

## 1.4 Economy and banking sector

### Macroeconomic update

According to the latest statistics, GDP growth in 2019 was 1.4%. Expectations at the beginning of 2019 stood at 1-1.5% with an average forecast of 1.2%. Q1 and Q2 data showed a considerable slowdown to only 0.5% and 0.9%, respectively. However, Q3 and Q4 data showed growth accelerating to 1.7% and 2.3%, respectively.

In the industry context, the positive contribution of non-gas industries decreased most significantly compared to the previous year. The contribution of the industry against the backdrop of stable growth rates remained at the level of the previous year. In addition, high crop yields and stable conditions ensured that the agriculture sector contributed about 0.1% to GDP growth (after a near-zero contribution the year before).

The contribution of trade turnover to economic growth in 2019 decreased to 0.2% after 0.3% a year earlier. With that, the growth rate slowed both in the retail segment (down to 1.6% from 2.8% a year earlier) and in the wholesale segment (despite a significant acceleration due to one-time factors in Q4).

The Russian manufacturing PMI index increased to 47.5 points in December 2019, according to IHS Markit research. In November, the index was 45.6 points but, despite this, it remains below 50 points, which indicates a downward trend in the sector.

The business activity index (PMI) in the Russian service sector in December 2019 decreased to 53.1 points compared to 55.6 points a month earlier. Domestic and external demand increased as companies displayed a renewed growth in export orders. However, business expectations fell to their lowest level since August 2017 amid increased competition. Uncertainty about the growth in business activity is also reflected in slowing job growth.

In our view, the Russian economy is showing signs of stability, but growth is still unsustainable and subject to external risks. The situation on the Russian financial market remained stable at the end of 2019. The increase in volatility in global financial markets given the spread of coronavirus was not accompanied by significant net sales of OFZs from non-residents, their share increased by 1.8 percentage points to 33.2% in the reporting period.

## Banking sector key indicators

- The Russian banking sector has been stable in 2019. Retail credit expansion overlook corporate lending, while growth slowed in the second half of the year due to CBR's restrictive measures for unsecured consumer lending. CBR has continued its clean up of the sector by revoking the licences of banks and focusing on the financial rehabilitation of large financial institutions.

Indicator, RUB bln	01.01.2020	01.01.2019	Change y-o-y
<b>Assets</b>	<b>96,581</b>	<b>94,084</b>	<b>2.7%</b>
Corporate loans	33,777	33,372	1.2%
overdue	2,618	2,093	25.1%
as % of loans	7.8%	6.3%	
Retail loans	17,651	14,901	18.5%
overdue	765	760	0.5%
as % of loans	4.3%	5.1%	
Retail deposits	30,549	28,460	7.3%
Corporate deposits	28,146	28,006	0.5%
Income	2,037	1,345	51.5%

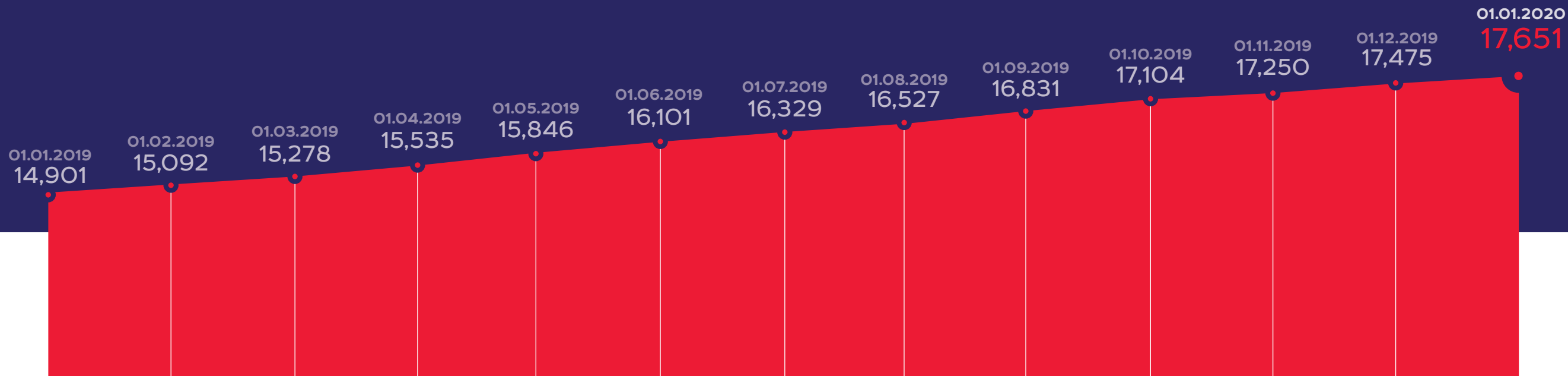
Source: CBR (all numbers in nominal terms)

## Retail lending

- Retail lending eased to a growth of 18.5% in 2019 compared with 22.4% in 2018. The slight slowdown was partially the result of additional premiums to the risk factors for unsecured consumer loans, depending on the borrower's
- Unsecured consumer loan portfolio growth rate was 20.1% in 2019 compared to 21.6% in 2018. In October 2019, CBR launched new measures to cool down unsecured consumer lending. As of 1 October 2019, all banks are obliged to calculate debt-to-income ratios for all consumer loans above RUB 10,000. The higher this ratio, the larger the risk coefficient that has to be applied to the loan.
- Mortgage loans increased by 15.5% to RUB 7.6 tln in 2019.
- Car loans increased by 15.1% in 2019.
- The share of overdue loans decreased to 4.3% by the end 2019 from 5.1% at its start, mainly due to portfolio expansion.

### Retail loans, RUB bln

Source: CBR (all numbers in nominal terms)

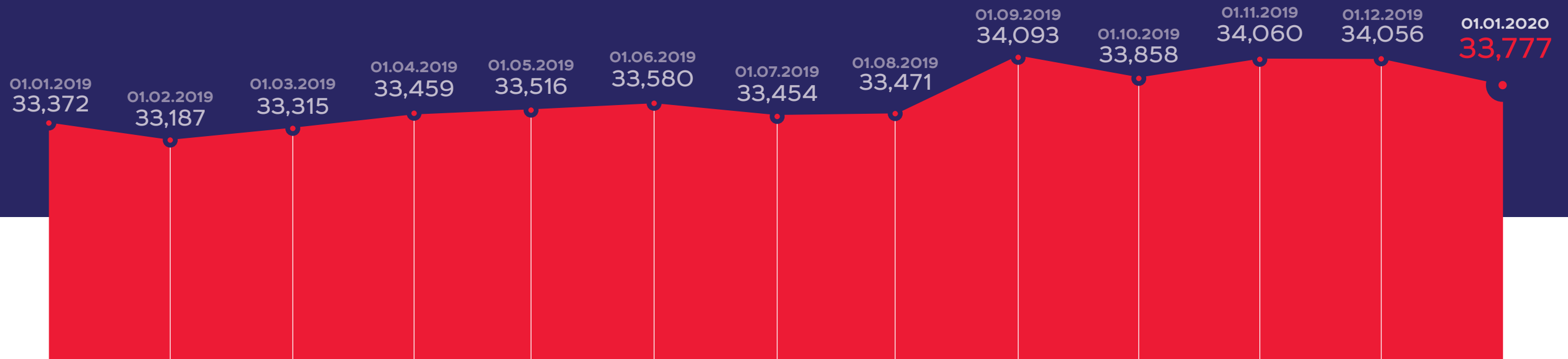


## Corporate lending

- Corporate loan portfolio growth rate remains weak. Corporate lending increased by 1.2% in 2019 (+4.3% net of FX effect) vs. 10.5% (+5.1% net of FX effect) growth in 2018. The demand from quality corporate borrowers remains weak. At the same time, the upcoming changes in capital requirements related to the decrease of risk weights for certain types of assets, should add some capital for lending operations.
- The share of overdue loans was 7.8% in 2019 vs. 6.3% a year ago. However, this was more a technical increase due to changes in accounting principles (implementation of IFRS 9) in 2019.

### Corporate loans, RUB bln

Source: CBR (all numbers in nominal terms)

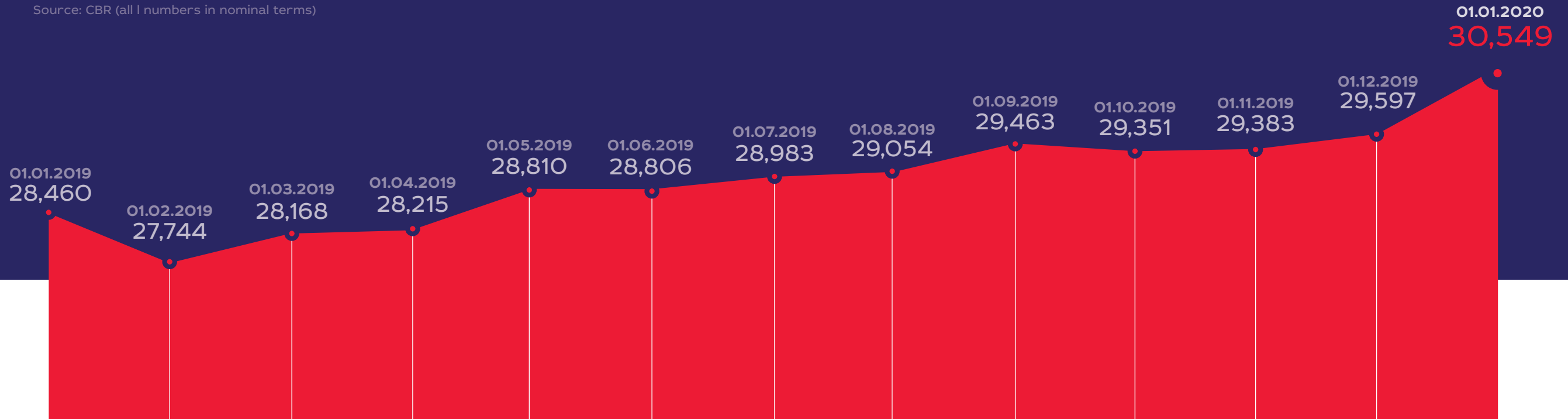


## Funding base

- Retail deposits increased by 7.3% (+9.9% net of FX effect) in 2019 vs. 9.5% (+5.5% net of FX effect) in 2018. Interest rates were broadly flat in the first half of 2019 and then started to fall back. Thus, retail clients tried to fix the current yield on deposits amid declining interest rates.

### Retail deposits, RUB bln

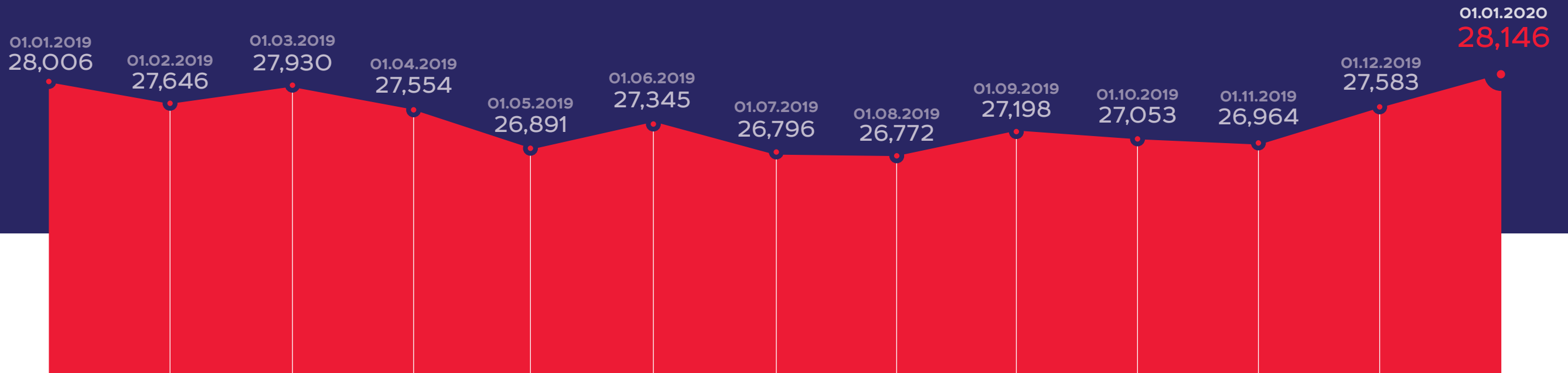
Source: CBR (all I numbers in nominal terms)



- Corporate deposits increased by 0.5% in 2019 (+4.3% net of FX effect) vs. 12.7% growth in 2018 (+5.6% net of FX effect).
- The deposit dedollarisation trend continued in 2019, partly due to the rapid decline of FX denominated rates compared to local currency interest rates.

### Corporate deposits, RUB bln

Source: CBR (all numbers in nominal terms)



## Earnings and capital

- Sector profitability was strong, driven mainly by the results posted by the largest banks. The banking sector earned RUB 2,037 bln in 2019 vs. RUB 1,345 bln in 2018. However, income growth in 2019 was largely due to the introduction of IFRS 9 (about RUB 400 bln additional income from accounting adjustments).
- Total capital adequacy ratio increased by 0.2 ppt to 12.4% as of 1 December 2019 from 12.2%. Base capital increased by 0.4 ppt to 8.7% as of 1 December 2019.

## Interest rates

- Since the beginning of 2019, CBR has cut the key rate five times – from 7.75% to 6.25%. These decisions mainly evolved from the continuing deceleration of inflation and economic growth below CBR's expectations.
- The average rate for loans to non-financial organisations decreased to 9.0% as of 1 December 2019 from 10.0% in January 2019. The average rate for retail term deposits was 5.6% as of 1 December 2019, which is 90 ppts below the rate as of 1 January 2019.
- The TOP 10 Russian banks' deposit rate decreased to 6.01% at the end of 2019 from 7.53% in the first ten days of January 2019.

### Average rates of banks in Russia, excluding Sberbank (in Roubles)

Source: CBR (all numbers in nominal terms)

● CBR key rate      — Loans to corporate clients      — Retail deposits (excluding demand)

