

THE BANKING MARKET OF ULYANOVSK REGION

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Keywords: credit institution, Ulyanovsk Region, institutional bank services, financial bank services saturation, index of the saving industry development, joint index of the regional banking.

The article analyzes the increasing role of service sector as one of the patterns of economic development, makes a review of the regional banking line development, which is important both for the assessment of the situation in a particular region and for the assessment of problems and prospects for the whole banking system of the Russian Federation. The article outlines possible prospects for the development of banking sector of Ulyanovsk region, a typical region of the Russian Federation.

With the development of human society, production forces, material production and social requirements, the proliferation of the growth rate and the influence of the service sector becomes one of the patterns of economic development. In 1900, the average percentage of the world material production according to employment status sector structure reached 80% of GDP, tertiary industries - 20% of GDP. It shows that the service-to-product ratio made 0.25, in 1950 - 0.34, in 2000 - 0.95¹. The tendency of growing (fig.1) is evident. It was due to the fact that modern technology and equipment gave rise to the increasing labor capacity, which leads to the switch of the part of population from the agricultural and industrial sectors to the other fields of activities, and predetermines the occurrence of new types of services and structural changes in the service sector itself. Among the factors which speed up the growth of the number of the services are development of production and globalization, aggravation of competition which boosts the development of the service sector.

The rapid development of the service sector in the developed countries is especially obvious as compared to the developing countries. The service sector in the developed countries is a major part of the national economy.² Over 70% of the population of the developed countries work in the service sector, service-to-product ratio in 2000 was 2.41, while in developing countries it was less than 70%, in 2000 it was 43.3%, service-to-product ratio - 0.76.¹

This tendency, typical for the whole world and for the Russian Federation, goes onto the regional level.

The part of all types of market services rendered in Ulyanovsk region in 2006 was 4.92

times larger than in 2000, nationwide - 4.64 times larger³, respectively. It means that the average rate of service growth in our region is larger than in the country. The range of services per caput increased note worthily. The scope of services per caput in the Ulyanovsk region in 2006 was 5.26 times larger than in 2000, nationwide - 4.78 times larger respectively. It means that the average rate of service growth per caput in our region is larger than in the country. The increasing range of market services is the result of the advancement of prices for services which exceed the advancement of price for primary goods, and as well the result of the increasing physical quantity of services.

The share of marketed services rendered in Ulyanovsk region in 2006 increased by about 20% in comparison with 2005. In a greater or lesser degree it was due to the increase in prices of marketed services by 13.2% and the increase in overall production of marketed services by 6%. The average volume of marketed services in Russia in 2006 increased by about 23% as compared to 2005r. To smaller or greater extent, it was due to the increase in prices of marketed services by 13.9% and the increase in overall production of marketed services by 7.6%.

Bank services are especially important for the development of the national economy; therefore, our aim was to explore regional bank services market. The crucial factor for bank services market to develop is the stabilization of economic situation. This fact is supported by the following data: the Gross Regional Product (GRP) in 2007 increased by factor of 1.23 year on year and by factor of 1.63 in comparison with 2004. Rapid wage and welfare payment

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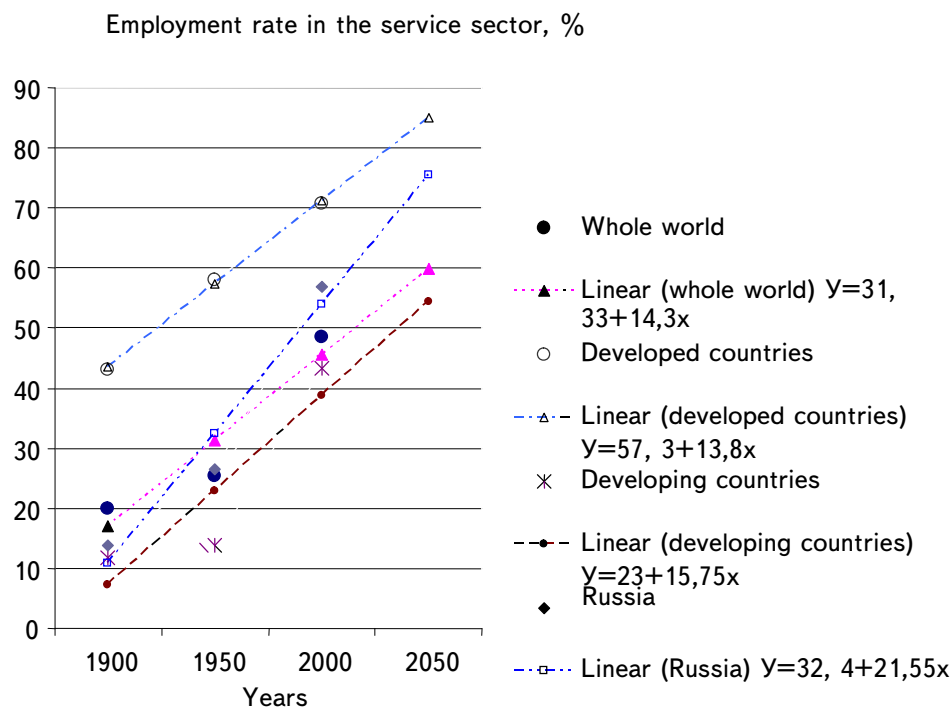


Fig. 1. The diagram of employment rate within tertiary production

increase led to the increasing real population income. The income of people in our region increased by the factor of 1.27.

The escalation of rate of development and of the overall production of regional industrial institutions influences the condition of bank services. The year 2007 showed the acceleration of the rate of output growth year on year practically in all spheres of economic activity. The main motivating factor for the expansion of the production capacity of goods and services in 2007 was private household demand, supported by rapid development of public bank crediting.

Positive trends in the development of basic national measures came together with the development of banking sector. The increase of activity was accompanied by the increase of demand for banking services as well as quantitative and qualitative proliferation of supply.

Among the main indexes which indicate the range of banking services coverage are institutional banking services saturation, financial banking services saturation (according to assets), financial banking services saturation (according to the volume of credits), the index of saving industry development, joint index of regional banking services (calculated by the Bank of Russia). The given data describing the situation in Ulyanovsk region (table 1, fig. 2) underlines the positive tendency of growth of banking servic-

es index. Therefore, we can conclude that there is an extension of banking service activity, and consequently, the increasing banking service provision index.

In general, the joint index of regional banking services increased in 2007 by factor of 1.11 in comparison with 2005r.

According to the joint index of regional banking services, Ulyanovsk region holds the 10th position out of 14 regions of Privolzhsky Federal District (PFO). This index increased by factor of 0.03 in 2007 as compared to 2006.

It was subject to relatively high level of institutional banking services saturation on institutional banking services saturation (according to the population size, institutional banking services saturation and financial banking services saturation (according to assets) which in 2007 increased by factor of 0.23 and 0.01 respectively (table 1). According to the size of institutional banking services saturation, Ulyanovsk region is ranked third (together with Tatarstan) in the list of PFD regions. The average PFD index in 2007 reached 0.83, which means that the level of institutional banking services saturation in Ulyanovsk region is higher than the average PFD level.

At the same time, the rate of growth of the joint regional banking service index in 2007 decreased from 106.3% up to 104.4% in comparison with 2006. It was subject to the de-

Table 1

Positive tendency of growth of banking services in Ulyanovsk region*

* Central Bank of the Russian Federation official site. web: <http://www.cbr.ru/>

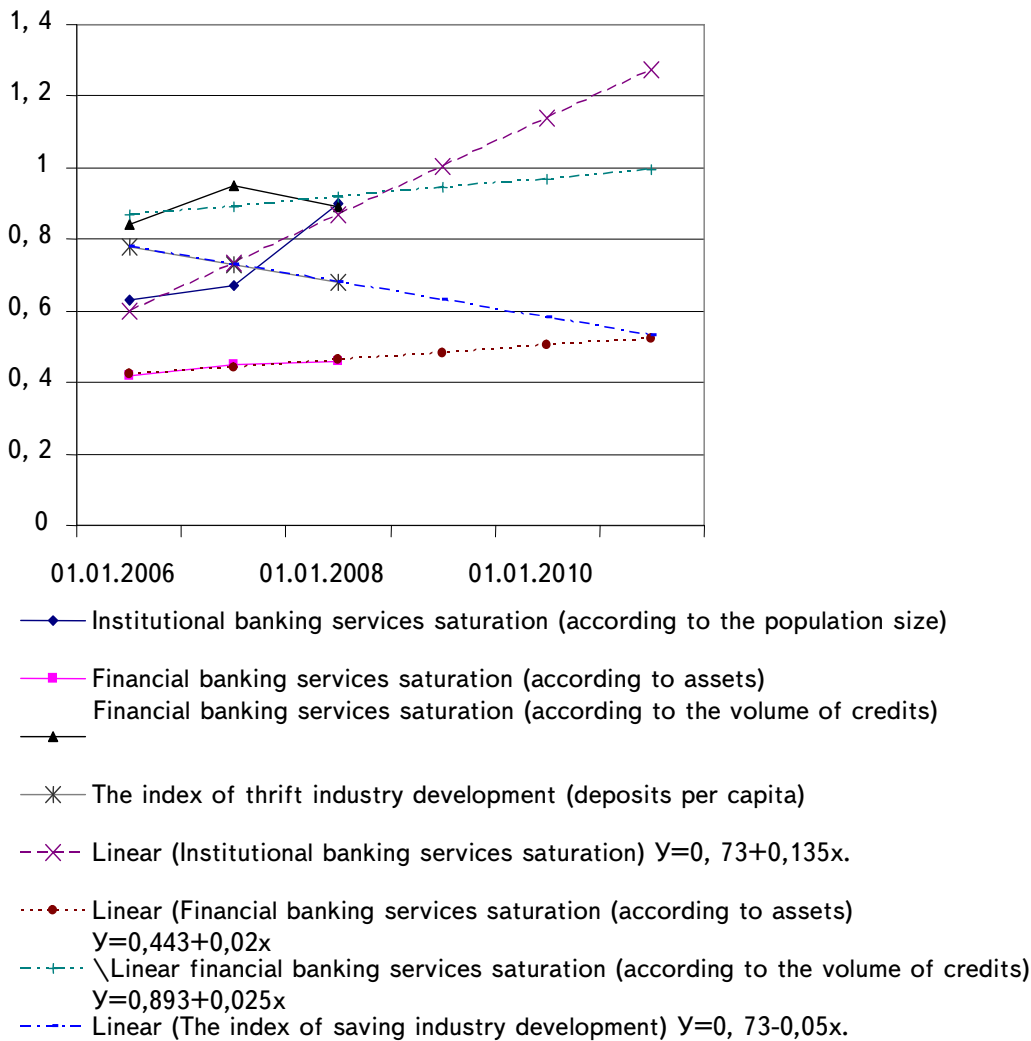


Fig. 2. The positive tendency of growth of banking services index

crease of the index of thrift industry development and of the financial banking services saturation index (according to the volume of credits) by factor of 0.06 and 0.05, respectively.

The increase in “Institutional banking services saturation (according to the population size) “ index was due to the opening of new branch offices of credit companies from other regions, which proves Ulyanovsk region being

economically attractive for investors. Since 2006 three branches of banks from other regions have been opened in Ulyanovsk region. Banking services in Ulyanovsk are rendered by 31 depository institutions including four regional banks, three branches of these banks and 28 branches of depository institutions from other regions (table 2). Depository institutions have 161 supplementary offices.

Table 2

**Changes in the number of primary banks providing operations
in Ulyanovsk region**

Index	by January 1 st				Growth rate, %		
	2005	2006	2007	2008	2005	2006	2007
The number of credit companies in the region	6	6	5	4	100	83,3	80,0
The number of affiliated institutions in the region (total)	30	29	28	31	96,7	96,6	110,7
The number of affiliated institutions of independent banks	3	3	3	3	100	100	100
The number of bank branches from other regions	27	26	25	28	96,3	96,2	112
The number of affiliated institutions and supplementary offices	79	88	117	192	111,4	133,	164,1
The number of credit companies, affiliated institutions and supplementary offices	85	94	122	196	110,6	129,8	160,7

Institutional changes of Ulyanovsk region depository institutions in 2007 are due to the opening of three branches of depository institutions from other regions, 72 supplementary offices and closing of one of regional banks.

By January 1, 2008, for 1313 thd. people in the region there were 196 depository institutions (banks, branches and supplementary offices).

When describing banks making operations in Ulyanovsk region, it is important to mention the following primary virtues - stability, strength, and positive rate of growth, which is all proved by stable growth of the banking sector of the region. Assets of the regional banking sector increased in 2007 by factor of 1.48 in comparison with 2006 and by factor of 3.34 in comparison with 2004 (table 3); in relation to the index of the Gross Regional Product of 2007 (comparing with 2004) increased from 17.6% up to 36%. Therefore, we witness the strengthening of bank influence on processes which take place in the regional economy.

According to the results of 2007 and 2006, all Ulyanovsk banks made profits. The amount of profit, realized by depository institutions on 01.01.08 was 101.1 mln. rub., is 2,2 times larger than the index of the previous year, herewith the rates of growth of this index constantly increase. Thus, the rate of income growth of regional banks in 2006 in comparison with 2005 made 125%, in 2007 in comparison with 2006 - 175% (the increase by 50 percentage points).

Taking into account the market share index, regional banks work less successfully than

branches of major banks. By January 1st 2008, the average amount of assets for one independent bank (4 depository institutions and 3 branches) made 359 mln. rub. whereas the average amount for one 1 branch of the bank from other region made 1595 mln. rub.

One of the main goals and reserves of independent banks is accumulation of property assets which helps to speed up financing activity and development of special services.

The main source of resource reinforcement of regional depository institutions is the household sector. During 2007 the capacity of household deposits in regional banks increased by factor of 2, 3 as compared to 2005 and reached 70.3% from the gross sum of funds attracted. We can see the increase in expansion rate, to some extent, it is due to the growth of personal income. In 2006 the expansion rate based on deposits of physical persons with banks reached 131.9 %, in 2007 - 136.5 % (Table 3).

One of the main factors which produce a positive influence upon the formation of regional banks image is an insurance system. It helped investors to make benefits from the larger range of activities for money depositing.

Dominant position on the banking sector market (savings sector) holds the Joint-stock commercial Savings Bank of the Russian Federation which by January 1st 2008 had covered 76% of all regional deposits. But we can see the decrease in the amount of the bank share on the scope of all regional deposits. The share of Joint-stock commercial Savings Bank of the Russian Federation on the natural persons de-

Table 3

Changes in some indexes which characterize bank sector of Ulyanovsk region

Index	By the start of the period				Expansion rate, %		
	2005	2006	2007	2008	2005	2006	2007
Assets (consolidated) mln.rub.	13387	19597	30115	44654	146,4	153,7	148,3
Credits given to resident companies and to resident natural persons, mln.rub.	10722	21098	33964	48136	196,8	161,0	141,7
Funds held for customers, mln.rub.	10838	14515	21073	29134	133,9	145,2	138,2
Enterprise assets on settlement, checking and other accounts, mln.rub.	1557	2726	5169	7165	175,1	189,6	138,6
Deposits of physical persons with banks (up to 01.07.2005. Deposits and other natural persons' funds attracted), mln.rub.	8910	11378	15005	20482	127,7	131,9	136,5

posit market in 2007 decreased by 2 percentage point, in 2006 - by 6 percentage points.

Following stabilization of the Russian Federation currency as the store of value and with the increase of deposit protectability, people prefer to deposit money on ruble deposits, which in 2007 (in comparison with 2006) increased by factor of 1.38, while the increase on currency deposits was by factor of 1.15. In 2007 assets on ruble deposits made the main part (95%) of overall volume of household deposits.

One of the factors that boosted the formation of resource base of regional banks and branches was the increase of the amount of enterprise assets on settlement, checking and other accounts (Table 3). These assets in 2007 were larger than in 2006 by the factor of 1.4.

The main type of allocation of resources for Ulyanovsk banks is crediting. The structure of bank provision of crediting demonstrates the peculiarities of regional economy sector struc-

ture. The structure of bank crediting corresponds to it too.

The structure of credits rendered to regional legal persons shows that in 2007 the main beneficiaries were industry and business enterprises. The share in the whole amount of credits rendered to legal persons makes 53% and 22% respectively (fig.3), the share of credits for industry enterprises in the amount of real sector credit indebtedness in 2007 increased by 8% in comparison with the first half of the year 2005, the indebtedness of business enterprises decreased by 16%.

In 2007 the quality of credit portfolio of legal persons became a bit better as compared to 2005. The share of overdue credits in the gross sum of indebtedness under credits in the real sector at the beginning of 2008 was 1.73%, whereas at the beginning of 2006 it was 3.8%. At the beginning of 01.10.07 the indebtedness under credits made 1.83% of the whole real

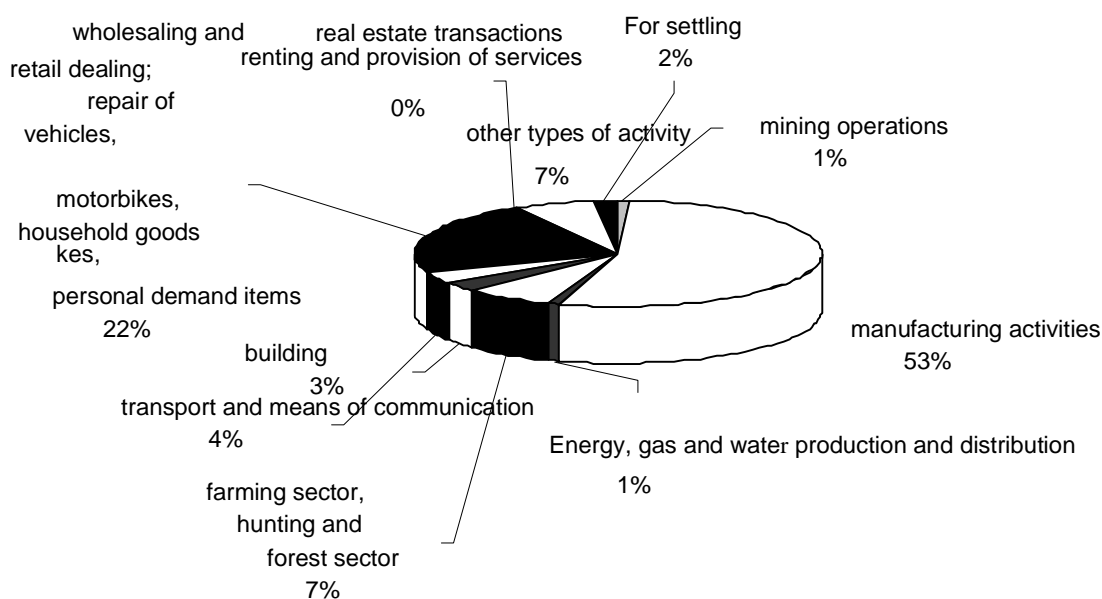


Fig 3. The structure of indebtedness under credits, rendered by depository institutions to legal persons (according to the types of economic activity as to 01.01.08)

sector credits amount, it is twice larger than in Russia (average performance was 0.98%). In 2007 the quality of credit portfolio of natural persons also became a bit better. The share of overdue credits in the gross sum of indebtedness under credits, rendered to natural persons as to 01.01.08 made 2.77% whereas by 01.10.07 it was 3.36%. The index level by 01.10.07 was lower than in Russia (average performance was 3.49%).

The biggest market share in the field of rendering of credits to legal persons as of January 1, 2008 is held the branches of depository institutions from other regions, and it made 84.65%. Despite the high crediting activity of regional banks, their activity is insufficient. Among the reasons which block the interaction between banking and real sectors are high credit risks and the deficiency of long term passive.

To stimulate the crediting activity the Chief administration of Ulyanovsk branch of Bank of Russia took measures, aimed at increasing of availability of interbank credit for regional banks. In April, 2005 the system of interbank crediting based on General agreement "On cooperation in the interbank credit and deposit market"⁴ came into force.

Consumer crediting still remains one of the most popular bank services. The main tendency in consumer market is an expansion of customer demand. The total amount of credits rendered to citizens increased in 2007 as compared to 2006 by factor of 1.6, as compared to 2004 - by factor of 5. Recently, the range of bank services at the consumer market was very wide. Purpose-oriented crediting became one of the most widespread and popular bank services in 2007.

Mortgage credit lending helped to improve living conditions of Ulyanovsk region habitants. The volume of housing purchase credits as of January 1, 2008 made 4473.1 mln.rub; residential mortgage loans - 2967.4 mln.rub. It reached 66% from the whole volume of housing pur-

chase credits, whereas it was 50% as of 01.01.07. The share of loan operations for purchase of housing (for natural persons) by the end of 2007 made 25.2%, whereas at the beginning of the year it was 15.9%.

One of the main tendencies in clearing operations is realization of program, aimed at implementation of prepaid cards. By January 1st 2008 every fourth citizen was the holder of a debit card. During 2007 banks issued over 472 thd. debit cards, it is by 4.6 times more than in the first quarter of 2004.

On the basis of the carried analysis we can claim that we are witnessing the stable and dynamic development of banking service market of Ulyanovsk region.

The structure of banking service market is becoming more complicated:

- ◆ the volume of banking services expands;
- ◆ new services appear;
- ◆ New technologies of bank services provision are introduced;
- ◆ The spheres of cooperation broaden on the basis of new technologies etc.

The development of banking service market in Ulyanovsk region is very crucial for the development of region economy. Positive tendencies in the region economy and banking sector development give substantial grounds for further extending of the sphere of bank services application in our region.

¹ *Klikitch L.M.* Particularities and regularities of service sector development <http://www.e-rej.ru/Articles/2005/Klikitch1.htm>

² *Sosunova L.A.* Interaction between logistics and marketing in the sphere of non resource-intensive services // *Vestnik of Samarsky Economical University*. Samara. 2006. No. 1(19). pp .98-103.

³ Federal State Statistics Service. web: <http://www.gks.ru> (www.fsgs.ru)

⁴Head Department of the Bank of Russia in Ulyanovsk region. Banking sector: realities and tendencies // *Delovoye obozrenie*. 2006. No.3. pp.8-9.