Russia

Dominant state banks in a challenging institutional environment

Bank branches in Russia, in particular those of foreign-owned banks, are concentrated in the south-western part of the country where most of the economic activity is based (Chart 1). Unlike most other EBRD countries of operations, the vast majority of banks in Russia report domestic state banks (Sberbank and VTB in particular) as strong competitors in retail, small and medium-sized enterprise (SME) and corporate lending.

Russian banks also differ from their regional peers in the main lending constraints they have faced in recent years (Chart 2). Lack of funding and low loan rates relative to deposit rates were two obstacles to both SME and large enterprise lending that Russian banks faced more often than their regional counterparts. However, Russian banks still cited insufficient credit demand, in particular from SMEs, as the most significant constraint on their lending in 2011.

The currency composition of lending by Russian banks has also changed over the period 2007-11. About 60 per cent of the surveyed banks reported a decrease in foreign currency lending whereas only 10 per cent reported that they had increased FX lending. The main reasons cited for this shift were the low demand for foreign currency loans and the perceived risks of FX lending (Chart 3).

Although 70 per cent of Russian banks "agree" or "strongly agree" that the banking regulator is fair and impartial, 20 per cent (the highest portion in the region) report that banks "frequently" have to make some irregular payments or gifts to central bank officials or banking regulators (Chart 4). This makes Russia a negative outlier in terms of perceived corruption in the banking system.

In terms of the legal system, 29 per cent of Russian banks agree that such payments are necessary when dealing with the courts, which is high but not the highest in the region as a whole (Chart 4). Surprisingly, only 24 per cent of respondent banks "agree" or "strongly agree" that laws pertaining to pledges and mortgages adequately protect secured creditor rights and only 12 per cent feel the laws enable efficient enforcement of security rights, both far below the EBRD's regional average. The largest disparity between Russia and the rest of the EBRD region is in the perceived ability of laws to enable efficient creation of security rights, with only 40 per cent of Russian banks agreeing with that statement compared to the regional average of 60 per cent.

Chart 1 Bank localities by ownership

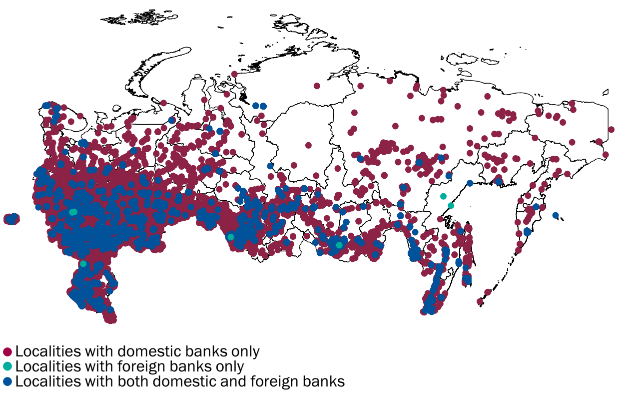

Chart 2 Main constraints to lending

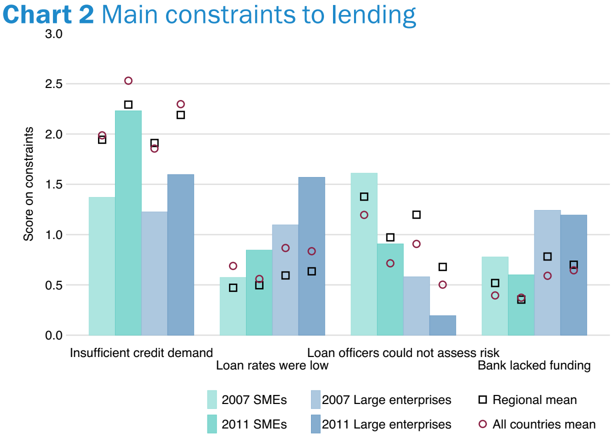

Chart 3 Reasons for decrease in FX lending

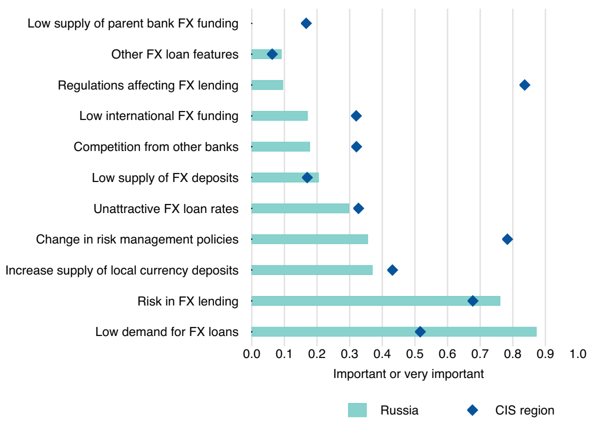

Chart 4 Banks reporting regularity of making irregular payments or gifts to officials in 2011