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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

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Вплив міжнародних фінансових процесів на розвиток ринку роздрібног кредитування в Росії

Анотація. У статті на основі використання загальних і спеціальних методів дослідження проведено всебічний аналіз розвитку роздрібног кредитування як одного з пріоритетних бізнес-напрямків комерційного банку; виявлено вплив міжнародних фінансових процесів на його розвиток; визначено основні параметри розвитку роздрібног кредитування в Росії. Моніторинг ринку роздрібног кредитування і застосування методів прогнозування дозволили визначити подальші напрями його становлення та сформувані комплекс стратегічних заходів щодо активізації його впливу на економіку Росії.

Ключові слова: банк; кредитування; роздрібног кредитування; фінансові процеси.

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Влияние международных финансовых процессов на развитие рынка розничного кредитования в России

Аннотация. В статье на основе использования общих и специальных методов исследования проведен всесторонний анализ развития розничного кредитования как одного из приоритетных бизнес-направлений коммерческого банка; выявлено влияние международных финансовых процессов на развитие данного сегмента и определены основные параметры его развития в России. Мониторинг рынка розничного кредитования и применение методов прогнозирования позволили определить дальнейшие направления его становления и сформировать комплекс стратегических мероприятий по активизации его воздействия на экономику России.

Ключевые слова: банк; кредитование; розничное кредитование; финансовые процессы.

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 (1996) [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 loan», «retail credit». One group of authors (E. F. Zhukov, G. G. Korobova, D. V. Maleev, O. I. Lavrushin) equal these terms, while the others differentiate them according to certain criteria (G. N. Beloglazova, A. A. Kazimagomedov, A. A. Hadgijev).

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 requirements, promotes to income levelling in 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 consumer loan development in Russia (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 decisions have strategic risks, because as we move out of the crisis, the threshold of entering the retail business will be higher, and banks will have to start retail business with a fairly low start [14, p. 10].

It should be noted that at present the majority of credit institutions have chosen the vector of increasing the volumes of individual loans. This was mainly due to the following reasons: pent-up demand for such banking products, a quite aggressive marketing policy of banks in the promotion and marketing of retail loans, and high marginality of this business.

However, there may occur quite a different situation: one can observe the rise of the debt burden on borrowers - individuals, which in future can lead to the very negative results in both economic and social aspects [15, p. 112]. Thus, according to the Central Bank of Russia, on the first of January, 2016, the

Tab. 1: Basic indicators of retail lending development in Russia for the period of 2011-2015

Indicator	2011	2012	2013	2014	2015	Growth rate for 2011-2015
The volume of granted retail credits, in billion dollars.	84.6	112.4	136.5	134.2	91.2	107.8
- in rubles	82.3	110.1	134.0	131.6	89.7	108.9
- in foreign currency	2.3	2.3	2.5	2.6	1.5	65.2
The proportion of granted retail credits in rubles, %	97.3	97.9	98.1	98.0	98.4	101.1
The proportion of granted retail credits in foreign currency, %	2.7	2.1	1.9	2.0	1.6	59.3
The volume of retail credit indebtedness in billion dollars	86.1	120.0	154.4	175.6	165.4	192.1
The volume of retail loans debt arrears, in billion dollars	4.5	4.9	6.8	10.3	13.4	297.7
The proportion of debt arrears in total retail credit indebtedness, %	5.2	4.1	4.4	5.9	8.1	155.8

Source: Compiled by the authors based at [13]

total volume of retail loans debt arrears reached 165.4 billion dollars. This growth is directly linked to the weakening of borrowers' paying capacity due to the constantly changing economic conditions. In addition to the growth of the total volume of indebtedness, there can be observed the increase of the population's loan delinquency. For the period of 2011-2015, overdue debt increased by 1.9 times. Negative aspect affecting the growth of retail loans debt arrears can be also explained by the fact that the number of loans and their volume per a single borrower is increasing.

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].

It is important to note that if the current 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.

A great financial burden on a borrower can be accounted for by not only the number of credits, but also by retail loans' interest rates which are fixed. It is the cost of credit that steadily affects the demand [19, p. 28]. We must note that the situation is as follows: not having enough time to achieve a stable position in the retail lending market one interest rates are followed by other dynamically set interest rates. Typically, such mobility has a negative impact on the retail lending market in Russia.

In order to identify further vectors of retail lending development, we have applied a forecasting technique that allowed us to formulate key strategic directions to enhance the impact of this business area on the Russian economy.

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 conducted forecast scenarios

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.

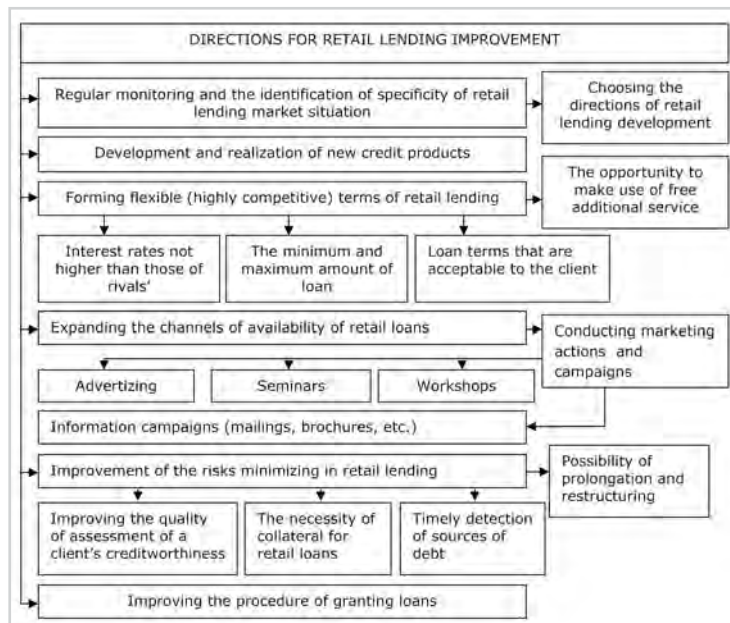


Fig. 1: Measures for enhancing retail lending in Russia
Source: Authors' elaboration

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

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