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Russian Banking Sector

In November of this year the rate of individual savings in bank deposits has significantly increased. However, neither this fact, nor the continued active government support to the banks failed to prevent the slowdown of lending to both, individuals and corporate borrowers. Also, the banking sector continued to act as a channel of capital outflow from the country, despite the fact that monetary authorities are still the major lender of credit institutions.

In November 2012 total assets of the banking sector¹ increased by 1.6%, which means a slowdown in growth rate as compared with previous months (1.9% in September, 2.3% in October), as well as compared with November 2011 (2.7%). Annual growth rate of assets as of the end of November made 20.1%, which is the minimum value from September 2011.

The aggregate profit of the banking sector in November reached Rb 96bn, which is the maximum indicator since January this year. Return on banking assets in annual terms in November made 2.4%, and equity - 20.3%. Both indicators of profitability in November are roughly equal to the average values of the last 12 months (2.3% and 21.3%, respectively). This means that return on assets is largely dependent on the expansion of bank assets volume.

Raised funds

The inflow of funds to the *deposits of individuals* with the banking sector has significantly increased. The growth of assets at the accounts and deposits of individuals over the month made 2.0% and 20.2% in annual terms.

November accelerating growth of individuals' assets with the banks was mainly reached through accumulation of accounts and deposits denominated in rubles. The volume of funds in national currency increased over the month by 2.1%, while those in foreign currencies in USD equivalent grew by only 1.2%. The share of individual accounts in foreign currencies has somewhat declined over the month to 18.5%, but still remains higher than the minimum post-crisis level reached in February this year (17.5%).

In November the rate of household savings has significantly increased. The individuals have allocated in bank accounts 8.5% of their disposable incomes. Herewith, only for the period of January-November 2012, this ratio made 5.0%. Overall, as of the year result, the savings rate of population with bank deposits may exceed 6.5%, if the December peak in deposits growth remains at the level of previous years.

The volume of corporate customers' assets with the banks in November has increased only by 0.6%, and the annual growth rate fell down to 12.1%. In absolute terms the November inflow of funds to bank accounts and deposits companies and organizations (Rb 64bn) was 4 times less than the individual accounts (Rb 262bn). Over 12 months balances of corporate clients' accounts have increased nearly twice less than the funds of individual accounts (Rb 1189 vs. Rb 2279bn).

¹ Hereinafter growth rates of balance sheet are adjusted for exchange rate revaluation of foreign currency component, unless otherwise indicated.

Like individuals, in November corporations were also accumulating ruble balances in their bank accounts (1.2%), while the dollar equivalent of accounts in foreign currencies has even decreased (1.4%). Herewith, the corporate sector continues to keep a larger share of funds in foreign currency (22.6%) than individuals.

For more than a year term deposits dominate in the structure of banks' corporate clients. As of December 1, they accounted for 53% of the total funds in the bank accounts. According to our estimates, based on the banks reporting, the most of the term deposits are placed by legal entities for a period over a year. The share of deposits made by non-financial organizations for a period over a year was 42.4%, and that of financial institutions - 57.6% in total amount of deposits.

Foreign liabilities of the banking sector grew in November by \$1.3bn, which is less than 1% of the total foreign funds raised by banks. Given the fact that the growth of banks' foreign assets was 3.5 times greater (\$4.6bn), the outside world in November remained net borrower. Total amount exported from the country by the banks in autumn was \$14bn (the difference between the growth of foreign assets and liabilities).

Table 1

Structure of the Russian banking system liabilities (end of month), as % of total

	12.07	12.08	12.09	12.10	12.11	03.12	06.12	07.12	08.12	09.12	10.12	11.12
Liabilities, Rb bn	2012 5	2802 2	2943 0	3380 5	4162 8	4153 3	4426 6	4509 0	4552 3	4586 1	4709 6	4766 9
Own assets	15.3	14.1	19.3	18.7	16.9	17.5	16.8	16.8	16.9	16.9	16.7	16.7
Loans of the Bank of Russia	0.2	12.0	4.8	1.0	2.9	3.5	5.1	5.7	5.3	5.1	5.4	6.0
Interbank operations	4.1	4.4	4.8	5.5	5.7	5.1	4.8	4.8	5.0	5.1	5.1	5.1
Foreign liabilities	18.1	16.4	12.1	11.8	11.1	10.2	11.3	11.4	11.4	11.0	11.1	10.9
Private deposits	26.2	21.5	25.9	29.6	29.1	29.4	29.4	28.8	28.9	28.7	28.2	28.4
Corporate deposits	25.8	23.6	25.9	25.7	26.0	25.7	24.0	23.5	23.1	23.3	23.2	22.9
Accounts and deposits of state agencies and local authorities	1.5	1.0	1.0	1.5	2.3	1.4	1.5	1.7	2.3	2.5	2.7	2.4
Securities issued	5.8	4.1	4.1	4.0	3.7	4.8	4.5	4.5	4.6	4.8	5.0	5.0

Source: Central Bank of Russia, IEP estimates

Investments

In November bank's *retail lending* growth rates was at the minimum level since February. Over the month, the volume of outstanding liabilities on loans of individuals to the banks increased by 2.5%. Nevertheless, annual growth rates remain above 40%.

The quality of retail loan portfolio indicators of the banking sector remained unchanged over the month. Currently the share of overdue debt decreased from 4.5% 4.4%, and the ratio of provisions for possible losses to the total outstanding liabilities remained at 6.3%.

The retail lending in November in terms of the cost of current consumption has also slightly decreased. In our estimates, within a month the volume of loans to individuals amounted to 24.7% of retail trade, the cost of food and commercial services to population. Overall, in January-November this ratio reached 25.5%, which is by 4.5 p.p. more than in the relevant period of 2011 (21.0%).

The rate of lending to *corporate borrowers* in November was also insignificant. Over the month, this segment of the credit market has grown by only 0.7%, while the annual growth rate declined to 16.0%.

Over the month there were no essential changes in terms of corporate lending as well. The share of overdue loans remained at 4.8%, and the ratio of provisions for losses to total credit portfolio decreased from 7.8 to 7.7%.

Liquidity and government support

Liquidity of the banking sector in November has grown from 4.5 to 4.8% of assets, though regardless the assets of monetary powers the dynamics remains negative. The growth of total debt to the Bank of Russia and the RF Ministry of Finance in November made Rb 288bn, whereas the value of liquid assets increased by only Rb 169bn. The negative value of the banking sector own liquidity has risen to -2.5% of total assets.

Government support of the banking sector continues to focus primarily on the state banks. Their share exceeds 70% of the monetary authorities assets, allocated with the banks. Herewith, there is an interesting trend: each body of monetary regulation focuses on "its own" bank. For example, almost half (48%) of loans of the Bank of Russia is granted to banks to Sberbank, and 51% of deposits of the RF Ministry of Finance are placed with VTB Group banks (including the Bank of Moscow and TransCreditBank).

Table 2

Structure of the Russian banking system assets (end of month), as% of total

	12.07	12.08	12.09	12.10	12.11	03.12	06.12	07.12	08.12	09.12	10.12	11.12
Assets, Rb bn	2012 5	2802 2	2943 0	3380 5	4162 8	4153 3	4426 6	4509 0	4552 3	4586 1	4709 6	4766 9
Cash and precious metals	2.5	3.0	2.7	2.7	2.9	2.4	2.5	2.5	2.5	2.6	2.6	2.6
Deposits with the Bank of Russia	6.9	7.5	6.9	7.1	4.2	3.2	3.0	3.2	2.9	2.8	2.7	2.9
Interbank operations	5.4	5.2	5.4	6.5	6.4	6.2	5.8	5.7	5.9	5.8	6.1	6.1
Foreign assets	9.8	13.8	14.1	13.4	14.3	14.2	14.2	14.5	14.0	13.9	14.3	14.2
Individuals	16.1	15.5	13.1	13.0	14.4	15.3	16.0	16.1	16.5	16.8	16.8	17.0
Corporate sector	47.2	44.5	44.5	43.6	44.0	44.4	43.6	42.7	43.7	43.4	42.9	42.5
Government	4.1	2.0	4.2	5.1	5.0	4.9	3.8	3.4	3.4	3.3	3.2	3.0
Property	2.2	1.9	2.7	2.6	2.3	2.4	2.3	2.3	2.3	2.3	2.3	2.2

Source: Central Bank of Russia, IEP estimates