

RUSSIA'S BANKING SECTOR IN MAY 2015

M.Khromov

In May 2015, contraction of practically all categories of attracted funds of the banking sector resulted in the paralyses of corporate loans and clearing of quick funds. In May, P&L impact of the banking sector went back to the positive zone although aggregate P&L impact for the first five months 2015 remains negative.

In May 2015, banking sector funds contracted by 1.1%¹, (by Rb 0.8 trillion). Annual growth rate slowed down to 6.1%. Reduction of the banking funds in May was linked with the contraction of practically all major sources of attracted bank funds except funds on individual accounts. Highest reduction was observed in the banks' arrears before the regulator – by over than Rb 700bn. Quick funds of the banks and partially foreign funds went to service the loans issues before by the Bank of Russia.

In May 2015, P&L impact of the banking sector went back to the positive zone. The profit gained in May amounted to Rb 26bn before profit tax or Rb 14bn after tax. For the period since early 2015, before tax P&L impact of the banking sector constituted Rb 9bn down fortyfold against corresponding period 2014 (Rb 338bn). However, after the tax payment by profit making credit institutions, the banking sector's aggregate R&L impact for the first five months 2015 remains negative (-Rb 30bn). The main factor responsible for banks' losses in May again were the formation of targeted bank reserves against potential losses on loans which went up during the month to Rb 141bn.

Attracted Funds

In May 2015, increase of deposits on individual accounts after record-breaking levels observed in April slowed down to 0.6%. Taking account the fact that the May slowdown of funds inflow from the population is mainly due to seasonal character, annual growth rate slightly grew to 5.0%. Nevertheless, annual increase of the population's deposits volume although is in the positive zone (over Rb 800bn for 12 months) does not

1 Hereinafter, if not otherwise specified, the growth rates of balance-sheet indices are adjusted by changes in the value of their components denominated in foreign currencies, but without the adjustment by the data for banks whose licenses have been revoked. To eliminate the effects of the ruble exchange rate movement, all the components of the banking sector's balance sheet denominated in foreign currencies are recalculated in terms of US dollar's exchange rate as of a given date, all changes are recalculated in terms of USD, and the ruble-denominated component's changes are estimated by applying the monthly average ruble to USD exchange rate.

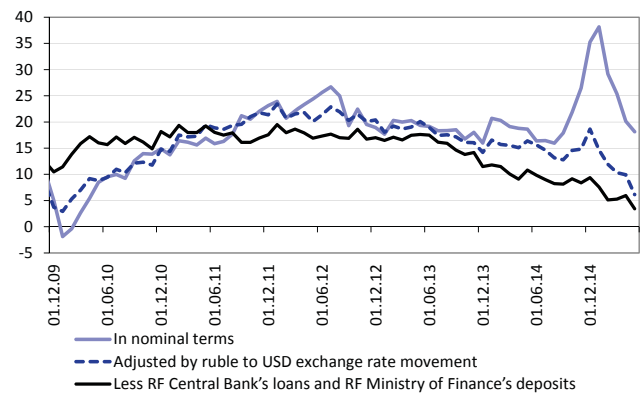


Fig. 1. The Movement of Funds of the Banking Sector (As % of Amount as of Corresponding Date of Previous Year)

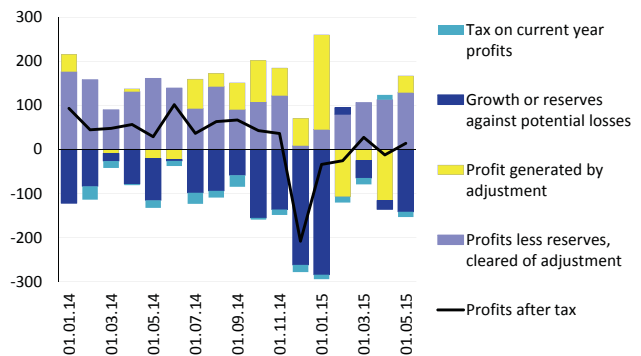


Fig. 2. The Main Components of the Banking Sector's Monthly Profits, Rb bn

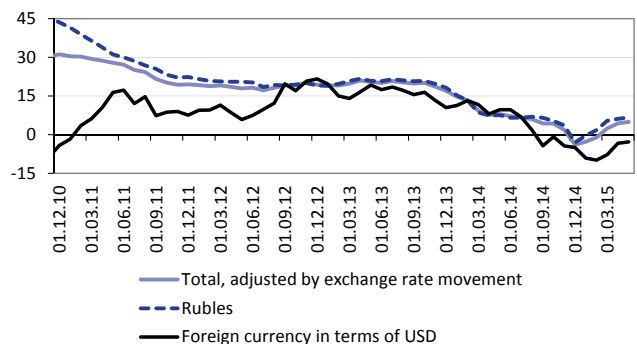


Fig. 3. The Movement of Individual Deposits (As % of Amount as of Corresponding Date of Previous Year)

exceed the amount of paid interest on deposits (about Rb 1 trillion for 12 months). Thus, the population did not deposit new money to the banks but collects only part of the earned interest gains.

In May 2015, there was growth of the populations' deposits both in the ruble and hard currency accounts. The volume of ruble funds on individual accounts and deposits in the banks grew over the month by 0.6% (to Rb 14.34trillion) and the amount of the population's funds in foreign currency went up by 0.4% (to \$91bn).

The volume of funds kept by corporate clients in their bank accounts in May decreased by 0.3% (by Rb 74bn). The decrease mainly affected funds on accounts and deposits in foreign currency. The volume of funds in rubles kept by corporate clients went up over the month by 1.1% including the volume of ruble current accounts increased by 4.0% and ruble time deposits shrank by 1.5%. The volume of FX funds fell by 6.3% in dollar terms, including by 12.1% contracted the volume of current accounts in foreign currency and by 4% – time deposits.

The share of corporate funds kept in their time deposit accounts remains high. They constitute 56.8% of the overall volume of the funds kept by corporate clients in banks as of 1 June 2015.

In May 2015, the amount of the banking sector's debt to Russia's monetary authorities shank by Rb 644bn in nominal terms (without adjustment to revaluation of liabilities denominated in foreign currency). Insignificant growth of funds kept on the deposits of the Ministry of Finance (by Rb 30bn) was accompanied by considerable reduction of banks' liabilities to the bank of Russia both in ruble instruments of liquidity supply (by Rb 670bn) and FX instruments (by \$1.7bn).

Contraction of the aggregate banks' debt to the regulator is explained, most likely, by the credit mar-

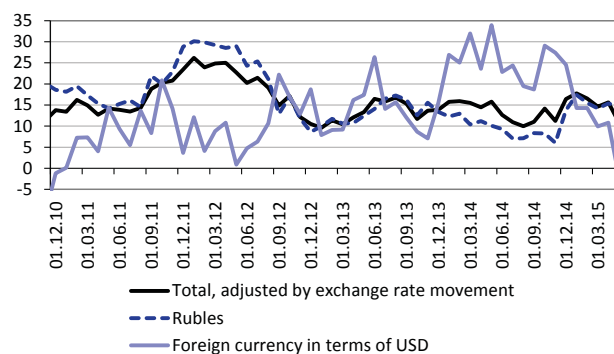


Fig. 4. The Movement of Corporate Clients' Deposits (as % of Amount as of Corresponding Date of Previous Year)

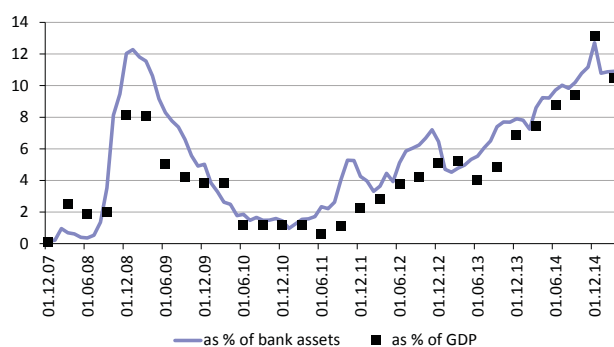


Fig. 5. The Movement of Banks' Total Debt to the Bank of Russia and the RF Ministry of Finance (as % of Bank Assets and GDP)

ket stagnation (see below). In these circumstances, banks cut demand on rather expensive attracted funds offered by the monetary authorities by paying with liquid funds. At the same time, the share of banks' debt to the monetary authorities in the overall volume of banking liabilities fell to 10% as of 1 June 2015.

Table 1

THE STRUCTURE OF RUSSIA'S CREDIT INSTITUTIONS' LIABILITIES (AS OF MONTH'S END), AS % OF TOTAL

	12.09	12.10	12.11	12.12	12.13	06.14	09.14	12.14	01.15	02.15	03.15	04.12	05.12
Liabilities, bn Rb	29430	33805	41628	49510	57423	61385	64073	77 663	80753	76378	74447	72328	72289
Equity	19.3	18.7	16.9	16.2	16.0	15.8	16.1	13.6	13.3	14.2	14.8	15.4	15.6
Credits allotted by Bank of Russia	4.8	1.0	2.9	5.4	7.7	8.7	8.8	12.0	9.6	10.1	10.2	10.4	9.5
Interbank operations	4.8	5.5	5.7	5.6	5.1	5.9	5.5	6.1	4.7	4.6	4.5	4.5	4.8
Foreign liabilities	12.1	11.8	11.1	10.8	9.9	9.4	9.6	10.2	11.2	10.2	9.5	8.7	8.7
Physical persons' monies	25.9	29.6	29.1	28.9	29.4	27.4	26.9	23.7	23.7	24.7	25.4	26.1	26.5
Enterprises and organizations' monies	25.9	25.7	26.0	24	23.8	22.9	22.6	23.8	24.9	25.4	25.0	24.6	24.5
Accounts and deposits of state administrative bodies and local governments	1.0	1.5	2.3	1.6	0.9	2.3	2.9	1.4	2.1	1.8	1.8	1.9	2.1
Securities issued	4.1	4.0	3.7	4.9	4.5	3.9	3.8	3.5	3.4	3.4	3.5	3.6	3.5

Source: RF Central Bank; the IEP's estimates.

Invested Funds

Banker's books data for May 2015 demonstrates reduction of the population's debts on bank loans sixth month in a row. The volume of loan debts accumulated by individuals to banks shrank over the course from December 2014 through May 2015 including by over than Rb 650bn or by 5.5% from the maximum level of Rb 12 trillion. Average monthly debt reduction over this period constituted 0.9%.

Main indices of the quality of the retail credit portfolio – the share of debt in arrears in the overall volume of loan debt and ratio of reserves to potential losses from loans extended to individuals to the debt volume – continues to deteriorate. As of 1 June 2015, the share of debt in arrears came to 7.6% and ratio of reserves for potential losses to loan debt constituted 10.5%. At the same time, growth of the share of debt in arrears in 2015 (1.6p.p.) is comparable with the increase over the last two years (1.9 p.p. from 4.1 to 6.0% in 2013–2014).

In case of the population, inability to access to financial resources in terms of new bank loans notably reduces the overall volume of disposable funds thus cutting the amount of purchasing power. In Q1 2015, interest payments made by the population on all types of loans (Rb 457bn) and debt contraction by Rb 398bn determined aggregate deduction from the population's income, linked to the service of the bank credit, the sum of Rb 855bn which is equal to 10% of expenses directed at the household consumption for this period.

Please see in more detail urgent issues related to the current state of retail credit market in On-line Monitoring of Russia's Economic Environment (OMES No. 10, 2015).

In the course of May 2015, loan debt of corporate borrowers to the banks shrank by 0.3% (Rb 74bn). Contraction as in previous months mainly affected loans in the national currency – the volume of the ruble corporate debt shrank over the month by 0.5%.

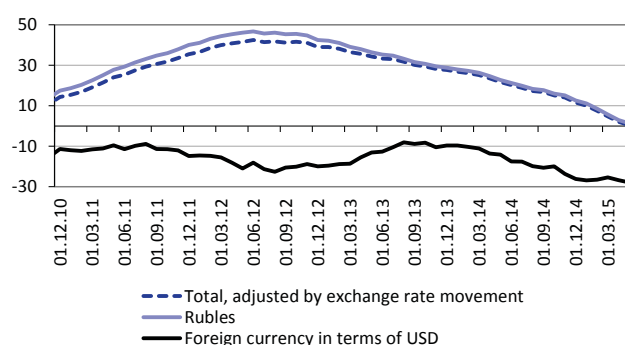


Fig. 6. The Movement of Retail Loans (as % of Amount as of Corresponding Date of Previous Year)

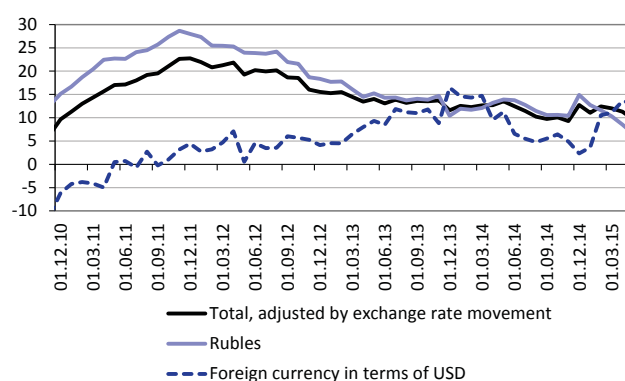


Fig. 7. The Movement of Loans Issued to Enterprises and Organizations (as % of Amount as of Corresponding Date of Previous Year)

The volume of FX loans on the contrary continue growing. Overall corporate debt on bank credits in foreign currency increased over the month by 0.4% in dollar terms reaching \$134bn.

The quality of the corporate credit portfolio also continues to deteriorate. As of 1 June 2015, the share of debt arrears in the overall volume of the corporate loan debt reached 5.5% including 6.8% ruble credits. Ratio of reserves for potential losses to the aggregate corporate loan debt went up to 7.9%.

Table 2

STRUCTURE OF RUSSIA'S CREDIT INSTITUTIONS' ASSETS (AS OF MONTH'S END), AS % OF TOTAL

	12.09	12.10	12.11	12.12	12.13	06.14	09.14	12.14	01.15	02.15	03.15	04.15	05.12
Assets, bn Rb	29430	33805	41628	49510	57423	61385	64073	77 663	80753	76378	74447	72328	72289
Cash and precious metals	2,7	2,7	2,9	3,1	2,8	2,4	2,3	3,5	2,7	2,5	2,3	2,3	2,2
Monies placed with Bank of Russia	6,9	7,1	4,2	4,4	3,9	3,3	3,4	4,2	3,0	2,8	3,2	3,0	2,7
Interbank operations	5,4	6,5	6,4	6,8	5,7	6,9	7,4	7,5	6,7	6,7	6,6	6,7	7,1
Foreign assets	14,1	13,4	14,3	13,0	13,3	14,1	13,1	13,8	16,6	15,7	15,1	15,1	15,2
Population	13,1	13,0	14,4	16,8	18,5	18,5	18,4	15,5	14,8	15,4	15,5	15,8	15,7
Corporate sector	44,5	43,6	44,0	41,3	39,3	38,8	39,3	35,9	36,5	38,0	38,6	38,8	39,3
State	4,2	5,1	5,0	3,2	3,1	3,4	3,2	3,1	3,5	4,0	3,9	3,7	4,2
Property	2,7	2,6	2,3	2,2	2,0	1,9	1,9	1,6	1,5	1,6	1,6	1,7	1,7

Source: RF Central Bank; the IEP's estimates.