

Monitoring of the Russian Microfinance Market in 2011

This monitoring has been prepared by the National Partnership of Microfinance Market (NAMMS) together with the Russian Microfinance Center (RMC).

Microfinance institutions (hereinafter – MFI) of various organizational and legal forms participated in this study: credit consumer cooperatives, private microfinance organizations, regional and municipal funds of support of businesses, and other institutions engaged in microfinance activities.

The indicators for the microfinance sector are calculated as the average for all MFIs participating in the monitoring, and for all savings and loan products (micro-loans to small business and consumer micro-loans, not including such category as “Pay Day Loans”).

The rights for the report “Monitoring of the Russian Microfinance Market in 2011” belong to NAMMS and RMC. By copying the report insert the link to the source ©¹

¹ For all questions arising in regard to the Monitoring you can contact Olga Sorokina, an Expert of RMC, by e-mail: osorokina@rmcenter.ru

Microfinance Sector

2011

2011 was marked by positive growth of the microfinance sector in Russia. There has been an increase in the average growth rate of the loan portfolio per one MFI when compared with quarterly performance last year: in 2011 an increase in the second (12.33%), third (7.22%) and fourth (8.31%) quarters exceeded the maximum quarterly growth of the loan portfolio in 2010 (5.92% in the fourth quarter). As a result, the average loan portfolio in 2011 grew by 34.06% (in 2010 – by 15.29%), thus exceeding the level of this indicator at the end of 2008. At the same time, in 2011 the rate of the portfolio at risk over 30 days showed a steady decline (from 7.16% to 5.17%), although the rate which was at the end of 2008 has not yet been reached yet.

The growth of the loan portfolio was due to a steady increase in the savings portfolio (14.05% annual increase) and the rapid growth in the volume of attracted investments, loans / credits (54.25% annual increase for all MFIs).

In 2011, the weighted average annual interest rate on issued loans decreased from 31.4% to 27.0%, as well as the interest rate on borrowed resources: on savings – from 18.0% to 17.2%, and on investments, loans / credits – from 14.5% to 10.1%.

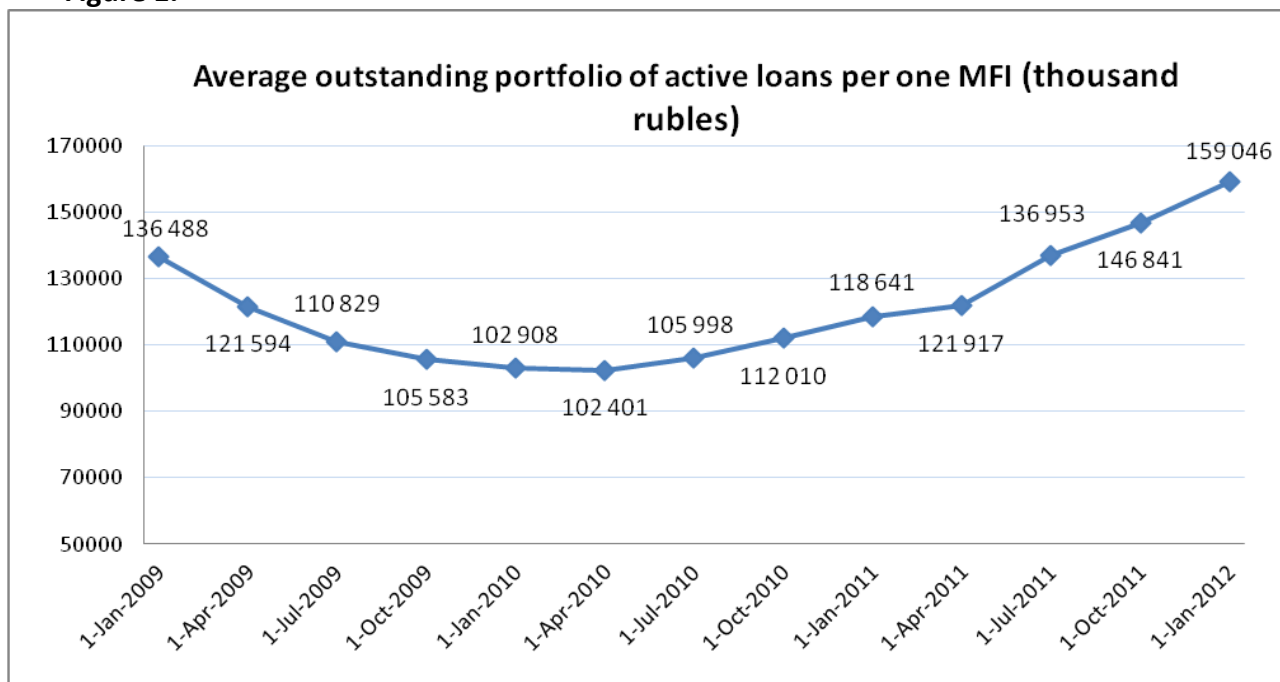
Fourth quarter of 2011

The positive trend of development of non-bank microfinance institutions, which emerged at the beginning of the year, was continued in the fourth quarter of 2011. The dynamics of almost all of key financial indicators shows this.

Increase of the average value of the portfolio of active loans, raised savings and raised investments, loans / credits per one MFI was 8.31%, 0.70% and 22.95% (for all MFIs), respectively, compared with the third quarter of 2011. At the same time, the rate of the portfolio at risk over 30 days decreased to 5.17%, which indicates an acceptable level of risk. Changes in legislation have increased the level of regulation of the microfinance market and as a consequence, not only public confidence in MFIs, but also investor confidence, which manifested itself in accelerating the growth of raised investments, loans / credits at the end of the year.

Due to the seasonal increase in borrowing costs in the fourth quarter of 2011 there was a slight increase in the weighted average annual interest rate on issued loans (from 26.4% to 27.0%), but rates on attracted resources decreased: on savings – from 17.3% to 17.2%, and on investments, loans / credits – from 10.3% to 10.1%.

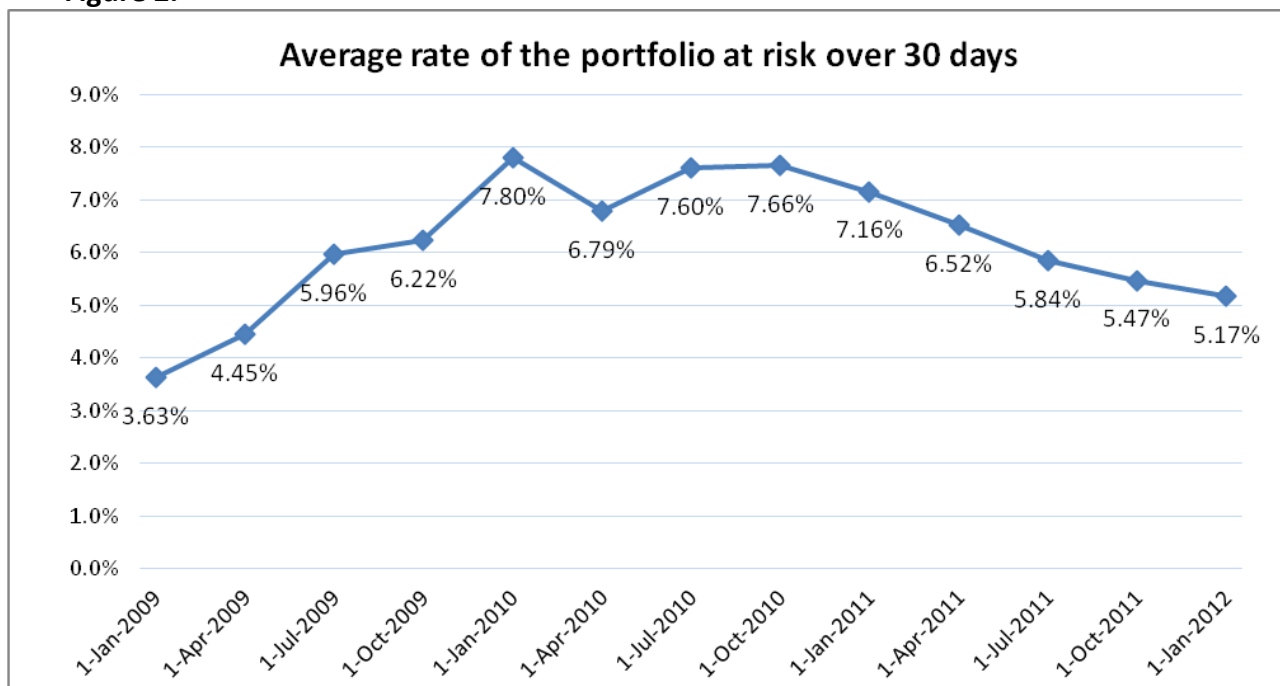
Figure 1.



The growth of the average outstanding portfolio of active loans per one MFI, which was started in 2010, continued in 2011 (Figure 1). In the second quarter, the value of this indicator exceeded the value which had been at the end of 2008. The annual growth of the average loan portfolio per one MFI was 34.06%. Since the beginning of the fourth quarter of 2011, this indicator has risen by 8.31% (in the third quarter of 2011 – by 7.22%).

In the banking sector² the growth of the total outstanding loans to legal entities and individual entrepreneurs in rubles, foreign currency and precious metals in 2011 was 25.48% (in the fourth quarter of 2011 – by 5.96%).

Figure 2.

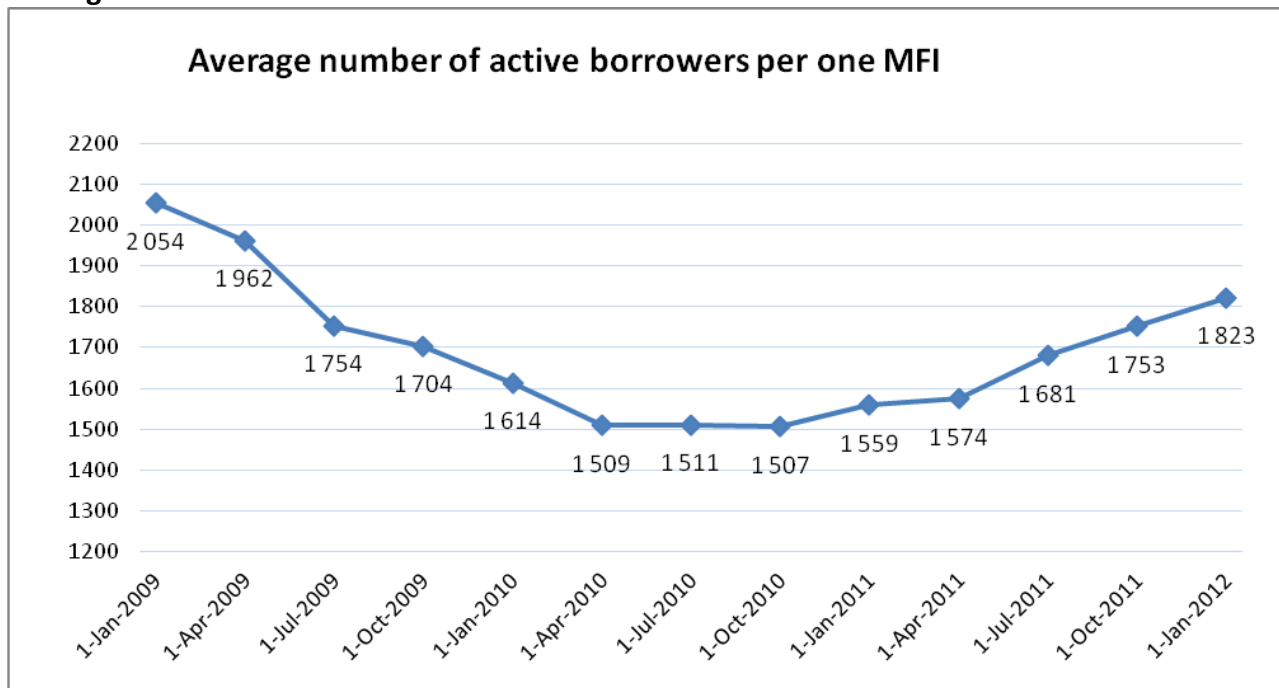


² Statistics of the Central Bank of the Russian Federation is used hereinafter in the “Microfinance sector” section.

In 2011, the rate of the portfolio at risk over 30 days (Figure 2) showed a steady decline (from 7.16% to 5.17%), but it has not reached the value which had been at the end of 2008 yet.

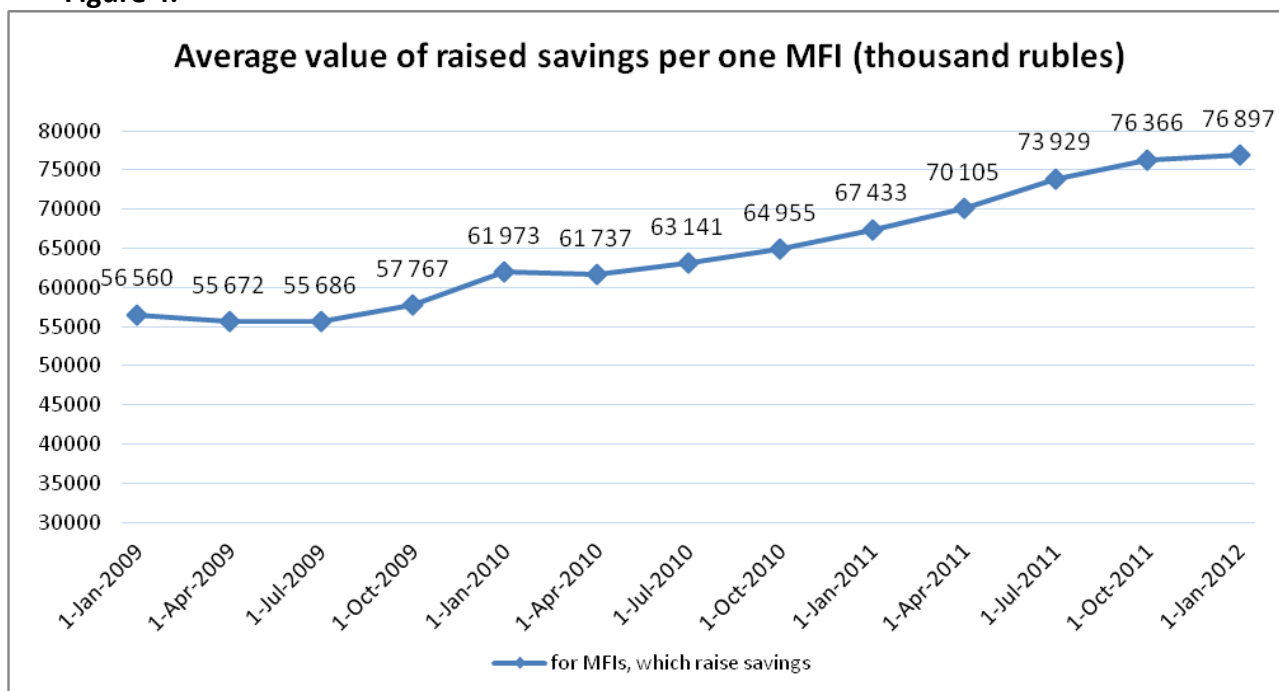
For comparison, the level of overdue loans of legal entities and individual entrepreneurs in the banking sector decreased from 5.43% to 4.74% in 2011 (from 5.19% to 4.74% in the fourth quarter of 2011).

Figure 3.



A stable positive dynamics of the average number of active borrowers per one MFI was successfully established in 2011 (Figure 3). The annual growth of this indicator amounted to 16.92% (in the previous year – 16.29%), and in the fourth quarter of 2011 – 3.97%.

Figure 4.

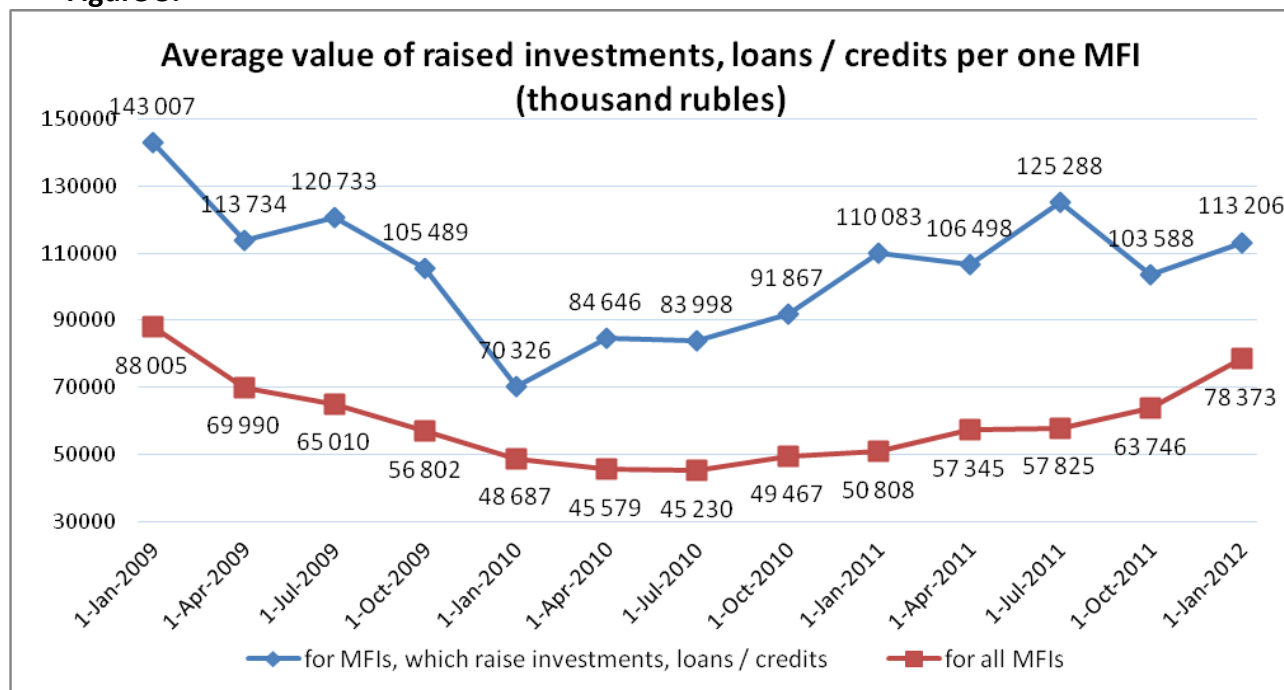


NB.: In accordance with the laws of the Russian Federation, credit consumer cooperatives and agricultural credit consumer cooperatives have the right to mobilize savings (in the form of loan agreements).

In 2011, the portfolio of savings continues to grow (Figure 4). The annual growth in average raised savings per one MFI was 14.3% (in the previous year – 17.57%), in the fourth quarter – 0.70%.

For comparison, an increase in the total amount of deposits of legal entities and individuals in rubles, foreign currency, and precious metals in the banking sector amounted to 21.20% in 2011 (2.07% in the fourth quarter of 2011).

Figure 5.

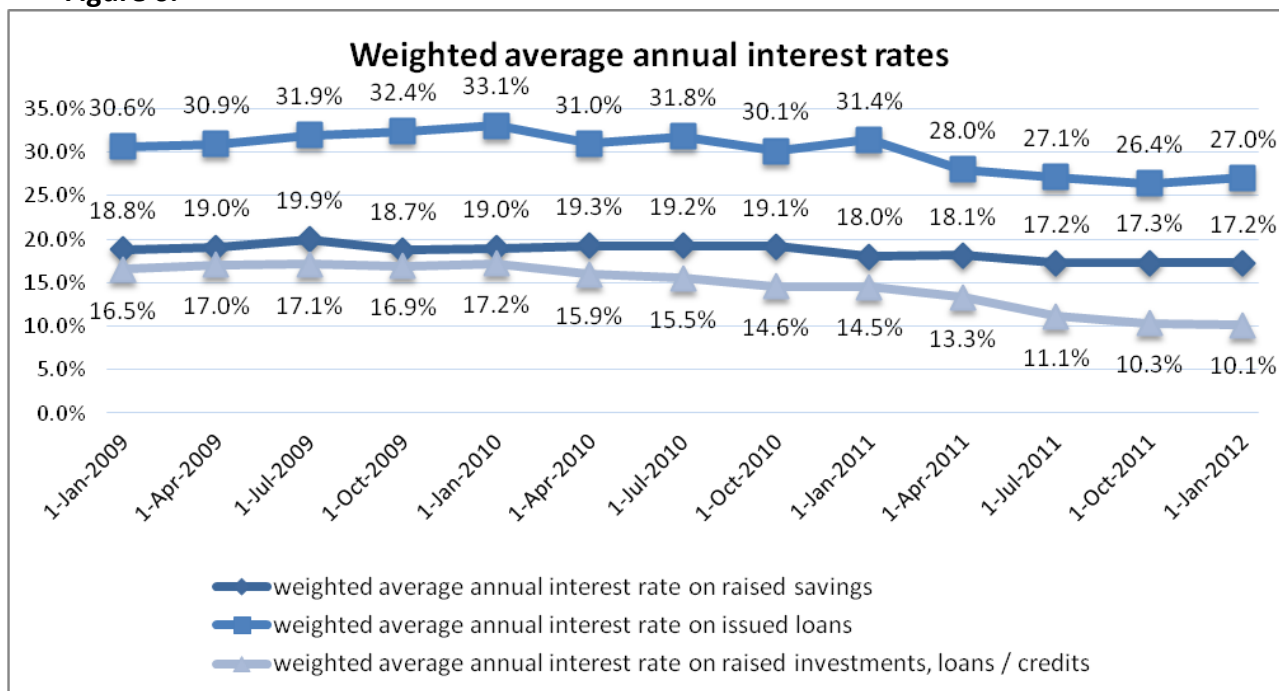


NB.: The number of MFIs, which raise investments, loans / credits, varies in the sample from quarter to quarter. This explains the fluctuations in the average value of attracted resources for these MFIs.

In 2011, the number of MFIs, which raise investments, loans / credits, changed, which explains the mixed trends (Figure 5) in the average value of resources of MFIs that attract these resources. But for all MFI the annual growth rate of this indicator was 54.25% (in the previous year – 28.87%), mainly due to the strong growth in the fourth quarter of 2011.

In the fourth quarter of 2011, the indicator had an increase of 9.28% for MFI, which raise investments, loans / credits, and 22.95% for all MFIs (in the last third quarter of 2011 the values were -17.32% and 10.24%, respectively).

Figure 6.



In 2011, the weighted average annual interest rate on issued loans decreased from 31.4% to 27.0% (Figure 6), as well as the rate on raised savings – from 18.0% to 17.2%, and investments, loans / credits – from 14.5% to 10.1%.

In the fourth quarter of 2011 there was a slight increase in the weighted average interest rates on issued loans (from 26.4% to 27.0%³), but rates on raised resources decreased (from 17.3% to 17.2% on savings, and from 10.3% to 10.1% on investments, loans / credits).

³ The weighted average interest rates on issued loans and raised savings were slightly adjusted for the second and third quarter of 2011 to maintain a uniform methodology for calculating the indicators.

Background

Macroeconomic Situation

Source: The Ministry of Economic Development of the Russian Federation⁴

In general, the GDP growth in 2011 has continued, despite sharply increased uncertainty in the external environment and increased turbulence in financial markets. **The GDP growth was 4.3%, at the first evaluation of Rosstat, which corresponds to the dynamics of 2010.**

From the **production** side, the dynamics of GDP in 2011 is due, primarily, to the growth of manufacturing, construction, and unusually high rates in agriculture.

From the **demand** side, the economic growth is associated with an increase in the contribution of consumption and investment growth, and reducing inventories. The negative contribution to GDP dynamics was introduced by net exports, the persistence of high growth of imports at lower export performance.

In general, in 2011 **industrial production** grew by 4.7% compared to 2010. Throughout the year, outstripping growth rates were in manufacturing, where the year growth was 6.5%. The growth of **production in agriculture** in 2011 was 22.1%, against the low base of the last year and a very successful harvest, which largely blocked the fall of 2010.

The main factor for post-crisis recovery is consumer demand. In 2011, the season adjusted dynamics of **retail trade turnover** has increased significantly in the second half of 2011 and amounted to 2.3% and 1.5% in the third and fourth quarters of 2011, respectively. Overall, in 2011, retail trade turnover increased by 7.2% (in 2010 – by 6.3%). The volume of paid services increased in 2011 by 2.9% (in 2010 – by 1.5%). **Consumer demand was almost entirely based on the reduction of net savings and high availability of consumer loans.**

The increase in **real wages** was 3.5% in 2011 (in 2010 – 5.2%).

The situation on the labor market continued to improve in 2011. The number of unemployed fell by 0.5 million people (in comparable methodology)⁵, and amounted on average to 6.6% of the economically active population for the year, which is by 0.9 percentage points lower than the value in 2010.

Banking Sector

Source: The Ministry of Economic Development of the Russian Federation⁶

In 2011, the total assets of the banking sector increased by 23.1% to 41,627.5 billion. Shareholder funds (capital) of credit organizations grew by 10.8% to 5,242.1 billion rubles. The number of operating credit institutions in 2011 decreased from 1,012 to 978. The shareholder funds of more than 180 million rubles (excluding credit institutions, which implemented measures to prevent bankruptcy) had 918 credit institutions (93.9% of those operating as of January 1, 2012).

Borrowed funds

The balances in the accounts of customers⁷ in 2011 rose by 23.7% to 26,082.1 million rubles, and their share in liabilities of the banking sector rose up to 62.7% as of January 1, 2012.

⁴ Monitoring of the outcome of the socio-economic development of the Russian Federation up to January 2012.

⁵ Taking into account persons referred to as employed on the basis of answers to the more specific questions, introduced in the questionnaire survey from 2011.

⁶ Monitoring of the outcome of the socio-economic development of the Russian Federation up to January 2012.

The volume of household deposits⁸ grew by 20.9% to 11,871.4 billion. Their share in liabilities of the banking sector has declined since 2011 from 29% to 28.5%. Individual deposits in rubles increased by 22.5%, and in foreign currency – by 14.2%. The share of ruble-denominated deposits in total deposits of individuals amounted to 81.7% as of January 1, 2012. The amount of deposits of individuals for the term over a year has increased over the past year by 13.5%. Their share in the total amount of deposits was 60.8% as of January 1, 2012. The share of “Sberbank of Russia” in the retail deposits in 2011 amounted to 46.6% as of January 1, 2012.

The volume of deposits and other borrowed funds of legal entities⁹ in 2011 increased by 38.6% to 8,367.4 billion rubles, and their share in liabilities of the banking sector increased from 17.9% to 20.1%. The volume of deposits and other borrowed funds of the Ministry of Finance of the Russian Federation and other government agencies¹⁰ increased by almost 2-fold to 916.5 billion rubles in 2011. Debt of banks on loans, deposits and other borrowed funds received from the Bank of Russia increased 3.7 times up to 1,212.1 billion rubles. Funds for the settlement and other accounts of organizations increased by 9.9% to 5,326.7 billion rubles, but their share in liabilities of the banking sector has decreased over the year from 14.3% to 12.8%.

The volume of bonds issued by banks increased by 24% in 2011. The share of this source in liabilities of the banking sector has not changed as of January 1, 2012, and amounted to 1.6%. The volume of bills issued over the past year increased by 7.8%, while their share in liabilities of the banking sector remained almost unchanged (2.1%) for the year.

Placed Funds

During 2011 the volume of outstanding loans and other funds provided by the non-financial institutions increased by 26% to 17,715.3 million rubles, and their share in the assets of the banking sector increased from 41.6% as of January 1, 2011 to 42.6% as of January 1, 2012. The volume of overdue loans on this type of loans since the beginning of 2011 has grown by 10.7%, while its share in the volume of loans granted to non-financial institutions for the year decreased from 5.3% as of January 1, 2011 to 4.6% as of January 1, 2012.

Loans to individuals has increased by 35.9% to 5,550.9 billion rubles from the beginning of 2011, their share in the assets of the banking sector and in the total credit investments was 13.3% and 19.3%, respectively, as of January 1, 2012. The volume of overdue loans on this type of loans since the beginning of 2011 has grown by 3.1%, and its share in the total loans to individuals decreased from 6.9% to 5.2%.

The securities portfolio during the past year grew by 6.6% to 6,211.7 billion rubles, while its share in the assets of the banking sector decreased from 17.2% to 14.9%. The main proportion (75.3%) of the securities portfolio continues to be taken by investments in debt securities, which increased by 5.8% to 4,676.2 billion rubles in 2011. Investments in equity securities increased by

⁷ The balances in the accounts of enterprises and organizations (including the budgets of all levels of government and other extra-budgetary funds), deposits and other raised funds of legal entities, deposits of individuals, as well as clients' funds in the calculations, for factoring and forfeiting operations, the funds debited from clients' accounts but not entered in the correspondent account of a credit institution, deposit and savings certificates (previously reflected in the indicator “debt obligations”).

⁸ Including savings certificates

⁹ Except credit institutions, including deposit certificates

¹⁰ Financial authorities and extra-budgetary funds of the Russian Federation, subjects of the Russian Federation and local self-government

28.6% (in December – by 13%) in 2011, and their share in the portfolio of securities amounted to 14.7% as of January 1, 2012.