

## Banking Sector in Russia: Rise or Crisis?

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### Abstract

There are different opinions about the presence or absence of banking crisis in Russia. The author analyzes a number of factors. Among the macroeconomic factors considered are the dynamics of real incomes of the population, unemployment rate, inflation, the index of public confidence in credit institutions. From the indicators characterizing stability of banking system assets, the capital, standards of sufficiency of own means, financial result, return on assets, return on capital, level of overdue debt on the issued credits are analyzed. The period for the research is 2007-2017. Based on the research, the conclusion is that the most difficult for Russian banks are 2008-2009 and 2014-2015. The subsequent period of 2016-2017 is relatively stable for the national banking system of the Russian Federation. At the same time, the author draws attention to the fact that the danger of crisis phenomena persists. The current situation can be defined as a "lack of sustainable development" or a "period of stagnation".

**Keywords:** Banking crisis; The causes of the banking crisis; The state of the banking system of the Russian federation; Russian banks; Banking system development strategy; Key performance indicators of banks; Stress testing; anti-crisis measures.



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### 1. Introduction

The theme of the banking crisis worries many, as it loses everyone. The population loses money in deposits, enterprises are deprived of the opportunity to lend and develop production, and the state loses the stabilization fund and reduces the budget. And that's just the tip of the iceberg. The possible consequences are much deeper. In this regard, the question of the presence or absence of a banking crisis in the Russian Federation is of concern to many and is relevant.

It should be noted that on this occasion there are various opinions. How many economists, so many answers. Not only analysts and financiers, but also ordinary citizens who are only users of banking services enter the discussion on this issue.

### 2. Methods

The purpose of the research is to determine the state of the Russian banking sector. The following research methodology was applied: systematization, comparative analysis, statistical methods of data processing.

### 3. Results and Discussions

One of the arguments put forward by them in the statement about the current banking crisis is the statistics on the number of revoked licenses and the reduction in the number of operating credit institutions.

Indeed, the number of credit institutions (hereinafter - CI) in the modern banking system has decreased by more than 40% over the past 5 years (table 1).

**Table-1.** Dynamics of the number of operating credit institutions of the Russian Federation

Date	Number of operating CI		Change the current number CI, units		Rate of increase(+)/outflow (-) current CI, %	
	total	including banks	total	including banks	total	including banks
01.01.2018	561	517	-62	-58	-10,0%	-10,1%
01.01.2017	623	575	-110	-106	-15,0%	-15,6%
01.01.2016	733	681	-101	-102	-12,1%	-13,0%
01.01.2015	834	783	-89	-76	-9,6%	-8,8%
01.01.2014	923	859	-33	-38	-3,5%	-4,2%
01.01.2013	956	897	-22	-25	-2,2%	-2,7%
01.01.2012	978	922	-34	-33	-3,4%	-3,5%
01.01.2011	1012	955	-46	-52	-4,3%	-5,2%
01.01.2010	1058	1007	-50	-51	-4,5%	-4,8%
01.01.2009	1108	1058	-28	-34	-2,5%	-3,1%
01.01.2008	1136	1092	-53	-51	-4,5%	-4,5%
01.01.2007	1189	1143	-64	-62	-5,1%	-5,1%

Compiled by the author based on data from the Central Bank of the Russian Federation

The current trend of revocation of licenses from banks can cause hysteria. However, it is not necessary to give in, and look deeper into the indicator under consideration. It is worth paying attention to the period of 2008, in respect of which no one doubts that it is marked by serious distresses to the financial and credit system. At the same time, not only for Russia. In such a difficult period of 2008-2009 the number of Russian banks decreased only by 8%.

Thus, it can't be said that a direct sign or consequence of the banking crisis is a sharp reduction in the number of CI. In particular, the official version of outburst revoked licenses for the last four years is the clearing of the banking sector of the Russian Federation from problem players. Since 2013 about 400 banks (43%) were withdrawn from the system. Not only small banks, but also a number of medium and large players left the market. According to the Central Bank, they were chronically weak or banks with questionable financial model. It is expected that the final process of recovery of credit institutions will be completed by 2020.

It is hoped that the Central Bank of Russia does not lead a double game. We would like to think that all his actions, which led to a significant reduction in banks, are really aimed at improving the financial and credit system, and not at the nationalization of the Russian banking system (Gordeev and Drakin, 2016). The market economy can develop only in conditions of free competition. Otherwise, the state monopoly of the financial and credit system can seriously interfere with this process.

The topic of the banking crisis and its causes is quite deep. There are several classifications of banking crises. Depending on this, we can identify various factors (causes) and indicators (precursors) of their occurrence. In this article, the author analyzes the state of the financial and credit system of the Russian Federation in terms of the presence of signs of the banking crisis. In this regard, we consider the external causes that may affect the stability of the banking system. They can have both positive and negative effects.

These include:

- level of confidence in banks;
- macroeconomic factors;
- state targets of banking activities;
- the degree of development of the money market and the ability to attract financial resources;
- state of monetary circulation;
- development of a competitive environment.
- and other.

As mentioned above, the number of revoked licenses is not included in the list of direct causes or indicators of the banking crisis. But this does not mean that the author completely denies his influence. There is an indirect link.

Next, we consider the relationship of sustainability indicators of credit institutions with consumers of banking services (Sokolova and Tishina, 2015). The trust of the population can be expressed, among other things, through the volume of deposits. This indicator deserves special attention (table 2).

**Table-2.** The volume of deposits of individuals in credit institutions of the Russian Federation

Date	Deposits					
	total	including deposits	ruble	unit weight	including deposits in foreign currency	unit weight
01.01.2018	25 987 406	20 642 614		79,4%	5 344 792	20,6%
01.01.2017	24 200 322	18 476 652		76,3%	5 723 670	23,7%
01.01.2016	23 219 077	16 398 222		70,6%	6 820 855	29,4%
01.01.2015	18 552 682	13 706 572		73,9%	4 846 110	26,1%
01.01.2014	16 957 531	14 000 569		82,6%	2 956 962	17,4%
01.01.2013	14 251 046	11 763 537		82,5%	2 487 509	17,5%
01.01.2012	11 871 363	9 702 267		81,7%	2 169 096	18,3%
01.01.2011	9 818 048	7 918 536		80,7%	1 899 512	19,3%
01.01.2010	7 484 970	5 511 093		73,6%	1 973 877	26,4%
01.01.2009	5 906 990	4 332 678		73,3%	1 574 312	26,7%
01.01.2008	5 159 200	4 492 868		87,1%	666 332	12,9%
01.01.2007	3 809 714	3 179 789		83,5%	629 925	16,5%

Compiled by the author based on data from the Central Bank of the Russian Federation

It is necessary to take into account the growth of foreign exchange rates, which is reflected in the total amount of deposits in ruble equivalent. For objective analysis of the dynamics of deposits and the level of confidence of the population we use data on ruble savings without currency savings. The author does not consider the dynamics of deposits in foreign currency in terms of ruble equivalent, as the growth is obvious. It is associated with the increase in the exchange rate and the increased interest of the population.

Thus, the volume of deposits of the population for 2007-2017 shows stable growth. The exceptions are 2008 and 2014, in which the rate of decline in ruble deposits amounted to 2,6% and 3.1%, respectively. In 2008, the crisis situation undermined confidence in banks and affected the decline in the volume of deposits of individuals in rubles. Negative trend for ruble savings in 2014 attracts attention and requires deeper analysis on the remaining indicators of crisis phenomena in the banking sector in the period.

Data on ruble savings of the population in banking institutions should be compared with the indicators of "real money income of the population", "unemployment rate" and "inflation" (table 3)

**Table-3.** Selected economic indicators, percent

Year	Growth rate of ruble deposits	Growth rate of real incomes of the population	Inflation rate	Unemployment rate
2017	11,7	-1,7	2,51	5,2
2016	12,7	-5,8	5,38	5,5
2015	19,6	-3,2	12,91	5,6
2014	-2,1	-0,7	11,36	5,2
2013	19,0	4,0	6,45	5,5
2012	21,2	4,6	6,58	5,5
2011	22,5	0,5	6,1	6,5
2010	43,7	5,9	8,78	7,3
2009	27,2	3,0	8,8	8,4
2008	-3,6	2,4	13,28	6,3
2007	41,3	13,1	11,87	6,0

Compiled by the author on the basis of the Central Bank of the Russian Federation and the Federal state

As you can see from table 3, for the 10-year period 2008 has the highest inflation rate of 13,28%. The unemployment rate was 6,3%. According to the Phillips curve, there is an inverse relationship between these two indicators in the short term. That is why we should not be surprised by the data of 2009, when, with a decrease in inflation compared to the previous year from 13,3% to 8,8%, the unemployment rate, on the contrary, increased from 6,3% to 8,4%. Nevertheless, we note that the crisis period (2008-2009) is characterized by high inflation, and pay attention to 2014. It is also characterized by a drastic increase in the value of the indicator from 6,45 to 11,36%. Further in 2015 the inflation rate continued to rise to 12,91%. However, unlike the previous 2014, in 2015 the banking sector has restored public confidence. The argument in favor of this statement is that despite the decline in real incomes by 3,2% and a slight increase in the unemployment rate from 5,2 to 5,6 (on 0,4 p.), the volume of ruble deposits of individuals increased by 19,6%.

In the subsequent 2016-2017 a mismatch occurs. Despite the decrease in inflation, real incomes of the population in this period instead of growth show a decrease. Perhaps one of the reasons is the significant difference between the official and real level of inflation in Russia. In this regard, there are different opinions of experts. Positive attitude of the Central Bank of the Russian Federation and determining the level of inflation at the end of 2017 at the level of 2,5% does not fit with the size of the key rate, which during the year was in the range from 10,0% to 7,75% per annum. International UN researchers in the report on "Economic situation in the world and its prospects" determined that the real level of inflation in Russia at the end of 2016 can make not 5,3%, and 10,6%. According to the forecast, which was based on the fall in prices in the oil and energy market, as well as the imposed sanctions, inflation in 2017 at the level of 7-8%, not 2,5%. Thus, the higher real inflation rate may partly explain the decline in incomes in 2016-2017. This may also explain the savings behavior of the population. Despite the decrease in real cash income, individuals leveled the risks of cash impairment and placed them in deposits. The inflow of ruble resources to the banking sector amounted to 2015-2017 more than 10%.

Thus, these data emphasize the absence of negative sentiment among consumers of banking services and are an additional positive indicator for the stability of the financial and credit system of the Russian Federation in 2015-2017. At the same time, 2014 continues to attract attention with crisis manifestations.

In order to study the topic of the banking crisis, the author is not limited to the index of trust in the credit institution. Moreover, in addition to the positive dynamics of growth of deposits of the population, it can be influenced by other factors. In particular, the stability of banks is associated with the degree of development of the economy as a whole. To do this, in addition to the considered indicators, it is possible to additionally analyze the dynamics of gross domestic product (GDP), industrial production, foreign exchange rates and others.

In this article, the author proposes to go directly to the indicators of the banking sector of the Russian Federation (Estrella *et al.*, 2002). (table 4).

Table-4. Indicators of the banking sector of the Russian Federation

Date	Assets		Equity		Capital adequacy ratio		Profit		Return on assets		Return on equity		Share of overdue loans to the economy	
	billion rubles	change, %	billion rubles	change, %	%	change, p/p	billion rubles	change, %	%	change, p/p	%	change, p/p	%	change, p/p
01.01.2018	85 192	6,4	9 397	0,1	12,1	-1,0	790	-15	1,0	-0,2	8,3	-2,0	6,6	-0,1
01.01.2017	80 063	-3,5	9 387	4,2	13,1	0,4	930	384	1,2	0,9	10,3	8,0	6,7	0
01.01.2016	83 000	6,9	9 009	13,6	12,7	0,2	192	-67	0,3	-0,6	2,3	-5,6	6,7	2,9
01.01.2015	77 653	35,2	7 928	12,2	12,5	-1,0	589	-41	0,9	-1,0	7,9	-7,3	3,8	0,3
01.01.2014	57 423	16,0	7 064	15,6	13,5	-0,2	994	-2	1,9	-0,4	15,2	-3,0	3,5	-0,2
01.01.2013	49 510	18,9	6 113	16,6	13,7	-1,0	1 012	19	2,3	-0,1	18,2	0,6	3,7	-0,2
01.01.2012	41 628	23,1	5 242	10,8	14,7	-3,4	848	48	2,4	0,5	17,6	5,1	3,9	-0,8
01.01.2011	33 805	14,9	4 732	2,4	18,1	-2,8	573	180	1,9	1,2	12,5	7,6	4,7	-0,4
01.01.2010	29 430	5,0	4 621	21,2	20,9	4,1	205	-50	0,7	-1,1	4,9	-8,4	5,1	3
01.01.2009	28 022	38,4	3 811	42,7	16,8	1,3	409	-19	1,8	-1,2	13,3	-9,4	2,1	0,8
01.01.2008	20 241	44,1	2 671	57,8	15,5	0,6	508	37	3,0	-0,2	22,7	-3,6	1,3	0
01.01.2007	14 046	44,1	1 693	36,3	14,9	-1,1	372	42	3,2	-	26,3	2,1	1,3	0,1

Compiled by the author based on data from the Central Bank of the Russian Federation

Despite the crisis period 2008-2009 there is an increase in assets, and with it and the values of capital adequacy (hereinafter - H1). This is due to the fact that some large banks were given subordinated loans in the framework of state support of the banking sector. It is clear that the growth of liabilities by attracting loans is reflected in the growth of assets (balance sheet rule). In addition, this type of loans are included in the calculation of the Bank's capital, thereby improving H1.

It should be noted that in the quieter period for banks in 2010-2013, the average H1 decreased from 20,9% to 13,5%. This is due to changes in banking legislation and stricter requirements for credit institutions.

In particular, we increased the ratios (pressure on equity) of operational risk (OR), as well as on some categories of assets. And all this against rather low rates of growth of own means (equity).

A similar situation is typical for 2014. Despite the fact that during this period the capitalization of the banking sector of the Russian Federation increased by 12,2%, the average level of H1 decreased from 13,5% to 12,5%. One of the reasons is an increase of 20,9% of total assets, weighted by risk level. The largest share of risk-weighted assets was issued loans (87,4%). Credit institutions increased their assets at a furious pace and didn't always take a responsible approach to risk management. This reflected an increase in the level of arrears in subsequent years. In particular, the share of overdue loans to the economy in 2014-2015 increased from 3,5% to 6,7%. Further, in 2016-2017, the deterioration of the loan portfolio stopped, but the level of delay remains at a high level.

The entire period 2007-2017 is characterized by the profitability of the Russian banking sector. It should be noted that this fact does not deny the existence of losses for individual credit institutions. The deterioration of the overall financial result, as well as other indicators reviewed above, occurred in 2008-2009 and 2014-2015. Banks have been seriously affected by the dynamics of foreign exchange rates. The volatility of the ruble showed the vulnerability of credit institutions to currency risk. As a result, the rapid growth of the dollar and the euro, combined with lower lending rates and lower interest income, had a negative impact on the profitability of the Russian banking sector.

The list of indicators characterizing the economic situation of banks is quite large and is regulated by several regulations (Daryakin and Klaas, 2016; Klaas and Klaas, 2017; Vagizova *et al.*, 2013). The author has considered some of them in table 4 and makes the following conclusion. 2008-2009 and 2014-2015 are difficult years for the Russian banking sector. The remaining periods demonstrate the relative financial stability of the credit system. At the same time, there are no positive breakthroughs in the activities of banks in the modern period.

In anticipation of possible criticism from colleagues about the surface of the analysis, please pay attention the following information. The author realizes that the manifestation of the banking crisis can be influenced by many factors (Lanine and Vander, 2006). The causes can be represented by specific indicators and are measurable. Nevertheless, there are a number of criteria that are explained not only by economic and mathematical methods. They may be due to the political, social situation, the nature of consumer relations and even weather conditions. Let us explain by the example of sales technology. Known to all her steps, many experts own the "ladder" of sales on a theoretical level. However, even repeated testing of these skills does not guarantee effective sales. Much of the success in sales depends on the personal qualities of the salesperson: the ability to find quick contact, stress, lack of false modesty and etc. Thus, 100% ownership of the technology and the calculation of the degree of completion of each stage of the sales funnel is not a guarantor of success. Applicable to our topic we emphasize that the construction of economic and mathematical models for determining the presence of signs of the banking crisis in Russia is quite possible. But will it be objective despite the complexity of the calculations? It's a great question.

## 4. Summary

Given the above, it is necessary to assess the situation in a complex and not to make premature conclusions about the presence / absence of a banking crisis. Analyzing the ten-year period, we can conclude that the most difficult years for the banking system of the Russian Federation are 2008-2009 and 2014-2015.

The author cannot claim that the national banking system of the Russian Federation is in crisis in the current period. However, the danger of crisis phenomena remains. The current situation can be defined as a "lack of sustainable development" or a "period of stagnation". What lies ahead: the rise or the crisis – is still a question.

## 5. Conclusions

Direction for further research. Despite the presence of many opinions on the topic of the banking crisis, the author formulated the questions that require definite answers. In particular:

- Can we consider the lack of positive dynamics and development of credit institutions as an indicator of the banking crisis?
- What are the harbingers and consequences of banking crises?
- Are the best global practices of anti-crisis measures applicable in the Russian conditions?
- What indicators should banks strive to improve their efficiency and sustainability?
- What indicators are recommended for credit institutions in the development of stress testing scenarios ?

Conducting research in these areas will allow us to propose measures to stabilize the situation in the financial and credit markets and make proposals to the development strategy of the banking sector of the Russian Federation (Tagirova, 2017).

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