

## GROWTH OF THE RETAIL BANK DEPOSITS HAS SLOWED DOWN, HOWEVER CASH SAVINGS TREND REMAINS<sup>1</sup>

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*During the first three quarters of 2016, growth rate of the retail bank deposits and accounts has slowed down twofold in comparison with the same period of 2015. However, it is still premature to talk about the dismantling of the savings model. Cash dynamics demonstrate increment of the households' propensity for cash savings. Slow growth of the population's loan debt retains positive net increment of retail assets.*

Over three quarters of 2016, retail bank accounts have moved up by Rb 1,054bn<sup>2</sup>. This is 40% less than a year earlier (Rb 1.776bn). Increase of the assets on the retail bank accounts and deposits over 9 months of 2016 has come to 4.7%, which is half the amount registered for the same period of 2015 (9.8%). In relation to the household's income<sup>3</sup> retail savings on the bank deposits have also gone down from 4.9 to 2.8%.

At a first glance, these trends demonstrate a reduction of propensity to save on part of Russian households. This is correct if we understand propensity to saving in the narrow sense of the word – bank deposits to income ratio. However, if we take into consideration the fact that deposits are not a single instrument of savings then a more complicated picture pops up.

In addition to dynamics of bank deposits, dynamics of cash denominated in national and foreign currencies also reflect the retail savings activity. Moreover, change on bank loans debt is also an important indicator. The loan debt growth demonstrates current contraction of net financial assets<sup>4</sup> of households and, vice versa, reduction of loan debt together with traditional saving instruments increases net assets of the population.

In what way households' preferences regarding financial instruments (besides bank deposits) have changed in comparison with last year. During 9 months of 2016, the volume of cash has gone up by Rb 383bn. Of which Rb 173bn accounts for cash and Rb 210bn accrue to the ruble equivalent of growing foreign cash. Its dollar volume went up by UDS 3.1bn over 3 months. Thus, total volume of money (cash and non-cash) in possession of Russian households has moved up for January–September 2016 by Rb 1,437bn, which comes to 3.9% of their income.

Regarding bank lending, in April 2016, reduction of the retail debt before banks terminated, which lasted for 16 months in a row. In Q2 and Q3, retail lending portfolio began expanding. However, total growth since the turn of the year was insignificant – barely Rb 15bn.

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2 Hereinafter, dynamics of balance indices is given with adjustment to revaluation of assets denominated in foreign currency according to dynamics of dollar ruble exchange rate.

3 Hereinafter, household income is a measure of cash income according to the Rosstat methodology adjusted to the income volume generated from the sale of cash foreign currency because this transaction is not income of an individual and solely means a change in the structure of their financial assets.

4 Hereinafter, net assets of households are a sum of cash and non-cash assets of individuals minus retail debt on bank loans.

Consequently, net increment of households' assets for the first 9 months of the current year has constituted Rb 1,422bn, which amounts to 3.8% of income.

Last year's dynamics of the corresponding financial balance items of households was completely different. For the first three quarters of 2015, the volume of cash has shrunk by Rb 1,051bn. This amount resulted from a reduction of cash rubles by Rb 427bn and a decrease of cash foreign currency by USD 10.5bn or by Rb 624bn in ruble equivalent. This signifies that despite a rather healthy growth of assets on retail bank accounts and deposits, total volume of cash in hand moved up for the first 9 months of 2015 rather moderately – merely Rb 726bn or by 2.0% of the households income.

Furthermore, as was noted above, the entire last year a reduction of retail bank loans debt was observed. Repayment of bank loans was an alternative to money savings taking into account net assets of households. During Q1–Q3 2015, retail lending portfolio shrank by Rb 732bn. Thuswise, for the first three quarters of 2015, increment of net assets of households totaled to Rb 1,458bn or 4.0% of income.

Comparison of this data shows that net increment of assets of the population for the first three quarters of 2016 in comparison with the corresponding period of 2015 really decreased, but barely by 0.2 p.p. from 4.0 to 3.8% of households.

Table 1

**DYNAMICS OF MAIN COMPONENTS OF NET ASSETS OF HOUSEHOLDS  
IN Q1–Q3**

	Average for 2011– 2013	2014	2015	2016
	Bn Rb			
Growth of assets on accounts and deposits	1185	-254	1776	1054
Growth of foreign currency in cash	-42	520	-624	210
Growth of domestic currency in cash	124	-26	-427	173
Total growth of money assets	1267	239	726	1437
Debt change on bank loans («-» – growth of loans, «+» – decrease)	-1501	-1108	732	-15
Total change in net assets	-234	-868	1458	1422
	% to income			
Growth of assets on bank accounts and deposits	4.3	-0.8	4.9	2.8
Growth of foreign currency in cash	-0.2	1.6	-1.7	0.6
Growth of domestic currency in cash	0.5	-0.1	-1.2	0.5
Total growth of cash assets	4.6	0.7	2.0	3.9
Debt change on bank loans	-5.5	-3.4	2.0	0.0
Total change in net assets	-0.9	-2.6	4.0	3.8

Moreover, despite an insignificant reduction registered in 2016, growth of net assets to income ratio of households remains on a high level. During previous several years, as well as during first three quarters of the current year net assets of households were falling. This was owing partly to a strong growth of debt on bank loans in volumes, which exceed growth of cash resources (such situation was observed in 2011–2013).

In 2014, outflow of bank deposits together with savings of foreign currency in cash was observed with simultaneous retention of credit debt increase.

Cash income demonstrates seasonality effect when the increment of money assets in Q4 of the calendar year significantly exceeds the one registered in Q1–Q3. As a result, by the year-end growth of net retail assets is typically observed. Solely 2014 was an exception, when even by the year-end households assets decreased on the whole.

The situation with the saving behavior of households in Q1–Q3 2015–2016 to a certain extent is similar to the same period of 2009–2010, when the population boasted of a saving model in the wake of contraction of credit debt in 2009 and gradual its resumption in 2010. During 2009–2010, over first three quarters of the calendar year growth of net assets of households exceeded 5.0% of their income, which was by 1 p.p. more than in 2015–2016.

Lower values of net assets of the population during current period in comparison with 2009–2010 was explained, most likely, by a negative dynamics of households cash income in real terms. Their nominal volume in Q1–Q3 2016 moved up by 2.8% in comparison with the corresponding period of 2015 and by 13.3% – to 2014. At the same time, the average level of consumer prices for Q1–Q3 2016 was higher than for the same period of 2015 by 7.7% and by 24.9% against 2014. Meanwhile in 2009–2010, there was no reduction of household income in real terms. ●