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Russian Banking Sector

In August 2012, the growth of bank assets has slowed down. The reason for this was the decreased growth rate of the main types of funds - foreign liabilities and assets of enterprises and organizations. However, the increased government support and reduced investments in foreign assets allowed to keep up the growth rate of the economy crediting.

Growth rate of total banking sector assets in August 2012 was decelerated. Over the month, they increased by 0.7%¹. Annual growth rates remained at the level of 22%. The basic contribution to slowing growth of the banking sector assets was made by assets reduction of medium and small banks, as well as foreign banks (1.0%). The leading positions were traditionally held by state-owned banks, whose assets increased by 1.7%.

Capital adequacy of the banking sector in August remained at about 13.3%, with the exception of Sberbank and VTB, the relevant indicator of which amounted to 13.8%. This confirms our assumptions, that the July decline in the capital adequacy by 0.5 p.p. was caused solely by the prudential innovations, namely by changes in the method of calculating own funds and capital adequacy indicator, introduced from July 1, 2012.

At the same time, the deceleration in growth rate of the banks' raised funds, which increased only by 0.8% in August, served as the main reason for the slowdown of aggregate assets growth.

The aggregate profit of the banking sector in August amounted to Rb 83bn, which corresponds to the return on assets at the level of 2.3% and return on equity at 20.3% in annual terms. Therefore, financial performance of banking sector remains quite stable in 2012. Since the year beginning, the return on assets (ROA) amounted to 20.4%, and return on equity (ROE) made 20.5%.

Raised funds

Funds in accounts and deposits of individuals have resumed their growth. In August, they increased by 1.2%, while the annual growth rate increased over this month from 17.2 to 18.2%. Within the summer months, the total increase of deposits was even larger than last year - 4.0% (or Rb 503bn) vs. 3.8% (or Rb 396bn) for the same period in 2011. Thus, the July downfall in savings of individuals was fully compensated.

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

In regard to disposable income, savings rate with the bank accounts and deposits recorded in summer 2012 (5.7%) was also slightly higher than in the previous year (4.9%).

August deposit base growth was based on a more rapid growth of the volume of accounts in foreign currencies. If the ruble deposits rose less than by 1%, the deposits in foreign currency in \$ increased by 2.5%.

The volume of corporate customers' assets with the banks in August 2012 has reduced by 0.9%. The annual growth rate fell down to 18.9%. Just as in the case of funds in the accounts and deposits of individuals, the growth rate of accounts of enterprises in foreign currency was higher than that of ruble ones. While the volume of ruble accounts and deposits decreased by 1.2%, the value of foreign currency accounts increased by 0.5%.

The overall reduction of funds at the bank accounts of the corporate sector was accompanied by their overflow from current accounts to term deposits. As a result, the ratio between deposits and current accounts has shifted in favor of term deposits even more. As of September 1, their volume was by 21% greater than the value of the current accounts, which was the highest indicator in the total period under review. As back as in early 2011, the volume of assets on deposits amounted to only 80% against that of current accounts. This trend may be an indirect evidence of the economic activity slowdown – assets not involved in the current economic turnover are withdrawn to term deposits.

In August, banks have sharply reduced fund raising from external capital markets. After two months of growth by 4-5% (\$7-8bn) per month, in August foreign liabilities of the banks increased by 0.3% (i.e., less than by \$0.5bn). However, state-owned banks continued their activity in the Eurobonds market. Sberbank, VTB and Rosselhozbank made five placements for the total amount exceeding \$5bn. The overall low growth of foreign loans is probably associated with the recovery of previously borrowed loans.

Table 1

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

	12.07	12.08	12.09	12.10	06.11	12.11	01.12	04.12	05.12	06.12	07.12	08.12
Liabilities, Rb bn	20125	28022	29430	33805	35237	41628	41150	42151	43225	44266	45090	45523
Own assets	15.3	14.1	19.3	18.7	18.5	16.9	17.3	17.3	17.0	16.8	16.8	16.9
Loans of the Bank of Russia	0.2	12.0	4.8	1.0	0.9	2.9	3.3	4.4	3.9	5.1	5.7	5.3
Interbank operations	4.1	4.4	4.8	5.5	5.2	5.7	5.7	4.9	4.7	4.8	4.8	5.0
Foreign liabilities	18.1	16.4	12.1	11.8	10.9	11.1	10.6	10.4	11.0	11.3	11.4	11.4
Private deposits	26.2	21.5	25.9	29.6	30.4	29.1	28.7	29.6	29.4	29.4	28.8	28.9
Corporate deposits	25.8	23.6	25.9	25.7	24.3	26.0	25.9	24.8	24.9	24.0	23.5	23.1
Deposits and balances of state agencies and local authorities	1.5	1.0	1.0	1.5	3.5	2.3	1.8	1.4	1.7	1.5	1.7	2.3
Securities issued	5.8	4.1	4.1	4.0	4.0	3.7	3.8	4.6	4.6	4.5	4.5	4.6

Source: Central Bank of Russia, IEP estimates

Investments

Credit debt of individuals to the banks increased in August 2012 by 3.5%, which has kept the annual growth rate of retail loan portfolio of banks at the level of 42%. Bank lending remains a significant factor supporting the volume of retail turnover. Since the beginning of the year the volume of loans to individuals amounted to about 25% of final consumption of households, which has reached 27-28% in summer months.

Key indicators of corporate loan portfolio quality did not change in August. The share of overdue debt loans remained at the same level of 4.6%, and the ratio of provisions for tentative losses on loans provided to individuals at 6.4%.

The volume of lending to corporate borrowers has increased by 2.0% over the month. Annual growth rate of lending to businesses and organizations remains at around 20%. Herewith, the growth in loan debt in the corporate sector of the market is comparable to the retail sector. Since the beginning of the year, the companies' debt to banks increased by Rb 1.7 trillion, whereas that of individuals – by Rb 1.5 trillion.

There were also no significant changes in the quality of loans to corporate borrowers in August. The share of overdue debt remained unchanged at the level of 4.9%. The ratio of tentative losses provisions to the value of loans has slightly decreased from 7.9 to 7.8%. Thus, the quality of loans to businesses and organizations remains worse than the quality of loans to individuals.

Liquidity and state support

The value of banks' debt to the RF Central Bank and the Russian Ministry of Finance in August continued its growth. On the one hand, banks have reduced the amount of liabilities to the Bank of Russia by Rb 174bn. However, as a compensation, they have attracted additional Rb 280bn of deposits

with the Russian Ministry of Finance. Thus, the total volume of state support to the banks has increased by more than Rb 100bn.

In addition, banks managed again to extend the maturity of loans with monetary authorities. The debts to the Bank of Russia have been decreased in volume primarily in regard to one-day repo operations, while the loans for the term over 90 days have increased. The majority of the Russian Ministry of Finance deposits was placed in the banks in August with maturity of 91 days, that is, they are to be returned in December, when liquidity problems are usually resolved through the budget expenditures growth.

Thus, banks are demonstrating a greater demand for short-term (up to one month) loans from the monetary authorities, rather than for the long-term resources, which is an evidence of the systematic tendency of growth of the state support to the banking system.

The volume of the banking sector liquidity has somewhat declined in August: the share of liquid assets decreased from 4.85% to 4.6%.

Table 2

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

	12.07	12.08	12.09	12.10	06.11	12.11	03.12	04.12	05.12	06.12	07.12	08.12
Assets, Rb bn	20125	28022	29430	33805	35237	41628	41533	42151	43225	44266	45090	45523
Cash and precious metals	2.5	3.0	2.7	2.7	2.2	2.9	2.4	2.5	2.4	2.5	2.5	2.5
Deposits with the Bank of Russia	6.9	7.5	6.9	7.1	4.5	4.2	3.2	2.6	2.6	3.0	3.2	2.9
Interbank operations	5.4	5.2	5.4	6.5	6.4	6.4	6.2	6.0	5.7	5.8	5.7	5.9
Foreign assets	9.8	13.8	14.1	13.4	13.8	14.3	14.2	14.3	14.6	14.2	14.5	14.0
Individuals	16.1	15.5	13.1	13.0	14.0	14.4	15.3	15.6	15.8	16.0	16.1	16.5
Corporate sector	47.2	44.5	44.5	43.6	45.3	44.0	44.4	44.6	44.1	43.6	42.7	43.7
Government	4.1	2.0	4.2	5.1	5.8	5.0	4.9	4.1	4.5	3.8	3.4	3.4
Property	2.2	1.9	2.7	2.6	2.5	2.3	2.4	2.4	2.3	2.3	2.3	2.3

Source: Central Bank of Russia, IEP estimates