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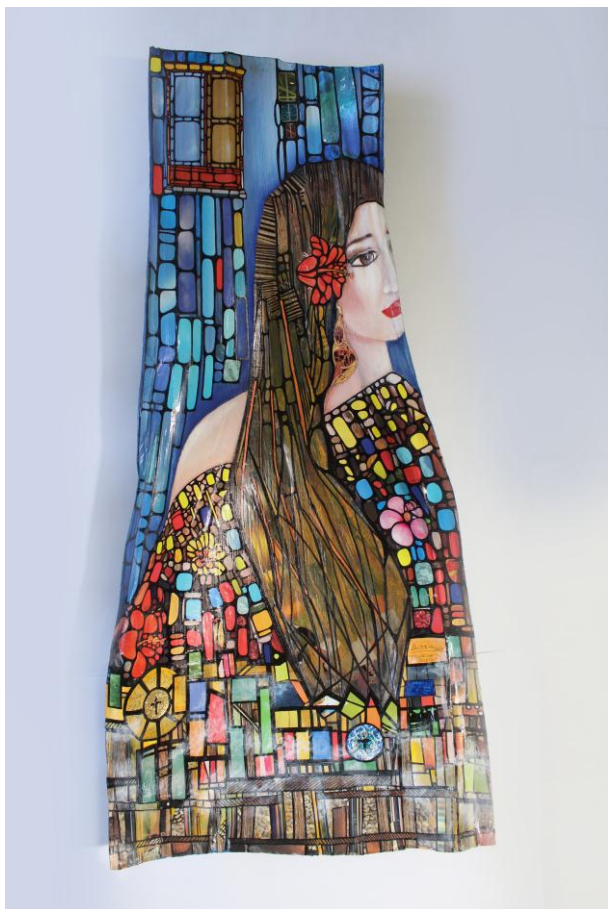
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Use of bank assets in financing the expanded reproduction of Russian economy

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Abstract

The article draws attention to the use of bank assets in Russian reproduction via statistical analysis of proportions and qualitative comparative analysis. As a result, there is a significant limitation of real participation of the banking sector in the financing of expanded reproduction, which is associated with a fairly high level of capital concentration in the largest banks that are controlled, usually by the state. In conclusion, the contradictions of banking assets consolidation are reduced due to an improved monitoring of limited financial resources efficiency which will result in an increased investment in the real sector of the economy.

Keywords: Banking System, Investment, Expanded Reproduction.

Uso de activos bancarios para financiar la reproducción ampliada de la economía rusa

Resumen

El artículo llama la atención sobre el uso de activos bancarios en la reproducción rusa a través del análisis estadístico de proporciones y el análisis comparativo cualitativo. Como resultado, existe una limitación significativa de la participación real del sector bancario en el financiamiento de la reproducción ampliada, que se asocia con un nivel bastante alto de concentración de capital en los bancos más grandes que están controlados, generalmente por el estado. En conclusión, las contradicciones de la consolidación de activos bancarios se reducen debido a un mejor monitoreo de la eficiencia limitada de los recursos financieros, lo que resultará en una mayor inversión en el sector real de la economía.

Palabras clave: Sistema bancario, Inversión, Reproducción ampliada.

1. INTRODUCTION

The reproductive development of Russian economy faces, nowadays, some complex challenges: on the one hand, long-term market reforms have not led to the creation of an effective production, and on the other, the global introduction of digital technologies requires a new stage of extensive reforms. Another challenging question is whether the country has enough resources both to make up for a delay in market reforms and to adopt new technologies and new production methods. The solution of this problem appears to be one of the key factors underpinning the development of a new system of reproduction. The effective use of financial resources defines a new economic reality and is extremely

important for national reproduction. Strategic documents of Russian government indicate the urgent need to develop modern financing facilities for economic growth and development. This need has been accentuated by the lack of access to many external sources of borrowing and a significant reduction in oil and gas prices. In such conditions, only a wide and more efficient use of domestic sources of funding can allow for increasing the rate of reproduction accumulation (Galazova, 2013; Sharoyan, 2015).

2. RESULTS

Proposals to look for new and additional sources of financing for investment in reproduction have been increasing in recent years. It is suggested, for example, to mobilize the monetary resources of the population through the banking and financial system. In a sense, this is a fairly effective approach, as a number of statistical data show the quantitative comparability of the population's monetary savings (more than 9 trillion rubles) with the total volume of investments in fixed assets (10 trillion rubles) in national reproduction. However, it is necessary to pay attention to how bank assets are used in Russian reproduction. First of all, it is necessary to point out a significantly restricted participation of banking sector in financing extended reproduction, which is associated with a fairly high level of concentration of capital in the largest banks controlled by the government (Akindinova et al., 2016; Lokshina, 2016).

Table 1 provides information on the distribution of loans to non-financial organizations in the total volume of loans in the banking

sector. It can be seen that in the beginning of 2017, 67.4% of the total volume of loans to non-financial organizations was issued directly by state-controlled banks. And during ten years (since 2008) the share of this sector has increased by more than 20 percentage points (p.p.). At the same time, in early 2017 the share of large private banks accounted for only 25.2% of the total volume of loans granted to non-financial organizations, while the banks with foreign capital accounted only for 5.9%. At the beginning of the period under review, these areas of bank lending accounted for 33.3% (8.1 percentage points more than on 01/01/2017) and 16.4% (10.5 pp more than on 01/01/2017), respectively. At the beginning of 2017, the small and medium-sized banks of the Moscow region and other Russian regions accounted for 0.6% and 1.0%, respectively, although in 2008 the figures were higher - 2.8% and 3.5%, respectively (Borzih, 2017).

Table 1 – Distribution of loans to non-financial organizations in the total volume of loans issued by banks of the Russian Federation, as percentage of total *

	01.01.2008	01.01.2013	01.01.2017
State-controlled banks	44,0	53,8	67,4
Banks with foreign capital	16,4	4,4	5,9
Large private banks	33,3	27,5	25,2
Small and medium-sized banks of the Moscow region	2,8	2,4	0,6
Small and medium-sized banks of other regions of the Russian Federation	3,5	2,2	1,0
For reference: systemically important credit institutions			77,0

* The table is based on the data of: Report on the Development of the Banking Sector and Banking Supervision in 2016. - Moscow: Central Bank of the Russian Federation, 2017. - P.29

In such conditions, more and more researchers note an increase in the Russian banking sector heterogeneity. All the banks can be classified into three groups (Table 2): ten systemically important credit institutions; thirty largest credit institutions designated by the Bank of Russia; medium and small banks. The list of ten systemically important credit organizations includes the largest private and state banks of the country: UniCredit Bank, Bank GPB (JSC), PAO Bank VTB, JSC ALFA-BANK, PAO Sberbank, PAO Bank FC Otkritiye, PAO ROSBANK, PAO Promsvyazbank, JSC Raiffeisenbank and JSC Rosselkhozbank. This list was first published by the Central Bank of the Russian Federation at the end of 2015 and included organizations that controlled more than 60% of all assets of the domestic banking system (The Bank of Russia's information On Approving the List of Systemically Significant Credit Institutions dated September 13, 2017) (Golovan et al., 2010).

Table 2 – Groups of banks by size of their assets and market profile in the Russian Federation *

Group		Brief description	Number of banks in the group	Average value of capital adequacy ratio (N1.0) as of 01.11.2016 (%)
Systemically important credit institutions		Largest state-controlled and private banks, able to influence the whole banking sector, the list is defined by The Bank of Russia	10	13,9
Other large banks		Included in the group of thirty largest credit institutions by the Bank of Russia as for 01.11.2016	24	13,5
Small and medium-sized banks	Retail banks	Largest share of credits to individuals (N1.0<50%)	13	19,0
	Corporate banks	Largest share of credits to non-financial legal	51	24,4

		entities (N1.0 < 50%)		
	others	No specialization in lending to the non-financial sector (N1.0 < 50%)	381	23,9
	«not-lenders»	Not focused on lending to the non-financial sector (N1.0 ≥ 50%)	52	82,8

* The table is based on the data of: Borzykh O. Influence of the capital adequacy ratio of banks on the narrow credit channel of the money transmission in Russia // *Voprosi Ekonomiki*. - 2017. - № 7. - P.62-78

The group of other large credit organizations includes the banks that, on the one hand, are not systemically significant in the definition of the Bank of Russia, on the other hand, they are included in the list of thirty largest Russian credit institutions at the end of the period under study (end of 2016). These organizations account for about 80% of all assets of the domestic banking system. The last group of banks was divided into four subgroups, depending on the average value of capital adequacy ratio and the focus of their operating activities. This step was based on the specific calculation of the capital adequacy ratio N1.0. So, the small and medium-sized banks often have this standard significantly exceeding 100%. Such high values indicate that these banks virtually do not lend to the non-financial sector of the economy. Therefore, the banks with N1.0 exceeding 50%, were conditionally assigned to a subgroup of banks that do not credit the economy (Shanin, 2012). As can be seen from the table, this group includes about 10% of the total number of banks in the country, and the average value of their N1.0 at the end of 2016 was 82.8%. The remaining credit institutions from the group of small and medium banks were divided into three subgroups, depending on the prevailing type of loans in the structure of their assets. For example, the corporate subgroup includes the banks whose loans to legal entities (non-financial mostly) exceeded 50% of total, and the share of other types of

loans was less than 30%. Similarly, a subgroup of retail (lending to the population) banks was singled out. The remaining banks, not included in these subgroups, were classified in the last subgroup of small and medium-sized banks investing to the economy (Medvedev, 2015).

The banks of the first two groups are key players in the domestic credit and deposit markets. These banks, by virtue of their size, have sufficiently high reliability indicators and have wider opportunities in the search for funding sources and choice of investment object. In contrast, medium and small banks' opportunities are modest both in attracting and in placing capital. However, they are more dependent on their key customers. Given this background, the consolidation of banking assets in the largest state-controlled banking structures might appear a positive phenomenon for the national economy (Tatuev & Bakhturazova, 2014). Nevertheless, large state-owned banks, not limited in funding sources, are more likely to choose conservative business models and more reliable borrowers-representatives of big business. At the same time, small and medium-sized businesses, especially in the context of crisis, have difficulty in accessing finance and credit. In addition, sectoral and regional investments are also affected by this trend. Hence, most important consequences of the concentration of capital in the largest state-controlled banks, are the following: an increase in the relative cost of borrowing, a slowdown in the overall dynamics of lending and a decline in investment in fixed assets, the transition of the national economy to a limited reproduction (Komolov, 2016).

Some of the trends in restructuring banking assets are deeply troubling. In general, according to the Central Bank of the Russian

Federation as of the beginning of 2017, different loans accounted for 67.3% of the total volume of bank capital (Table 3), securities - for 14.3%; cash, precious metals, accounts with the Bank of Russia, current accounts with credit institutions, fixed assets and intangible assets - for about 2-4%, other assets - for 8.6%. At the same time, in the period between early 2003 and early 2017 the share of loans in the structure of bank assets increased by 15.6 percentage points. - From 51.7 to 67.3%.

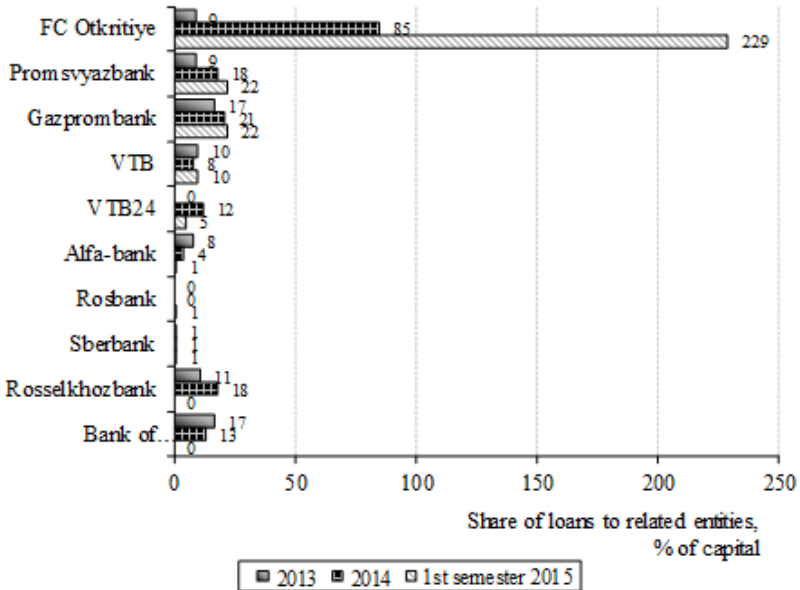
Table 3 – Structure of banking sector's assets in the Russian Federation, as percentage of total*

	01.01.2003	01.01.2008	01.01.2013	01.01.2017
Cash, precious metals	2,2	2,5	3,1	2,0
Accounts with the Bank of Russia	10,1	6,4	4,4	3,8
Current accounts with credit institutions	7,3	2,0	3,0	2,2
Securities	18,8	12,7	14,2	14,3
Loans, deposits and other funds granted to credit institutions (residents and non-residents)	7,0	7,0	8,6	11,4
Loans and other funds granted to individuals (residents and non-residents)	3,4	16,0	15,6	13,5
Loans and other funds granted to non-financial institutions (residents and non-residents)	39,9	44,6	40,3	37,6
Loans and other funds granted to financial institutions (residents and non-residents)	1,4	1,7	3,0	4,8
Fixed assets and intangible assets	3,5	2,6	2,0	1,8
Other assets	6,4	4,5	5,8	8,6

* The table is based on the data of: Report on the Development of the Banking Sector and Banking Supervision in 2016. - Moscow: Central Bank of the Russian Federation, 2017. - P.28

This trend might seem positive, but the structure of such an increase shows a mixed picture. As the major part of this growth was from the increase in loans issued to individuals (residents and non-residents) - from 3.4 to 13.5%; loans granted to credit institutions (residents and non-residents) - from 7.0 to 11.4%; loans issued to financial institutions (except banks) - from 1.4 to 4.8%; while the share of loans to non-financial organizations (residents and non-residents) decreased by 2.3 percentage points during the period under review - from 39.9 to 37.6%, or by 7.0 percentage points. (From 44.6%) as compared to the level of 2008 (Kudrin et al., 2017).

Figure 1. – The share of loans to related entities issued by the largest banks of the Russian Federation in terms of assets,% of capital (chart has been made by the author based on data of: Sharoyan S. Credits to friends: Moody's have estimated the volume of loans to related parties [Electronic resource] // RBC Newspaper. URL: <https://www.rbc.ru/newspaper/2015/09/15/56bc9df69a7947299f72bb71> (access date: 15.09.2015))



According to experts' opinion, one of the key factors of decreased banks' interest in the real sector of the economy and appearance of significant holes in the capital is lending to related persons. For the first time, sufficient prominence was given to this problem after the financial crisis of 2008-2009. Then, due to high risks in the owners' projects, a number of large banks underwent bankruptcy and rehabilitation procedures. According to the rating agency Moody's for 2015, the highest share of loans to related parties was granted by FC Otkritiye (Figure 1): more than twice as much as the size of the bank's own capital, which was 296.1 billion rubles as of June 30, according to IFRS. And the increasing rate of this type of lending was very high (Stankevich, I. 2016; Yasin, 2017). Thus, at the beginning of the year the ratio of the loans to related parties to the amount of own funds was at the level of 85%, and by the end of the first semester it increased to 229%. In other words, in the first six months of 2015 the bank was able to triple the loans to shareholders and their companies - from 216 to 663 billion rubles. The major part of lending were REPO bank transactions with Otkritiye Capital (part of Otkritiye holding), which bought sovereign bonds, mostly Russia-2030, from foreigners who sold the securities after devaluation and downgrade of sovereign ratings by international rating agencies (Shtyrlina et al., 2018). It means that the bank's credit risks were mitigated by the relatively short term of loans and high reliability of securities (about half of the issue of sovereign bonds was bought up). Nevertheless, the related-party lending level was the highest and significantly exceeded the bank's own capital, unlike the other banks included in the list of the country's ten largest banks at that time (Mamonov, 2017).

4. CONCLUSION

Alongside the improved quality of supervisory activities, one of the most promising options for addressing the growing problem is the formation of a better mechanism for using new banking technologies. It might be appropriate to focus on the introduction of digital data collection mechanisms for the banks' actions in terms of creation and consolidation of assets (based on block chain) and to use artificial intelligence (based on neural networks) to identify unusual operations and to subject them to a careful scrutiny. With this approach, the contradictions of banking assets consolidation are reduced due to an improved monitoring of limited financial resources efficiency. And this will result in an increased investment in the real sector of the economy.

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