

Credit risks in Russia

Moscow, February 2020

Agenda

- About RAEX-Europe
- Sovereign government credit risks of Russia
- Russian banking system overview

About RAEX

Rating-Agentur Expert RA (RAEX-Europe)

- The Agency works since 2013 in **Frankfurt am Main**
- **The CRA, registered by the European Securities and Markets Authority (ESMA)**
- **Official status** of External Credit Assessment Institution (ECAI)
- International **rating service team** with diverse academic and professional experience
- More than **20 years of experience** in the analytical researches and risks analysis

ECAI mapping RAEX-Europe

Mapping, approved by the European Commission in April 2018:

Credit quality step	RAEX- Europe	Fitch	Moody's	S&P
1	AAA, AA	AAA, AA	Aaa, Aa	AAA, AA
2	A	A	A	A
3	BBB	BBB	Baa	BBB
4	BB	BB	Ba	BB
5	B	B	B	B
6	CCC, CC, C, D, E	CCC, CC, C, RD, D	Caa, Ca, C	CCC, CC, R, SD/D

RAEX- Europe activities

- Assigning **credit ratings** to:
 - ✓ Sovereign issuers
 - ✓ Sub-sovereign issuers (regions)
 - ✓ Banks
 - ✓ Insurance companies
 - ✓ Companies from non-financial sectors
- Assigning **non-credit ratings: ESG ratings** (environmental, social and governance)
- Additional **services for stock-exchanges: Green Bond Second Opinion**
- **Business-conferences** and presentations in Frankfurt-am-Main

International Forum Responsible investments in the CIS region

- 70 participants from CIS and EU financial institutions
- >20 speakers from main institutions of sustainable finance industry



Gleb Shevelenkov
Director of Debt Market Department at Moscow Exchange



Yuliya Sofronova
Head of Nordic, CEE & CIS, Signatory Relations at UN PRI



Aaron Röscke
Head of German-Russian Centre for Economic Cooperation,
Chamber of Industry and Commerce in Dusseldorf



Timur Onzhanov
Managing Director, EMEA Head at Astana International Financial
Center Authority (AIFCA)



Serena Vento
Director of Fundraising & Partnerships,
Climate Bond Initiative



Valérie Guillaumin
Director, Market Practice and Regulatory Policy,
International Capital Market Association (ICMA)



Dr. Jean-Pierre Bussalb
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Sachin Vankalas
General Manager of LuxFLAG

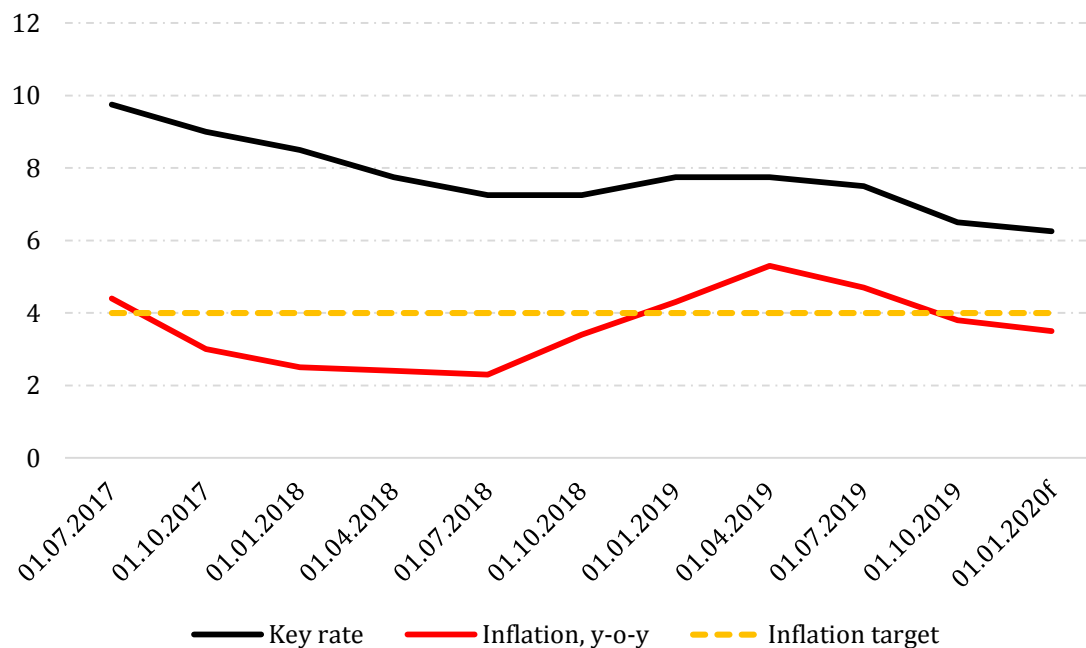
Sovereign government credit risks of Russia

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	10.01.2020
Azerbaijan	BB+	BB+	Confirmed	Confirmed	Stable	Stable	8.11.2019
Belarus	B	B	Confirmed	Upgraded	Positive	Positive	10.01.2020
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	27.12.2019
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

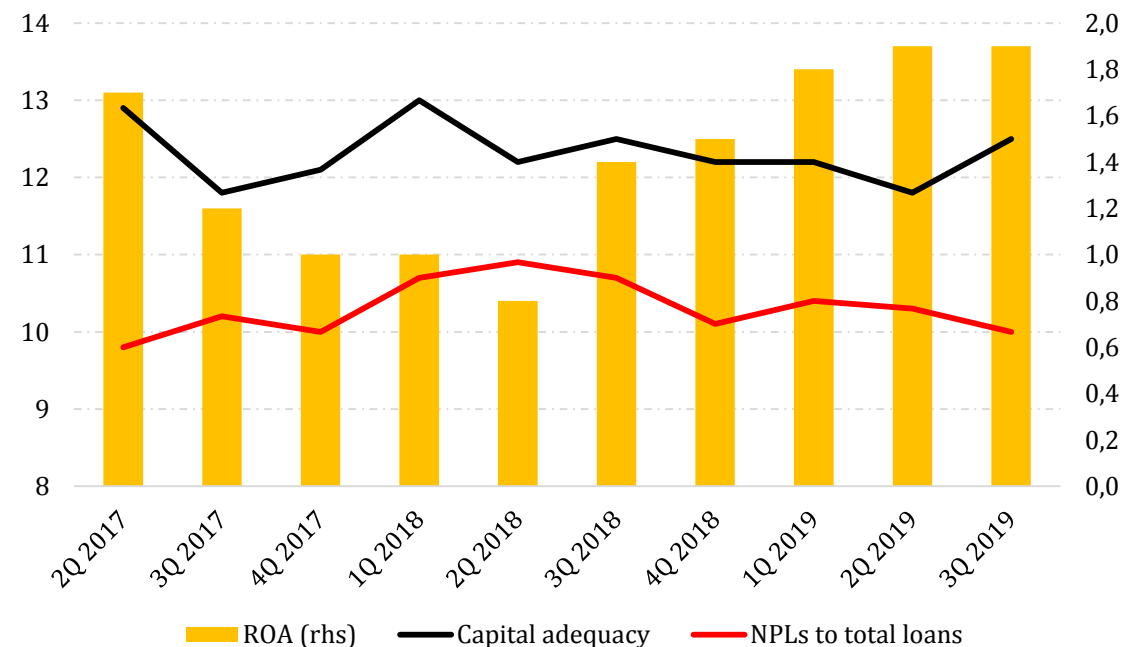
Positive factors

- 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 2,1% and 18,8% as of November 2019

Monetary policy metrics, %

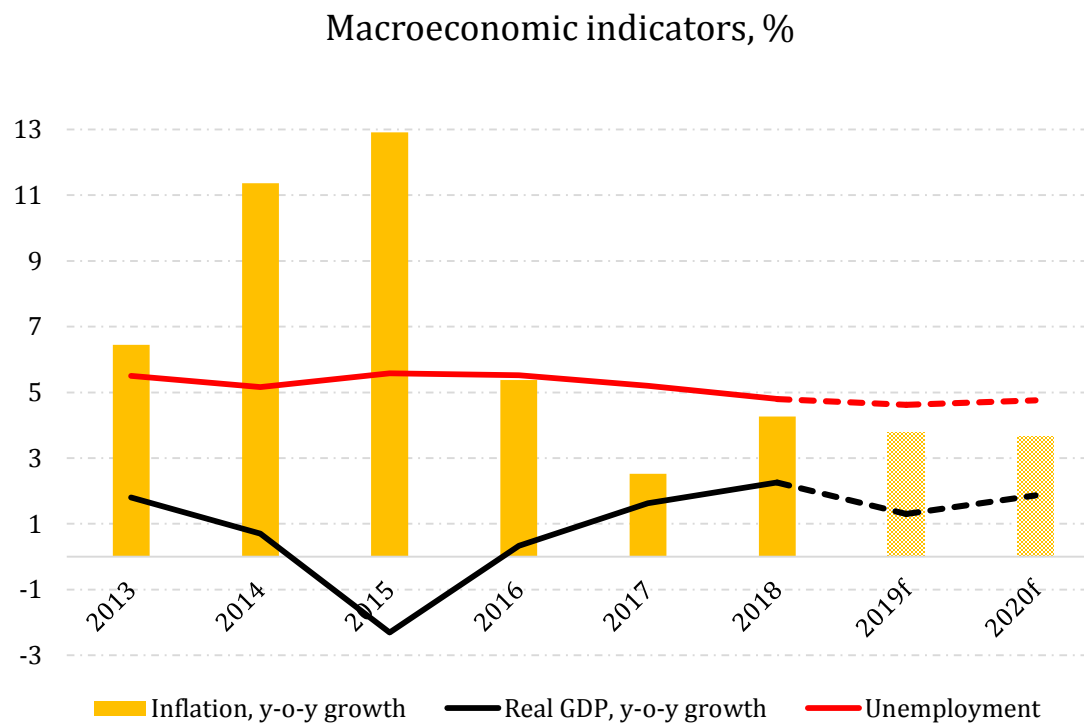


Financial soundness indicators, %



Positive factors

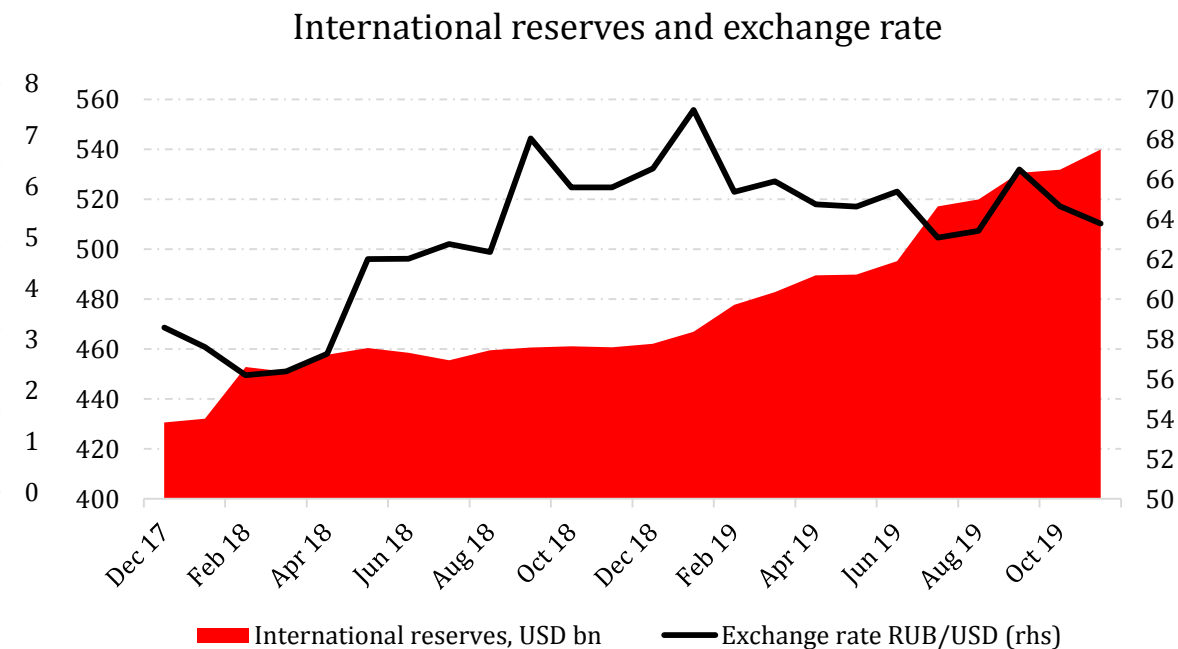
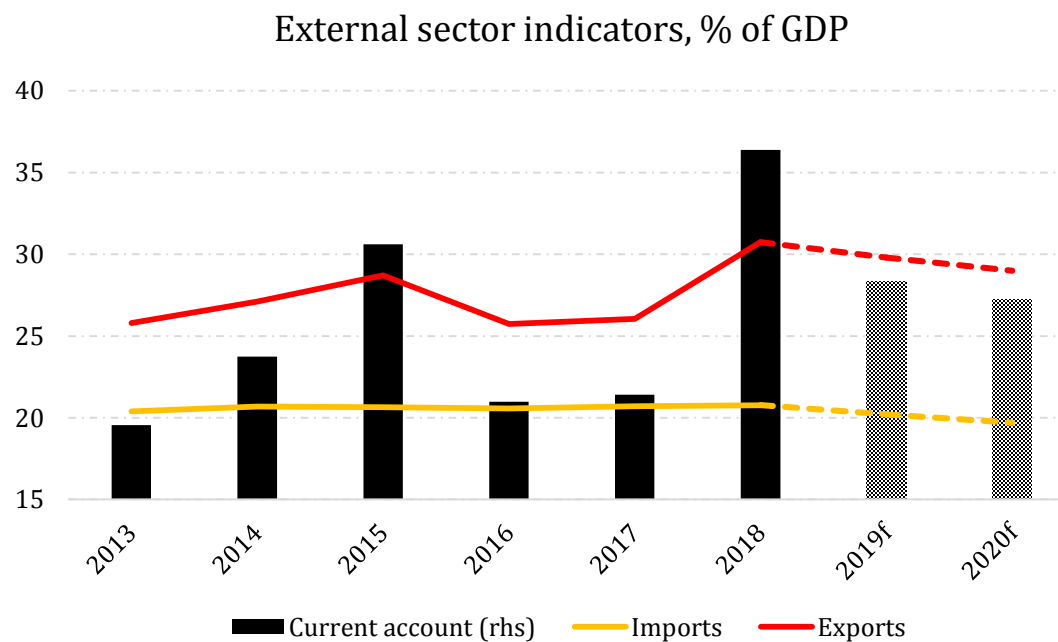
- GDP growth in 2018 exceeded forecasts, and despite the restrictive fiscal and monetary policies, accelerated to 2,3%. In 2019 the economic growth pace was restrained to 1,3%*, supported by dynamic in extracting, manufacturing and financial sectors



*According to the preliminary data from Rosstat

Positive factors

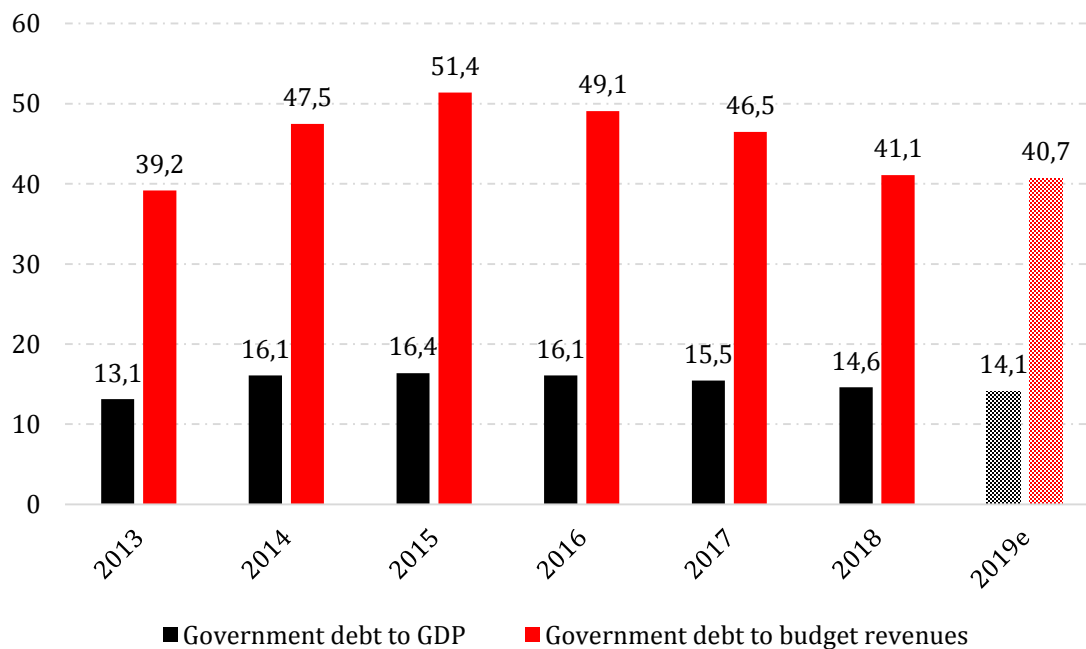
- Still high level of **current account surplus around 4% in 2019**, after record current account surplus at almost 7% in 2018
- The **external position is robust with rising resistance to external shocks**, supported by a free-float exchange rate regime, ongoing external deleveraging of the private sector and a significant accumulation of international reserves



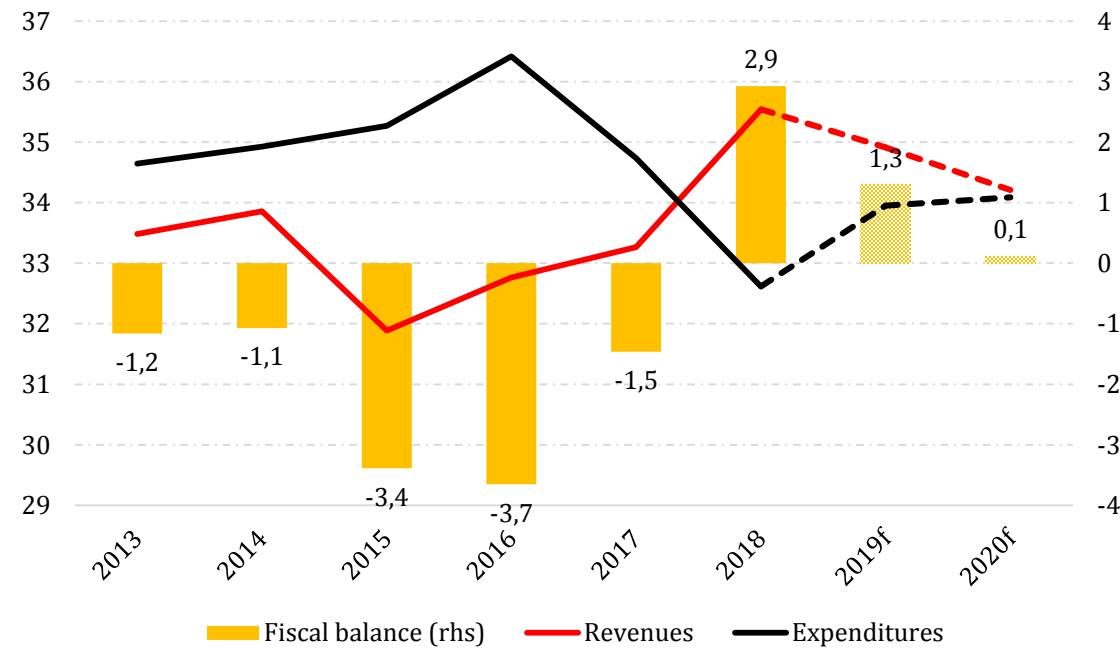
Positive factors

- **Strong government debt position** confirmed by the deleveraging trend during the last four years: the general government debt expected to decrease to 14% of GDP and 41% of budget revenues as of the end of 2019
- 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, and expected to be **close to 1,3% in 2019**

Government debt dynamics, %



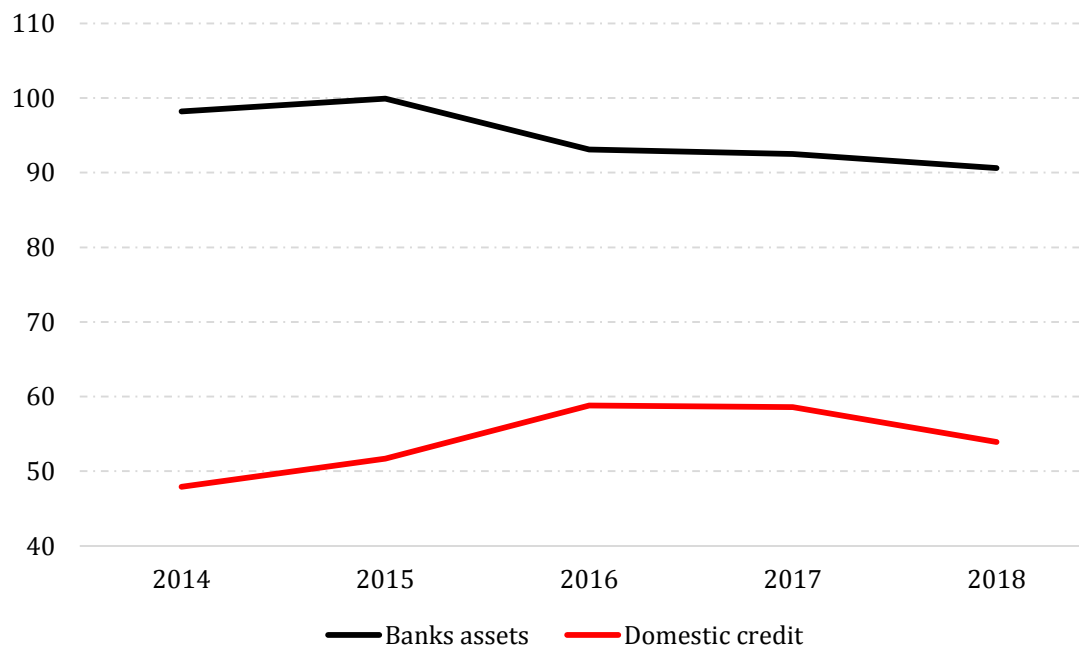
Fiscal budget dynamics, % of GDP



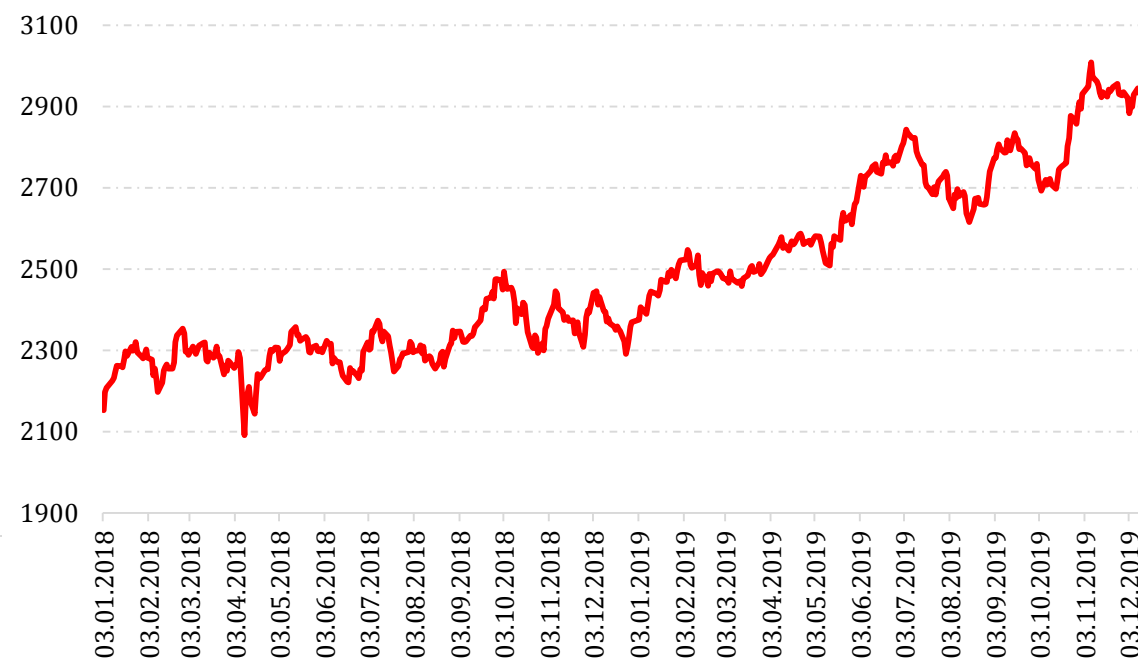
Restricting factors

- 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 despite continuous growth remains below 50% of GDP in 2019, significantly lower than the world indicators of developed countries

Credit to the economy dynamics, % of GDP



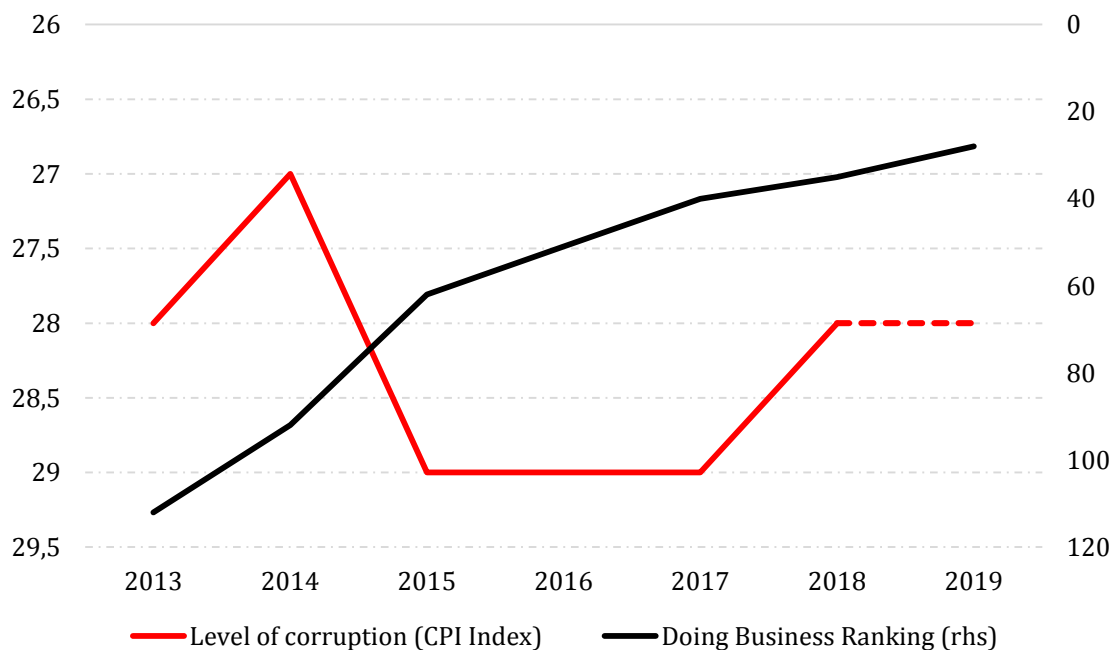
MOEX index dynamic



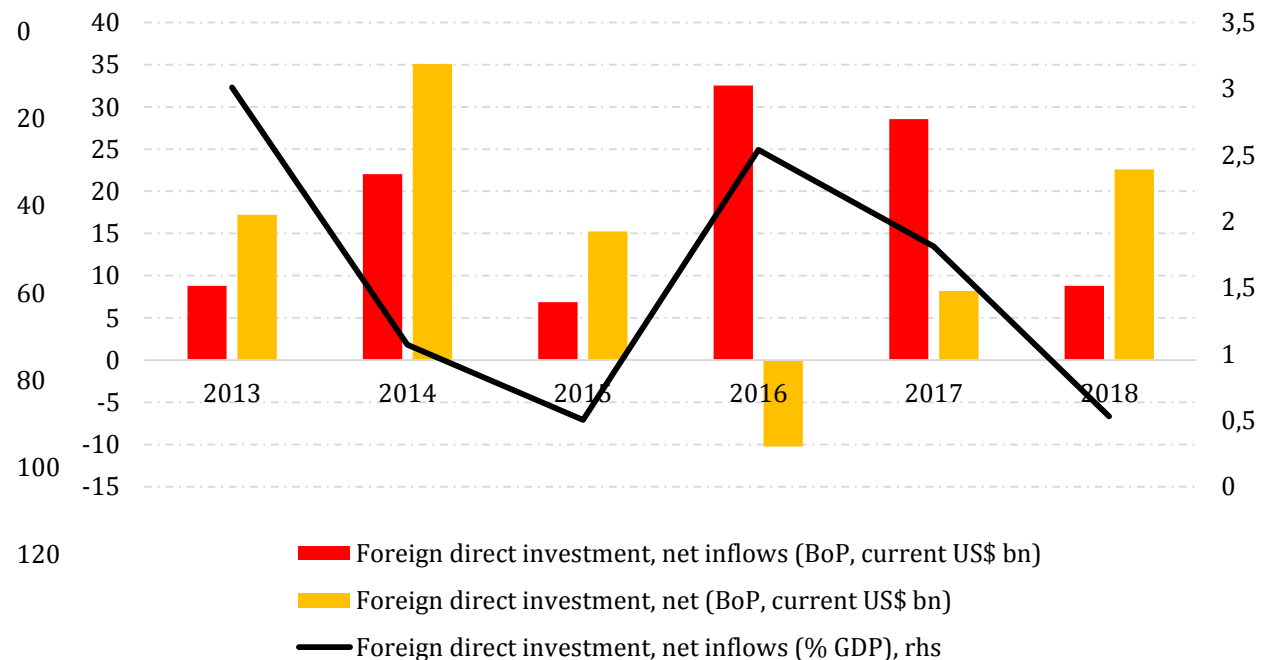
Restricting factors

- 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, however the **growth of FDI is expected by end 2019**

Institutional development indicators



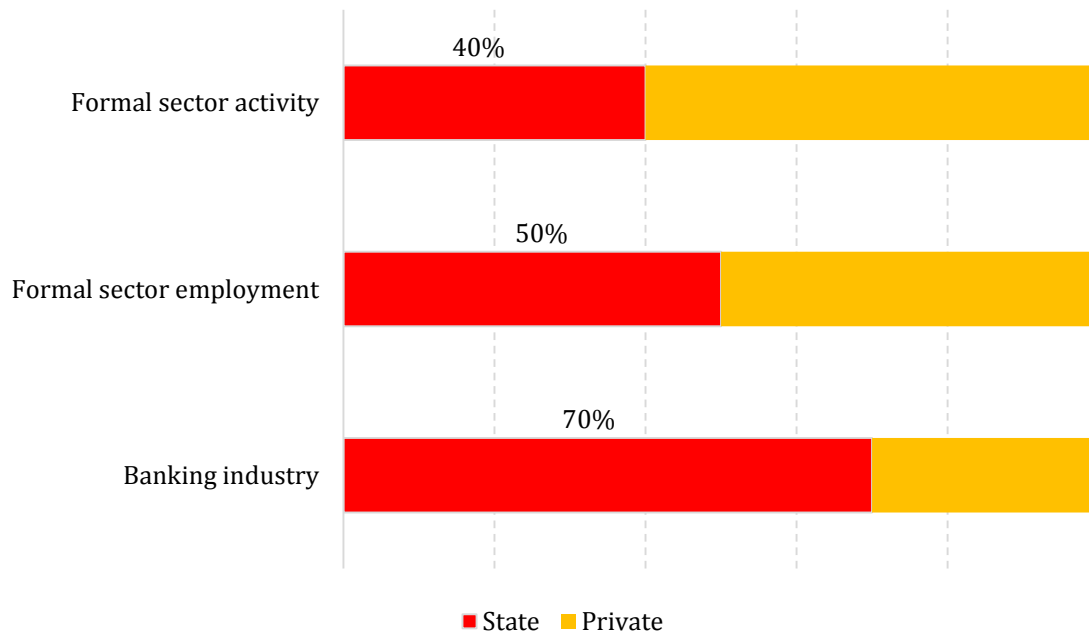
FDI dynamics, % of GDP



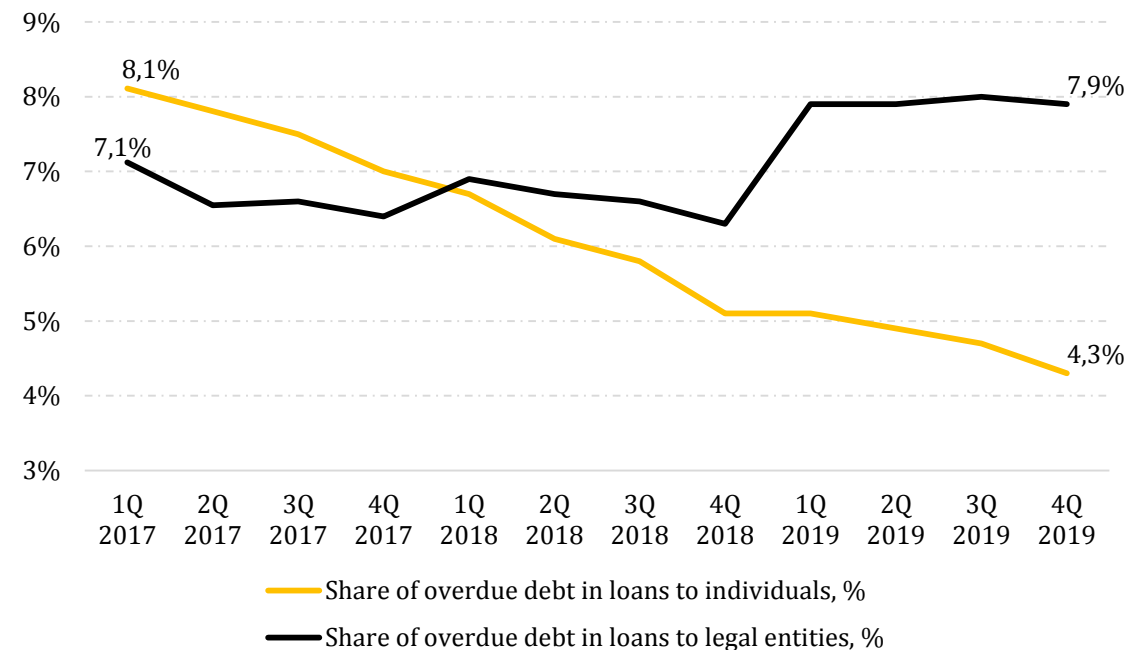
Negative factors

- 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, %



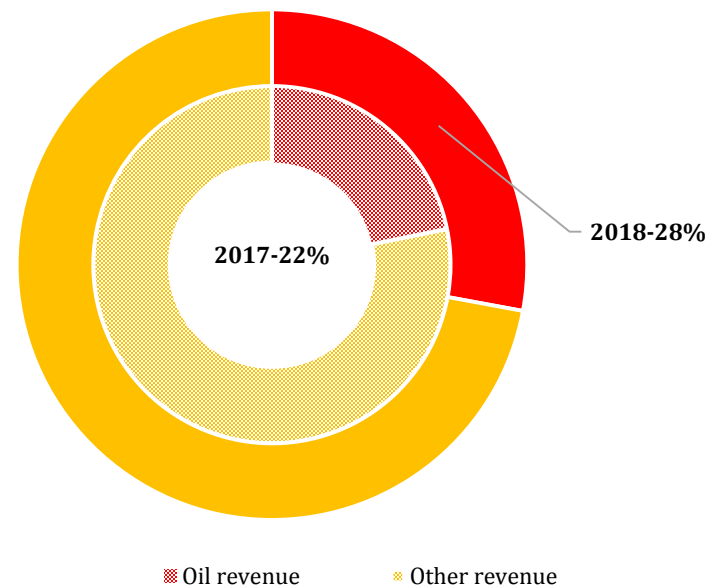
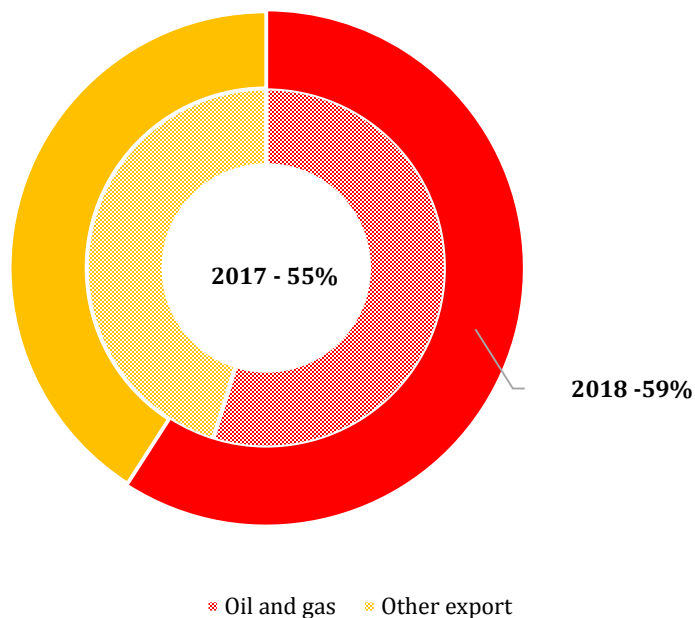
Level of overdue loans, %



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, %



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

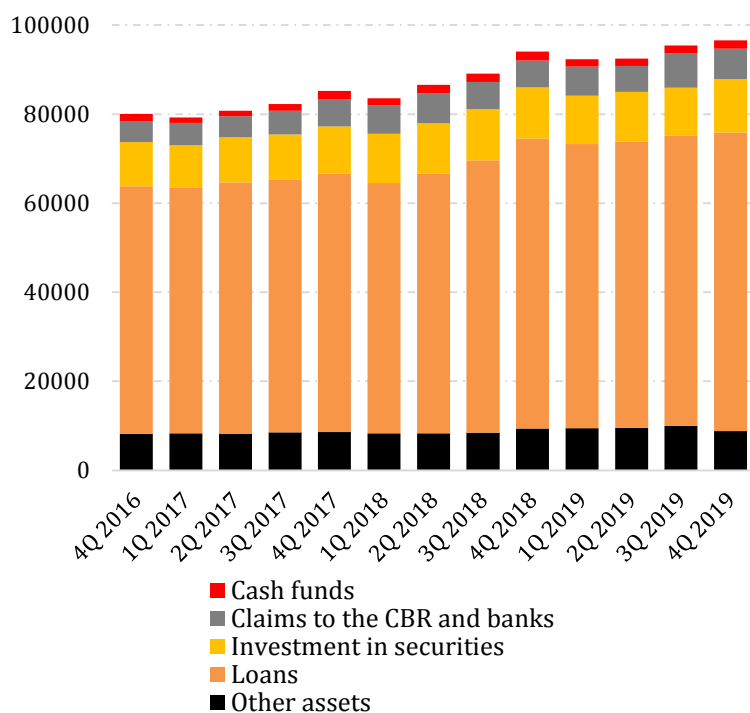
- **Improved macroeconomic stance**
- Increased efficiency of the **monetary policy**
- **Robust external position** with rising international reserves and continued deleveraging of the private sector
- **Strengthening of public finances** with adherence to the fiscal rule

Russian banking system overview

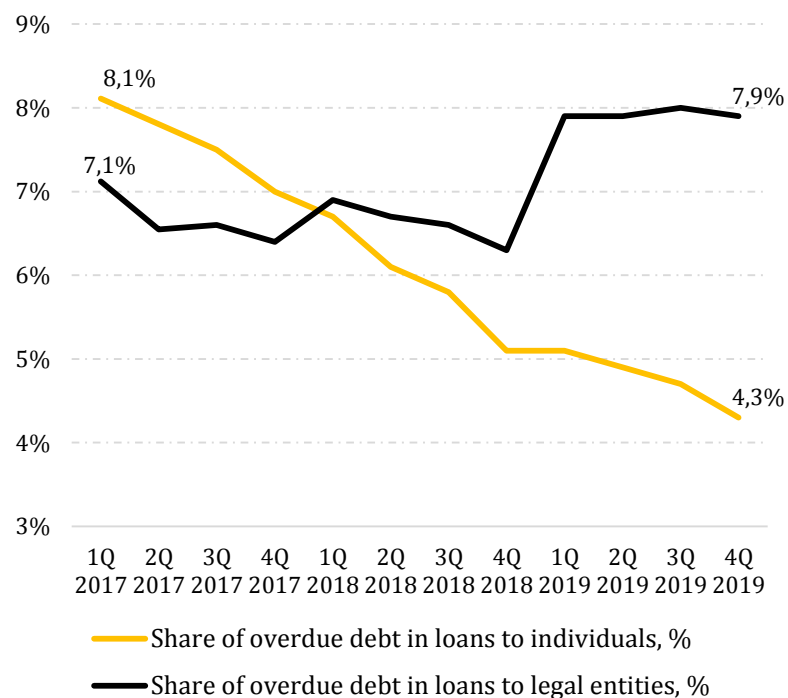
Asset quality

- The main driver of assets growth in 2019 was consumer lending (+18,6%), while corporate lending is stagnating (+4,5%). 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

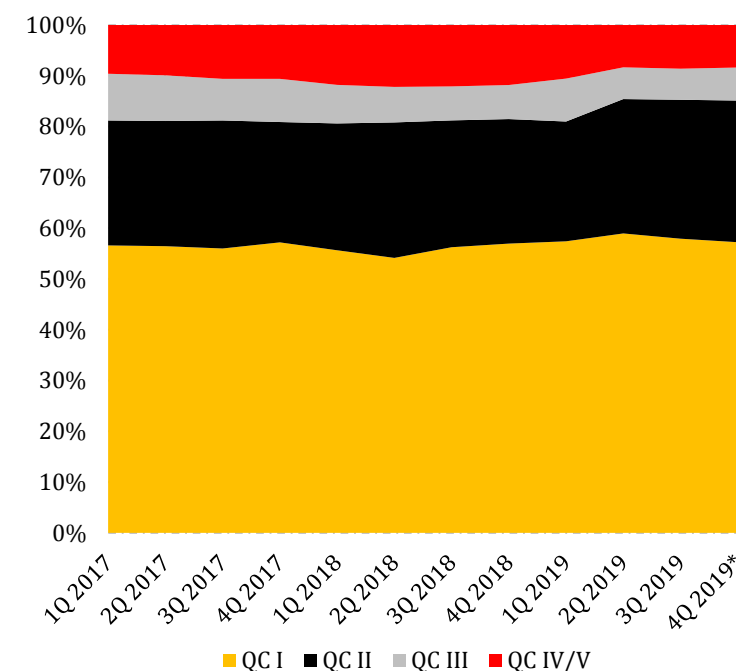
Assets structure, RUB m



Level of overdue debt, %



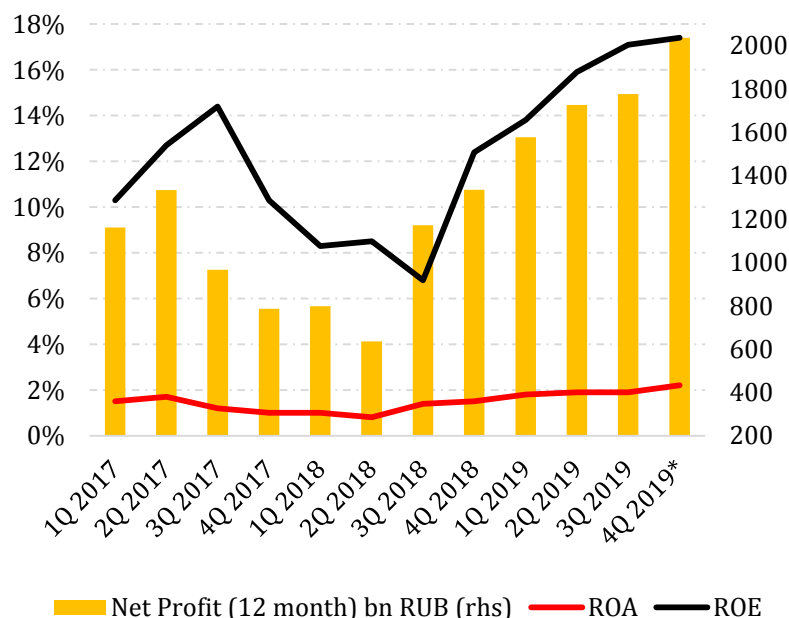
Loan quality categories, %



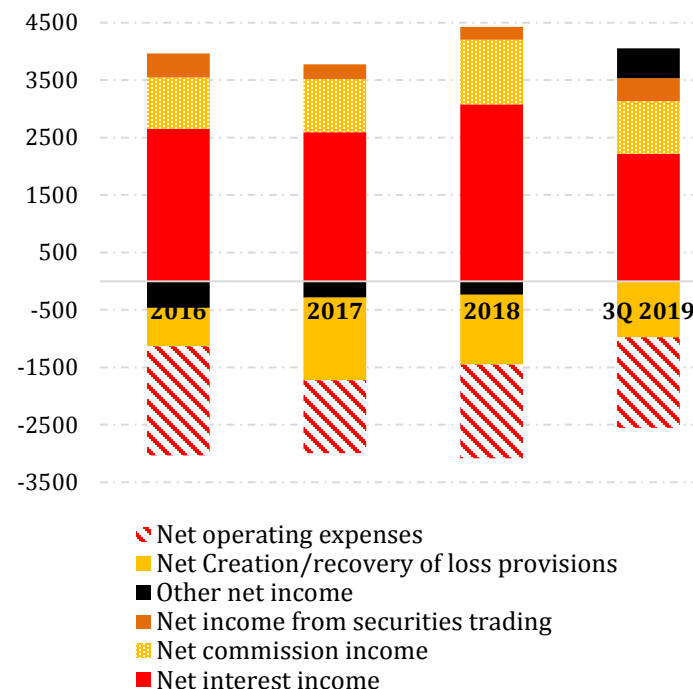
Profitability, capitalization and liquidity

- The system **remains profitable**, but most of the profit comes from SOBs. The share of profit-generating banks was 84% as of December 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

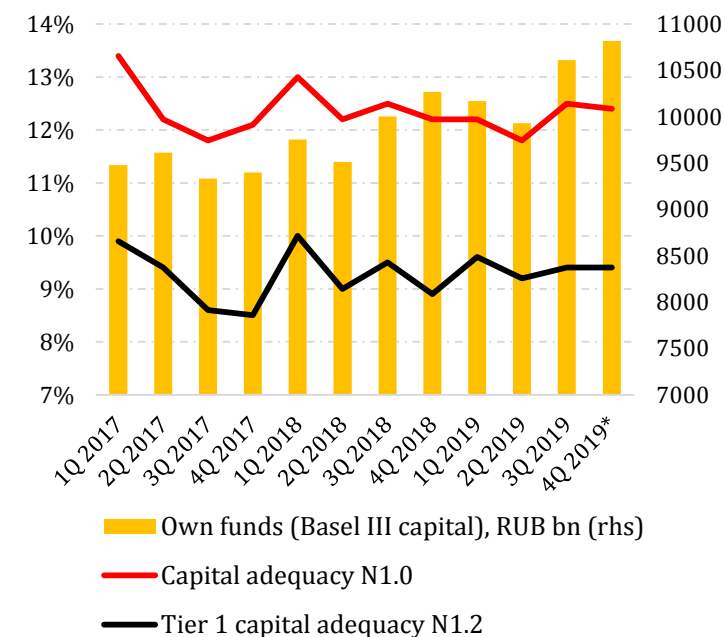
Profitability metrics



Structure of financial result, RUB



Capital adequacy metrics, %

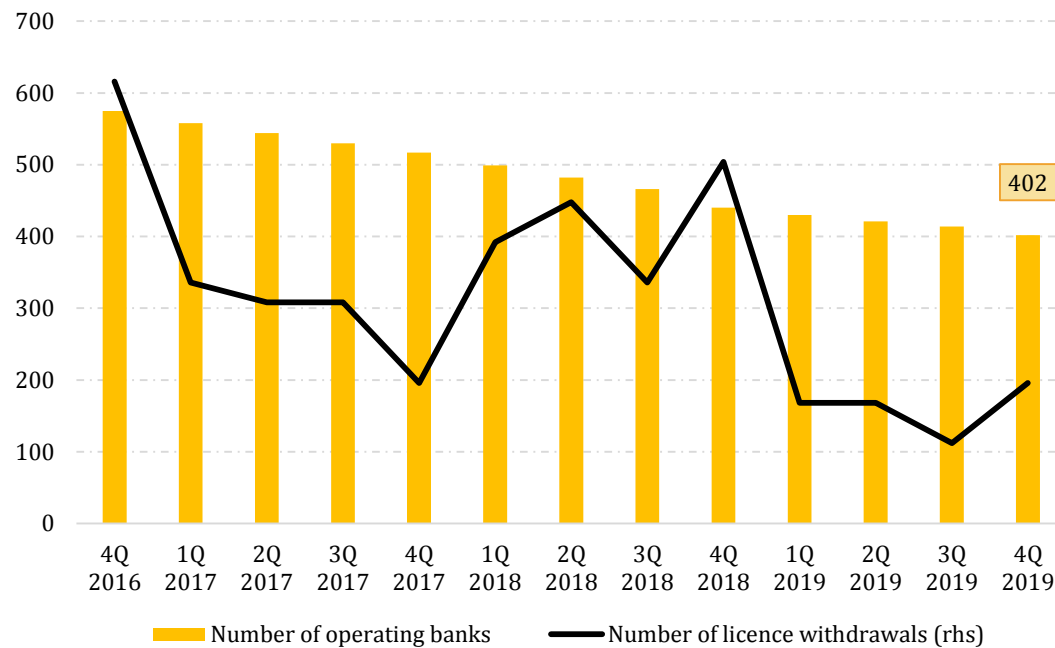


* As of 1 December 2019

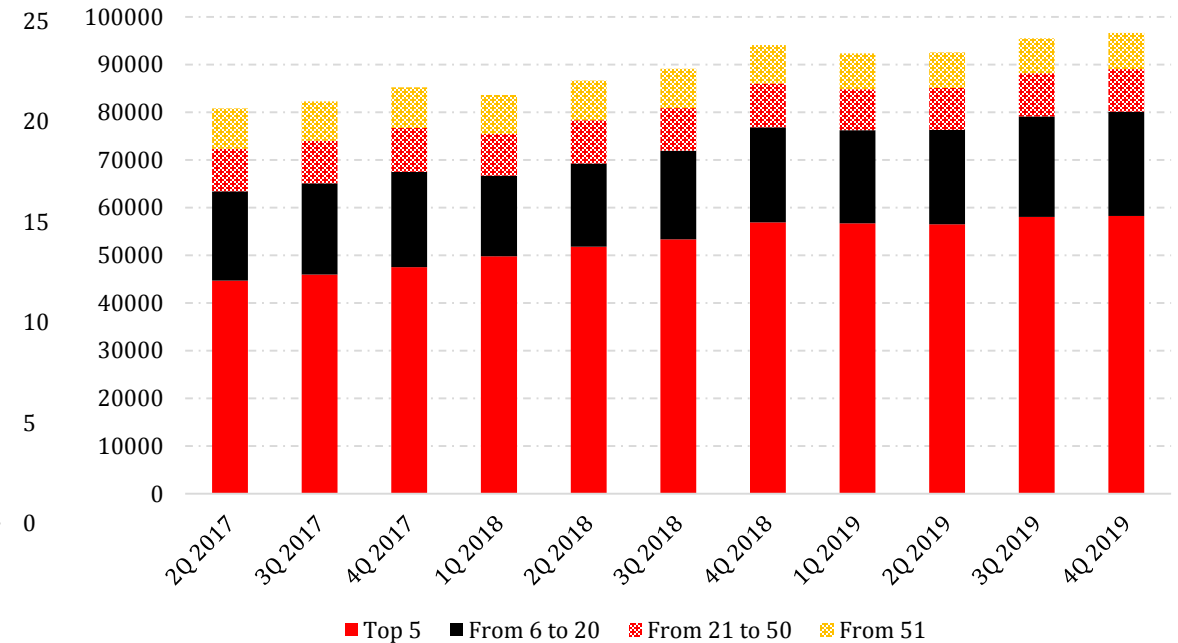
Market structure

- 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

Number of banks



Market structure, RUB bn



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**

Thank you for your attention!

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