

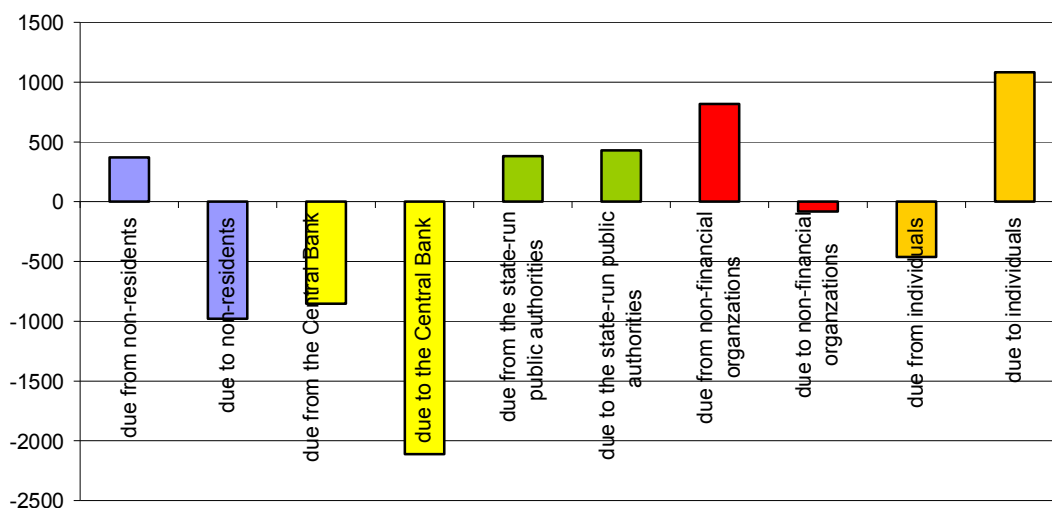
LENDING AND BORROWING: 2009 RUSSIAN BANKS PERFORMANCE
(CONTINUED)

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We continue to review the 2009 performance of Russian banks¹. This article highlights the movements of mutual debts between credit institutions on one side and companies that are not residents of Belarus, the Bank of Russia, state-run authorities, non-financial organizations and the population, on the other.

When the financial crisis took hold, one of the main threats that Russia's financial system faced was a large external debt. Credit institutions, backed up by the state, managed to overcome the liquidity crisis and adjusted their activities for the new challenges brought by the global capital market (such as restricted access to finance, interest rate growth among others). Within a year, banks' foreign assets exceeded their debts to foreign financial institutions. This was in a large part caused by the reduction of lending to domestic credit institutions and the rise of non-residents' securities (excluding stocks) held by Russian banks (see Figure 1).

Figure 1. Russian banks' assets and liabilities (billion rubles) between January 1, 2009 and December 1, 2009

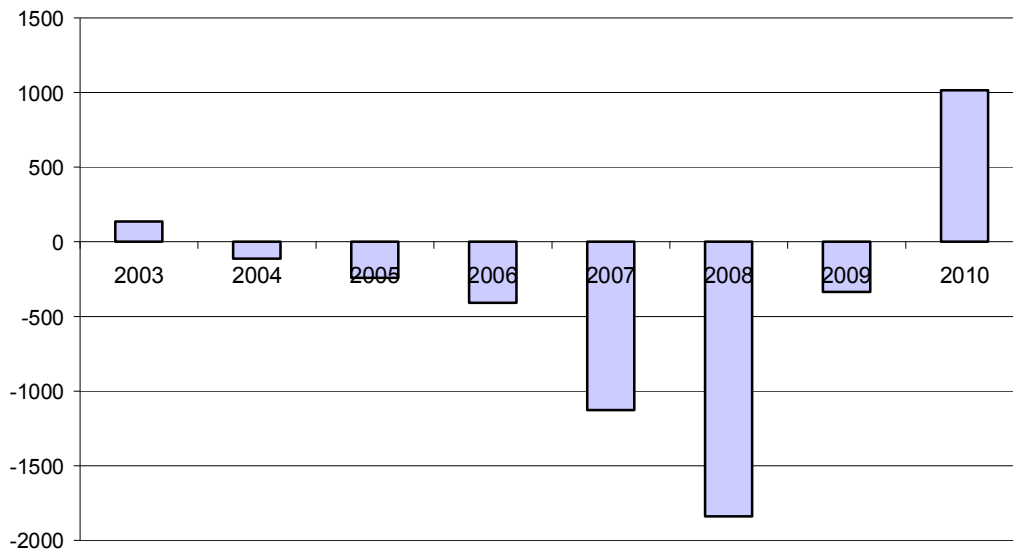


Source: the Bank of Russia

¹ The first part of an analysis of Russian banks performance is presented in a review as of January 12, 2010 on the IFS website, <http://www.ifs.ru/upload/120110-bank.pdf>.

Net foreign assets as of December 1, 2009 reached a 7-year high (see Figure 2) of 1 015 141 million rubles (nearly 32 billion dollars if use the rate of 31.8 rubles per one dollar). Thus, Russia's banking system started 2010 as a lender, not borrower.

Figure 2. Movements of net foreign assets (beginning of the year), billion rubles



Source: the Bank of Russia

On the one hand, credit institutions reduced their dependence on external funding minimizing credit risks associated with foreign loans. With amounts due from non-resident exceeding amounts due to non-residents, banks will most likely fulfill their obligations against the short-term external debt (they have to repay around 25.7 billion dollars in the coming two years). On the other hand, an increase in lending to non-residents has been preconditioned by rising volumes of purchased securities. Evidently, banks were seeking to preserve their capitals. The lack of reliable financial instruments in the market causes credit institutions to invest funds in businesses outside Russia which increases pressure on the ruble, hampers financing of the budget deficit and does not stimulate Russian financial markets to develop.

Banks have cut borrowing from the Central Bank, while their debts to state-run authorities and state-run authorities' debts both have risen. The first fact indicates that despite the hard times credit institutions are repaying their debts to the Central Bank. The second fact indicates that in the conditions of the budget deficit and cuts in federal funding regional state authorities tend to borrow more from banks.

Facing financial difficulties during the crisis, businesses borrowed more from banks and saved less in 2009. Individuals, on the contrary, tended to save money. As savings



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accounts are the only financial instrument available for citizens so far, they tend to store their free funds with credit institutions.