.1	4.0	3.7	4.9	5.1	4.5	4.2	3.9	3.8	3.5	3.4	3.4

Source: The Central Bank of Russia, the calculations were made at the Gaidar Institute.

than \$30bn, the debt denominated in foreign currencies.

The deposits of Russia's Finance Ministry contracted mainly because of the withdrawal of deposits denominated in U.S. dollars, making their volume down to \$1,2bn from \$6,6bn.

The total debt owed to the money market regulators accounted for more than 10% of the total assets in the banking sector, being indicative of a heavy shortage of traditional liabilities for financing active banking operations.

Investment

The retail segment of banks' credit portfolio saw further contraction. February 2015 was a third month on a row that new retail loans were less than borrowers' principal repayment. The monthly amount of debt decreased 1.2% while the annual growth rate was down 7.5%.

The retail debt quality kept deteriorating. As of 1 March, the share of overdue debt in total retail loans increased to 6.8% (6.0 earlier in the year, 4.9% previous year). The highest value of 7.7% was reached during the crisis 2008–2010. The ration of provisions for possible losses to the amount of retail debts also increased to 9.6% (8.9% earlier in the year, 7.7% in the previous year). The highest ratio was recorded in 2010, reaching 10.9%.

Loans to corporate borrowers showed positive growth rates in February. The monthly volume of debt increased 1.2% while the annual growth rate varied within a range of 10–13% (12.4% as of 1 March 2015). In addition, the positive growth rate in February was secured exclusively through the provision of loans denominated in foreign currencies given a slightly con-

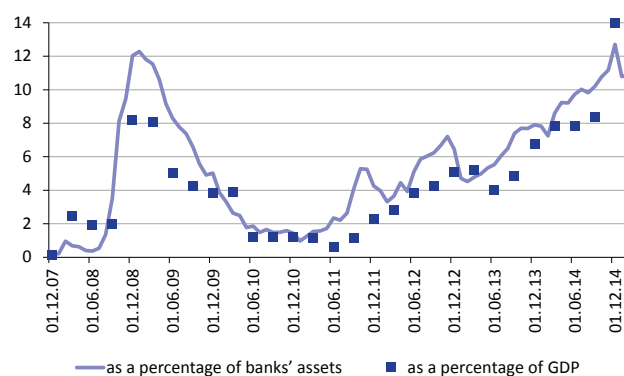


Fig. 5. The dynamics of banks' total debt to the Bank of Russia and Russia's Finance Ministry (as a percentage of assets and GDP)

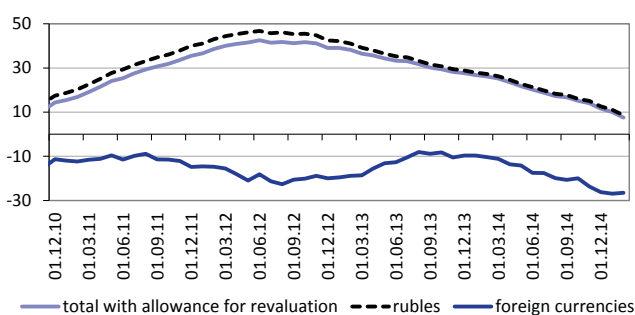


Fig. 6. The dynamics of retail loans as compared to the corresponding date last year (%)

traction of the ruble segment in the lending market. The volume of debts denominated in rubles contracted by 0.8% (-Rb 163bn), whereas the debts denominated in foreign currencies increased 6.2% in dollar terms (\$7,5bn).

The quality of corporate credit portfolio kept deteriorating for a third month in a row. The share of

Table 2

RUSSIAN CREDIT INSTITUTIONS' 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	03.14	06.14	09.14	12.14	01.15	02.15
Assets, billions of rubles	28022	29430	33805	41628	49510	52744	57423	59377	61385	64073	77 663	80753	76378
Cash and precious metals	3.0	2.7	2.7	2.9	3.1	2.4	2.8	2.8	2.4	2.3	3.5	2.7	2.5
Deposits with the Bank of Russia	7.5	6.9	7.1	4.2	4.4	3.3	3.9	3.5	3.3	3.4	4.2	3.0	2.8
Interbank operations	5.2	5.4	6.5	6.4	6.8	6.0	5.7	5.3	6.9	7.4	7.5	6.7	6.7
Foreign assets	13.8	14.1	13.4	14.3	13.0	15.1	13.3	14.4	14.1	13.1	13.8	16.6	15.7
Retail sector	15.5	13.1	13.0	14.4	16.8	17.9	18.5	18.4	18.5	18.4	15.5	14.8	15.4
Corporate sector	44.5	44.5	43.6	44.0	41.3	40.8	39.3	39.6	38.8	39.3	35.9	36.5	38.0
State	2.0	4.2	5.1	5.0	3.2	3.2	3.1	3.0	3.4	3.2	3.1	3.5	4.0
Property	1.9	2.7	2.6	2.3	2.2	2.2	2.0	1.9	1.9	1.9	1.6	1.5	1.6

Source: The Central Bank of Russia, the calculations were made at the Gaidar Institute.

overdue debts in the total volume of loans increased to 4.5% by 1 March 2015 from a 4.0% minimum as of 1 December 2014. The ratio of provisions for possible losses to the total volume of corporate debts on loans has been increasing from 6.5% since 1 October, and reached 7.3% as of 1 March.

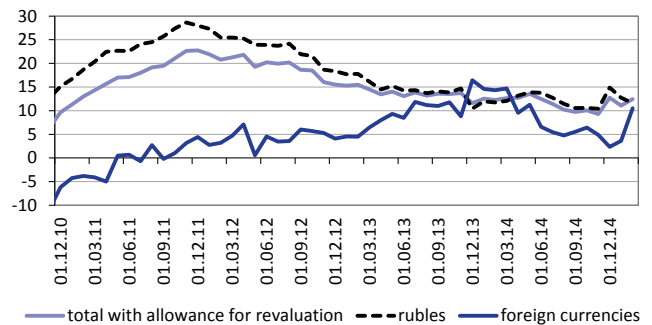


Fig. 7. The dynamics of loans to enterprises and organizations as compared to the corresponding date last year (%)