

**MODERN TRENDS IN THE DEVELOPMENT OF THE ECONOMY AND BANKING SYSTEM IN
CONDITIONS OF NEW NORMAL**

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Asiya N. Khasanova
Kazan Federal University
asya.khasanova@yandex.ru

Adel. A. Daryakin
Kazan Federal University
adel_darin@mail.ru

Abstract. This paper considers the main directions of the development of world economy in general and banking sector in Russia in particular in conditions of new normal. In recent years, the economic development rates of developed countries have significantly decreased, which has led to a reduction in GDP, an increase in unemployment, an increase in public debt, an even greater strengthening of the importance of new technologies, etc. Such changes not only in the economy, but also in all spheres of life, have been called a new normal. The changes have also affected the banking sector. The consequences of such changes in Russia included reduction in the number of credit institutions (mainly local and regional banks), slowdown in the capital growth of credit institutions, most banks found it difficult to maintain stability, meet their obligations. The assets and capital throughout the banking sector are shrinking as well as the number of loans and deposits opened. In this regard, it is necessary to develop new strategies to maintain the stability of Russian banks, to ensure their functioning in a volatile economy. In this paper, we proposed measures to stabilize the credit institutions.

Key words: new normal, banking sector of Russia, early warning systems, strategic management, risk management.

1. INTRODUCTION

Recently, we are increasingly confronted with the term of new normal. This concept was firstly used in America in relation to the economic situation after the crisis of 2008. The term is widely used not only in relation to the economy, as it fits the definition of any irreversible changes in the world.

In 2009, Mohamed A. El-Erian, the Executive Director and Co-Director for PIMCO Company Investment Management voiced the company's concept of a new normal for the first time. This concept was simple and sounded as follows: after the crisis, the economy will not regain its previous cyclicity. Also, PIMCO Company voiced several hypotheses characterizing the new normal (*The New Neutral, n. d.*), (*PIMCO's New Normal, n. d.*):

- the low growth rates will be accompanied by high unemployment;
- the modern global system will become less cohesive, the influence of the Anglo-Saxon model will weaken, the finances will not play a decisive role in the post-industrial economy;
- the government's influence will increase in certain sectors of the economy.

Jan Davis, the Director of McKinsey & Company, draws attention in his papers to the fact that the new normal is a general definition of such economic phenomena as an increase in public debt, increased control by the government, an increase in the value of intellectual work (Davis, 2009).

At the same time, the Doctor of Economic Sciences E. A. Bragina argues that this term can cover all the changes taking place in the world economy (*MIREC, n. d.*).

Most definitions of the concept come down to the fact that the new normal in the economy is a financial and economic situation that has been considered a deviation from the norm, a cardinal change at a certain time in the past, however, has become the norm at the present time.

After 2008, a new normal began to be called the ratio of low economic growth rates and high unemployment rate in the USA.

2. METHODS

The material for the work included the

macroeconomic indicators of the economy development of Russia and the leading countries of the world, the data of the Central Bank on the state of the Russian banking system. The methods are an analysis of the development prospects of the banking sector in Russia.

At present, the GDP growth of the developed countries does not exceed two and a half percent, which can be seen from Table 1. The prospect of GDP growth by 0.5 percent is the most optimistic for next year for the Russian economy.

Table 1. Macroeconomic indicators of the countries of the world as of January 1, 2017 (Macroeconomic Indicators in Absolute Terms, n. d), (External Debt of the Countries of the World, n. d)

Country	GDP (year), billion US dollars	GDP growth (year), quarterly, %	External debt, monthly, billion US
dollars	18,037	1.7	16,893
Russia	1,326	-0.4	519
China	11,008	6.7	354
Germany	3,356	1.5	5,624
Great Britain	2,858	2.2	9,836
Japan	4,123	1.1	3,397

According to the table, it can be seen that the GDP growth of the world's leading countries such as the USA, Germany, Great Britain and Japan fluctuate from 1.1% to 2.2% per year, and only China, actively developing its economy, has increased its GDP by 6.7%. Many economists agree that the countries that have reached a certain technological level will not be able to increase the GDP growth rates until the next scientific "push" to the economy development. In 2016 Russia has a negative GDP growth, which is a consequence of restriction of commodity-money relations with the European countries, as well as with the USA.

In recent years, there is a tendency that the leading countries of the world have a large external debt (Capiroz, 2012). This negatively affects the economy and the well-being of the population. Let us consider the main negative consequences:

- redistribution of money from the private sector to the state to cover part of the debt;

- increase in the tax rates;
- bankruptcy of credit institutions, as the state cannot answer for its obligations;
- budget shortage;
- inflation.

Thus, the above factors contribute to the economy instability, which is of a permanent nature, and this, in turn, generates an increase in unemployment, a decrease in the standard of living of the population, higher prices, and a slowdown in the technological development (Zubaidi, Baharumshah & Wohar, 2016).

Such economic changes at the macro level lead to some problems at the micro level as well; in particular, the great difficulties are experienced by the banking sector. Based on the above mentioned, it is obvious that the banks face the systemic risks associated with changes in the economy, primarily due to the lack of cyclicity of all processes.

Against this background, there is now the need to ensure the stable functioning of the Russian banking system so that the banks can fulfill their functions and contribute to the economy development (Amitz, 2017).

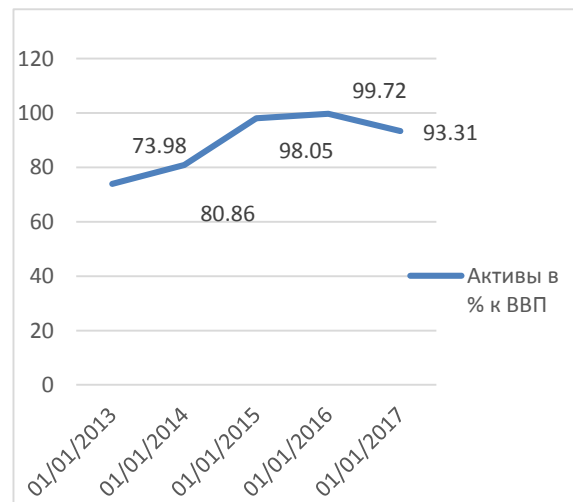
Let us consider the changes that have taken place in the banking sector over the past few years with the example of the banking sector in Russia.

First of all, we will analyze the indicators from Table 2. Based on the table data, it can be seen that the growth rates of all indicators have decreased, which indicates a decrease in the banking sector transactions, the changes are largely due to the lack of cyclical processes. According to the base forecast of the Expert RA rating agency, the loan portfolio will grow by 6% in the non-financial sector due to the reduction in funding and the higher growth rates of the economy in 2017. But, as in 2016, the portfolio growth of many banks will be limited by a weak stock of fixed capital, as well as tightening the approach of the CBR to loan and troubled loan provisioning.

Table 2. The growth rates of the banking sector indicators in Russia (% per year) (Review of the Banking Sector of the Russian Federation, n. d)

Indicators	January 1, 2013	January 1, 2014	January 1, 2015	January 1, 2016	January 1, 2017
Assets	18.9	16.0	35.2	6.9	-3.5
Capital	16.6	15.6	12.2	13.6	4.2
Loans and other disbursed funds provided to the non-financial organizations	12.7	12.7	31.3	12.7	9.5
Loans and other funds provided to the individual persons	39.4	28.7	13.8	-5.7	1.1
Deposits of individual persons	20.0	19.0	9.4	25.2	4.2
Deposits and funds on the accounts of non-financial and financial organizations (other than credit institutions)	14.0	16.0	38.6	15.6	-10.1

Separately, we will analyze the changes in the banking sector assets as a percentage to GDP, which will enable us to predict further changes (improving or worsening) in the state of banking sector as a whole, since the volume of assets indicates to the activity of banks and their stable functioning.



Активы в % к ВВП	Assets as a percentage to GDP
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Figure 1. Total assets as a percentage to GDP

Based on the data from Figure 1, we see that the share of assets in GDP has grown before the beginning of 2017; however, as can be seen from the indicators in Table 2, the asset growth decreases every year, which means that we can assume that the

ratio of these two indicators is affected by other factors.

In order to forecast the share of assets in GDP, we will identify indicators that affect the asset changes of the banking sector as a percentage to GDP. In our opinion, such indicators are:

X1 – the number of operating credit institutions;

X2 – inflation;

X3 –quarterly data on gross domestic product;

X4 – key rate;

X5 – money supply;

X6 – return on assets ratio;

X6 – return on capital ratio;

X8 – total capital of the banking sector.

Based on the correlation analysis results and after checking for multicollinearity, we have two factors left: key rate and total capital of the banking sector. Then we performed the regression analysis, where $R^2 = 0.96001$, therefore, the variation of the resultant sign Y by 96% is taken into account in the model and is caused by the influence of factor features.

The value of Fisher's F-criterion is 192.07220, which is greater than the critical table value at all significance levels α , at $\alpha = 0.05$ the table value is 3.63372, which indicates the importance of the built-up regression equation and the appropriateness of its use for analysis and prediction of the GDP asset ratio.

After the regression analysis, we obtained the regression equation of the following form:

$$Y = 27.315 + 0.737x_4 + 0.007x_8$$

The equation shows that an increase in the key rate by one percent will lead to an increase in the banking sector assets as a percentage to GDP by 0.737 percent, and an increase in the total capital of the banking sector by 1 billion roubles will entail an increase in the banking sector assets as a percentage to GDP by 0.007 percent.

We will draw up the forecast of changes in the banking sector assets as a percentage to GDP based on the forecasts of the Central Bank and leading

economists. As it has been announced by the Central Bank, the inflation rate is decreasing, respectively, the Bank is going to reduce the key rate.

Also, based on both the opinions of economists and the trend line, the total capital of the banking sector will continue to grow up inalterably (Figure 2). As for the trend line of the key rate, it tends to increase as well; however, the key rate reduction in the last year refutes the forecast of its significant increase (Figure 3).

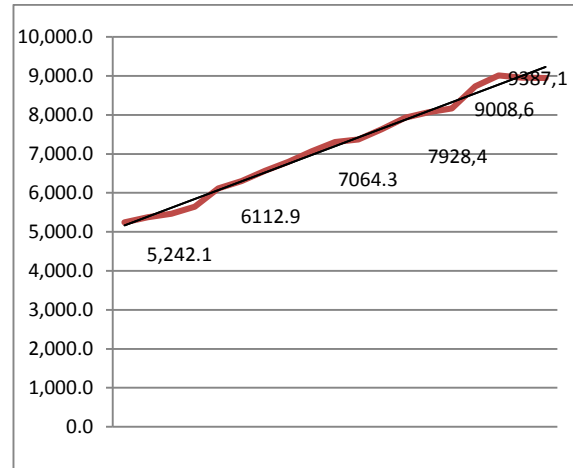


Figure 2. Changes in a total capital of the banking sector

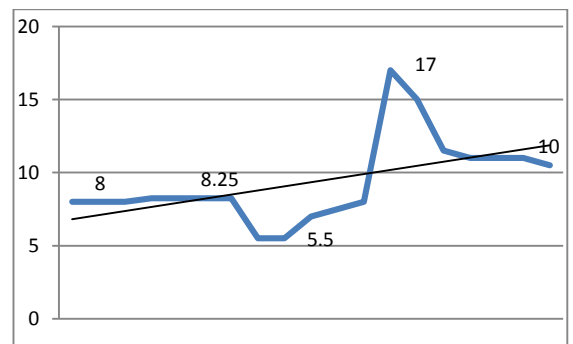


Figure 3. Changes in a key rate, %

We will carry out the forecast of asset changes as a percentage to GDP, provided that the key rate decreases and the total capital of the banking sector increases. The forecast of the total capital increase of the banking sector will be based on the trend line equation, and we will forecast the key rate based on the expert opinion. The Ministry of Finance believes that the rate will drop to 8% by 2018, and to 6.5% by 2019. The experts of APECON agency believe that the rate will drop to 8.5% by 2018. Elvira

Nabiullina believes that if the inflation rate reaches 4%, the key rate will decrease to 6.5%.

Based on the expert opinion, we will make a forecast, in which the rate will be 8% by the second quarter of 2018 (Table 3).

Table 3. Forecast indicators of the key rate and total capital of the banking sector.

Period	Key rate, %	Total capital of the banking sector, billion roubles
July 1, 2017	9.5	10,129.8
October 1, 2017	9.0	10,354.8
January 1, 2018	8.5	10,580.5
April 1, 2018	8.0	10,806.3

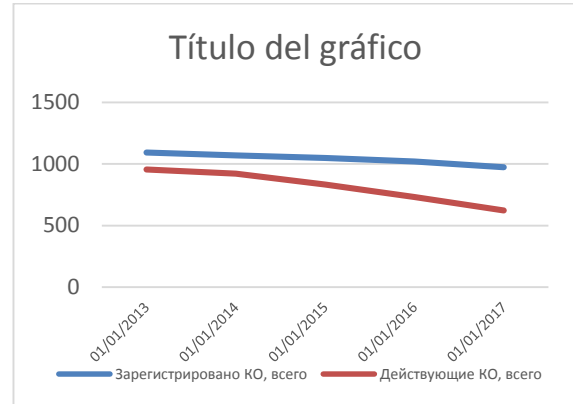
Thus, the banking sector assets as a percentage to GDP by the second quarter of 2018, according to the forecast, will be equal to:

$$Y=27.315+0.734*8.0+0.007*10,806.3=108.801$$

This forecast will come true with the continued decline in inflation and an activity increase in the economy.

Another major change in the banking sector is the decrease in the number of credit institutions. Chart 4 shows that the number of registered credit institutions has significantly decreased since 2013. Also, the gap between the registered and operating credit organizations has increased. We can assume that the banks are not able to quickly adjust to the changed economic conditions, which have entailed both a reduction in assets and a decrease in deposits and loans issued. Another reason for the decrease in the number of credit institutions is tightening the Central Bank's policy towards credit institutions. The Central Bank is trying to stabilize the economy by winding up the banks that have problems with stable functioning and meeting their obligations to the customers. On the one hand, a reduction in the number of banks suggests strengthening of the banking sector due to the fact that there are large and stable banks that can function in the current conditions. On the other hand, a license revocation from one bank may have a negative impact on a correspondent bank that has accounts in a bankrupt

bank, as well as on other partner banks that have joint transactions with the customers, thereby creating distrust of banks by the legal entities and individual persons, and, consequently, instability in the economy (Mamonov & Vernikov, 2017).



Зарегистрированные КО, всего	Registered CI, total
Действующие КО, всего	Operating CI, total

Figure 4. The number of registered and operating credit institutions, total (Information on Registration and Licensing of Credit Institutions, n. d)

3. RESULTS

In connection with the current economic situation, the Russian banking system, in our view, should take measures aimed at preventing bankruptcy of the banks. The problem should be set more broadly, and it should be about creating an overall effective integrated system of proactive management.

The essence of this system is to unite the efforts of regulatory bodies, self-regulating banking organizations and the banks themselves to develop activities and management decisions that should be implemented in order to prevent all manifestations of contradiction aggravation caused by the factors and causes of instability.

In recent years, the state and the Bank of Russia have done a lot to normalize the activities of commercial banks, but today, the banks face new problems due to the lack of necessary laws.

The banks, facing the serious problems, have the right to rely on certain assistance from the regulatory authorities. In this regard, a great role is assigned to the Bank of Russia, which performs the regulatory and supervisory functions. We offer to consider some of the tasks for improving banking

supervision from the point of view of addressing the early warning system, that is, regular and strengthened control by the Central Bank based on the qualitative diagnostics. This involves the creation of an early warning system, that is, the creation of strengthened measures for the rapid monitoring of all credit institutions and modeling of various potential risks.

4. DISCUSSION

The early warning systems are based on indicators that characterize the activities of credit institutions, the level of risks they take and the quality of their corporate governance (Figure 5)

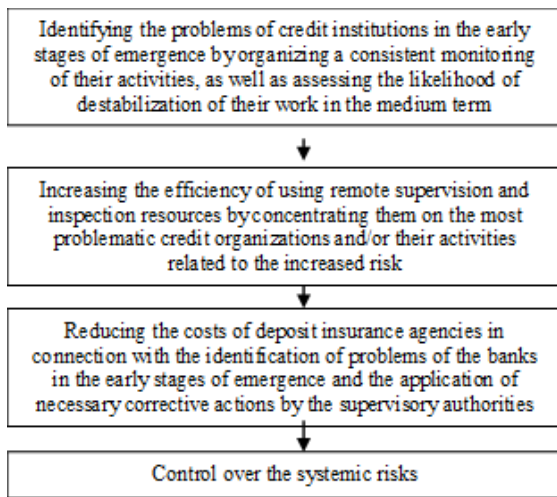


Figure 5. Sets of tasks solved within the early warning system for the banks' problems

It is necessary to implement such systems within the framework of software packages, and the standard packages of financial reporting forms submitted by the banks to the prudential supervision bodies serve as the databases for them.

Thus, due to the early warning system, the banking sector will become more stable.

Firstly, the early warning system helps to identify the bank's problems in the early stages, thus the bank will not face new risks and problems. Secondly, the early control will help maintain the sector stability, since the problems of one bank often give rise to the problems of other dependent banks, for example, partner banks, which in turn leads to negative consequences in other sectors of the economy.

5. SUMMARY

Summing up, in connection with the current stages of economy development, Russia and other countries should change the approach to stabilization and the establishment of functioning of all economic processes. In particular, it is necessary to control the banking sector. We examined some trends in the development of the Russian banking sector based on the growth rates of the banking sector indicators and drew up a forecast for possible changes in the banking sector assets as a percentage to GDP to analyze the stable functioning of the banks, as well as we examined the dynamics of a number of credit institutions and identified the main reasons for reducing the number of credit institutions. Based on the fact that the number of credit institutions has significantly decreased and the trend of revoking licenses from the banks continues to grow, we have proposed the introduction of an early warning system as a mean of stabilizing the banking sector as a whole.

6. CONCLUSIONS

According to the work results, we can conclude that the economy of developed countries stagnates, the Russia's economic state is unstable, which leads to some problems in the banking sector. To strengthen the stability of the banking sector, it is necessary to pay attention to the stabilization of banks separately. In this regard, the use of early warning systems is possible in conditions of new normal. These systems enable us to identify the banks' problems in the early stages and promptly prevent them, or to identify the possibility of a threat to the credit institution even before the onset of real problems.

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