

Macro Notes – Russia: International Financial Linkages

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- Russia's financial system is dominated by state-controlled banks and highly concentrated.
- The five largest of these banks represent almost two-thirds of total banking system assets.
- Foreign institutions only account for 6.3% and have reduced their exposure in recent years.
- Both Russian banks and corporates were forced to deleverage due to sanctions since 2014.
- Their external liabilities have fallen by more than 40% to \$380 bn, with assets at \$530 bn.
- Total Russian FX holdings of \$750 bn can cover external debt, thus reducing vulnerabilities.

In this **Macro Notes**, we focus on Russia's financial system and its exposure to global financial flows. This note follows a series of [publications](#) on Russia's vulnerabilities to Western [sanctions](#). Russia's financial system is dominated by banks, which account for two-thirds of total financial system assets or around 100% of GDP, which places Russia in the mid-range compared to other key emerging markets (Exhibit 1). Non-bank financial institutions' assets reach close to 50% of GDP, a higher number than in most EM but significantly behind South Africa (145% of GDP) or Chile (130% of GDP). Russia's banking system is highly concentrated and dominated by state-controlled institutions, while foreign banks do not possess systemic importance (Exhibit 2).

The corporate sector mainly relies on loans for funding (domestic and external), with corporate bonds accounting for only around 30% of total borrowing. The reliance of Russian banks and corporates on external financing has been significantly curtailed by sanctions imposed in 2014. Many large institutions fall under sectoral sanctions on the financial, energy, and defense sectors and are largely prohibited from borrowing in the U.S. and EU markets. Others suffer from over-compliance by foreign lenders that have been reluctant to reengage with Russian borrowers more broadly since the onset of sanctions. We expect the country's financial system to continue to focus inwards as part of the ["Fortress Russia"](#) strategy and advance [digital and fintech](#) sovereignty.

Exhibit 1. The banking system is of medium depth, ...

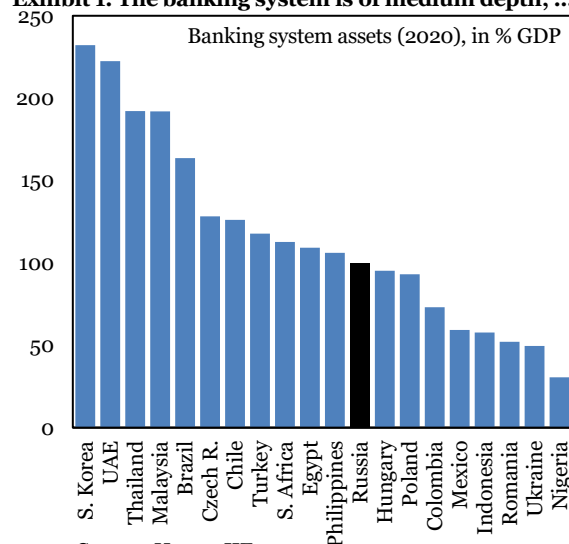
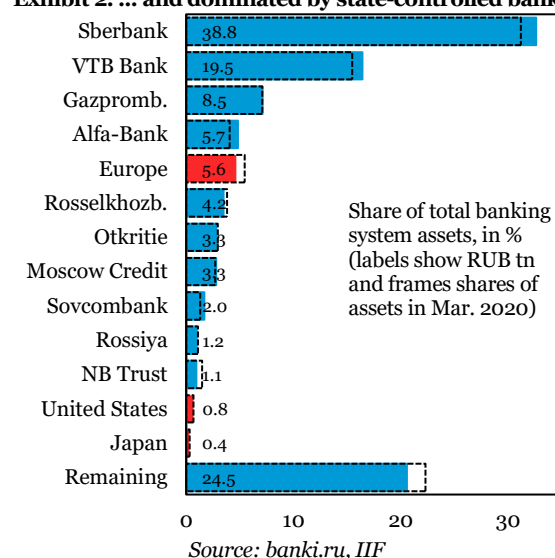
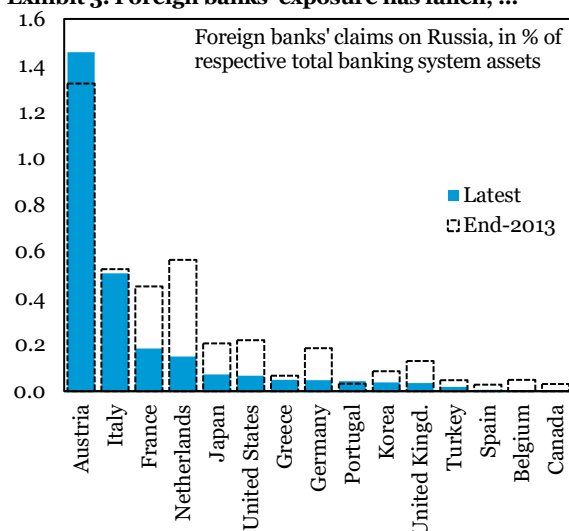


Exhibit 2. ... and dominated by state-controlled banks.



Russia's financial system is highly concentrated and reliant on state-controlled banks; the five largest (Sberbank, VTB Bank, Gazprombank, Rosselkhozbank, and Otkritie) alone account for over 60% of total banking system assets. The entire financial system amounts to roughly 150% of GDP, which places the country significantly behind leaders among emerging markets such as Thailand (280%), South Africa (250%), or Brazil (200%) but ahead of EM with more shallow financial markets, including Mexico (85%) and Indonesia (66%). The introduction of inflation targeting by the Bank of Russia (CBR) in 2014 has markedly improved the depth and liquidity of the Ruble lending market; as a result, the [dollarization](#) of loans and deposits has fallen sharply. The share of deposits in foreign currency currently stands at 21% for households and 26% for non-financial corporates, while the corresponding shares of loans are <1% and 23%. However, the development of the domestic bond market has been hindered by limited domestic sources of long-term funding in Ruble (with mutual funds, pension funds, and insurance companies remaining relatively small) as well as the lack of access to international financial markets due to sanctions.

Exhibit 3. Foreign banks' exposure has fallen, ...

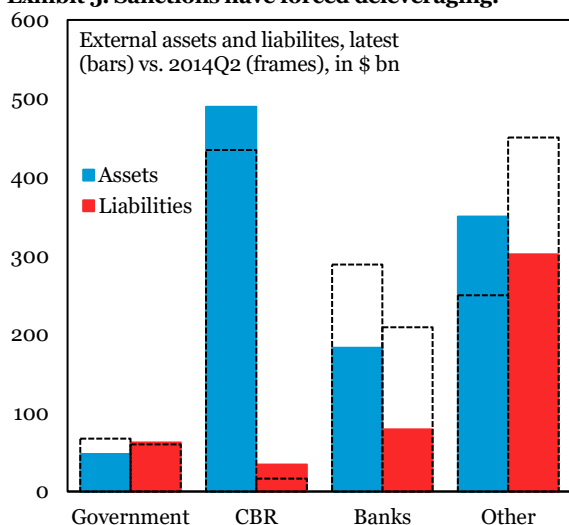
Source: BIS, IIF

Exhibit 4. ... in relative as well as absolute terms.

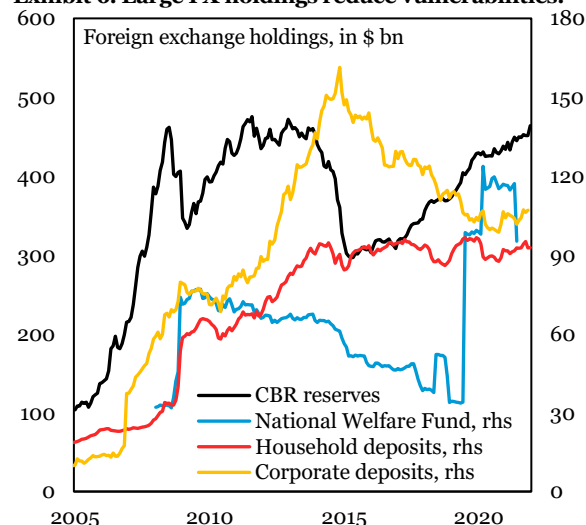
Source: BIS, IIF

Since sanctions were first imposed, Russia's financial system has become even more concentrated. The largest domestic (state-controlled) bank, Sberbank, alone accounts for one-third of total banking system assets, followed by Russia's key investment bank, VTB, with 17%. The two are, thus, twice as large as the following eight domestic banks together. Since 2014, the Bank of Russia has strengthened banking regulations and supervision and facilitated consolidation within the sector. The total [number of institutions](#) has fallen from over 1,000 in the 2000s to around 330. Foreign banks play a minor role, holding only 6.3% of total assets, with European banks accounting for most of it. While Russia remains an essential source of revenue for some international institutions, their exposure to the country does not appear systemic relative to their total assets (Exhibit 3). Existing sanctions, the risk of additional measures, and over-compliance have led many to scale back engagements (Exhibit 4).

With access to external financing significantly curtailed due to sanctions, Russian banks and corporates could not roll over amortizing debt, resulting in capital outflows and meaningful deleveraging. As a result, total external debt has declined from \$733 bn in 2014Q2 to \$478 bn at the end of 2021. Banks and corporates reduced external liabilities by \$129 bn and \$149 bn, respectively, and external assets now surpass liabilities for both sectors (Exhibit 5). Overall, sizeable hard currency holdings insulate the country from possible new sanctions that could further curtail FX access. The Bank of Russia has reserves in convertible currencies of \$464 bn (with total reserve assets at a record-high \$631 bn). In comparison, the National Welfare Fund's foreign exchange holdings amount to \$95 bn and households' and corporates' FX deposits to \$200 bn (Exhibit 6).

Exhibit 5. Sanctions have forced deleveraging.

Source: Bank of Russia, Haver, IIF

Exhibit 6. Large FX holdings reduce vulnerabilities.

Source: Haver, IIF