

Russian economy

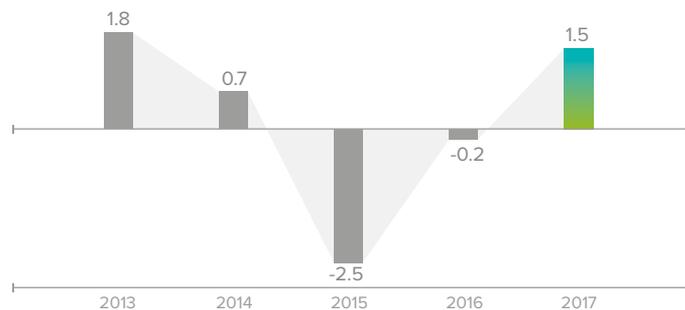
The Russian economy has emerged from a recession, but growth remains modest. Inflation has decelerated rapidly, the ruble has strengthened, and the Bank of Russia is easing its monetary policy.

For 2017 GDP grew by 1.5%, compared to a 0.2% drop in the previous year. Gross domestic product grew mainly due to services, trade, mining, and agriculture. The driver of growth was domestic private demand, while investments and consumption grew at the same rate. Net exports made a negative contribution due to the faster growth of imports.

Inflation slowed rapidly. The annual rate of growth in prices fell from 5.4% to 2.5% year on year. This was made possible by a stronger ruble exchange rate, a good harvest, and tight monetary policy. Low inflation and moderate inflationary expectations allowed the Bank of Russia to reduce its key interest rate from 10% to 7.75% by the end of the year.

The ruble exchange rate decreased to RUB 58 per USD on average for 2017, compared to RUB 67 in the previous year. The stronger exchange rate was supported mainly by high interest rates and a rise in the Brent oil price from USD 44 to USD 54 per barrel. The price rise was especially noticeable in the second half of the year, but no sharp strengthening of the ruble was seen, due to the effect of the budget rule and decreasing investor interest in developing markets.

GDP growth rate in Russia (according to Rosstat), % against the previous year



Russia's banking sector

In 2017, the Bank of Russia continued to pursue a policy of restoring the health of the banking sector and liquidating banks that conducted a risky lending policy and violated laws and requirements in risk management. During 2017 the number of active credit institutions holding a license for banking operations contracted from 623 to 561.

During 2017 the ruble exchange rate became less volatile and ceased to have a substantial effect on the trend in banks' assets. Bank assets rose by 6.4% over the year, with the rise in the fourth quarter being 3.6% (in 2016 bank assets shrank by 3.5%).

Over 2017 the loan portfolio of the banking system rose by 5.2%, demonstrating a positive trend compared to 2016 when there was a drop of 4.2%. There was also a positive trend in corporate lending, where growth was 2.8% (compared to a reduction of 5.9% in the previous year), and in lending to individuals, where growth was 12.7% (growth the previous year had been 1.1%).

The situation with credit risks in the banking system stabilized. The level of overdue loan debt fell from 6.4% to 6.2% thanks to the retail loan portfolio, where the figure fell from 7.9% to 7.0%. For corporate loans the figure remained unchanged at 5.9%. At the same time, the volume of overdue retail and corporate loans grew by 1.8% over the year.

The growth in loan provisions over 2017 was equal to 8.7%, whereas provisions a year earlier fell by 2.3%. Over the year, the ratio of loan provisions to the loan portfolio rose from 9.5% to 9.8%.

Bank investments in securities increased by 7.5% (versus a fall of 2.8% a year earlier).

The funds of legal entities, including budget funds, held in banks rose in 2017 by 12.1% (the previous year these resources had contracted by 8.9%). At the same time, budget funds rose by 160%, compared to a drop of 9.8% in 2016. Banks continued to repay their debts to the Bank of Russia: funds accepted from the Bank of Russia contracted by 26.0% (49.2% a year earlier).

Retail deposits rose by 7.4% (compared to growth of 4.2% the previous year). However, the contribution of the fourth quarter in the annual trend was less than usual: the increase was 4.9%.

For the year, the book profit of the banking system was RUB 790 billion, which is 15.1% less than the RUB 930 billion figure for previous year. Of the 561 operating credit institutions, 140 banks ended the year with a loss; in other words 25% were loss-making (compared to 29% in 2016).