

Russia at Rising Risk of Systemic Banking Crisis, State-Linked Economists Warn

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Yaroslav Chingaev / Moskva News Agency

The probability of a systemic banking crisis in Russia is on the rise, according to a new [report](#) from a state-affiliated economic think tank.

Experts at the Center for Macroeconomic Analysis and Short-Term Forecasting (CMASF) warn that while a full-blown crisis has not yet materialized, several warning signs point to a high likelihood of one happening.

In its latest analysis, CMASF describes the current situation as a "resonance" of negative economic signals: rising bad debts, early [indications](#) of depositor flight and mounting pressure on both businesses and consumers from high interest rates.

The group is now closely tracking not just indicators of crisis onset, but also signs that any future crisis could be prolonged.

A systemic banking crisis, as defined by CMAAF, would involve at least one of three conditions: non-performing loans exceeding 10% of total banking assets, a significant withdrawal of funds by depositors, or large-scale bank recapitalizations exceeding 2% of the country's GDP.

None of those conditions have been met so far, but the underlying risks are steadily growing, the report says.

Related article: [Russia's Primary Real Estate Market at Higher Risk of Bursting as Prices Soar, Central Bank Warns](#)

The Russian Central Bank, which has maintained a tight monetary policy to combat inflation, acknowledges that high interest rates are putting strain on the financial system.

Corporate borrowers are increasingly struggling to service their debt, while households are accumulating bad loans at a growing pace.

Loan issuance is slowing, and signs of credit stress are beginning to [emerge](#) at the country's two largest lenders, Sberbank and VTB.

In a recent financial stability [report](#), the Central Bank identified corporate credit risk and consumer over-indebtedness as two of the six primary vulnerabilities in the financial system. It noted a marked increase in the cost of credit risk and a deterioration in repayment rates, particularly among retail borrowers.

To contain the fallout, the Central Bank has called on banks to offer greater flexibility on loan restructurings and has relaxed reserve requirements for restructured loans beginning in July.

In March and early April, Russian banks restructured 2.3 trillion rubles (about \$25 billion) worth of loans, though the pace has since slowed significantly.

Although the Central Bank maintains that the situation remains manageable, the [numbers](#) tell a more complicated story. As of the end of April, problem loans totaled 5.2 trillion rubles (\$66.2 billion) — 3.2 trillion in corporate debt and 2 trillion in retail — representing less than 5% of total banking assets.

Related article: [Dozens of Russian Companies Suspend Dividend Payments Amid Economic Uncertainty](#)

But ratings agency ACRA [estimates](#) that problematic loans could surge to the equivalent of 20% of the system's capital by year's end, or 3.7 trillion rubles.

Some of Russia's largest corporations are already feeling the pressure. The Central Bank reports that 13 of the country's 78 largest firms now earn less in profits than they owe in interest — an unsustainable dynamic if high rates persist.

Still, the regulator argues that most industries, with the exception of coal, are adapting to the new monetary environment. It emphasizes that banks are well-capitalized, with reserve

buffers covering more than 70% of risky loans. Retail lending alone had a buffer of 1.3 trillion rubles (\$16.5 billion) as of March.

Russia has weathered banking crises before, most recently in 2014-2015, when a crash in oil prices and Western sanctions over the annexation of Crimea sparked a deep financial shock.

That episode was successfully predicted by CMASF's early-warning indicators, similar to those now raising concern.

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