

LONE DELINQUENCIES POSE ANOTHER PROBLEM FOR BANKS

BY GALINA KOVALISHINA, IFS SENIOR ANALYST, January 30, 2009

Late payments on loans might reach 10% in Russia by the end of 2010, head of the Russian Savings Bank, Gherman Gref, said in a statement. Late in 2008, loan delinquencies faced by the Savings Bank accounted for 1.6-1.7% - by this parameter the main state bank did not differ much from other credit institutions (see the table).

Russian banks' loan delinquencies / various balance items ratio

	01.01.08	01.07.08	01.10.08	01.11.08	01.12.08
Loans, including:	1.3%	1.3%	1.5%	1.7%	2.0%
loans to non-financial organizations	0.9%	1.0%	1.2%	1.6%	2.0%
individuals	3.2%	3.3%	3.3%	3.3%	3.5%
Credit institutions	0.0%	0.0%	0.1%	0.1%	0.3%
Funds	8.4%	13.2%	15.0%	17.9%	21.8%
Personal deposits, including:	3.6%	4.0%	4.7%	6.1%	7.2%
deposits at short notice	19.3%	22.2%	27.3%	36.6%	44.0%

Judging by his statements, Mr. Gref believes that the percentage of overdue debts will grow in the two coming years at the rate that was observed in November 2008. Of course, the decline in personal incomes and contraction of liquid assets in the real economy will impact banks' credit risks. But forecasts suggesting that bad debts will rise to 10% (according to some estimates – to 15%) seem too pessimistic.

The growth of late payment on bank loans shows that the rise in the aggregate percentage has been caused by non-financial organizations' failures to pay off their debts in the fourth quarter of 2008, when the financial crisis hit the real economy. At the same time, late payments on consumer loans rise at a slower pace, although they constitute the largest part of other loan categories. Thus, taking into account state bailout plans for crisis-stricken private lenders unable to repay their loans, we may conclude that Mr. Gref expects more troubles in the real economy. If loan delinquencies jump to 10%, loans repaid timely will account for 5% of the GDP by 2011. Compare: in early 2009, this figure stood at around 1% of the GDP. However, when estimating negative outcomes of the crisis, being pessimistic is better than thinking that nothing bad is going on. There is a Russian proverb that says: "Hope for the better, but prepare for the worse".

The 'overdue debts / banking funds' ratio indicates that credit institutions see difficulties in replenishing their provisions – this parameter grew 2.6 times in 2008. In the near future, banks are not likely to have finance (including profits) to channel them to provisions funds, therefore a two or three dozens banks might become customers of the Deposit Insurance Agency.

The analysis of the ratio between overdue debts and on-demand deposits, the most liquid type of deposits, reveals more problems. In early December, this parameter approached 50% of on-demand deposits (money that might be withdrawn at any moment, especially if the real economy

faces a recession). This should be a great concern for banks, mainly for those who focus on retail services. Setting up collection agencies that can clear the banking system from bad debts may be the solution. This, however, will not settle the insolvency problem, so Russia's banking stability indicator will increase just formally.