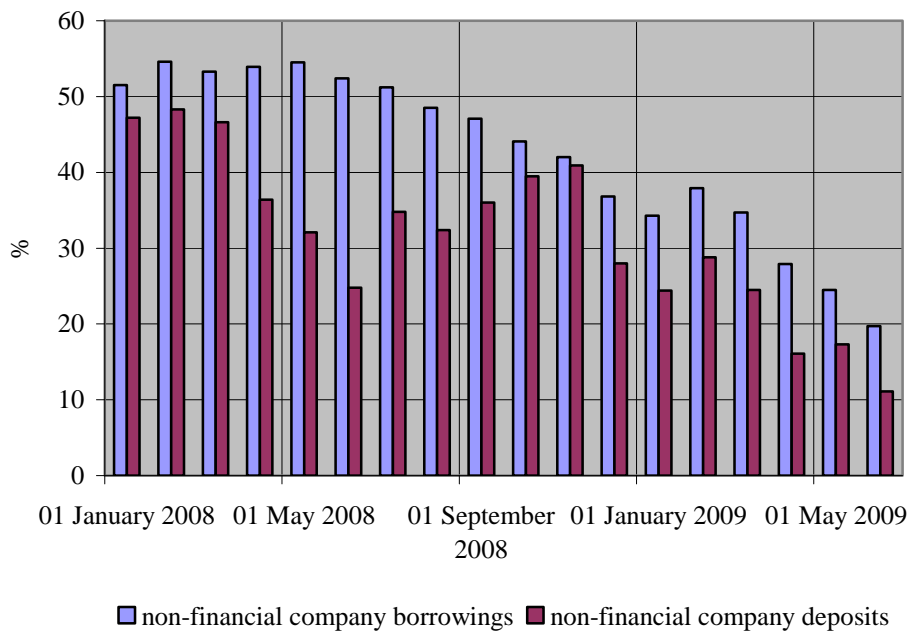


BANKS CAUTIOUS IN LENDING

BY GALINA KOVALISHINA, HEAD OF THE IFS CORPORATE FINANCE DEPARTMENT, AUGUST 10, 2009

With free capital decreasing, savings deposits dropping and loan delinquencies rising, banks appear increasingly cautious in lending. They tend to carefully investigate borrowers' solvency, accurately study income proves and stiffen collateral requirements. The policy has driven banking asset growth rates down. According to the July data, the growth in lending to non-financial organizations totaled 15.3% in July (against 45% in 2008) (see Figure 1).

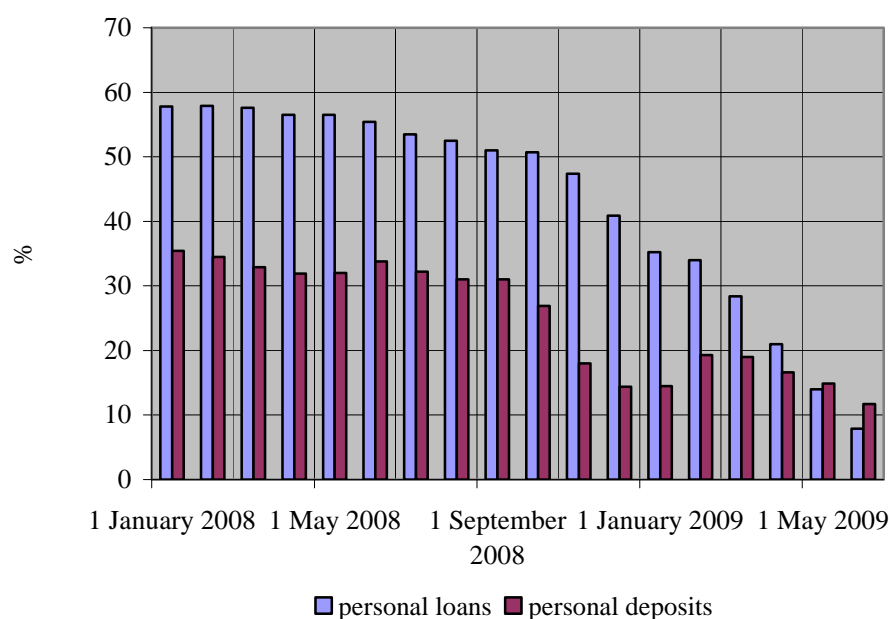
Figure 1. Non-financial company borrowings and deposits growth rates



Source: Bank of Russia

Consumer lending growth rates saw a steep drop (see Figure 2). Personal loan growth rate shrank 18-fold to 3% in July against July 2008.

Figure 2. Personal borrowings and deposits growth rates



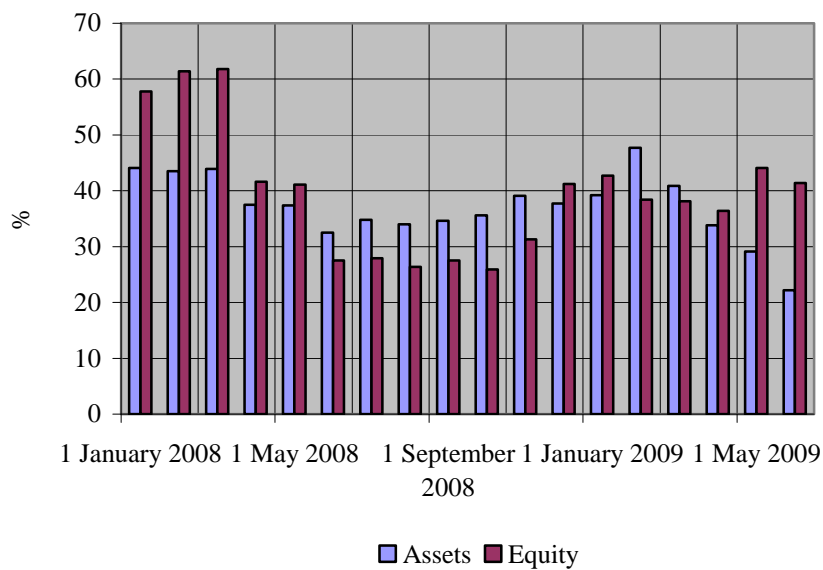
Source: Bank of Russia

This policy appears reasonable in the time of economic difficulties. Personal incomes increased just 2.9% in 2008 (against 12.1% in 2007) and fell 0.6% in the first quarter of 2009. As a result, people tend to consume less goods and buy more foreign currency (consumer spending on foreign currency doubled by the end of 2008, and the average deal amount increased by 80%). At the same time, estimating industrial sector’s mid-term risks as high, banks do not meet its need for loans. This is one of the reasons of production cuts in the second half of 2008.

In periods of high uncertainty, banks manage credit risks by decreasing lending. According to Russia’s Central Bank, the total amount of loans and other borrowings grew 33% (rubles) and 58% (foreign currencies) between January 2008 and July 2009, while ruble personal and business deposits grew only 5% and foreign currency personal and business deposits nearly doubled over this period. Evidently, banks are focusing on foreign currency operations – a measure to minimize the risk of devaluation.

Also, credit institutions (supported by the Central Bank) pay increasingly more attention to capital adequacy, which caused banking equities to grow (see Figure 3). Banks increase reserves to cushion blows from possible loan delinquencies.

Figure 3. Banks' assets and equity movement



Source: Bank of Russia