

Monitoring of the Russian Microfinance Market in 2013

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

Microfinance institutions (hereinafter – MFIs) 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. Activities of credit cooperatives (hereinafter – CCs) are regulated by the Federal Law as of 18 July 2009 N 190-FZ “On Credit Cooperatives”. Activities of microfinance organizations (hereinafter – MFOs) are regulated by the Federal Law of July 2, 2010 N 151-FZ “On microfinance and microfinance organizations”.

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”).

RMC and NAMMS jointly prepare this review of the microfinance market from the fourth quarter of 2008 as a result of a series of surveys of a stable sample of MFIs. The primary aim of this monitoring is to determine the dynamics in the main indicators of the market (according to the stable sample of MFIs and CCs, which held 4% of the market loan portfolio at the beginning of 2014).

Until the second quarter of 2011, this survey was called the “Anti-crisis Monitoring”, and its purpose was to determine the impact of the crisis on the activities of microfinance institutions. For this purpose, the comparisons of changes in the dynamics in MFIs and CCs market and in the banking sector were conducted. From the second quarter of 2011, the review carries out the current name.

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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

2013 year

2013 was marked by positive growth of the microfinance sector in Russia. As estimated by NAMMS and RMC, the total portfolio of microloans of MFOs and CCs has increased over 2013 by 42% and amounted to 68 billion rubles, while the share of MFOs in the aggregate microloan portfolio is 53%, CCs – 47%. Microloans to small and medium enterprises (SMEs) accounted for 50% of total microloan portfolio of MFOs, PayDayLoans – 15%, other consumer loans to individuals – 35%.

1478 CCs were registered in the registers 10 SROs of CCs on January 1, 2013. 1597 CCs were registered on January 1, 2014. 2504 MFOs were registered in the register of MFOs on January 1, 2013. Their number increased to 3860 MFOs on January 1, 2014.

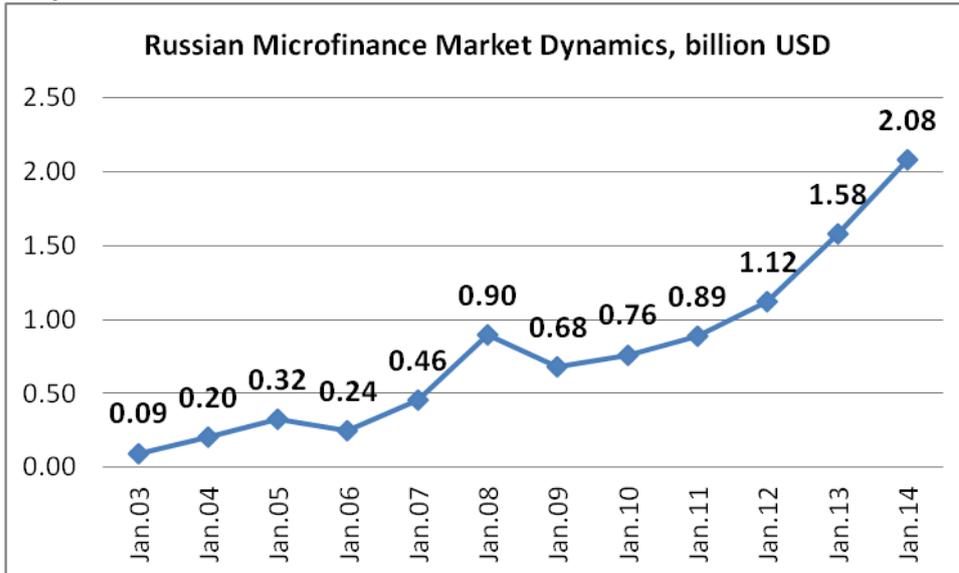
Due to increased competition in the microfinance market, situation for an individual MFO or CC could worsen. The average number of active borrowers per one MFI decreased by 1.48%. The average loan portfolio per one MFI has declined by 1.67%. The rate of the portfolio at risk over 30 days increased from 4.81% to 5.45%. For comparison, in the banking sector, the growth of the total outstanding loans to legal entities and individual entrepreneurs in rubles, foreign currency and precious metals in 2013 was 13.60% (together with outstanding loans to individuals – 15.84%); the level of overdue loans of legal entities and individual entrepreneurs fell from 4.57% to 4.31%.

The situation with the resource base for MFIs remains positive. In 2013, the portfolio of savings continues to grow. In the fourth quarter, the growth in the average raised savings per one MFI (CC, specifically) was 12.62%. There is a positive dynamics in raised investments, loans / credits: the average value of this indicator per one MFI increased by 17.51% in MFIs that attract these resources and by 4.45% in all MFIs.

In 2013, the weighted average annual interest rate on issued loans decreased slightly from 25.5% to 25.3%. The rate on raised savings remained unchanged – 15.8%. The rate on raised investments, loans / credits increased from 10.6% to 10.8%.

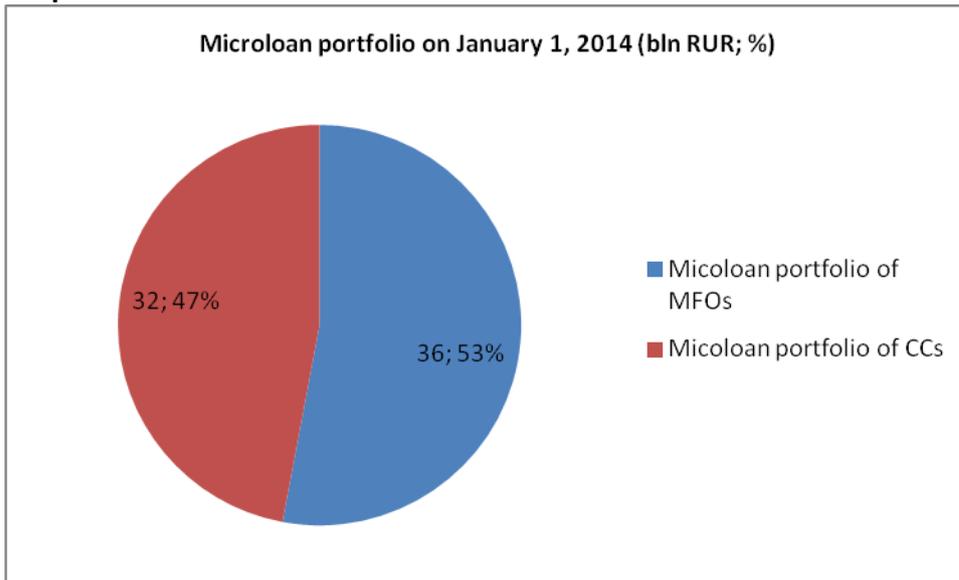
Sector Description²

Graph 1.



The total portfolio of microloans of MFOs and CCs has increased over 2013 by 42% and amounted to 68 billion rubles.

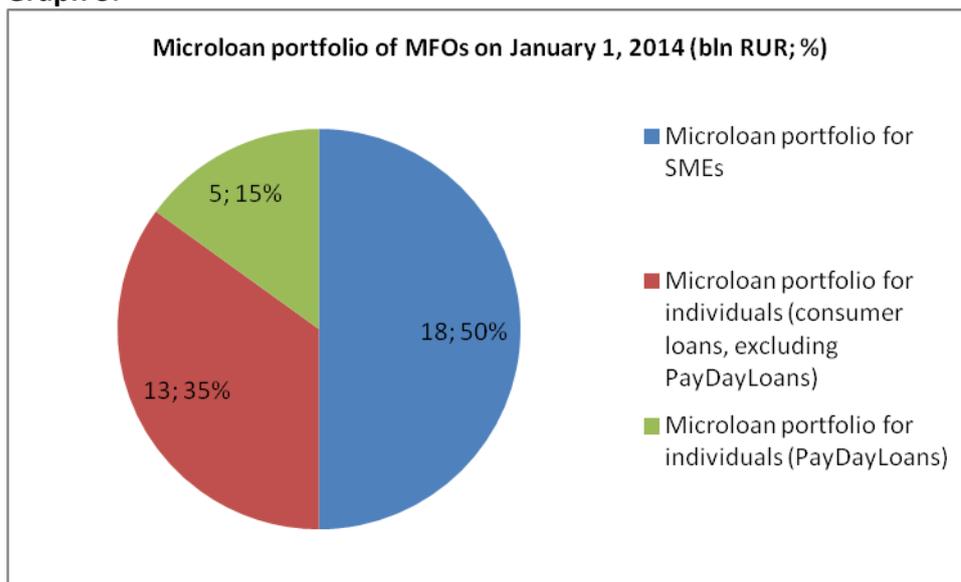
Graph 2.



The share of MFOs in the aggregate microloan portfolio is 53%, CCs – 47%. Microloan portfolio of CCs is about 70% of total assets of CCs.

² Estimation of NAMMS and RMC

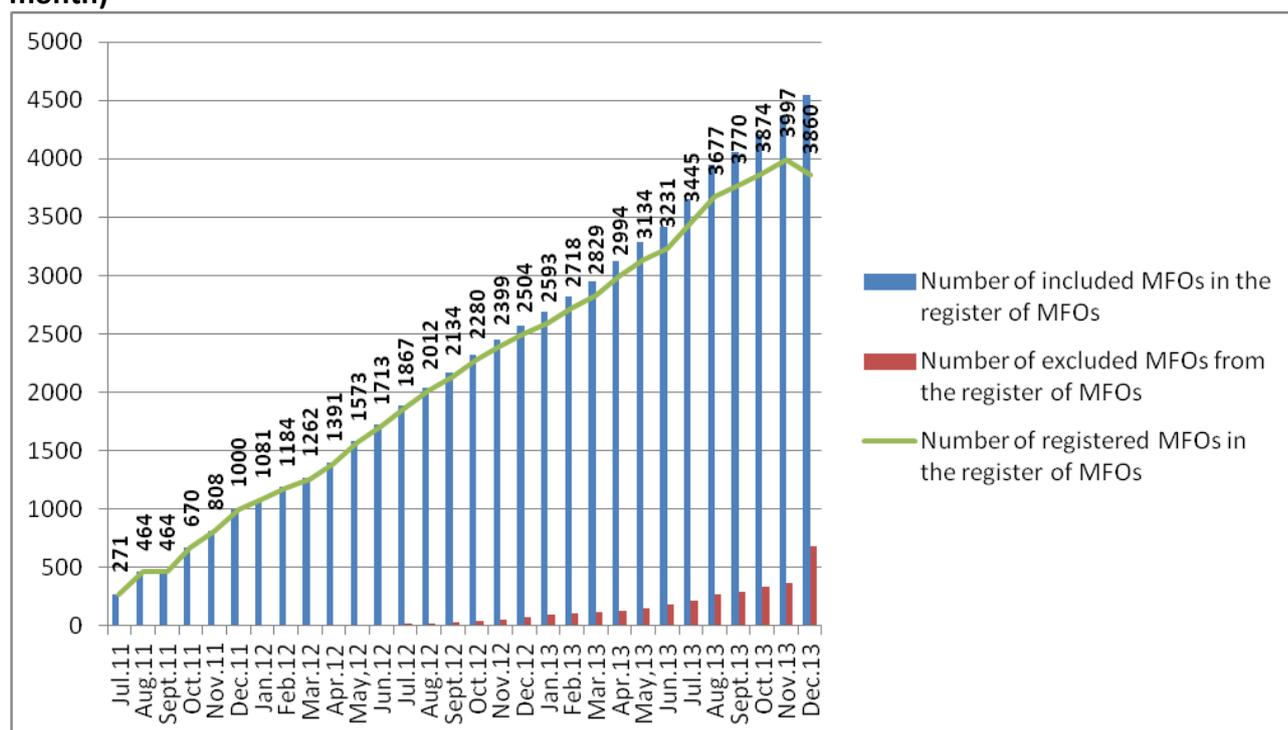
Graph 3.



Microloans to small and medium enterprises (SMEs) accounted for 50% of total microloan portfolio of MFOs, PayDayLoans – 15%, other consumer loans to individuals – 35%.

Graph 4.

Dynamics of inclusion in and exclusion from the State Register of MFOs (at the end of a month)

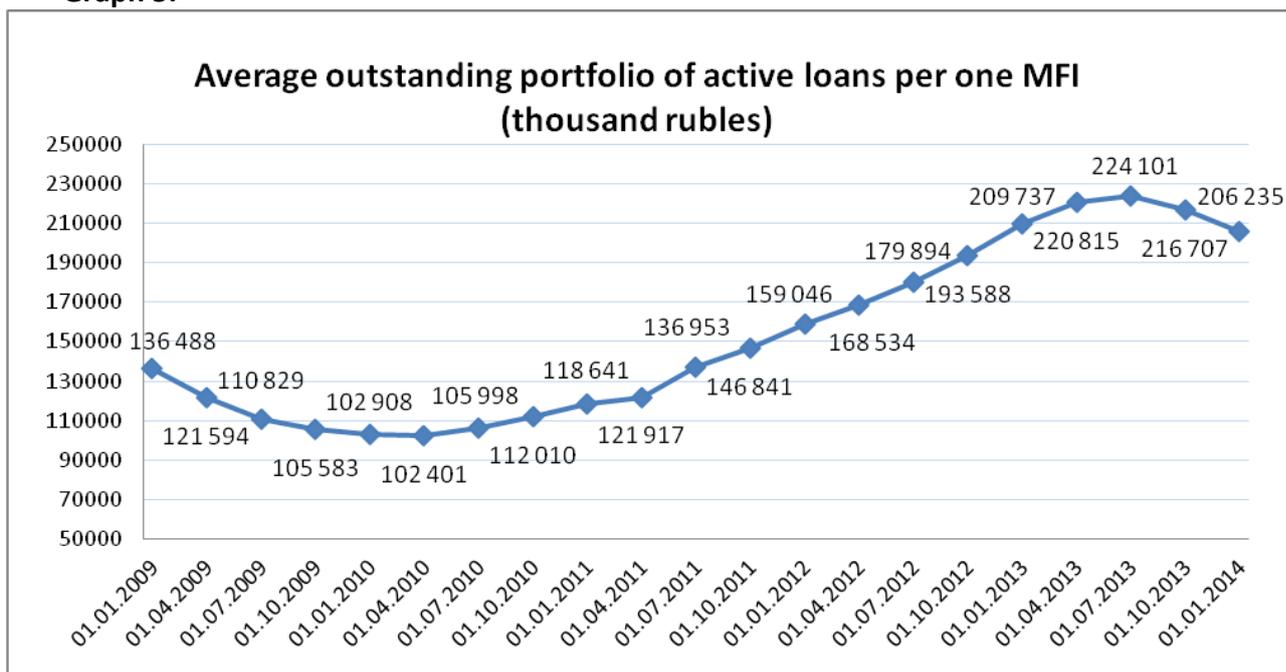


1478 CCs were registered in the registers 10 self-regulatory organizations (SROs) of CCs on January 1, 2013. 1597 CCs were registered on January 1, 2014.

2504 MFOs were registered in the register of MFOs on January 1, 2013. Their number increased to 3860 MFOs on January 1, 2014.

Monitoring Results

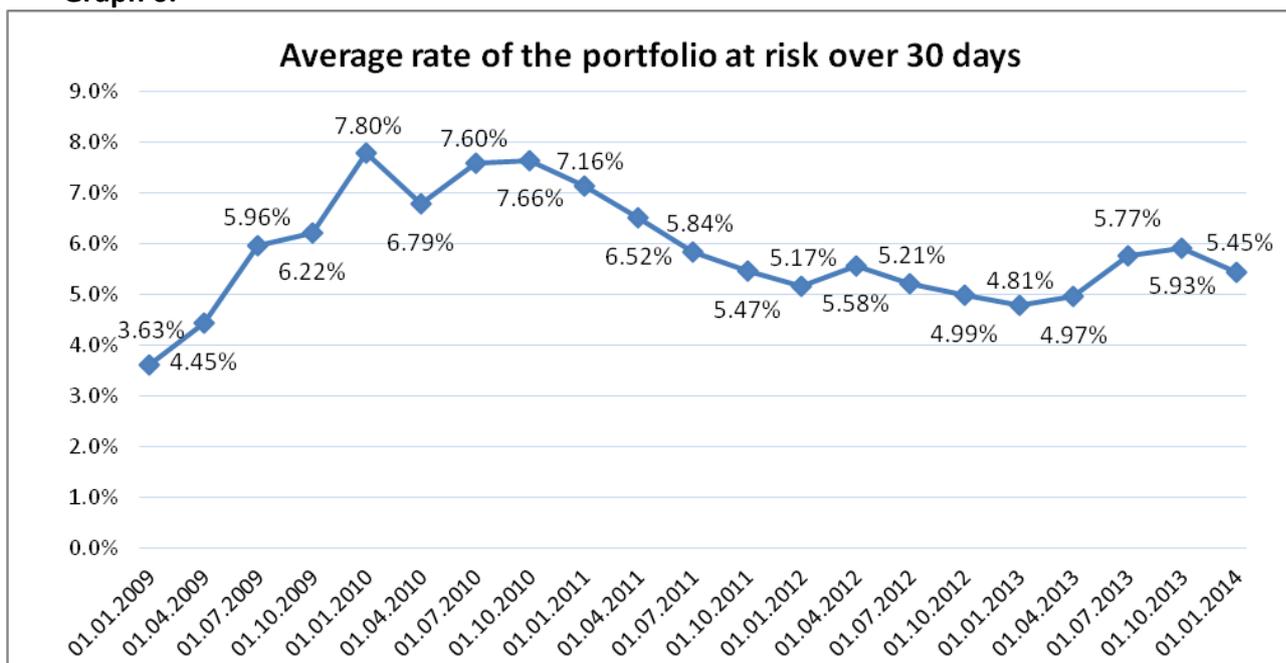
Graph 5.



Since the beginning of the fourth quarter of 2013, the average loan portfolio per one MFI has declined by 8.31% (in the third quarter of 2013 – by 3.30%). In 2013, this indicator **decreased by 1.67%**.

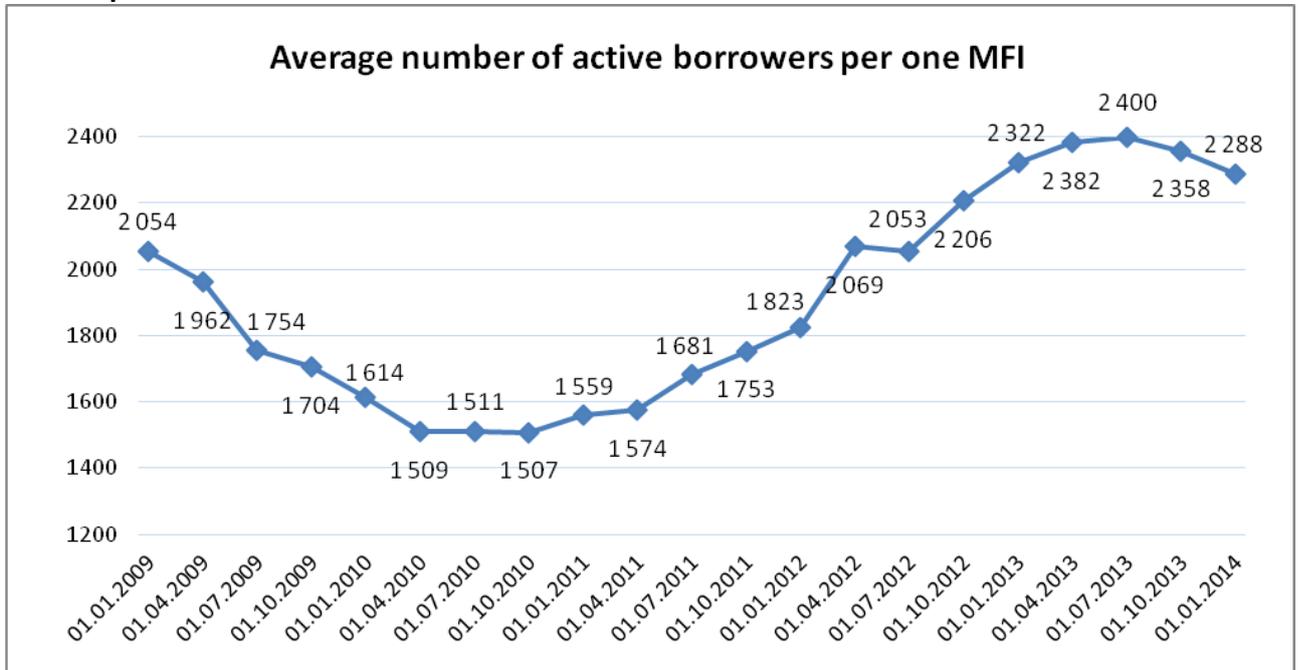
In the banking sector (statistics of the Central Bank of the Russian Federation is used hereinafter in this section), the **growth** of the total outstanding loans to legal entities and individual entrepreneurs in rubles, foreign currency and precious metals in the fourth quarter of 2013 was 1.01%, in 2013 – **13.60%** (together with outstanding loans to individuals – 0.71% and **15.84%**, correspondingly).

Graph 6.



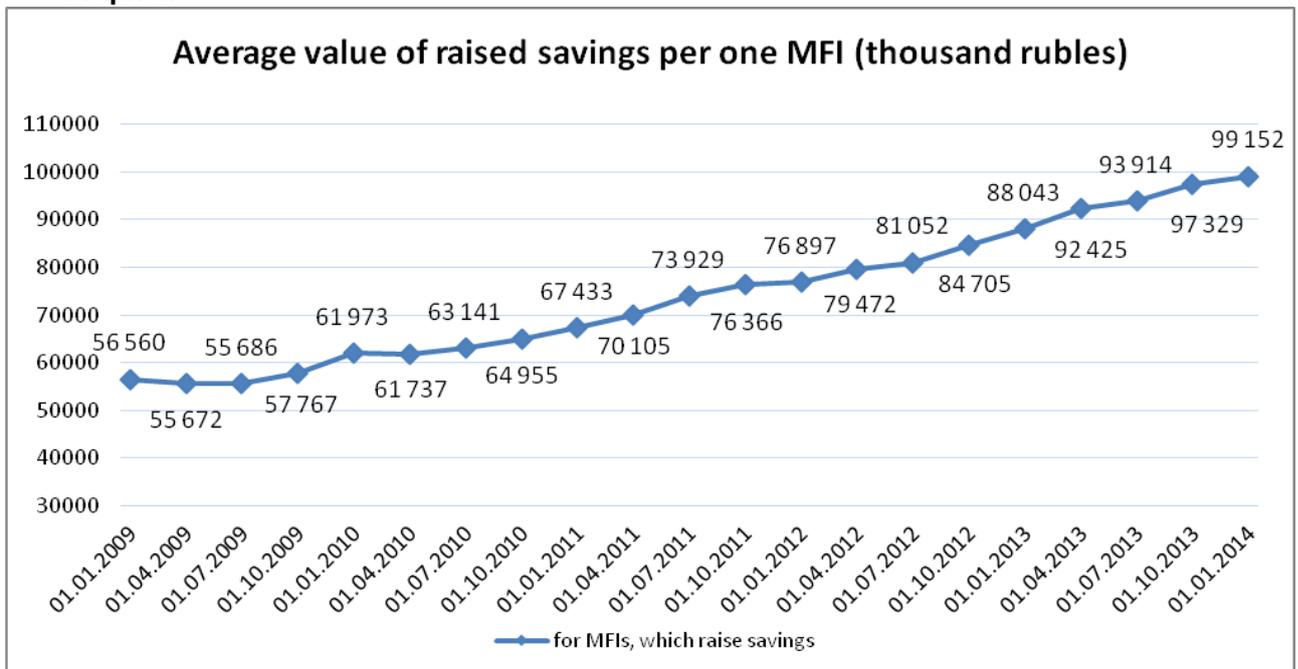
The rate of the portfolio at risk over 30 days decreased from 5.93% to 5.45% in the fourth quarter of 2013, but **increased from 4.81% to 5.45%** in 2013. For comparison, in the banking sector, the level of overdue loans of legal entities and individual entrepreneurs increased from 4.24% to 4.31% for the fourth quarter, but in 2013 **fell from 4.57% to 4.31%**.

Graph 7.



Since the beginning of the fourth quarter of 2013, the average number of active borrowers per one MFI has declined by 2.97% (in the third quarter of 2013 the indicator has already showed a fall of 1.74%). In 2013, this indicator **decreased by 1.48%**.

Graph 8.

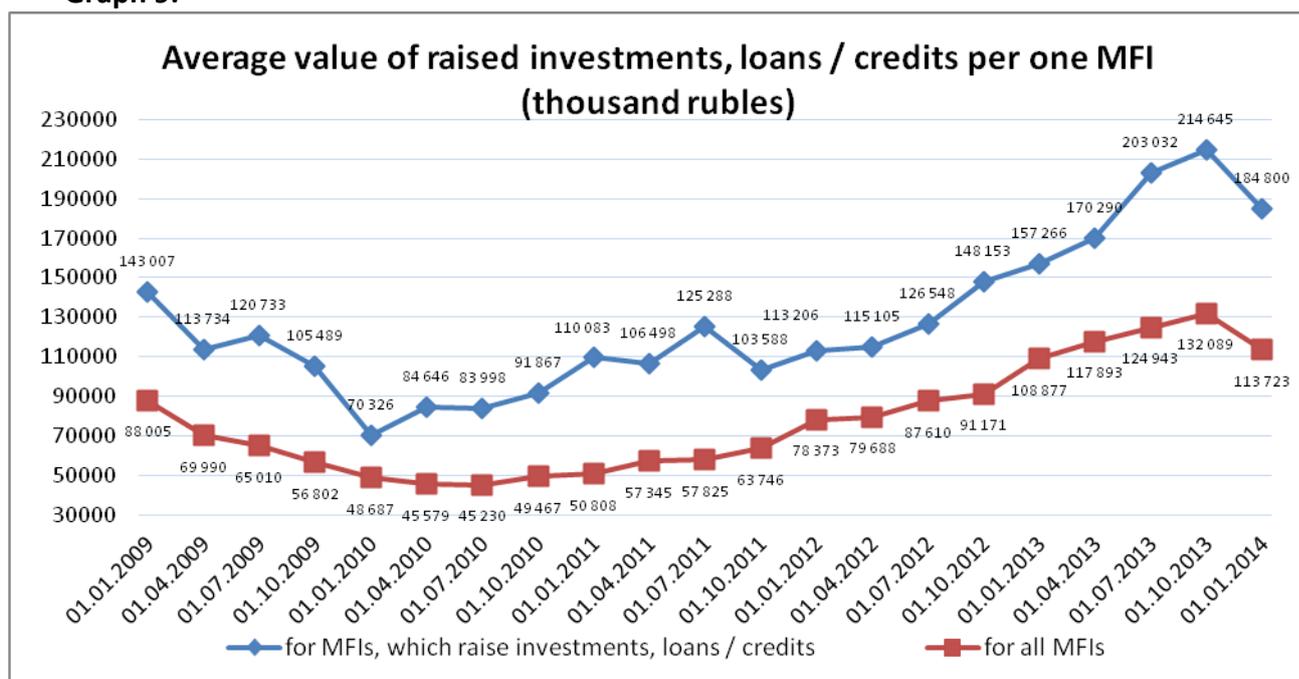


NB.: In accordance with the laws of the Russian Federation, credit consumer cooperatives and agricultural credit consumer cooperatives have the right to mobilize savings (in the form of loan agreements).

In the fourth quarter of 2013, the portfolio of savings continues to grow. In the fourth quarter, the growth in the average raised savings per one MFI was 1.87% (in the third quarter of 2013 – 3.64%). In 2013, this indicator **increased by 12.62%**.

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 2.60% in the fourth quarter of 2013 and **14.37%** in 2013.

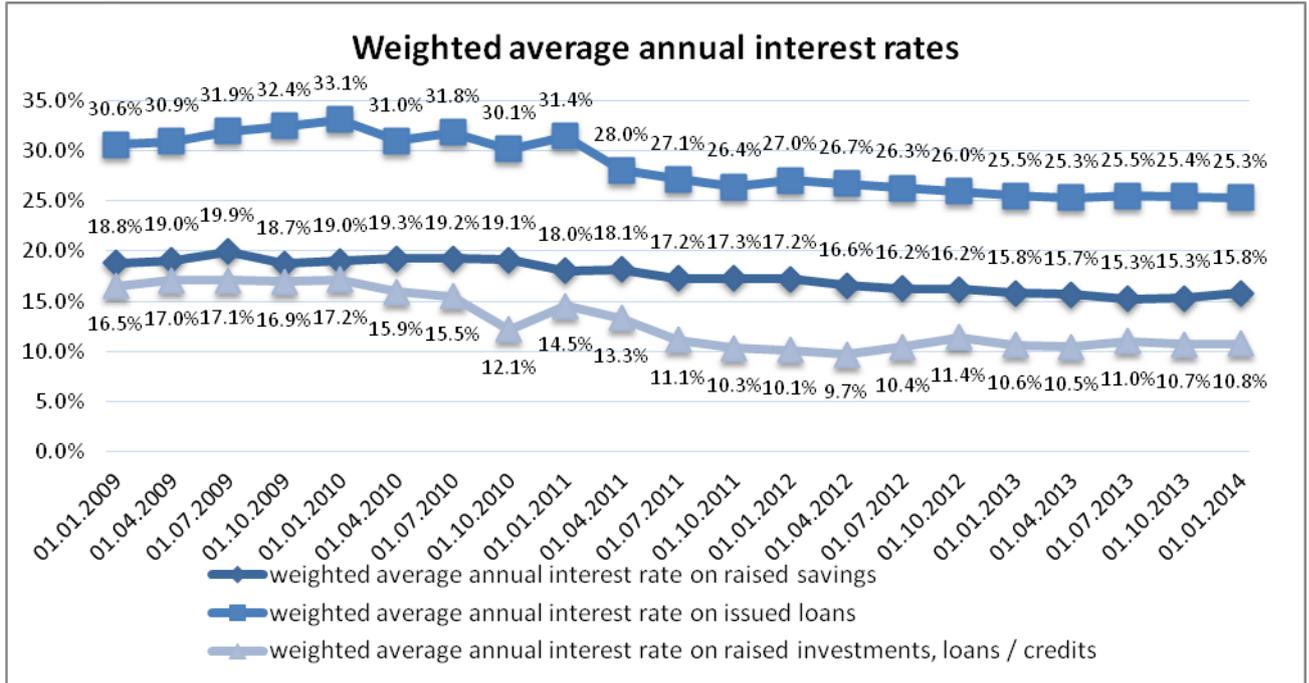
Graph 9.



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 the fourth quarter of 2013, there was a negative growth dynamics of raised investments, loans / credits: the average value of this indicator per one MFI decreased by 13.90% in MFIs that attract these resources and in all MFIs. In 2013, however, there was a positive trend: the average value of this indicator per one MFI **increased by 17.51%** in MFIs that attract these resources and by 4.45% in all MFIs.

Graph 10.



In the fourth quarter of 2013, the weighted average annual interest rate on issued loans decreased slightly from 25.4% to 25.3% (in 2013 – **decreased from 25.5% to 25.3%**). The rate on raised savings increased from 15.3% to 15.8% (in 2013, however, **remained unchanged – 15.8%**). The rate on raised investments, loans / credits also increased – from 10.7% to 10.8% (in 2013 – **increased from 10.6% to 10.8%**).

Background

Macroeconomic Situation

Source: The Ministry of Economic Development of the Russian Federation³

In December, Russia's economic growth slowed after the rise in the previous two months. According to the Ministry of Economic Development of the Russian Federation, **GDP** growth, excluding seasonal and calendar factors, in relation to the previous month was 0% versus 0.1% in November and 0.3% in October. Positive contribution to GDP growth made manufacturing, mining, and retail. Negative impact on overall economic growth had production and distribution of electricity, gas and water, construction, paid services, agriculture, and net taxes on products and imports.

Given the newly arrived data on taxes on products and imports, the annual GDP growth estimates were adjusted downward in October (from 1.7% to 1.5%) and upward in November 2013 (from 1.0% to 1.8%). According to the Ministry of Economic Development of the Russian Federation, GDP growth in December 2013 in comparison to December of the previous year was 1.0% versus 1.8% in November, respectively. This slowdown is due to the deepening recession in the construction, production and distribution of electricity, gas and water, as well as a slowdown, compared with the previous month, in the dynamics of agriculture, retail trade and paid services to the population.

Overall, in 2013 the dynamics of economic growth slowed sharply. According to preliminary estimates from Rosstat, GDP growth was 1.3% against 3.4% in 2012. On the manufacturing side, this slowing was, primarily, due to the dynamics of industrial production, wholesale and retail trade, construction, real estate transactions, and net taxes on products. From the side of GDP usage, growth slowdown was caused by the consumer activity dynamics and the capital accumulation dynamics.

There was a decrease in October and an increase in November and December (November – by 0.2%, December – by 0.5%) in **industrial production**, excluding seasonal and calendar components, after the stabilization of production in August and September. There was a decrease in production in November in the mining industry after stabilization in September-October, and an increase in production in December by 0.3%. There was a continued decline in the production and distribution of electricity, gas and water in December, for the third month in a row (in December – by 1.1%). There was a restored growth in November in the manufacturing sector after the fall which continued for four months before, the growth continued in December (in November – by 1.0%, in December – by 0.8%).

In intermediate demand sectors the growth resumed in December in the wood processing and production of wood, in the manufacture of rubber and plastic products, metallurgy and production of fabricated metal products. The growth continued in the production of coke and petroleum products, pulp and paper, publishing and printing activities. After the growth in October-November, there was a decline in the chemical industry. For the third consecutive month, there was a reduced production of other non-metallic mineral products.

In consumer sectors, there was a continued growth in the textile and clothing industry. The growth resumed in leather, leather products, and footwear. The production of food, beverages, and tobacco decreased.

³ Monitoring of the outcome of the socio-economic development of the Russian Federation in 2013.

In mechanical engineering sector, there has been an increase in December in the production of vehicles and equipment, in the production of machinery and equipment. The production of electrical and optical equipment decreased.

The dynamics of **agriculture production** declined in December, excluding seasonal factor, for another 1.0% after falling of 1.2% in November. The annual growth has slowed significantly and amounted to 1.4% after a gain of 21.9% in October and 10.2% in November.

The **unemployment rate** in December rose to 5.6% of the economically active population from 5.4% in November. According to the Ministry of Economic Development of the Russian Federation, after a slight decline in November, it rose up to 5.6% again, excluding seasonal factor.

Rosstat specified the dynamics of **real wages** for November, lowering the growth rate to the corresponding period in the last year to 4.1% against 4.8% in the previous estimates. As a result, the real wages, excluding seasonal factor, adjusted in November from 0.2% to -0.2%, and in December it dropped to -0.5%.

In the December report of Rosstat, the data in **real disposable income** between July and November 2013 were specified. The Ministry of Economic Development of the Russian Federation has adjusted dynamics of this indicator, excluding seasonal factor, for the III quarter downward to 0.3% against 0.6% in the previous estimates. In December, real disposable income fell by 0.8%.

The growth in **retail trade turnover**, excluding seasonal factor, slowed in December to 0.1% from 0.9% in November.

Excluding seasonal factor, according to the Ministry of Economic Development of the Russian Federation, the decline in **investment** in fixed assets accelerated in December up to 0.8% versus a decline of 0.2% in November. It was accompanied by a decrease in the volume of work on “**Construction**” by 0.9% compared to November, excluding seasonal and calendar factors, after declining by 0.3% in the period from November to October.

Exports of goods in December 2013, was estimated at 47.4 billion dollars (98.3% compared to December 2012 and 101.5% compared to November 2013).

Imports of goods in December 2013, was estimated at 33.4 billion dollars (104.8% compared to December 2012 and 110.6% compared to November 2013).

Trade surplus in December 2013 decreased compared to December 2012 by 14.3% and amounted to 14.1 billion dollars.

According to Rosstat, in December 2013, consumer price **inflation** was 0.5%. Since the beginning of the year, prices rose by 6.5% (in 2012 for the same period the increase in prices was 0.5% and 6.6%, respectively).

Banking Sector

Source: The Ministry of Economic Development of the Russian Federation⁴

In 2013, the total assets of the banking sector increased by 16% to 57423.1 billion rubles, while the share of five banks with the largest amount of assets increased from 50.3% to 52.7% and on January 1, 2014 amounted to 30235.1 billion rubles.

Shareholder funds (capital) of credit organizations grew by 14.1% and on December 1, 2013 amounted to 6975.1 billion rubles.

The number of operating credit institutions for January-November 2013 decreased from 956 to 930⁵. The shareholder funds of more than 180 million rubles had 867 credit institutions (93.2%

⁴ Monitoring of the outcome of the socio-economic development of the Russian Federation in 2013.

of those operating as of December 1, 2013). As of December 1, 2013 the capital adequacy ratio was 13.2% (on January 1, 2013 – 13.7%).⁶

Borrowed funds.

The balances in the accounts of customers⁷ in 2013 rose by 16% to 34930.9 billion rubles, and their share in liabilities and capital of the banking sector rose up to 60.8%.

The volume of household deposits⁸ grew by 19% to 16957.5 billion rubles. Their share in liabilities of the banking sector has declined since the beginning of the year from 28.8% to 29.5%. Individual deposits in rubles increased by 19%, and in foreign currency – by 18.9% (in dollar equivalent – by 10.3%). The share of ruble-denominated deposits in the total deposits of individuals increased from 82.5% to 82.6%. The amount of deposits of individuals for the term over a year has increased over the past year by 25%. Their share in the total amount of deposits of individuals was 61.8% as of January 1, 2014. The share of “Sberbank of Russia” in the deposits of individuals in 2013 increased from 45.7% to 46.7% (until December, there was a tendency of reduction of its share; on December 1, 2013 it was 44.7%).

The volume of deposits and other borrowed funds of legal entities⁹ in 2013 increased by 12.7% to 10838.3 billion rubles, and their share in liabilities and capital of the banking sector decreased from 19.4% to 18.9%. The volume of deposits and other borrowed funds of the Ministry of Finance of the Russian Federation and other government agencies¹⁰ decreased by 40.4% to 453.9 billion rubles, and their share in liabilities and capital of the banking sector – from 1.5% to 0.8%. Debt of banks on loans, deposits and other borrowed funds received from the Bank of Russia increased by 65% up to 4439.1 billion rubles, and their share in liabilities and capital of the banking sector – from 5.4% to 7.7%. Funds for the settlement and other accounts of organizations increased by 14.2% to 6516 billion rubles, but their share in liabilities and capital of the banking sector has decreased over the year from 11.5% to 11.3%.

The volume of bonds issued by banks amounted to 1213.1 billion rubles on January 1, 2014, and their growth for 2013 – 175.7 billion rubles (on January 1, 2013 the volume was 1037.4 billion rubles, the growth for 2012 – 370.7 billion rubles). Thus, the volume of bonds issued by banks in 2013 increased by 16.9% compared with 55.6% a year earlier. While the share of this source of funds in liabilities and capital of the banking sector on the basis of last year remained unchanged at 2.1 % (in 2012 it increased from 1.6% to 2.1%). The volume of bills issued over the past year decreased by 12.6% down to 1004.3 billion rubles, while their share in liabilities and capital of the banking sector decreased from 2.3% to 1.7%.

⁵ As of January 1, 2014 the number of credit institutions declined to 923.

⁶ Data on the value of equity and capital adequacy of credit institutions, as well as the grouping of credit institutions in the value of equity, as of January 1, 2014 to date have not been published by the Bank of Russia.

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

Placed Funds.

During 2013 the volume of outstanding loans and other funds provided by the non-financial institutions increased by 12.7% to 22499.2 million rubles. Their share in the assets of the banking sector decreased from 40.3% to 39.2%, in the total amount of bank loans and other loans – from 58.8% to 55.5%. The volume of overdue loans on this type of loans grew by 1%, while its share in the volume of loans granted to non-financial institutions decreased from 4.6% as of January 1, 2013 to 4.2% as of January 1, 2014.

In 2013, loans to individuals increased by 28.7% up to 9957.1 billion rubles. Their share in the assets of the banking sector increased from 15.6% to 17.3%, in the total amount of bank loans and other loans – from 22.8% to 24.6%. The volume of overdue loans on this type of loans grew by 40.7%, while its share in the volume of loans granted to individuals increased from 4.05% as of January 1, 2013 to 4.4% as of January 1, 2014.

The securities portfolio during the past year grew by 11.2% up to 7822.3 billion rubles, while its share in the assets of the banking sector decreased from 14.2% to 13.6%. The main proportion (78.8% as of January 1, 2014) of the securities portfolio continues to be taken by investments in debt securities, which increased by 17.1% up to 6162.9 billion rubles. Investments in equity decreased by 0.2% down to 790.4 billion rubles, and their share in the portfolio of securities amounted to 10.1% as of January 1, 2014.