

Economics in Brief



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Stressed Russian banking sector

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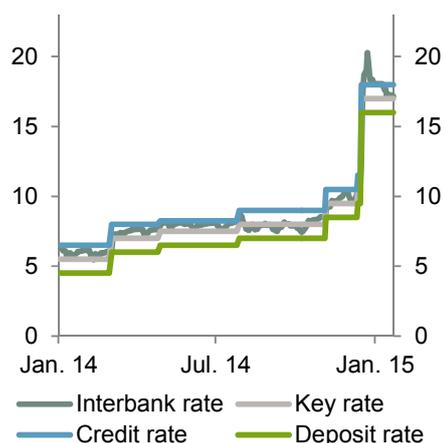
The Russian banking sector is vulnerable as a result of its high external debt together with the depreciation of the ruble (see also KfW Economics in Brief No. 69). In addition, there are increased financing costs, deteriorating credit portfolios and financial sanctions resulting from the Ukraine conflict. Therefore, (further) consolidation of the Russian banking sector can be expected.

High central bank key rates

The interest rate hike to 17% in mid-December 2014 (currently 15%) has pushed up refinancing costs of banks, even if there are exceptions for specialised refinancing instruments such as credit for small and medium-sized enterprises. On the whole, credit rates are increasing.

Shortly after the interest rate hike in December, a relatively high interbank rate of 20.3% at its peak signalled stress in the banking system. The interbank rate returned to the level of the key rate relatively quickly but the environment remains difficult for banks.

Figure 1: Central bank interest rates (in per cent)



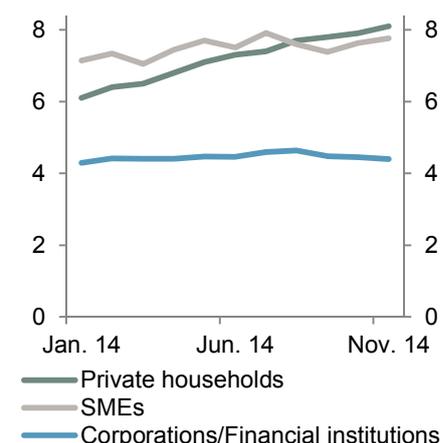
Foreign currency shortage and deteriorating credit quality

In 2014 the foreign exchange turnover was higher than in previous years on the Moscow Exchange. It was especially high in March after the annexation of Crimea, in October because of an announced Forex regulation and in December during the currency turbulences. The banks have been allotted larger amounts in the FX repo auctions the central bank introduced in November after the currency turbulences in December. This also meant accepting higher repo rates.

Cash withdrawals of foreign currency from authorised banks spiked in March at the beginning of the Ukraine conflict. How much was withdrawn during the currency turbulences in December will only be known after the respective statistics for December are published.

Simultaneously, with the worsening economic situation, credit quality also deteriorates. The share of overdue loans in credit volume (NPL) for private house-

Figure 2: Overdue loans / credit volume (in per cent)



holds has increased continuously during the year 2014. The same is true for loans extended to small and medium-sized enterprises but not for loans extended to the corporate and banking sector as a whole. Repayment of loans in foreign currencies seems to be substantially more difficult, especially for businesses in the sector of mining and quarrying energy producing materials. Loans to businesses active in the construction sector and in the primary sector are disproportionately affected as well.

Further consolidation of the banking sector expected

The crisis has not yet accelerated the decrease of the number of credit institutions with a banking license. This number has been declining for years now. However, since mid-2013, 100 fewer credit institutions are now allowed to conduct transactions in foreign currency (a decline from 68% to 66% of the credit institutions with a banking license).

The share of credit institutions that has made a profit with their activities since the beginning of the year is lower in 2014 than in previous years. This share has also not increased during the year as usual. Banks will have to rely on the support announced by the government. ■

Figure 3: Share of profit-making credit institutions (in per cent)

