

# Market Players Confident of Retail Lending Growth

By [The Moscow Times](#)

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Retail lending in Russia will continue to grow at double-digit rates, defying Central Bank efforts to restrain it, bankers say, as consumers aspiring to higher living standards sustain an otherwise weak economy.

Households have piled on debt in recent years, with unsecured loans on items such as televisions and refrigerators growing at a rate of up to 50 percent. The rise in corporate loans has, by contrast, slowed as economic growth touched a four-year low.

The relative health of Russia's 140 million consumers has encouraged non-banks into the credit space, with mobile phone operator MegaFon considering joining market leader MTS in offering banking services.

Consumer loans typically charge steep interest rates of 35 to 45 percent and mature in 1-1/2 years, Moody's estimates. That churn is costly, and banks want to adopt a more stable model

by offering secured loans for longer terms at lower rates.

"The retail boom in Russia is at its peak. Quality banking services are not available to everyone, and this is where the growth prospects are," Mikhail Zadornov, CEO of VTB24, told the recent Reuters Russia Investment Summit.

Sixty million people out of Russia's economically active population of 75 million, have at least one loan. They spend 20 percent of their income on debt, in line with other emerging markets, the National Bureau of Credit Histories, or NBCH, reckons.

VTB24, which generated around half of group earnings of \$2.9 billion last year at Russia's No. 2 banking group, VTB, accounts for 13 percent of total Russian retail lending. Its consumer loan book grew by 43 percent last year.

Worried that the boom may end badly, the Central Bank has instructed banks to increase provisioning against retail lending, especially the high-interest point-of-sale loans that many Russians take out to pay for discretionary items.

The tighter regulations are a sop to Russia's biggest banks such as top player Sberbank, which is expanding in consumer lending as well. In a holdover from the Soviet era, Sberbank is still majority-owned by the Central Bank.

"This initiative is in favor of the largest universal banks, who have a small percent of consumer loans in their portfolios and lower rates, such as Sberbank for example," said Andrey Klapko, an analyst with Gazprombank.

"I think that the largest universal banks should feel themselves more confident than banks that concentrate on just one lending sector."

In the first half of 2013 the rate of growth in banks' credit card numbers doubled to 41 percent, while the number of debit cards issued with an overdraft facility — a hidden form of loans — rose by 28 percent.

But even though nonperforming consumer loans and credit-card debts are up, they remain relatively small at 5.5 percent and 2.8 percent of the total, respectively.

"The rate of consumer lending growth we are seeing may cause some concerns, but I do not see any shocks here," said Artyom Konstandyan, CEO of mid-sized Promsvyazbank. "Most banks have enough capital to cope with potential losses."

Household indebtedness in Russia, at 12 percent of gross domestic product, is much lower than in most developed economies, with countries such as Britain seeing a percentage as high as 100 percent.

NBCH head Alexander Vikulin, whose organization monitors 9 trillion rubles (\$280 billion) in household debts, said Russians could afford to double the amount they paid on their debts to 40 percent of their income.

"Neither in the near term, nor in the long term, do we see any dangers to the banking system," Vikulin said.

Despite high oil prices, the Russian economy is flagging due to low investments. It is forecast to grow at 1.8 percent this year, the lowest since the 2009 slump.

With the government dragging its feet on growth-promoting structural reforms, the emerging middle class could keep the show on the road for Russia's \$2 trillion economy.

"In times of weak investment growth ... lending to households is one of just a few factors to fuel economic growth," Zadornov said.

Buying a new flat television or a washing machine is still an "event" for an average Russian family, said Alexander Tynkovan, founder and the largest shareholder of electronics retailer M.video.

"We have no habit of saving in this generation and, deep down, Russians have nowhere to invest," he said. "Buying property or a car is too costly, and we have very few ways of entertaining ourselves, especially in the provinces."

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