

Housing Finance in Emerging Markets – Experiences and Challenges
Joint Congress of UN-Habitat and the European Federation of Building
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Banking Sector Reforms in Transition Economies – The Russian Case

University of Potsdam

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Chair of Banking and Finance

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Banking Operations before and after the 1998 Crisis

In the pre-crisis financial boom:

- own-account trading
- industrial investments

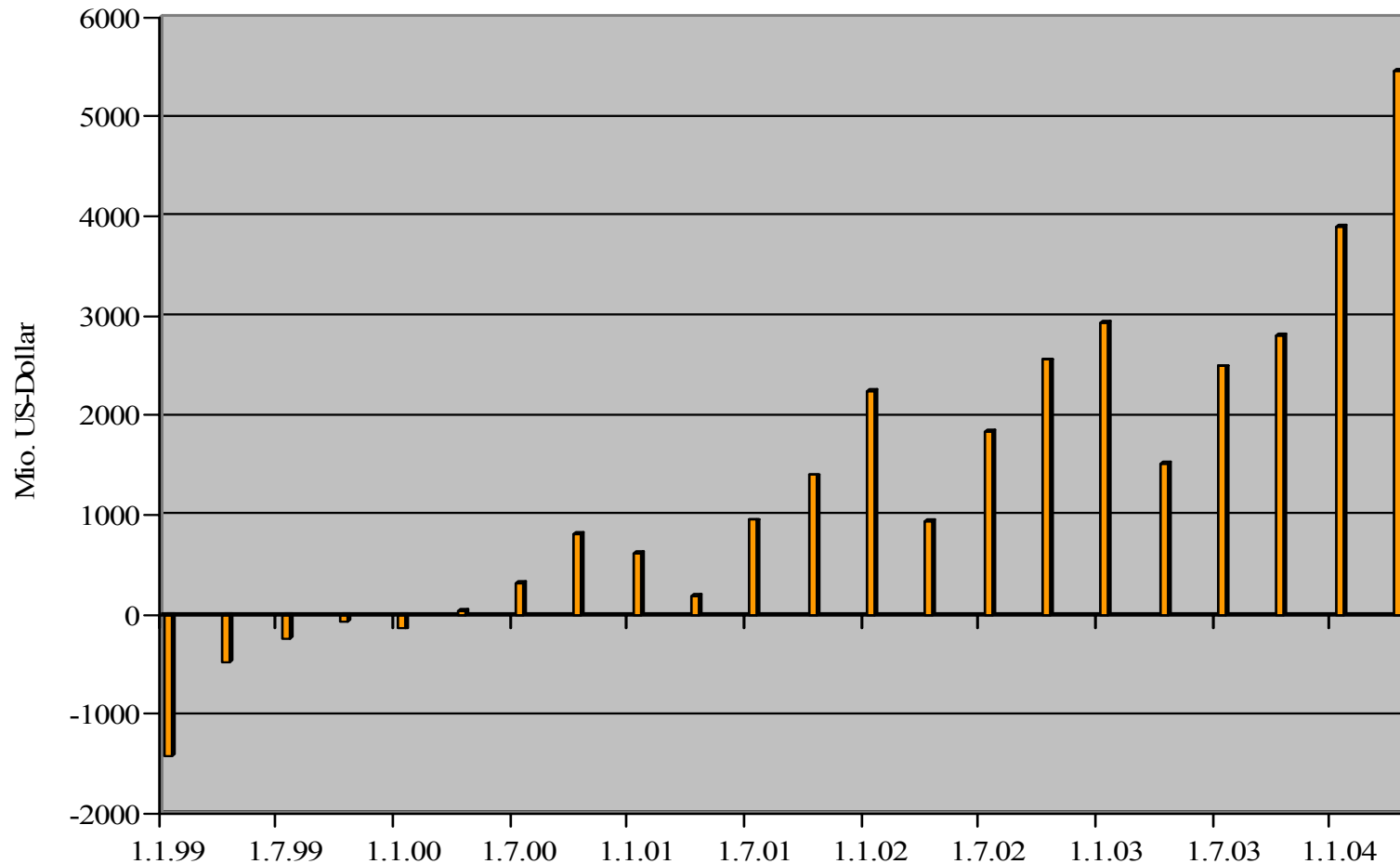
In the post-crisis stabilizing stage:

- treasury services
- classic spread business
- retail banking

Positive Changes after the 1998 Crisis

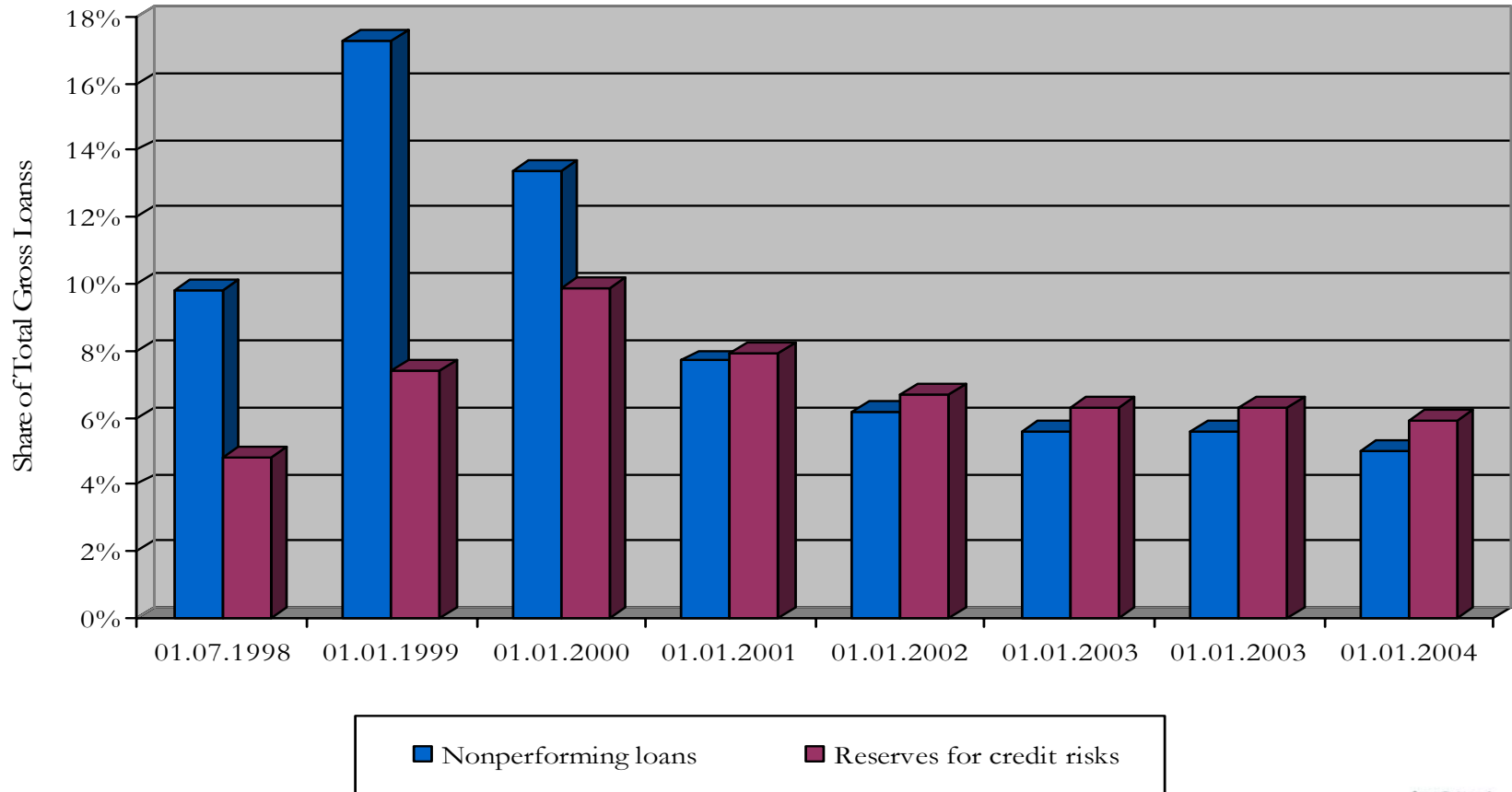
1. Banking system rebound
2. Rebuilding of customer confidence (incl. private investors) in the Russian banks to the pre-crisis level
3. Restructuring of several large banks
4. Maintenance of technological and material base for banking business
5. New shareholders' acquisition
6. Stabilization of banking proceeds

Commercial Banks' Net Income/Losses



Converted to \$ at period end. *Source:* Based on Russian Central Bank Statistics

Write off's of Nonperforming Loans and Formation of Loan Loss Provisions

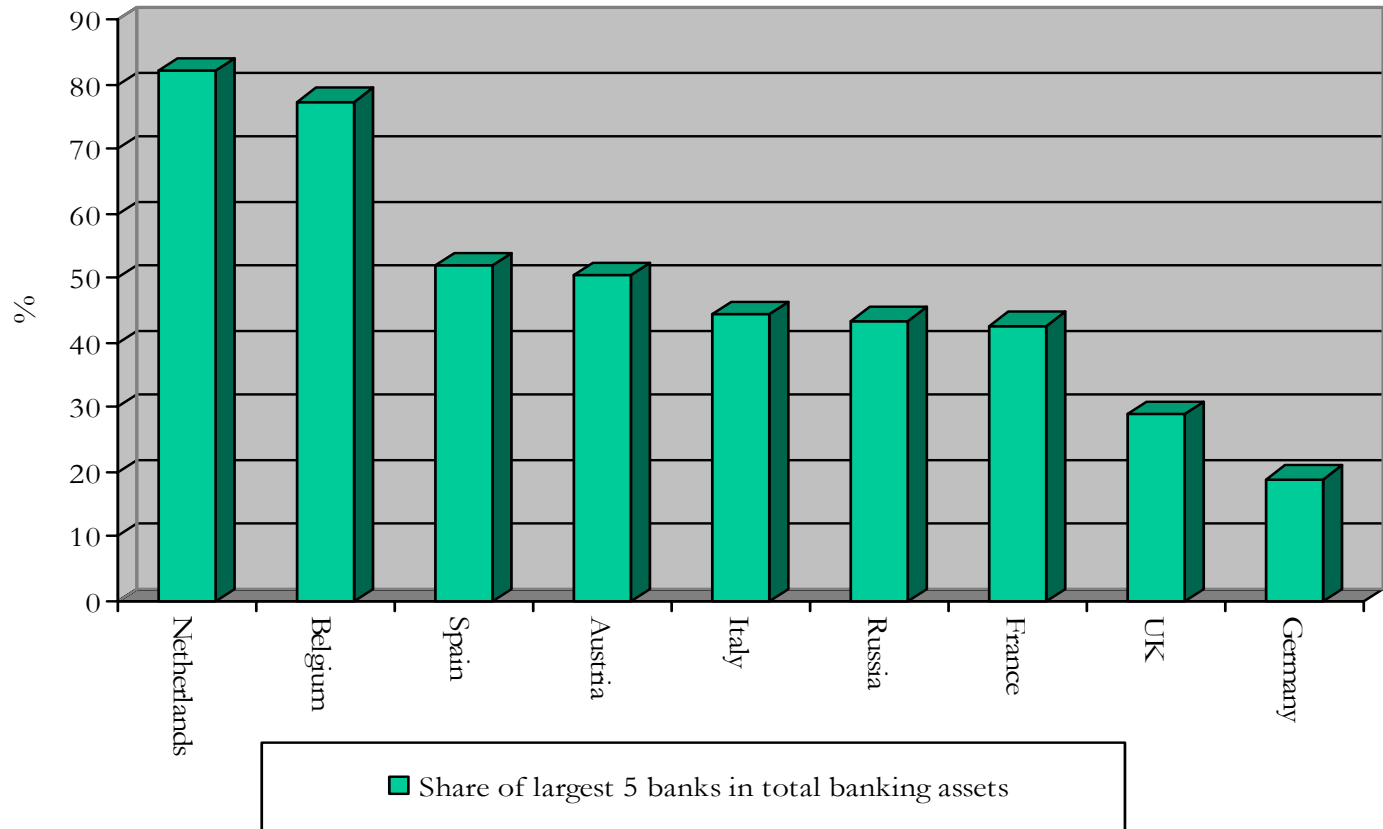


Source: Based on Russian Central Bank Statistics

Structural Changes and Risks in Russian Banking System

1. Concentration of commercial banks in Russia seems to be comparable with Western Europe
2. Formation of five clusters of commercial banks, besides the Sberbank
3. Limitation of the Russian banking system efficiency through seven fundamental problems

Level of Concentration in European and Russian Banking Sectors

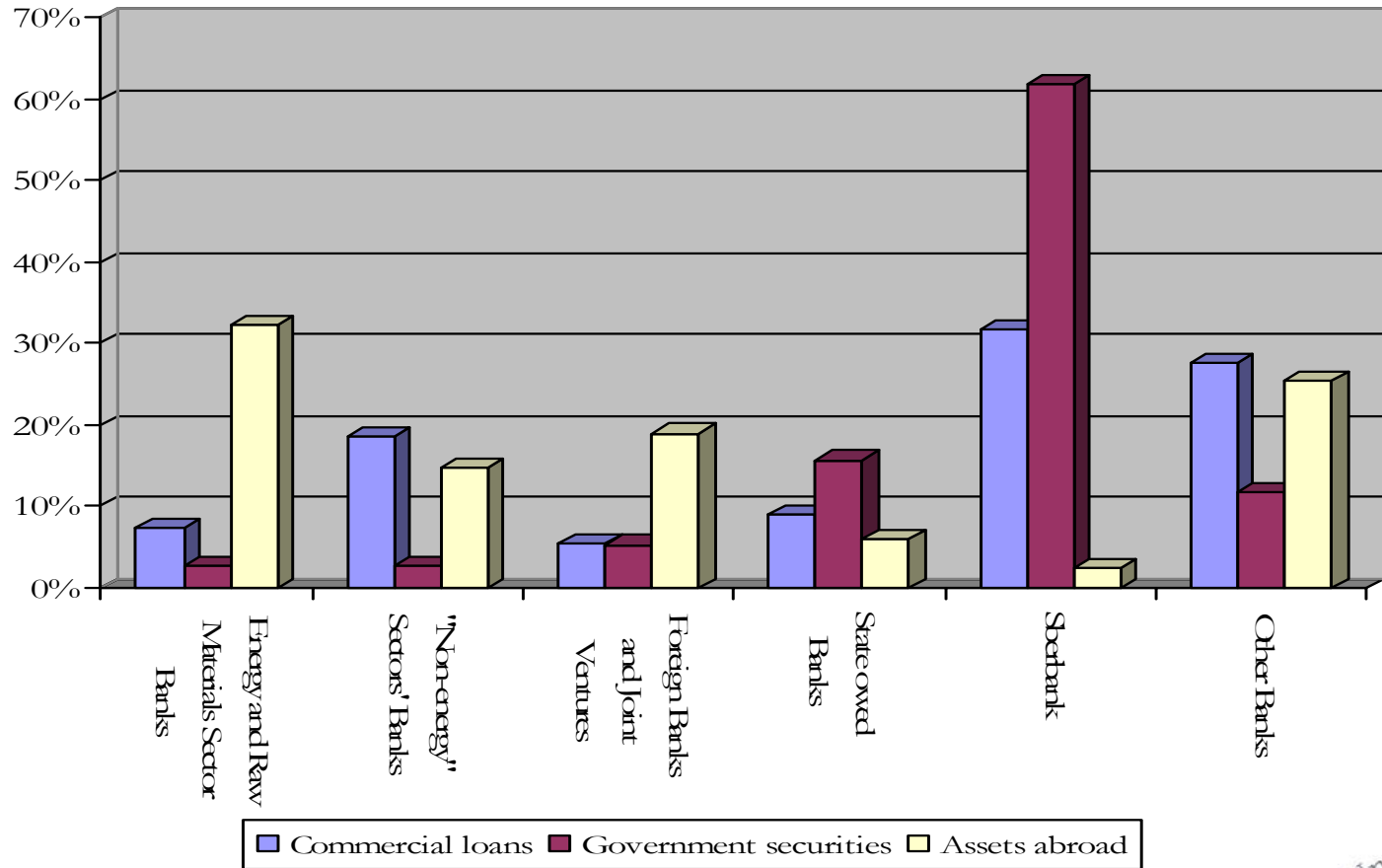


Source: ECB, CBR.

5 Commercial Bank Clusters

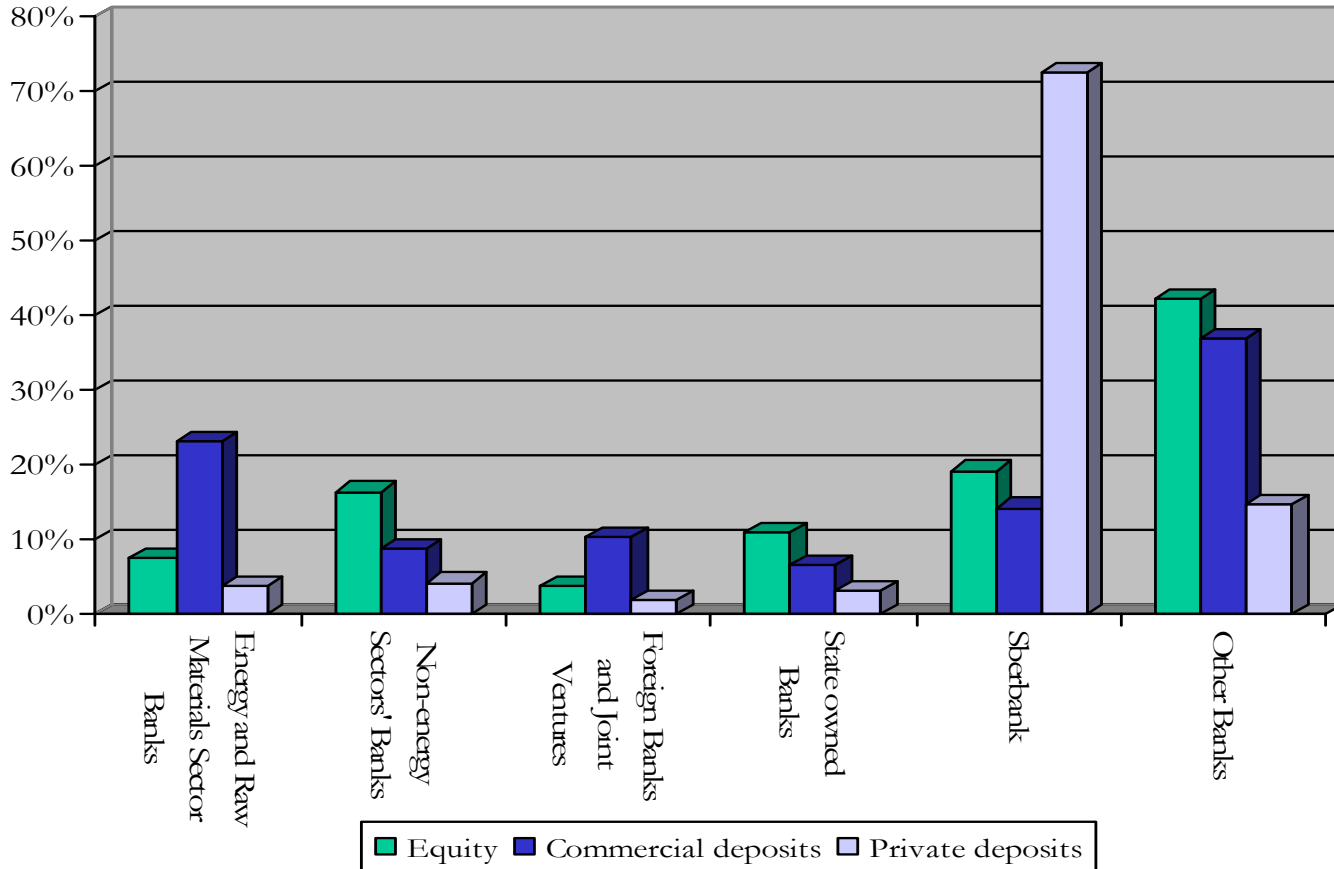
- Sberbank
- Other state owned banks
- Banks of energy and raw materials sectors
- Banks of other (“non-energy”) industry sectors
- Foreign banks and joint ventures
- Other (small and middle-sized) banks

Balance Sheet Indicators for Financial Efficiency of Commercial Bank Clusters



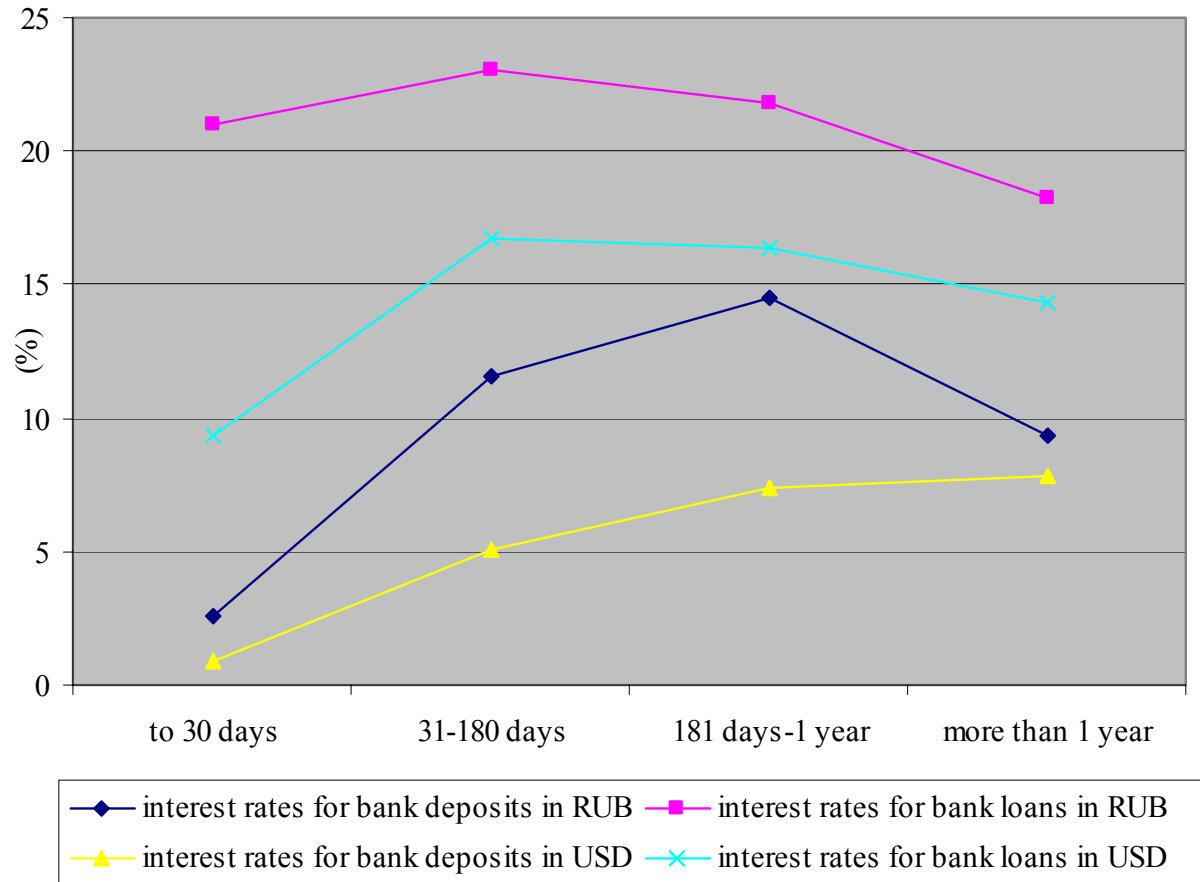
Source: Based on Russian Central Bank Statistics, 2003

Financial Sources of Commercial Bank Clusters

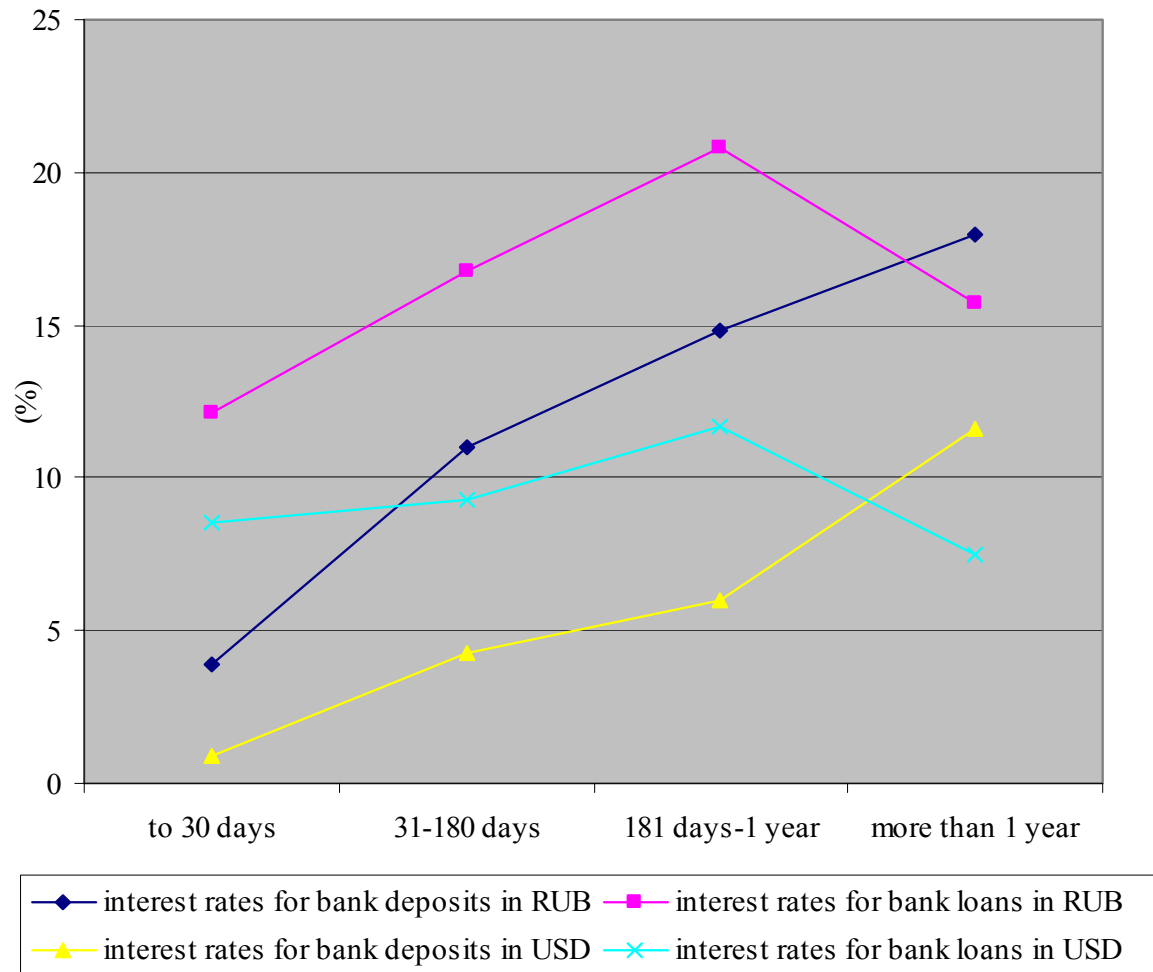


Source: Based on Russian Central Bank Statistics, 2003

Interest rates for private clients (01.01.2004)



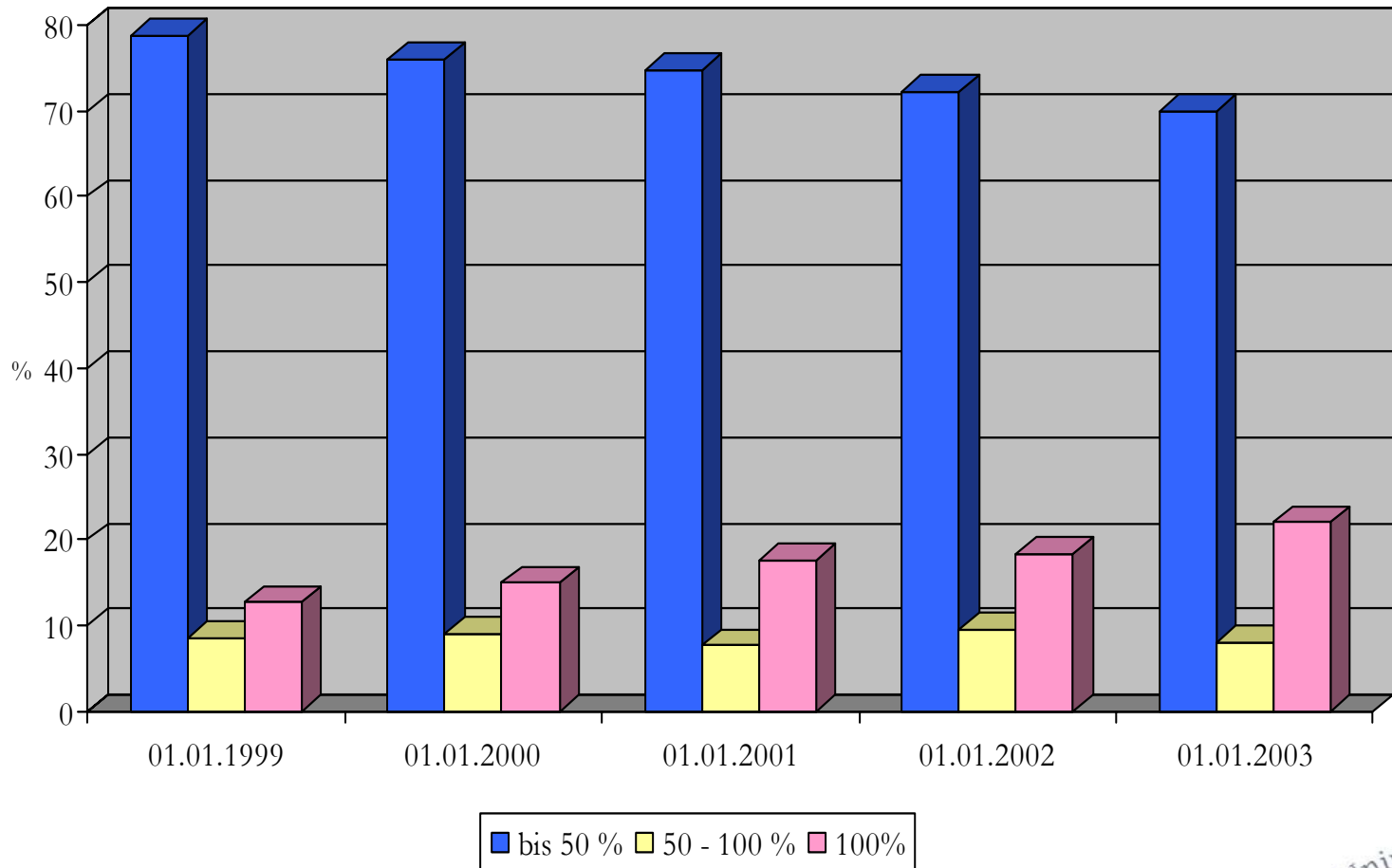
Interest rates of wholesale banking (01.01.2004)



Fundamental Problems / Structural Risks

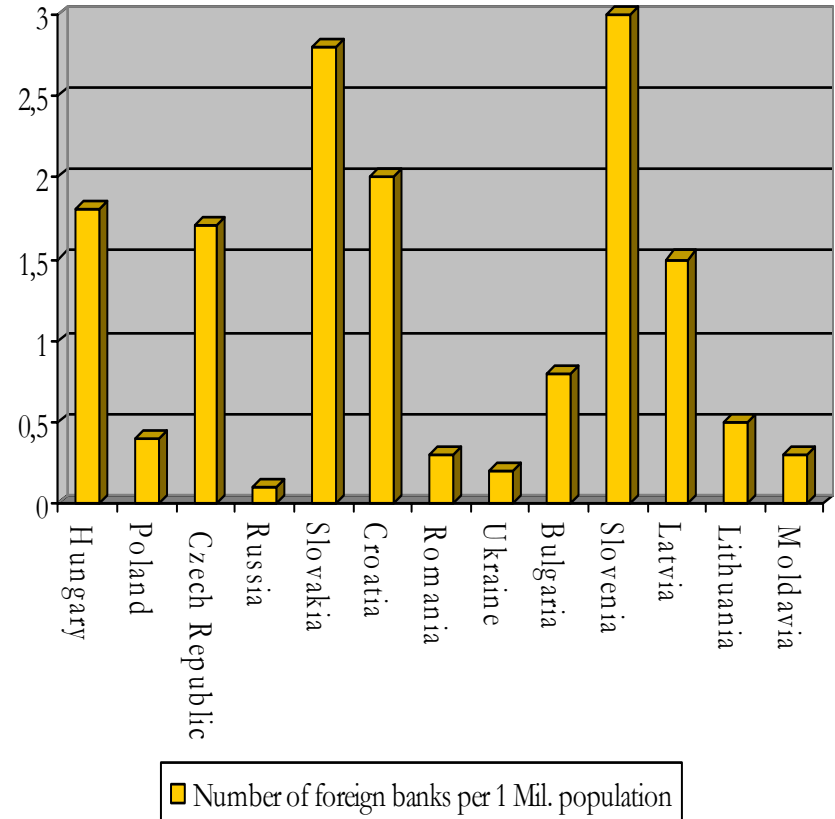
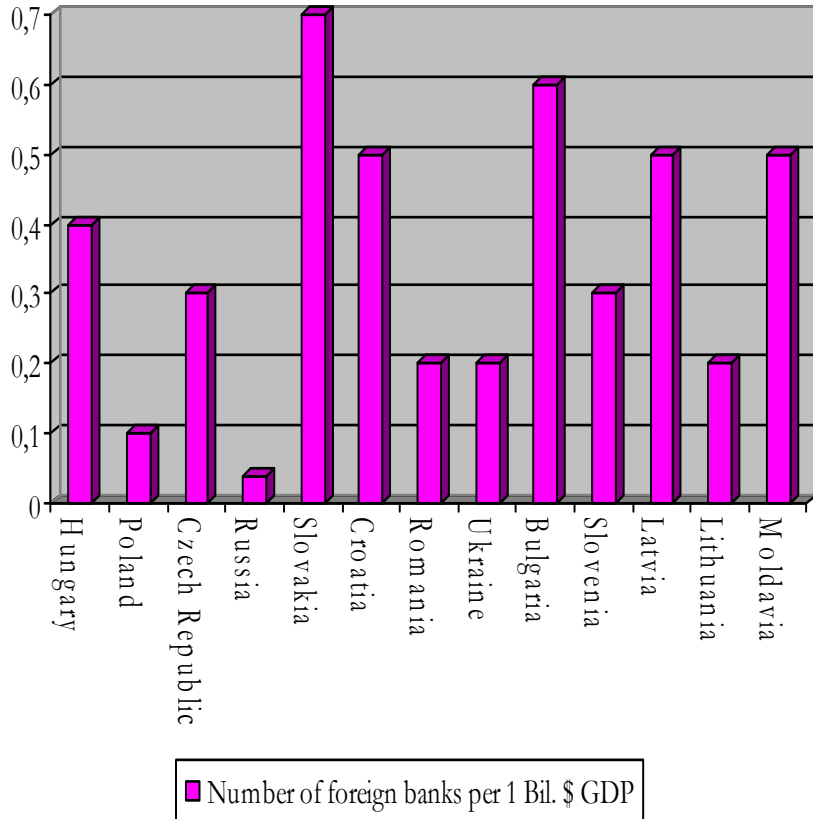
1. Undercapitalization of the majority of commercial banks/
high economic risk
2. Little competition between commercial bank clusters/
intra-group lending practice
3. Monopolization of attractive business serving the main
natural resources exporters by FIG banks/ Concentration
of other banks' activities on domestic business
4. Concentration of bank's investments primary in the
natural resources sector
5. Increased cost of funding
6. Insufficient level of banking presence in the Russian
regions
7. Low level of foreign banks' business activity in Russia

Structure of Foreign Banks and Joint Ventures in Russia



Source: Based on Russian Central Bank Statistics

Number of Foreign Banks in Central and Eastern Europe

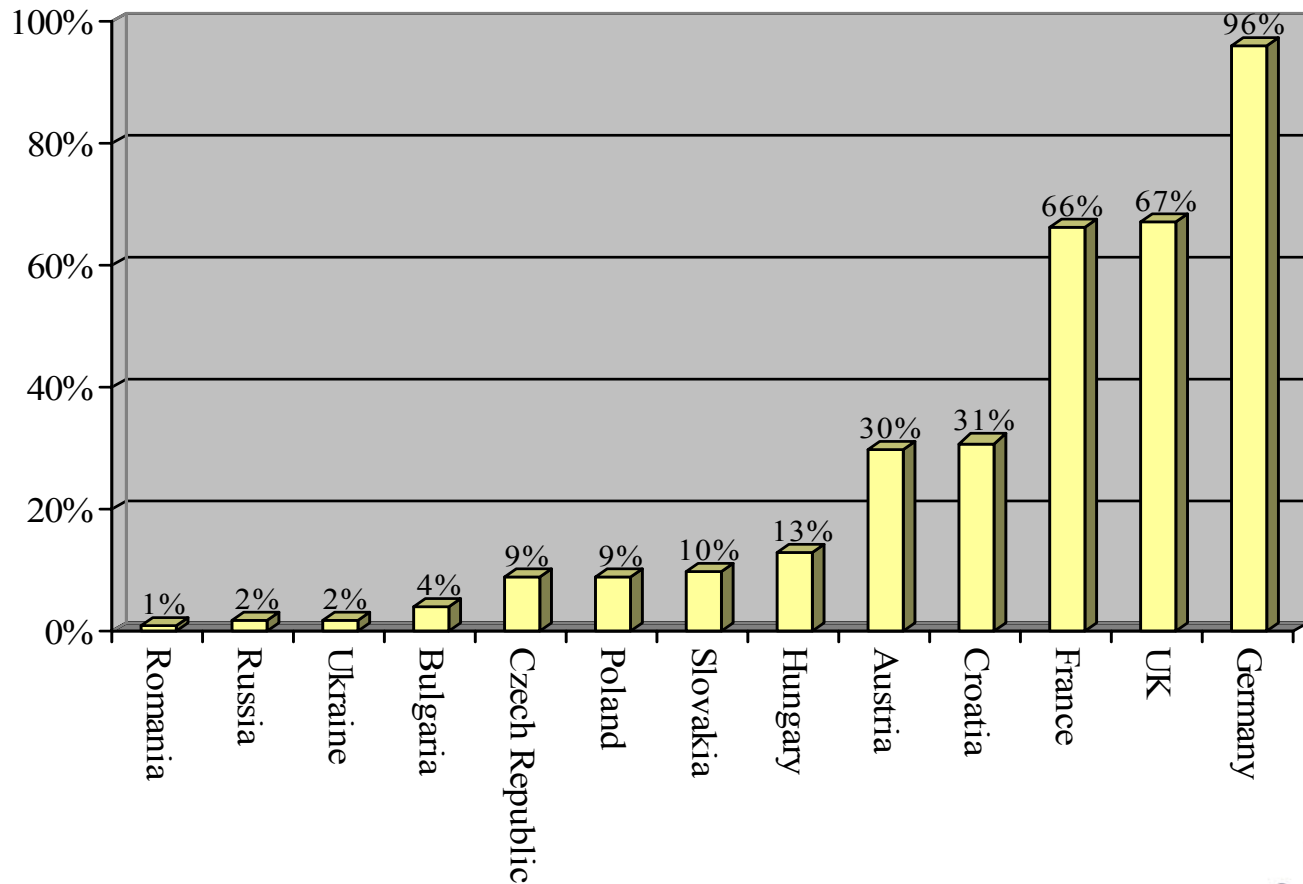


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Major Weaknesses of the Russian Banking System

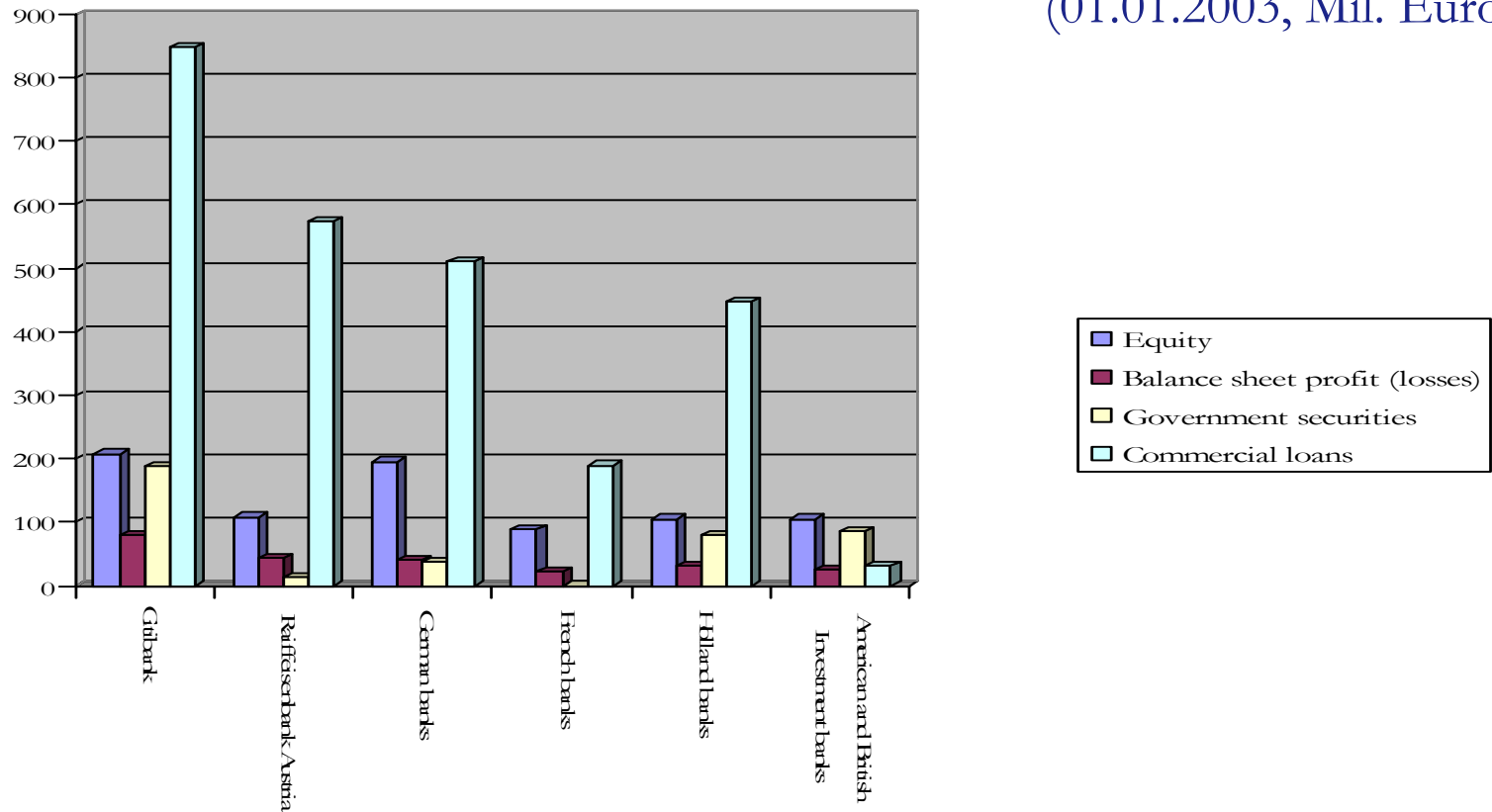
- Banks' contribution to economic growth 1999-2001 was negligible
- Financial intermediation function hardly achieved/ Lack of Russian banks' balance sheet and capital size for lending large industrial companies
- Prevailing of short-term investments
- Relatively high level of foreign investments
- Domination of FIG structure / Practice of intra-group lending
- Slow implementation of regulatory policy
- Low level of protection for foreign investors
- Lack of transparency with respect to bank owners

Credits for private clients in Europe (in % of GDP)



Balance Sheet Indicators for Foreign Banks' Activities

(01.01.2003, Mil. Euro)



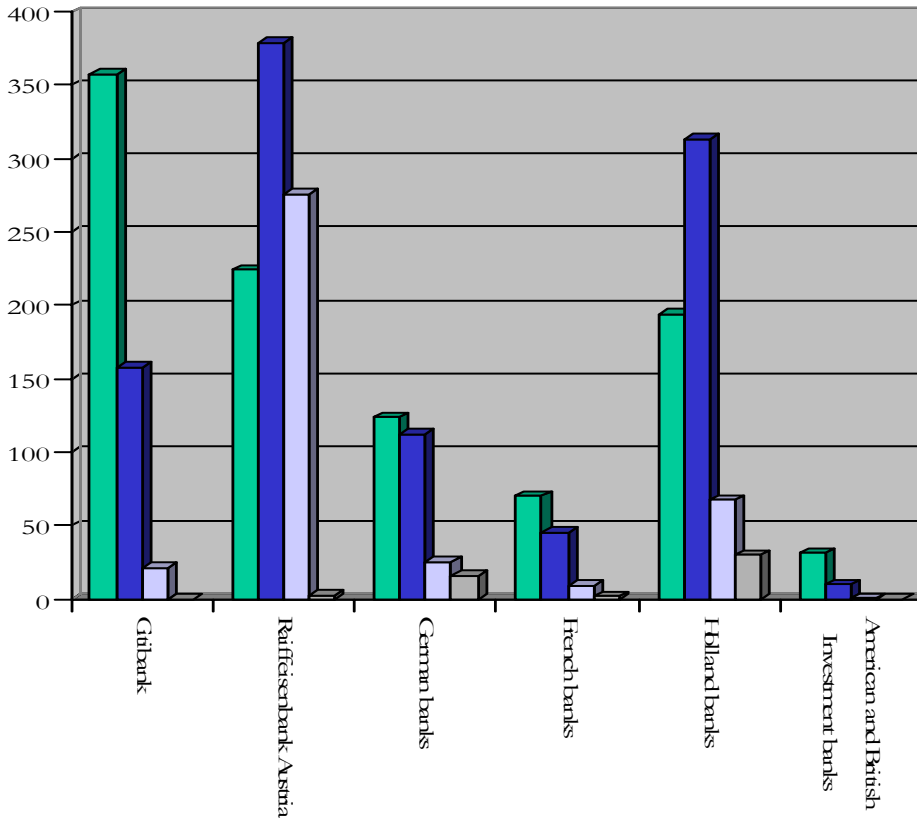
German banks (Deutsche Bank, Dresdner Bank, Commerzbank (Euroasia), Westdeutsche Landesbank Vostok)

French banks (BNP Paribas Bank, Credit Lyonnais Rusbank, Bank Societe General Vostok, Natexis Banques Populaires)

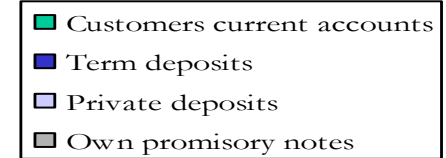
Dutch banks (ABN AMRO Bank, ING Bank (Euroasia))

US- and British Investment banks (Credit Suisse First Boston, J. P. Morgan Bank International, HSBC Bank)

Foreign Banks' Financial Sources



(01.01.2003, Mil. Euro)



German banks (Deutsche Bank, Dresdner Bank, Commerzbank (Euroasia), Westdeutsche Landesbank Vostok)

French banks (BNP Paribas Bank, Credit Lyonnais Rusbank, Bank Societe General Vostok, Natexis Banques Populaires)

Dutch banks (ABN AMRO Bank, ING Bank (Euroasia))

US- and British Investment banks (Credit Suisse First Boston, J. P. Morgan Bank International, HSBC Bank)

What has to be done?

- Continue progress in institutional and structural reform
- Implementation of existing and new regulations for reining risk practices (e.g. intra-group lending)
- Reinforcing customer confidence in Russian banks via establishing a viable deposit insurance system
- Broadening the credit expansion outside of energy sector
- Promotion of diversified and independent banks
- Elimination of legal and cultural barriers for foreign banks
- Implementation of new financial instruments (e.g. securitization, swaps, credit derivatives, etc.)

Thank you for your attention!

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