



Deposits of juridical persons are most swiftly gaining weight in the rating of external funds. They got 17 points "heavier" over a year, and the share of banks that rely on them as one of the main external sources doubled in the last five years - rose to 66%.

Other items of liabilities (interbank lending, targeted Central Bank lending etc.) practically lost their importance.

**Table 1**  
**Rating of Sources of External Funds (shares of banks having mentioned each item as one of three major ones, %)**

	1997	1998	1999	2000	2001	2002
Personal deposits	80	76	61	81	75	90
Settlement accounts of juridical persons	82	86	79	94	84	87
Deposits of juridical persons	32	34	36	51	49	66
Interbank lending	28	15	7	12	15	9
Other	7	8	15	17	13	7
Targeted Central Bank lending	2	0	3	0	0	0
The sum of shares	231	219	201	255	236	259

*Respondents were asked to point out no more than three items.*

### **Factors Limiting Inflow of Personal Savings**

Although personal deposits ranked first in the rating of various sources of liabilities, only 24% of all banks believed that they had no limitations in drawing personal savings. However, more than a half - 54% - complained about competition from Sberbank. Meanwhile, the share of the latter has grown by 16 points over a year. 33% of all banks pointed to shortage of supply of personal savings (+10 points over a year) and 30%, to regulations set by the Central Bank (- 14 points) (see Table 2).

**Table 2****Factors Limiting Inflow of Personal Savings****(shares of banks having mentioned each item, %)**

	1997	1998	1999	2000	2001	2002
Lack of adequate conditions for retail banking	8	3	6	4	10	10
High cost of retail banking	4	13	16	30	21	7
Competition from Sberbank	24	23	35	33	38	54
Competition from other banks	12	10	6	12	8	10
Lack of supply of personal savings	28	33	24	20	23	33
Regulations set by the Central Bank	48	35	28	38	44	30
Other	13	10	10	12	4	2
No limitations	25	25	19	11	21	24

**Composition of Assets**

Rating of various items of assets remains relatively stable over recent years, in spite of some fluctuations. Lending to trade intermediaries is the top item for the fifth year in a row. In 2002 about 76% of the surveyed banks named this position as one of their two major asset items. This was five points more than a year ago (see Table 3).

Lending to industrial enterprises was always the second item during these five years. A relative decline in this segment of bank activity in 2001 was compensated for with an increase in 2002: +23 points. As a result, 67% of the banks considered lending to industrial enterprises among their main asset items.

After a substantial increase in the rating of lending to individuals in 2001 (from 12% to 29%), there was a certain stabilization in this segment in 2002. About 27% of the banks considered this type of operations to be one of their main asset items.

Other types of operations were clearly in the secondary position. Interbank lending was considered to be a major asset only by 13% of the banks, and foreign exchange operations, by 9%. The latter were visibly losing their rating since 1999.

**Table 3**

**Rating of Main Asset Items (shares of banks having mentioned each item among the two major ones, %)**

	1997	1998	1999	2000	2001	2002
Lending to trade intermediaries	60	54	56	71	71	76
Lending to industrial enterprises	70	52	56	60	44	67
Lending to individuals	10	5	7	12	29	27
Lending to other banks	10	8	10	9	15	13
Foreign currency assets	7	15	25	17	15	9
Other	18	28	16	19	13	7

*Respondents were asked to point out no more than two items out of nine offered in the questionnaire.*

### **Efficiency of Operations**

In the REB surveys, respondent banks are offered to evaluate efficiency of various operations on a scale of "profitable - neutral - unprofitable".

In this respect, "lending to trade intermediaries" has been the leading item for six last years: in 2002, all respondents have assessed it as profitable for their banks (in 2001, 95%) (see Table 4).

Despite a certain decline in the rating in 2002 (-4 points), lending to industrial enterprises is the second item for the third (!) consequent year: 82% of the banks assessed this operation as profitable.

In 2002, Keeping of settlement accounts and lending to individuals showed the greatest growth: +13 and +12 points, respectively. This enabled them to climb from the 4<sup>th</sup> and 6<sup>th</sup> positions to the 3<sup>rd</sup>, and 4<sup>th</sup>, respectively. As a result, 79% and 72% of the surveyed banks referred to these operations as to profitable ones.

The rating of foreign currency operations and interbank lending kept almost unchanged: 69% and 66% of the bankers assessed these operations as profitable.

On the other hand, placement of securities issued by juridical persons, trading in government bonds and investment in equities were

obvious outsiders in the list, for they were mentioned by no more than 14% of the banks each.

**Table 4**

**Rating of Various Banking Operations (shares of banks considering the relevant operations profitable, %)**

	1997 (1)	1998 (2)	1999 (3)	2000 (4)	2001 (5)	2002 (6)	(7)=(6)-(5)
Lending to trade intermediaries	70	97	92	95	95	100	+5
Lending to industrial enterprises	39	50	64	77	86	82	-4
Keeping of settlement accounts	52	66	78	51	66	79	+13
Lending to individuals	31	49	45	60	60	72	+12
Foreign exchange operations	67	67	91	75	64	69	+5
Lending to other banks	60	67	48	67	71	66	-5
Placement of securities issued by other juridical persons	17	5	3	0	10	14	+4
Trading in government bonds	63	23	12	36	20	7	-13
Equity investment	48	0	3	23	11	6	-5

**Credits**

After brisk development of bank lending activities in 1999-2001, the credit market reached certain stability in 2002 at the level it had achieved earlier in almost all characteristics (see Table 5).

The share of all loans in the assets of the surveyed banks amounted to 49%. This was one percentage point down from 2001, when this indicator had been five years high. Meanwhile, the share of loans to industrial enterprises went up. In 2002, it was 16% of total assets - a record high for the recent four-year period.

The average term of loans extended in 2002 was about 4.8 months. This was 0.6 month shorter than in 2001. The term of lending to industrial enterprises also got shorter, but less than the average in the credit portfolio of the surveyed banks - from 5.4 to 5.1 months.

The share of long-term credits (those that mature in more than one year) is increasing slowly but steadily. They made up about 15% of all

extended loans. The proportion of banks not engaged in long-term crediting was 9% in 2002. This was less than one third (!) of their share in 1997.

The volume of overdue debt is declining for five years. It accounted for 19% of total credit outstanding in 1997, 8-9% in 1998-1999, and only 4% in 2001-2002. To all appearances, the "quality" of overdue loans is also improving. The bankers are more and more optimistic about their recoverability: in 2002, they expected to have as much as 45% of total "bad" debts repaid (within six months). The frequency of cases, which the banks took to courts of arbitrage against their persistent defaulters, in 1999-2002 was roughly stable: one or two applications in a half-year.

**Table 5**  
**Indicators of Lending Activities of Commercial Banks**

	1997	1998	1999	2000	2001	2002
Share of credits in assets of banks, %	38	42	40	43	50	49
Share of credits to industrial enterprises in assets of banks, %	15	17	14	13	15	16
Share of long-term (over 1 year) credits in total credits, %	2	9	13	10	10	15
Share of banks granting no long-term loans, % of all banks	34	31	21	21	16	9
Average term of lending, months	3,1	4,2	4,6	5,0	5,4	4,8
Average term of lending to industrial enterprises, months	3,5	4,9	4,7	5,3	5,4	5,1
Share of overdue debt in total debt, %	19	9	8	5	4	4
Share of overdue debt repayable within a half-year in total overdue debt, %	32	32	38	30	40	45
Number of applications to arbitration in a half-year	3,6	2,3	1,6	1,0	1,5	1,3

The banks assess financial condition of their borrowers rather optimistically. While in 1997-1998, only a half of our respondents told that their corporate borrowers were generally sound, in 1999, the share of such respondents was 70%, and in 2001-2002, it was as high as 97%. These assessments are probably not unfounded because only

about 7% of outstanding loans account for new borrowers, those that the banks had been dealing with for less than a year. And 38% of total loans are taken by enterprises, which have been doing business with relevant banks for more than five years (see Table 6).

**Table 6**  
**Distribution of Outstanding Loans by Term of Dealing with an Enterprise, % of total lending**

Term of dealing with an enterprise	1997	1998	1999	2000	2001	2002
Less than 1 year	8	3	8	9	7	7
1-3 years	4	4	15	19	20	28
3-5 years	13	10	24	20	23	27
More than 5 years	75	83	53	52	50	38
Total	100	100	100	100	100	100

### **Factors to Limit Lending Activities of Banks**

Stabilization of the credit market has also affected the factors that are limiting lending activities of the banks. As seen from Table 7, there were no significant changes in their rating.

Nevertheless, it is interesting to note that by now, one bank out of five sees no factors to constrain its lending activities. In 2001, their share was only 13%.

More than a half of all banks - 51% (roughly as much as in 2001) mentioned shortage of funds available for lending, and 42% (in 2001, 40%), insolvency of the borrowers. Rather significant shifts took place in assessments of toughness of the Central Bank policy and of deficient demand for loans. In 2002, only 29% of all banks believed that the policy conducted by the Central Bank was a factor to limit their lending activities (-10 points from 2001). And 27% of all respondent banks complained about being short of demand (+8 points to the results of 2001).

Taxes imposed practically no restraint upon lending activities of the banks. Only 3% of all bankers mentioned this point, and none shifted from lending to any other activities.

**Table 7****Main Factors to Limit Lending Activities of Banks (shares of banks considering the relevant factors, %)**

	1997	1998	1999	2000	2001	2002
No limiting factors	9	8	10	12	13	20
Lack of credit resources	52	32	25	37	52	51
Insolvency of borrowers	85	73	56	51	40	42
Tough policy of Central Bank	42	42	35	37	39	29
Lack of demand for credit (from and promising borrowers)	25	32	33	32	19	27
Taxes	7	8	7	7	7	3
Shift to other types of operation	10	0	5	7	0	0

**Industry-Wise Priorities of Long-Term Lending**

In recent years, industrial sectors have got a quite clear ranking by credit attractiveness. Food is the undeniable leader in the rating, getting more and more ahead of other sectors. In 2002, 61% of the surveyed banks believed it to be the most preferable object for long-term financing (see Table 8).

The second echelon are the industries, which 1/5 to 1/3 of all banks are ready to lend money to. They are fuel, electric power, chemicals, petrochemicals, and building materials. In 2002, they managed to more or less keep their positions.

The third echelon are the industries, which 1/10 to 1/5 of all banks have reported to be ready to make loans to. They are light industry, machinery, metals and agriculture. Light industry was a novice in this group, having significantly improved its position as compared with 2001 (+10 points) and even having gained leadership in the third echelon.

Finally, about 5% of all banks in 2002 believed that all industries were bad for lending. Notice that it was the lowest number in six years of observation.

**Table 8****Rating of industries (shares of banks considering the relevant industry attractive for long-term lending, %)**

	1997	1998	1999	2000	2001	2002
Food	32	45	50	56	57	61
Fuel	34	25	25	26	25	33
Electric power	33	29	25	22	30	24
Chemicals and petrochemicals	17	11	17	22	29	24
Building materials	12	16	14	21	21	23
Light industry	4	6	5	8	9	19
Machinery and metalworking	13	11	13	8	14	15
Iron and steel and non-ferrous metals	14	8	9	13	19	12
Agriculture	5	2	7	7	13	12
Logging, woodworking, pulp-and-paper	8	6	10	7	9	7
All industries are bad	19	25	16	13	7	5

*Respondents were asked to point out three items*

**Financial Condition of Banks**

Financial condition of banks was getting better over the latest six years. The highest rates of improvement were observed in the post-crisis years (1999 and 2000). By 2001, none of the banks any longer assessed its financial condition as poor. Nevertheless, in 2001-2002 the share of banks in good financial condition has declined a little, and the share of those in normal condition has increased. These changes practically by no means affected the distribution of the banks by performance. Their vast majority - 90% - made profit in 2002, 10% was at a break-even point, and none of them made loss.

**Table 9****Business Results of Banks**

Financial condition of banks							Performance of banks						
(shares of all banks covered with the survey, %)													
	1997	1998	1999	2000	2001	2002		1997	1998	1999	2000	2001	2002
Good	12	17	34	42	32	32	Profits	74	80	83	91	92	90
Normal	72	78	65	57	68	68	Break-even	7	16	12	9	4	10
Poor	16	5	1	1	0	0	Losses	19	4	5	0	4	0

In recent two years, the threat of bankruptcy has declined in the assessments of the bankers: 61% of the banks believed it to be unreal. Meanwhile, the rating of factors to make the danger of bankruptcy closer changed a great deal in recent years. For instance, while before the crisis of 1998, banks saw the major threat to their activities in exogenous factors - in insolvency of their borrowers, in tough policy conducted by the Central Bank, in taxes, - in 2002, the top factor was lack of external funds (almost a quarter of the surveyed banks pointed to this factor), and all other factors went to the background (see Table 10).

**Table 10****Factors of Bankruptcies (share of banks, %)**

	1997	1998	1999	2000	2001	2002
No danger	38	43	43	70	61	61
Lack of external funds	29	13	10	8	15	23
Insolvency of borrowers	57	33	24	17	15	13
Tough policy of the Central Bank	38	40	20	17	21	12
Tax burden	28	18	13	10	14	6
Managerial errors	7	8	2	2	0	2
Other	2	18	9	4	4	5

*Respondents were asked to point out no more than three factors to make the danger of bankruptcy close.*

In spite of their relatively affluent appearance and good financial condition, banks are feeling a tougher pressure of competition. About 38% of all banks believed that the competition was strong. This was 12

points more than in 2001, and the highest assessment in six years of our observation. Only 2% of the banks reported that they did not meet with competition in their markets (see Table 11).

**Table 11**

**Level of Competition (share of banks, %)**

	1997	1998	1999	2000	2001	2002
Strong	24	28	26	36	26	38
Insignificant	61	51	65	62	74	60
Absent	15	21	9	2	0	2

Although the banking sector is beginning to show some signs of stagnation, there are some factors to give hope that it will not last long. In the first place, it is that the pressure of interbank competition is growing, and in the second, that the banking community is giving the more neutral assessment of the activities of the Central Bank as a retarding force in the development of various banking services.

**REB Sample**

Surveys of banks are conducted by REB bimonthly. As a rule, they cover from 20 to 40 banks. The sample is based on medium-scale regional banks. In 2002, average value of their assets was 775 million rubles; average employment was about 170 employees with average salary about 5150 rubles. About 51% of all banks in the sample are former special banks, and about 38% are new commercial banks.