BOOSTING THE AUTONOMY OF REGIONAL BANKING SYSTEMS AS A DRIVER OF ECONOMIC DEVELOPMENT: THE CASE OF RUSSIA

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Abstract

The object of the research study reported in this paper is to work out a set of practical recommendations on reforming the key instruments and mechanisms that underpin state regulation of Russia's banking sector to help boost the autonomy of its regions' banking systems based on a set of inferences derived regarding the effect of autonomy in terms of boosts in the efficiency of regional banking systems. The authors' practical recommendations are aimed at stimulating the self-development of the nation's regions. Institutional regulation of the regional banking system is proceeding along the path of putting together regional financial-industrial clusters, participants in which are eligible for the long-term use of the resources available. What is open to question is the degree to which the regulator's standards and requirements are differentiated depending on the specificity of the region's economy and the bank's sectoral specialization.

Keywords: state regulation, regional banking system, Central Bank of Russia, economic growth, monetary-lending policy

JEL classification:

1. Methods

The methodological basis for this study is a set of works by domestic and foreign scholars devoted to the development of the theoretical foundations of financial regulation, banking, and state regulation of the economy; the development of systems and institutional theory with the focus on managing a regional social-economic system.

The study's practical part is grounded in the use of systems analysis, a dialectical approach, factor analysis, time series analysis, as well as a set of multidimensional classification methods (cluster analysis).

The use of a systemic approach has helped view the process of interaction between the banking and real sectors of the economy as an aggregate.

2. Findings

The prevalence of negative trends in the Russian economy is accompanied by the devaluation of the national currency, rising inflation, hikes in the cost of internal and external resources, the technical-technological differentiation of the region's backbone enterprises, and institutional rifts. These trends are leading to risks concentrating within regions' banking and real sectors, which are augmented due to tightening regulatory requirements to financial-lending organizations, which is reflected in multiple instances of banking licenses getting revoked and state support being oriented toward systemically significant participants in the financial market.

In this regard, a major result of this study is having come up with a scholarly rationale for the use of a theoretical approach to the essence and forms of the concept of 'regional banking system' in relation to set objectives for regulating the present-day social-economic system, as well as the development of a set of practical recommendations on reforming the key instruments and mechanisms underlying state regulation of Russia's banking system with a view to boosting the autonomy of its regions' banking systems based on a set of inferences derived regarding the effect of autonomy in terms of boosting the efficiency of regional banking systems, which is specified in the following tenets:

1. The authors have brought to light the gist of the concept of 'regional banking system' in relation to set objectives for regulating the present-day social-economic system.
2. The authors have worked out a classification of Russia's regional banking systems based on their degree of autonomy and put together a characterization of the types of the regional banking system.
3. The authors have identified the major preconditions for the formation of an efficient autonomous banking system in a region (through the example of the Republic of Tatarstan (RT) (the period in question spanning the time from 1990 to 2014)), as well as the key preconditions for declines in autonomy (starting in 2014).
4. The authors have put together a forecast for the development of Russia's regional banking system (through the example of the RT), factoring in the above preconditions.
5. The authors have put together a set of practical recommendations on reforming the key instruments and mechanisms underlying state regulation of Russia's banking system with a view to boosting the degree of autonomy of its regions' banking systems.

3. Inferences

Russia is currently witnessing a boost in the centralization of its banking system in favor of a group of federal banks whose head offices are located in the city of Moscow. This is causing declines in the autonomy of regional banking systems and the actual regions as a whole, with most of the distribution and redistribution of capital being managed by entities outside the region. Until recently, the Republic of Tatarstan operated quite an autonomous regional banking system, which enabled the region to promptly resolve its economic issues locally. December 2016 saw the start of a banking crisis in the RT, one of the key preconditions for which was the state's economic policy, focused mainly on support for the major federal banks. Failure to adopt a set of economic measures of support for regional banks may gradually deprive the regions of one of their own instruments for boosting economic growth, with the competition within the banking system bound to diminish significantly.

4. Introduction

The current stage in the evolution of the economic system has generated the need to search for answers to new trends associated with external risks of globalization, volatility fluctuations in markets for raw materials and financial markets, economic stagnation, the disruption of interaction between the financial sphere and the material production sphere, and too much reliance on the part of monetary institutions on the high efficiency of regulatory measures.

In a climate of global instability, the results of near-future forecasts for the development of the banking and real sectors are, unfortunately, not very optimistic, which underscores the relevance of theoretical conceptualization and practical application of relevant forms and mechanisms for their institutional interaction, factoring in the conditions of present-day economic reality and all the destabilizing factors.

Based on the nation's administrative-territorial structure, the Russian Federation currently incorporates 85 constituents – state units with a certain degree of political and economic independence (autonomy) within a federation.

It will hardly be possible to resolve the issue of achieving stable and sustainable economic growth in the country without first charting a proper course for the development of its regions. Banking mechanisms and instruments play a determining role in this development since they secure the distribution of capital across the sectors of the economy. Consequently, it may be surmised that a region with an efficient banking sector will be able to exhibit dynamic growth, which should have a positive effect on the nation's economy as a whole. This paper provides an insight into what place regional banking systems occupy in Russia's economy, how autonomy influences their activity, and what recommendations could be proposed in this regard to help boost the efficiency of Russia's banking sector.

It, above all, is worth gaining a proper insight into the concept 'Russia's regional banking system'. The authors construe it as a system whose major participants are:

- Regional state banks – credit organizations whose activity is largely influenced by the governments, or other bodies of authority, of RF constituents; the major spheres of these banks' interests are within the boundaries of a region (republic, oblast, or krai).
- Private banks whose head office is located within the region.
- The branches and additional offices of other banks (out-of-region banks) in the region.
- Institutions concerned with state regulation of banking activity which exercise control and oversight over the activity of banks.

The findings of the authors' analysis have revealed that the current structure of Russia's banking system is such that regional subsystems are not fully autonomous – they are only to a certain degree. This is due to the following factors:

- Banks being highly centralized territorially. Notwithstanding that Russia's banking system currently (as of January 1, 2017) numbers 623 credit organizations (28, p. 184), 314 of them, or more than 50%, are registered in Russia's capital, Moscow.
- Federal banks enjoying a leading role in the structure of the banking system. Russia's banking sector can be regarded as a mixed type of market dominated by an oligopoly, with the nation's 5 largest banks controlling 56.0% of all assets within the industry and 20 banks controlling 78.2%. Note that 15 of these 20 banks are registered in Russia's capital, Moscow.

5. Materials and methods

The methodological basis for this study are works by domestic and foreign scholars devoted to the development of the theoretical foundations of financial regulation, banking, state regulation of the economy, and the development of systems theory and institutional theory with the focus on managing the regional social-economic system.

In particular, the study's methodology is based on the works of C. Woelfel, E.L. Goryunov, P.V. Trunin, S.M. Drobyshevskii, A.E. Dvoretskaya, S.E. Dubova, T.N. Zver'kova, R.A. Musaev, and D.V. Kleshko (6, 8, 9, 12, 14, 20), who have presented the subject of the study as a set of interrelated and interacting elements, as well as R. Churm, N. Chutasripanich, C. Farvacque-Vitkovic, and M. Kopanyi (30, 31, 35), who have presented it as an aggregate of relations. The use of the methodological apparatus of systems theory in this study has helped gain an insight into the process of interaction between the banking and real sectors at the regional level of the economy by viewing them as an aggregate of elements in the economic system that interact and influence each other. This portion of the study relies on the works of J. Delmon, F. Packer, N. Tarashev, L.V. Krylova, M.V. Leonov, T.I. Petrova (32, 42, 18, 19, 22), and others. This study has made it possible to substantiate and expand the ideas of present-day finance theorists as to that the character and caliber of interaction between the sectors are what governs in large part the sustainable development of present-day regional economic systems (the effect of major macroeconomic trends on the development of the regional economy).

6. Literature review

The relevance of the study of negative factors and trends in the global financial system, aimed at seeking out the opportunities for mobilizing the potential of the economy's banking sector is what determines the need to work out a self-consistent, scientifically substantiated concept that is predicated on the critical conceptualization and accrual of knowledge within the framework of systems theory and institutional-evolutionary theory, as well as to work out a set of practical recommendations on the development of relevant forms and methods of interaction between the subsystems at all levels of the banking system in a climate of persistent uncertainty regarding the prospects for economic development.

The study of the nature of and interrelationships between such structure-forming elements in the interaction of the banking and real sectors of the economy as regions, business entities, principles, and forms has been reflected in works by a number of Russian and foreign scholars, like C. Woelfel, E.L. Goryunov, P.V. Trunin, S.M. Drobyshevskii, A.E. Dvoretskaya, S.E. Dubova, T.N. Zver'kova, R.A. Musaev, D.V. Kleshko, Yu.P. Zelenskii, and others. However, despite the detailed insight provided into a number of tenets, there still persists some ambiguity regarding certain issues dealing with insight into the interaction of the banking and real sectors at the regional level. There is a need to take an integrated approach to the study of processes of institutional organization and implementation of promising forms of interaction between the various levels of the financial system within the context of attainment of sustainable positive macroeconomic effects.

Theoretical and methodological approaches to the study of the role of interaction between the banking and real sectors within the framework of the regional economic system and the augmentation of the state's participation in the process have been addressed in fundamental historical works by A. Smith, K. Marx, J. Keynes, M. Friedman, and J. Schumpeter, as well as in works by a number of present-day scholars, like L.V. Krylova, M.V. Leonov, T.I. Petrova, and others.

Issues related to institutional modernization of the banking system have found reflection in works by G.N. Beloglazova, S.E. Dubova, M.A. Rochev, M.A. Pomorina, T.N. Zver'kova, V.E. Zuev, L.V. Krylova, and many others.

Of special interest for the study are analytical reports by foreign and Russian state and non-governmental organizations, as well as a set of promising state programs (25, 29, 33, 34, 36, 38, 39, 41).

However, with all the depth of the results attained by the above scholars, what still remains open to investigation is the search for areas for boosting the quality and sustainability of the path for development, the efficiency of the state's participation under conditions of crisis phenomena, the role of banks in the development of the regional industrial sector, etc.

The current economic conditions are signaling the need to give a new impetus to the interaction between the state, the banking system, and the real sector of the economy factoring in the combined influence of a set of endogenous and exogenous factors with a view to attaining a sustainable positive macroeconomic effect.

7. Results

I. Findings of an analysis of Russia's regional banking systems intended to assess the degree of their autonomy.

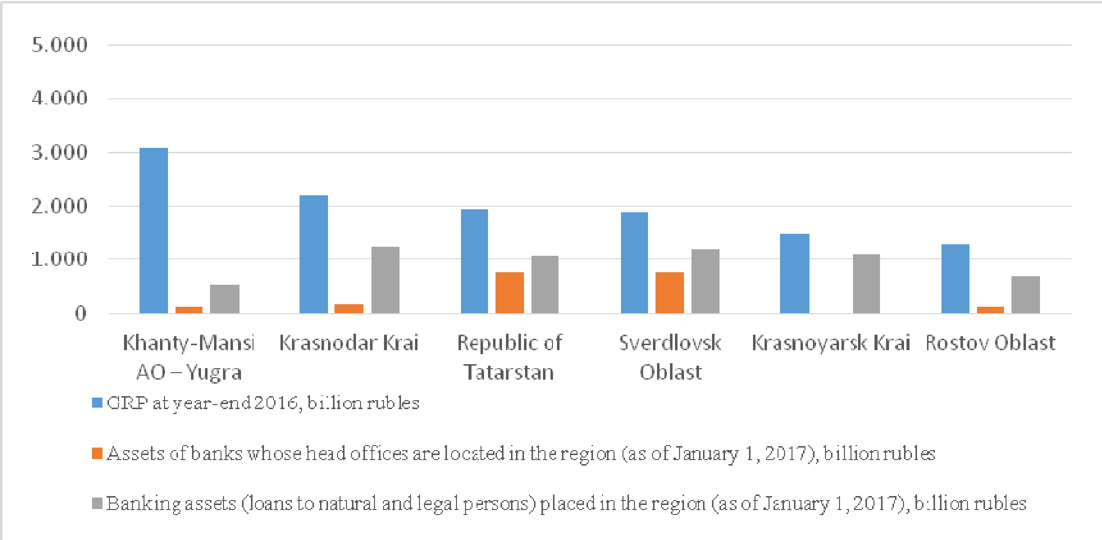
Below is an overview of which of Russia's regions possess a banking system with the highest degree of autonomy. This is based on an analysis of a set of Russia's largest regions with a gross regional product (GRP) of over 1 trillion rubles (at year-end 2016). To be able to properly assess the degree of autonomy of the banking sector, one will have to answer the following questions:

1. To what degree are credit mechanisms integrated into the region's economy? The example of developed countries clearly indicates that the size of banking assets may quite often be above the size of the region's GRP, which is a testimony to how significant the role of the banking sector is in the region's economy. Thus, the answer to this question is the ratio of banking assets[1] placed in the region to its GRP.
2. To what degree is the scale of business conducted by the region's own banks commensurate with the region's economy? This, basically, is about the ratio of the assets of the region's own banks to its GRP. This will help assess the significance of the region's own banks to the region's economic development.
3. To what degree do the assets of the region's own banks cover the region's banking assets as a whole? It is worth understanding here that the assets of the region's own banks incorporate loans granted in other regions, while the region's banking assets may be formed by federal and other regional banks. All else being equal, this indicator characterizes the ability of the region's own banks to meet the need of business entities for loan-based funding in case of all other banks hypothetically leaving the markets.

Figure 1 displays the values of 3 indicators under review (GRP, the assets of the region's own banks, and banking assets placed in the region). It is evidenced by the figure that only 2 regions are exhibiting significant levels in terms of the assets of the region's own banks (Sverdlovsk Oblast and the Republic of Tatarstan).

[1]Banking assets placed in the region are to be construed as loans extended to resident natural and legal persons.

Figure 1. Major indicators for certain regions of the Russian Federation used to assess the degree of autonomy of banking systems (compiled by the authors based on (28, pp. 210-241; 3))



Based on the above data, it is possible to calculate a set of relative indicators answering the 3 questions mentioned above. It follows from Table 1 that the regions identified by the authors based on Figure 1 have the highest degree of autonomy – this, above all, is attested to by Indicators 2 and 3. In the authors' view, an acceptable value of Indicator 3 starts at 40%, since, as was pointed out earlier, the largest federal banks occupy around 50%–60% of the banking market. In this regard, Indicators 2 and 1 are a testimony not to the capacity of the region's banking system for full autonomy but, actually, to the region's lesser dependence on federal and other regional credit organizations.

Table 1. Relative Indicators Characterizing the Degree of Autonomy of a Regional Banking System

Number of the indicator	Indicator 3	Indicator 2	Indicator 1
Formula	Assets of the region's own banks/banking assets placed in the region	Assets of the region's own banks / GRP	Banking assets placed in the region / GRP
Content of the indicator	Extent to which the assets of the region's own banks cover the banking assets of the region as a whole	Extent to which the scale of business conducted by the region's own banks is commensurate with the region's economy	Extent to which credit mechanisms are integrated into the region's economy
Khanty-Mansi AO – Yugra	25%	4%	17%
Krasnodar Krai	15%	8%	57%
Republic of Tatarstan	71%	39%	55%
Sverdlovsk Oblast	64%	40%	63%
Krasnoyarsk Krai	2%	1%	73%
Rostov Oblast	18%	10%	54%

Thus, it can be concluded that the regions of the Russian Federation are inhomogeneous in the degree of autonomy of their banking systems, which makes it possible to divide them into relatively "autonomous" and "dependent". Autonomous regional banking systems are characterized by there being a pool of "personal" banks (i.e. banks registered in the region), state-run and private alike. Being autonomous implies that regional banks are largely integrated into the region's economy and have a significant effect on its development.

The structure of the market of dependent regional banking systems is, normally, an aggregate of, above all, auxiliary, operation-cash, and lending-and-cash offices of federal banks and credit institutions from other regions.

The division of regional banking systems by autonomy is based on that in the first case the decision-making center is located within the region, while in the second case it is outside the region. In the case of state regional banks, the authorities can use them as an instrument for targeted support for regional projects that are in alignment with state objectives when there is a lack of funding on the part of private banks and federal budgetary investments. Besides, storing the remainders of the funds of the region's enterprises (especially, those regarded as system-forming) in accounts at regional banks may increase the chances that they will be redistributed in the form of granted loans in the territory of the region.

With dependent regional banking systems, business entities are faced with high risks of failure to receive loan funds: branch lending policy appears to be more conservative here (there, at best, are small regional limits on lending established without coordination with the central office); most of the time, decisions are made in the head office, whose management may be not fully aware of the sectoral specificity of the conduct of activity across regions. This fact is currently regarded as a bottleneck with federal banks compared with regional ones, in which decisions are, normally, made by beneficiary owners, which reduces the chain: "An application for a loan is simply followed by a decision on lending the funds". In essence, a region that has no autonomous banking system has no financial sovereignty, which means that its resources for independent development are extremely limited.

II. Preconditions for the formation of regions' autonomous banking system.

Below is a detailed overview of the regional banking system through the example of that of the Republic of Tatarstan (RT), which until recently was regarded to be one of Russia's most stable regional banking systems. This includes some of the key preconditions for the formation of an autonomous regional banking system within a region, some of the major reasons behind the crisis phenomena observed since late 2016, as well as a set of practical recommendations for the development of a region's banking sector.

Among the major reasons behind the formation of the RT's banking nucleus is the pretty long period of relative autonomy enjoyed by the RT's National Bank, a territorial institution within the Central Bank of Russia. Right from the time it was founded through to 2014, it was the republic's regulator that independently handled banking oversight activity. Besides, the republic had an informal institution designed to foster banking protectionism. Thus, the making of the regional banking system proceeded in a climate of protection of the banking market from federal and out-of-region expansion. It is worth noting that today the autonomy of the regional institutions concerned with regulating banking activity is minimal. Thus, for instance, in 2014 the National Bank of the Republic of Tatarstan was reorganized into the Tatarstan Division of the Volga-Vyatka Main Branch of the Central Bank of the Russian Federation, with its central office located in a different RF constituent – Nizhny Novgorod Oblast (the city of Nizhny Novgorod). The National Bank's head cash center was closed down.

The stable and sustainable development of the RT's banking system may also be linked to its structure, which incorporates a wide array of credit organizations varying in the size of assets and scale of activity. Table 2 has grouped the RT's banks by the size of their assets and their share in all banking assets combined. It is worth noting that, in terms of the market structure, the Tatarstan model, essentially, imitates the Russian banking system, as:

- there is a chief base bank (PAO Ak Bars Bank and PAO Sberbank);
- banks are clearly segmented into groups based on the size of assets (the gap between the groups is such that a bank's organic growth through the attainment of an average market rate of return does not let it move up into an upper group).

Table 2. Characterization of Banks within the Republic of Tatarstan Based on the Size of Assets (compiled by the authors based on (25))

Name of the bank	Size of assets as of January 1, 2017, billion rubles	Place by the size of assets in the RF banking system as of January 1, 2017 (among 623 credit organizations)	Bank's share in the combined assets of the republic's banks, as of January 1, 2017	Banks grouped by the size of assets
Ak Bars	465.7	20	61.01%	RTs' large regional banks
Avers	102.6	65	13.45%	
Intechbank	29.8	129	3.90%	RT's medium-sized regional banks
Devon-Credit	25.7	142	3.37%	
Tatsotsbank	25,4	143	3.33%	
Akibank	24.0	150	3.15%	
Energobank	22.3	153	2.92%	
Spurt Bank	22.2	154	2.91%	
Bank of Kazan	14.1	190	1.85%	RT's small regional banks
Ankor Bank	8.9	231	1.16%	
Autogradbank	6.0	286	0.79%	
Kamsky Commercial Bank	5.5	297	0.72%	
Zarechye	3.4	359	0.44%	
Tatagroprombank	2.9	377	0.38%	
Altynbank	1.7	454	0.23%	
IK Bank	1.5	469	0.20%	
AutoCreditBank	1.2	491	0.15%	
Network Clearing House	0.3	586	0.03%	

The third reason behind the effective development of both the region's banking system and the republic as a whole is the RT's large enterprises keeping in close contact with banks, which has led to the emergence of financial-industrial groups, with banks playing not a leading role but a "captive" one, i.e. that of a "pocket bank". Virtually all system-forming enterprises in the RT have in their group a credit organization, as is illustrated below:

- The TAIF group of companies (revenue at the end of 2015 – 524 billion rubles) is affiliated with the Avers bank;
- PAO Tatneft (552 billion rubles) is affiliated with the Devon-Credit bank;
- The plants Elekon and Komz (with a combined revenue of nearly 10 billion rubles) are affiliated with the Tatsotsbank;
- The Network Company (23 billion rubles) and the Kamsky Bacon plant (6 billion rubles) are shareholders of Akibank.

Thus, thanks to the high degree of autonomy enjoyed by the National Bank of the Republic of Tatarstan (up until 2014), banks being differentiated by their number, as well as the robust interaction between local banks and local businesses, the Republic of Tatarstan now has in place a regional banking nucleus that is capable of resolving all kinds of issues and providing a wide range of banking products and enjoys an overall favorable banking-investment climate with minor political risks for market participants.

III. Suggestions on putting together an autonomous regional banking system: major issues and a forecast for development.

In recent years, Russia's banking system has been faced with new challenges and risks, which have had a negative effect on the activity of credit organizations in its regions, the RT in particular:

1. A worsening of the macroeconomic state of affairs, which has led to significant declines in entrepreneurial activity across the nation. The ruble's significant devaluation in

2014 resulted in that the RF Central Bank's key rate, which is the major indicator of the cost of money, was sharply increased. During the period 2015–2016, the nation witnessed a smooth drop in the key rate, but the chief conclusion is that the rate stabilized at a level that exceeded the 2013 indicators by as much as twice. This resulted in a decline in the accessibility of loans and, consequently, in the volume of loans granted. Table 3 helps conclude that over the last 2 years the banking sector has virtually stopped growing (factoring in the currency revaluation of assets).

Table 3. Effect of the Dynamics of the Key Rate of the Central Bank of the Russian Federation on the Size of Combined Assets within the RF Banking System (compiled by the authors based on (25, 26))

Year	Key rate during the year	Weighted-average key rate during the year	Dynamics of assets within the banking sector in the year	
			In %, based on nominal indicators	In %, exclusive of currency revaluation of assets
2013	5.50%	5.50%	16.0%	
2014	5.5%–17% (the rate 17% was established on December 16, 2014, with the major effect felt in 2015)	7.88%	35.2%	18.3%
2015	17%-11%	12.64%	6.9%	-1.6%
2016	11%-10%	10.58%	-3.50%	1.90%

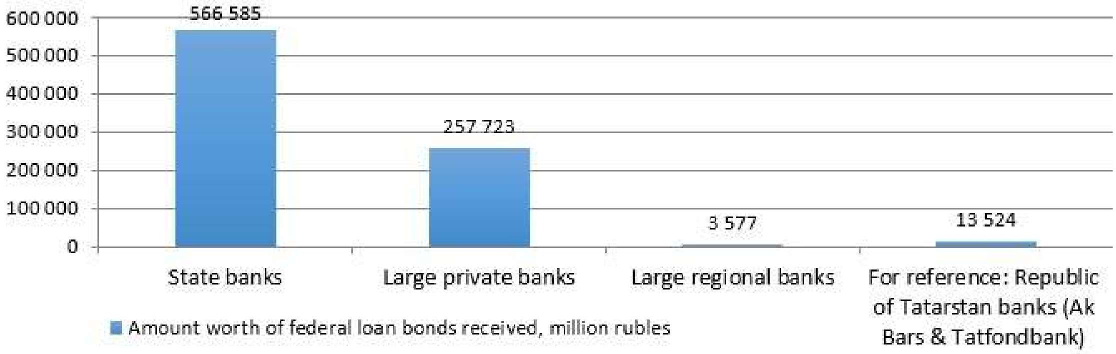
2. Tightened banking oversight. This has shown in an entire array of state measures with respect to regulation of banking standards, the size of charter capital, the procedure for formation of reserves for possible losses from loans, etc. In the end, the chief outcome has been a significant decline in the number of credit organizations in the market. During the period 2011–2016, the banking system was deprived of over 30% of the total number of organizations in operation. That being said, as is evidenced by Table 4, the banking license was stripped from not just small but medium-sized and large credit organizations as well.

Table 4. Credit Organizations Whose License was Revoked, with a Breakdown into Groups by the Size of Assets (compiled by the authors based on (21))

Group of banks based on the size of assets	Number of banks whose license was revoked						
	2011	2012	2013	2014	2015	2016 (as of December 1, 2016)	Total for 2011–2016
1-5	0	0	0	0	0	0	0
6-20	0	0	0	0	0	0	0
21-50	0	0	0	0	1	1	2
51-200	2	0	6	8	14	10	40
201-500	5	6	6	24	34	47	122
Others	15	17	21	56	47	30	186
Total	22	23	33	88	96	88	350

3. State support for banks being narrowly oriented both at the federal and regional level. Factoring in the adverse trends in the banking market, described in Items 1 and 2, the state has taken measures aimed at reducing some of the pressure regarding market liquidity. In the period 2015–2016, the state's chief support mechanism was its program for recapitalizing banks through the Deposit Insurance Agency (DIA) using federal loan bonds. The volume of state funding through the program totaled over 800 million rubles. However, as is evidenced by Figure 2, the bulk of support was provided to banks with state participation (68.4%). Most of the regional banks were virtually deprived of the opportunity to participate in the program due to high requirements for capital (5 billion rubles).

Figure 2. Distribution of state support across groups of banks as part of the state's capitalization program during the period 2015–2016 (compiled by the author based on (16))



As it was pointed out earlier, starting in late 2014 the National Bank of the Republic of Tatarstan had a low degree of autonomy, for which reason support for banks at the regional level using banking mechanisms was not possible. Under those conditions, the republic's government undertook, in accordance with a scenario common at the time to most regions across the Russian Federation, to keep up the stability of the operation of its base bank – PAO Ak Bars Bank. Financial support was provided through state regional institutions:

- Thus, in 2015 amid the bank's losses and declines in capital adequacy down to a level close to the nominal one, the bank's additional shares to the tune of 9.8 billion rubles (25.8% of all of its shares) were bought out by the State Housing Fund under the President of the Republic of Tatarstan.
- In early 2016, the Ministry of Land and Property Regulations of the Republic of Tatarstan bought out 50% of the shares of OOO Ak Bars Development (worth nearly 230 million rubles), specializing in residential construction, with the bank acting as an investor in many of the buildings. Some believe that the deal was associated with the bank itself needing financial support (1).
- In December 2015, as direct support, the bank's capital was supplemented with the shares of the republic's largest chemical enterprise PAO Kazanorgsintez worth around 9–10 billion rubles. The investor was AO Svyazinvestheftekhim, controlled by the RT government.
- An indirect testimony to some support provided to the bank is the deal whereby PAO Tatneft acquired 45.5% in ZPIF Ak Bars-Gorizont (the fund's assets incorporate land plots with a combined area of 50 million square meters) to the tune of 19.8 million rubles, which had been created and then managed by UK Ak Bars Capital, affiliated with the Ak Bars bank. The deal was of a non-market and non-transparent nature; there are experts (1) who believe that the deal had to do with support for the bank.

The above events clearly indicate that during the period 2015–2016 the state regional bank received around 20-40 billion rubles worth of financial support, which helped stabilize the credit institution's normative targets, but at the same time substantiated the state's support for the banking sector being narrowly oriented both at the federal and regional levels.

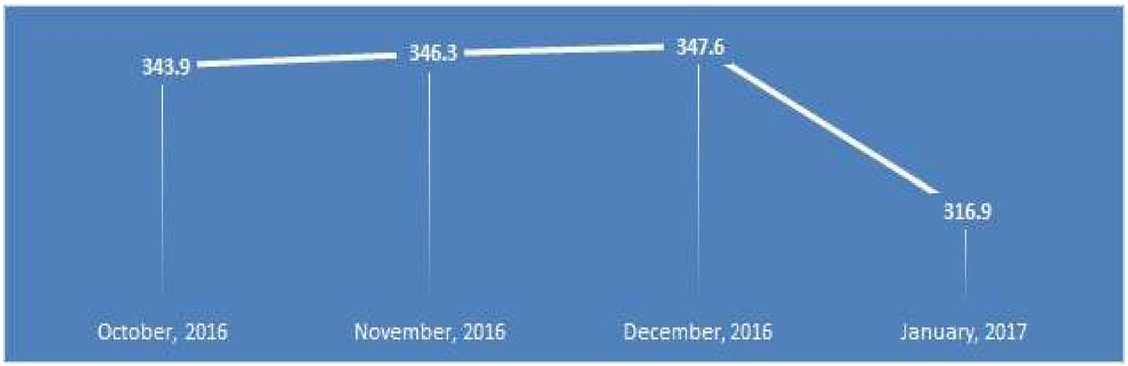
The factors mentioned above may provide an insight into the underlying causes of the banking crisis in the RT, which started in 2016 following the discontinuation of the operation of PAO Tatfondbank, the republic's 2nd largest bank (ranked 42nd in the Russian Federation in the size of assets). Right now, the bank is under temporary administration by the Deposit Insurance Agency and there is a moratorium on doing banking business with the bank's creditors. The problems of the state regional commercial bank (the PT had long been the owner of a significant number of the bank's shares, making it 51% by early December 2016 (1)) had a negative effect on the republic's other banks as well. Thus, for instance:

- Tatagroprombank has stopped serving clients and has violated the capital adequacy requirement (23);
- Ankor Bank has stopped releasing funds to clients and is having problems with liquidity (3);
- Intechbank has discontinued its operation and is under temporary administration by the Central Bank.

It is worth noting that among the institutions that have gotten into trouble are either small regional banks (Ankor Bank and Bulgar Bank, formally registered in Yaroslavl but conducting its activity mainly in the RT), or banks affiliated with PAO Tatfondbank (Tatagroprombank and Intechbank). A number of banks have been forced to temporarily discontinue servicing bank cards due to the use of processing by Tatfondbank (Altynbank and Timer Bank (13)).

One of the major indicators attesting to problems within the regional banking system is the dynamics of the remainders of the funds of enterprises and organizations in bank accounts, as these funds are not insured and enterprises would, normally, react promptly to increases in potential risks by transferring their funds to larger banks. In December, the size of funds held in the republic's banks diminished by as much as 10% (Figure 3).

Figure 3. Dynamics for the funds of enterprises and organizations placed in Tatarstan banks (October 2016 – January 2017, billion rubles) (compiled by the authors based on (25)).



Thus, it may be forecasted that in default of integrated support on the part of federal and republican authorities in the coming 2–3-year period the RT's banking system will undergo radical changes, like these:

- The number of the republic's own banks will decline; only banks backed by the state (Ak Bars Bank) or those forming part of economically strong and stable financial-industrial groups (Avers, Devon-Credit, Tatsotsbank) will be able to conduct business.

- The operation of the above banks will be stable mainly due to non-market liabilities (the funds of the state and quasi-state companies and institutions, including their employees), whereas market liabilities (the funds of any other enterprises and depositors) will be redistributed in favor of federal banks. Considering the low degree of autonomy enjoyed by the National Bank of the Republic of Tatarstan, there are no barriers to this. The RT's regional banking system will be less autonomous. The authors predict that the ratio of the assets of the RT's own banks to its GRP will decrease by 9–15% in the coming 2–3-year period.

8. Discussion

The findings of the authors' analysis of the present-day trends in the development of the banking system have led them to come up with a set of practical recommendations on boosting the degree of autonomy of regional banking systems.

Over the years, the measures taken by the Central Bank of the Russian Federation have led to the centralization of the banking sector and augmentation of the role of federal banks. To conclude, the authors are proposing a set of practical recommendations, which it will be possible to carry into effect only if the regulators turn around toward the development of regional banking systems and make it possible to turn them into growth areas for the economy of RF constituents and, consequently, the entire economy of the Russian Federation as a whole:

1) Putting together new and expanding existing programs related to recapitalization and support for liquidity. The primary objective behind the provision of liquidity to banks is to identify a set of credit organizations (especially, among medium-sized banks) that are capable to achieve, thanks to the state's financial lever, a robust leap in its activity and enlarge the scale of business, while being keen on funding promising sectors and industries along the way. The authors are of the opinion that new liquidity support programs are to meet a set of parameters to enable the attainment of efficiency:

a) Promoting the "monetary" form of support (by analogy with the way anti-crisis support was provided to banks through subordinated loans during the period 2008–2009). This is needed to enable the prompt transformation of funds into loans across a set of promising areas determined by the program upfront. This will be a lot harder to achieve if one resorts to subordinated loans in the form of state securities. Based on an expert assessment by Chairman of the Board of VTB24 M.M. Zadornov concerning the 2014–2016 recapitalization program, "you cannot loan money using federal loan bonds. It is just an accounting function which attests to that you'll have a security listed as your capital" (24).

b) Criteria for being selected based on the bank's size ought to make it possible to participate in the program for medium-sized banks selected based on the size of assets and capital. As of January 1, 2017, these criteria could total as follows:

- for assets – between 20–22 billion rubles and 150–155 billion rubles;
- for capital – between 3 billion rubles and 20 billion rubles.

c) Promoting co-funding on the part of the bank's shareholders based on the "1 ruble of one's own funds to 2 rubles of state support" formula. Boosting liquidity levels in the bank through subordinated loans from the state is, basically, an example of private-public partnership, for which reason the participation of the organization's beneficiary owners in implementing this mechanism appears to be logical. What can become a major contentious issue here is the actual ratio of one's own funds to those borrowed. In the authors' view, the "1-to-2" ratio is the most optimum one. Besides, the preparedness of the bank's beneficiary owners to co-fund will be a competitive factor which will help slash a number of banks – otherwise, it is highly likely that applications will be made by all banks.

d) Using the funds obtained in a targeted manner. The authors find most promise in the following areas for investing bank funds:

- in terms of funding the activity of legal persons – implementing investment projects and possibly establishing a proportion for the distribution of funds between industry and the service sector (70/30);
- in terms of funding the activity of natural persons – mortgage lending to help purchase housing in new buildings.

These areas are intended to ensure the flow of funds into capital-intensive, highly investment-dependent industries, like construction and heavy industry. Funding investment projects specifically – not the current activity of enterprises – will help stimulate the creation of new production operations and products. Otherwise, banks may simply follow the practice of providing funds for the replenishment of working capital, which offers less investment potential. The fact that consumer lending is currently not among the promising areas for the distribution of funds is due to that growth in consumer lending in Russia has, over the last few years, mostly stimulated boosts in the importation of mass-use products, which offers little to no benefit for the development of an economy that is aspiring to be self-sufficient.

2) A crucial problematic aspect of the operation of the nation's banking sector that is worth resolving is the creation by the bank of reserves that could be used to cover possible losses from loans based on checks on the part of the Central Bank of the Russian Federation. Despite the fact that there are numerous quantitative criteria for assessing the quality of a loan, the basis for it, in the end, is a well-founded judgment made by a bank specialist by reference to regulatory documents. In checking a bank, the regulator's stance regarding the classification of loans may be different from a judgement that has been formed. Based on the results of a check, the Central Bank issues a directive pursuant to which the bank is bound to adjust the volume of formed reserves against reclassified loans. The problem is that abrupt one-shot increases in the volume of reserves may reduce the bank's revenue and, consequently, the size of its capital (its personal assets). While a bank's capital is one of the key parameters in meeting Central Bank requirements, above all capital adequacy (Requirement 1).

In the authors' view, amid intensifying negative macroeconomic trends the worsening of banks' credit portfolios is in some cases of an objective nature, something that an institution's risk management is unable to counteract in full measure. In accordance with contractual practice, a bank, theoretically, can get rid of a problem loan – it can demand, in the event of poor financial indicators displayed by the business, that the borrower repays the loan ahead of time. However, in reality, an approach of this kind may cause the business to go bankrupt, which means that the loan will not be repaid to the bank. Therefore, it is customary to employ a number of instruments, like restructuring, etc., to have a loan repaid. The authors are of the opinion that it may be worth projecting approaches of this kind onto the interaction of the central bank and commercial banks as well. Among the possible innovations is the implementation of a mechanism for allowing banks to form a reserve by installments (e.g., in equal portions during the year). This would make it possible to:

- Mitigate the pressure on the credit institution's capital via the formation of revenue during the installment payment period. In other words, a bank with an annual revenue of 100 million rubles that is required to form a reserve in the same amount but during a period of 12 months may get it done without any damage to its capital. A measure of this kind will help banks better "digest" bad debts, with overall improvements expected in the way of indicators of capital profitability and adequacy.

- Provide a bank that lacks revenue with time to attract some funds into its capital from a shareholder or let it look for a strategic investor;

- Mitigate the bank's reputation risks and concomitant risks of drastic outflows of liquidity due to depositor panic.

3) Instituting at the statutory level the possibility for banks and natural persons to enter into deposit agreements on terms different from demand deposits.

It is worth understanding that in the current economic situation the issue of the lack of "long" money in the country is associated not with the reluctance of banks to back the implementation of long-term projects but a deficit of funds in the sources.

For this reason, the authors deem it necessary to permit at the statutory level entering into deposit agreements on terms different from demand deposits in two stages:

1. Entering into such agreements within the limits of deposit amounts insured by the Deposit Insurance Agency. The state, in any case, stands surety for these funds in case a bank's banking license is revoked. This, therefore, could help transform these funds in a short time into a long-term funding resource. It is apparent that when a banking product of this kind comes out the rates on it will be higher than on regular deposits (a deal's earning power is a crucial factor in selecting a banking product).

2. Removing restrictions on the amount. It is worth noting that carrying the reform out in stages may help minimize the degree of abuse on the part of banks and ensure careful implementation, as well as prepare the population for changes in the "rules of the game".

9. Conclusion

The findings of the authors' analysis have revealed that Russia's banking system is going through significant changes at the moment. These changes are caused, on the one hand, by the negative macroeconomic state of affairs witnessed over the last few years, and, on the other, by tightening banking oversight. In this situation, when the quality of loans will be falling objectively due to the downturn of the national economy and state regulatory institutions are raising requirements for the level of mandatory normative targets and volume of reserves, the financial-economic state of banks is expected to only get worse. However, the largest federal banks (above all, the state-run ones) are getting support through state programs, which may bolster their market positions. If there is no support, medium-sized and small regional banks will not be able to conduct their activity efficiently and will have to leave the market.

The solidification of the oligopoly of the nation's largest banks will lead to declines in competition within the sector, while regions which are left without banks of their own will cease to take part in resolving the issue of distributing and redistributing the banking sector's capital – these decisions are going to be made in the bank's head office, which is bound to create significant risks of declines in investment within the region.

The set of practical measures proposed in this paper is aimed at boosting the autonomy of regional banking systems, which may help ensure the prompt resolution of the objectives for a region's economic growth, while boosts in the efficiency of a particular region may have a positive effect on the Russian economy as a whole.

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