

Banking sector of Russia after clearing by the Central Bank

0. Russian banks have suffered large quantitative losses in recent years, but the state of the sector as a whole has improved significantly. The banks have concentrated a huge amount of liquidity, which they prefer to keep at the Central Bank and direct it to the consumer loan market; the real business gets almost nothing.

15.06.2019

Banking sector is cleared

1. The number of operating banks

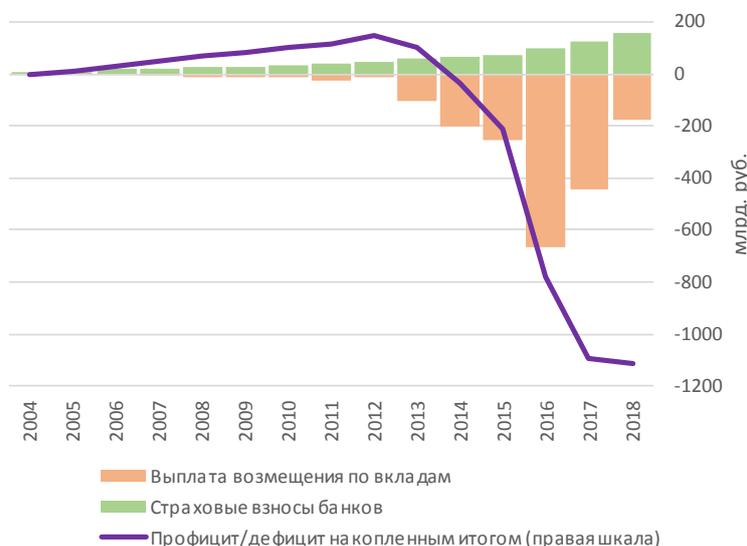
1. On May 30, 2019, the chairman of the Russian Central Bank, Elvira Nabiullina, announced that the main stage of the recovery of the banking sector had been completed. Since the start of clearing, the number of banks in Russia has more than halved, and in the first three months of this year it has decreased by only ten, the minimum value over the past five years. In total, about 4.5 trillion was spent on clearing the banking sector, including reorganization, recapitalization of rehabilitated banks and payment of compensation for deposits.



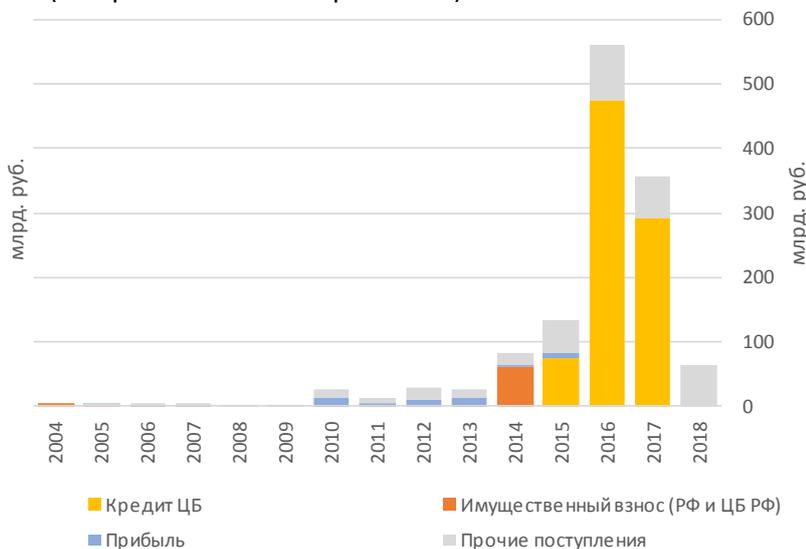
Source: the Central Bank of Russian Federation

2. The Deposit Insurance Agency (DIA), which mainly deals with the reorganization of troubled banks, for the first time since the start of clearing the banking sector in 2013, has managed to practically achieve self-sufficiency. Earlier, bank insurance premiums were not enough to pay deposit compensations, and the DIA had to resort to loans from the Central Bank (0.8 trillion.).

2. Bank insurance premiums and deposit compensation payments



3. Additional sources of funding (except bank insurance premiums)



Source: Deposit Insurance Agency

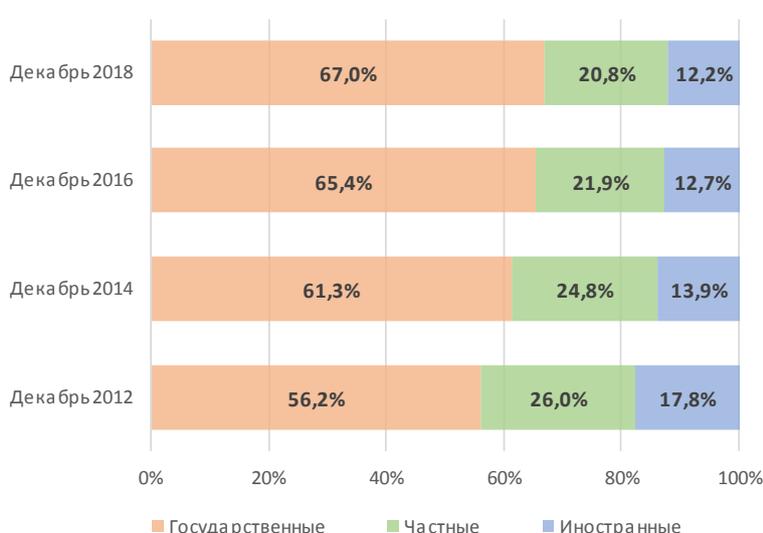
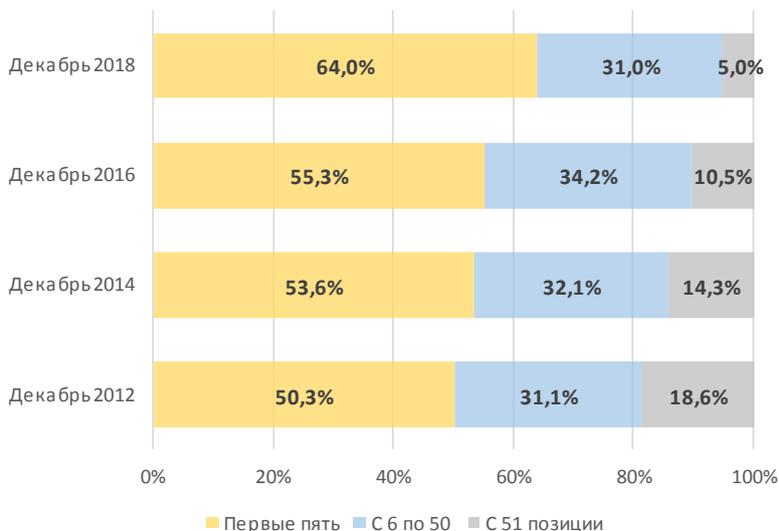
Source: Deposit Insurance Agency

* by government and Central Bank

3. As a result of clearing, the monopolization of the sector has increased as expected - now 64% of the assets belong to the five largest banks. In addition, state-owned banks continue to strengthen their dominance, displacing loan institutions with private capital and foreign participation from the market.

4. Share of banks by assets in the assets of the entire banking system

5. The share of state, foreign and private banks in the assets of the entire banking system



Source: the Central Bank of Russian Federation

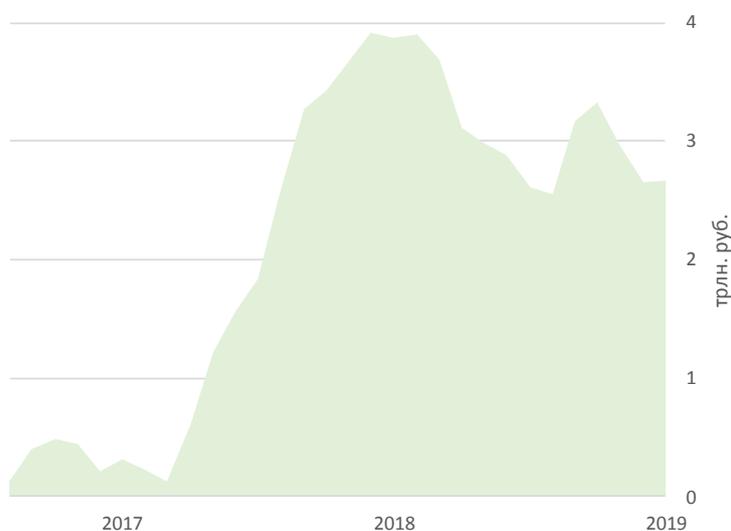
Source: the Central Bank of Russian Federation

Excess liquidity remains

4. The Russian banking system has been living in excess of money for the third year (link to review 2 about the key rate, link to the words "excess money"). The structural liquidity surplus¹, although it has been reduced recently, is still very high. The excess of deposits over loans, previously unusual for the system, is gradually becoming commonplace. Even a slight revival of lending cannot yet turn the tide.

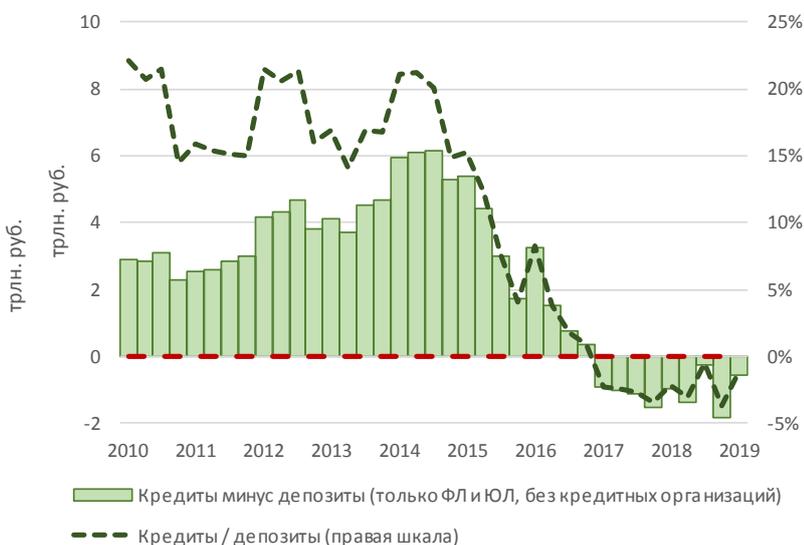
¹ Structural liquidity surplus means the excess of bank deposits with the Central Bank over loans from the Central Bank, which allows banks to have more free funds

6. Structural surplus of bank liquidity



Source: the Central Bank of Russian Federation

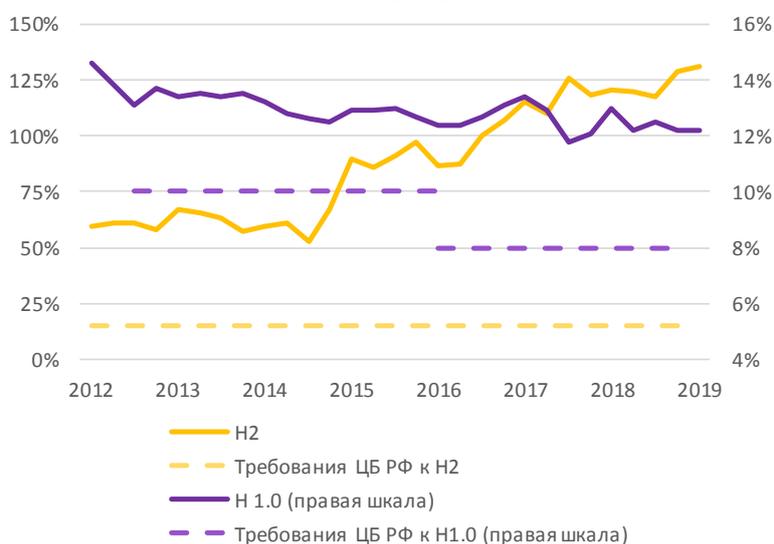
7. Loans and deposits (only individuals and legal entities, without loan institutions)



Source: the Central Bank of Russian Federation

5. Excessive liquidity of banks is heating up the consumer lending market. The interest rate on such loans is much higher than on corporate loans. Banks have enough capital to create reserves for possible losses required for unsecured loans to individuals without special problems. Thus, in the event of market problems, banks have a margin of safety.

99. Capital adequacy ratio (H1.0), instant liquidity (H2) and the requirements of the Central Bank of the Russian Federation for their minimum level



Source: the Central Bank of Russian Federation

6. For many Russians, against the backdrop of declining real incomes² for the fifth year in a row, maintaining a familiar lifestyle is only possible on loan. Debt burden (PTI)³ is especially high among the lowest income

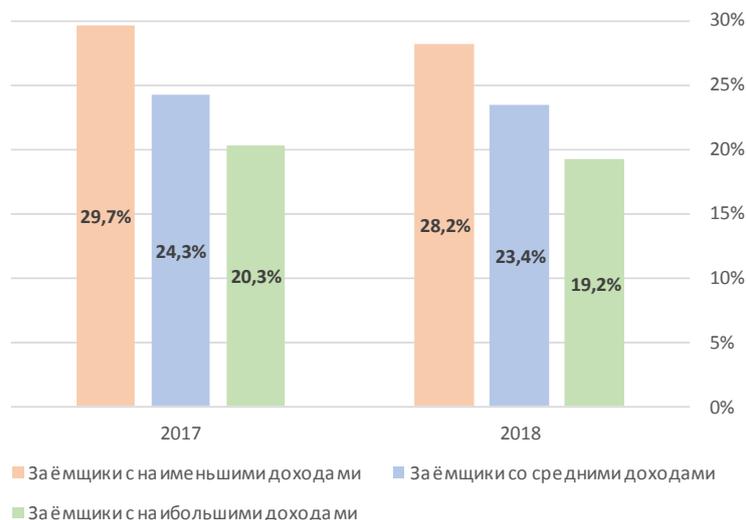
² From 2013-18 real incomes of the population fell by 11%, given the lump sum payment to pensioners in the amount of 5 thousand rubles in January 2017.

³ Payment to income (monthly payments on all loans to monthly income)

groups. Although it decreased slightly over the previous year, it still remains high, saying that the poorest Russians spend 28% of their income on loan servicing.

7. The growth of the mortgage market has actually stopped; in April and May 2019, fewer loans were issued than a year ago. Since the end of last year, the rate began to rise, which stopped the growth of loans.

8. Debt burden for groups of borrowers by income



Source: National Credit Bureau

9. The dynamics of mortgages to individuals-residents in rubles



Source: the Central Bank of Russian Federation

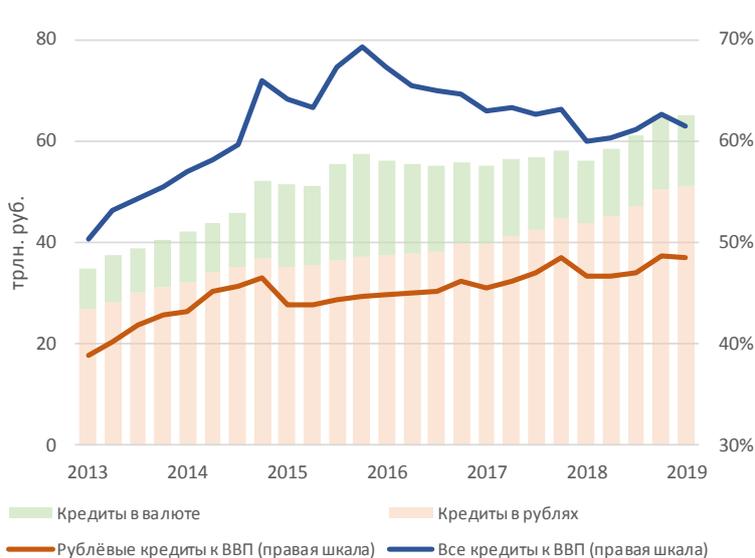
* last value for May

Only consumer loans really grow

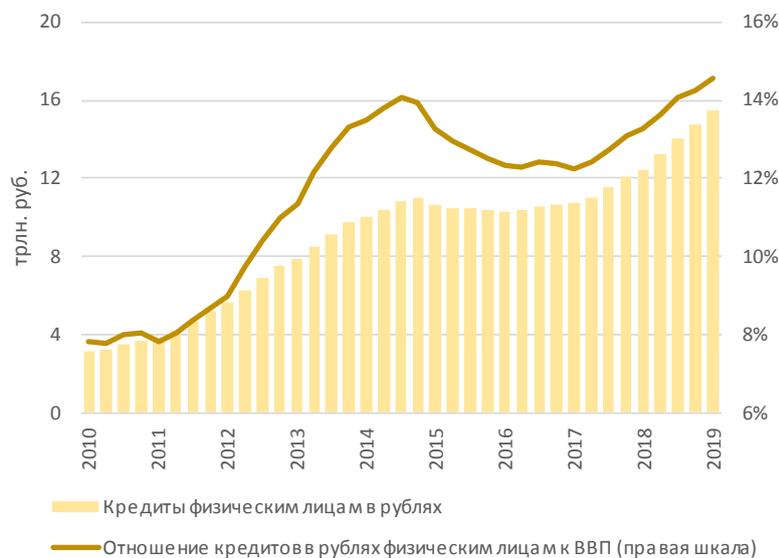
8. In general, the loan portfolio of Russian banks has stagnated since the end of 2015, not increasing even in nominal terms. The situation changed in the middle of last year, the volume of loans began to grow steadily. However, most of the growth is due to consumer lending, the ratio of such loans to GDP reached pre-crisis levels, exceeding 14%. Compared to other countries, this value is small (in the USA, for example, the similar indicator exceeds 70%, in China - 50%), but it should not be considered isolated from other factors, in particular from interest rates and the share of the population's expenses on servicing loans.

10. The volume of loans issued

11. Loans to individuals



Source: the Central Bank of Russian Federation



Source: the Central Bank of Russian Federation

9. With lending to the real sector, the situation seems less optimistic. The growth of nominal volumes there is much weaker, the ratio to GDP not only remains significantly lower than the pre-crisis values, but also continues to decline overall. It is especially alarming that this is happening amid inflation, which is growing faster than the average loan rate. As a result, the real rate for the first time in three years fell to 4%, which was supposed to make bank lending more attractive to the real sector.

12. Loans to non-financial companies



Source: the Central Bank of Russian Federation

13. Loan rate, inflation and real rate



Source: the Central Bank of Russian Federation, Rosstat

999. Expected and observed inflation

10. Having a large reserve in the arsenal to reduce the key rate, the Central Bank could contribute to an even greater increase in the attractiveness of loans. But economic growth issues are less important for the Central Bank than inflation. While the consumer price index does not stabilize below 4%, the Central Bank will not lower its key rate and stimulate a boost in the loan cycle.

11. At the beginning of the year, inflation exceeded the target level, but, most likely, this is a temporary surge associated with an increase in VAT. In June, the consumer price index grew by only 0.04%, the minimum value for twenty years. For several months, the gap between the observed and expected inflation has been increasing, that is, the population expects price reductions⁴.



Source: the Central Bank of Russian Federation

* average over the past six months

Dedollarization continues

14. Foreign currency assets and liabilities

12. Following the instruction of the Central Bank of the Russian Federation, banks are gradually reducing their assets in foreign currency. In the first quarter, a situation arose that there were more foreign currency liabilities than assets, which indicates that banks have much more dollars than opportunities and desires to invest them.



Source: the Central Bank of Russian Federation

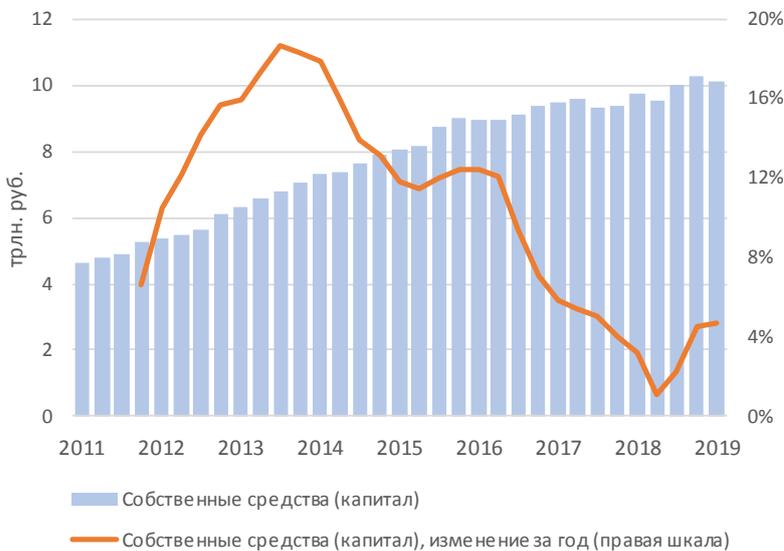
⁴ Expected and observed inflation speaks not only about the corresponding opinion of the population, but also about the expected consumer behavior based on it, which directly affects inflation itself.

Financial stability of banks strengthens

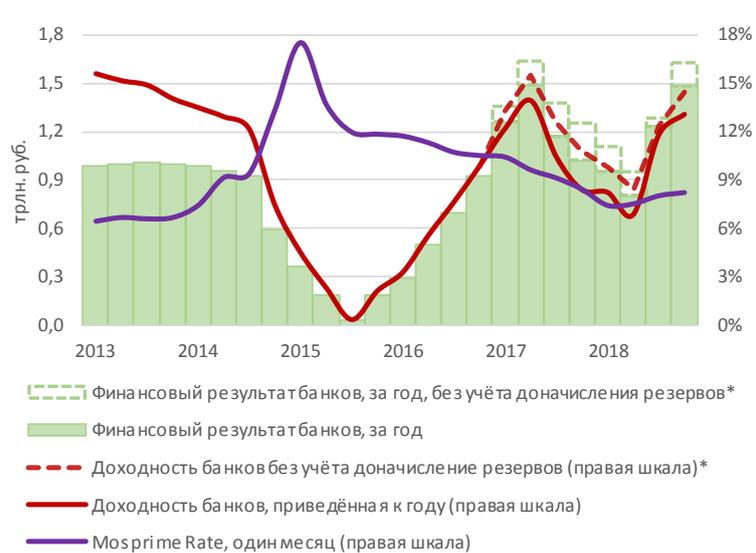
13. Last year, for the first time after the crisis, there was an increase in the growth rate of banks' equity, which had fallen steadily before (link to review 7 about banks, link to the words steadily fell). The total amount of own funds exceeded 10 trillion rub.

14. The profit of banks as a whole is very high, but does not differ in stability as before the crisis, periodically turning out to be lower than rates in the money market. If you do not take into account the losses of the rehabilitated banks associated with the additional charge of reserves, then for 2017-18 the bank profits were up 1.2 trillion rub.

15. Own funds of banks



16. Financial result of banks



Source: the Central Bank of Russian Federation

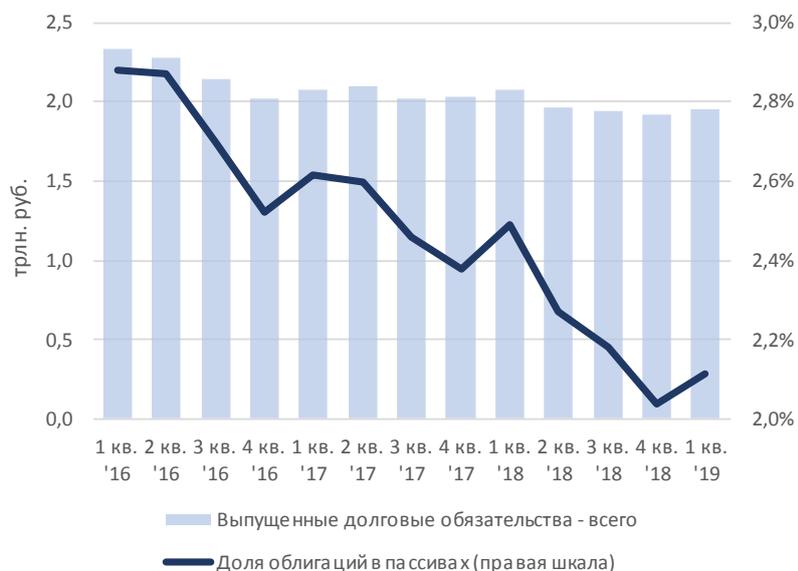
Source: the Central Bank of Russian Federation, calculated by Standard Capital

* replenishment of reserves of rehabilitated banks, the largest of which are Otkrytie, Promsvyazbank, Binbank, Trust and AVB

Banking bond market shrinks

15. Liabilities of Russian banks for more than 60% are formed from customer accounts. The share of debt instruments is very small and continues to decline, almost reaching 2%. This increases the instability of the banking system, since bonds are longer money than deposits and funds in current accounts.

17. Debt obligations issued



16. Russian banks generally feel pretty good. The recovery of the sector was successfully completed, own funds and profits are growing. But the main function of banks in the economy - lending to the real sector - has been doing poorly in recent years.

17. This can be partially explained by the reduction in the number of banks and the monopolization of the sector, especially in the regional aspect, which makes it difficult the access to loans of small enterprises that are not too interesting for financial giants. So are the problems of the real business itself, not planning to develop in conditions of economic uncertainty. But the main problem is the overly cautious behavior of the Central Bank, for which economic growth is not the main priority of its policy.