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Gref Pledges to Rein in Exorbitant Loan Rates

By Anatoly Medetsky

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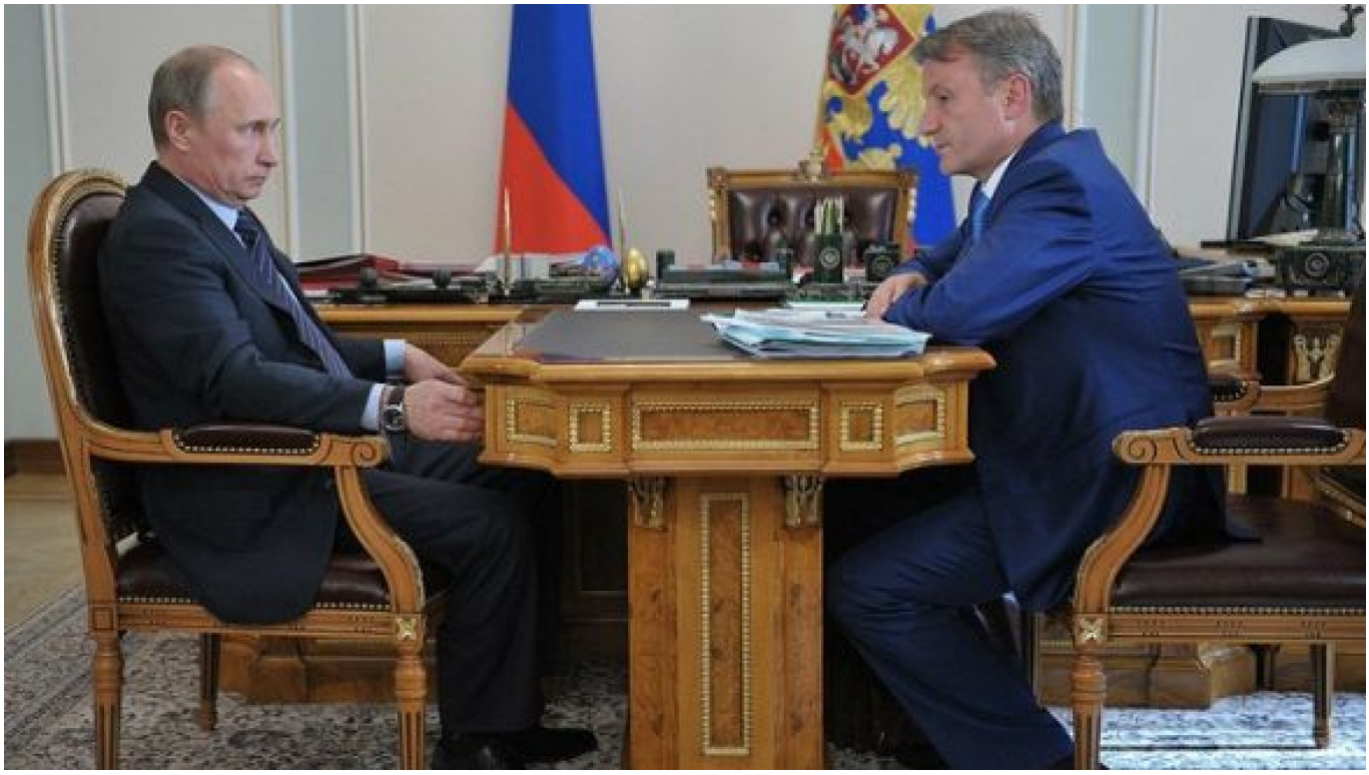

President Vladimir Putin and Sberbank chief German Gref at a Monday meeting.

State-owned Sberbank said Monday that it was looking to come to the rescue of customers that fell prey to exorbitant loan rates elsewhere, in a boon for an economy that is growing largely on the back of consumer spending.

Sberbank chief German Gref announced the plan at a meeting with President Vladimir Putin at a presidential residence outside Moscow on Monday, adding that the country's other major banks were ready to join the effort.

Gref said consumer lending was the main force that pulled the sluggish economy forward, but the momentum was petering out because Russians were increasingly mired in unwieldy loan payments.

"That's why it now feels like making a maneuver to push the unfavorable rates down

somewhat, so that people could continue to buy some necessary things," Gref said. "We are now preparing a big campaign."

Putin said he approved of the measure.

Gref went on to say that 20 percent of households now pay back loans, which significantly weighs down family budgets.

In addition, many Russians do not care to read the fine print on the contracts, ending up paying steep commissions, Gref said. The cumulative rates on some point-of-sale loans, which are provided by banks at places like stores or car dealerships, reach 90 percent, he said.

Starting this fall, Sberbank's joint venture with BNP Paribas, a lender called Cetelem, will offer refinancing rates that won't exceed 17.5 percent, Gref said.

That will be a decrease from Cetelem's previous rates. In June, the lender advertised a 19.9-percent rate on contingency loans.

It was not immediately clear Monday which other big banks would go on the offensive against more expensive loans. An executive at VTB24 said the retail arm of the country's second-largest lender VTB, which is also state-controlled, was already reaping the rewards of its refinancing program.

"Demand from customers is colossal," said Ivan Lebedev, chief of the lender's consumer loans department.

Last month alone, the bank issued more than 1 billion rubles ($30 million) worth of loans under the program, he said. Lebedev did not list overall economic growth as a reason for the effort, saying the bank simply aimed to attract quality borrowers.

A massive refinancing campaign could prove to be a massive letdown as a quick fix to spur economic growth.

Tamara Kasyanova, chief executive of 2K Audit-Business Consultations, said people might get a more appealing deal on an old loan, but that does not mean they would immediately rush to buy new gadgets, furniture or cars in the next year or two.

"In order to buy new goods, they will need to pay back old debts first," she said.

Pavel Gagarin, chairman of consultant Gradient Alfa, said the refinancing initiative looked more like social support.

According to Kasyanova, retail borrowers number 34 million people in Russia, which is almost half of the country's solvent residents.

Average Russians sometimes spend as much as a half of their incomes on the loans in a country where the average paycheck is 42,000 rubles ($1,300) in Moscow, and 27,000 rubles for other regions, she said.

The economy grew 1.7 percent in the year's first half in a marked slowdown form the previous

couple of years when it was rebounding from the crisis.

The Cabinet approved a slate of acceleration measures at the end of last month, which largely call for dipping into a fund that soaks up oil revenues. The plan grew out of Putin's announcement in June to plough 450 billion rubles ($14 billion) into two railroad projects and a ring road outside Moscow.

Contact the author at medetsky@imedia.ru

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