

# Credit rating of Russia annual discussion

Frankfurt, December 2019

# Agenda

- Sovereign government credit risks of Russia
- Russian banking system overview
- Financial and economic situation in Russian regions

# Sovereign government credit risks of Russia

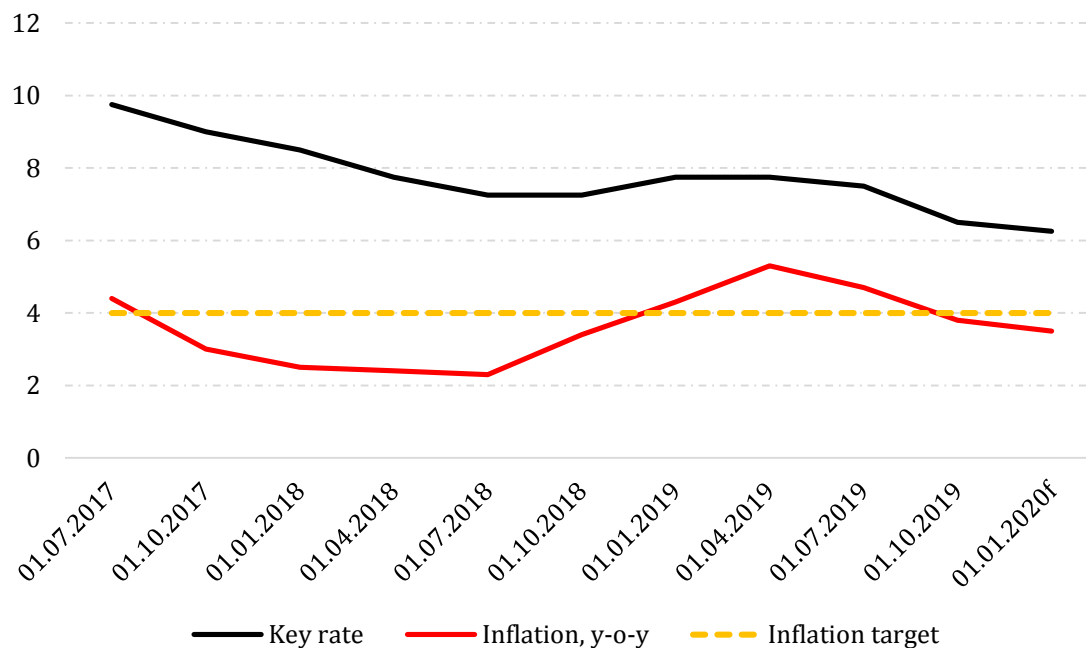
# Sovereign rating list of RAEX-Europe:

Country	Sovereign government rating		Dynamics		Outlook		Date
	National currency	Foreign currency	National currency	Foreign currency	National currency	Foreign currency	
Armenia	BB-	BB-	Confirmed	Confirmed	Positive	Positive	12.07.2019
Azerbaijan	BB+	BB+	Confirmed	Confirmed	Stable	Stable	8.11.2019
Belarus	B	B	Confirmed	Upgraded	Positive	Positive	12.07.2019
Georgia	BB	BB	Confirmed	Confirmed	Stable	Stable	04.10.2019
Germany	AAA	AAA	Confirmed	Confirmed	Stable	Stable	30.08.2019
Kazakhstan	BBB-	BBB-	Confirmed	Confirmed	Positive	Positive	13.12.2019
Kyrgyzstan	B	B	Confirmed	Confirmed	Stable	Stable	28.06.2019
Russia	BBB-	BBB-	Confirmed	Confirmed	Positive	Positive	13.12.2019
Tajikistan	B	B-	Confirmed	Confirmed	Negative	Negative	09.08.2019
Uzbekistan	BB-	BB-	Confirmed	Confirmed	Stable	Stable	06.09.2019

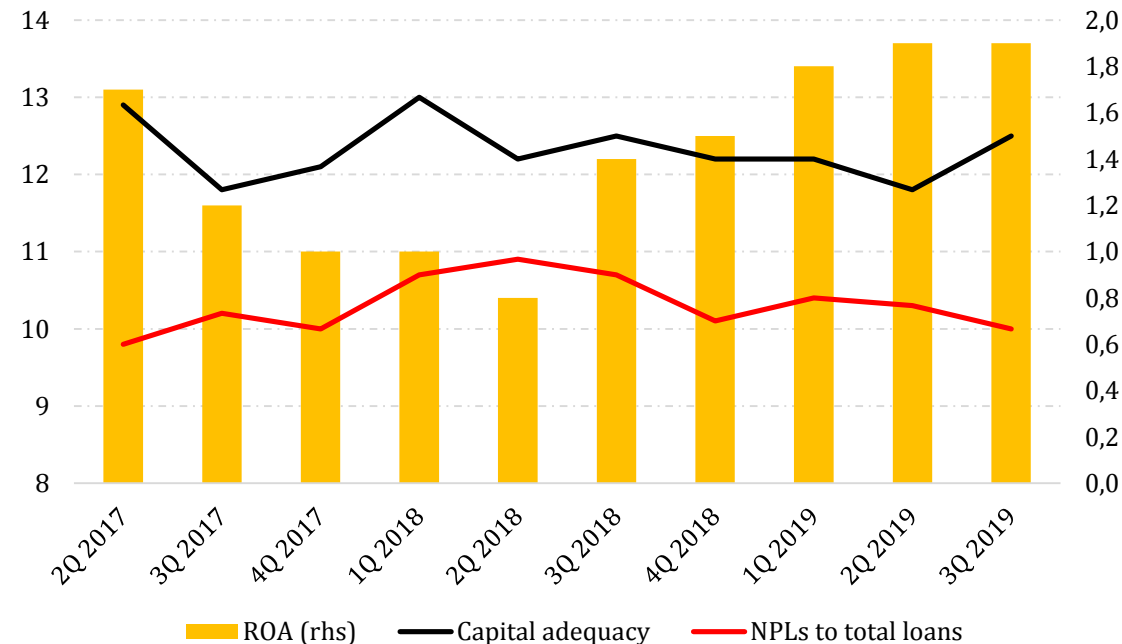
# Positive factors

- The Central Bank of Russia (CBR) carries out an **effective monetary policy** keeping inflation in line within the target of 4%
- The banking system's **profitability dynamics**: ROA and ROE have improved to 1,9% and 17,4% as of September 2019

Monetary policy metrics, %

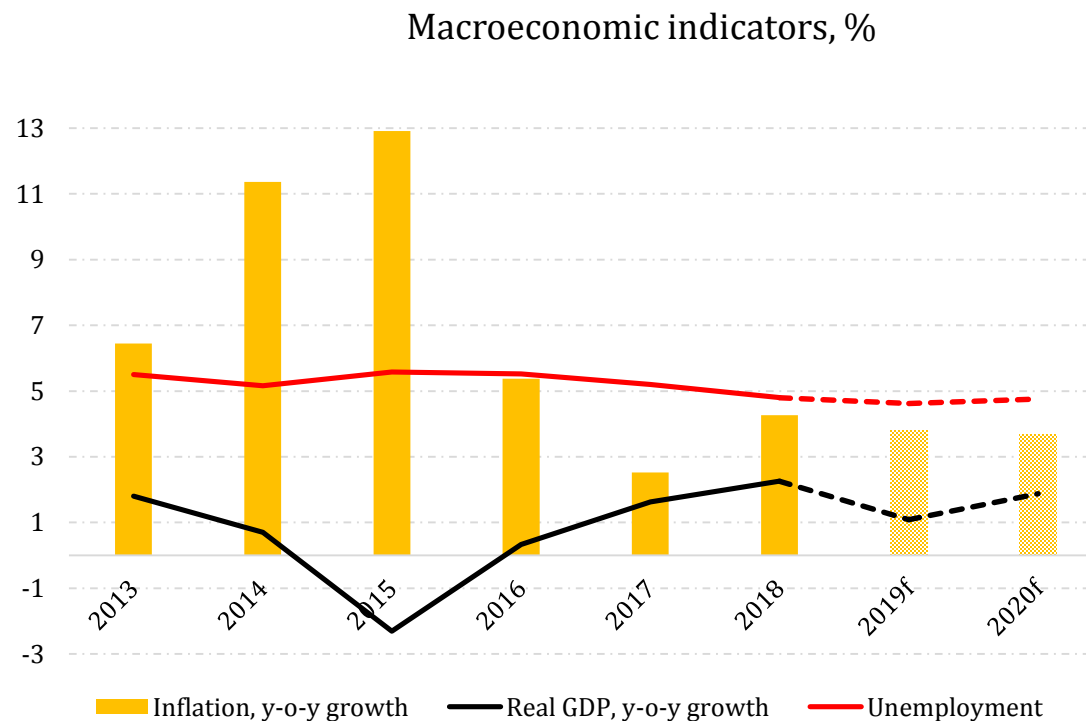


Financial soundness indicators, %



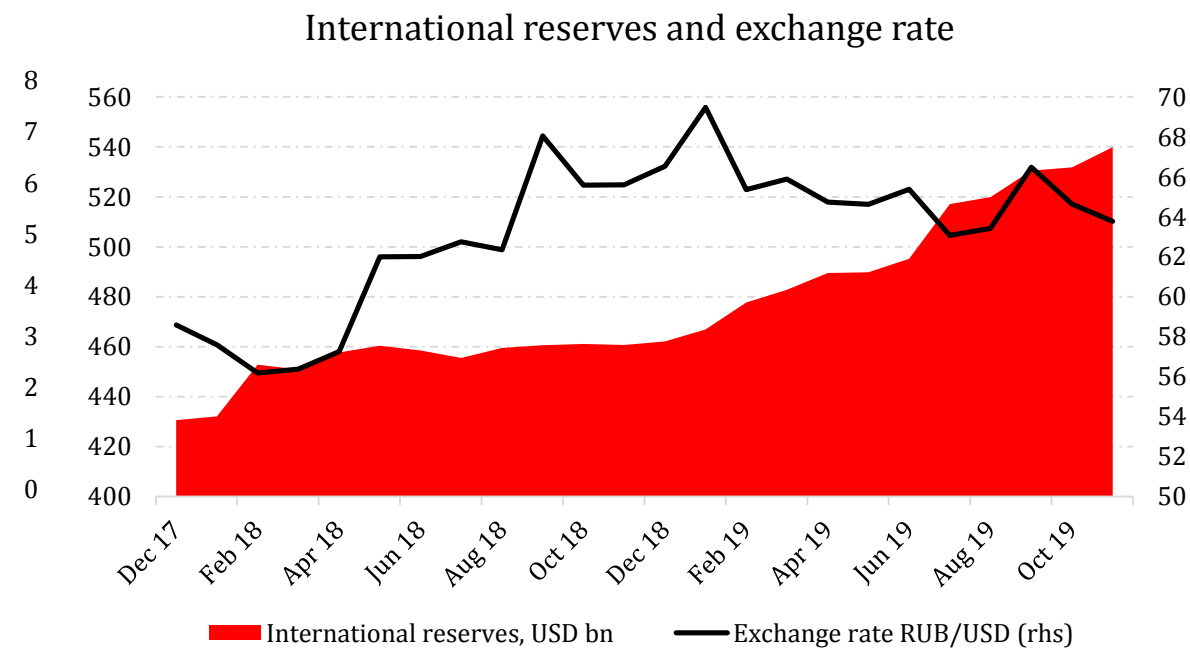
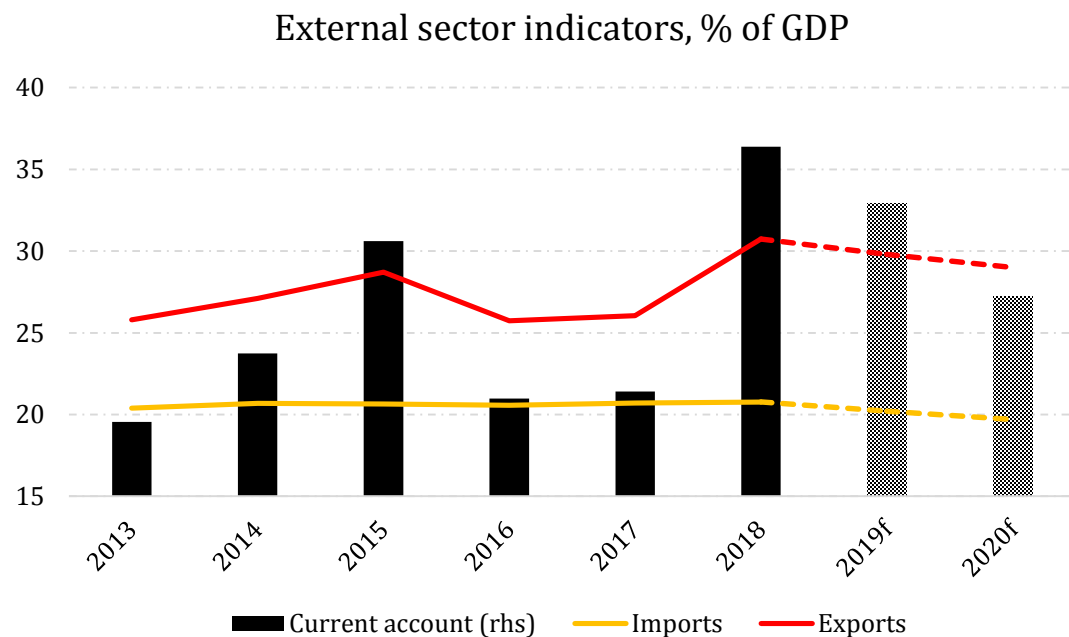
# Positive factors

- GDP growth in 2018 exceeded forecasts, and despite the restrictive fiscal and monetary policies, accelerated to 2,3%. In 2019 the economic growth pace was restrained to 0,5% in 1Q and 0,9% in the 2Q y-o-y.



# Positive factors

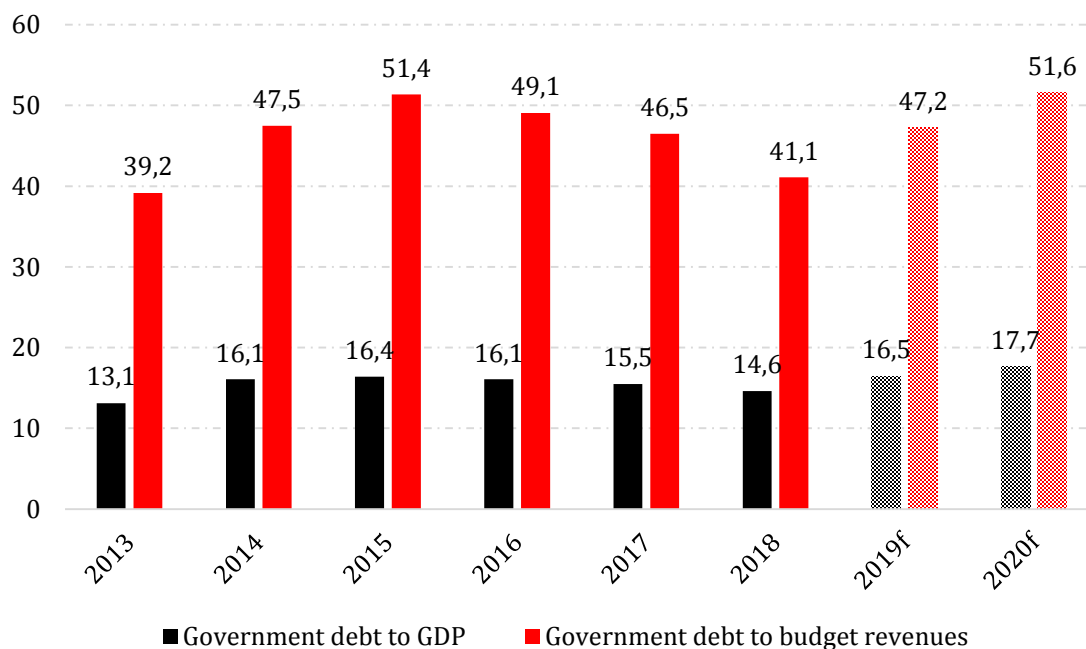
- **Record current account surplus at almost 7% in 2018**
- **The external position is robust with rising resistance to external shocks**, supported by a free-float exchange rate regime, ongoing external deleveraging of the private sector and a significant accumulation of international reserves



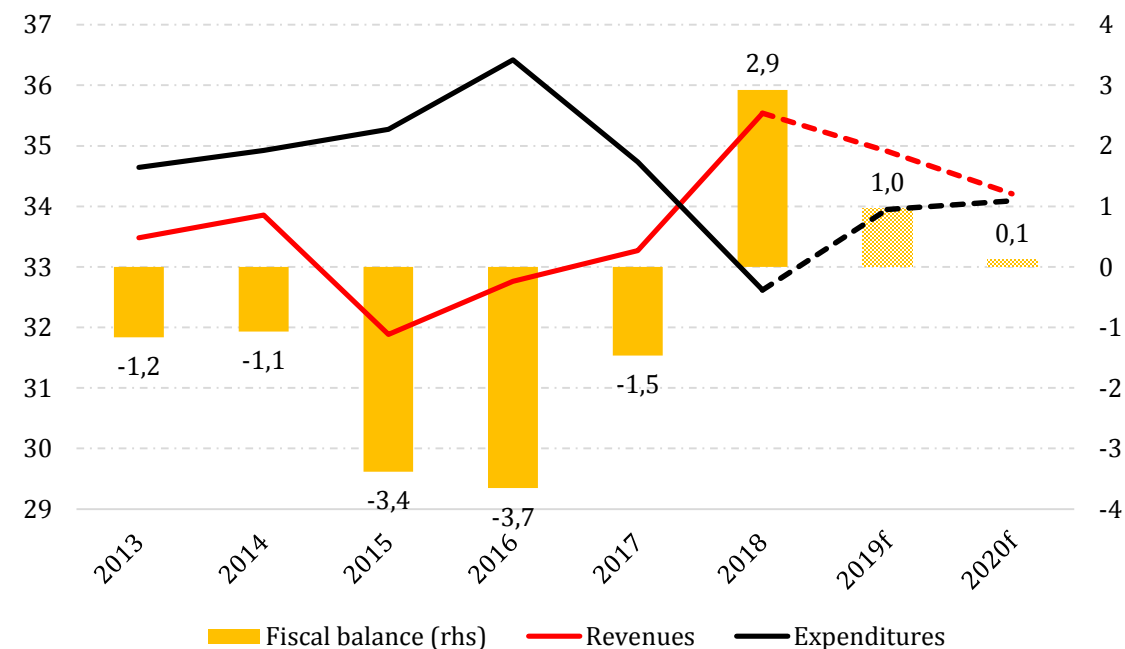
# Positive factors

- **Strong government debt position** confirmed by the deleveraging trend during the last four years: the general government debt decreased to 14,6% of GDP and 41,1% of budget revenues as of the end of 2018
- The overall **budget balance turned into a surplus in 2018** posting a figure of 2,9% of GDP as compared to deficits recorded in previous years

Government debt dynamics, %



Fiscal budget dynamics, % of GDP

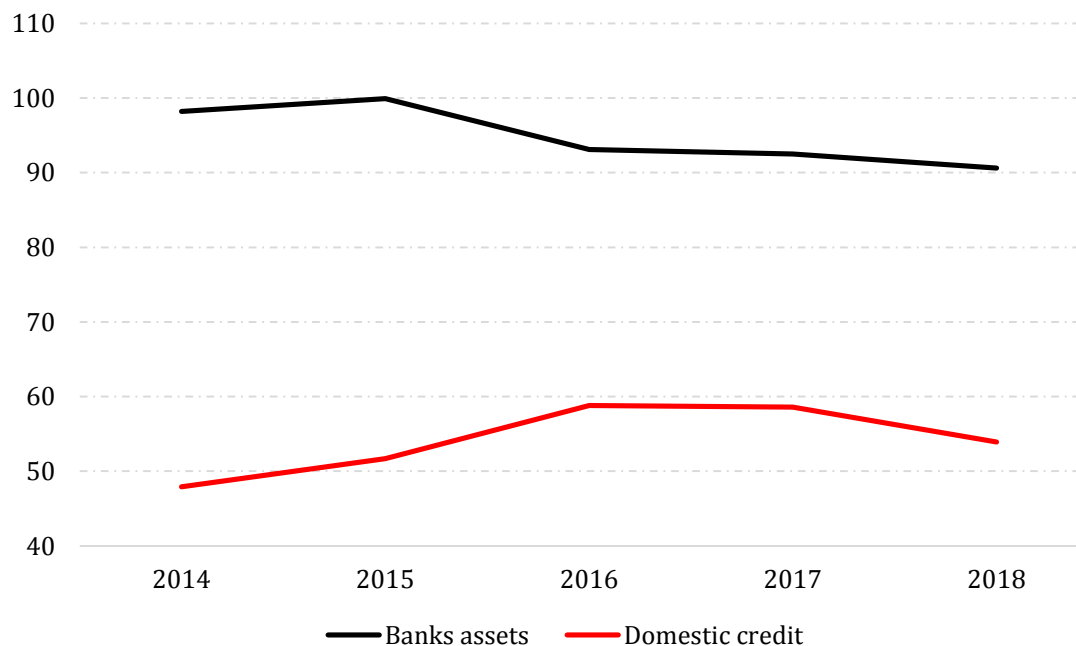




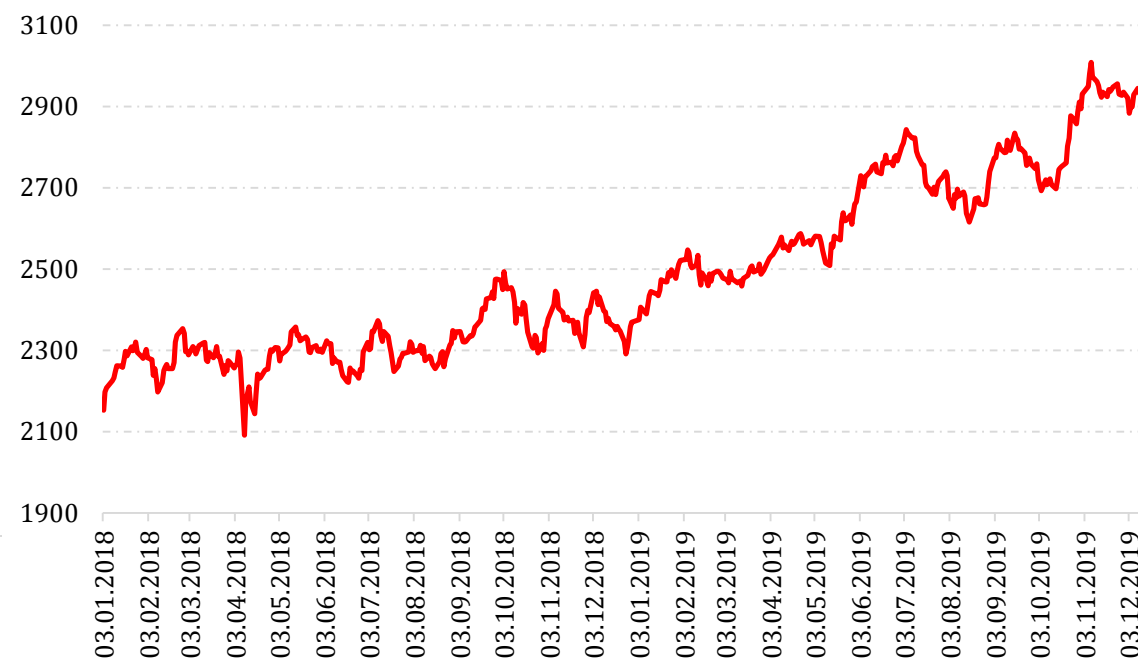
# Restricting factors

- The level of **private credit to GDP** is declining and stood at **53,9% in 2018**, which is significantly lower than the same metric in Russia's BRICS peers
- The total **capitalization of the stock market** remains at **38,2% of GDP** in 2018, thus significantly lower than the world indicators of developed countries

Credit to the economy dynamics, % of GDP



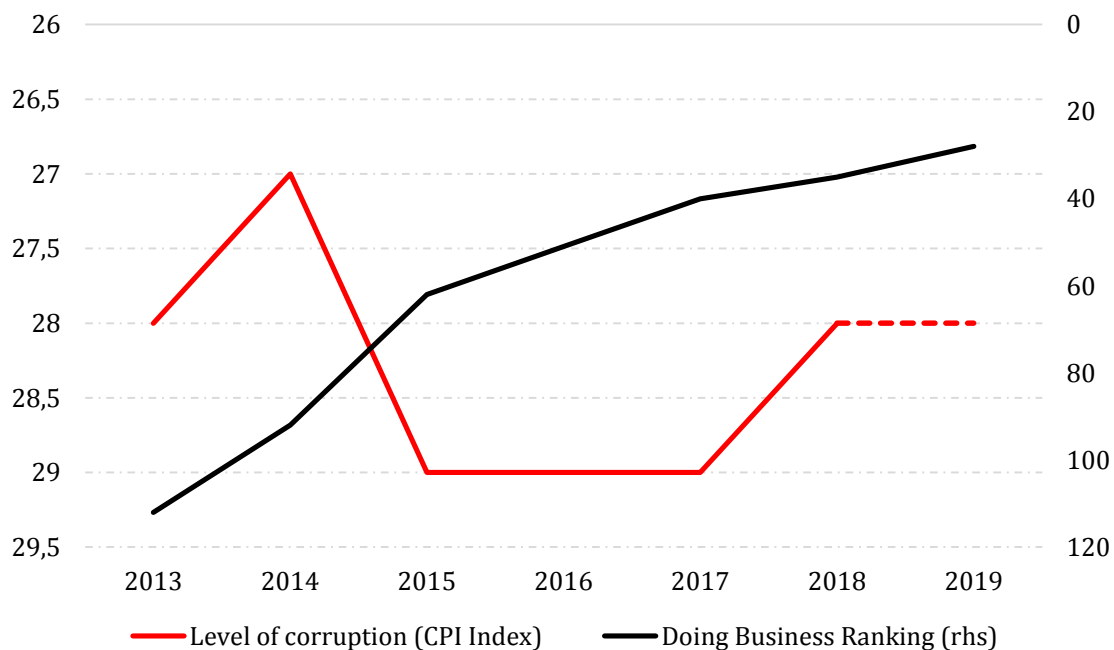
MOEX index dynamic



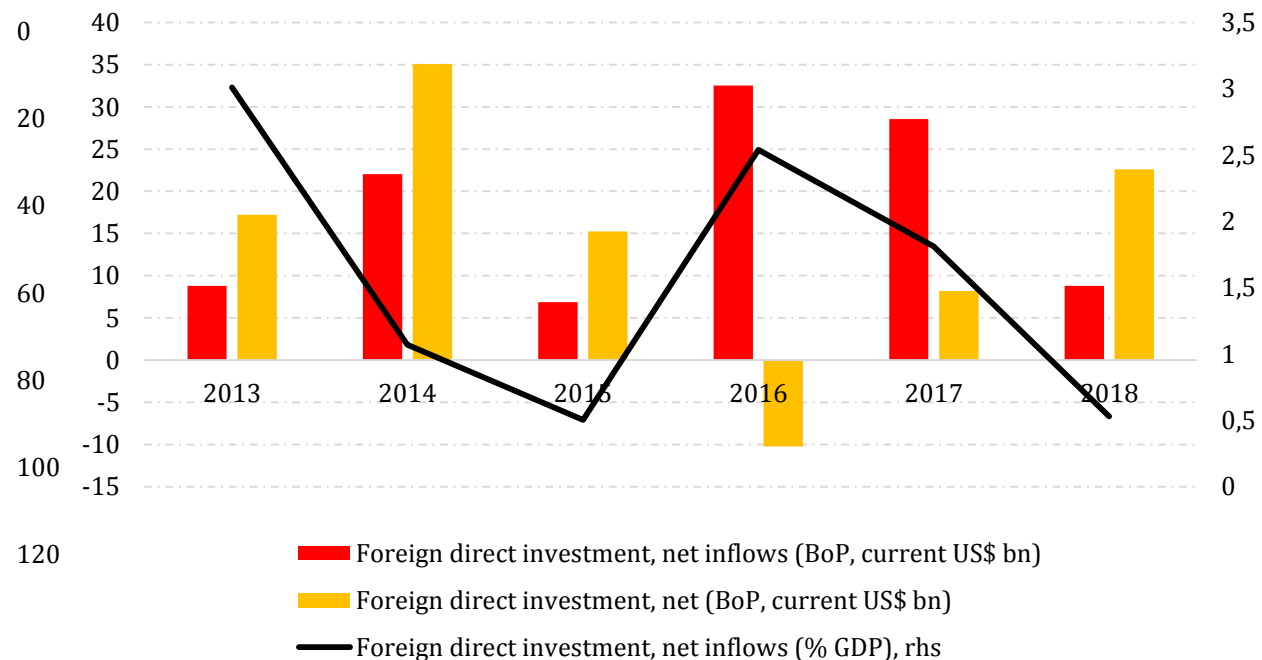
# Restricting factors

- The **economic competition and business efficiency** in Russia is primarily limited by the weakness of its institutions and the significant footprint of the state
- The **dynamics of foreign investment inflow in 2018 was negative**, as demand for Russian assets is restrained by sanctions

Institutional development indicators



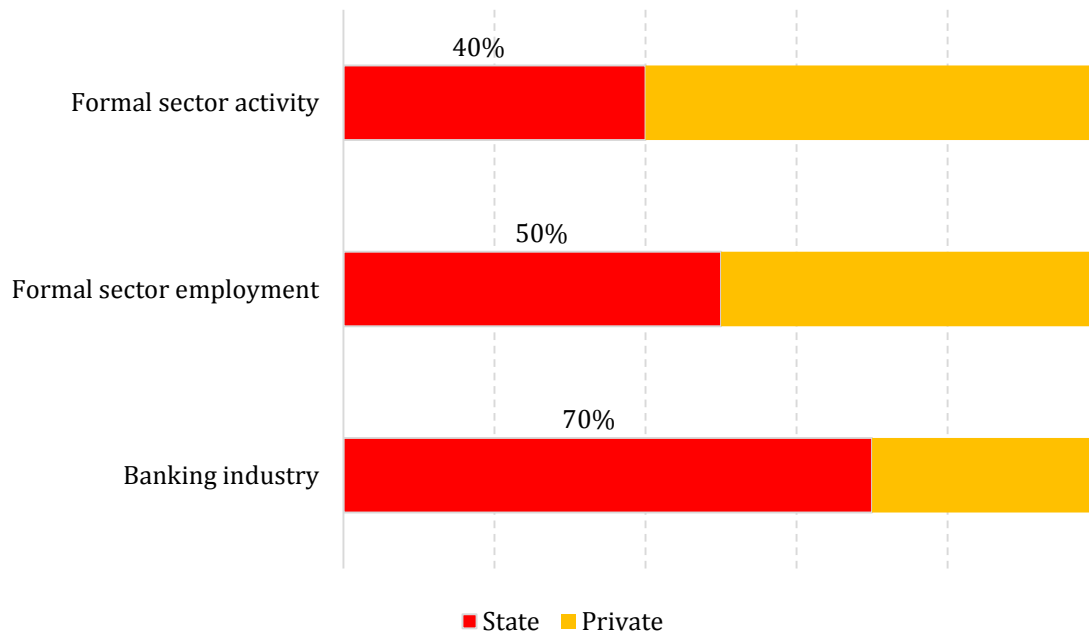
FDI dynamics, % of GDP



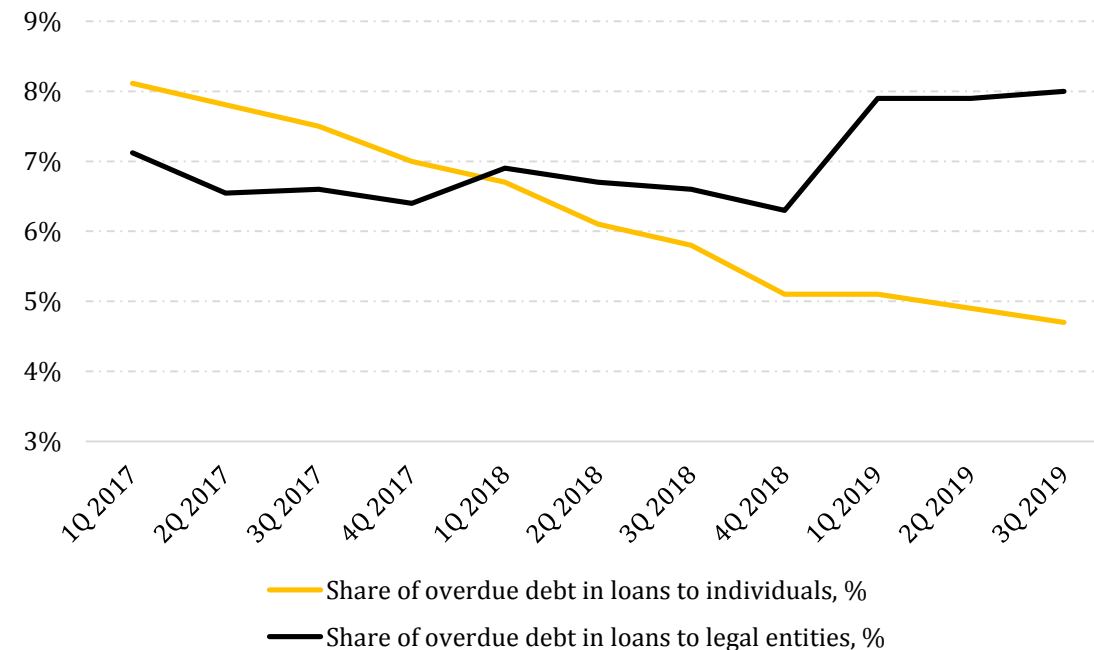
# Negative factors

- The **increasing influence and presence of the state**, especially in the banking and oil and gas sectors, is the main structural weakness of the economy that restrains competition and business efficiency
- **NPLs to total loans ratio**, despite decreasing by 0,7p.p. in 3Q 2019 y-o-y, remains high at 10%

Presence of the state in the economy, %



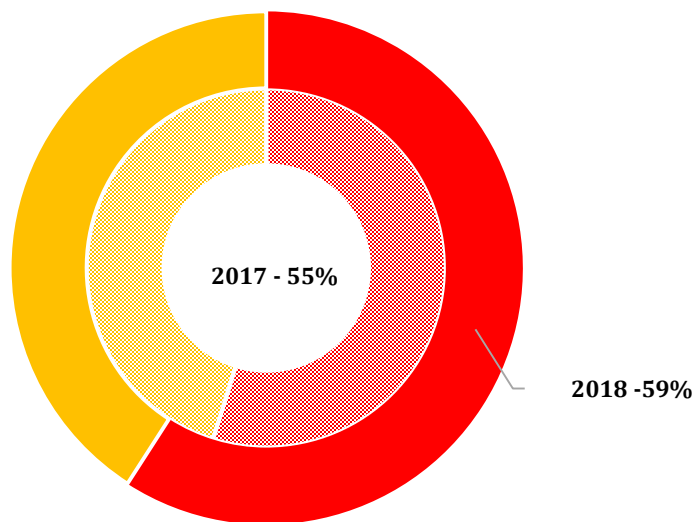
Level of overdue loans, %



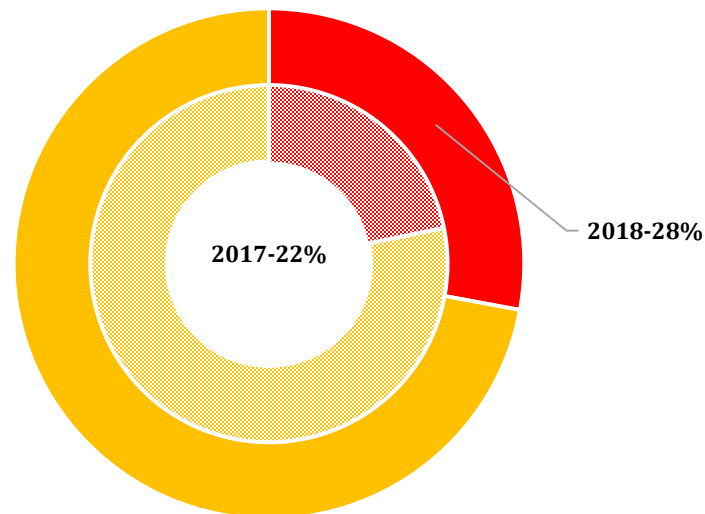
# Stress-factors

- **Concentration of exports in the oil and gas industry remains high**, with the share in exports of goods of up to 59% in 2018 and 58% in 3Q 2019 (***moderately weak stress-factor***)
- The stability of the Russian economy is threatened by **sanctions risks** associated with current and possible restrictions on business and the financial industry (***moderately strong stress-factor***)

Share of oil and gas in export and budget revenues, %



Oil and gas Other export



Oil revenue Other revenue

# Positive outlook

The **outlook** was changed from stable to **positive**:

*In the mid-term perspective there is a high probability of upgrading the rating score*

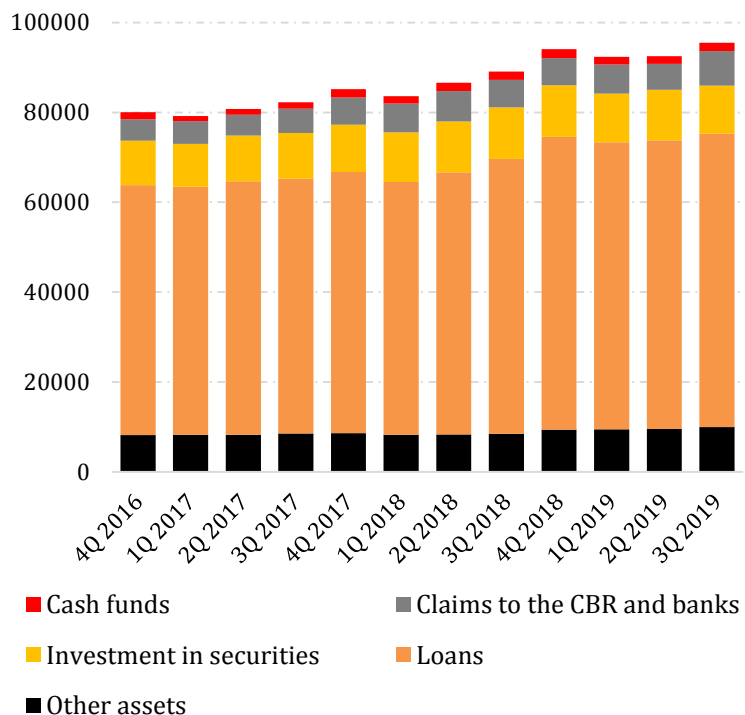
- **Improved macroeconomic stance**
- Increased efficiency of the **monetary policy**
- **Robust external position** with rising international reserves and continued deleveraging of the private sector
- **Strengthening of public finances** with adherence to the fiscal rule

# Russian banking system overview

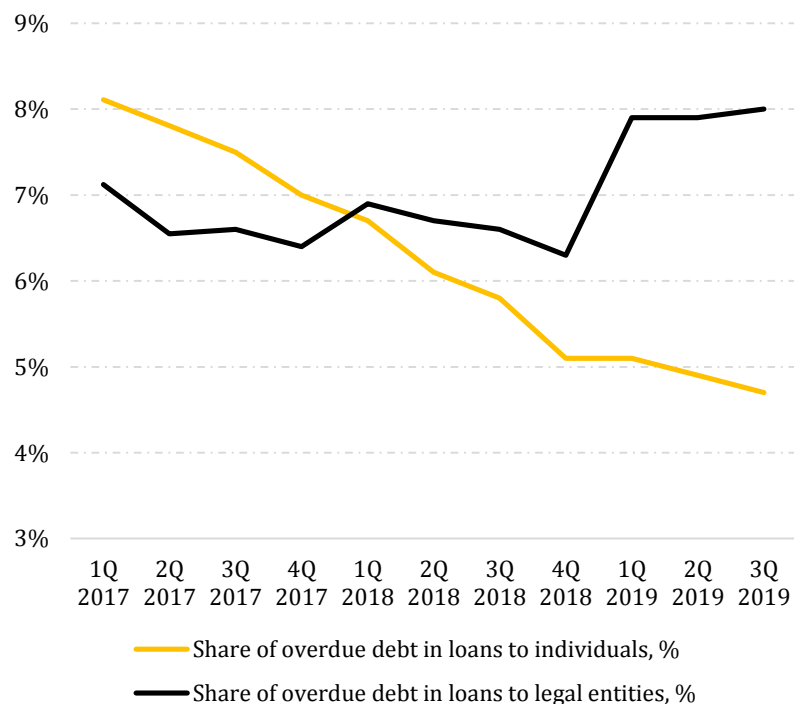
# Asset quality

- The main driver of assets growth in 2019 was consumer lending, while corporate lending is stagnating. Regulatory changes from the CBR will lead to **slower growth of consumer loans**
- Asset quality will remain at **acceptable levels** in the mid-term view, while in the long run, risks may increase, especially as a consequence of external shocks

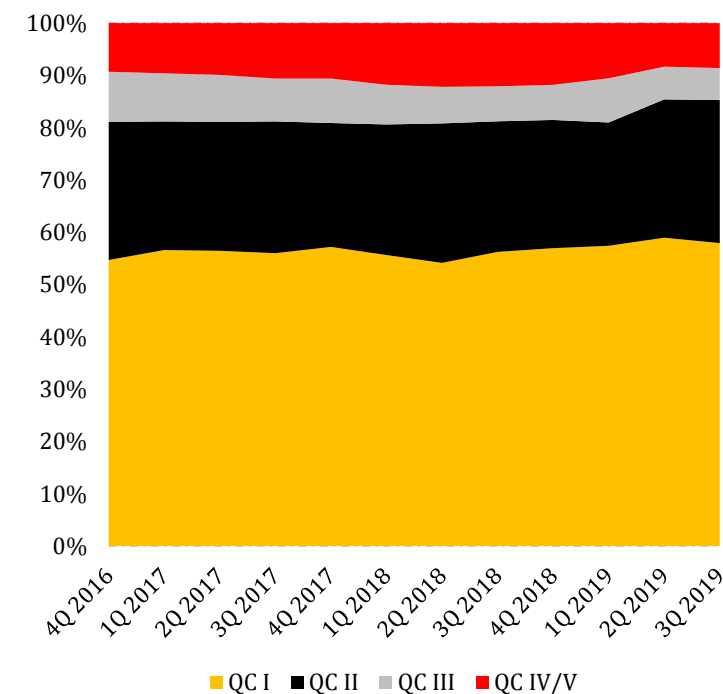
Assets structure, RUB m



Level of overdue debt, %



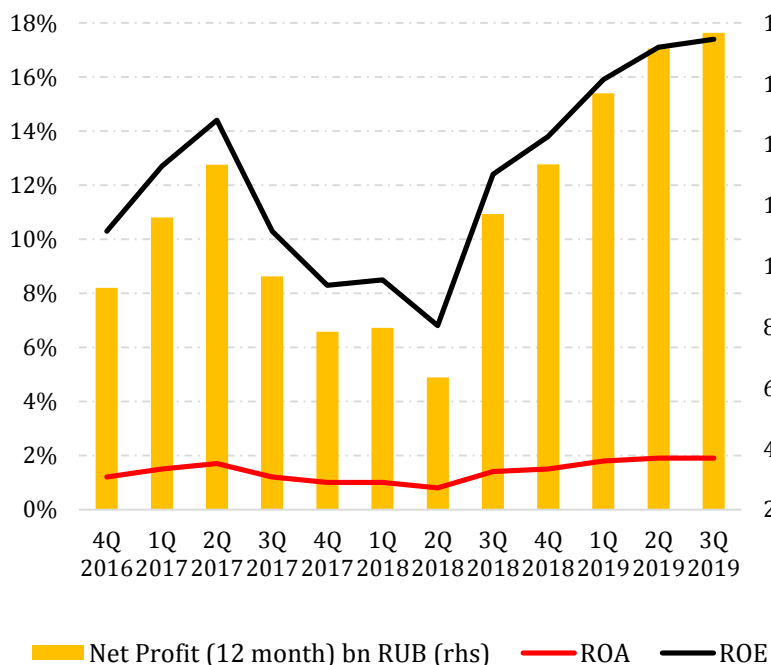
Loan quality categories, %



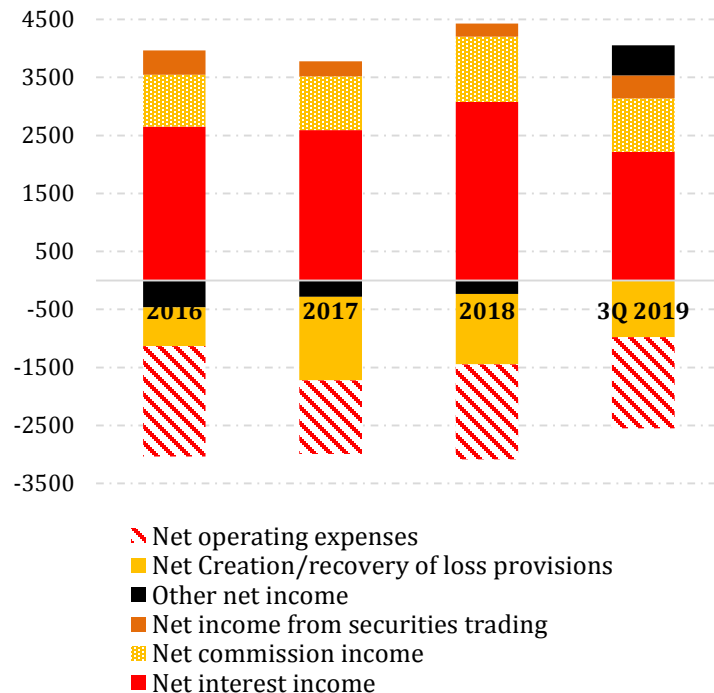
# Profitability, capitalization and liquidity

- The system **remains profitable**, but most of the profit comes from SOBs. The share of profit-generating banks was 81% as of September 2019 (by total number)
- Decrease of net interest margin** of banks in 2019 due to increased competition and problems for “universal” banks
- Capital adequacy and liquidity levels** remain acceptable

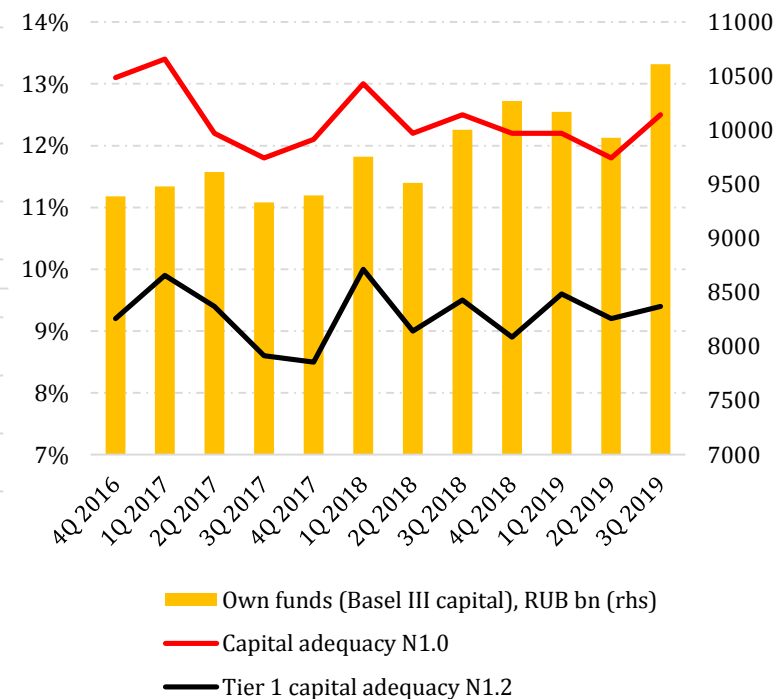
Profitability metrics



Structure of financial result, RUB



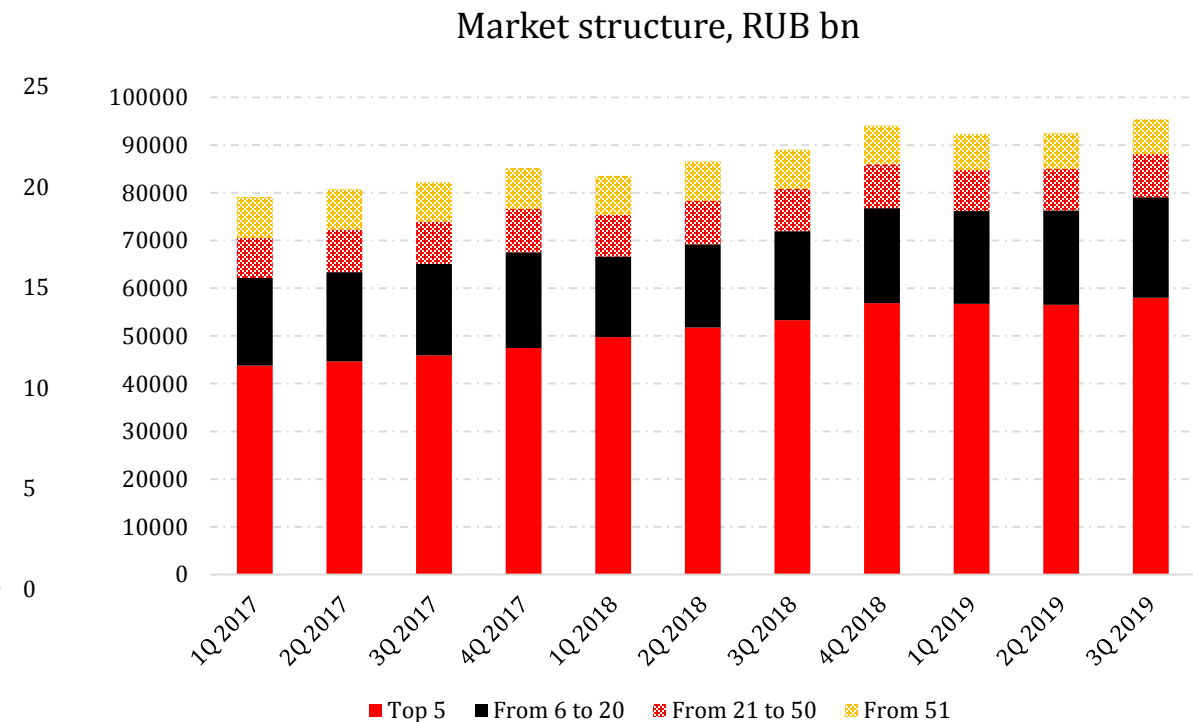
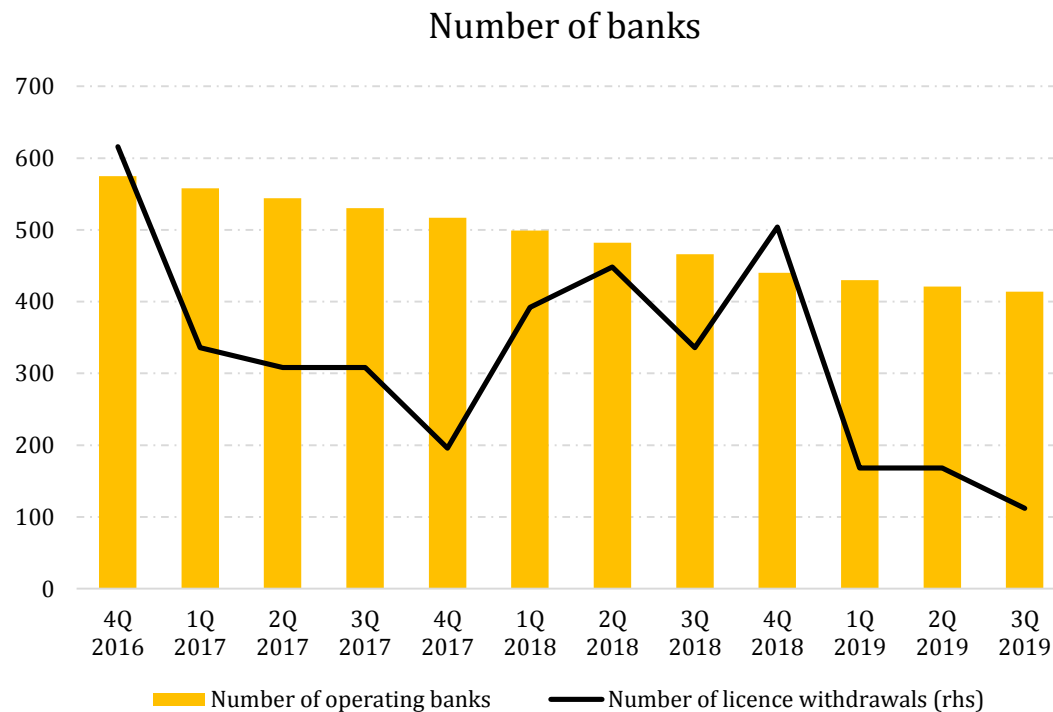
Capital adequacy metrics, %





# Market structure

- The revocation of licenses continues: **small regional banks are under risk**
- **State ownership** dominates the banking system and will keep increasing in the mid-run



# Outlook

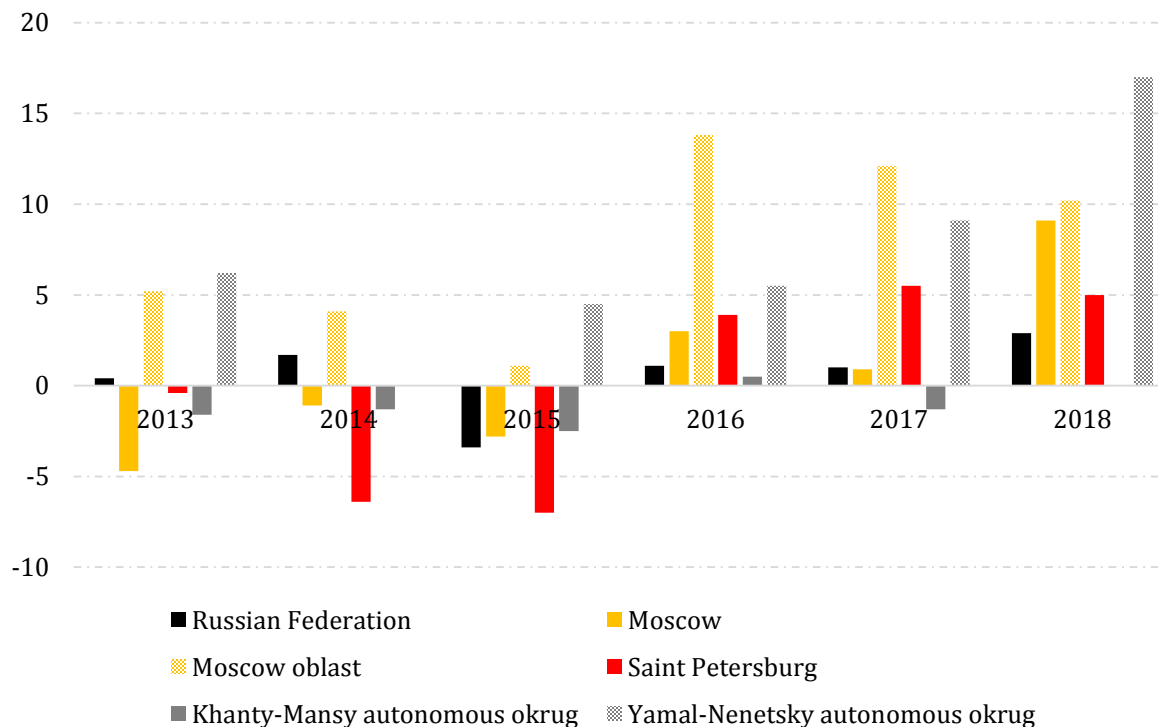
- **High competition** on the market with further **reduction of the number of banks** with risks for small regional FIs
- The banks' **profitability and margin** will keep decreasing
- This will put **pressure on small banks' capital and liquidity**, while the largest banks will remain stable
- Growth of **non-secured consumer loans** will be lower, but moderate credit risks remain in the mid-run for this segment
- The **mortgage loan** segment is expected to be the one with the highest portfolio growth
- **Corporate lending** is expected to grow at a similar pace
- The main risks of the system are related to **sluggish economic growth** and **stagnated personal income**

# Financial and economic situation in Russian regions

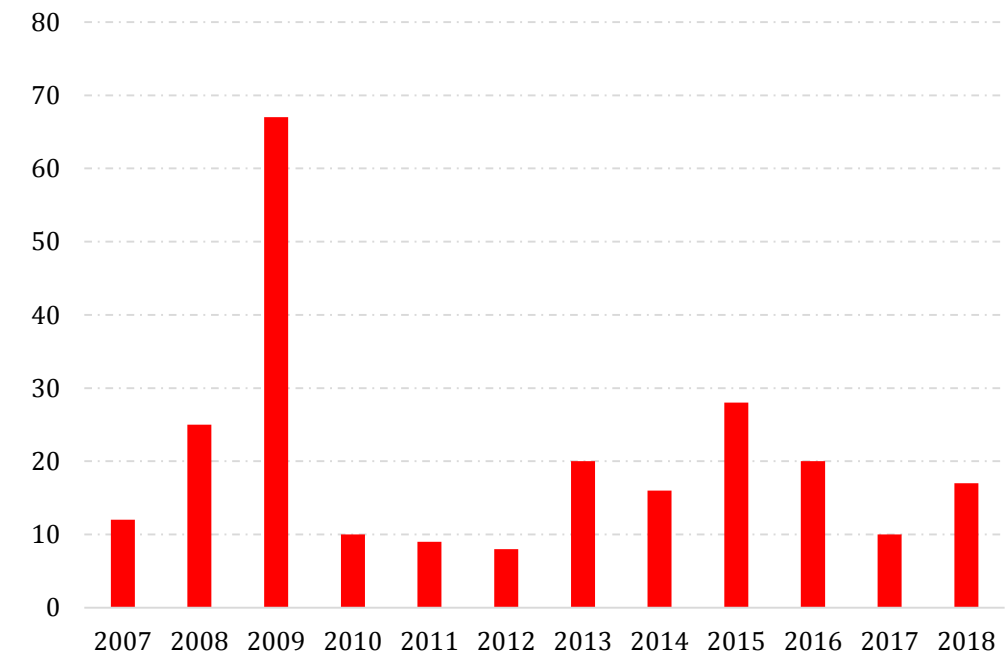
# Industrial production dynamics

- Increased **industrial growth** at the national level
- Stagnated production in KhMAO VS “one project” effect in YaNAO (YAMAL LNG)

Industrial production index, y-o-y



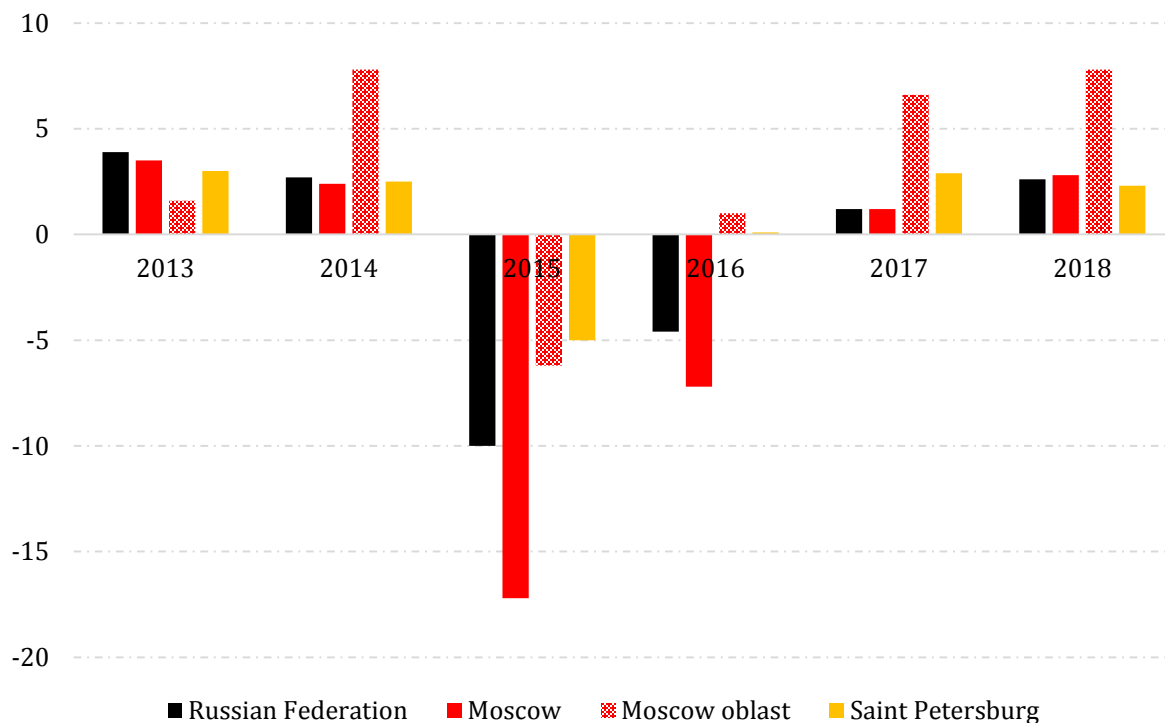
Total number of regions with negative IPI



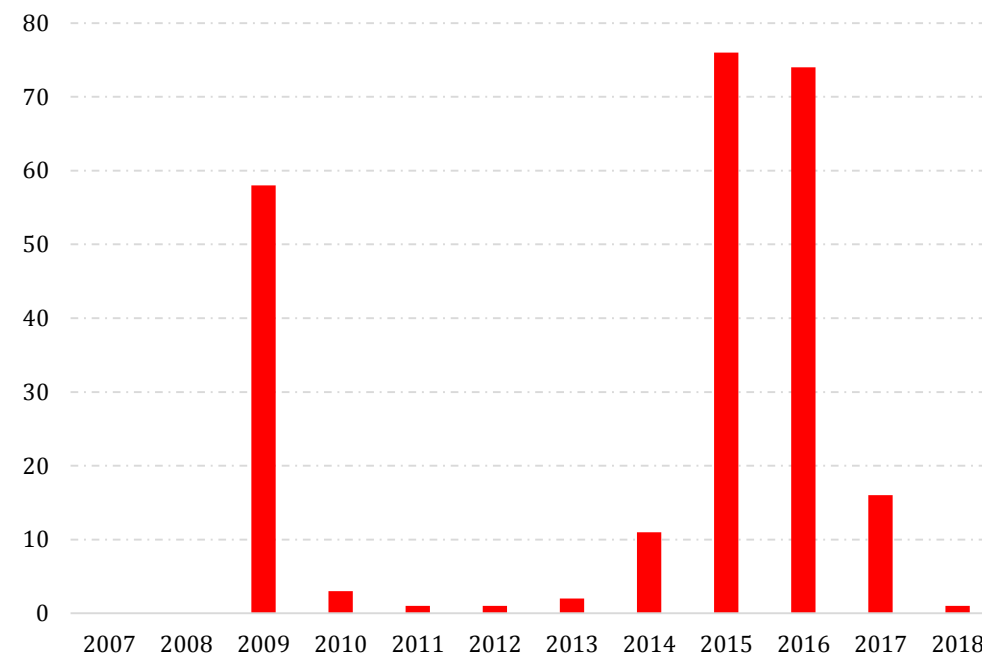
# Retail trade turnover

- **Recovery** of the retail trade turnover after the 2015-2016 recession partly supported by credit growth
- **Expansion** of the retail sector to Moscow oblast

Retail trade turnover dynamic, y-o-y



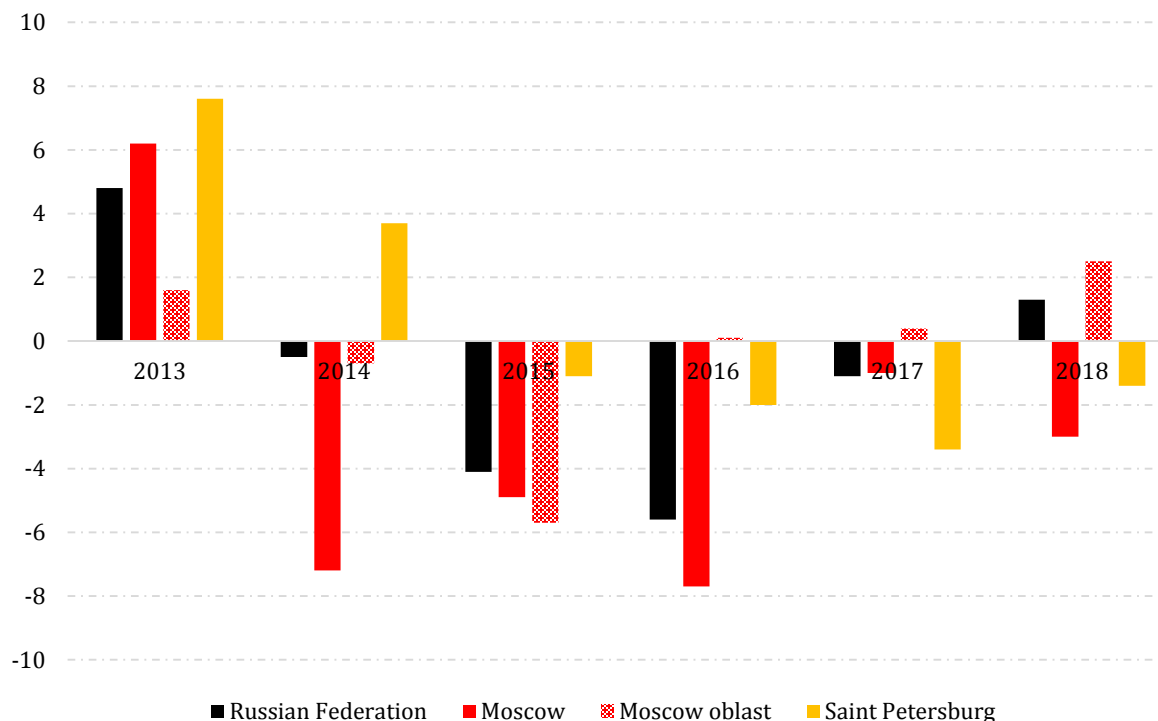
Total number of regions with negative RTR dynamics



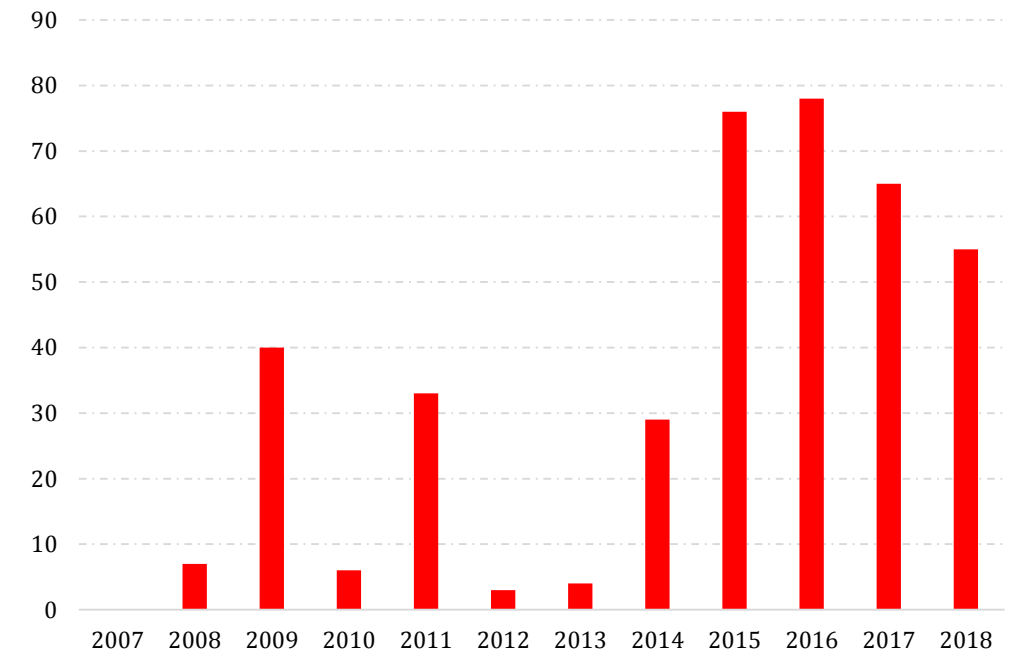
# Net personal income dynamics

- After four years of decline **net personal income dynamics** returned to a positive territory on the national level...
- ...while half of the regions kept showing negative dynamics

Net personal income dynamics, y-o-y



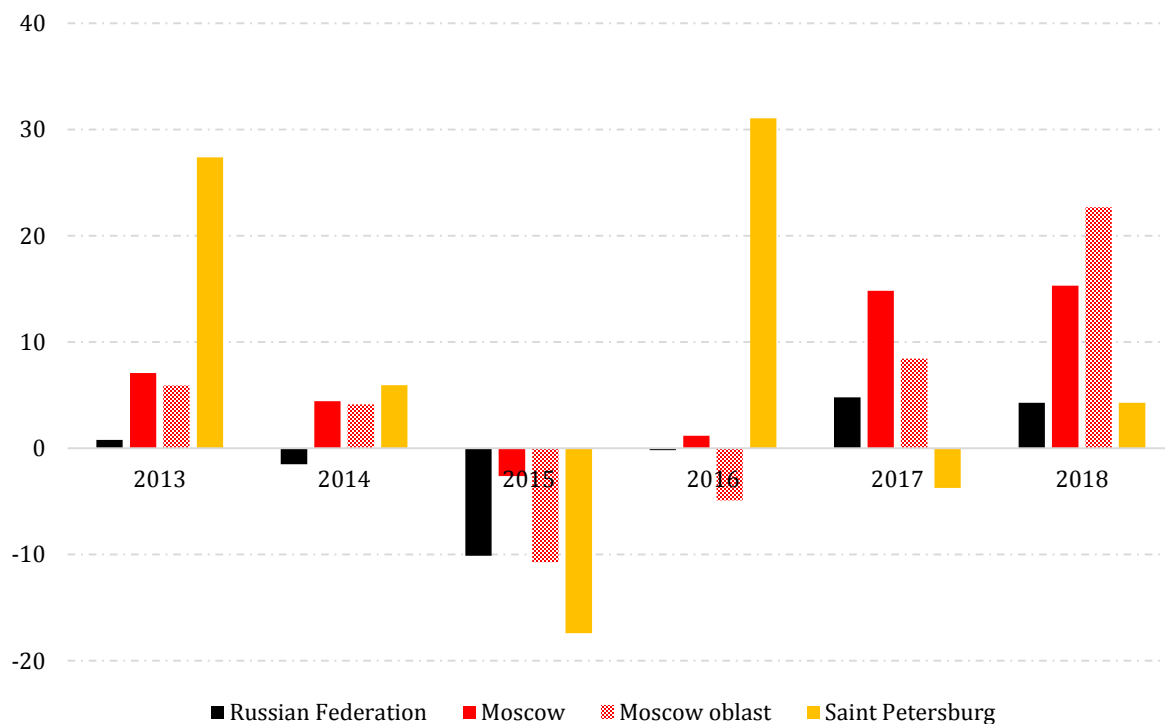
Total number of regions with negative NPI dynamics



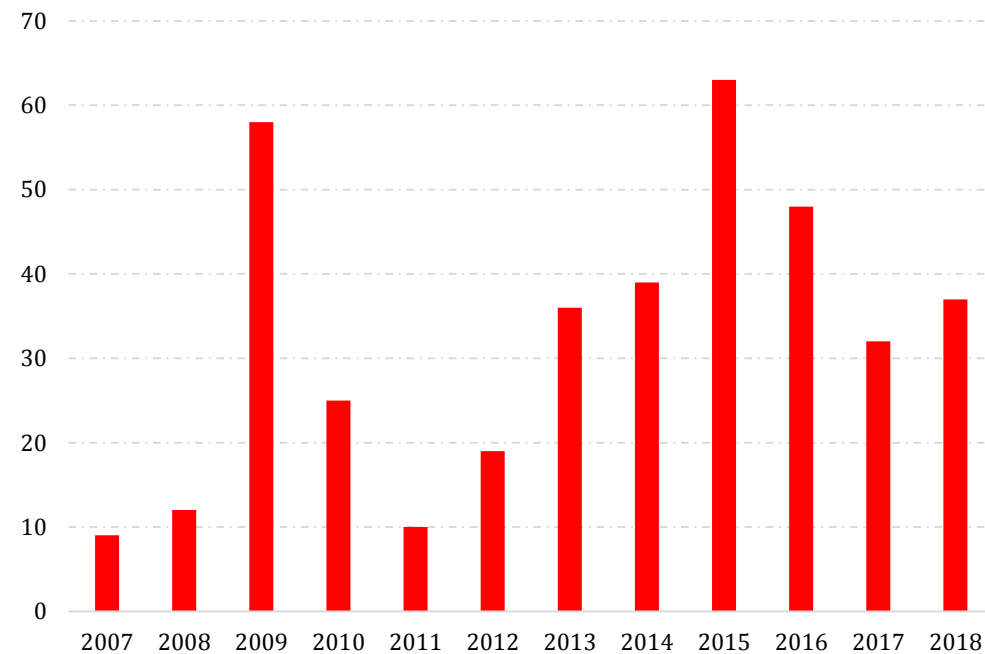
# Investments dynamics

- **Recovery of investments in 2017-2018** mostly supported by the investment program of the Moscow city government and investment projects in the gas industry

Investments in fixed assets dynamic, y-o-y



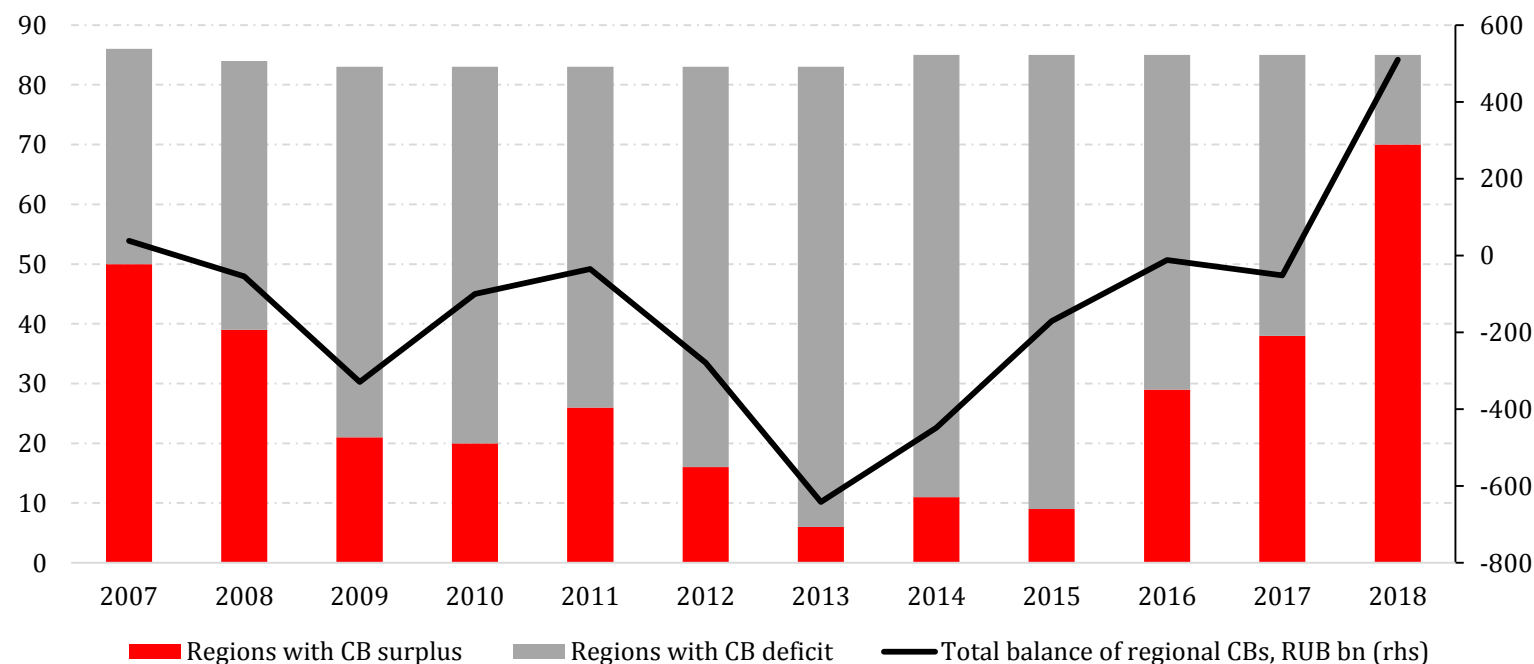
Total number of regions with negative dynamic of investments



# Regional budgets balances

- **High total surplus** of regional budgets due to an increase in profit tax income and increased transfers from the federal budget...
- ... and tight expenditure policy in most of the regions
- Regions started to create “**quasi-reserves**” for future periods

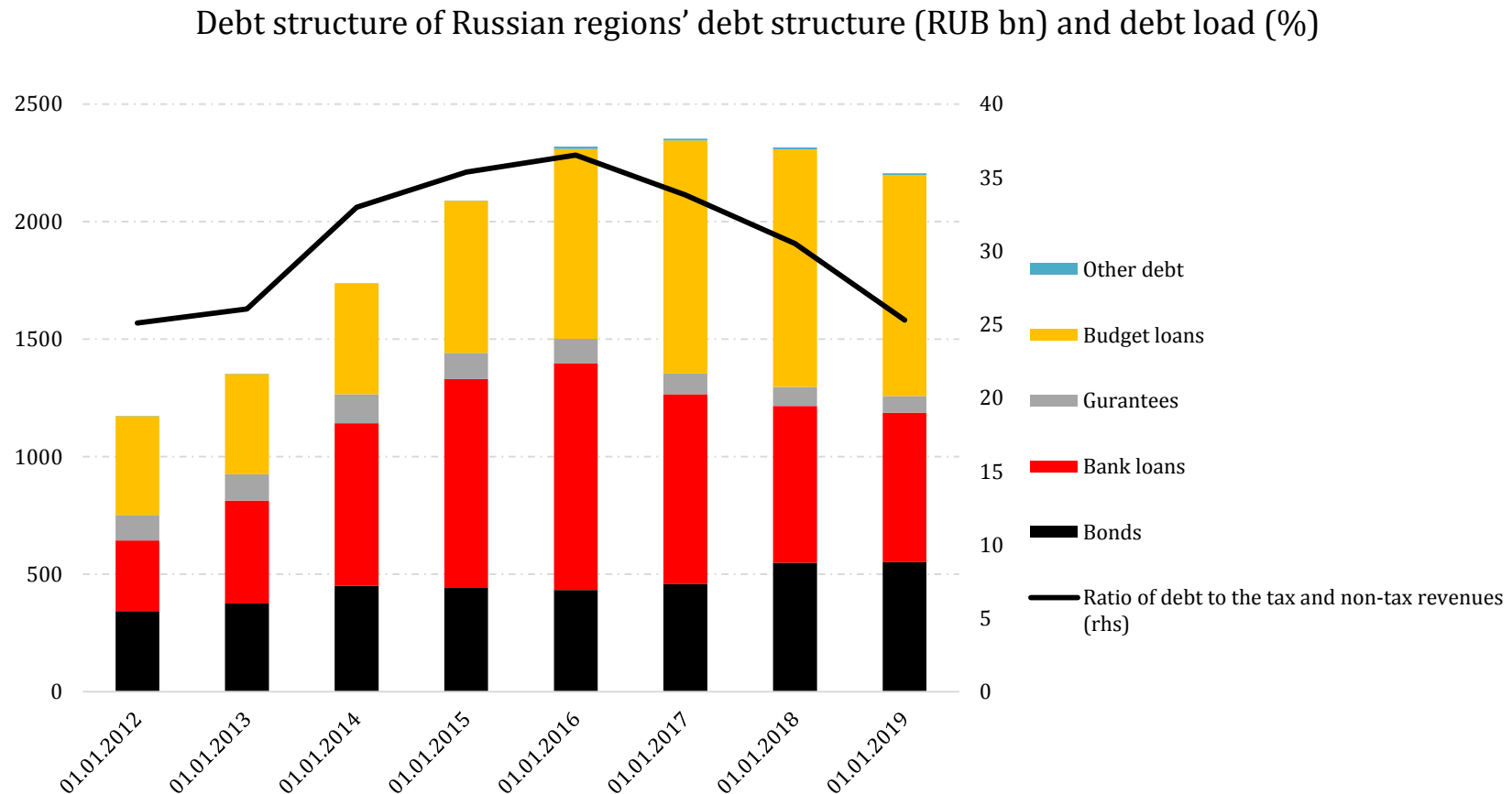
Fiscal balance metrics of regional consolidated budgets (CBs)





# Regional debt metrics

- **Gradual decrease of debt load** due to better fiscal performance and Federal Ministry of finance policy



# Outlook

- Positive effects from “**national projects**” will be limited in 2019-2020 due to inefficiencies in the budget system
- Regional governments will continue to carry out a **tight fiscal policy** and **improve fiscal and debt position**
- **Increased resistance** of the regional budgets due to accumulated fiscal buffers and decreased debt
- High probability of **local political and social crises** (including *environmental related*) which will carry consequences for local administrations

# Thank you for your attention!

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