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THE BANKING SECTOR AND THE CRISIS OF 2014

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The article describes the causes of the banking crisis in 2014: the loss of the possibility for Russian banks to take foreign loans, mass recall of the licenses, the depreciation of the Russian rouble. Also it describes the developments of the Russian banking sector and the challenges facing the Russian banking system such as the inability to mobilize the savings of the population, the short-sighted policy, a certain imbalance in the distribution of assets in the banking sector.

the banking sector, an economic crisis, banks’ assets, license of a commercial bank, unprofitable credit institutions

In 2013, with respect to the previous year, all euro area countries but Belgium, Latvia, Luxembourg and Slovakia recorded a decrease in the number of credit institutions. After the onset of the crisis, Greece and Cyprus, followed by Spain, recorded the largest decrease, due to the restructuring and consolidation of their banking sectors in the context of the recent financial crisis. Pronounced declines over that period were also noticeable in Finland, France, Italy and Portugal [1].

Reflecting countries’ size, but also structural features, at the end of the period under review Austrian, French, German and Italian credit institutions accounted for around 65% of euro area credit institutions, a share that was broadly unchanged since 2008. The share of foreign branches in the total number of euro area credit institutions increased between 2008 and 2013 from 10.4% to 11.7% for the euro area as a whole, mainly due to the decrease in the total number of credit institutions. Half that increase was observed in 2013.

On a consolidated basis, the total number of credit institutions in the euro area amounted to 2,609 (domestic banks and banking groups) at the end of 2013, down from 2,920 in 2008 and from 2,645 at the end of 2012.4 The number of foreign subsidiaries and branches decreased on a consolidated basis from 750 to 711 over the same period (compared to 708 in 2012). Focusing on the resizing process, total assets of the euro area banking sector, including foreign subsidiaries and branches, stood at €26.8 trillion at the end of 2013 on a consolidated basis, reflecting a decline of 19.9% with respect to 2008 and a decline of 9.4% vis-à-vis 2012. The adjustment in 2013 was again driven by developments regarding large banks.5

The largest reductions in the relative value of assets since 2008 were recorded in Estonia and Cyprus, amounting to drops of 51% and 46% respectively. On the other hand, Finland and Malta recorded an increase in the total value of banking assets of 35% and 13% respectively. The largest reduction in the relative value

of assets in 2013 was observed in Cyprus (40%) and Ireland (21%), followed by Finland (13%), Slovenia (12%), Germany (11%), Spain and Greece (both 10%). At the end of 2013, Germany and France remained the largest banking sectors in the euro area, with total asset values of €6.7 trillion and €6.3 trillion respectively[2].

The banking sectors in Spain and Italy were a considerable distance away, with total assets amounting to €3.5 trillion and €2.6 trillion respectively. At the other end of the spectrum, the assets of the Estonian and Latvian banking sectors amounted to €21 billion and €29 billion respectively. If the size of the different euro area banking sectors is measured in relation to GDP, the overall picture is radically different (see Chart 2). In terms of country GDP, Luxembourg stands out as the largest banking sector, with assets representing 1579% of GDP, followed by Malta, Ireland and Cyprus with banking assets representing 693%, 481% and 409% of GDP respectively. It is worth mentioning that these percentages decreased substantially after the end of 2012. Moreover, in Luxembourg, Malta and Ireland the vast majority of the banking assets are held by foreign-controlled subsidiaries and branches.

The modest increase in 2013 was mostly driven by moves in the crisis countries where larger banks acted as consolidators in resolutions of non-viable entities – especially in Cyprus, Greece and Spain. With regard to cross-country comparison, concentration indices reflect a number of structural factors. Banking systems in larger countries, such as Germany and Italy, are more fragmented and include strong savings and cooperative banking sectors.

Banking systems in smaller countries tend to be more concentrated, with the notable exception of Austria and Luxembourg. In the case of Austria, this is on account of a banking sector structure similar to that which characterises larger countries, and in the case of Luxembourg it is due to the presence of a large number of foreign credit institutions. At the end of 2013, market concentration (measured by the share of assets held by the five largest banks) ranged from close to 95% in Greece to just over 30% in Germany and Luxembourg (see Chart 10).11 Regarding developments in the period from 2008 to 2013, the banking sector structure tended to become more concentrated in a number of countries, in particular those undergoing deep banking sector restructuring processes such as Cyprus, Greece, Ireland or Spain.

The processes of rationalisation and resizing in the euro area banking system documented in this section suggest that the overall efficiency of the system was enhanced over the period from 2008 to 2013. During that period, the number of local bank units (i.e. local branches) in the euro area declined by 12.7%. This represented a net decrease in absolute terms of 23,851 local branches for the euro area as a whole since 2008 and 7,614 since 2012. Germany, Italy, the Netherlands and Spain account for the bulk of that decrease over the entire period from 2008 to 2013, while Greece, Italy and Spain contributed to most of the decrease in 2013. This decline was reflected in the increase of two key banking system capacity indicators: population per local branch and population per banking employee (see Chart 4 and Chart 5). This increase was common to most euro area countries over the years from 2008 to 2013, reflecting conjunctural factors such as pressure to reduce staff costs and branch networks in some countries. Compared to 2012, this trend was especially evident in countries that were participating in EU/ IMF financial adjustment programmes in 2013. In particular, the increase in population per banking employee since 2008 was substantial in Cyprus (49%) and Spain (38%), while the population per local branch indicator showed the largest increases in Estonia (83%) and Latvia (77%).

An economic crisis is a sharp deterioration of the economic situation in a country. The crisis manifests itself in a significant decline in production, a breach of the prevailing industrial relations, bankruptcies of enterprises, rising unemployment, and as a result, lower living standards and welfare of the population.

As we all know in 2014 there was an acute economic crisis which strongly hit the banking sector of our country. The past 2014 was one of the most difficult years for the banking system in modern Russia. And 2014 was expected to be difficult. The Central Bank took a course on "cleaning-up" of the banking sector in order to strengthen it. The crisis in the banking sector occurred due to the then economic and political conditions. As we think**,** there were at least 4 serious reasons which caused the banking crisis of 2014.

The first reason was the loss of the possibility for Russian banks to take foreign loans – the so called "low-cost and long-term western money". This happened as a result of international sanctions which were imposed at that time. So commercial banks in Russia faced a serious problem of a lack of the necessary resources.

The second reason of the crisis was mass recall of the licenses from Russian commercial banks. This undermined the public trust in bank deposits and in the banks themselves. That is why in 2014, many people preferred to keep their savings at home.

The third reason was the depreciation of the Russian rouble which was a severe macroeconomic shock for the country. And the last reason on our list is stagnation in the real sector of the Russian economy. As a consequence, foreign investors stopped to invest not only in production but also in Russian banks.

The above reasons led to various problems. Let's now consider the developments in the Russian banking sector in 2014 and the challenges resulting from them.

First of all, in 2014 the total number of credit institutions that lost their licenses was about 80, and that was 10% of the whole financial market of Russia. Besides, according to the Central Bank of the Russian Federation, banks' capital and assets profitability decreased almost 2 times (see Figure).

The volume of profits decreased by 40% at credit institutions. The number of unprofitable credit institutions increased and the share of loss-making ones reached a maximum and amounted to 15%[3].

In addition, banks had serious problems with the capital and reserves. The reason was the revaluation of foreign currency loans. There was a significant rise in the debts of banks to foreign creditors. In its turn, this caused a lack of funds. That is why commercial banks began active borrowing from the Central Bank of the Russian Federation. As a result, in November 2014 the banking sector's debt to the Central Bank of Russia reached a new historical maximum of 6.5 trillion roubles compared to the planned amount of 5 trillion roubles.

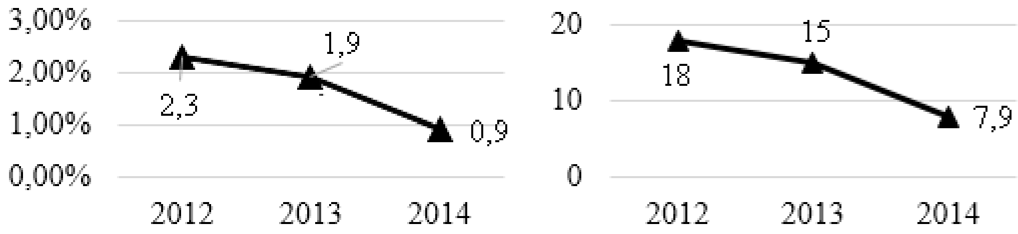

Figure - Banks' assets and capital profitability, %

What is more, besides the loss of foreign creditors, Russian banks also lost a part of their funds from Russian depositors. So in 2014 there was a significant reduction not only of foreign currency deposits, but also of those in roubles.

On top of all, in 2014 there was a marked increase in the volume of overdue debts on loans. Over the last 5 years the growth rate of overdue debts increased 18 times, which can be explained by a decline in the real incomes of the population and also by less strict requirements of banks to their borrowers.

Such were the negative developments in the banking sector in connection with the economic crisis. Almost all Russian banks experienced them. But the positive side of the situation, in our opinion, is a possibility to see and try to overcome the weaknesses of the banking system revealed by the crisis.

Firstly, as the crisis showed, commercial banks appeared to be unable to mobilize the savings of the population in order to create investment resources.

The second drawback of the system is the short-sighted policy of the supervisory body and the members of the banking system. There are a number of credit institutions with hidden internal problems as well as those whose policies are too risky.

There is also a certain imbalance in the distribution of assets in the banking sector: approximately 20 of the largest banks are the owners of 60% of total assets. In our opinion, Russia should strive to create less monopolized banking which will give even small regional banks possibilities to develop.

Thus, the problems in the banking sector in 2014 affected all the areas of banks' activities. So, the period in question was a hard time, but we hope that Russian commercial banks will meet the current challenges and will eventually get stronger and more competitive.

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БАНКОВСКИЙ СЕКТОР И КРИЗИС 2014 ГОДА

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В статье описаны причины банковского кризиса в 2014 г.: потеря российских банков возможности брать зарубежные кредиты, массовый отзыв лицензий, падение российского рубля. Также описаны события, произошедшие в российском банковском секторе и проблемы, стоящие перед российской банковской системой, такие как неспособность мобилизовать сбережения населения, недальновидная политика, определенный дисбаланс в распределении активов банковского сектора.

банковский сектор, экономический кризис, активы банков, лицензии коммерческого банка, невыгодные кредитные организации