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Diploma Thesis Abstract

Economic analysis of Russian banking system

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**1. Summary**

 The Diploma Thesis is devoted to the theoretical and practical parts. The theoretical part contains aspects of clarifying the definition of banking sector in global practice in general and in Russian economy. The theoretical part provides important information about essence, type and role of the banking system in Russian economy, the structure of the banking system of the state, the legal regulation of the banking system in the Russian Federation, brief description of the modern banking system in Russia, the main economic indicators of the Russian banking system, modern problems of functioning of the development of the banking system of Russia.

 The practical part is dedicated to evaluating the economic situation in the banking system in the Russian Federation, its financial indicators, possibility to recover after economic difficulties such as economic sanctions against Russia and decreasing of oil price, main trends of monetary policy of the Central Bank. It includes analysis of the most important banking indicators, correlation analysis, regression analysis and forecasting about future situation in banking system in Russia with the purpose to evaluate and show strengths and weaknesses of Russian banking sector.

**Keywords:** Banking system, Central bank, commercial bank, basic banking principles, key interest rate, inflation rate, international reserves, oil price, economic sanctions.

**2. Aims**

The aim of my diploma thesis is to analyze the economic situation in Russian banking system, clarify the meaning of banking system in Russia, identify strengths and weaknesses of Russian banking system. The aim of the diploma thesis is to study the institutional features of the banking structure, to determine the role and functions of the banking system in the Russian economy based of generalization and critical comprehension of theoretical data. Moreover, it is necessary to study the influence of factors affecting the development of the banking sector and assess the current state of the banking sector Russia. An important objective is to study the relationship between the indicators of the banking sector and external factors affecting the state of the banking system.

**3. Methodology**

 The theoretical part includes general scientific methods of comparative and logical analysis, structural, functional and system approaches, as well as econometric modeling made methodological basis of the research work. Using the methods of formal logic allowed generalizing theoretical issues of forming the banking sector, to study the peculiarities of the banking infrastructure, as well as to ensure the reliability of the analysis and the validity of the conclusions. The system approach in the work was manifested in determining the place of the banking sector in the economic system.

The practical part includes econometric modeling, namely, the use of correlation analysis and regression analysis, has made it possible to establish the statistical tightness of the connection between the indicators of the development of the banking sector and the factors that influence the activity of the banking system.

**4. Conclusion**

The banking system is a combination of national banking and credit institutions operating within the framework of a common mechanism. The main functions of the Central Bank are the issue of banknotes, monetary regulation, the implementation of monetary policy, the organization of payment and settlement relations and control over the activities of commercial banks. The main functions of Commercial banks are to accumulate and mobilize temporarily free cash, provide credit, mediate payments, settlements and making profit.

 During the period under review, the Russian banking system is intensively developing. Commercial banks began to strive for the greatest transparency, openness to clients. This is the consequence of the fact that more than 680 banks have lost their licenses to provide banking services. Most of the troubled credit organizations of the Russian Federation are withdrawn from the market; the rest of the banking system is much healthier. This trend is positive as the market of banking services becomes more expensive for the population. As for the financial results, the year 2017 turned out to be less successful for the Russian banking system than in 2016. According to the estimates of the Bank of Russia, Russian credit institutions received a profit of about 790 billions of ruble in 2017, and by the end of 2016 received a profit of about 930 billions of ruble. In any case, these are significant figures in comparison with the incomes of commercial banks for 2015. The yield of commercial banks for 2015 was 192 billions of ruble. These were huge losses for the Russian budget. Almost the same level of profitability of commercial banks in Russia was during the crisis of 2008.

The state of the Russian ruble can not be called stable. The period from 2014 to 2015 ruble fell 1.6 times. If in 2014 one dollar could be bought for 38 rubles, then in 2015 one dollar was worth about 61 rubles. This is certainly a negative trend for the banking system and for the economy of Russia as a whole. First of all, the devaluation of the ruble has an adverse effect on the incomes of Russians, they are sharply reduced. If the ruble rate continues its decline, it will have an immediate impact on several areas: real estate, banking, an increase in the cost of household appliances; increase in the cost of food; increase in inflation. In order to stabilize the ruble, the Central Bank has applied certain taxes: the budget rule combined with inflation targeting

The budget rule determines the maximum level of expenditure, based on the price of oil. Inflation targeting is a set of measures that authorities take to control the level of inflation in the country. The main instrument of targeting is the manipulation of the accounting interest rate. For example, when it increases, deposit rates in commercial banks also increase. Thus, saving money becomes more attractive than spending it. In addition, at the same time, the interest rate of lending in banks also increases, which leads to a decrease in demand for loans.

To stabilize the ruble, it is necessary to stabilize oil prices. Because of the oil crisis in late 2014, prices for Russian oil fell significantly. The average price for oil of the Russian brand yurals in 2014 was 97.6 dollars per barrel. Average price The average price for oil of the Russian brand yurals in 2015 was 97.6 dollars per barrel 51.23 dollars per barrel. The price decrease of 1.9 times is significant, especially for a country where the income from oil exports is 48%.

Analyzing impact of economic sanctions on the banking system, they had significant influence on the performance of the banking system. The negative impact on the state of the Russian economy was provided by Western sanctions related to restrictions on attracting financial resources. They make it difficult for enterprises and banks to access the foreign debt market, not allowing them to fully refinance foreign debt. Closing of foreign capital markets and increasing in the cost of borrowed funds of enterprises had a negative impact on the investment climate of the country. These actions also led to a reduction in the volume of investments by companies in the market sectors and reinforced the negative trend of a decline in investment in fixed assets of the Russian economy. In 2013, foreign investment was almost 70 billion dollars; in 2017, it was 23 billion dollars. This significant reduction in investment attractiveness is of a geographic nature for the functioning and development of the banking system in Russia.

Inflation is an important indicator of the state of the economic situation in the page and certainly affects the banking sector. For the analyzed period, inflation peaks were in 2008 and 2015. In both cases, the correct monetary policy of the Central Bank helped to stabilize the situation. In 2014, when inflation began to rise sharply, the Central Bank raised the key rate. In 2013, the key rate was 5.5%, in 2014 the key rate was 17%. Thanks to this monetary policy, the Central Bank of Russia is trying to reduce the level of inflation. This approach for reducing the rate of inflation was successful as already in 2017 the level of inflation is 2.5%.

Despite the stabilization of the inflation rate in the country, the Russian banking system has many questions that need to be solved.

**5. Literature**

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