

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 Röschke
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
Head of Section, Bundesanstalt für
Finanzdienstleistungsaufsicht (BaFin)



Sachin Vankalas
General Manager of LuxFLAG

Sovereign government credit risks of Russia

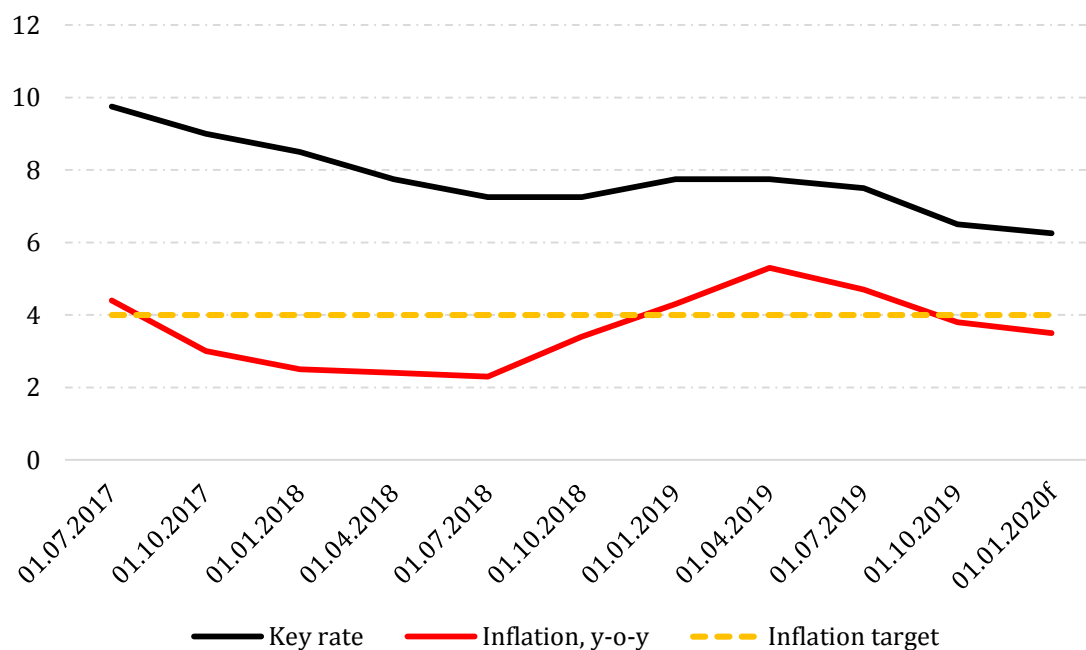
Sovereign rating list of RAEX-Europe:

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	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

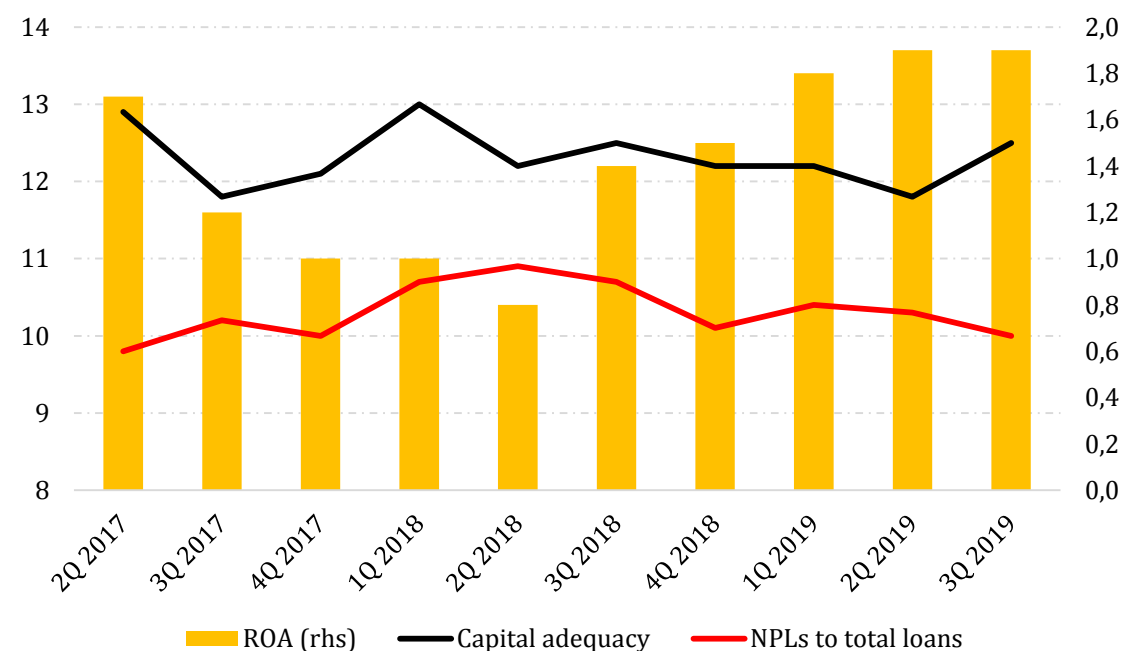
Positive factors

- 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, %

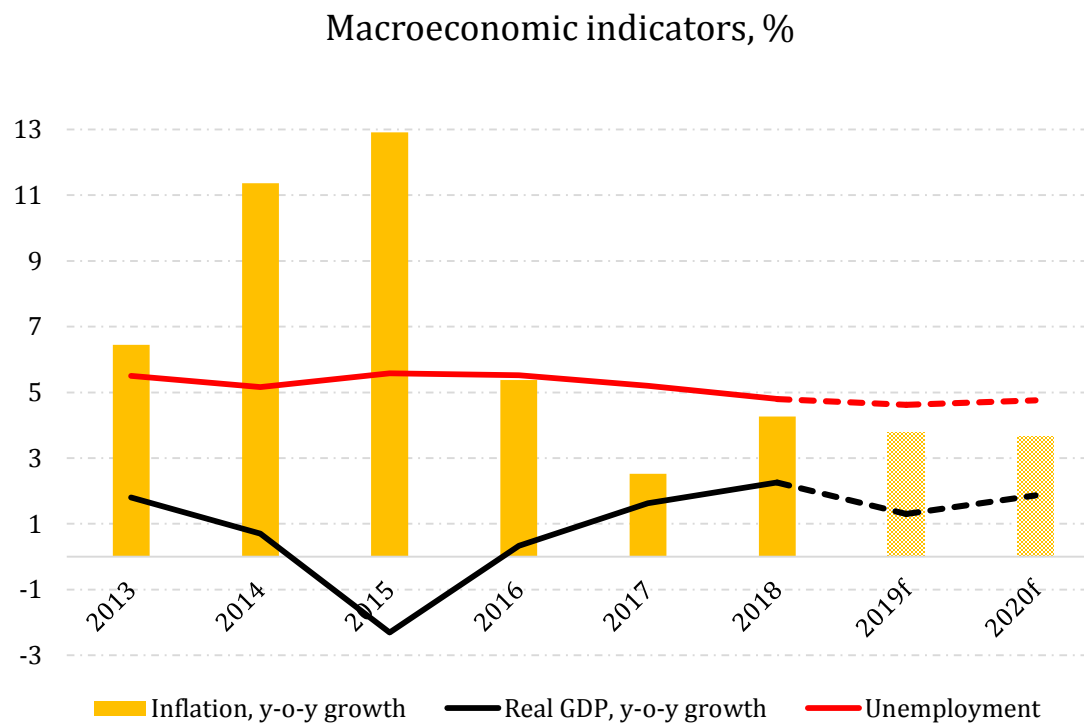


Financial soundness indicators, %



Positive factors

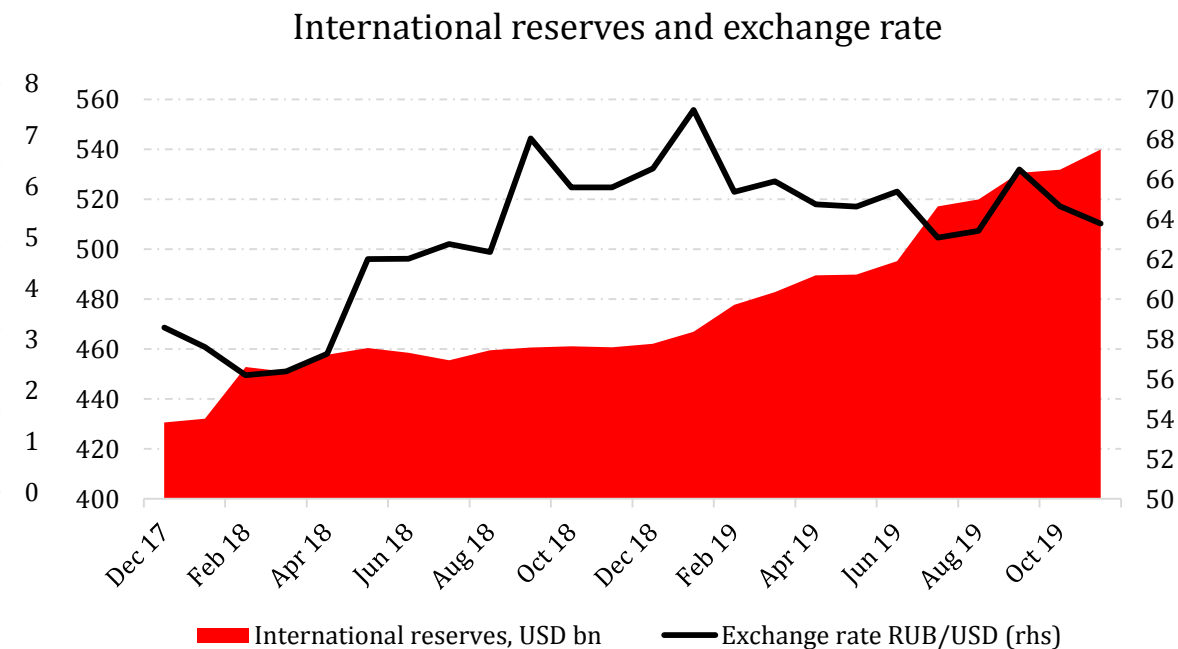
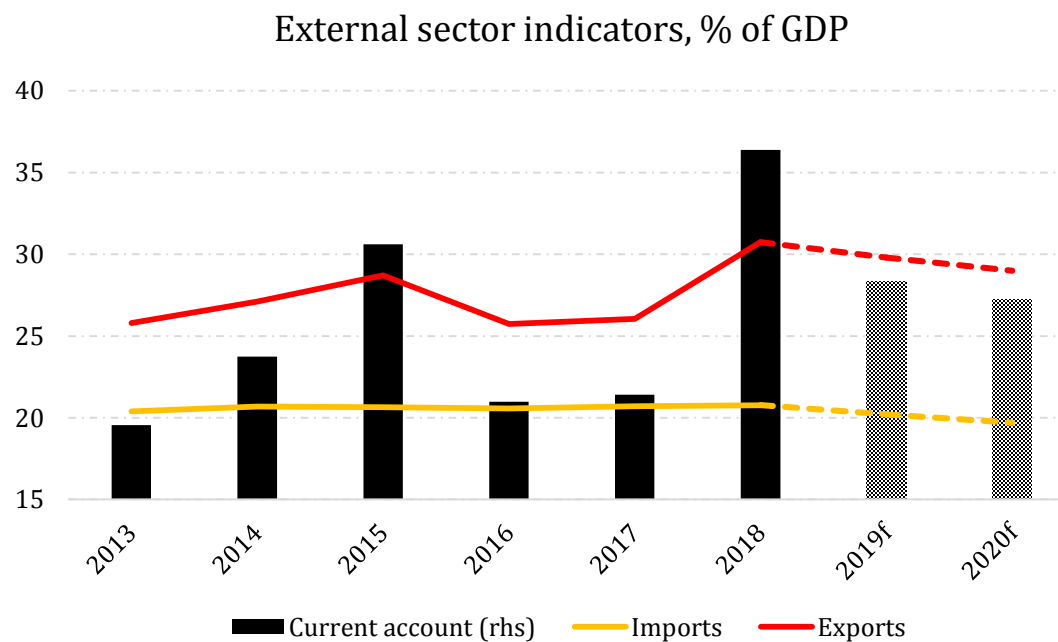
- GDP growth in 2018 exceeded forecasts, and despite the restrictive fiscal and monetary policies, accelerated to 2,3%. In 2019 the economic growth pace was restrained to 1,3%*, supported by dynamic in extracting, manufacturing and financial sectors



*According to the preliminary data from Rosstat

Positive factors

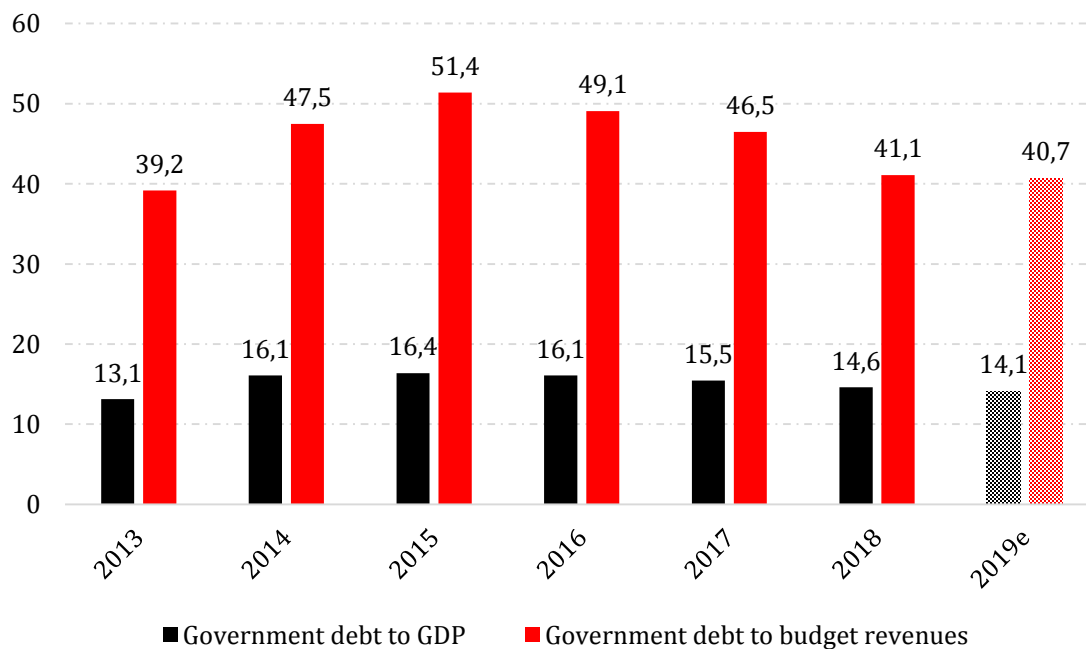
- Still high level of **current account surplus around 4% in 2019**, after record current account surplus at almost 7% in 2018
- The **external position is robust with rising resistance to external shocks**, supported by a free-float exchange rate regime, ongoing external deleveraging of the private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



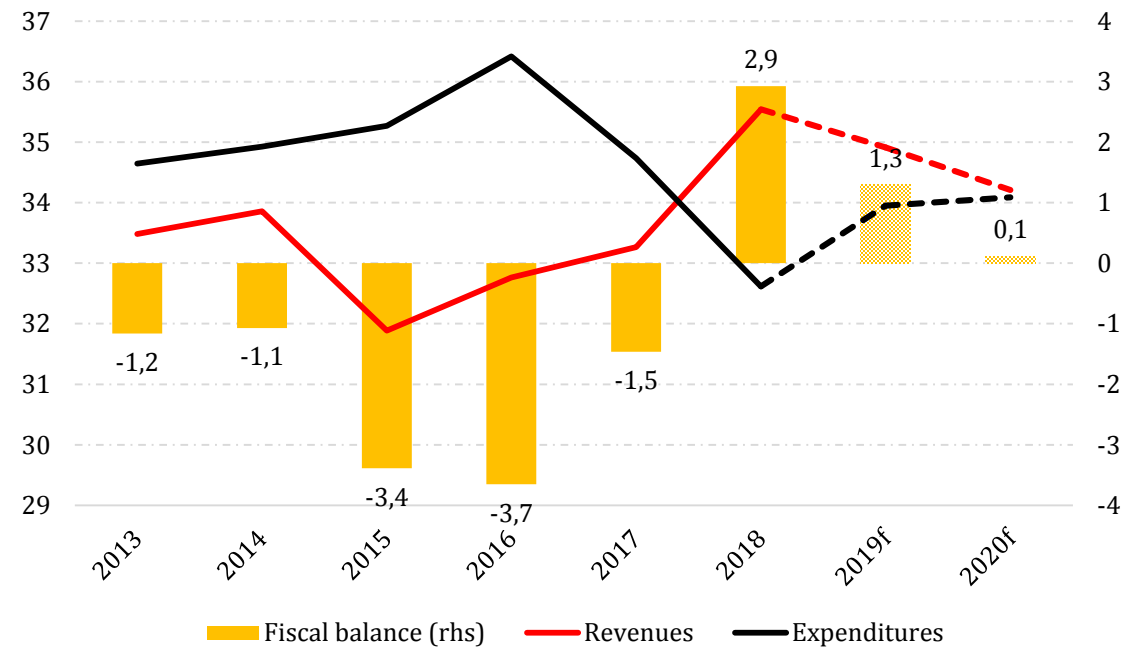
Positive factors

- **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, %



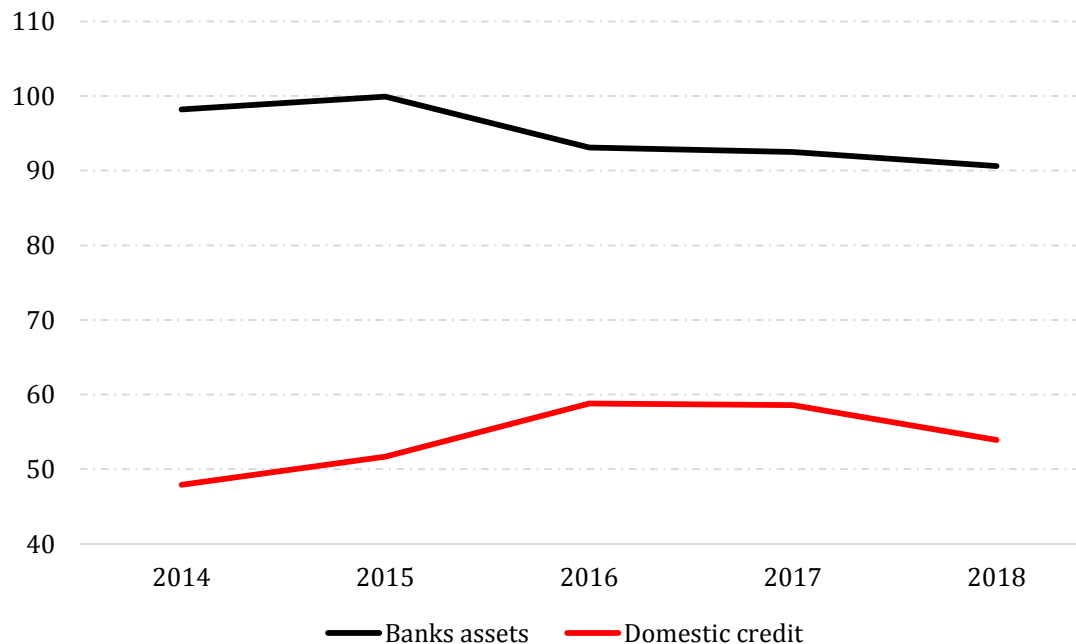
Fiscal budget dynamics, % of GDP



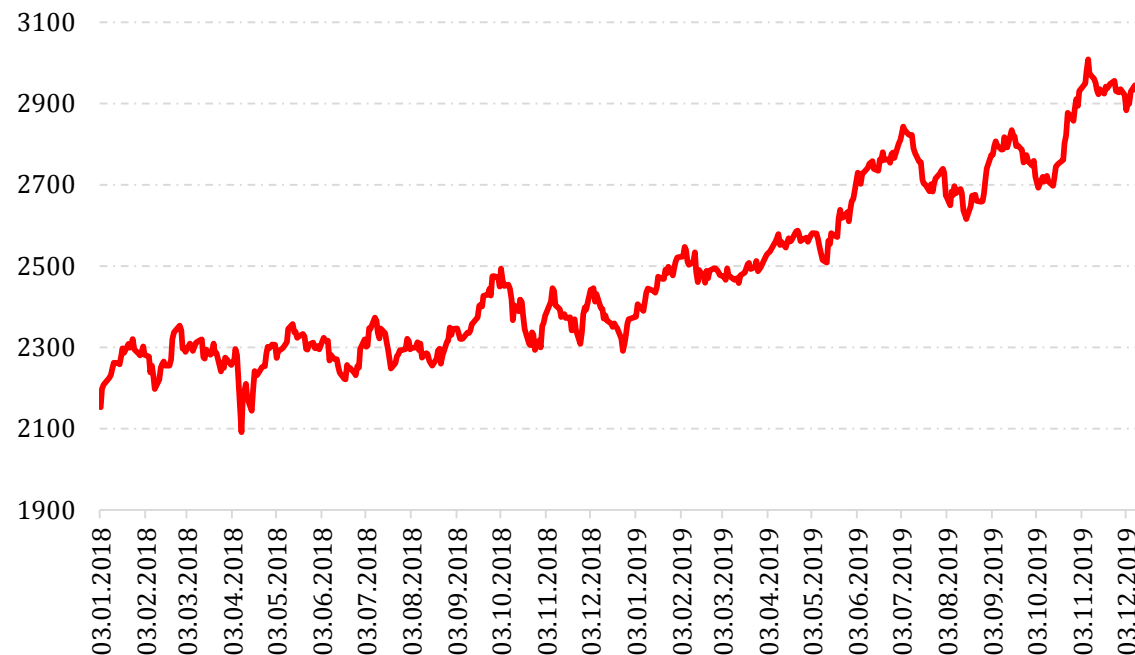
Restricting factors

- 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



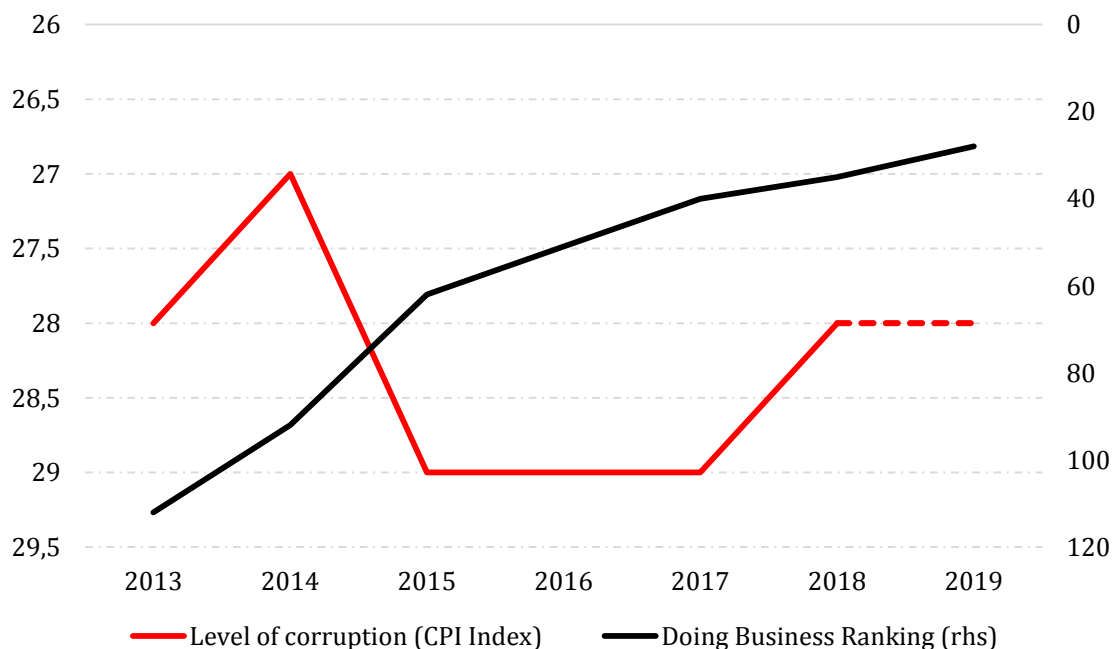
MOEX index dynamic



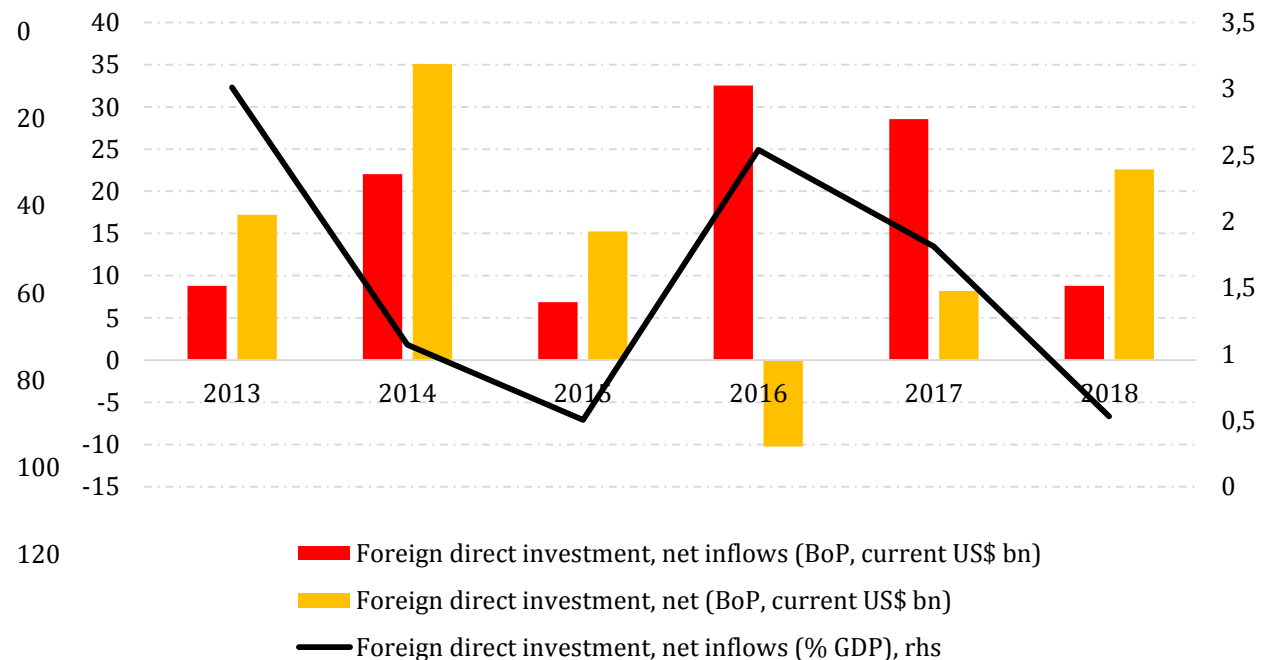
Restricting factors

- 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



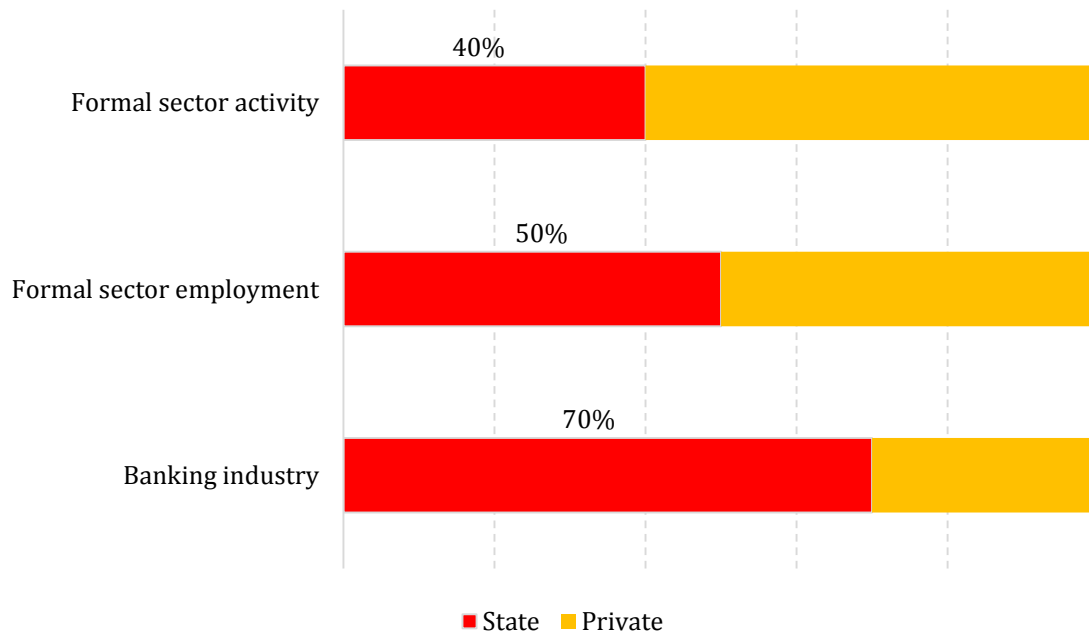
FDI dynamics, % of GDP



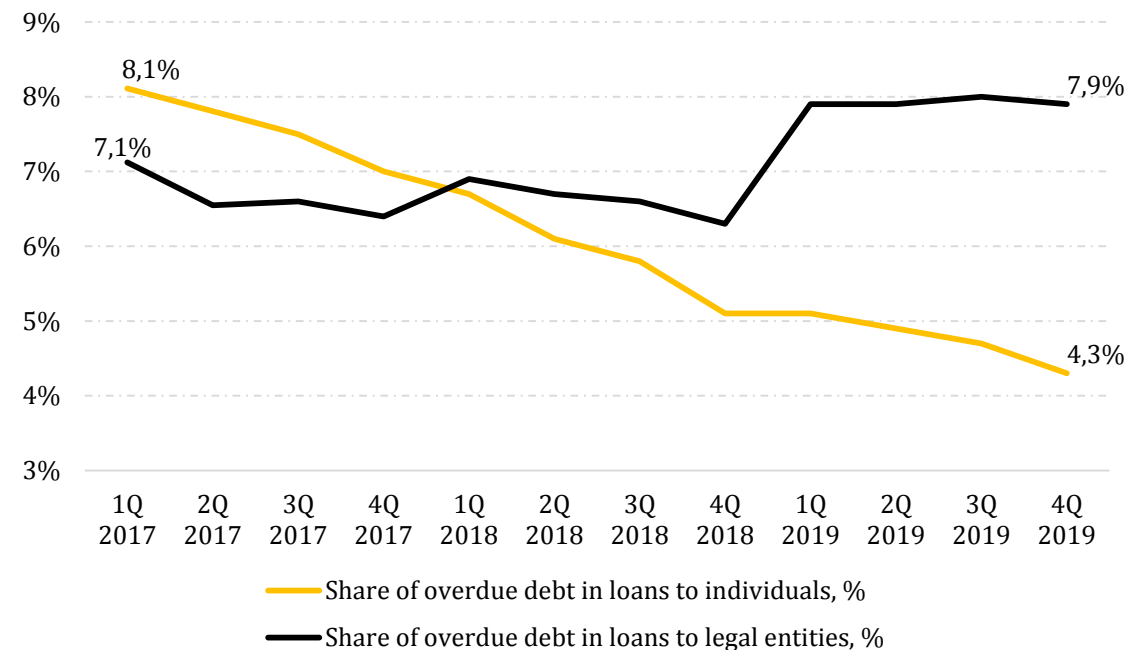
Negative factors

- 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, %



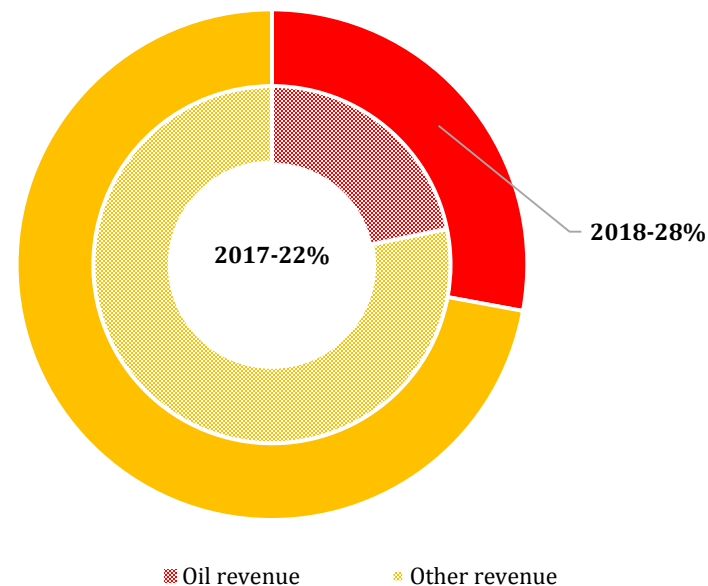
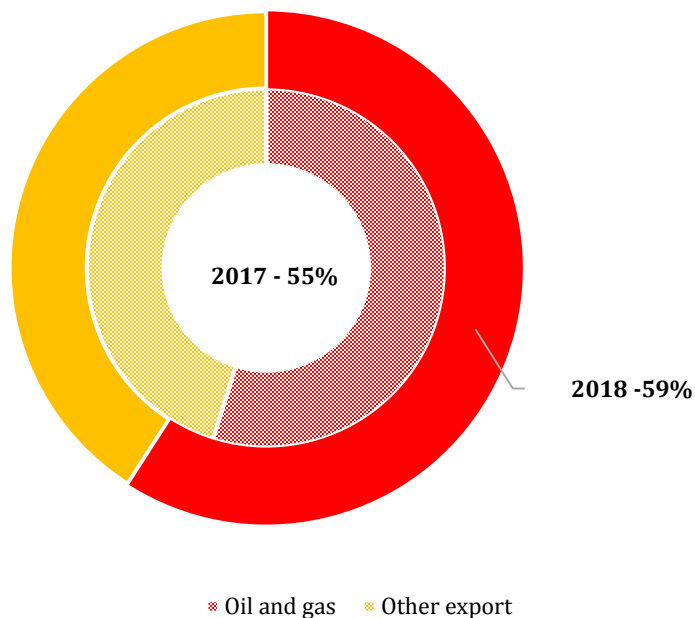
Level of overdue loans, %



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

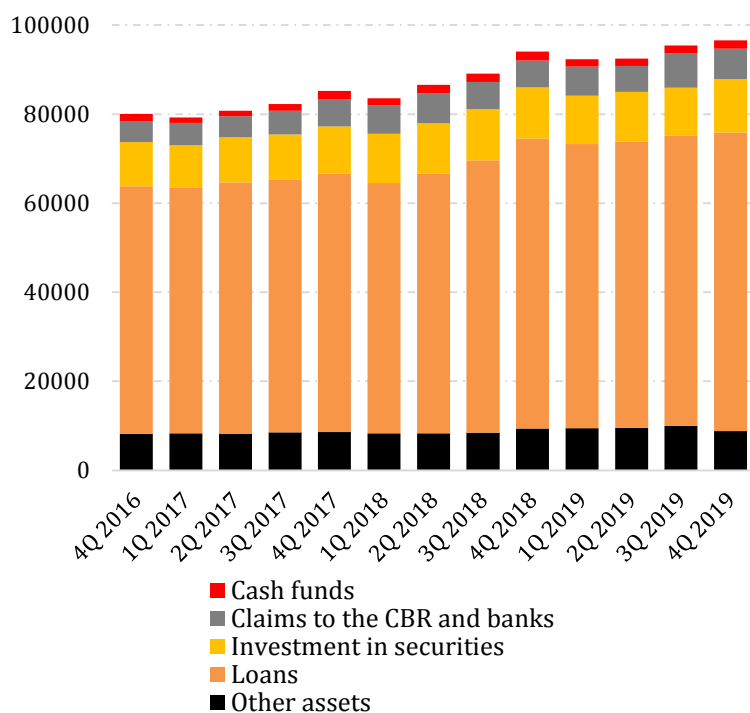
- **Improved macroeconomic stance**
- Increased efficiency of the **monetary policy**
- **Robust external position** with rising international reserves and continued deleveraging of the private sector
- **Strengthening of public finances** with adherence to the fiscal rule

Russian banking system overview

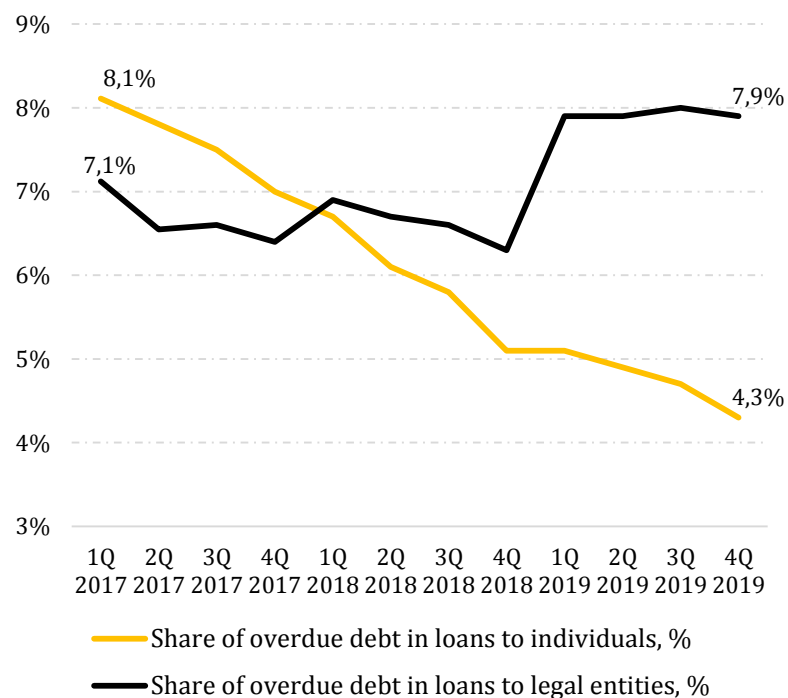
Asset quality

- 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

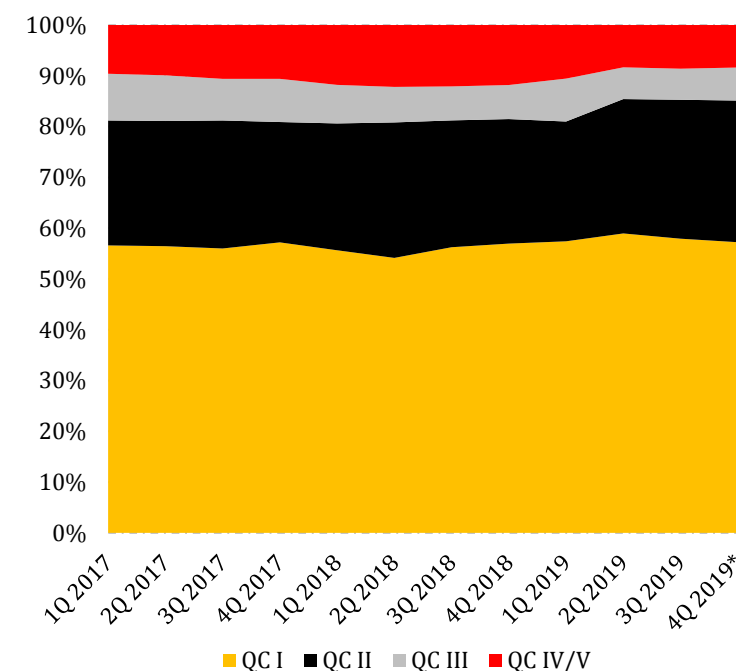
Assets structure, RUB m



Level of overdue debt, %



Loan quality categories, %

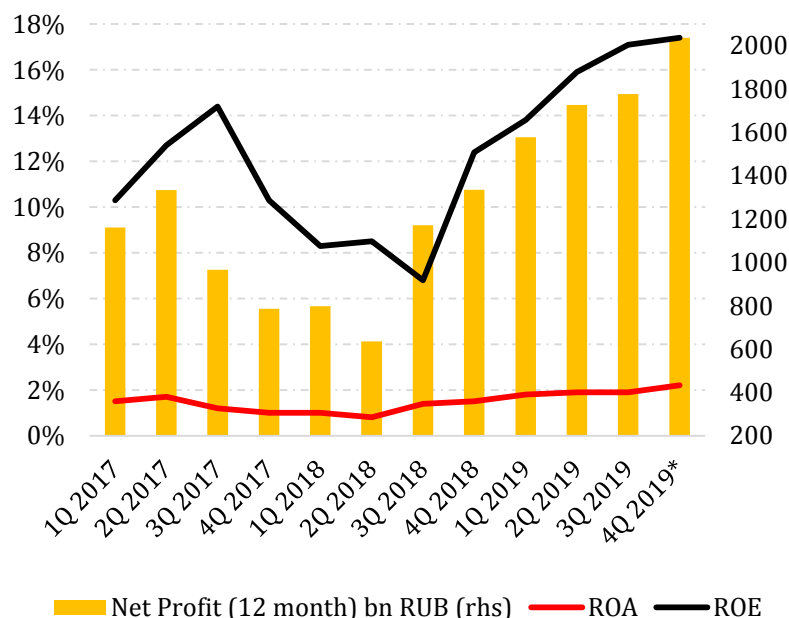


* As of 1 December 2019

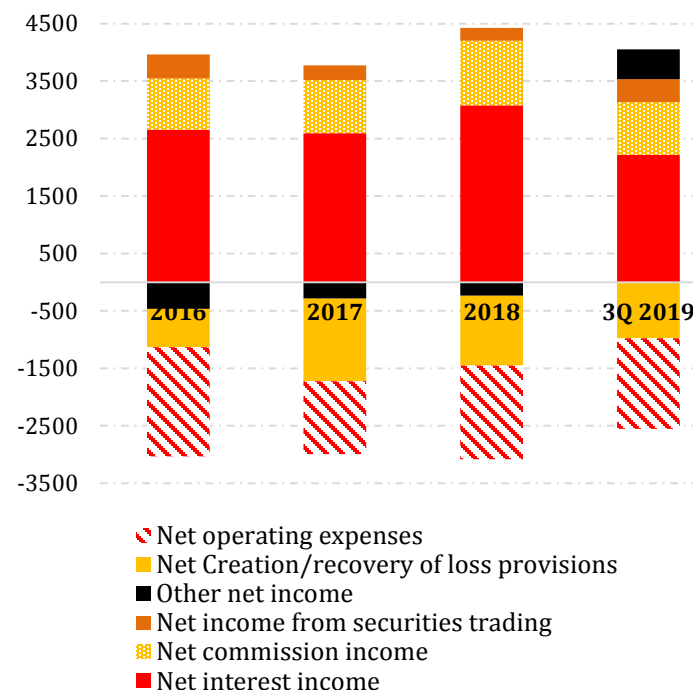
Profitability, capitalization and liquidity

- 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

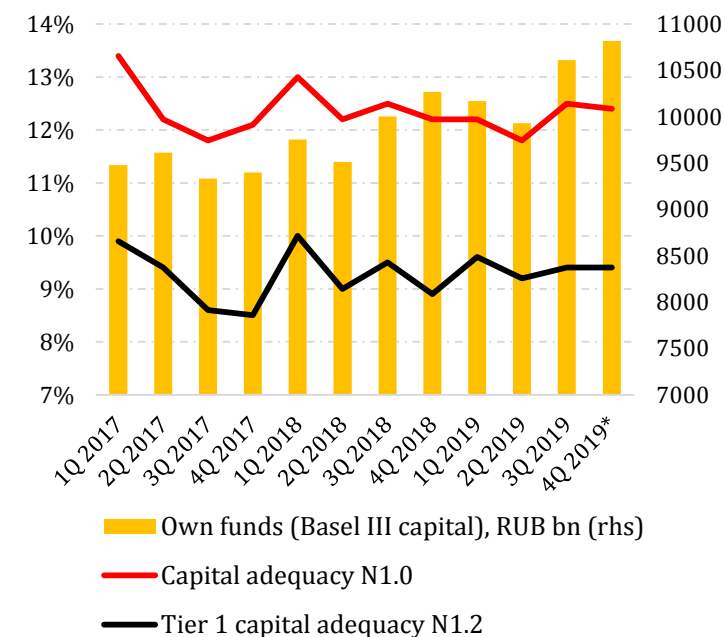
Profitability metrics



Structure of financial result, RUB



Capital adequacy metrics, %

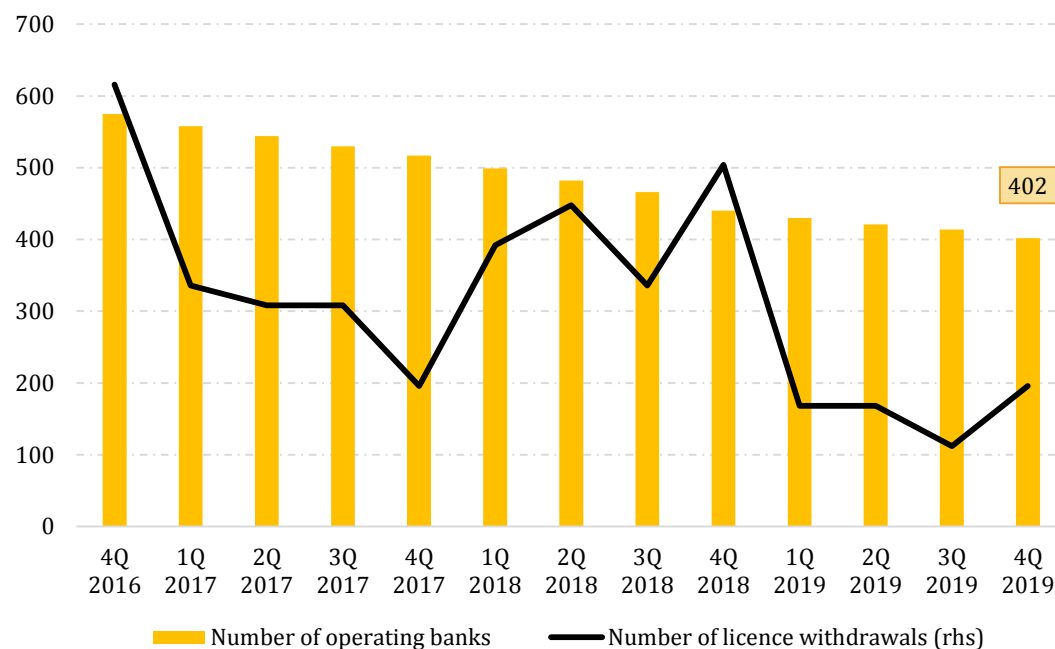


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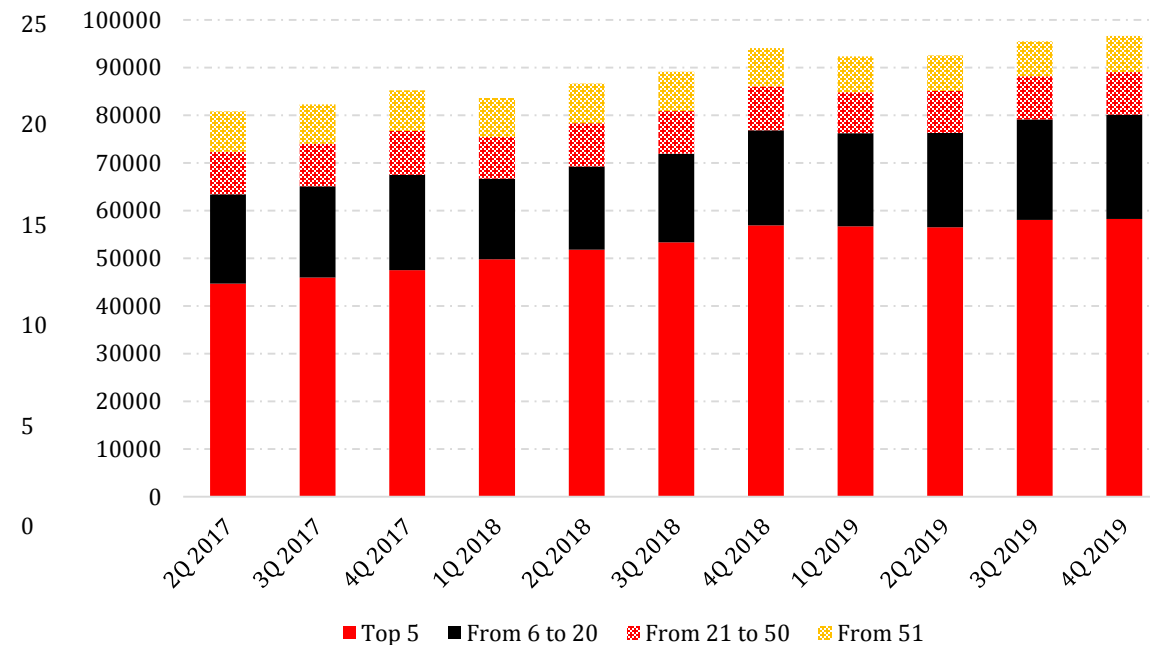
Market structure

- 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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