

RUSSIAN BANKING SECTOR IN JANUARY 2013

M.Khromov

In January 2013, the Russian banking sector has entered a phase of a standstill, inherent to the first month of a year. The key indicators of credit activity and the dynamics of funds raised during the month have slowed down. In addition, the medium-term slowing-down trends were sustained in the dynamics of the assets and in certain segments of the loan and deposit markets.

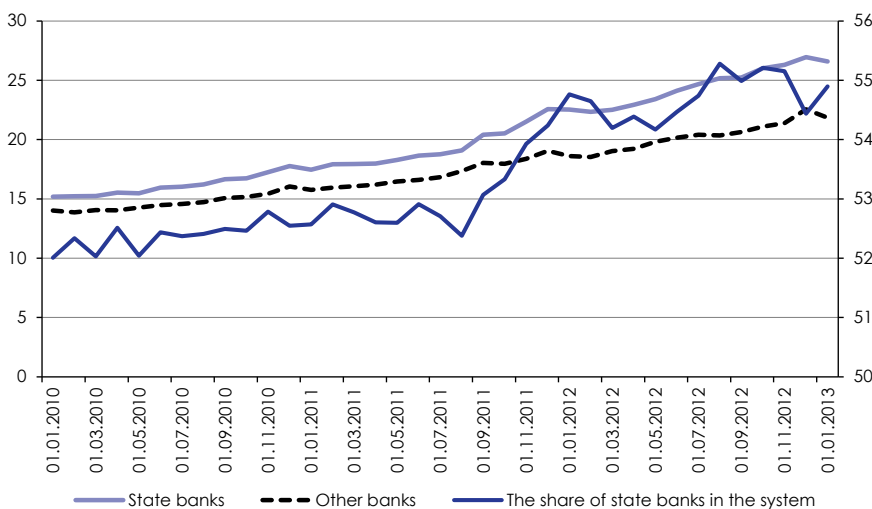


Fig. 1. Dynamics in the assets of the state and other banks, Rb trillion and the share of the state banks in total assets, % %, right scale

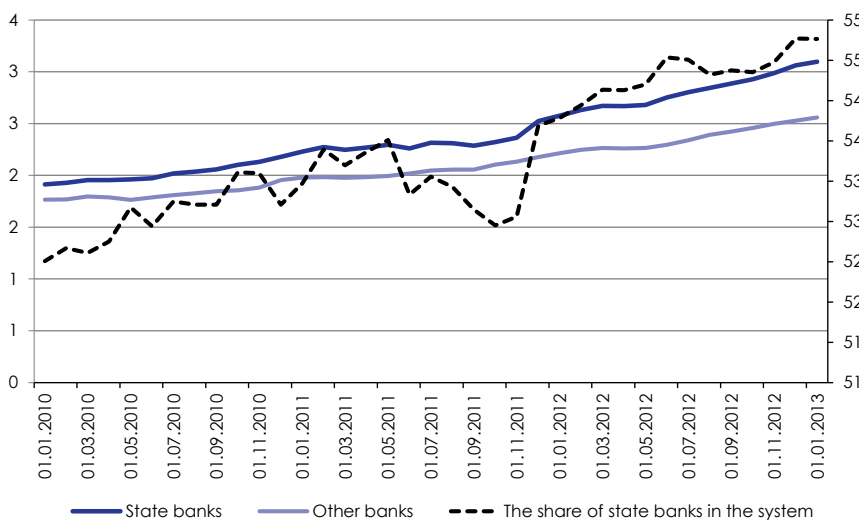


Fig. 2. The dynamics of the state and other banks equity, Rb trillion and the share of the state banks in capital, % %, right scale

2013 was started with the traditional shrinkage of the banking sector resource base after the December growth. Total assets of the banking sector have decreased¹ by 1.9%. Herewith, the annual growth rate was reduced from 20.4% to 18.1%, having returned to the level of H1 2011. The least affected was the resource base of the state banks². Their assets have decreased only by 1.1%. This has led to an increase in the share of the state banks in the banking sector to 54.9%, which is close to the maximum historical values (55.3% as of August 1, 2012).

The growth rate of the banking sector equity in January remained positive, having made 1.1% for the month and 18% over twelve months, and the January reduction of the banks' assets was due to reduced funds raised. Equity of the state and other banks in January were demonstrating synchronous dynamics, the state share in the bank's equity over the month remained unchanged, staying at 54.8%.

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

2 This group of banks includes Sberbank, VTB Group banks, GazpromBank and Rosselkhozbank

The aggregate profit of the banking sector in January 2013 reached Rb 80bn. This corresponds to the return on banking assets of 2.0% per annum, and the return on equity of 17% in annual terms. These indicators are slightly below the average profitability of the banking sector in 2012 (2.3% and 19%, respectively). Noticeable effect on the final amount of profit was provided by operations on formation of banks' reserves for possible losses on loans and other assets. Their volume has increased over the month by Rb 45bn. Thus, banks' profits before reserves for a calendar month were the record ones over the last three years: Rb 125bn. Only formal deterioration in assets quality, recorded in reporting, has reduced the return on assets of the banking business.

Raised funds

The inflow of funds to the deposits of individuals with the banking sector has reduced in January by Rb 173bn or by 1/2%. This is the highest outflow of funds in January after the crisis of 2009. Annual growth rates of bank deposits of individuals remain at around 19%.

In terms of currency structure, the January outflow of deposits from banks was concentrated in the ruble segment. The volume of accounts in rubles has decreased by 1.8%, while the amount of foreign currency deposits, by contrast, has grown by 1.4% in dollar terms. This could mean that the reduction affected mainly current accounts, such as those to which salary for December was credited in advance at the end of the month. However, the volume of term savings deposits, which include foreign currency accounts, continued to grow. In particular, the volume of ruble deposits with the term exceeding one year increased by 1.7%.

The share of state banks in the segment of individual deposits continues to decline. January 2013 was no exception. With an overall reduction in individual deposits by 1.2%, savings deposits with Sberbank have decreased by 2.4%, and by 1.7% with the other state banks.

Funds in the accounts of corporate clients have also markedly decreased. Their volume decreased by 1.3%, while the annual growth rate fell down to 9.6%. The currency structure dynamics more clearly reflects the preference of corporate clients in favor of foreign currency, than that of

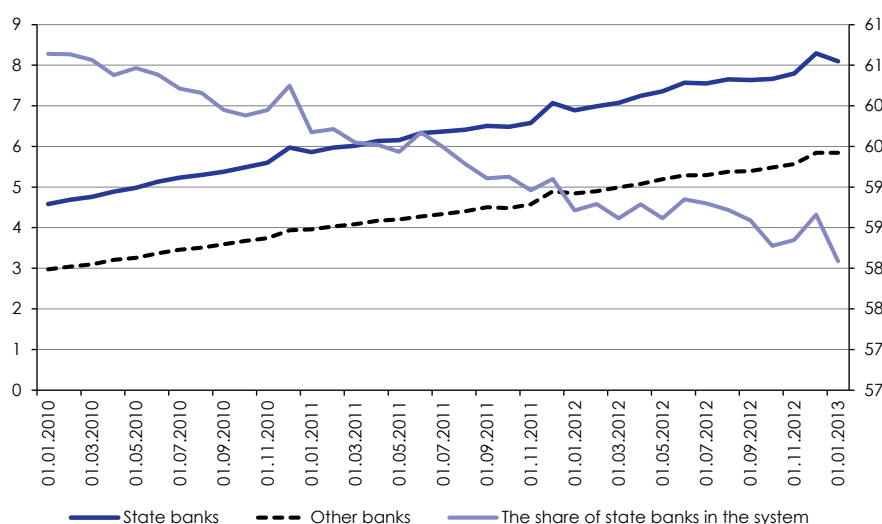


Fig. 3. Dynamics of individual deposits with the state and other banks, Rb trillion and the share of state banks in the deposits of individuals, %, right scale

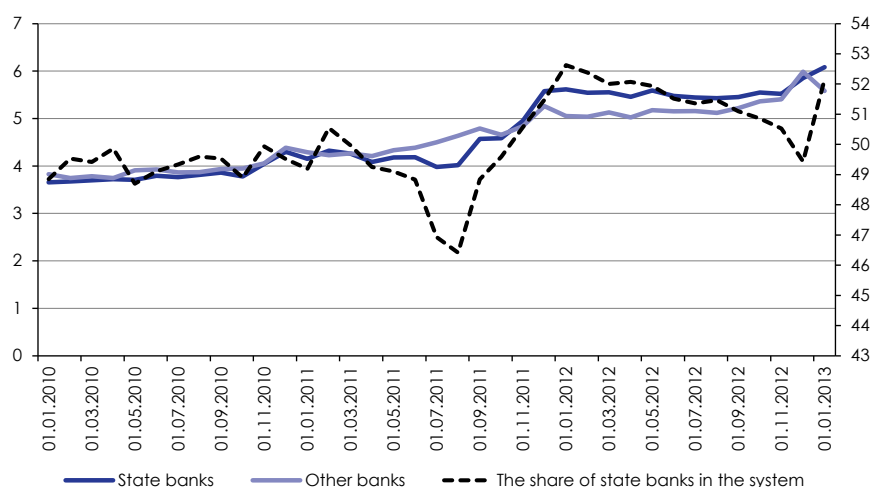


Fig. 4. Dynamics of corporate clients' deposits with the state and other banks, Rb trillion, %, right scale

individuals. Ruble accounts decreased over the month by 2.6%, the foreign currency accounts increased by 4.2% in dollar terms.

The difference in the market of corporate clients from the market of individual deposits is in the role of the state banks. The share of state banks in this market is more stable, but it was also reducing over the entire last year. However, in January 2013, the volume of corporate clients' funds with the Sberbank grew by 4.3%, with other state banks – by 3.1%, while the outflow of funds from private banks made 6.1% for the month. As a result, the share of state banks has grown from 49 to 52%.

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	09.12	10.12	11.12	12.12	01.13
Liabilities, Rb bn	20125	28022	29430	33805	41628	41533	44266	45861	47096	47669	49510	48429
Own assets	15.3	14.1	19.3	18.7	16.9	17.5	16.8	16.9	16.7	16.7	16.2	16.8
Loans of the Bank of Russia	0.2	12.0	4.8	1.0	2.9	3.5	5.1	5.1	5.4	6.0	5.4	4.5
Interbank operations	4.1	4.4	4.8	5.5	5.7	5.1	4.8	5.1	5.1	5.1	5.6	5.4
Foreign liabilities	18.1	16.4	12.1	11.8	11.1	10.2	11.3	11.0	11.1	10.9	10.8	10.5
Individual deposits	26.2	21.5	25.9	29.6	29.1	29.4	29.4	28.7	28.2	28.4	28.9	29.1
Corporate deposits	25.8	23.6	25.9	25.7	26.0	25.7	24.0	23.3	23.2	22.9	24	24.1
Accounts and deposits of state agencies and local authorities	1.5	1.0	1.0	1.5	2.3	1.4	1.5	2.5	2.7	2.4	1.6	1.1
Securities issued	5.8	4.1	4.1	4.0	3.7	4.8	4.5	4.8	5.0	5.0	4.9	5.2

Source: Central Bank of Russia, IEP estimates.

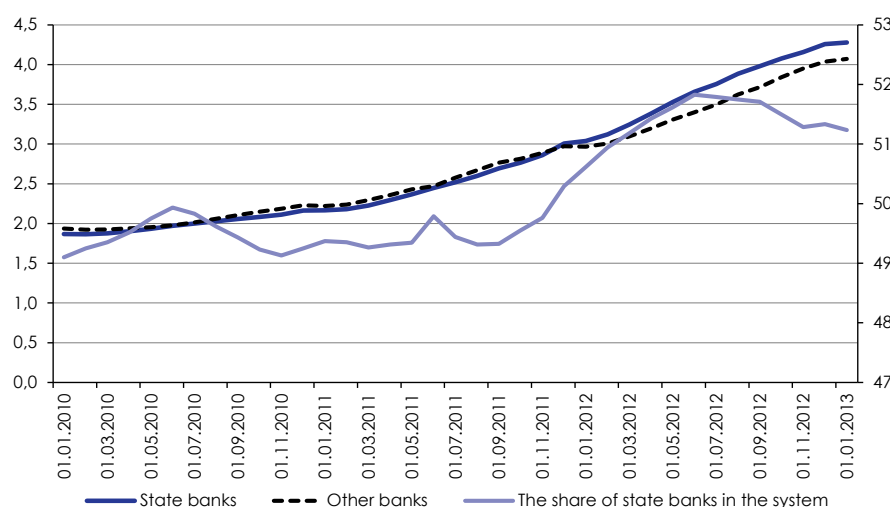


Fig. 5. Dynamics of loans to individuals in the state and other banks, Rb trillion and the share of state banks, %, right scale

Investments

The volume of public debt to the banks in January 2013 increased by 0.6%, having demonstrated the traditional January slowdown. Annual growth rate of loans to individuals has remained unchanged and made 39.0% as of 02.01.2013.

Against the background of slowing growth in the overall public debt, the main indicators of quality of retail loan portfolio has worsened. The volume of overdue debt increased by 4.2%, while the value of reserves for possible losses on loans to individuals – by 5.4%.

As a result, the share of overdue loans in the total debt of the population increased from 4.1 to 4.2%, and the ratio of reserves versus the total loan portfolio – from 6.1 to 6.4%.

In the market of retail loans between government and other banks parity was observed: the volume of credit debt in both groups is very similar. However, slowing growth in lending to individuals in H2 2012 has somewhat weakened the state-owned banks' position, or to be more precise, their share in this market ceased to grow. In January 2013 this parity was preserved, and the share of state banks remained unchanged at the level of 51%.

The volume of corporate clients' debt to banks in January 2013 was no exception, and like all the other major indicators described above, has decreased by 0.2%. The medium-term trend of annual

growth rates downgrading of corporate lending was sustained: as of January results, it declined to 15.3% (vs. 21.9% in previous year).

The quality of loans to corporate borrowers in January 2013 proved to be more stable than that in the retail market. The amount of overdue liabilities has grown only by 1.3%, which resulted in an increase of its share in the total debt of corporate clients from 4.6% to 4.7%. The value of provisions for possible losses has remained virtually unchanged. The ratio of reserves versus the total loan portfolio also remained unchanged at the level of 7.5%.

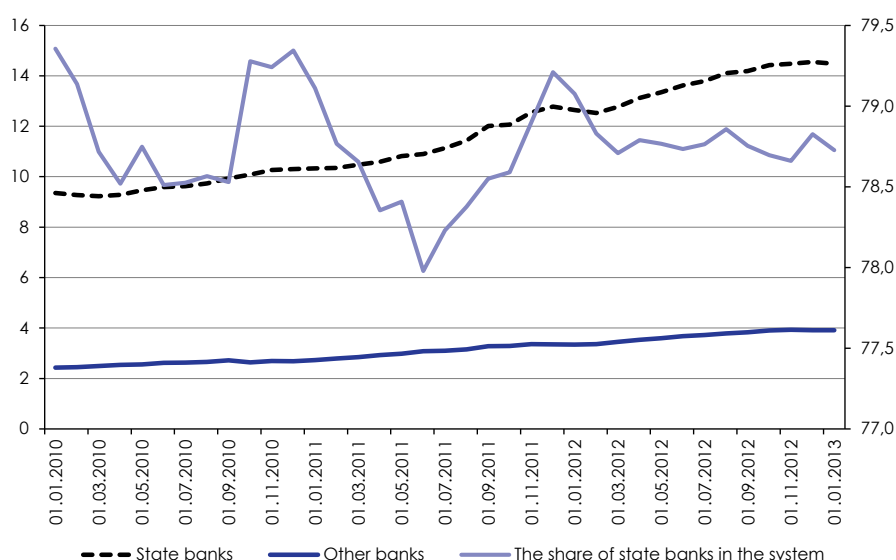


Fig. 6. Dynamics of loans to companies and organizations in the state and other banks, Rb trillion, and the share of state banks, %, right scale

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	09.12	10.12	11.12	12.12	01.13
Assets, Rb bn	20125	28022	29430	33805	41628	41533	44266	45861	47096	47669	49510	48429
Cash and precious metals	2.5	3.0	2.7	2.7	2.9	2.4	2.5	2.6	2.6	2.6	3.1	2.6
Deposits with the Bank of Russia	6.9	7.5	6.9	7.1	4.2	3.2	3.0	2.8	2.7	2.9	4.4	2.9
Interbank operations	5.4	5.2	5.4	6.5	6.4	6.2	5.8	5.8	6.1	6.1	6.8	6.7
Foreign assets	9.8	13.8	14.1	13.4	14.3	14.2	14.2	13.9	14.3	14.2	13.0	14.0
Individuals	16.1	15.5	13.1	13.0	14.4	15.3	16.0	16.8	16.8	17.0	16.8	17.3
Corporate sector	47.2	44.5	44.5	43.6	44.0	44.4	43.6	43.4	42.9	42.5	41.3	42.3
Government	4.1	2.0	4.2	5.1	5.0	4.9	3.8	3.3	3.2	3.0	3.2	3.7
Property	2.2	1.9	2.7	2.6	2.3	2.4	2.3	2.3	2.3	2.2	2.2	2.3

Source: Central Bank of Russia, IEP estimates.