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Russians Rush to Pay Off Debt Over Economy Fears

The devaluation of the ruble and the continuing risk of layoffs is causing Russians to try and reduce their credit load

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Maxim Stulov / Vedomosti

Higher numbers of Russian borrowers repaying their loans early are causing banks' retail lending portfolios to stagnate.

Russia's retail lending has remained stagnant in the first half of 2016 despite a concerted effort by the country's banks. The Russian Central Bank reported that private loan portfolios had decreased by 0.6 percent since January this year, blaming the fall on the continuing decline of unsecured consumer lending.

The loan portfolio at Sberbank, Russia's market leader, has been shrinking for a year now, according to the Frank Research company. It contracted by 2.6 percent in the first half of 2016, shrinking to a total of 1.39 trillion rubles ($21.5 billion).

These trends are primarily due to borrowers making early repayment on their loans in order to relieve any financial burdens, said one source close to Sberbank. The issuance of new loans cannot fully compensate for the shift. "The level of [early] repayment, especially on short-term loans, is very high," the source said. Sberbank has very a large number borrowers with multiple loans and a heavy debt load with more opportunities to repay, he said.

The head of VTB 24 Marketing Strategy and Research department, Dmitry Lepetikov also noted "the steady trend toward the early repayment of loans" and expressed his hopes that this tendency would weaken in the second half of the year.

Away from these market leaders, this trend seems less pronounced. Yevgeny Lapin, First Deputy Chairman of the Russian Standard Bank, and Pavel Belyayev, Loan Department Director for Home Credit Bank both said that their share of early repayments remains stable. An Alfa Bank representative also confirmed that the company had not see a growth in early repayments either.

Yet ordinary Russians fear the devaluation of the ruble and the continuing risk of layoffs and are trying to reduce their credit load in order to feel more secure, said Personal Advisor CEO Natalia Smirnova. Inflation is slowing and the loan burden is becoming increasingly tangible, she said. People can no longer say, "Sure, I can let the loan ride because prices are rising faster anyway."

Sberbank has long driven growth in the retail lending market, but is now facing growing competition from VTB 24: a bank which holds a portfolio almost half the size of Sberbank's.

VTB 24's portfolio has grown by 6 percent since December 2015, hitting 607.6 billion rubles ($9.3 billion), according to Frank Research. The bank even exceeded the number of retail loans issued by Sberbank fourfold.

Mortgages and cash loans have also played an equally significant role in the growth of VTB 24's retail portfolio. That portfolio has grown consistently since May, Lepetikov said. Personal incomes have begun to stabilize, rising roughly at the rate of inflation. This has sparked a growing demand for loans, he said.

Sberbank were also able to boost their portfolio in May due to a promotional campaign which slashed consumer loan interest rates, one source said.