Trends and scenarios of development of regulation of the Russian banking sector

Abstract.

The paper addresses the widely discussed problems of development of banking systems, as well as the problem of achieving a balance between ensuring financial stability and stimulating business activity in the country.

The lessons of the global financial and economic crisis 2007-2009 prompted regulators and, in particular, the Basel Committee on banking supervision, to transform the regulatory system to more rigid models. The need for restrictions on the freedom of the market through increased powers of regulatory bodies is argued in this paper.

Restrictions on the adoption of risk banks have had an impact on curbing business activity monetary institutions in connection with the need for additional buffers of capital formation, lower dividend payouts, needs forming sufficient reserves for possible losses, maintain liquidity at a safe level, etc. Simultaneously the consequence was the growth restrictions imposed regulatory costs in the banking sector, easing interaction banking and real sectors of the economy mainly in emerging markets, reducing the number of existing credit organizations in connection with revocation of licenses and increased cost of restoration. These measures led to an increased presence of the State in the capital of credit institutions, reduce fair competition, increase administration and control.

In these circumstances, regulators are searching for directions to overcome contradictions between financial stability and economic development. In this regard, the author examines different regulatory scenarios. The study uses comparative methods, benchmarking to market practices and recommendations for analysis and identification of the main risks affecting financial market. The author analyses the banks’ commitment to the international standards of regulation with regard to the expected stimulation of business activity in the short and long run, concluding that banks’ regulation can become a new source for a new financial crisis.

Key Words: deregulation, regulation, trends of regulation, banking sector, financial stability, Basel Committee on Banking Supervision, Basel of III, business activity, megaregulation, propereodicity of regualtion, buffer of funds.
INTRODUCTION

Development of the industry of financial services in modern conditions undergoes the essential transformation caused not only influence of rapid development of technologies and technological innovations (introduction of artificial intelligence, new technological platforms), but essential pressure from regulators which both in Russia, and in the developed countries concentrate the attention on ensuring financial stability. Toughening of requirements to institutes of the banking sector of economy which take root according to the international standards of the Basel committee on bank supervision is especially obviously traced.

Financial stability, certainly, is that basis which forms trust to activity of monetary and credit institutes, promotes inflow of money to a banking system, increases predictability of changes in the domestic economic environment, etc. However presentation of more strict requirements to activity of banks, unfortunately, has the return influence, constrains business activity, doesn't promote deepening of interaction of credit institutions and enterprises of the real sector of economy [1].

Modern discussion on problems of influence of regulation on economic development

Problems of influence of the international standards of regulation it is actively discussed in scientific research and expert community. In particular some researchers: De-Ramon, S, Z Iscenko, M Osborne, M Straughan and P Andrews (2012), Š utorova, B and P Teply (2013), Fraisse, H, M Lé and D Thesmar (2015) have found out that regulation can lead to reduction of crediting in Europe for 2% at increase in requirements to the capital for 1 items [2]. Estimating interrelation between percentage spread and indicators of capital adequacy on the example of banks of Great Britain (from 1992 for 2012) de-Ramon, etc. (2012) have revealed that in the long-term period at increase in capital adequacy by 1 items, spread will extend [3] Other researchers have come to 9,4 bps to more rigid estimates, believing that interest rates for the credits can increase on 19 bps at the same assumption on the level of capital adequacy [4].

The international institutes also carried out assessment of the increased requirements to capital adequacy, liquidity of banks (Basel III) on development of economy. The institute of the international finance has assumed that for absorption of increased requirements to the capital banks will be forced to raise rates on the credits that will lead to decrease in volumes of crediting. Also other international organizations (table 1) gave negative outlooks.

Table 1 – Influence of standards III of Basel on key indicators of macroeconomic and banking sector [5]

<table>
<thead>
<tr>
<th>Influence on the capital</th>
<th>Influence on the credit</th>
<th>Influence on the volume of</th>
<th>Influence on the</th>
<th>Influence on the GDP</th>
</tr>
</thead>
</table>

2
The careful credit policy of banks in the conditions of the amplifying pressure from regulators, according to the experts, by some estimates will promote decrease in availability of credit resources. It was as a result supposed that introduction of Basel III will lead to decrease in growth rates of GDP (though his dynamics can remain positive). These tables 2 show quantitative estimates of such influence.

Table 2 – Influence of standards of the capital of Basel III on the GDP loudspeaker [6]

<table>
<thead>
<tr>
<th></th>
<th>GDP Dynamics (в %)</th>
<th>GDP Annual Average Rate of Growth (% of GDP growth)</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>–0,01</td>
<td>–0,05</td>
</tr>
<tr>
<td>Euro-zone</td>
<td>0,00</td>
<td>0,00</td>
</tr>
<tr>
<td>Japan</td>
<td>0,00</td>
<td>0,00</td>
</tr>
<tr>
<td>Weighted mean value</td>
<td>0,00</td>
<td>–0,02</td>
</tr>
</tbody>
</table>

There are also other opinions, a number of the western researchers draw a conclusion that more strict requirements to the capital in the long term won't lead to considerable economic costs [7,8,9]. This perspective is of special interest for Russia, including assessment of prospects of development of regulation.

**Subject and methods of a research**

Object of research is regulation of the banking sector on the example of Russia. The fundamentals of methodology of a research were made by works of founders and followers of the theory of institutionalism (Veblen, Kommons, Adams, Mitchell, Schumpeter, Nort, Kouz, Akerlof, Abalkin, Kleyner) in which works the attention is concentrated on the analysis of

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1 Forecast on the period till 2015
2 Forecast on the period till 2015 (on the interest rate – till 2019).
3 Long time forecast (temporal span is not adjusted).
4 Forecast till 2019 г.
conditions of harmonization of interests of subjects of economy, the interests of society and state.

**Main part**

In the Russian practice we observe also other phenomena caused by the policy of "clarification" of the banking sector pursued by the Bank of Russia from weak and unfair players of the market, carrying out financial improvement which result in concentration of assets at a limited circle of participants and also to expansion of presence of the state at the capitals of monetary and credit institutes.

![Figure 1 - Quantitative characteristics of banking sector institutions](http://www.cbr.ru/Eng/analytics/bank_system/obs_eng_191.pdf)


For example, about 60% of assets of the Russian banking sector are the share of the banks controlled by the state, five largest credit institutions control 56% of assets of the banking sector, and twenty the largest – nearly 80% [2].
Also other trends characteristic and for developed economies, in particular, strengthening of administration to the detriment of market methods of regulation are noted. At the same time, before we will define our expectations about development of regulation and supervision in the banking sector in the short-term and medium term, to address reasonably regulation evolution.

It is known that in connection with global financial and economic crisis of 2007-2009, judgment of his reasons deregulation was succeeded by awareness of need of restriction of freedom of the market due to expansion of powers of regulators which was followed by acceptance of the whole series of laws and regulations, institutes of financial stability have been created, requirements to mechanisms of settlement of insolvency and identification of the first signs of problems in activity of credit institutions at early stages of their emergence have raised.

The main accents in regulatory practice have been postponed for prevention of accumulation of multisectoral risks, observation for macro - and microindicators which can lead to emergence of "bubbles". At the microlevel it was shown in emergence of new, more progressive approaches and tools of assessment and risk management.

In other words, in anticipation of global crisis by commercial banks the priority was given to increase in profitability of activity due to expansion of trade and investment operations which was stimulated with deregulation. In a post the crisis period there was a change of priorities the party of formation on balances of a considerable stock of liquid assets, reserves on possible losses, carrying out careful credit policy, etc. the Central banks have concentrated the attention on overcoming system problems, development of norms of regulation of systemically significant credit institutes, search of effective mechanisms of work with problem banks. In other words the

![Figure 2 - Share of banks with state participation](http://www.cbr.ru/Eng/analytics/bank_system/obs_eng_191.pdf)
priority began to be given to more technological system assessment and risk management (Basel, Basel of III).

The main consequences of more rigid model of regulation became:

− growth of regulatory costs in the banking sector;
− weakening of interaction of banks with the real sector of economy in connection with carrying out conservative credit policy by banks;
− reduction of number of the operating credit institutions, generally local;
− growth of costs in connection with carrying out sanitation of large banks;
− increase in a share of the state in the capitals of banks;
− weakening of the competition in the banking sector in connection with market monopolization, etc.

In other words there was a problem when achievement of one purpose has resulted another in unattainability. We believe that in modern model of regulation the contradiction between the aspiration to provide financial stability to the detriment of economic development is concluded. Data on Russia confirm insufficient participation of the banking sector in economic development that causes the need for creation of incentives by means of weakening of regulation. The statistical data on dynamics of important macroeconomic indicators of activity of the banking sector submitted in fig. 3 for the last 6 years confirm the contained growth of business activity in the sphere of crediting. Along with vernal factors of reserved increasing crediting, it is possible to allocate also a number of internal. In particular, introduction of the international standards of regulation by the national regulator limiting risks.

Figure 3 - Share of the banking sector in lending to economic entities
There is an impression that regulation develops for the sake of regulation. Moreover the revealed pro-recurrence of model of regulation of the pre-crisis period, in our opinion, isn't overcome, this problem remains, but already at other level.

At the same time the arisen imbalance in financial and economic system was deeper than a regulation imbalance. Especially sharply this of an imbalance is noted in emerging markets.

The pro-recurrence new, a post of crisis model of regulation, in our opinion consists, kind of it didn't sound unmodernly, in complication of technologies of calculation and risk management, use of advanced methods of assessment. Management of banks, using the international standards at assessment of risks, are sure that risks are properly estimated and created reserves for their covering. In turn regulators, in the course of supervising practice confirming respect for the established norms, believe that financial stability is provided. However all norms and standards of microregulation are constantly supplemented and specified that demonstrates the arising inaccuracies in assessment of risks, it leads to a new round of complication of norms and requirements, growth of costs of business and search of ways of optimization of expenses.

The third problem consists in heterogeneity of subjects to regulation that at universality of requirements leads to formation of portfolios with excess risk. This problem is in a varying degree solved in the different countries including Russia, by means of differentiation of licenses for bank activity and approaches to regulation of owners of such licenses [3,4]. However heterogeneity of persons under surveillance of subjects of regulation and complication of model of regulation can serve as the withdrawal reason from megaregulation model and also cultivation of regulation and supervision.

Taking into account the above, we believe that on short-term the horizon in the Russian regulatory practice: the commitment to the international standards of regulation will remain; in supervision to amplify the tendency of administration and control to the detriment of market mechanisms; it is possible to expect separate cases in regulation, however they won't lead to the expected stimulation of business activity, deepening of interaction of bank and real sectors of economy.

In the medium term perhaps supervision will be brought out of functionality of the regulator; there will be a gradual reconsideration of advantages of megaregulation, and preservation of the working model of regulation can become an additional source of origin of the crisis phenomena.
Conclusion

It is known that the banking sector is more susceptible to innovations, advancing the real sector of economy in the development. At the same time financial intermediaries are very sensitive to any fluctuations of market conditions and from time to time aren't capable to continue business. Under the influence of shocks in connection with the last global economic crisis national regulators consistently introduce the international standards of regulation which feature is toughening of norms and requirements. Toughening of the regulatory norms aimed at ensuring financial stability have also boomerang effect - contain economic growth. This thesis has no unambiguous assessment in the researches conducted abroad and Russia. However the developing economies including Russia, need additional incentives of economic development which can be created by means of his easing without damage of financial stability. We consider that regulation shouldn't be carried out for the sake of regulation, even for ensuring financial stability.

In this regard we believe that search of consensus between requirement of ensuring financial stability and economic growth will demand modernization of systems of regulation and supervision in the bank sphere.

Our expectations consist that in our country on the short-term horizon the commitment to the international standards of regulation without the calls facing economy will remain. It is necessary to expect bigger consolidation at all levels of management, reduction of number of banks, strengthenings of administration and control from the Bank of Russia. Separate easies in regulatory norms can be at the same time accepted, however they won't lead to the expected stimulation of business activity.

In case of strengthening of these tendencies there can be a need for a supervision conclusion from functionality of the national regulator. Perhaps, there will even be reconsiderations of advantages of megaregulation, not only in connection with heterogeneity of subjects of regulation, the conflict of interests, but also in connection with unjustified expansion of powers of the regulator.

The new model of regulation of the banking sector accepted developed and a number of developing countries, in our opinion, isn't deprived of pro-recurrence and, under certain conditions can become a source of new crisis.
References


