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## Bank of Russia updates the playbook

**Bank of Russia measures may be extended as the timing of economic recovery is uncertain**

[Last week, the Bank of Russia updated](#) the regulatory easing and macroprudential measures introduced in March of this year (the very beginning of the spread of COVID-19 in Russia). [Earlier](#), ACRA wrote about the measures taken by the regulator to support the banking sector, the timeliness of their implementation, and their likely extension due to the risk of instability in the Russian economy continuing.

Adverse economic trends related to the level of income of the population and business have been observed for about six months. Russia's economy is still feeling the effects of internal quarantine measures, falling external demand, and prices for export goods. ACRA estimates that by the end of 2020, GDP will decrease by 4–4.5% and the income of the population by 5–6.5% (base case scenario). Currently, there is still no time frame for normalizing business activity in the country, and estimates range from several months to several years. However, it is clear that it will be more difficult for credit institutions and the economy as a whole to get out of the crisis without easing regulatory measures. Stimulus is needed that takes into account the interests of both banks and borrowers and that will ensure high-quality credit growth and not lead to over-crediting.

The Bank of Russia's decision, which is aimed at supporting the economy and takes into account the main risks of the banking sector, includes the following:

- The right not to recognize retail loans that were restructured from March to the end of 2020 as restructured and not to calculate the debt load index for the purpose of applying risk factor allowances until the end of 2020.
- The ability not to apply allowances to risk factors for loans of citizens with a confirmed diagnosis of COVID-19 until the end of 2020, as well as to apply relatively low allowances for unsecured consumer loans issued from September 2020.
- The right to installments on additional reserves in full, as under standard regulation: until the end of H1 2021 for retail loans restructured from March to the end of 2020 and for loans to SMEs; until the end of Q1 2021 for corporate loans (excluding for SMEs) restructured due to the pandemic before September 30, 2020.
- The ability to use the estimated cost of collateral (I or II quality category) as of January 1, 2020, until the end of 2020 when creating reserves for corporate loans.

The cancellation and reduction of allowances to the risk factors for the abovementioned types of loans, as well as the installment plan provided by the Bank of Russia for additional reserves, help to maintain the potential of banks to increase loan disbursements, the demand for which is restored as [economic activity in the country increases](#). Applying increased regulatory allowances to risk factors has created additional capital buffers in the past, which now allows most Russian banks to feel more confident in terms of capital adequacy (as of June 1, 2020, N1.0 averaged 12.7% for the sector with a minimum of 8% allowed, with N1.2 at 10.4% with a 6% minimum).

*Read more in ACRA's analytical commentary from March 24, 2020, titled "[Implementation of the Bank of Russia's support measures is extremely important for preserving stability in the banking system.](#)"*

*Read more in ACRA's macroeconomic forecast from April 21, 2020, titled "[Questions and lessons from the 2020 economic crisis.](#)"*

However, the Bank of Russia decided not to extend the following:

- Accounting for the value of securities that are not subject to standard regulation starting January 1, 2021, and including transactions in six major foreign currencies in the calculation of mandatory standards at the exchange rate set by the Bank of Russia on March 1, 2020, starting October 1, 2020. The introduction of such measures was due to the extraordinary situation in the domestic financial market this period. According to ACRA, the situation in the financial markets this summer justifies the cancellation of these measures. In its base case scenario, ACRA does not expect a repeat of the situation in March 2020, although for a number of banks with low capital adequacy, shocks in financial markets still pose a threat.
- Non-compliance with N26 (N27) by systemically important credit institutions. ACRA does not expect a significant deterioration in the liquidity situation for either the abovementioned banks or the sector as a whole, and therefore assess compliance with these standards as achievable (taking into account easing in the use of irrevocable liquidity lines of the Bank of Russia).
- Refinancing the debt of SMEs to specialized banks in the amount of RUB 500 bln. This is due to a reduction in the key rate to 4.25%, as well as, according to ACRA, a decrease in demand for loans on the part of SMEs (the volume of lending in Q2 2020 decreased by 20% year-on-year) and the banks' needs to fund these loans. However, the current refinancing mechanism under the guarantee of Federal SME Corporation, which has a limit of RUB 175 bln and a preferential interest rate, largely meets the needs of SMEs.

The Bank of Russia's updated support measures are aimed at gradually returning the main indicators of the banking sector to pre-crisis levels. However, ACRA still does not rule out the possibility of extending regulatory measures until the economic situation in Russia stabilizes. In addition, ACRA notes the risk of lowering the capital adequacy ratios of banks in H1 2021. This is due to both low profitability and the continuing need to form reserves for the loan portfolio, the quality of which has already deteriorated, especially for retail business and SMEs, and may not be fully reported. According to the Bank of Russia and ACRA, the total volume of loans restructured since the start of restrictive measures at the end of H1 2020 exceeded RUB 4 tln. ACRA expects that banks will be forced to create reserves for a significant share of these loans.

ACRA also believes canceled measures could be restored. Weak economic growth (in ACRA's pessimistic scenario, economic recovery is not possible until 2022), a high level of uncertainty regarding the risks of a second wave of the pandemic in Russia (tightened restrictive measures), as well as the risks of instability in the oil market drive the continued increased fragility of the industry. Therefore, when curtailing existing measures while some macroeconomic uncertainty remains, caution is extremely important. This will allow the regulator to assess the associated risks in a timely manner and the banking sector to get out of the current adverse economic situation as painlessly as possible.

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