



The activity of transnational banks in the russian personal loan market

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Over the past decades, the significance and the number of transnational corporations have significantly grown all over the world. According to the data of the United Nations Conference on Trade and Development (UNCTAD), there is an increasing role of TNCs in the global economy, where TNCs are the main drivers. In this regard, there is a considerable increase in demand and importance of multinational banks, which have been arisen as a result of a high level of concentration of bank capital and the economy globalization economy. Today, transnational banks (TNBs) have a decisive influence on the development of the world economy and international economic relations.

Multinational banks are the largest universal banks that not only serve the financial flows of TNCs, but also act as intermediaries in the global financial market and ensure the movement of transnational capital, thereby taking a direct part in almost all spheres of international economic relations. The main customers of such banks are TNCs and international organizations, as well as various state institutions and foreign representative offices. Multinational banks, like transnational corporations, are subjects of the global economy, which carry out and expand their activities through their foreign branches.

The impact of the TNB's on the economies of the countries is controversial. On the one hand, the appearance of transnational banks in the market positively impacts the banking sector by the influx of foreign financial resources, stimulating competition in the domestic market and acting as a

catalyst for reforming the banking systems of the country. On the other hand, when entering foreign markets, TNB can result in such negative consequences as severe competition with local banks; violation of the stability of the national currency; imposition of an ideology contrary to the interests of national business, as well as strong political pressure. Although the stimulating effects of the inflow of foreign capital should not be underestimated, countries need to some degree restrict and control the activities of foreign banks, thereby reducing the possible unfavorable impact and at the same time maximizing the benefit from their presence in the domestic market.

If we are talking about the Russian market, it is far behind from developed financial markets in many respects and, in addition, has great volatility and quite sensitively reacts to fluctuations of the external conditions. And the introduction of economic sanctions as well create unfavorable environment on the market. However, despite all the challenges and difficulties, banking system in Russia showed relatively stable results for the recent time; particularly in 2019, which turned out to be a quite comfortable year for the banking sector as a whole,

In 2019, the Bank of Russia continued its policy of improving the banking sector and liquidating banks that conduct risky credit policies and break the legislation and requirements in the field of risk management. However, the situation with the revocation of banking licenses in 2019 was much calmer than in previous years, although the number of license revocations remained at a relatively high level. In 2019, 28 licenses were revoked against 57 in 2018 (graphic 1). At the same time, the total assets of banks forcibly deprived of a license in 2019 amounted to only 118 billion rubles.¹ For comparison, in 2018 this value was over 0.5 trillion rubles, and in 2017 and 2016 - 1.21 and 1.24 trillion rubles, respectively. Thus, the average size of assets of banks that have lost licenses has notably declined. It is also worth noting that in 2019, for the first time in several years, the Bank of Russia issued one new license to the newly created "Bank 131" in Kazan².

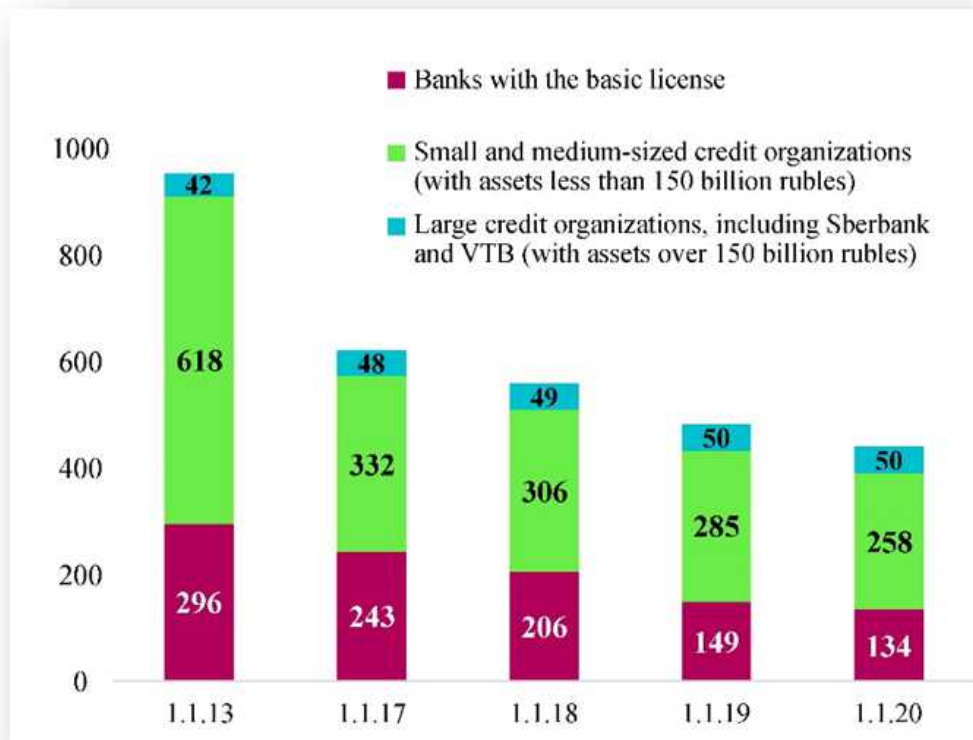
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¹ _Rating Agency "RIA Rating". [Electronic resource] / RIA RATING, 2020. URL: <https://riarating.ru/>

² _Central Bank of the Russian Federation: Official site. [Electronic resource] / Bank of Russia, 2000-2020. URL: https://cbr.ru/banking_sector/credit/coinfo/?id=512052393



Graphic 1. Number of the credit organizations in Russia in 2013-2020

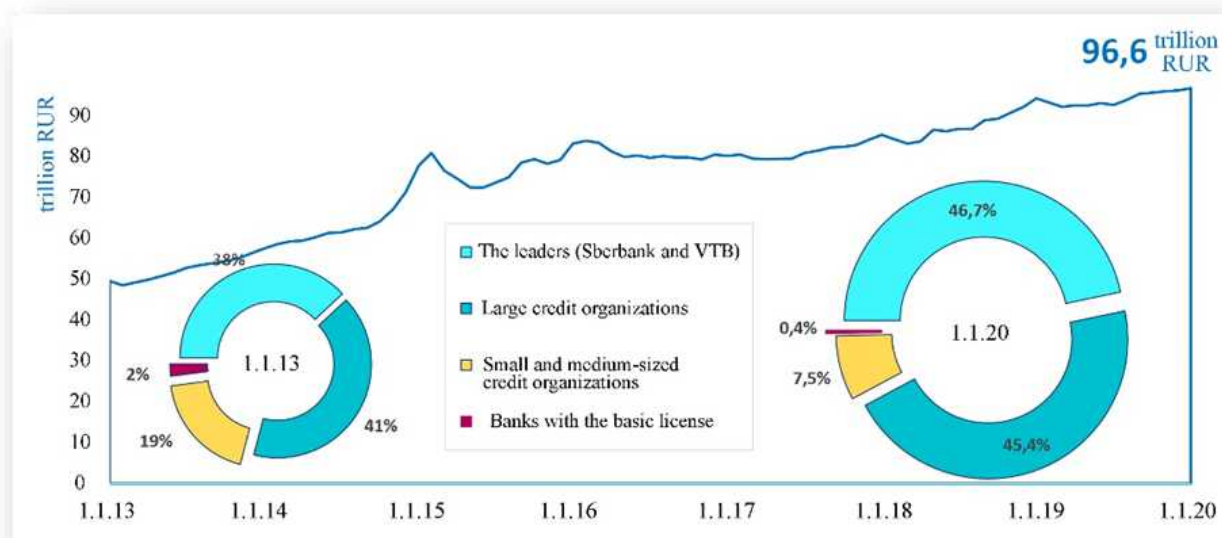


Source: Association of banks of Russia. *Banking system in figures and graphics 2019* [Electronic resource]. URL: <https://asros.ru/upload/iblock/fd3/Obzor-na-01.01.2020.pdf>

Overall, the volume of assets in the banking sector as at 01.01.2020 reached 96.6 trillion rubles. In general, mainly due to an increase in the loan portfolio, in 2019 banks' assets grew by 2.7%, which is significantly lower than in previous years (10% in 2018, 6% in 2017). Such a low indicator in 2019 was the result of the transition to new accounting standards, as well as of the reduced excess liquidity³. The banking sector of the Russian Federation is still characterized by a high concentration of assets among leaders (Sberbank and VTB) and the largest credit organizations (without Sberbank and VTB, with assets over 150 billion rubles), whose share was 46.7% and 45.4%, respectively (graphic2).

³ Bank Rossii. O razviti bankovskogo sektora Rossiyskoy Federazii v 2019 godu. Informazionno-analiticheskiy material. 2020 [Electronic resource]. URL: https://cbr.ru/Collection/Collection/File/25854/razv_bs_19_12.pdf

Graphic 2. Assets of the banking sector in 2013-2020, trillion RUR



Source: Association of banks of Russia. *Banking system in figures and graphics 2019* [Electronic resource]. URL: <https://asros.ru/upload/iblock/fd3/Obzor-na-01.01.2020.pdf>

So, in terms of net assets, Sberbank occupies the leading position with net assets amounted to 28,894.53 billion rubles as at January 1, 2020; VTB is the second largest bank in Russia and Gazprombank is the third (table 1). We also see the rapid increase over the year by Otkritie Bank (64%), which rose by two positions during 2019. Such an impressive growth was mainly due to the merger of BINBANK at the beginning of the year, as well as the growth of corporate and interbank lending in the second half of 2019.

Table 1. TOP-10 banks in Russia in terms of net assets, thousand RUR

Position	Change of position	Bank	January 2020	January 2019	Change, %
1	0	Sberbank	28 894 527 589	28 133 766 472	2,7
2	0	VTB Bank	14 329 205 070	13 949 419 060	2,72
3	0	Gazprombank	6 554 665 558	6 347 699 200	3,26
4	0	National Clearing Center	3 959 360 947	3 998 602 238	-0,98
5	1	Alfa-Bank	3 761 758 370	3 400 207 141	10,63
6	-1	Rosselkhozbank	3 541 806 193	3 467 376 171	2,15
7	2	Bank Otkritie	2 714 672 202	1 664 824 056	63,06
8	-1	Credit Bank of Moscow	2 518 240 826	2 239 299 432	12,46
9	-1	NB Trust	1 382 958 267	1 688 889 835	-18,11
10	2	Raiffeisenbank	1 292 865 252	1 149 274 211	12,49

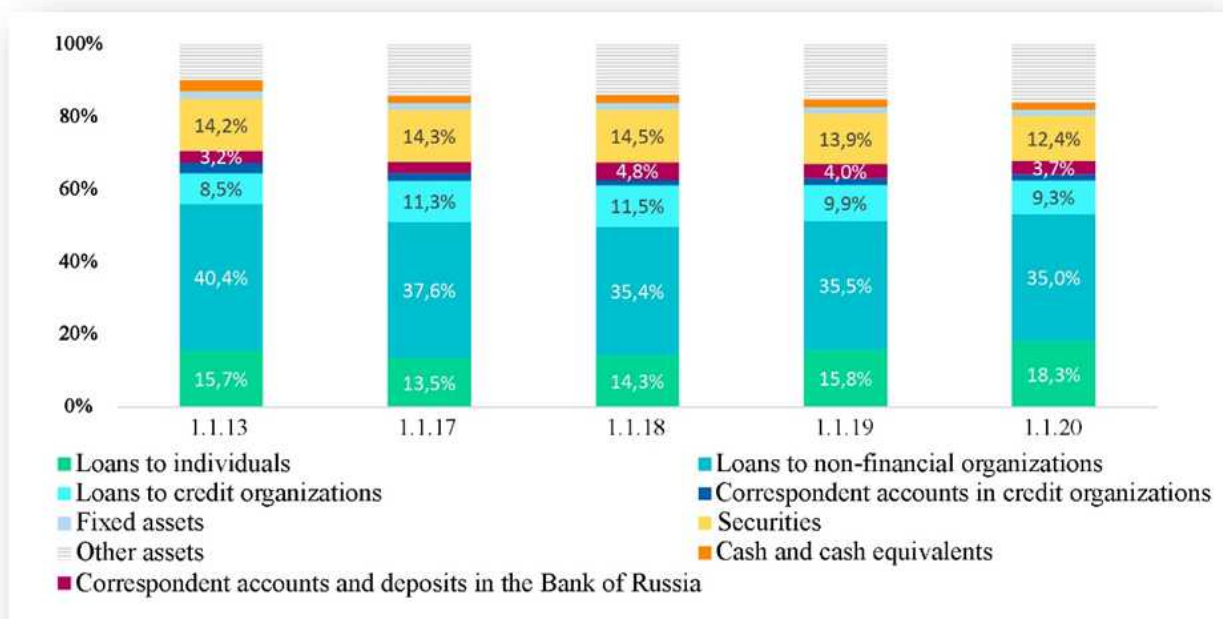
Source: Banki.ru: Official site. [Electronic resource]. URL: <http://www.banki.ru>



The share of assets of the 5 largest banks presented above in 2019 amounted to 60.3%. While the top 20 banks account for 82.9% of the entire banking sector assets⁴. At the same time, state-owned banks still dominate among the largest banks. Also, as it can be seen from the table, only one foreign TNB “Raiffeisen bank” entered the top 10, having risen by two positions in the ranking of 2019.

As for the structure of banking assets, here traditionally the largest share is made up by loans, their share always fluctuates above 50%. From the graphic below (Graphic 3) we see that non-financial organizations remain the main borrowers (35-40% of total banking assets), while loans to individuals are the second, and in 2019 they grew rapidly and amounted to 18.3% as of January 1, 2020. In absolute terms, lending to legal entities and individuals increased by 3.2 trillion rubles and reached 51.4 trillion rubles in 2020.

Graphic 3. Assets structure of the Russian banking sector in 2013-2020



Source: Association of banks of Russia. *Banking system in figures and graphics 2019* [Electronic resource]. URL: <https://asros.ru/upload/iblock/fd3/Obzor-na-01.01.2020.pdf>

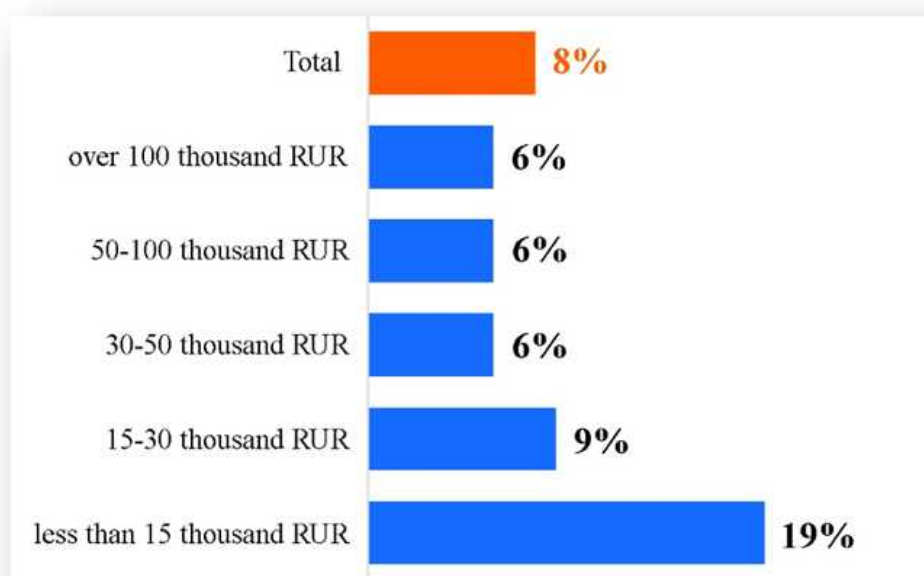
It is worth noting that the share of consumer credits in the lending structure has been increasing for the fifth year in a row, and the result of 2019 has become the highest in the entire modern Russian banking history. So, what were the reasons for a such rapid incline?

First, the accelerated in 2018 nominal wage growth, especially in the lowest paid categories, severely affected the increase in personal lending market. According to the Federal State Statistics Service, in 2018 the nominal average wage increased by 11.6% and the first half of 2019 by further 8%. Thus, during this period the growth rate in nominal wages exceeded the average growth rate, which was usually in the range of 2-4% per year, in almost 3 times⁵. Moreover, according to Sberbank data, the rich do not become richer, and the poor do not become poorer, as many are used to believing. In the first half of 2019, compared with the same period in 2018, salaries of up to 15 thousand rubles showed the highest growth rates within all the categories and increased by 19%. While the results of other wages were more modest - the growth rate of salaries over 100 thousand rubles amounted to about 6%, for example (graphic 4).

⁴ Federal State Statistic Service: Official website: - URL: <https://eng.gks.ru/>

⁵ Central Bank of the Russian Federation: Official site. [Electronic resource] / Bank of Russia, 2000-2020. URL: https://cbr.ru/banking_sector/credit/coinfo/?id=512052393

Graphic 4. Dynamics of the salary growth in the 1st half of 2019 compared to the 1st half of 2018



Source: *Sberbank CIB Investment Research*. - URL: <https://research.sberbank-cib.com/>

Such income dynamics explains the sharp increase on the consumer lending market, which even got ahead the mortgage in terms of growth rates. As a rule, people with the lowest salaries often turn to consumer loans; that is why, the increase in salaries made people desire larger purchases, which can be easily made with the help of personal loans.

The second largest factor was a significant drop in the cost of loans and an unprecedented convergence of mortgage rates and consumer loan rates. In the graph below the dynamics of the average rate on consumer loans is presented based on the data of the Bank of Russia (graphic 5).

Graphic 5. Dynamics of the average consumer loan rate in 2014-2019, %



Source: *Central Bank of the Russian Federation: Official site. [Electronic resource] / Bank of Russia, 2000-2020. URL: <https://www.cbr.ru/statistics/>*



As can be seen from the graph, the main trend that has been observed in the consumer lending market starting from 2016 is a rapid decrease in interest rates; personal loans have never been so cheap in our country. In addition to this, there was another parallel phenomenon in the personal lending market - tendency to lengthen consumer credit terms. As a result of such a trend, the ratio of monthly payments to the loan amount decreased, or with the same payment, clients could afford a larger loan amount.

The third fundamental factor in increasing the volume of consumer lending, along with falling rates and growing loan terms, is the growth of the credit amount (graphic 6).

Graphic 6. The average consumer loan amount in 2015-2019, thousand RUR



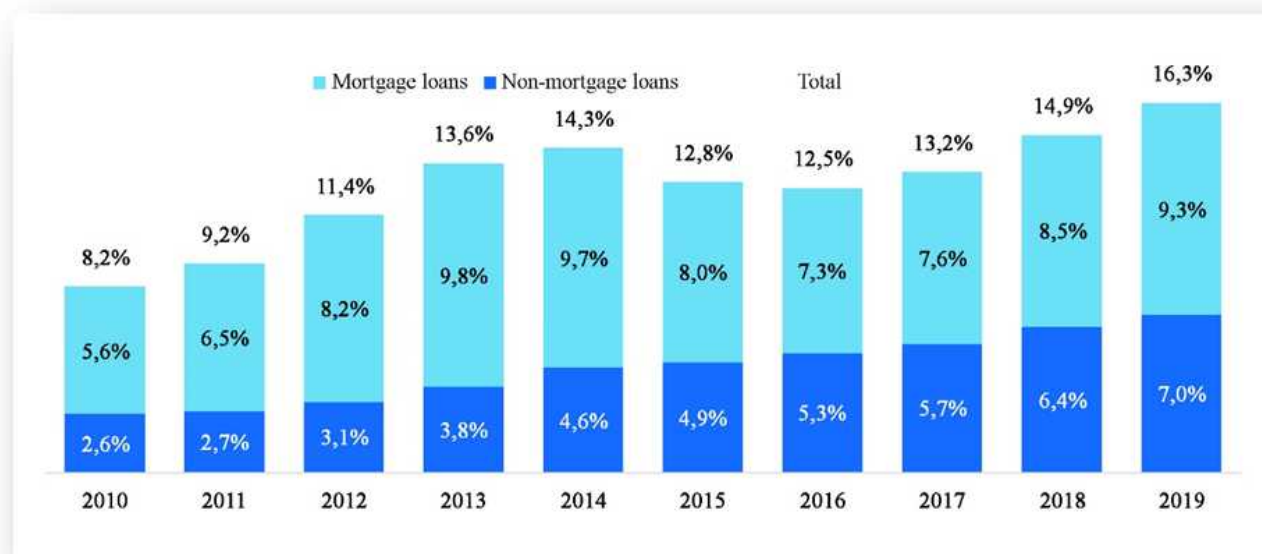
Source: Central Bank of the Russian Federation: Official site. [Electronic resource] / Bank of Russia, 2000-2020. URL: <https://www.cbr.ru/statistics/>

The average loan amounts have been growing since 2016 and, based on the graph above, the amount increased approximately by 1,5 times. The restrictive measures of the Bank of Russia played the key role at that moment, leading to a noticeable drop in the share of small consumer credits issued at high interest rates⁶. Starting from October 1, 2019, new restrictions on lending to citizens came into force: now, banks are required to calculate the so-called “debt burden indicator”, or payment to income ratio, for each client, which is the ratio of planned loan payments to the borrower's income.

To conclude, the rapid growth of personal lending over the past two years has raised concerns about the potential maturation of a bubble in this market. According to the data and statistics of the Bank of Russia and Rosstat, the volume explosion in consumer lending is objective due to certain factors, such as increase in nominal wages in 2017-2018; the cost decline in servicing debt as a result of falling rates and credit term extension; as well as increase in the average loan amount. Nevertheless, a cautious approach to consumer lending will not be excessive, therefore, as already mentioned before, on October 1 2019, the Central Bank introduced new restrictions that force banks to calculate an indicator of debt burden for each client. According to forecasts of the Bank of Russia, the growth rate of consumer lending will start to gradually decrease in 2020. Banks themselves see the end of the trend: loan issuance will decline and eventually will probably be equal to the volume of loan repayments - that is, the portfolio will stop growing.

⁶ Bank Rossii vvodit dopolnitelnye mery po ogranicheniyu dolgovoy nagruzki v neobespechennom potrebitelskom kreditirovanii. 11.06.2019 // Central Bank: Official website. URL: <https://www.cbr.ru/press/event/?id=2678>

Graphic 7. Loans to individuals, % Gross domestic product (GDP)



Source: *Central Bank of the Russian Federation: Official site. [Electronic resource] / Bank of Russia, 2000-2020. URL: <https://www.cbr.ru/statistics/>*

As it can be seen from the graph above, the volume of consumer loans in 2019 in relation to GDP is equal to 9.3%, which is quite close to the levels of 2013–2014, although it is worth noting that then the cost of servicing was much higher, and the portfolio structure was shifted to the microloans. However, 10% of GDP is a level that unsecured lending rarely overcomes in other countries.

Summing up, it can be noted that the main trend of the Russian banking system in 2019 was relative stability, indicating the maturity of the Russian financial system that in the long run creates additional development potential. The Bank of Russia in 2019 continued its so-called “cleaning” program in the banking sector, although the rates slowed down compared to the previous years. Along with this, the bias towards large banks continues to intensify, which is accompanied by an increase of the share of banks with state participation. The next key development trend in 2019 was the lending growth, despite the measures taken by the Central Bank. We may conclude that today the personal loan market is close to its saturation point, but it is worth remembering that this is not the same as the risk of a “bubble explosion”. Nowadays, all the market trends are within their manageability so far. And despite all the risks and challenges, experts forecast

that consumer lending is to be the main direction of development of the Russian banking system for the near future.

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