

Use of foreign currency in Russia

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The use of foreign (hard) currency as cash, for borrowing and for the formation of bank deposits is a widespread phenomenon in transition economies. In the first half of the 2000s, on average 47% of loans and 44% of deposits were held in foreign currencies in these economies. The statistics for Russia were 31 and 39%, respectively.

At present, fewer than 20% of borrowings of non-financial corporations and private households and some 27% of deposits in the Russian banking system are denominated in foreign currency. If we add the external debt of non-financial corporations, however, foreign-currency-denominated loans amount to approximately one fifth of GDP, a relatively high ratio for an emerging economy.

Foreign currency use is trending downward

Net purchases and cash withdrawals of foreign currency peaked in the autumn of 2014, when the most recent economic crisis began in Russia. These amounts have since dropped to a lower average level. Worth mentioning is that foreign exchange transactions are regulated and prohibited between (foreign currency) residents – except for an explicit list of exemptions.

Up to the end of 2014, deposits and loans of private households and non-financial corporations in rubles grew significantly faster than those in foreign currency, so the share of the latter trended downward. During the crisis and the recession that followed, the sharp rise in the foreign currency ratio was driven primarily by the depreciation of the ruble. The ensuing decline in foreign currency shares was then also in part due to the reduction in foreign currency positions, especially in loans, irrespective of valuation effects.

Foreign currency loans are extended primarily to businesses, while individuals

hardly hold loans in foreign currency anymore – less than 1%.

Influencing factors: exchange rate and macroprudential measures

Using the ruble has become more attractive in recent years:

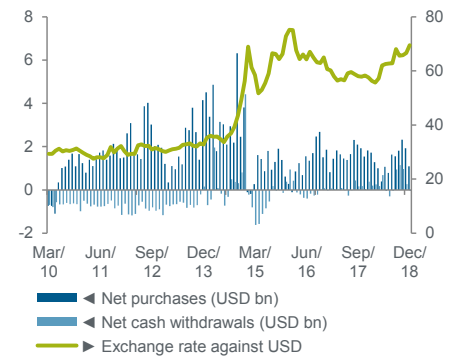
- The shift to a flexible exchange rate at the end of 2014 and the successful introduction of inflation targeting favour the building up of deposits and lending in rubles.
- Macroprudential measures were also introduced, especially since 2016, to make the use of foreign currency in doing business with enterprises and private households unattractive for banks (higher foreign currency reserve requirements, higher risk weights for foreign currency loans as well as enterprises).

These measures have been overshadowed by international sanctions, oil price fluctuations and the business cycle, which also impacted on the exchange rate. Because of the corresponding revaluations, the strong depreciation of the ruble at the end of 2014 masks the underlying change in the shares of loans and deposits in foreign currency.

Outlook

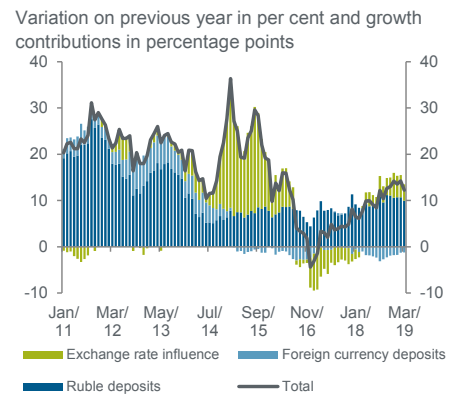
The share of foreign currency in loans and deposits is being monitored carefully for possible negative effects on financial stability. The use of foreign currency can be said to have been successfully reduced if the respective shares lie below 20% over a period of five years. This requires a further reduction, especially for deposits, as well as efforts to keep the shares low. ■

Figure 1: Cash held by private individuals in foreign currency



Sources: Bank of Russia, KfW Research.

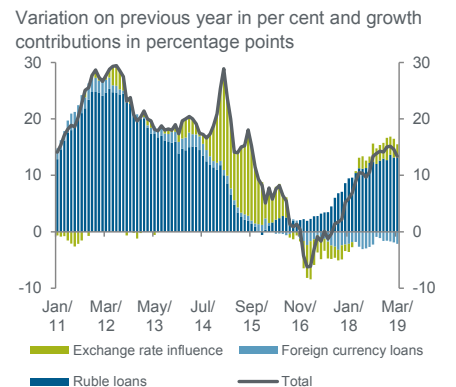
Figure 2: Bank deposits of individuals and enterprises



Exchange rate influence approximated by USD/ruble

Sources: Bank of Russia, KfW Research.

Figure 3: Bank debt of individuals and enterprises



Exchange rate influence approximated by USD/ruble

Sources: Bank of Russia, KfW Research.