International financial processes influence on the retail lending market in Russia development

Abstract. Retail lending due to a number of reasons holds a special place in the general system of credit relations and plays an important role in the modern free market economy. Being a dynamically developing segment of banking business, retail lending is considered as an important part of the entire system of credit relations within the framework of the present study. Our study has revealed that retail lending is treated ambiguously. In this connection, our article proposes the authors’ approach to the definition of this phenomenon.

Using general and special research methods, we have undertaken the comprehensive analysis of retail lending development as one of priority business areas of a commercial bank; there have been revealed the influence of international financial processes on the development of this segment and defined the main aspects of its development in Russia. Monitoring of retail lending market and the use of forecasting techniques has allowed us to specify the future directions of its formation and to form a complex of strategic measures to enhance its impact on the Russian economy.

Keywords: Bank; Lending; Consumer Lending; Financial Process

1. Introduction. Retail lending development is largely dependent on the state of the national economy and stability of its financial market. Economic growth, the increase of monetary income of the population, changes in the level of inflation and interest rates create opportunities for the development of this business area, which, in its turn, helps to increase consumer demand, investment and entrepreneurial activity [1, p. 100]. It should be noted that current adverse changes in global financial markets result in the instability of the Russian banking sector to global financial crises [2, p. 20]. The dependence of credit institutions from external financial markets and underdevelopment of domestic financial markets lead to liquidity shortage and decline in retail lending. The decrease in the values of Russia’s main macroeconomic indicators negatively affects the financial position of its citizens and, consequently, has a direct impact on the increase of overdue loans [3, p. 55]. In this regard, studying of the development of retail lending influence by the international financial processes remains one of the most important under the current economic conditions.

2. Problem statement. Retail lending occupies a special place in the entire system of credit relations and plays a significant role in today’s economy. Moreover, it should be noted that the nature of this influence can be both positive and negative. On the one hand, retail lending development is a contributing factor to the intensification of the economy. On the other hand, negative phenomena in the economy are largely due to the increase of overdue loans [4, p. 185]. A vivid example of the negative impact of retail lending on the economy was the decline of mortgage market in the USA, which provoked the global financial crisis in 2008 [5, p. 74]. The changes in the mortgage lending market in the US resulted in a dynamic sequence of bankruptcies and acquisitions of large banks that had a certain impact on the develop-
ment of the entire financial sector. The global financial crisis triggered a collapse in the Russian stock market and the bond market, revealed serious problems in the banking system, particularly in the crediting system [6, p. 150]. In this regard, the problem of sustainable development of retail lending is significant at the present time because it is closely linked to the achievement of positive changes that balance economic and social aspects of life.

3. Brief literature review. In foreign studies and in banking practice, unlike the Russian conventional interpretation, consumer loans are those which are granted only to individual consumers for getting consumer goods and the payment of related services. Various aspects of a bank’s retail lending are presented in the works of such foreign authors as E. J. Dolan, K. D. Campbell and R. J. Campbell [7], E. Reed, R. Kotter and E. Gill [1983] [8], Peter S. Rose (2005) [9], H. Hoque (2013) [10], J. Sinki (2007) [11].

In domestic studies as well as in the activities of credit organizations, one can often find such terms as «credit for individuals» or «lending to individuals», «consumer loan», «personal credit», «retail credit». One group of authors (E. F. Zhukov, G. G. Korobova, D. V. Maleev, G. G. Korobova, I. Lavrushin) have utilized these terms, while the others differentiate them according to certain criteria (G. N. Beloglazova, A. A. Kazimagomedov, A. A. Hadjiyev).

After generalizing existing approaches to the study of this notion, within the framework of the present work, we will adhere to the view that retail credits have the properties of consumer loans and are aimed at meeting the consumption needs of individuals in the acquisition of goods and services not being connected with entrepreneurial activity.

4. The purpose of this study is to define the basic aspects of the Russian retail lending development taking into account the influence of international financial processes, and to propose strategic measures for enhancing its positive impact on the Russian economy.

5. Results. Active expansion of retail lending is due to the fact that this form of loan allows extending the boundaries of the market across a whole range of consumer goods and services. It influences meeting priority national projects requiring money to income levelling in the selected population groups with different consumption levels [12, p. 203]. The Russian market of consumer loan has entered the year of 2015 with mixed prospects. In general, the dynamics of retail lending in Russia is positive, but not stable. Studying the basic indicators of retail lending development in Russia for the period of 2011-2015 (Table 1), it can be noted that retail loan portfolio is formed mainly from ruble loans (over 98%).

Currently, commercial banks working with retail loans are facing a specific strategic choice: to reduce retail lending and lose market share or not to reduce lending and perhaps even to increase it. The volume of lending reduction leads to the reduction in staff and downsizing of the branch network. Such decision mainly affects the demand [19, p. 28]. We must note that the situation in the credit market remains the same, by the end of 2015, according to many banking analysts, the flow of money coming out of banks as credits will be equal to the flow of money that goes in the opposite direction from borrowers. All of this carries both economic and social risks. It is directly related to the fact that currently being influenced by the international financial processes that have a negative impact on the Russian economy, there is a trend of steady growth in the number of borrowers being unable to service their debts.

According to the National Bureau of Credit Histories, about 35% of borrowers have 3 or more outstanding loans. However, if you compare the amounts of the credit burden per Russian borrower with similar figures in developed countries of Europe and USA, one can note their approximate identity. Particular attention should be more focused upon qualitative characteristics rather than quantitative ones. In advanced economies, the main volume of retail loans, as a rule, consists of cheaper loans with the appropriate collateral. Therefore, there borrowers’ costs for loans service are much less [16, p. 71]. Currently, in Russia the main proportion of loans are unsecured retail loans which are available at the interest rates being set at a level significantly higher than their foreign counterparts [17]. The segment of retail lending is negatively influenced by the situation when a major factor in the growth of retail lending in recent years has been the segment of credit cards which for certain kinds of holders are fairly complicated banking product [18, p. 250].

According to the obtained calculations, linear and polynomial models for the retail lending development provide the lowest forecast error (deviation from the existing trend). A logarithmic type of forecast can be seen as a pessimistic forecast. Overall, in light of forecast scenarios

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<tr>
<td>The volume of granted retail credits, in billion dollars.</td>
<td>84.6</td>
<td>112.4</td>
<td>136.5</td>
<td>134.2</td>
<td>91.2</td>
<td>107.8</td>
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<td>- in rubles</td>
<td>82.3</td>
<td>110.1</td>
<td>134.0</td>
<td>131.6</td>
<td>89.7</td>
<td>108.9</td>
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<td>- in foreign currency</td>
<td>2.3</td>
<td>2.3</td>
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<td>65.2</td>
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<td>The proportion of granted retail credits in rubles, %</td>
<td>97.3</td>
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<td>The proportion of granted retail credits in foreign currency, %</td>
<td>2.7</td>
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<td>1.9</td>
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<td>1.6</td>
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<td>The volume of retail credit indebtedness in billion dollars.</td>
<td>86.1</td>
<td>120.0</td>
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<td>The volume of retail loan debt arrears, in billion dollars</td>
<td>4.5</td>
<td>4.9</td>
<td>6.8</td>
<td>10.3</td>
<td>13.4</td>
<td>297.7</td>
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<td>The proportion of debt arrears in total retail credit indebtedness, %</td>
<td>5.2</td>
<td>4.1</td>
<td>4.4</td>
<td>5.9</td>
<td>8.1</td>
<td>155.8</td>
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Source: Compiled by the authors based at [13]
of retail lending development, we can conclude that the forecast based on the polynomial model is the most acceptable for Russia’s commercial banks, according to which, the total volume of retail lending will increase substantially, and by 2017 will have increased by 4.4 billion dollars and will amount to 138.7 billion dollars. Thus, taking into account the possibility of further growth of retail lending in Russia, we propose measures for the revitalization and intensification of this business area (Figure 1).

6. Conclusion. The conducted study gives grounds to conclude that consumer lending remains a major factor affecting the economic component: it is the source of livelihood for the players of the banking sector; it stimulates the growth of trade, increases revenue. In addition, retail lending helps to meet the needs of the population, the implementation of which without borrowed funds is not possible. All this, in its turn, directly affects the social component. However, despite of this, there are a number of problems in the development of retail lending in Russia. Their decision will allow improving the impact of this business area on the economy; it is necessary to regularly monitor and identify the features of the retail lending market situation, develop and introduce new credit products, form flexible (very competitive) conditions of retail lending, expand the channels of availability of retail credit products, improve the work on minimization of credit risks, and improve the technological infrastructure of retail business.

References


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Fig. 1: Measures for enhancing retail lending in Russia
Source: Authors’ elaboration

Together these measures will increase the efficiency of retail lending, and, consequently, intensify the positive impact of this business area on the economy.