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**RUSSIAN BANKING SYSTEM IN ECONOMIC AND SOCIAL
DEVELOPMENT OF THE COUNTRY**

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Abstract

Banks in Russia, as in any other state, have an important role in economy development. They provide loans to businesses boosting manufacture, to population increasing consumption; they are considered “fiscal system arteries”. Today Russia has several challenges caused by sanctions on the import of some goods, drop in oil prices, prevailing inflation, dollar rate growth and ruble rate decrease at the international market. All these affected Russian banking system. It is almost cut off the western capital sources and available sources of borrowing are becoming more expensive. Besides, analysis of the global experience with the account of country differences in economies and market system types allows formulating several regularities and reasons of bank crisis. Bank crisis solves disproportions which have accumulated in economy in general and in the bank system in particular. Banking system concentrates main economic risks associated with market mechanism imperfection, weak economy restructuring, and economy cyclicity in countries and irregularities in price changes. The article analyses contemporary state of the banking system caused by sanctions; defines challenges and risks in banking sector development; reviews banking system development in Russia in modern conditions. Formation of the stable banking system in Russia capable of lending funds to the real economy is among the priorities in Russian society nowadays.

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1. Introduction

Banks take an important place in the market infrastructure as they control credit and monetary relations and finance on the whole. Thanks to it they keep activity and stability of economy on the whole.

Banking system is an aggregate of national banks of different types and loan institutions functioning within the whole monetary mechanism. It includes the national bank and profit organizations (Mamonova & Ivanchenko, 2011; Lebedeva & Vagizova, 2013; Cheprasov & Lyevina, 2016).

Due to sanctions almost all parts of the financial system in Russia are in difficulties. Russia banking system having overcome the sanctions adapted to the new conditions. The banking sector, being an important part of the country's economy, reflects main tendencies of its development in modern conditions. 2014-2016 is a period of sectoral sanctions to Russia by the USA, EU and their alliance partners and Russia's response sanctions. These actions are considered as sanction crisis. Tricky situation in the banking market can be characterized as banking crisis. In 2014 such banks as VTB, Rosselkhozbank, VEB, Gazprombank and Sberbank were in the "black list". After these measures Central Bank stated to provide assistance and liquidity to banks affected by sanctions.

In 19 banks external funds increases more than twice per year, but in 33 banks private deposits decreased by 50%. These processes do not allow considering the banking system of the Russian Federation as stable and reliable beyond ten leading lending companies. It includes Sberbank of Russia, VTB Group, "Alpha-Bank", Gazprombank, Rosselkhozbank, "Binbank", FC "Otkritie", Promsvyazbank, "Rieffeizenbank" and Credit Bank of Moscow.

"Yugra" crash, which was among the 30-top banks of Russia, and consequent sanctions to "Otritie" bank, the biggest private bank in the country, and to "Binbank", which is in the 11-12 place by the engaged assets evidence that the banking system crisis achieves a new level and discloses new abysses.

First of all, no matter what mistakes were made by the top managers of these banks, they all were under the control of the Bank of Russia. The fall of the two latter banks is associated with their financial support of troubled financial institutions. They overestimated their possibilities, but they would have never done it without permission of the Bank of Russia.

So, unmanageable and expensive bank control, complicating legal and rational activity of banks does not fulfill its direct functions.

As we can see in 2018-2019 there may be important structural reforms in the banking system which will stabilize Russian banking sector both for lending companies and for the consumers of the financial services.

The Bank of Russia terminates the licenses of regional and federal lending companies. Though, there is a tendency of stabilizing in a banking system there is no increase in deposits.

2. Problem Statement

The main problem for Russian banks is high rivalry of other banks with greater share of foreign capital and with stable position and reputation in the global market of banking services. This allows them laying the rules and terms which change the banking activity for their benefits.

To solve this problem it is necessary for our state to influence setting up new banks or modernizing the existing ones for the benefit of our country, and restrict the activity of the foreign competitors, which

constrain the development of the Russian banking system, laying the rules not for our banking system benefit.

The other problem of Russian banks is related to diverse banking risks. Here are credit risks, when paying capacity decreases, as borrowers do not cope with high credit rates and the funds return in the form of property, whose collecting is also problematic. It takes a lot of time as for property seizure a court decision is necessary, and time is needed to fulfill it. Also, legal and collector companies' services expenses take time.

In Russia there are challenges caused by paying capacity decrease both of population and companies as inflation rate is higher than actual value profit. Economy dollarization prevails caused by decrease of credibility to the national financial sector and negative saving. In this case economic agent revenue decreases and results in slowing down entity and person cash inflow to deposits and banking accounts. Country budget shortens and request for appropriated funding in different spheres of economy increases.

The most common problem of Russian banks is banking system low capitalization (Vavilov, 2008). In order to solve this problem it is necessary to reforms banks' administration and modify the existing banks.

The problem of short-term financial resources also remains. To solve this problem it is necessary to decrease loan interests which commercial banks pay to the Central Bank for provided loans. Today the loan rate in Russia is 11% and interest rate fluctuations were insignificant.

3. Research Questions

Studying the role of the banking system in socio-economical development of the country it is necessary to denote risks which the banking system may encounter. They involve structural sector problems, which have been formed during long time, for example sustainable volume of impaired loans on banks' balance, state banks predominance, as well as external problems, for example sanctions. Besides, important risks for banks are consumer credit market and sharp decrease of oil prices – lower than \$40 per barrel from \$82.

Special attention should be paid to sanctions to Russian financial sector (sanction bills) (issued in January 2018 DETER Act and August senate bill from hell). They suggest limiting dollar operations of Russian state banks and acquiring new issues of Russian state debt).

Sanction risks implementation may lead to banks' disability to serve exchange commitments, including population deposits. Besides, they may have problems with paying back external debts which is \$60 billion now, which presents risks for foreign contracting parties and investors. "It should not be compared to "Rusal" (was influenced by sanctions in April. — RBC), which had \$1.6 billion Eurobonds. That was a sensation. Here are \$60 billions". Finally, foreigners will have to negatively re-estimate equity and obligation investments of Russian emitters, as sanctions will lead to the quotations fall.

Crediting in Russia exceeds population income increase. According to the Central Bank data population's loans increased during last eight months of 2018 by 14.3% up to 13.89 billion rubles (the increase during the same period a year earlier was 7%). At the same time the income at this period only increased by 1.4%. Retail landing risks consist of two factors. The first is weakening of mortgage loan standards; more than 40% of mortgage loans in the first half of 2018 were credited with the initial payment

less than 20%. The second is lowering the standards of giving out insecure consumer credits: extension of credit terms, credit volume and credit rates decrease.

4. Purpose of the Study

The purpose of the study is to estimate bank system development during crisis. What is important the most acute period of the crisis has been overcome, banks are stabilized. Even at the beginning of 2015 there was a loss ratio in this sector. And if in 2015 the banks had total profit only 192 billion rubles, in 2016 it grew constantly and was 930 billion rubles that is five times greater. If the banks are not just profitable, but have a steady increase in profit this evidences about fulfillment of obligations, payment security in the future economy.

We think that the banking system was neglected, bank actions were ignored, but when the crisis happened, banks were a weak point, were not ready to stress-tests and stricter requirements. Besides, many banks worked carelessly, risk a lot and help money laundering.

There are 300-400 banks dealing with real banking operations in Russia. The others are just cash processing centers for certain companies. For more detailed estimation of Russia's banking system let's deal with dynamics of operating banks in Russia, with provided loans dynamics for the last few years.

5. Research Methods

Let's analyze the state of Russia banking system today using synthesis, analysis, generalizing and grouping methods.

The number of banks on 01.01.2018 (table1) was 561, that means in 2017 that 62 banks (623-561) closed down. Starting from 2011 the number of banks reduced by 451 banks (1 -12 -561) which makes 48.6% and what is worse banks close in all Federal districts.

Table 01. The total dynamics of operating banks in Russia

№	Federal districts	on 01.01 2011r.	on 01.01 2012r.	on 01.01 2013r.	on 01.01 2014r.	on 01.01 2015r.	on 01.01 2016r.	on 01.01 2017r.	on 01.01 2018r
1.	Central	585	572	564	547	504	434	358	319
	Moscow	514	502	494	489	450	383	314	277
2.	North-west	71	69	70	70	64	60	49	43
3.	Southern	47	45	46	46	43	37	38	35
4.	North-Caucasian	57	56	50	43	28	22	17	17
5.	Privolzhskiy district	118	111	106	102	92	85	77	71
6.	Ural	51	45	44	42	35	32	29	26
7.	Siberian	56	54	53	51	44	41	37	32
8.	Far-Eastern	27	26	23	22	22	17	18	18
9.	Crimean	-	-	-	-	2	5	-	-
total	In Russian Federation	1 012	978	956	923	834	733	623	561

According to the table we can see that most banks are in the European part of the country. Especially few regional commercial banks there are on the territory of Far Eastern, North, and Ural Federal Districts. This number decreased during the denoted period, but main natural resources are on these areas.

Table 2 shows data about the loans provided by the leading banks.

Table 02. Dynamics of loans provided by leading banks in 2015-2017, billion rubles

Commercial bank	Loans provided, total billion, rubles.		
	2015	2016	2017
Sberbank	14 872 291	15 387 812	15 392 568
VTB	3 141 974	4 350 524	5 266 866
Gazprombank	2 988 810	3 432 584	3 437 742
FC Otkritie	1 149 963	2 199 411	1 859 658
Alpha Bank	1 447 965	1 487 225	1 453 549

More than three hundreds of illegally acting banks were closed by the Central Bank of Russia; tens were saved, including 2 top-banks. But, the banking system is not sound yet. The moderator of financial situations will have to reduce the number of financial organizations two times in the nearest four years.

The number of banks can reduce twice due to the cleaning-ups and rivalry. Herewith, the regulator's attention will be turned to small private banks. But, the Central Bank does not want to close them completely, that is why it introduces the basic license for the banks with the stock less than 1 billion rubles.

It is difficult to imagine but since 2013 year to the 1 September 2017 in Russia 346 bank licenses were terminated. At the beginning of 2008 in Russia there were more than 1100 banks and on the 1st of September 2017 there were only 532 banks.

Russian banking system needs further cleaning and the forecasts about closing 300 banks more seem logical.

6. Findings

The undertaking study allows determining and systematizing factors influencing banking system development and its role in social-economical development of the country. We think it is important to determine combination of internal and external factors in relation to the banking system.

The external factors are macro factors or environmental factors. It is a group of interrelated or interconnected factors which can be divided into five groups: economical, political, legal, social and force-major.

Total of economic factors reflects the state of economy in intensity and ways of establishing economic relations with banks participation.

The economic factors are (Nikolaeva, 2017; Saibel & Danilova, 2017) are principles of the federal budget performance, principles of monetary management, taxation system, results of economic reforms, forming the conditions of the bank system functioning. So, during the economical growth the number of economic agents increases, economic tides grow that result in the demand growth for banks services both from enterprises and population.

In crisis there are opposite processes depressing the banking system in general, complicating bank activity, decreasing their reliability and liquidity. Bank system development may be depressed by excess taxation on the profit, lack of resources for banking operations, unprofitability of most enterprises, and decrease of population income.

Political factors are (Semagin, 2011; Krasnoperova, 2014) decrees of government bodies of federal, regional, and local levels, which influence the decrees of banking system subjects: the Central Bank, banks, loan agencies, bank associations.

They are first of all:

- Principles of budget formation and its shares (Aliev & Salmanov, 2015);
- Principles of monetary policy;
- Priorities for improving taxation (Yestefeeva, 2017);
- Implemented principles of national economy development and its branches, attitude to entrepreneurship, to banking activity, to state and business responsibility to the state.

Economical, legal, and political factors determine complex of social–psychological factors. The social – psychological factors are: assurance of popular majority in the correctness of economical transitions, stability of tax, customs, and currency legislation, in good prospects for the economy in general and its branches. All these form credibility level to the banking system, readiness for bank operations and use bank services. In this case bank system credibility determines its effective fulfillment of functions for providing financial requirements of the economic growth by engaging the financial resources of the population and foreign investors.

Force-major circumstances which are resulting from natural disasters and unforeseeable events leading to failures in payment systems can be divided into: (Nikulina & Kvitkina, 2018; Soloviev, 2017)

- natural (floods, earthquakes, hurricanes), which hinder bank system functioning;
- political (boarder restrictions, international sanctions on the economical partnership with other countries, wars), which lead to reconsidering conditions of banks working with clients;
- Economical (state refusal to fulfill its financial obligations, changing the rules of calculation, changes in the taxation system, limitations in export-import activity, crisis in financial markets), which result in difficulties for banks and clients caused by overall uncertainty of the economic activity. Herewith, no matter how long have the reforms been prepared: taxation, budgetary, calculation and so on, their force-major influence does not change. As it is not possible to predict or regulate all issues of economic relations, banks transition to new calculation scheme, introduction of a New Internal Revenue Code (part 1) caused many difficulties in specialists' work, in banks and banks system operating.

As internal facts (Bolonin, Fedorova, 2017; Obukhova, 2018; Sherbakova & Safarov, 2016), influencing the results of bank system functioning as a whole unit, we should understand factors combination which is formed by the subjects of the banking system: Central Bank, commercial banks and banks associations.

Internal factors are influenced by the banking system subjects and are determined by the following basic components:

- Role and authority of Central Bank in bank system;
- Competences of bank leaders and bank workers' qualifications;
- Level of inter-bank competitiveness and its character;
- Degree of understanding by banking community its role in economy and purposes of banking system development;
- Bank rules and traditions.

7. Conclusion

To solve different problems in the banking system it is necessary to rely on state support and on internal resources of the banks themselves. It is necessary to estimate situations in Russia and pressure from foreign countries in order to avoid disagreement in different spheres of social life by reforming, and changing regulating documentation. In order to keep our economy up to the level it is necessary to increase the significance of national crediting establishments on the on the global market of the banking services and do not fall under the external influence.

Legislative regulation should be aimed at bank capital issue simplification, franchising in a taxable sphere, releasing some profit for the growth of the own capital. Private deposits and deposits of institutions are a main source of bank cash, it is important to reform the conditions for this situation, making them more attractive in order to make deposits more affordable and profitable for both parties.

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