



Financial sector in Russia

Aalto University
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FINANCIAL SECTOR IN RUSSIA

- INTRODUCTION
 - RUSSIAN ECONOMY IN A NUTSHELL
 - FINANCIAL SECTOR IN EMERGING EUROPE - A BIT OF HISTORY 1990-2020
- RUSSIAN FINANCIAL SECTOR IN BRIEF
 - BANK VS. NON-BANK FINANCIAL INSTITUTIONS
 - KEY POLICY ACTORS
- RUSSIAN BANKING SECTOR
 - STRUCTURE (OWNERSHIP AND SIZE)
 - OUTCOMES (LENDING, BANK FAILURES, ...)

Russian economy in a nutshell



<https://www.flickr.com/photos/gillesgonthier/>

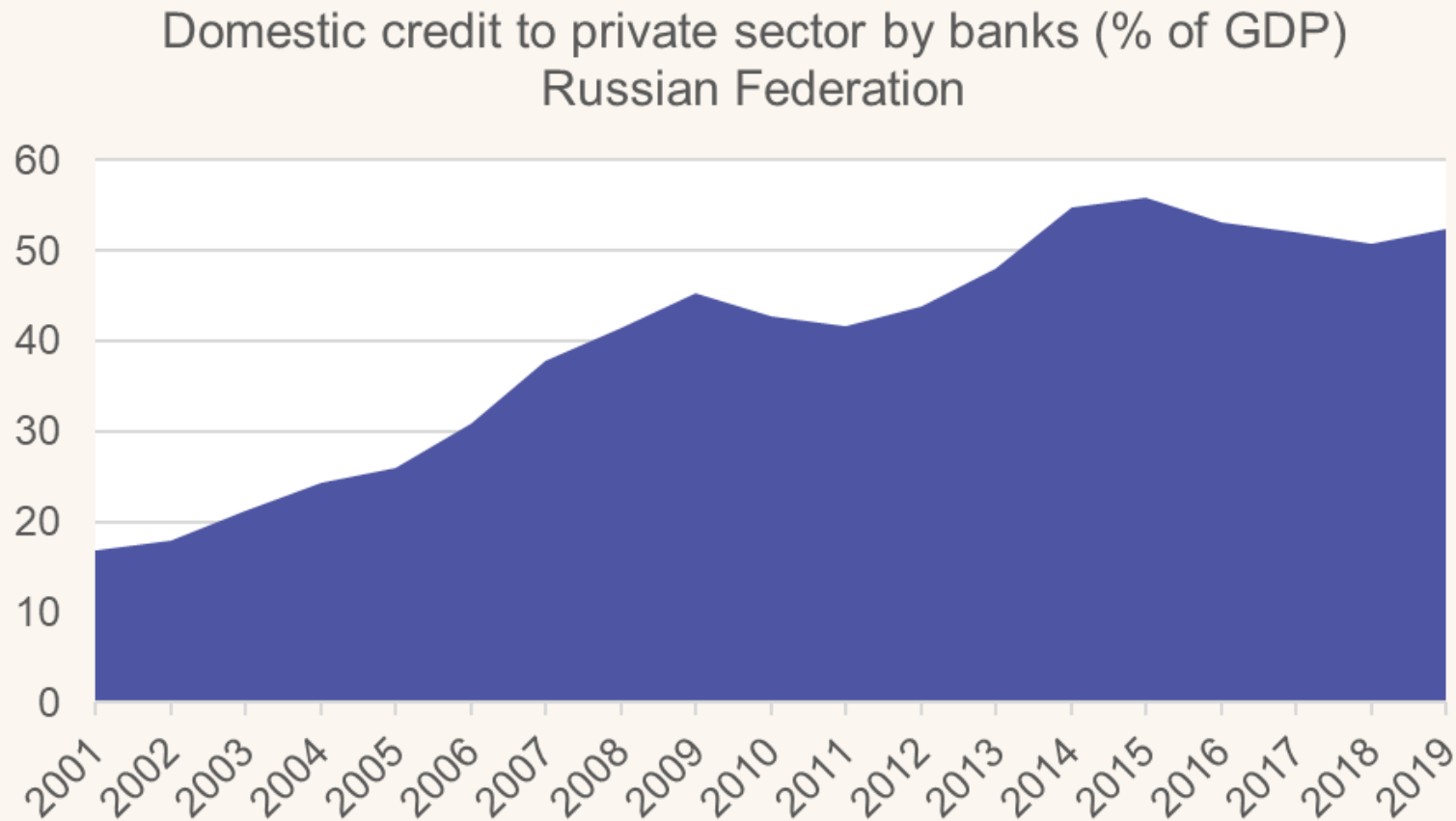
Re-emergence of banking

| | Number of banks (foreign owned) | Asset share of foreign banks (%) | Domestic credit to GDP ratio (%) | Net Interest margin (%) | Non-performing loans % of total |
|--------------------------------|---------------------------------|----------------------------------|----------------------------------|-------------------------|---------------------------------|
| Early transition – 1995 | | | | | |
| CEE | | | | | |
| Czech Rep. | 55(23) | 15.5 | 62.5 | 3.44 | 31.5 |
| Hungary | 43(21) | 36.8 | 22.7 | 5.99 | 12.1 |
| Poland | 81(18) | 4.4 | 16.7 | 8.84 | 23.9 |
| Slovakia | 33(18) | 32.7 | 26.3 | 3.93 | 41.3 |
| SEE | | | | | |
| Bulgaria | 41 (3) | <1 | 39.4 | 2.17 | 12.5 |
| Croatia | 54 (1) | <1 | 33.4 | 5.73 | 12.9 |
| Romania | 24 (8) | <1 | 7.8 | 8.27 | 37.9 |
| Serbia | 103(3) | <1 | 9.2 | 3.62 | 12.0 |
| Slovenia | 39 (6) | 4.8 | 27.3 | 4.48 | 9.3 |
| FSU | | | | | |
| Estonia | 19 (5) | 1.8 | 14.4 | 9.26 | 2.4 |
| Latvia | 41 (17) | 34.6 | 7.5 | 10.29 | 18.9 |
| Lithuania | 15 (0) | 0 | 15.2 | 10.87 | 17.3 |
| Russia | 2297 (21) | 3 | 8.7 | 8.89 | 4.6 |

Source: Bonin, Hasan, Wachtel (2014), EBRD Transition Reports



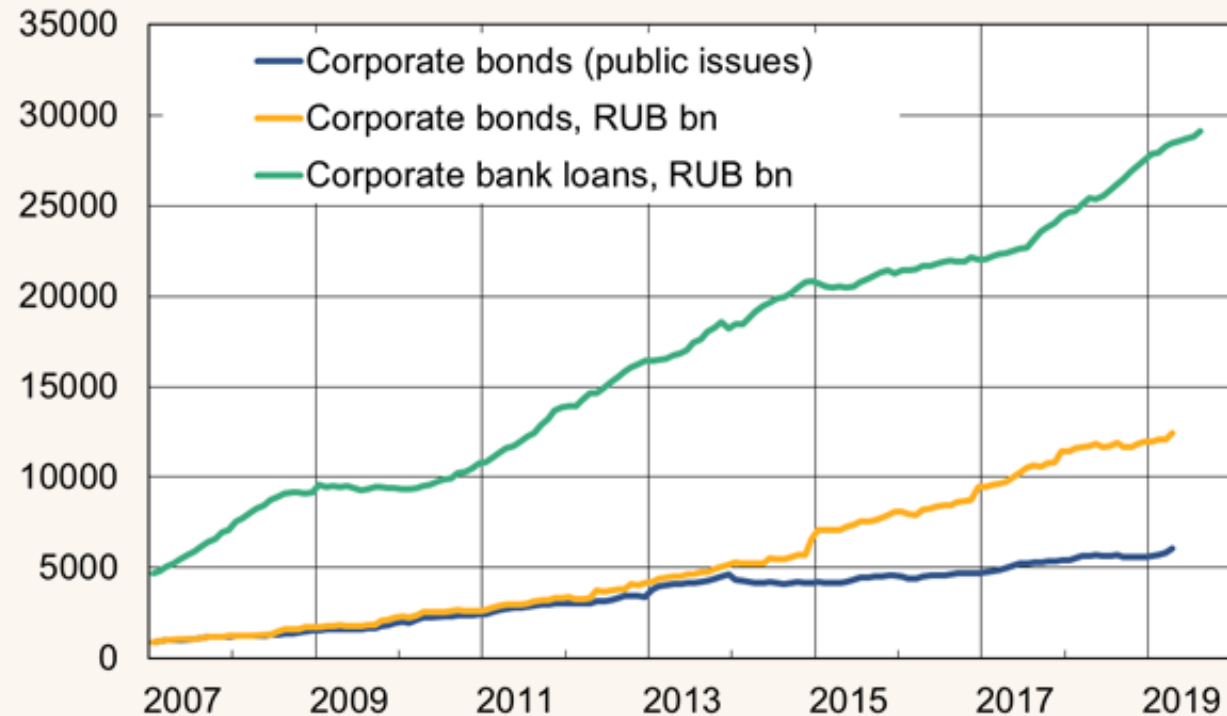
Financial deepening in Russia



Source:World Bank

Russian financial markets

1. Bank-based system
2. Controlled by state or wealthy individuals
3. Global financial markets essential



Source: Cbonds, CBR, BOFIT.

Stock markets driven by oil price – free floats typically small

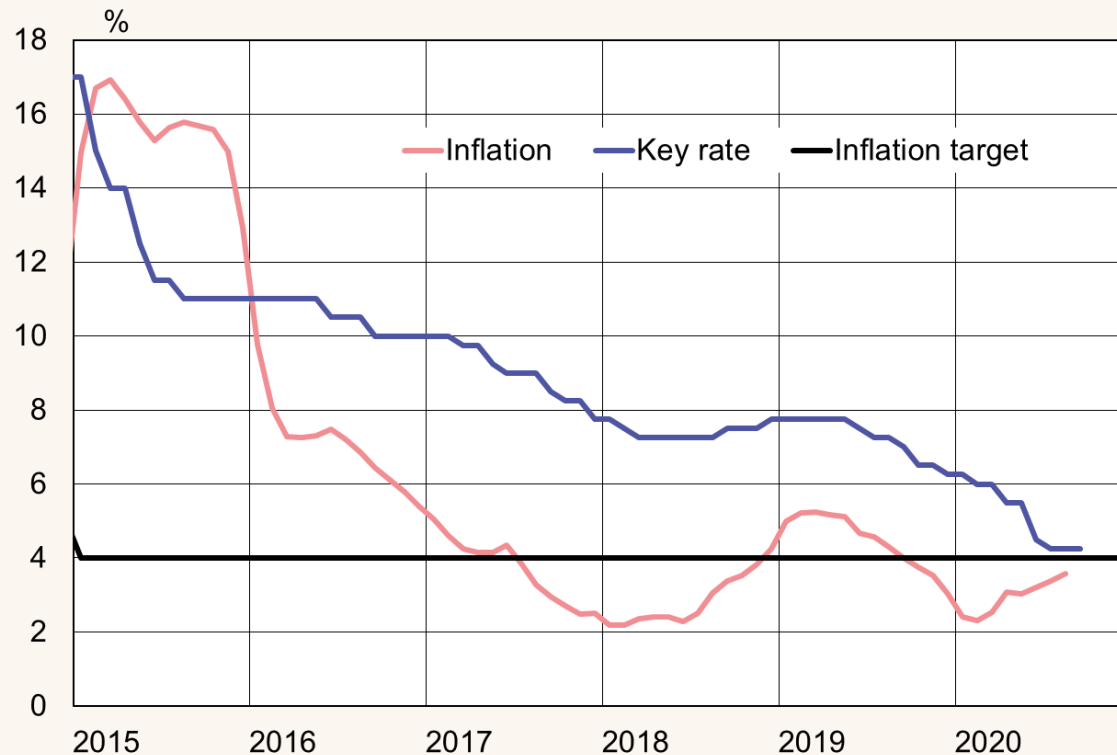
Russia's stock index RTS and oil price



Source: Macrobond.

Monetary policy - switch to inflation targeting in end-2014

Russia's consumer price inflation and key rate

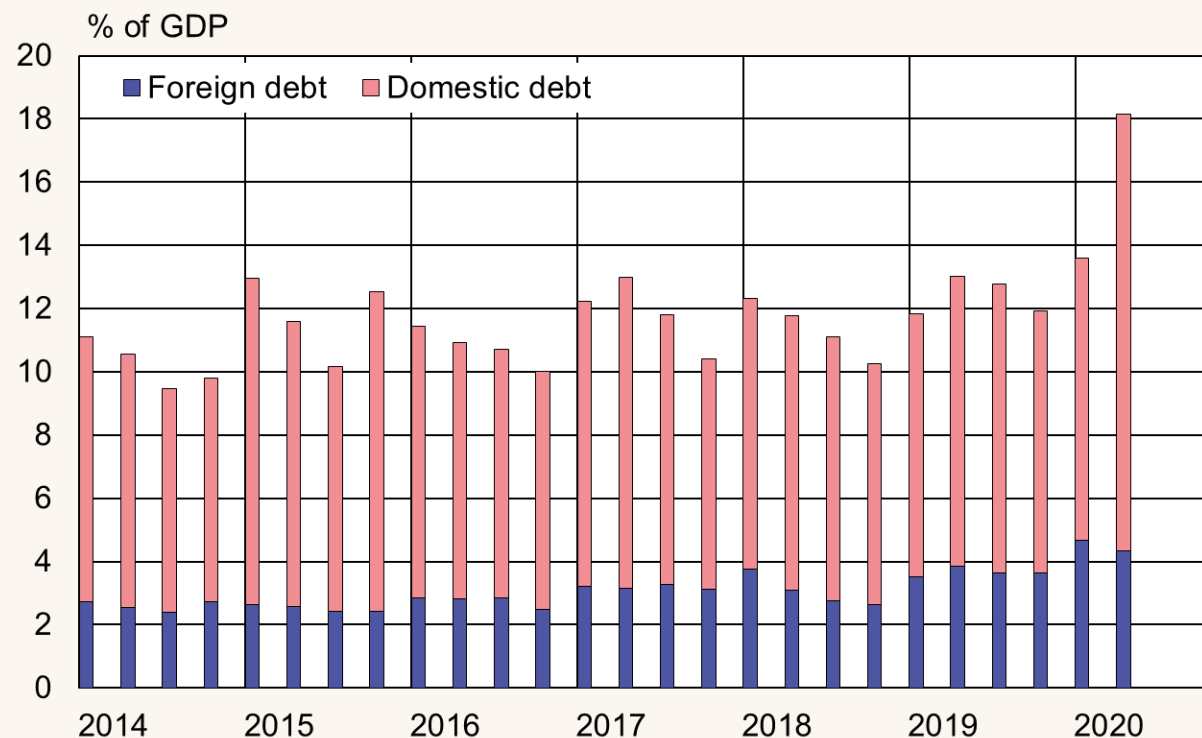


Source: Macrobond/Bank of Russia and Rosstat.

- Central Bank focuses on inflation
- Nominal forex rate no longer a target, ruble floats
- Relatively tight monetary policy
- Floating forex rate dampens the effects of external shocks

Prudent fiscal policies

Russia's public sector debt



Source: Macrobond/Russia's Ministry of Finance and Bank of Russia.

- A new fiscal rule since 2017 -> "excessive" oil&gas revenues saved in national welfare fund
- Break-even oil price ~42.5 USD
- Very small public debt (limited supply of government bonds)

Key policy frameworks

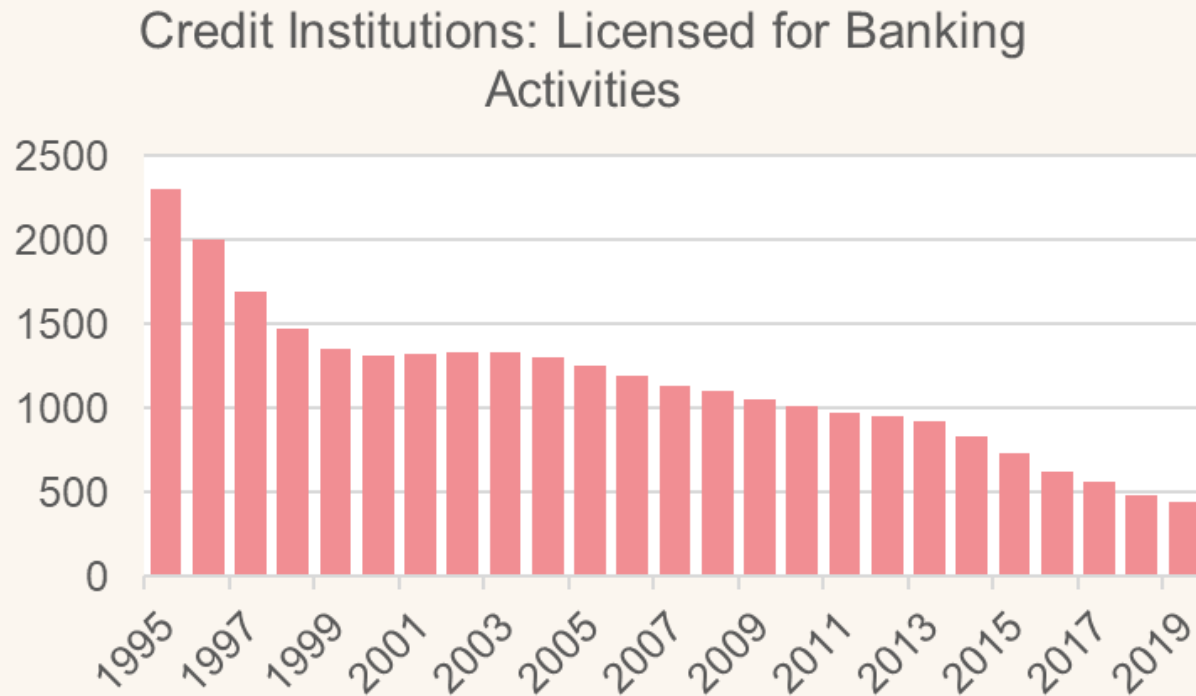
- Monetary policy – full inflation targeting
- Conservative fiscal policies
- Tightening financial markets supervision (CBR)



THE BANKING SECTOR



The number of banks has decreased remarkably

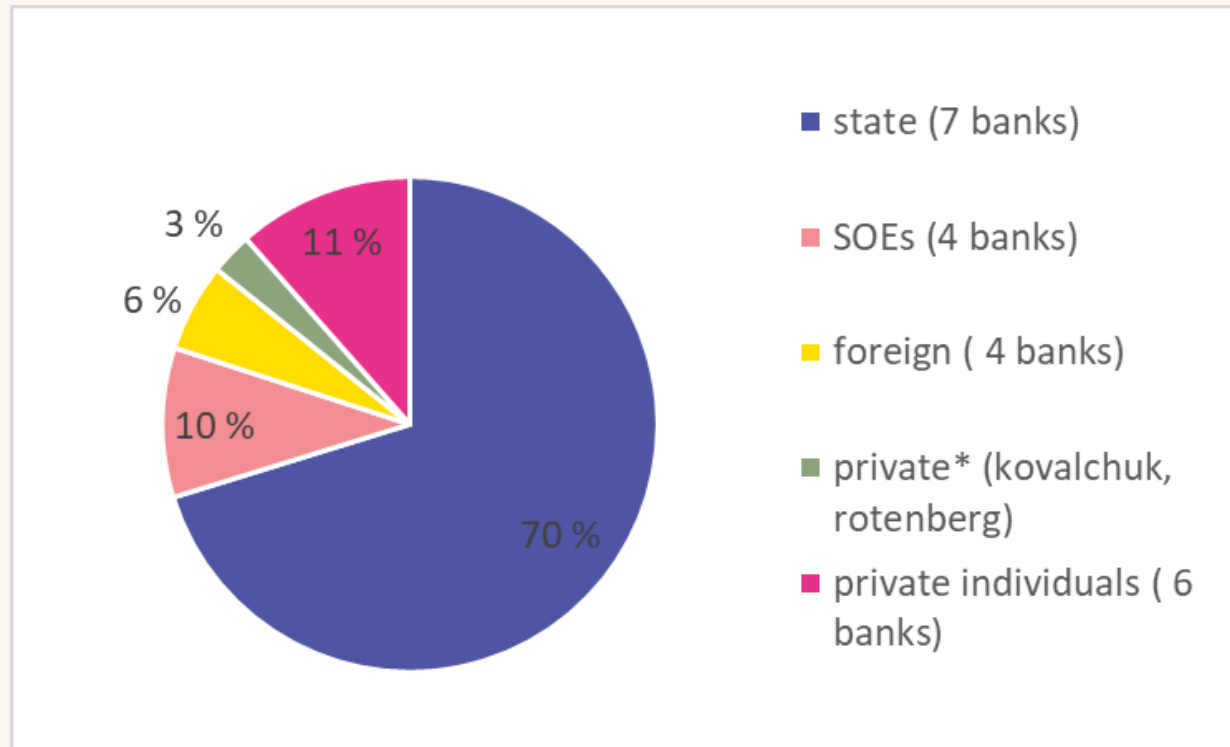


Source: CBR

- In 10 years over half of banks ceased to exist
- In end-October 2020 there were 372 operating banks
- Two-tier banking licences; universal and basic.

Only a few banks really matter...

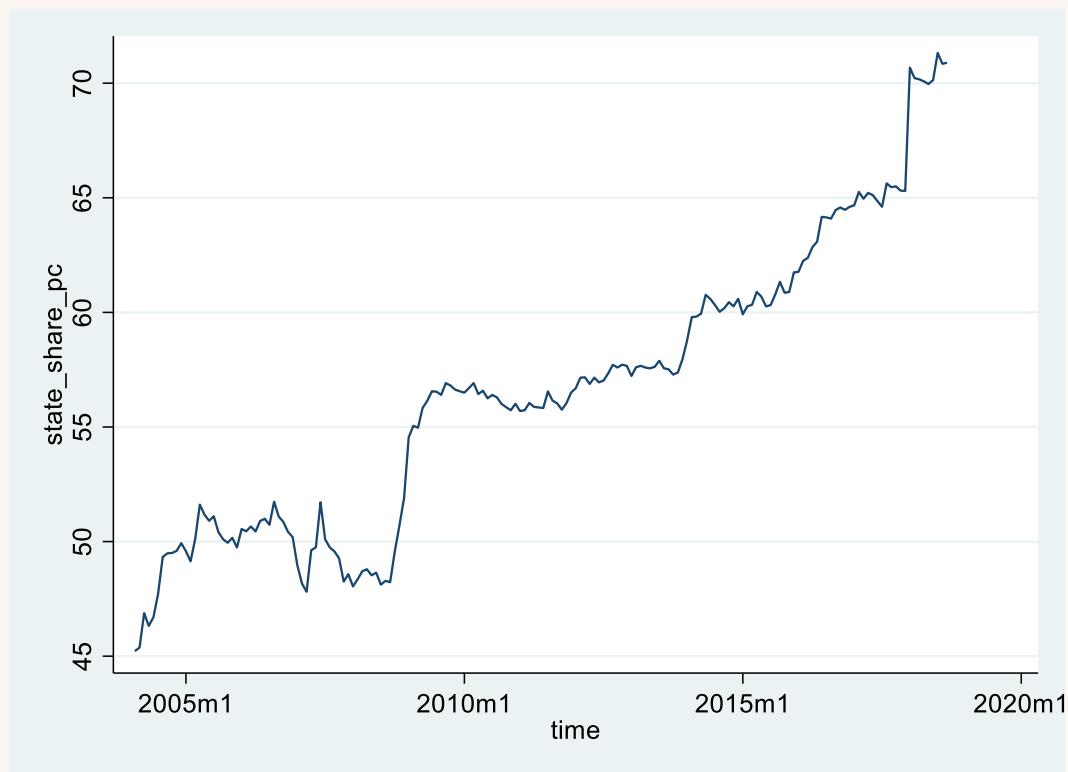
Asset share in top-25 banks, %, end-Aug 2019



Source: CBR, banki.ru, BOFIT

Role of the state increases

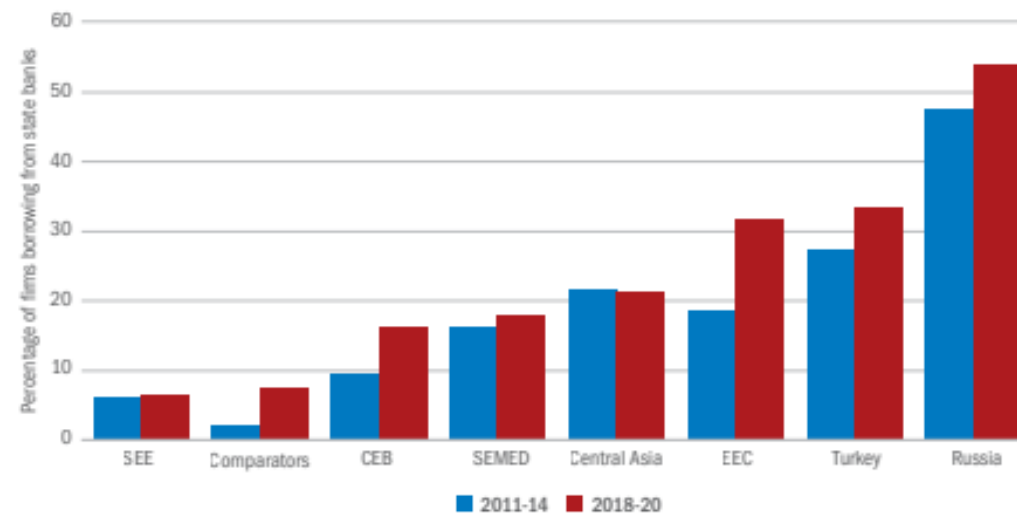
Total assets of state-controlled banks / all banks, %



Source: CBR, BOFIT Database

CHART 3.12.

There has been a widespread increase in the percentage of firms borrowing from state banks



Source: Enterprise Survey and authors' calculations.

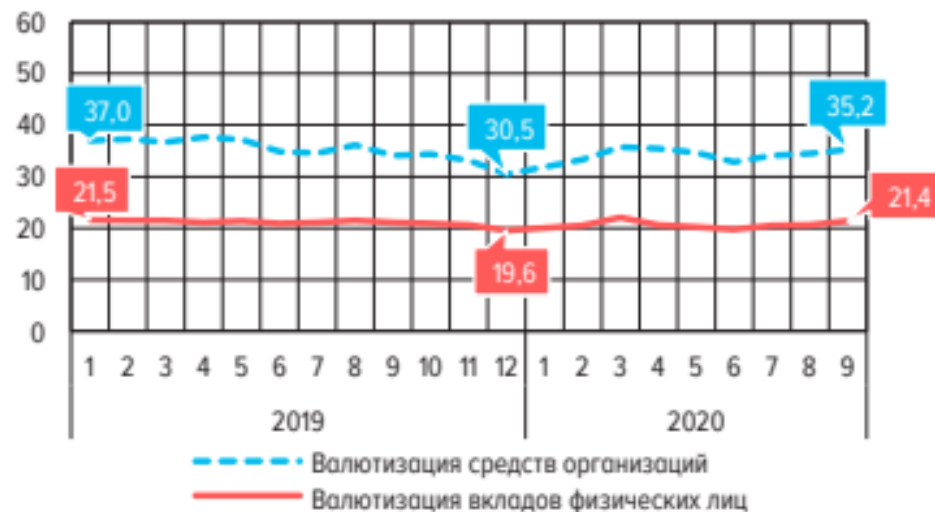
Note: The figures in this chart are calculated as a percentage of all firms that received a loan in the period in question.

Source: EBRD Transition Report 2020: The state strikes back

Legacy of the 1990s: moderate dollarization

ВАЛЮТИЗАЦИЯ СРЕДСТВ КЛИЕНТОВ (%)

Рис. 9



Источник: форма отчетности 0409101.

ВАЛЮТИЗАЦИЯ КРЕДИТОВ (%)

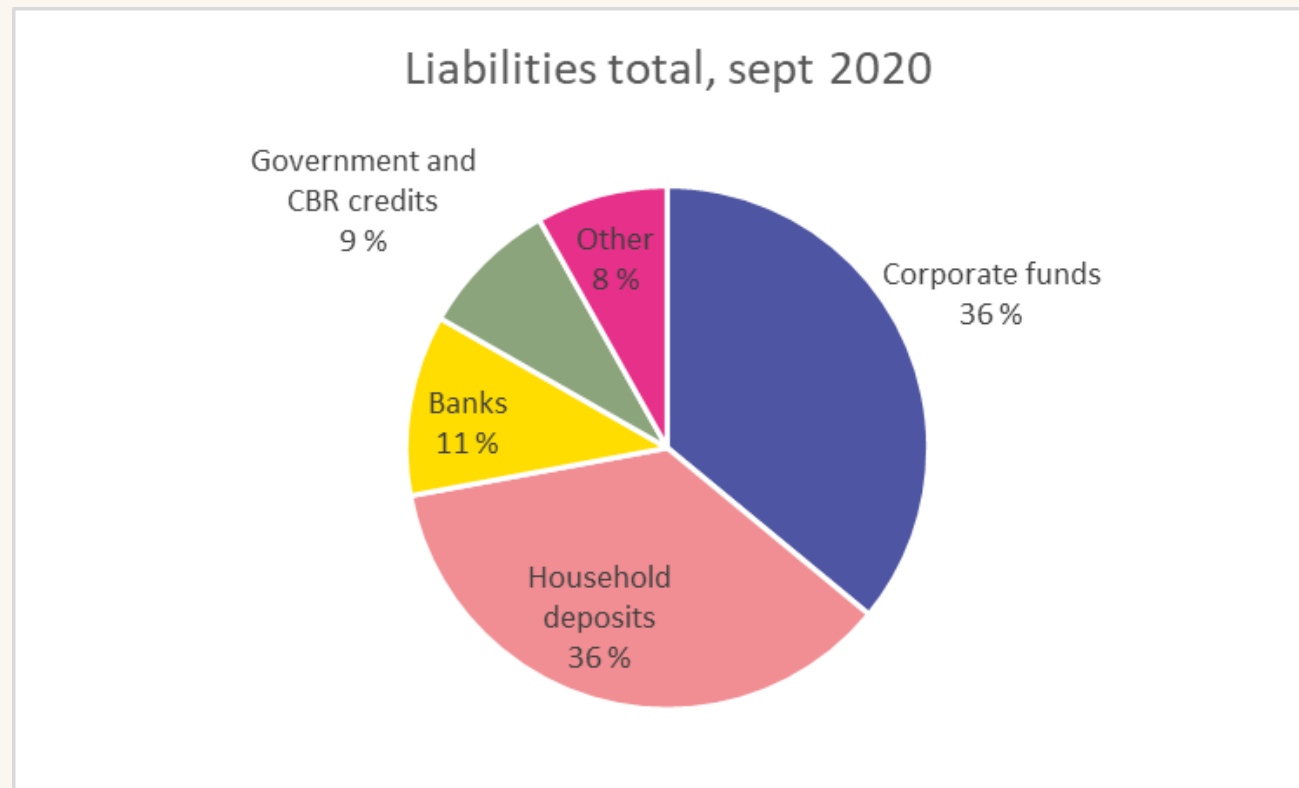
Рис. 10



Источник: форма отчетности 0409101.

Source: CBR

Traditional banking business



Source: CBR, BOFIT

Sanctions and domestic regulations shape business opportunities

- Access to foreign funding limited for large state banks
 - Exceptional deleveraging of private sector foreign debt
- Import substitution in finance
 - Domestic payment systems, payment cards, instant payments
 - Domestic software, hardware and data storage
- Using Sber to advance digitalization, use of AI, mobile payments
 - Fast advances possible
- Move from USD to Euro and Yuan in trade credits
 - not easy

Banking sector

1. Decreasing number of banks, most very small
2. Mostly traditional, moderately dollarized banking business
3. Banks still have close links to their owners
 - "pocket-banks", related-party lending
 - Strong political connections

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