

Czech University of Life Sciences Prague

Faculty of Economics and Management

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Diploma Thesis
Economic analysis of Russian banking system

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CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Faculty of Economics and Management

DIPLOMA THESIS ASSIGNMENT

Bc. B.Sc. Tatiana Mishakina, BSc

Economics and Management

Thesis title

Economic analysis of Russian banking system

Objectives of thesis

Main goal is to identify the current state of a banking system of Russia at the moment and identification of tendencies of its development. To define an entity and to research structure of a banking system of the Russian Federation, to characterize the chosen commercial bank as an element of a banking system of Russia and to analyse its economic efficiency, to analyse tendencies of development of the banking sector; to reveal problems and the prospects of development of a banking system of Russia in modern conditions.

Methodology

For the theoretical part are used methods of synthesis, induction, deduction, extraction. For the practical part are used correlation analysis and quantitative and qualitative data analysis. write more

The proposed extent of the thesis

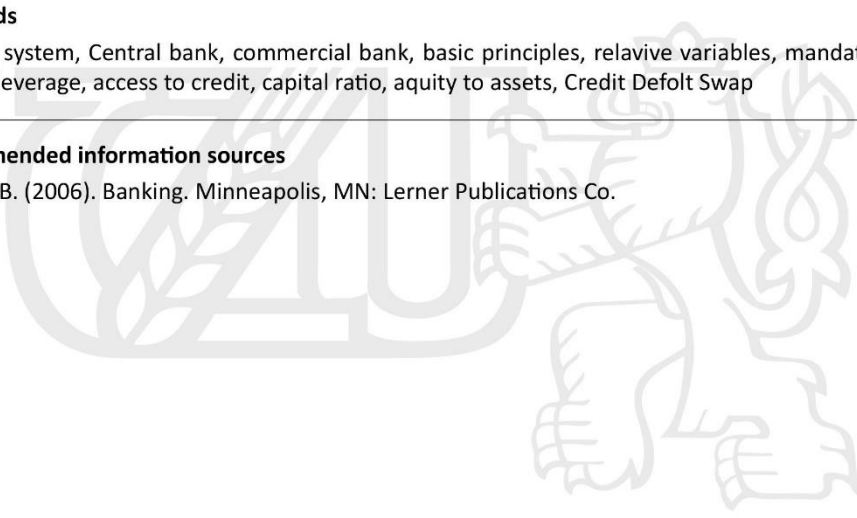
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Declaration

I declare that I have worked on my diploma thesis titled «Economic analysis of Russian banking system" by myself and I have used only the sources mentioned at the end of the thesis.

As the author of the diploma thesis, I declare that the thesis does not break copyrights of any their person.

In Prague, March 29th, 2018

Tatiana Mishakina

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Economic analysis of Russian banking system

Abstract

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 of 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, international investments, oil price, economic sanctions.

Ekonomická analýza ruského bankovního systému

Abstrakt

Diplomová práce se skládá z teoretické a praktické části. Teoretická část obsahuje aspekty definice bankovníctví v globální praxi obecně a v ruské ekonomice. Tato část obsahuje informace ohledně bankovního systému v Ruské federaci, jeho struktury a právních omezeních, dále pak také hlavní ekonomické ukazatele ruského bankovního systému a současné problémy rozvoje bankovního systému Ruska.

Praktická část se zabývá hodnocením ekonomické situace v bankovním systému v Ruské federaci, jejími finančními ukazateli, možností zotavení z ekonomických obtíží, jako jsou ekonomické sankce proti Rusku a snižování ceny ropy. To zahrnuje analýzu nejvýznamnějších bankovních ukazatelů, korelační analýzu, regresní analýzy a prognózy o budoucí situaci v bankovním systému v Rusku s cílem zhodnotit a ukázat silné a slabé stránky ruského bankovního sektoru.

Klíčová slova: bankovní systém, centrální banka, komerční banka, základní bankovní principy, klíčová úroková míra, míra inflace, mezinárodní rezervy, mezinárodní investice, cena ropy, ekonomické sankce.

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1 Introduction

The topic of the Diploma thesis is an « Economic analysis of Russian banking system». This assignment will aim to clarify the meaning of banking system. In addition, the report will explain the structure of banking system; clarify the significant indicators of banking system in general. The assignment will focus mainly on the analysis of the banking system of Russia.

The correlation analysis and regression analysis will be used for explanation of the main factors, which have impact on the Russian banking system. The banking system is one of the most important organizational mechanisms of the country's financial system, which has a huge impact on the functioning of all economic processes and the development of society. The key tasks of the banking system are traditionally the implementation of settlements between economic entities within the country and with the outside world, as well as the accumulation of savings and their transformation into investments.

The banking system is one of the most important attributes of the market economy, a system that acts as a kind of generator that accumulates financial means supplying the state and all members of society. Another integral element of the market economy, which more and more penetrates into all spheres of our economic life, are settlement and credit relations, which constitute a significant amount of relations between entrepreneurs, individuals and legal entities. At the same time, the leading form of credit relations in a market economy is a bank loan, which, as an economic category, is one of the ways of moving loan capital.

During the economic crisis, as a rule, failures occur in the banking system. All or a substantial part of the banking system is incapable of fulfilling its functions. Obviously, the suspension of the banking system's performance of its inherent functions can lead to devastating consequences for the entire economy. That is why the state is pursuing an active policy with the aim of restoring the efficiency of the banking system, sometimes at considerable costs. The correlation analysis and the regression analysis will answer the question if Russian government and The Central Bank of Russian chose the right policy for stabilization of the banking system in Russia during the period of the economic crisis in Russia.

For the Russian banking sector, an important issue today is ensuring stability and sustainable development of the banking sector in Russia and achieving this goal leads to financing the structural adjustment of the national economy.

The role of the banking system for Russian economy is great; it helps to regulate cash payments, passes through the mediation of all cash flows. The formation of a new monetary and credit system

and the creation of conditions for the effective implementation of banking activities in the Russian Federation are the most important component of the single economic policy of the state.

The relevance of the study of the analysis of the banking system of the Russian Federation lies in the fact that the state of the entire monetary and credit system in the country and the stability of the country's economy as a whole depend on the effectively functioning banking system.

2. Objectives and Methodology

2.1 Objectives

The aim of this 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.

One of the main objectives is to analyze the state of the banking sector and the functioning of the Russian banking sector. 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.

2.2 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.

3. Theoretical part

The banking system is one of the most important element of economic infrastructure of any state. "The role of a banking system in modern market economy is huge. All changes happening within a banking system in one way or another affect all economy. The correct organization of a banking system is necessary for normal functioning of economy of the country. Creation of steady, flexible and effective banking system is one of the major tasks for economic development of the state. The banking system of the country is its basis for economic welfare."(www.globfin.ru, 2014)

In general, "banking sector determines the level of economic power of state, influencing rates of economic growth through investments into various sectors of economy. At the same time, development of banking system depends also on external factors: relations between economic entities, extents of intervention of the state in economy. According to the economic dictionary, "banking system in general is a set of different types of the national banks and credit institutions operating within the general monetary and credit mechanism. The banking system includes the central bank, network of commercial banks and other credit and accounting centers. The central bank pursues the state emission and currency policy, is a kernel of a backup system. Commercial banks carry out all types of bank operations." (Kulikov, 2009)

"In order to assess the effectiveness of the banking system of any state, it is necessary to conduct a financial analysis of the banking system. Financial analysis is a process of studying the financial condition and main results of a company's financial activity in order to identify reserves to increase its market value and ensure further effective development. The results of financial analysis are the basis for making managerial decisions, developing a strategy for the further development of the banking system. Therefore, financial analysis is an integral part of financial management, its most important component." (Zhukov, 2011)

"Currently, the study of the banking system is one of the topical issues of the Russian economy. It should be noted that the banking system in the Russian Federation has many contradictions, weak and strong sides and its weaknesses are an actual problem for research. The banking system of the Russian Federation is one of the main elements of the economy. In many cases, the banking sector determines the level of economic development in Russia, affecting the pace of economic growth through investments in various sectors of the economy. At the same time, condition of banking system depends also on external factors: relations between economic entities, extents of intervention of the state in economy. Financial analysis of banking system enables to estimate the

main banking indicators, which could identify the condition of banking system in Russian economy in general.”(Aliev, 2014,)

3.1 History of banking system

From a historical point of view, the first regular institution resembling what we call a bank today, “was established at Venice, nearly seven hundred years ago. In its origin, it had nothing to do with the business of banking. In those days, moneylenders made loans to people. Banks made loans and accepted deposits in Rome and Greece.” (www.banki.ru, 2018)

It is quite difficult to determine how and when the first banks appeared. The most ancient are the operations to save money. It is known that in the most ancient states operations on accepting deposits were practiced. This involved either private individuals or church institutions. Famous Greek churches were at the same time unique banking institutions. Moreover, in some cases, already in the Ancient World, interest was accrued on the money or property contributed. Many temples of Ancient Greece and Rome carried out the storage of money and the issuance of loans. As a universal equivalent, metals were used: copper, tin, bronze, silver and gold.(Deeva, 2009)

“Traditions to trust money to temples were distributed not only in the Ancient East, but also in Ancient Greece and Ancient Rome, and then in medieval Europe. As the complexity of monetary transactions increased, the position of those who became financial intermediaries was strengthened. The temples had many opportunities, conditioned by public and state confidence, the accumulation of material wealth of various origins. In medieval Europe, the place behind the altar of each church was constantly a repository of money, which was temporarily abandoned by a change, an ordinary citizen or a peasant. The established customs were strictly observed for many centuries. The might of their monasteries was famous for the Knights Templar. Due to honesty in cash transactions, the rational organization of accounting facilitated the movement of cash. For the gradual liquidation of the monopoly of the temples for the performance of monetary operations, the ancient states began to conduct an independent coinage of the metal coin. Standardization and monetization of monetary circulation became the prerogative of states. The coinage of money contributed to the development of trade relations between countries. More convenient forms of storage and accumulation facilitated concentration of money. The internal and external economic relations of states are beginning to acquire a more stable and sustainable character. Money circulation creates the basis for further development of various forms and methods of accelerating trade and payment turnover.” (Sokolov, 2013)

“The growing social division of labor, the isolation of crafts and professions increased the number of trade transactions and payments. In the presence of commercial risks and difficulties, concentration of monetary reserves was necessary. This became possible when creating "trading houses" in the Ancient East, which was supposed to engage in activities in the field of money economy within its own economic interests. Given the great legal uncertainty and weak stability of monetary regulation, trading houses served only trading operations. However, the structure and function of trading houses was very different from banks, which appeared much later.” (bankir, 2018)

“Banks in the modern understanding as institutions that receive deposits and issue loans, appeared during the late middle Ages, in the middle of the XVII century. The prerequisite for the emergence of banks was the emergence of savings, the need for reliable storage. A deposit preceded the issuing activity of banks. This happened in England, in the first banks of Hamburg and Amsterdam. In general, banking activity has acquired significant significance precisely with the beginning of issuing activity. In exchange for money and valuables handed over to the banker, people began to receive receipts (banknotes) that could be handed over from hand-to-hand. The prototype of the current two-tier banking system was the banking system of England, which was formed in the second half of the 17th century. The first level of the banking system is represented by the central (emission) bank. At the second level, there are commercial banks of various types and non-bank financial institutions. The system was formed because of the evolution of the banking system of England from the end of the 16th century, and from the 18th century, the model of two-tier banking system gradually spread to other countries. In the XX century, the centralized system of banking business began to be considered not only as a habitual phenomenon, but also as one of the prerequisites for achieving the highest levels of economic development.” (Beloglazova, 2010)

“At the beginning of the 21st century, new financial intermediaries appeared on the financial market. It was a non-bank financial institution. This suggests that technological progress has led to a transition from a traditional banking system to an Internet banking system. Currently, the banking system almost all over the world is a well-developed structure and determines the level of economic development of the state. Currently, in all developed countries, the banking system is a complex and rapidly developing organism. Banks perform about 150 types of different operations. Other institutions, either along with or in lieu of banks, offer many of these operations. Nevertheless, on the other hand, what financial companies specialize in becomes an object of business of commercial banks.” (Kireev, 2012)

“The rapid growth of world trade and international capital flows has caused many large banks, financial, manufacturing and trading firms to link their development prospects with expansion to an international scale. At the heart of this globalization of business and finance lay the trends the achievement of scientific and technological progress and the growth of international capital flows. These trends contributed to the integration processes in the world economy, the system of financial markets began to function at the global level. A world financial network has formed, connecting the leading financial centers of different countries.” (Leontiev, 2003)

3.2 History of banking system in Russia

In Russia, the banking system played a big role in different periods of its development. “Throughout the existence of the banking system, a particular position was taken by credit policy. With each passing year, the provision of deposit services and lending services increased, which indicated their growing demand among the bank's customers. The role of the banking system in the development and improvement of the economic situation in the country is important. To make a thorough study of the banking system of the Russian Federation, it is necessary to consider the question of the formation and development of the banking system from a historical point of view.” (www.globfin.ru, 2014)

“In contrast to the Western European countries, where banking system were was sufficiently developed and stable, in Russia, until 1861 banking institutions were in an embryonic state and were almost entirely in the hands of the tsarist government. State Bank, the main bank in prerevolutionary Russia was established in 1860 in accordance with the decree of Emperor Alexander II. The functions of the State Bank were to keep records of promissory notes and other urgent governmental and public interest-bearing securities of foreign drafts, buy and sell silver and gold, receive payments on bills of exchange and other urgent monetary documents. Commercial banks began to appear in the 1860s. Before the First World War, there were 50 institutions in the network of joint-stock commercial credit banks.” (Korobov, 2008)

Despite a relatively small quantitative growth, joint-stock commercial banks occupied a central place in the credit and banking system of Russia. A significant difference between the Russian credit and banking system and Western European countries was that the banking resources were mainly directed not to lending to industry, but to lending to the state and landownership.” (Morozan, 2004)

“Before the October Revolution in Russia, there was a four-tier structure of the credit system, adapted to serve market relations.

It included four levels:

- Central Bank;
- System of commercial and land banks;
- Insurance companies;
- A number of specialized institutions.

In the post-revolutionary period, the country needed economic reforms and it was decided to restore commercial lending. Subsequently, banking was declared a state monopoly, and all joint-stock and other commercial credit institutions were nationalized and merged with the State Bank.” (Morozan, 2004)

“The banking system of the period of the functioning of the USSR was characterized by rigid centralization. In the Soviet period, the State Bank of the USSR was the main credit institution. The State Bank of the USSR fulfilled the functions of the issuing center, the main lending institution, the settlement and cash department of the country.” (www.globfin.ru, 2014)

“The main shortcomings of the banking system were:

- 1) Absence of bill of exchange.
- 2) Implementation of the role of the state budget by banks, which accounted for the write-off of debts of enterprises, especially agriculture.
- 3) Countless operations for lending to all areas of the economy.
- 4) Loss of banking specialization.
- 5) Monopoly due to the lack of alternative sources of credit.
- 6) Low level of interest rates.
- 7) Weak control of banks for the activities of economic sectors.

8) Uncontrolled emission of credit and paper money.

All the above shortcomings certainly hampered the development of the banking system in the Soviet period.” (Sokolov, 2013)

“The creation of commercial banks began in Russia in the end of 20th century, but the number of new cooperative banks was enormous. These were not banks in the generally accepted concept, but tools for transferring budgetary funds to private individuals and conducting one-time lending operations to generate profit with the subsequent closure of the bank.” (Zhukov, 2011)

“The system of banking management was inefficient and there were not enough qualified bank employees in the country. Because of the weak economic situation and the inefficiency of the banking sector, in August 1998, Russia suffered a collapse in private sector confidence. This collapse reflected the combination of both internal and external factors. Private sector confidence was weakened when the Duma failed to support an IMF loan agreement reached in July 1998. Similarly, key domestic producers, particularly in the energy sector, voiced their opposition to increases in their tax liabilities. The contagion effects from the Asian crisis and the effects of falling oil prices on Russia’s export earnings compounded the impact of these developments. As a result, pressures in the exchange market increased.” (Tosunyan, 2008)

“The government faced difficulties in placing government securities in the market and an acceleration in capital outflow. In the face of these developments, the authorities adopted a series of measures, including a widening of the exchange rate bands and an effective devaluation of the ruble, suspension of payments on domestic government securities, and introduction of controls on capital flows. This crisis showed weak sides of Russian system and government took measures for improving critical situation.” (Zharkovskaya, 2011)

First, better information was needed on the state of the banking system. Second, establishment of an adequate legal framework was necessary to allow banking system rehabilitation. Third, an appropriate institutional framework was needed that would include both a strengthening of the supervisory capacity of the CBR and establishment of an institution to oversee the rehabilitation of viable but undercapitalized banks. The results of the taken measures were decidedly mixed. Important progress was achieved in establishing an appropriate legislative framework and establishing the institutional framework.” (Zharkovskaya, 2011)

“In Russia, after the default in 1998 changes in banking system were made. According to the Law of the Russian Federation "On Banks and Banking Activities" the banking system of Russia

included the Bank of Russia (this was the official name of the Central Bank), credit organizations, as well as branches and representative offices of foreign banks.” (Beloglazova, 2010)

“The banking system was two-tier system:

1) Central Bank;

2) Commercial banks.

Of exceptional importance was the consolidation at the legislative level of the principle of independence of banks from state authorities and management in making decisions related to the conduct of banking operations.” (Lavrushin, 200)

“The banking system overcame the consequences of default and regained its level. Despite overcoming economic problems, the banking sector of the Russian Federation still had a low investment attractiveness at the international level. As the main trend of development of the banking sector in 2003-2006 it is necessary to note an increase in the level of competition in virtually all areas of banking activity, and this is certainly a positive moment for the economy. Increased competition from international lenders.” (Kulikov, 2009)

After the restoration of the banking system, ‘it suffered from a serious shock during the crisis in 2008. The banking sector in Russia was still relatively small and did not play a significant role in economic development. The total capital of the entire banking system was small and smaller than the capital of one large European bank. The costs of running a banking business were high. The tasks of developing competition in the banking services market, increasing the transparency of banking procedures and liquidating banks had not yet been resolved.” (Morozan, 2004)

“At present, the government of the Russian Federation and the central bank of Russia are pursuing an active economic policy to stabilize the Russian economy, especially after the imposition of economic sanctions against the Russian Federation. The main areas of the unified state monetary and credit policy are designed to ensure the fulfillment of the main function of the Central Bank of the Russian Federation related to the protection and ensuring the stability of the national currency.” (globfin, 2017)

3.3 The structure of banking system

“According to financial dictionary, the banking system is a combination of different types of national banks and credit institutions operating within the framework of the general monetary mechanism. In other words, the banking system is a complex of different kinds of national banks and credit organizations working within the framework of a common monetary and credit policy. The main component of the banking system as a financial institution is a bank. There are many definitions of the term “bank”. (Aliev, 2014)

“The term “bank” is explained as a special credit institution specializing in accumulating funds and placing them on its own behalf for profit. The main idea in all of these definitions is that banks are working with people and money for receiving income. The main purpose of the bank is to mediate the transfer of funds from creditors to borrowers and payments. As a result, free cash is converted into loan capital, bearing interest. Working in the sphere of exchange, the bank regulates money turnover in cash and non-cash forms.

There are significant objectives of banks:

1. accumulation of money resources and their transformation into loan capital;
2. stimulation of savings in the national economy;
3. credit intermediation;
4. mediation in payments;
5. creation of credit circulation facilities;
6. intermediation in the stock market in transactions with securities;
7. provision of consulting, information and other services.” (Belykh, 2013)

“Banks do not just form their own resources; they provide internal accumulation of funds for the development of the country's economy. Incentives for saving free funds of the population and accumulation of capital are provided by the flexible deposit policy of the bank in the presence of a favorable macroeconomic situation in the country.

The stimulating policy assumes:

1. establishment of attractive interest rates on deposits;
2. high guarantees of the safety of depositors' money;
3. a sufficiently high rating of the bank's reliability and availability of information on its activities;

4. a variety of deposit services.

Mediation in credit is the most important function of a bank as a credit institution. It ensures an effective redistribution of financial resources in the national economy on the principles of repayment, urgency and pay. Credit operations are the main source of the bank's income.” (Kazimagomedov, 2008)

“Mediation in payments is the primary and fundamental function of banks. In a market economy, all business entities, regardless of form of ownership, have settlement accounts with banks, through which all non-cash settlements are made. The banks are responsible for the timely execution of their clients' orders for making payments. (Kuznetsova, 2007)

“Creation of credit means of circulation is a process of producing money by the banking system. It is able to expand loans and deposits through a multiple increase in the monetary base. This expansion of the money supply is called the multiplier effect.” (Leontiev, 2003)

“The banking system is an integral part of the economic system of any country. Banks are the link between industry and commerce, agriculture and the population. Thus, the necessity and importance of banking structures is clear, both for business and for the country's economy as a whole. The fulfillment of all the objectives set before the banking system that sees improvement in the economic situation as a whole.” (Mnatsakanyan, 2011)

“The banking system in general includes a central bank, a network of commercial banks and other credit and settlement centers. The central bank conducts state issuance and currency policies. The central bank is the main body of the reserve system. Commercial banks perform all types of banking operations. Diversifications of roles, functions and objectives between central bank, commercial banks helps banking system to work properly.” (Oleynikova, 2008)

3.3.1 The Central Bank

“The central bank is the organization responsible for monetary policy and ensuring the operation of the payment system, and in some cases for regulation and supervision in the financial sector in the national economy or group of countries. The central bank is one of the forms of monetary authorities. The primary objective of the central bank's activities should be determined in such a way as to maximally correspond to the public interest. In practice, several primary goals of the central bank:

1. price stability,
2. promoting balanced economic growth,
3. maintaining a stable exchange rate,
4. financial stability.” (Khabarov, 2004)

“The core functions of the central bank are:

1. money issue;
2. the conduct of monetary policy, including the management of monetary and credit supply, as well as the exchange rate policy;
3. management of international reserves;
4. performance of the function of the lender of last resort;
5. making payments and managing the payment system;
6. treasury services of the government, including the conduct of its payments, acceptance of deposits and, in some cases, lending in the form of overdraft, advances and purchases of government debt securities;
7. conducting operations with the IMF.

In several territories, for example in Hong Kong, Scotland and Northern Ireland, private banks, along with the central bank, have the authority to issue banknotes that must be fully secured by reserves (cash balances) held by the central bank.” (Moiseyev,2015)

“The classical institutional model of the central bank assumes that it only deals with basic functions related to monetary policy. State executive bodies are prudential agencies, which can exercise functions of prudential regulation and supervision. The Central Bank, by virtue of its special legal status, is not part of the executive branch. Nevertheless, a significant number of central banks are responsible not only for monetary policy, but also for the regulation and supervision of the financial sector.” (Markova, 2012)

“However, the functions of the central bank may vary or expand under the influence of certain external factors. A striking example of change in the purposes and functions of the central bank occurred in the UK in 1997. The British Parliament gave the Bank of England independence from the government, obliged it to bear responsibility for price stability, and bank regulation and supervision transferred from the Bank of England to the newly created Financial Regulation and Supervision Authority. However, the failure of the Office's work during the global financial crisis led to its reorganization and the return of functions to the Bank of England. In 2013, the Office

was liquidated, and instead a new Prudential Regulation Department was established as a subsidiary agency of the Bank of England.” (Mnatsakanyan, 2011)

“The main reason for transferring to the central bank regulatory and supervisory functions are systemic banking crises. The central bank as a lender of last resort has many opportunities to provide liquidity and rescue banks, rather than a prudential agency without monetary instruments. As a consequence, the countries most affected by banking crises prefer to create a mega-regulator of the financial sector on the basis of the central bank.” (Raizberg, 2008)

“The trend of involving central banks in regulation and supervision is typical for a wide range of countries. However, economic theory ambiguously assesses the effectiveness of combining functions. On the one hand, the pooling of authority creates certain information advantages and economies of scale. On the other hand, the strategic risk is increasing, that the central bank will face a short-term conflict of interests between financial stability and price stability. However, empirical research does not provide an unambiguous answer, which exceeds the benefits or costs of integrating functions.” (Rybin, 2010)

“The historical reason for the emergence of central banks was the financing by private creditors of the government's military expenditures in exchange for a number of privileges, above all, a monopoly on issuing paper money. The logic of private creditors was as follows: through the bank, they could provide the government with treasury services, which should help monitor its creditworthiness. The government, thus, consciously agreed to external financial constraints on the part of the bank. In case of problems with performance of promissory notes, the bank could freeze operations of the government on the accounts. The model for the delegation of private control over public finances was successfully implemented in the UK and found widespread in continental Europe.” (Shevchuk, 2006)

“The Encyclopedic Dictionary of Brockhaus and Efron calls the central banks "issuing banks" and defines them: institutions of short-term credit that are engaged in the issue or, technically, the issue of banknotes. Until the beginning of the 20th century, the definition of a central bank corresponds exactly to its profile of activity: money issue and lending under a fixed exchange rate. The nationalization of central banks began in the Great Depression, intensified between the two world wars and became final in the course of decolonization after the Second World War. The function of commercial lending has become outdated, the central bank has entrenched the monopoly right to issue money, as well as the function of the lender of last resort.” (Tavasiev, 2011)

“In most countries, separately identifiable institutional units that have different organizational and legal forms represent central banks. Most often, they are represented by legal entities that have a special legal status, defined by a special law on the central bank.” (Zharkovskaya, 2011)

“The key issue in the activity of the central bank is its independence from the executive branch, from the government. Independence means that the central bank can pursue a policy without direct interference from other persons.” (Markova, 2012)

“Factors affecting the independence of central banks include:

1. the state's participation in the capital of the central bank and the distribution of profits;
2. procedure for appointing (selecting) the bank's management;
3. degree of reflection in the legislation of the goals, functions and tasks of the central bank;
4. the right of the state to interfere in monetary policy;
5. rules governing the possibility of direct and indirect financing of public spending by the central bank;
6. the relationship between the central bank of the country and the government.” (Markova, 2012)

“Central banks make two forms of public financial reporting: the central bank balance sheet and the profit and loss statement. For central banks, there are own standards that take into account the specifics of their activities. The financial statements of the central bank reflect two types of its operations: active and passive. Active operations represent the failure of the allocation of financial resources and the acquisition of financial assets, and passive operations - the attraction of financial resources and the issuance of monetary obligations. Both active and passive operations characterize the functions performed by the central bank.” (Leontiev, 2003)

“Active operations include placing international reserves, refinancing banks, lending to the government, placing deposits in the financial or non-financial sector, buying debt securities and non-financial assets. Passive operations of the central bank consist of money issue, attraction of deposits or issue of debt securities for sterilization of the money supply, formation of mandatory reserve requirements, maintenance of correspondent accounts of banks, management of own capital and reserve funds.” (Kuznetsova, 2007)

“The financial result of the central bank's activities, as a rule, depends on two factors: the exchange rate and the liquidity of the banking sector. Under different exchange rate regimes, the central bank may or may not refrain from currency interventions, which affects the volume of international

reserves. The liquidity of the banking sector also has a significant impact on the financial result. In the event of a liquidity shortage, the central bank carries out refinancing operations and receives interest income. If there is a liquidity surplus, the central bank is forced to seize excess liquidity and raise funds from banks for deposits or securities.” (Korchagin, 2006)

3.3.2 Commercial Banks

“Commercial banks are financial intermediaries whose task is to redistribute capital between consumers and suppliers. The credit institution accumulates funds that are subsequently placed on the money market and are returned with interest. Commercial banks provide financial services to the public, business and companies, ensure economic and social stability and sustainable economic growth.” (Khabarov, 2004)

“Commercial banks are entrusted with a number of important functions:

1. make loans to legal entities and individuals;
2. they mobilize all available funds with a view to their transformation into capital;
3. carry out payment and settlement services in the holding;
4. provide information of an economic and financial nature.” (Kazimagomedov, 2008)

“A modern commercial bank is a powerful structure whose main task is to make profit and service the customers. At the same time, other functions are implemented by performing a number of active and passive operations.” (Beloglazova, 2010)

Granting loans is one of the main functions of commercial banks. Interest rates on loans granted are higher than interest rates on deposits. The difference between these indicators is the banking profit margin. The epithet "commercial" with respect to the bank is conditional, because it means that the main purpose of the organization's activity is to make a profit. At the same time there are banks that specialize more deeply on individual banking services.” (Lavrushina, 2000)

“Banking services include:

1. crediting of legal entities and individuals;
2. currency transactions;
3. operations with precious metals;
4. access to the stock market and Forex;
5. maintenance of settlement accounts of economic entities;

6. exchange of spoiled money (torn, burned, washed banknotes) signs of unspoiled;
7. mortgage;
8. car loans.

A characteristic feature of commercial banks is that the main purpose of their activities is to generate profits, this is the "commercial" basis for their existence in a market economy.” (Deeva, 2009)

Shadow Banks

“The shadow banking system is a collection of financial institutions that operate under banking schemes, but formally, they are not banks. The main difference from conventional banks is that shadow banks do not accept individual deposits from the population: they serve not individual investors, but other banks. Shadow banks help to group the received capital in the form of derivative securities and alternative financial instruments. The shadow banking system as a whole is characterized by the presence of a high speculative component, which carries significant systemic risks for both developed and developing countries.” (cbr, 2013)

“The American economist Paul McCully introduced the term «shadow bank» in 2007. According to the definition of the Financial Stability Board, the shadow banking system includes any credit relations involving structures outside the official banking system.

Financial Instruments of the Shadow Banking System:

1. non-bank mortgage lenders;
2. structural investment companies;
3. intermediaries financed by commercial paper;
4. investment banks and broker-dealers, which existed at the expense of attracting repo-loans;
5. money market funds, based on short-term deposits.” (Kazimagomedov, 2008)

“A distinctive feature of shadow banks operating in developing countries is that they prefer to invest in fairly ephemeral, short-term, volatile, highly liquid financial papers, namely stocks, government and corporate bonds, games on national currency exchange rates, various financial derivatives instruments. They are practically not interested in long-term investments in real assets (equipment, software, production, transportation, infrastructure, technical education), which the underdeveloped and developing countries so badly need. According to some analysts, China,

Argentina, Greece, and Venezuela are among the countries whose economies are being undermined by highly speculative foreign shadow banking systems.” (Kireev, 2012)

Investment Banks

“Investment banks are financial institutions that are based on transactions conducted on the stock market and other financial markets. Investment banks were first separated into a separate category of financial institutions in the US in 1933. Then the Congress passed the Glass-Steagall Act, according to which banks were forbidden to combine activities in the securities market with the attraction and placement of deposits. This was done in order to protect depositors from speculative investment operations during the Great Depression.”(Shevchuk, 2006)

“As a result, the world's largest leaders among investment banks were established, such as Morgan Stanley, Bank of America Merrill Lynch, Goldman, Sachs & Co., JP Morgan, Citi and Credit Suisse. After the change in legislation in 1999, their dominant position on the market remained.

The following functions are typical for investment bank:

1. Underwriting and Securities Trading;
2. Offer brokerage services to private and institutional investors;
3. Mergers and acquisitions;
4. Financial analytics and research;
5. Market makers for certain types of securities.” (Shchenin, 2013)

“Underwriting is a service provided by financial institutions, such as banks, insurance companies, which guarantee payment in the event of financial losses. Companies that provide similar services are called underwriters.” (Tavasiev, 2011)

“Mergers and acquisitions are a class of economic processes of business and capital enlargement occurring at macro and microeconomic levels, because of which larger companies appear on the market.” (Shevchuk, 2006)

“Financial analysis - the study of key indicators, parameters, coefficients and multipliers, giving an objective assessment of the financial condition of organizations and the value of shares of companies for the purpose of making decisions on the placement of capital.” (Vasilyeva, 2008)

“Trading in securities is a type of activity that is defined as external due to the ability to directly sell brokerage services, that is, services for buying and selling securities. At the same time, securities trading activities are also carried out as a tool to ensure investment banking (sale of placed securities) and asset management activities (purchase and sale of securities in the process of restructuring the securities portfolio). At the same time, in the developed financial markets, the trading of securities is understood not simply as the process of concluding transactions for the purchase and sale of securities, but the implementation of complex trading and arbitrage strategies consisting of many simple transactions of purchase or sale, as well as more complex transactions.” (Zharkovskaya, 2011)

Mortgage Banks

“Mortgage banks provide long-term loans, which are provided by the recording of mortgages, or mortgage debts, on land ownership, under which a loan is issued. If mortgage banks use only mortgage debts to guarantee loans, the concepts of "mortgage bank" and "mortgage loan" remain in business communication. Due to their long-term mortgage, loans are particularly convenient for financing in cases where interest payments and loan repayment are possible only from current, generally low incomes.” (Zhukov, 2011)

“Mortgage banks appeared in the late 18th century and received special development in Germany; the first mortgage bank was established in 1770 in Silesia. The first joint-stock mortgage bank was established in 1862 in Frankfurt.” (Shchenin, 2013)

“The main part of the assets of mortgage banks are long-term mortgage loans granted for the purchase and construction of housing, the development of agricultural production. Due to their specifics, mortgage banks are of great social importance and play an important role in the development of a number of sectors of the economy.” (Zhukov, 2011)

However, the lack of available resources is one of the problems of mortgage banks. Providing mortgage loans at the expense of deposits is very difficult due to the gap in terms (the term of the mortgage loan is 10-20 years, and the deposit - no more than a year). For the refinancing of mortgage loans, the mortgage securities market is needed. Such a need led to the emergence and development of securitization - an innovation in the activities of commercial banks. Securitization of assets is a "conversion" of the bank's debt requirements (for mortgage loans, credit cards, consumer loans, etc.) to securities traded on the market.” (Shchenin, 2013)

3.4 The structure of banking system in Russia

“In accordance with Article 2 of the Federal Law No. 395-1 of December 2, 1990 "On Banks and Banking Activities," the banking system of the Russian Federation includes the Bank of Russia, credit institutions, as well as branches and representative offices of foreign banks. Among the elements of the banking system in Russia there is not only the Bank of Russia and credit organizations, but also the organizations of the banking infrastructure. Accordingly, it is necessary to distinguish three main types of activities that organizations that are elements of the banking system can deal with. First, they are the main participants of the banking system, which are mainly engaged in banking. Secondly, they are the management of the banking system. Thirdly, there are ancillary participants organizations that serve the main participants of banking activities, solving their common tasks, - the banking infrastructure. The last group includes credit history bureaus, banking associations and unions, bank holdings and other associations.” (Tosunyan, 2008)

“The role of the banking system in the modern market economy is very huge. All the changes taking place in it, in one way or another affect the entire economy. The correct organization of the banking system is necessary for the normal functioning of the economy of the country. The activity of banking institutions is so diverse that their real essence turns out to be uncertain. We can say that in our society there is still no complete understanding of the place that banks should occupy in the system of economic management. The society needs detailed, deeper ideas about the essence of the bank, its concept is needed, and its public purpose is clarified. All these are difficult questions, their roots are laid in the history of the development of banking. The emergence of modern banking in a country such as Russia, great not only in size and resources, but also in its great features, presents an extremely difficult task.” (Tavasiev, 2011)

“In modern conditions, the Russian banking system is an evolving system. It is not isolated from the environment, on the contrary, it closely interacts with it, it is a subsystem of a more general education, which the system serves. The banking system operates within the framework of general and specific banking laws. The banking system is subject to the general legal norms of the society, its acts, although they express the features of the banking sector, but can be entered into the general system, like it, only if they do not contradict the general foundations and principles, build a common system as a whole.” (Rybin, 2010)

“The banking system of the Russian Federation is a two-tiered system. Central Bank of Russia is occupying the first level and all the other elements of the banking system are on the second level. The basis of this concept is the type of connection that exists between elements of different levels. Thus, it was concluded that between the Bank of Russia, occupying the first level, and all other elements of the system, there are relations of subordination, which mainly ensure the integrity of the system. There are coordination relations between the other elements of the banking system.” (Morozan, 2004)

“The banking system is an organization that needs management bodies and such management bodies must have any power over other elements of the system. Such an authoritative centre, which organizes the basic management processes in the banking system of Russia, has always been the Central Bank of the Russian Federation. In any state, the system of banks occurs when, along with conventional banks, central banks appear that perform the functions of managing the banking system. Therefore, the structure of the banking system should first of all be based on the type of links between groups of system elements.” (Romanovsky, 2006)

“Legal regulation of banking activities is carried out by the Constitution of the Russian Federation, the Federal Law "On the Central Bank of the Russian Federation", other federal laws, and regulatory acts of the Bank of Russia.

There are the following main directions of state regulation of the banking system and banking activities in Russia:

a) lawmaking, in the course of which the federal legislatures establish legal norms regulating the organization of the banking system and the mechanism for its functioning, the status, functions and powers of the Bank of Russia, the procedure for creating, registering and licensing of credit institutions, the procedure for conducting banking activities, banking regulation, supervision and control;

b) normative norm-setting activities of authorized federal state bodies developing and supplementing the federal banking legislation;

c) registration and licensing of the activities of credit institutions, branches and representative offices of foreign banks, permission to use foreign capital when establishing credit institutions in the Russian Federation;

d) money issue, banking regulation, including instruments and methods of monetary policy, the establishment of mandatory economic standards;

e) implementation of state control and supervision over the banking system and banking activities;

e) adoption by courts of judicial decisions on banking, bankruptcy, liquidation of credit institutions, appointment of arbitration managers.” (Leontiev, 2003)

“Legal regulation of public relations stemming from banking activities is of an intersectoral nature. There are a number of sources of the right regulation of banking activities. Their hierarchy can be constructed as follows:

1. The Constitution of the Russian Federation;
2. special banking legislation Federal Law "On Banks and Banking Activities" and the Federal Law "On the Central Bank of the Russian Federation (Bank of Russia)";
3. other legislative acts;
4. regulatory acts of the Bank of Russia.” (Lavrushin, 2016)

“The Constitution of the Russian Federation establishes that the jurisdiction of the Russian Federation is the establishment of a legal basis for a single market; financial, currency, credit, customs regulation, money issue, the pricing policy framework; federal economic services, including the federal bank. According to Part 1 of Article № 75 of the Constitution of the Russian Federation, the state currency is the ruble.

The Central Bank of the Russian Federation is the only body that regulates and supervises banking activities. At the same time, it should be remembered that other bodies also have certain mandates regarding credit institutions. For example, the Ministry for Antimonopoly Policy of the Russian Federation monitors the situation of antimonopoly legislation in the organization of credit institutions, the acquisition of shares of credit institutions, state registration of credit institutions; The Financial Monitoring Committee of Russia controls the prevention of money laundering.” (Korobov, 2008)

“Banking activities affect the property interests of an unlimited range of entities and have a decisive influence on the economic processes in the country as a whole. These circumstances are a prerequisite for establishing strict requirements for banks in order to ensure public safety in comparison with other business entities. The Institute for Licensing of Banking Activity is designed to protect the interests of depositors and other clients of banks from incompetent management and risks and the interests of the state in maintaining stability in the economy.” (Kireev, 2012)

“The Institute for Licensing of Banking Activities aims to achieve the following objectives:

1. to approve a single list of licensed types of banking operations and uniform procedure, grounds and conditions for the issuance, suspension, cancellation and revocation of licenses;
 2. to protect bank customers, and among them, first of all, small investors, from incompetent management and unscrupulous management;
 3. to increase the confidence of the population and legal entities in the financial and credit system in general and, in particular, in banking institutions in particular;
 4. to ensure financial and economic stability in society and the state as a whole.”
- (Beloglazova, 2010)

“Thus, licensing of banking activities is one of the forms of prudential regulation and banking supervision and represents a system of legal relations arising between the Bank of Russia and lending institutions. Licensing confirms the legitimacy of the creation of a credit institution, its compliance at the time of issuing a license and in the process of carrying out banking activities required by the requirements and regulations of the Bank of Russia. Currently, the procedure for registering credit institutions and licensing of banking activities, as well as licenses, is regulated by federal laws "On state registration of legal entities", "On the Central Bank of the Russian Federation", "On Banks and Banking", and a number of regulatory acts of the Bank of Russia.”

(Belykh, 2013)

- “The banking system of the Russian Federation functions based on a number of principles:
1. Legality
 2. Stability and reliability of the banking system.
 3. Openness of the banking system
 4. Independence of credit institutions
 5. Preservation of bank information

Legality means that the functioning of the banking system should be carried out in strict accordance with the current legislation. A special role in lawmaking belongs to the Central Bank of the Russian Federation, which has the right to adopt legal acts binding on all credit institutions.”

(Bukato, 2001)

“Stability of the banking system is ensured by creating reserves. The system of compulsory insurance of bank deposits of individuals is directed to the stability of the banking system, which

is obliged to organize internal control ensuring an appropriate level of reliability, corresponding to the nature and scale of the operations.

Openness of the banking system means that according to Article 8 of the Federal Law "On Banks and Banking Activities", a credit institution is obliged to publish the following information about its activities in accordance with the forms and terms established by the Bank of Russia:

1. it is necessary to publish the balance sheet, profit and loss account, information about the level of capital adequacy, the amount of reserves to cover doubtful loans and other assets quarterly;
2. it is necessary to publish the balance sheet and the profit and loss statement with the conclusion of the audit firm (auditor) about their reliability yearly.

The credit organization is obliged, at the request of an individual or legal entity, to provide him with a copy of the license for banking operations. A credit institution that has a license from the Bank of Russia to attract individuals to deposit funds is required to disclose information on interest rates under bank deposit agreements with individuals.” (Kireev, 2012)

“Independence of credit institutions means that the credit institution is not liable for the obligations of the state. The state is not liable for the obligations of the credit institution, except when the state itself has assumed such obligations. Legislative and executive bodies and local self-government bodies are not entitled to interfere in the activities of credit institutions, except for cases provided for by federal laws.

Preservation of bank information means that credit organization guarantees secrecy about operations, accounts and deposits of its customers and correspondents. All employees of the credit organization are required to keep a secret about the transactions, accounts and deposits of its customers and correspondents, as well as other information established by the credit institution.” (Kazimagomedov, 2008)

“The banking system is the main component of the country's economic system. This can be deciphered as the fact that this system is closely related to the consumption, production and circulation of various intangible and material goods. The success of the country's economic development largely depends on how the bank and the banking system function.

The banking system concentrates the main economic risks associated with the imperfection of the market mechanism, with the weakness of structural changes in the economy, the cyclical nature of the economic development of countries and the uneven price dynamics characteristic of the modern economy. This leads to fluctuations in prices in the markets, makes it very difficult for banks to assess all types of risks in transactions both in the real sector of the economy and in financial markets. Effective functioning of the banking system is a necessary condition for the

establishment of market relations in Russia, which objectively determines the key role of the Central Bank in the creation and regulation of banking activities.” (Korobov, 2008)

3.4.1 The Central Bank of Russia

“The Russian banking system has a two-tier structure. The first level is represented by the Central Bank of Russia. The second level includes banks and non-bank credit organizations, as well as branches and representative offices of foreign banks.

The Central Bank of the Russian Federation (Bank of Russia) is the main bank of the country. The authorized capital and other property of the Bank of Russia is federal property. He is accountable to the State Duma. The activities of the Bank of Russia are regulated by the Constitution of the Russian Federation, the Federal Law "On the Central Bank of the Russian Federation (Bank of Russia)" and other federal laws.” (cbr, 2018)

“In accordance with the law, the Bank of Russia is a legal entity, exempt from payment of all taxes, duties, fees and other payments in the territory of the Russian Federation. The state is not responsible for the obligations of the Bank of Russia, and the Bank of Russia is not responsible for the obligations of the state, if they were not adopted or unless otherwise stipulated by federal laws.

Balance of securities is assets and liabilities.

Assets are:

1. Gold reserves;
2. Central bank loans to the government and commercial banks;
3. Government bonds.

Liabilities are:

1. Deposits of commercial banks in the Central Bank (mandatory reserves and additional deposits);
2. Cash that the Central Bank issued into circulation;
3. Treasury accounts, which are serviced by the Central Bank.
4. Capital of the Central Bank
5. Amounts due to credit institutions” (Markova, 2012)

“Objectives of the Bank of Russia are:

1. protection and ensuring the stability of the ruble;

2. development and strengthening of the banking system of Russia;
3. ensuring efficient and uninterrupted functioning of the payment system.”(Rybin, 2010)

“The Bank of Russia performs the following functions:

1. develops and conducts a unified state monetary and credit policy;
2. monopolizes the issue of cash and organizes cash circulation;
3. is the lender of last resort for credit organizations, organizes a system of their refinancing;
4. establishes rules for making settlements in the Russian Federation;
5. establishes the rules for conducting banking operations;
6. maintains accounts of budgets of all levels of the RF budget system;
7. Manages the gold and foreign exchange reserves of the Central Bank effectively;
8. takes a decision on the state registration of credit institutions, issues licenses to credit institutions for the conduct of banking operations, suspends their operation and withdraws them;
9. supervises the activities of credit institutions and banking groups (hereinafter - banking supervision);
10. registers the issue of securities by credit institutions in accordance with federal laws;
11. carries out independently or on behalf of the Government of the Russian Federation all types of banking operations and other transactions necessary to perform the functions of the Central Bank;
12. organizes and carries out currency regulation and currency control in accordance with the legislation of the Russian Federation;
13. determines the procedure for making settlements with international organizations, foreign states, as well as with legal entities and individuals;
14. establishes the rules of accounting and reporting for the banking system of the Russian Federation;
15. establishes and publishes official rates of foreign currencies against the ruble;
16. takes part in the development of the forecast of the balance of payments of the Russian Federation and organizes the compilation of the balance of payments of the Russian Federation;

17. establishes the procedure and conditions for the implementation by foreign exchange exchanges of activities related to the organization of operations for the purchase and sale of foreign currency, issues, suspends and revokes permits for currency exchanges to organize the conduct of operations for buying and selling foreign currency;
18. conducts analysis and forecasting of the state of the economy of the Russian Federation in general and by regions, primarily monetary, monetary, and price relations, publishes relevant materials and statistics;
19. performs other functions in accordance with federal laws.” (Tavasiev, 2011)

“The Central Bank of the Russian Federation is a single centralized system with a vertical management structure. The system includes a central office, territorial offices, cash management centers, computer centers, field offices, educational institutions and other organizations, including security units and the Russian collection unit, which are necessary for carrying out the activities of the Bank of Russia.

National banks of the republics within the Russian Federation are territorial institutions of the Bank of Russia. Territorial main administrations are separate subdivisions that carry out part of their functions in a certain territory. The territorial head offices are subordinate to the Bank of Russia and are accountable to it. The tasks and functions of the territorial institutions of the Bank of Russia are determined by the Regulations on the Territorial Offices of the Bank of Russia, approved by the Board of Directors.”(Tosunyan, 2008)

“The supreme body of the Bank of Russia is the Board of Directors. This collegial body determines the main lines of business of the Bank of Russia and manages it. The Board of Directors includes Chairman of the Bank of Russia and 12 members of the Board. Members of the Board of Directors work on an ongoing basis. They are approved by the State Duma on the proposal of the Chairman of the Bank, who is also the Chairman of the Board of Directors. Along with the Board of Directors, the National Bank Council operates outside the bank. It includes representatives of the president, representatives of the highest legislative and executive bodies and experts. The total number of the Council does not exceed 15 people.” (Zhukov, 2011)

“The Central Bank forms a single centralized system with a vertical management structure. The Central Bank system includes the central office, territorial offices, cash and settlement centers, computer centers, field offices, educational institutions and other enterprises, institutions and organizations, including security units and the Russian collection unit, necessary for carrying out the activities of the Central Bank. The Central Bank carries out money issue, organizes circulation of money and withdraws them from circulation, issues normative acts on the issues of the

procedure for conducting cash transactions, rules for the transportation, storage and collection of cash, and manages money circulation by economic methods.” (Zharkovskaya, 2011)

“The international reserves of the Russian Federation are liquid foreign assets available to the Bank of Russia and the Government of Russia as of the reporting date. Part of the Reserve Fund of the Russian Federation and the National Wealth Fund denominated in foreign currency and placed by the Government of the Russian Federation on accounts with the Bank of Russia is a component of the international reserves of the Russian Federation. The financial requirements of the Bank of Russia and the Government of the Russian Federation to residents expressed in foreign currency are not included in the composition of the international reserves of the Russian Federation.” (Tosunyan, 2008)

“Applicable laws determine the relationship between the Central Bank and commercial banks and other lending institutions. On the one hand, the Bank of Russia is endowed with broad powers to manage the country's monetary system. On the other hand, the Bank of Russia is a legal entity that enters into certain civil and legal relations with credit institutions.

Thus, the Bank of Russia has a dual legal nature. Simultaneously, the Central Bank of Russia is a body of state management of special competence and a legal entity that carries out economic activities.” (Romanovsky, 2006)

3.4.2 Commercial Banks

“A commercial bank is a financial institution that accumulates and stores money, conducts money transactions and settlements, monitors the flow of funds and provides loans, issues money and securities. Thus, the bank can be characterized as a financial institution that carries out a wide range of financial and credit functions and operations with money and securities. On the one hand, the bank, like any other enterprise, is created to satisfy the interests of the owner of the bank and the public interest. On the other hand, the bank is a special kind of enterprise that organizes and carries out the movement of loan capital, providing profit to the owners of the bank.” (Rybin, 2010)

“In the mechanism of the functioning of the credit system, a huge role belongs to commercial banks. They accumulate the bulk of credit resources; provide clients with a full range of financial services, including loans, deposits, settlements, purchase and sale of securities, foreign exchange.

Commercial banks belong to a special category of business enterprises, which received the name of financial intermediaries. Accepting customer deposits, a commercial bank creates a new

obligation - a deposit, and issuing a loan - a new requirement for the borrower. This process of creating new obligations is the essence of financial intermediation.” (Oleynikova, 2008)

“In the Russian Federation, the creation and functioning of commercial banks is based on the RF Law "On Banks and Banking Activity in the Russian Federation". In accordance with this law, Russian banks act as universal credit institutions that perform a wide range of operations in the financial market: provision of loans of various types and times, purchase and sale of securities, foreign currency, attraction of funds into deposits, settlements, issuance of guarantees, guarantees and other obligations, intermediary and confidential operations.

In Russia, banks can be created based on any form of private ownership, collective, joint stock, mixed. To form the authorized capitals of Russian banks, it is allowed to attract foreign investments. The Board of Directors of the Central Bank of the Russian Federation makes the decision on the opening of each individual bank with the participation of foreign investments. The Central Bank sets a limit for the participation of foreign capital in the country's banking system. Restrictions on the participation of foreign capital are aimed at creating the most favorable conditions for the establishment of domestic commercial banks and protection against the expansion of foreign banks.” (Tosunyan, 2008)

“The main principles of the commercial bank are:

1. an independent choice of its customers, depositors and borrowers;
2. free disposal of own and attracted resources and income within the limits established by the legislation;
3. lending to borrowers within the resources actually available by the bank;
4. responsibility for the results of its activities to customers and owners;
5. independent determination of the conditions for performing banking operations;
6. the desire to profit;
7. avoidance of risk;
8. the preference for more liquid operations is less liquid;
9. compliance with the laws and regulations of the commercial bank.”

(Zharkovskaya, 2011)

“Features of commercial banks are manifested in the course of performing their inherent operations and services. The operations of a commercial bank are a concrete manifestation of banking functions in practice.

According to Russian legislation, the following are the main types of banking operations:

- 1) attraction of monetary funds of legal entities and individuals to deposits on demand and for a certain period;
- 2) granting loans on its own behalf at the expense of own and attracted funds;
- 3) opening and maintaining accounts of individuals and legal entities;
- 4) making settlements on behalf of clients, including correspondent banks;
- 5) collection of cash, promissory notes, payment and settlement documents and cash services for customers;
- 6) management of funds under a contract with the owner or administrator of funds;
- 7) purchase from legal entities and individuals and sale of foreign currency in cash and non-cash forms;
- 8) operations with precious metals in accordance with the current legislation;
- 9) issue of bank guarantees.” (Tosunyan, 2008)

“The Law "On Banks and Banking Activity" emphasizes that non-bank credit organizations are entitled to conduct banking operations, with the exception of the operations provided for in Items 1, 2, 3 and 9 of this Law. The Bank of Russia establishes admissible combinations of other banking operations for non-bank credit organizations.” (Leontiev, 2003)

“In addition, in accordance with Russian banking legislation, commercial banks, in addition to the above-mentioned banking operations, are entitled to conduct the following transactions:

- 1) issuance of guarantees for third parties providing for the fulfillment of obligations in cash;
- 2) acquisition of the right of demand for the performance of obligations from third parties in cash;
- 3) provision of consulting and information services;
- 4) leasing to physical and legal persons of special premises or safes in them for storing documents and valuables;
- 5) leasing operations.” (Markova, 2012)

“The credit organization also has the right to conduct other operations inherent to it as a legal entity in accordance with the legislation of the Russian Federation. A commercial bank is prohibited from engaging in production, trade and insurance activities. These operations should be

classified as non-banking. The services of commercial banks can be defined as the conduct of banking operations on behalf of the client in his favor for a fee.” (Mnatsakanyan, 2011)

“Commercial banks conduct active and passive operations. Active operations of banks are operations for the issuance of various kinds of loans. The most common type of loan issued by banks is a short-term loan to economic agents, usually to finance the purchase of inventory items. This loan can be issued for real or without security, but in any case, it requires the presence of financial statements describing the financial position of the borrower so that the bank can at any time assess the likelihood of timely repayment of the loan. Passive operations are fund-raising operations, namely: attracting loans, deposits, obtaining loans from other banks, issuing own securities. Funds received because of passive operations are the basis of direct banking activity. The most important task of any commercial bank is making profit. In the tables below, there is a list of Russian banks with the highest level of net assets.” (Tavasiev, 2011)

Table 1. The largest banks in Russia according to net assets, 2017

№	The name of bank	Net assets, thousand rubles
1	Sberbank of Russia	23 477 658 406
2	VTB	9 335 743 708
3	Gazprombank	5 487 313 311
4	VTB 24	24 3 678 862 129
5	Rosselkhozbank	3 084 821 548
6	National Clearing Center	2 899 630 763
7	Alfa-Bank	2 659 535 433

Source: cbr, 2017

For a long time, Sberbank of Russia is the most reliable bank in Russia. The largest number of residents of Russia trusts Sberbank of Russia.

Table 2. The most profitable banks in Russia, 2017

№	The name of bank	Net profit, billion rubles
1	Sberbank of Russia	674.1
2	VTB	104.1
3	Peresvet	65.9
4	Alfa-Bank	50.6
5	Gazprombank	40.8
6	Binbank	30.5
7	UniCredit Bank	28.0

Source: cbr, 2017

“Commercial banks are the main component of the country's credit and financial system. Systematic performance by the bank of its functions creates the foundation on which the stability of the country's economy as a whole is built. Commercial banks have a unique ability to create means of payment that are used in the economy to organize commodity circulation and settlements.” (Zhukov, 2011)

“Non-bank credit organization is a credit organization that has the right to conduct separate banking operations established by the Central Bank of the Russian Federation

Non-bank credit organizations are organizations that have the right to conduct separate banking operations. Federal Law No. 395-1 of December 2, 1990 «On Banks and Banking Activities», defines the activities of non-bank credit institutions. The Bank of Russia establishes admissible combinations of banking operations for non-bank credit organizations. Legislative requirements for non-bank credit institutions are lower than for banks, which is associated with a lower risk of transactions.” (Oleynikova, 2008)

“Non-bank credit organizations are a relatively new type of credit institutions set up by the Bank of Russia to carry out, without risky settlements between credit institutions and legal entities, customers who are settlement participants with settlement accounts in non-bank credit organizations.

For the first time, non-bank credit organizations appeared on the banking market in the early 90s of the last century on the recommendation of the International Monetary Fund in the

conditions of bank non-payments and a system of surrogate settlements based on barter with the prospect of servicing new settlement systems: interbank, exchange, corporate.” (Mnatsakanyan, 2011)

“At present, the Bank of Russia has identified three types of non-bank credit institutions:

1. settlement non-bank credit organizations;
2. non-bank credit institutions;
3. non-bank deposit-credit organizations.

The Bank of Russia has established a list of permissible operations that each type of organization can perform.

The Bank of Russia has established that settlement non-bank credit institutions can perform the following banking operations:

1. opening and maintenance of bank accounts of legal entities;
2. making settlements on behalf of legal entities, including correspondent banks, on their bank accounts;
3. collection of funds, bills of exchange, payment and settlement documents and cash services for legal entities;
4. purchase and sale of foreign currency in non-cash form.” (Lavrushina, 2000)

“Registration and licensing of non-bank deposit-credit organizations are carried out in accordance with the Federal Law regulating the procedure for registration of credit institutions and licensing of banking activities and other regulatory acts of the Bank of Russia.

Non-bank deposit-credit organizations fulfill following operations:

1. attraction of funds of legal entities into deposits (for a certain period);
2. placement of funds attracted into deposits of legal entities on its own behalf and at its own expense;
3. purchase and sale of foreign currency in non-cash form.

Non-bank deposit-credit organizations do not have the right to conduct the following banking operations:

1. attraction of monetary funds of individuals to deposits (on demand and for a certain period) and legal entities in demand deposits;
2. opening and maintenance of bank accounts of individuals and legal entities;

3. making settlements on behalf of individuals and legal entities, including correspondent banks, on their bank accounts;
4. collection of funds, bills of exchange, payment and settlement documents and cash services for individuals and legal entities;
5. purchase and sale of foreign currency in cash;
6. attraction to deposits and placement of precious metals.” (Kuznetsova, 2007)

“Non-bank credit organizations of collection based on a license issued by the Bank of Russia have the right to carry out only the collection of cash, bills of exchange, payment and settlement documents. Currently, two non-bank lending institutions operate in the Russian Federation. The main aim of Non-bank credit organization is the fulfillment of the state order for ensuring the cash circulation in the country. In order to solve it, the Association and its cash collection departments transport the values of the reserve funds of the Bank of Russia, collect cash proceeds in cities and other settlements of the Russian Federation, provide services for the transportation of valuables and the protection of objects.”(Lavrushina, 2000)

“The banking system is the most important sphere of the national economy of the state. Its practical role is determined by the fact that it manages in the state a system of payments and settlements; most of its commercial transactions are carried out through deposits, investments and lending operations; along with other financial intermediaries, banks direct the savings of the population to firms and production structures.” (Korobov, 2008)

“Commercial banks, acting in accordance with the monetary policy of the state, regulate the movement of cash flows, affecting the speed of their turnover, emissions, the total weight, including the amount of cash in circulation. Commercial banks with their activities affect the stabilization of the growth of the money supply, and this is the key to lowering the rate of inflation, ensuring the consistency of the price level, at which market relations affect the economy of the economy in the most efficient manner.

Creating the sustainable, flexible and efficient banking infrastructure is one of the most important and extremely difficult tasks. The solution of this problem leads to the stabilization of the economic system, the welfare of the country and its citizens.” (Korchagin, 2006)

4. Practical part

In the practical part of the diploma thesis, there is short description of economic situation in Russian banking sector, calculation and estimation of main banking related economic indicators are analyzed, methods of regression analysis, correlation analysis and simulation analysis are used to evaluate situation in Russian banking system.

4.1 Financial analysis of Russian banking sector

The banking system of Russia is mature market institute at present time. However, because of economic and political problems all over the world, the banking system of Russia is subject to crisis state. Crisis circumstances require active action from both banking institutions and state regulators, the main of which is the Central Bank of the Russian Federation. Thus, in general, the development of the banking system of the country occurred through the search for appropriate solutions to overcome the crisis. A very significant factor for the analysis of the current situation is the participation of Russia's banking system in international financial relations. Inclusion in the processes of globalization carries additional risks.

The banking system of Russia is forced to assume responsibility for global economic problems. Therefore, together with internal risks, global financial risks are the determining factor of the stability and effective development of the Russian banking system. International events and financial crises have an impact on the Russian economy as a whole and on its banking system, which is suffer from external political and economic problems and become weak.

The banking system is a set of banks operating in the country, credit institutions and individual economic organizations performing banking operations. It is the assessment of banks' responsiveness, their reliability in general, that characterize the level and quality of the banking system. The main purpose of credit institutions is to conduct banking operations for credit, cash settlement and deposit services to customers and economic entities. They are guided in their activities by the parameters of the money supply, inflation rates, interest rates established by the Central Bank of the Russian Federation, but do not participate in the development and implementation of monetary policy.

If commercial banks do not follow the conditions established by the Central Bank of Russia, the Central Bank has the right to revoke a license to conduct banking activities from a commercial bank.

The table below shows the number of commercial banks in The Russian Federation for the period from 2001 to early 2017.

Table 3. Number of commercial banks in Russia 2000-2017

Date	Number of commercial banks in Russia	Change in the number of commercial banks	Number of banks in Moscow
01.01.2001	1311	-	578
01.01.2002	1319	+8	620
01.01.2003	1329	+10	645
01.01.2004	1329	-	661
01.01.2005	1299	-30	656
01.01.2006	1253	-46	631
01.01.2007	1189	-64	593
01.01.2008	1136	-53	555
01.01.2009	1108	-28	543
01.01.2010	1058	-50	522
01.01.2011	1012	-46	514
01.01.2012	978	-34	502
01.01.2013	956	-22	494
01.01.2014	923	-33	489
01.01.2015	834	-89	450
01.01.2016	733	-101	383
01.01.2017	623	-110	314

Source: created by the author based on bankirsha, 2017

Based on the data presented in Table 3, we can conclude that the number of commercial banks significantly decreased. In general, the number of commercial banks in the Russian Federation decreased in a greater degree in the period from 2015-2017 because of bankruptcy and non-performance of functions that were set by the Central Bank of Russia.

“Mass "sweep" of the banking sector began in 2013. With the appointment of Nabiullina Elvira to the post of head of the Central Bank more than 100 credit organizations have already lost their licenses. Such activity, apparently, was due to the need to improve the financial side of the Russian

economy and prepare for a deepening crisis. And not all banks were closed due to questionable operations and the lack of measures to normalize activities, most simply went bankrupt.

MasterBank was the first bank to lose its license in 2013. In November 2013, this sensational affair plunged thousands of contributors across Russia into a panic. The sounded reason officially sounds like "violation of laws on countering legalization and money laundering, facilitating terrorist operations." (banki-v,2018)

Mainly, credit institutions are located in large cities of Russia and the larger number of credit institutions are located in Moscow. This characterizes Moscow as the main financial center of the Russian Federation, where the financial assets of the country are concentrated.

On the one hand, the concentration of banking activities in one single region simplifies the regulation of banking activities. On the other hand, this does not allow the region to take an active part in the development of the banking system fully.

Since 2001, the number of banks in Russia has been practically decreasing annually (the exception is 2003), but there has been a significant reduction in the last two years. So, in 2014, the reduction in the number of banks reached 89 and in 2016 110 banks were closed. Over the entire period (from 2001 to 2016), the reduction in the number of banks amounted to 52.5% or 688 banks.

In general, this reduction in the number of players is useful for the banking industry, as reducing the number of unreliable and questionable banks will only improve the sphere, increasing the confidence of consumers in the reliability of large and generative banks. Thus, only organizations that qualitatively fulfill their duties will remain on the market." (www. bankirsha.com, 2017)

The change in the number of banks is mainly due to the withdrawal by the Bank of Russia of commercial banks of a license to conduct banking operations in connection with:

1. failure to comply with federal laws governing banking activities,
2. normative acts of the Bank of Russia,
3. inability to satisfy the claims of creditors on monetary obligations,
4. decrease in the amount of equity (capital) below the minimum value of the share capital.

The sharpest decline in the number of credit institutions occurred in 2015. This trend is accompanied by a sharp decrease in the number of branches of credit institutions in the territory of the Russian Federation. Analyzing the reduction in the number of commercial banks, you need to analyze the reasons for revocation of banking licenses. Firstly, the banks did not comply with the legislation "On combating money laundering and terrorism financing." Secondly, this is market

failure. The unfavorable investment climate, the almost complete absence of institutions that are able to provide long-term loans to banks. Thirdly, the criminal bankruptcy associated with unscrupulous banking activities, in which the abduction of customer funds occurs.

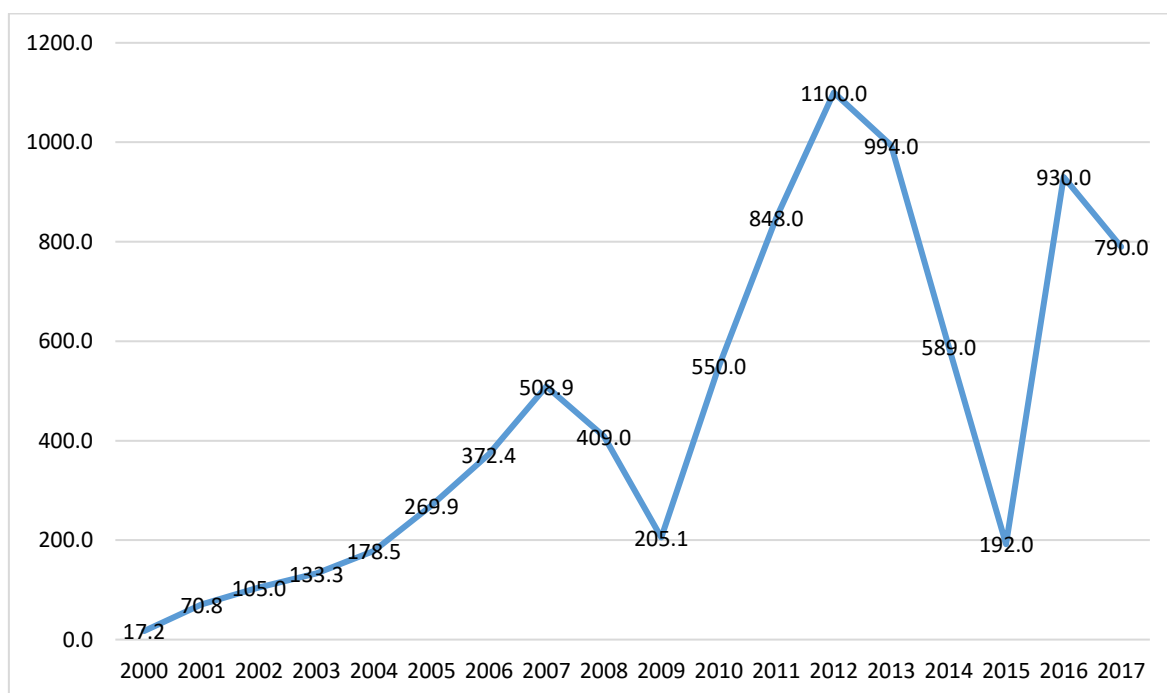
The positive expected consequences of the reduction in the number of commercial banks include such consequences as:

1. improving the quality of the bank's assets;
2. increasing the safety of deposits of citizens;
3. Increased competition due to an increase in the concentration of strong players in the banking services market.
4. a reduction in the number of questionable operations for transfers of funds abroad, as well as cashing operations.

Negative aftereffects can be attributed mainly to a reduction in the total amount of profitability from the activities of commercial banks. This is certainly a negative factor both for the banking system and for the country's economy as a whole.

The profitability of a credit institution is an important indicator of the characteristics of the banking system of the Russian Federation.

Figure 1. Profit of credit institutions in Russia 2000-2017, billions of ruble



Source: created by the author based on cbr, 2017

Based on the table below, we can say that banking sector according to the profit of credit institutions developed progressively from 2000 to 2007, but in 2008 index of profit decreased.

In 2008, the world began a financial and economic crisis, which manifested itself in the form of a strong decline in key economic indicators in most countries with developed economies, which later developed into a global economic recession.

The emergence of the crisis is associated with a number of factors: the general cyclical nature of economic development; glut of the credit market and the resulting mortgage crisis; high commodity prices; glut of the stock market.

The precursor of the financial crisis of 2008 was the mortgage crisis in the US, which in early 2007 affected high-risk mortgages. The second wave of the mortgage crisis occurred in 2008, extending to the standard segment, where loans issued by banks are refinanced by state mortgage corporations. The mortgage crisis in the US provoked in September 2008 the liquidity crisis of the world banks, which also caused a weakening of the middle class in the world and an unprecedented growth in unemployment.

In 2008-2009, profit of commercial banks was significantly low in Russia. This is the consequences of the global financial crisis, which has negatively affected the economy of the country as a whole and the banking system in particular. Consequently, the inflow of foreign capital into Russian banks and enterprises has sharply decreased. Most of all, the crisis affected the real sector of the economy of Russia. The capitalization of Russian banks was getting worse.

The liquidity crisis in Russian banks, the sharp drop in the RTS and MICEX stock indices, the fall in prices for exports (raw materials and metals) began to affect the real sector of the economy in October 2008: a sharp decline in industrial production began.

The financial crisis reduced public confidence in banks and led to an outflow of deposits, which led to a decrease in the financial stability of banks and the bankruptcy of a number of commercial banks.

“In September 2008, the Russian government announced the first anti-crisis measures aimed at resolving the most urgent task at that time: strengthening the financial system of Russia. These measures included monetary, fiscal and quasi-fiscal policies aimed at securing repayment of external debt by major banks and corporations, reducing the liquidity deficit and recapitalizing major banks. Budget expenditures aimed at supporting the financial system exceeded 3% of GDP. These expenses were carried out through two channels: the provision of liquidity in the form of subordinated loans and through injections into the capital of the banking system. According to the

World Bank, "this helped to stabilize the banking system in the face of extreme liquidity shortages and to prevent panic among the population: a net outflow of deposits from the banking system stabilized, foreign currency deposits began to grow, bankruptcies among large banks were avoided, and the process of consolidating the banking sector was resumed" (worldbank,2009)

The second sharp decline in the profitability of credit institutions is observed mainly in 2014-2015. This is due to the weakening of the ruble caused by the collapse of oil prices and the introduction of anti-Russian economic sanctions. The sharp weakening of the Russian ruble against foreign currency, caused by the rapid decline in world oil prices, whose exports depended on a large part of the Russian budget's revenues.

4.1.1 Oil crisis

The Russian oil industry is an industry, which includes the extraction, processing, transportation and sale of oil, as well as the production, transportation and marketing of petroleum products.

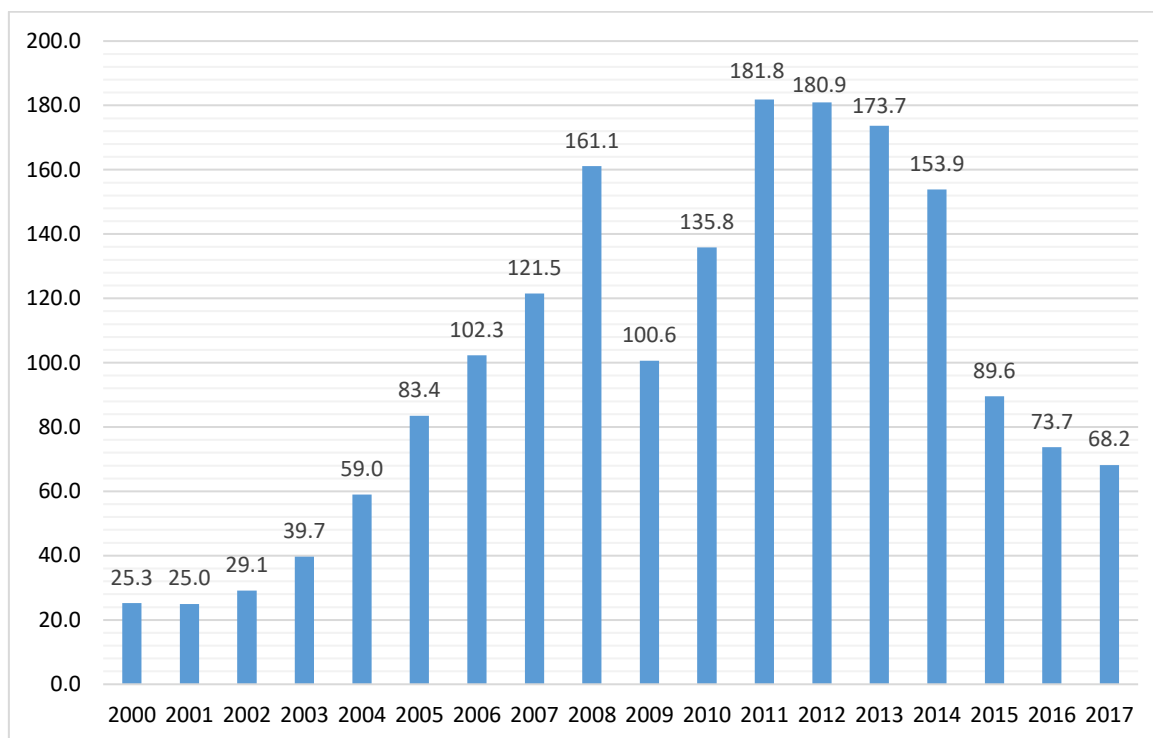
Oil is the main product of Russian exports. The oil and gas sector of the economy of the Russian Federation is the basis for the formation of the country's budget. At the end of 2014, revenues from the oil and gas industry amounted to 6,813 billion rubles. This is 48% of all revenues of the Federal Budget. The value of the Russian currency largely depends on world oil prices.

Proved oil reserves in Russia according to data for 2014 are about 103.2 billion barrels. This is the sixth indicator in the world. The term "proved reserves" is understood as the amount of minerals that can be extracted using modern technologies. At the beginning of 2014, oil production in Russia was conducted by 294 companies.

The largest oil and gas region of the Russian Federation is Western Siberia. Here in the Yamalo-Nenets and Khanty-Mansiysk Autonomous Okrugs a considerable part of natural gas and oil is extracted.

In 2014 there was an oil crisis in the Russian Federation. The fall in oil prices was due to the excess supply over demand, which was caused by a slowdown in oil demand, increased oil and gas production in the US domestic market because of the shale revolution, and the refusal of OPEC countries to cut production. The fall resulted in a reduction in revenues from energy exports, which is about 70% of Russia's exports.

Figure 2. Revenue from oil export from Russia, mln USD



Source: created by the author based on investbrothers, 2017

The export of oil from Russia in 2015 compared to 2014 was halved, and there is a trend of reducing oil exports from Russia in 2016 and 2017.

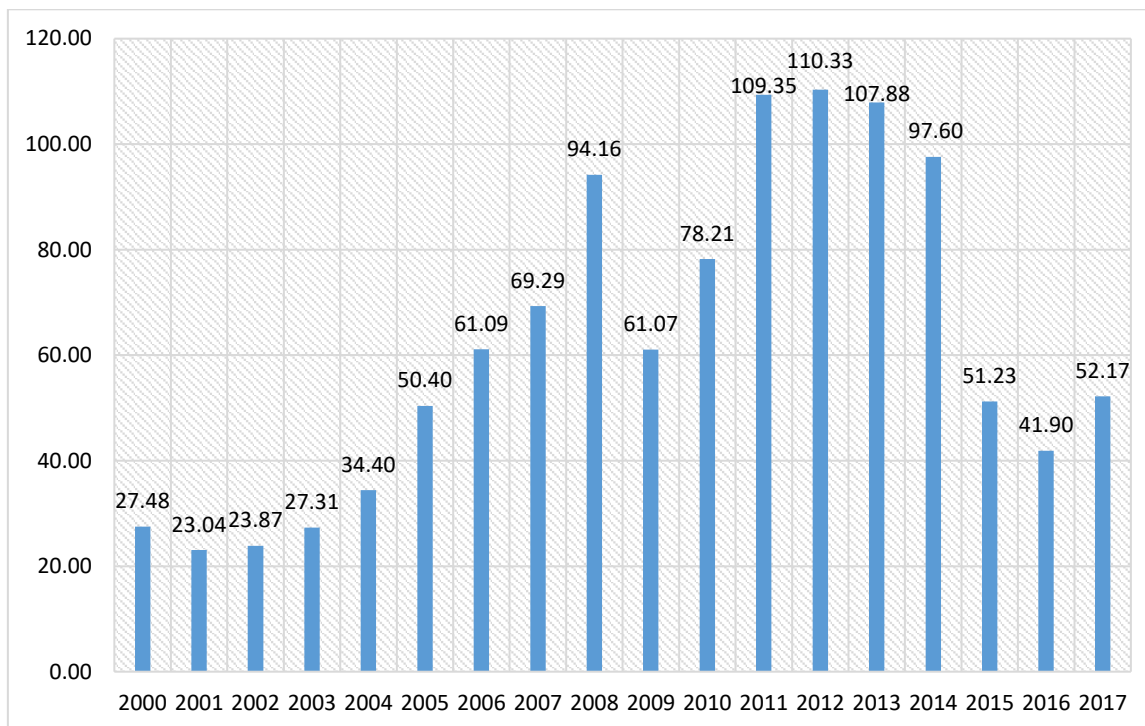
According to the Figure 2, it is necessary to explain that in the period from 2000-2007 there is a gradual increase in revenues from oil exports. This is explained by the stable level of increase in oil production using the modern equipment. Russian oil has strengthened its position in the world market. The decline of revenue from oil export was significant in 2008-2009 during the global financial crisis

Urals is a brand of Russian oil, which is mainly intended for export. Urals is a high-sulfur oil grade, which is a mixture of oil extracted in the Khanty-Mansiysk and Yamal-Nenets autonomous regions, Bashkortostan, Tatarstan and Samara region. The main producers of Urals oil are Rosneft, Bashneft, Lukoil, Surgutneftegaz, Gazprom Neft, TNK-BP and Tatneft.

West Siberian oil itself is of acceptable quality, contains 0.6% sulfur and is similar in composition to Brent and WTI, which belong to the so-called Light Sweet Oil grade which is low-sulfur, light oil, corresponding to most of the world demand.

The price of Urals oil in connection with the currency crisis in Russia in 2014-2015 also declined, which had a negative impact on the economic situation in Russia.

Figure 3. Change in the price of the Urals oil brand, dollar per barrel



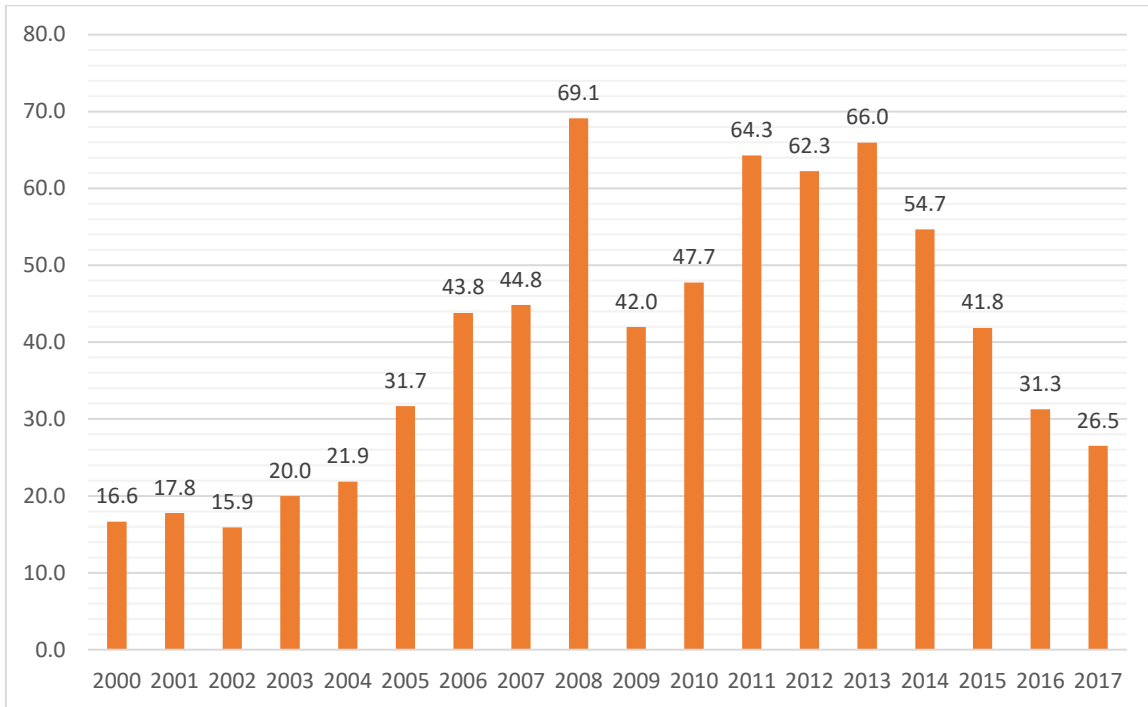
Source: created by the author based on investbrothers, 2017

The average price for Urals oil, the main commodity of Russian exports, in 2015 decreased by almost half compared to the previous year and amounted to 51.23 dollars per barrel, the average price of Urals oil was \$ 97.6 per barrel in 2014. Not only the price of oil went down, the price of exported gas also declined.

The gas industry in Russia is the youngest and fastest growing branch of the fuel industry. It deals with the extraction, transportation, storage and distribution of natural gas. One third of the world's proven natural gas reserves are located on the territory of Russia. More than 90% of natural gas is produced in Western Siberia, including 87% of natural gas extracted in the Yamal-Nenets Autonomous District. The gas industry is the largest element of the Russian economy and the world energy supply system. Russia ranks first in the world in terms of gas production, reserves and resources, provides over 21% of its world production and about 25% of all international supplies.

The gas industry is the second export industry after the oil industry in the Russian Federation. The events of 2014 had a negative impact on the gas industry of the trough; incomes from the gas extortion were reduced.

Figure 4. Revenue from gas export, mln USD



Source: created by the author based on investbrothers, 2017

The decline in gas exports and, as a consequence, the decline in revenues from gas exports was due to the accession of Crimea to Russia, the collapse of political power in Ukraine, the imposition of sanctions against Russia. The termination of supplies from Russia happened after the pogo as Ukraine did not fulfill its obligations in the agreement on cooperation of Russia and Ukraine on the gas issue. Because of this, there was a minor interruption in the supply of gas to Europe.

4.1.2 Economic sanctions against Russia

Relating to the annexation of the Crimea to Russia and the conflict in the east of Ukraine, political and economic sanctions against the Russian Federation were imposed in 2014.

Sanctions were introduced against high-ranking Russian politicians, restrictions imply a ban on entry into the territory of the United States and a number of European countries, as well as the blocking of assets and property of Russian politicians in the US and a number of European countries.

Anti-Russian sanctions can be divided into groups depending on the objectives of the impact:

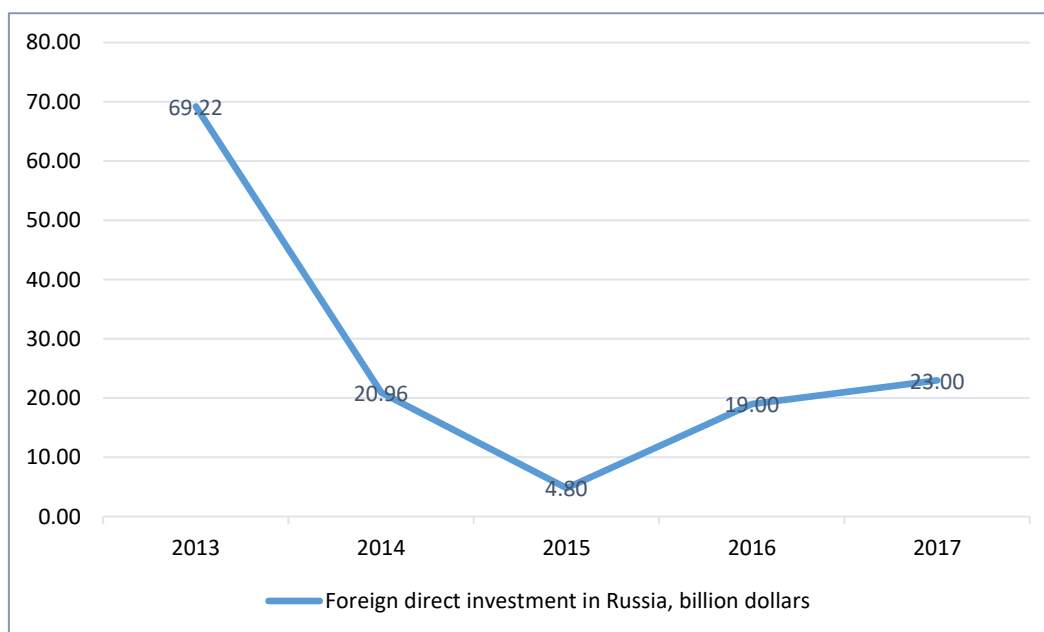
1. Individual sanctions

2. External trade sanctions
3. Investment sanctions
4. Freezing of foreign assets of companies

The most significant negative impact on the state of the Russian economy is 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.

Figure 5. Foreign direct investment in Russia, billion dollars



Source: created by the author based on cbr, 2017

At the same time, the inflow of foreign direct investment into the Russian Federation occurred only in the first half of 2014. In the third quarter of 2014 there was an outflow of investments of \$ 608 million, and in the fourth quarter - \$ 3.43 billion. For comparison, in 2013, in the third and fourth quarters, an inflow of \$ 13.515 billion was recorded and \$ 8.664 billion, respectively.

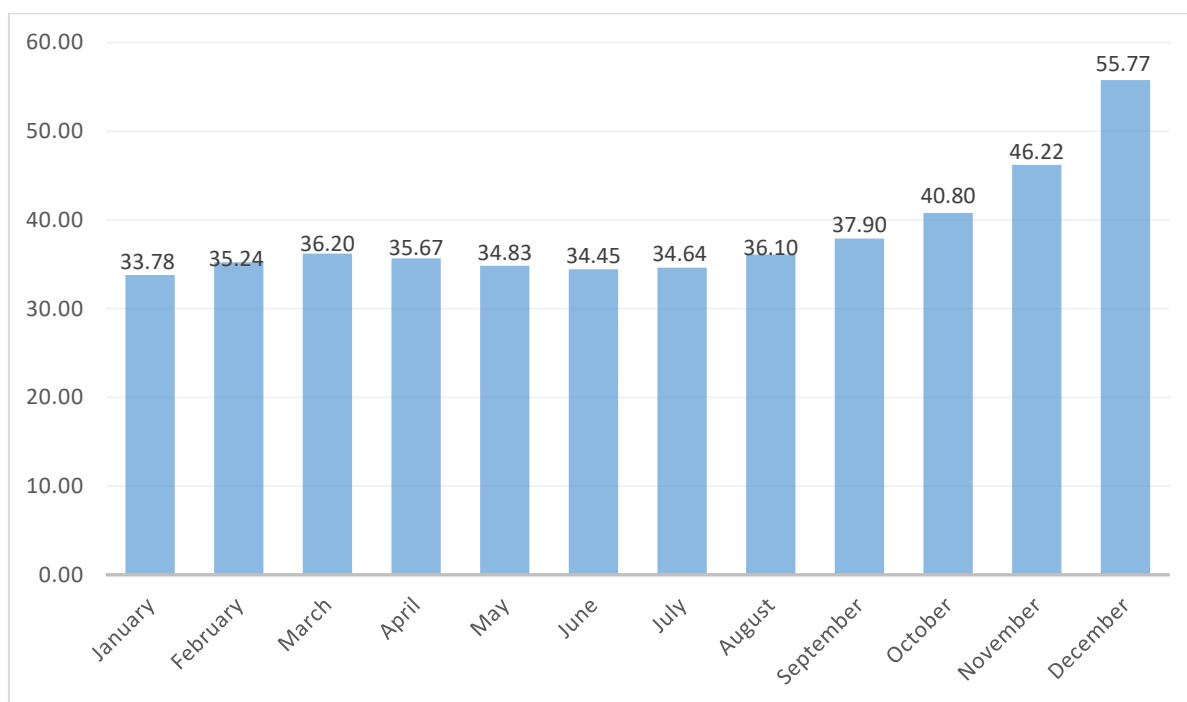
Foreign direct investment in Russia in 2015 amounted to about \$ 4.8 billion, which means reducing foreign direct investment in comparison with the previous year more than 4.5 times. The

improvement of the investment climate in 2016 and 2017 is insignificant, but has a positive dynamics.

The rapid decline in world oil prices and the imposition of economic sanctions against Russia, the deterioration of the investment climate led to a significant reduction in the ruble's exchange rate against foreign currency, which led to an increase in inflation, a decrease in consumer demand, an economic recession, an increase in poverty and a decline in real incomes.

There was a currency crisis in Russia, the consequences of which are present in the economy until now in 2014. This crisis is characterized by a sharp weakening of the Russian ruble against foreign currencies, caused by the rapid decline in world oil prices and economic sanctions.

Figure 6. The change in the value of the dollar to the ruble for 2014



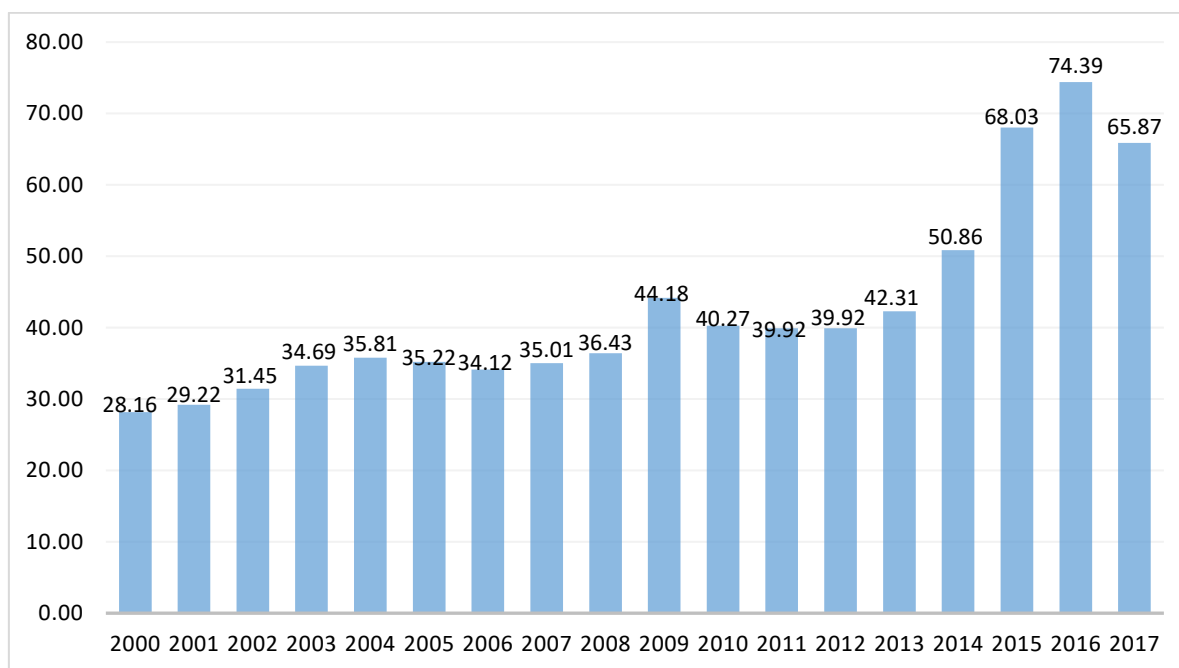
Source: created by the author based on kursvaliut, 2017

As of January 1, 2014, the US dollar rate was 32.66 rubles, and the euro - 45.06. From January to March 2014, the ruble weakened by 14.9%. From the end of March to July, the ruble began to stabilize, but since July the ruble began to weaken again, having already updated the historical lows of March at the end of August. In the fall, the ruble experienced another round of decline amid high geopolitical risks and a fall in oil prices. On December 15-16, 2014, an emergency developed in the foreign exchange market resulting from several negative events (a statement by the OPEC representative about the preservation of oil production quotas despite the possible

decline in oil prices to \$ 40 / bbl., as well as an opaque deal with bonds of Rosneft). These events provoked panic in the foreign exchange market, the rate of depreciation of the ruble reached a maximum.

On Monday, December 15, there was a sharp collapse of the ruble by more than 8% - the rates at the close of trading were 64.45 and 78.87 rubles for the dollar and euro. This fall was a record since January 1999, and the media called this day a "black Monday". The next day, on Tuesday, December 16, followed by an even larger fall of the ruble: the dollar and euro rates reached 79 and 98 rubles, respectively. In the second half of the day, the ruble strengthened, and the auctions ended with an official rate of 67.89 and 85.15 rubles for the dollar and euro, respectively. By analogy with "black Monday", this day was called "black Tuesday". In the "black Tuesday" branches of banks in a number of regions significantly inflated the exchange rate at a relatively low rate of buying currency from the population: the dollar was sold for more than 80 rubles, and the euro reached 150 rubles. In some offices there was a shortage of cash dollars and euros.

Figure 7. The average annual exchange rate EUR/RUB

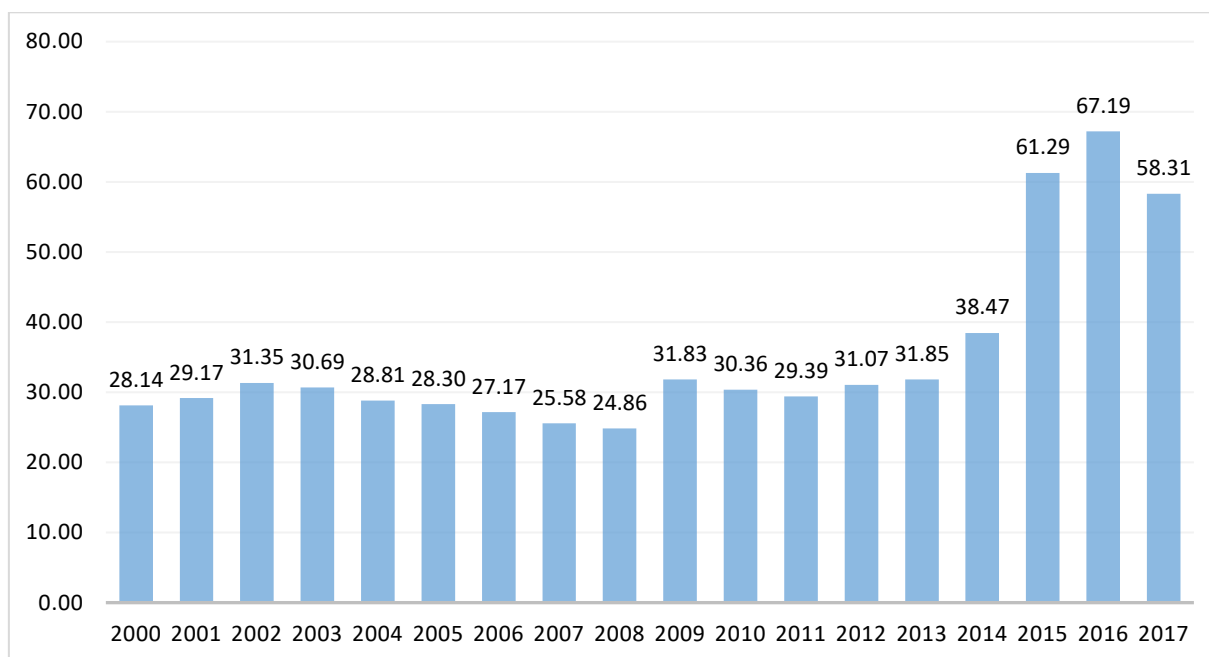


Source: created by the author based on kursvaliut, 2017

The weakening of the ruble exchange rate occurred mainly in the period from 2014-2016 and then from the end of 2016 until now, the Central Bank of Russia applies me to stabilize the ruble. The central bank proceeds through monetary policy by raising the key rate. “These measures will allow you to take control of inflation expectations. The Central Bank of Russia also changed the

approach to conducting currency interventions at the borders of the floating operating interval. This means that the purchase and sale of foreign currency by the CBR will be made in smaller volumes.” (www.russian.rt.com, 2014)

Figure 8. The average annual exchange rate USD/RUB



Source: created by the author based on kursvaliut, 2017

This situation is extremely non-biblical for the country's economy. The low exchange rate limits the production capacity of the economy.

The depreciation of the national currency against the dollar or the euro entails a decrease in wages and the level of well-being of the population. In the zone of highest risk are enterprises in those sectors of the economy where they receive income only in rubles, this is the service sector, construction, banking sector.

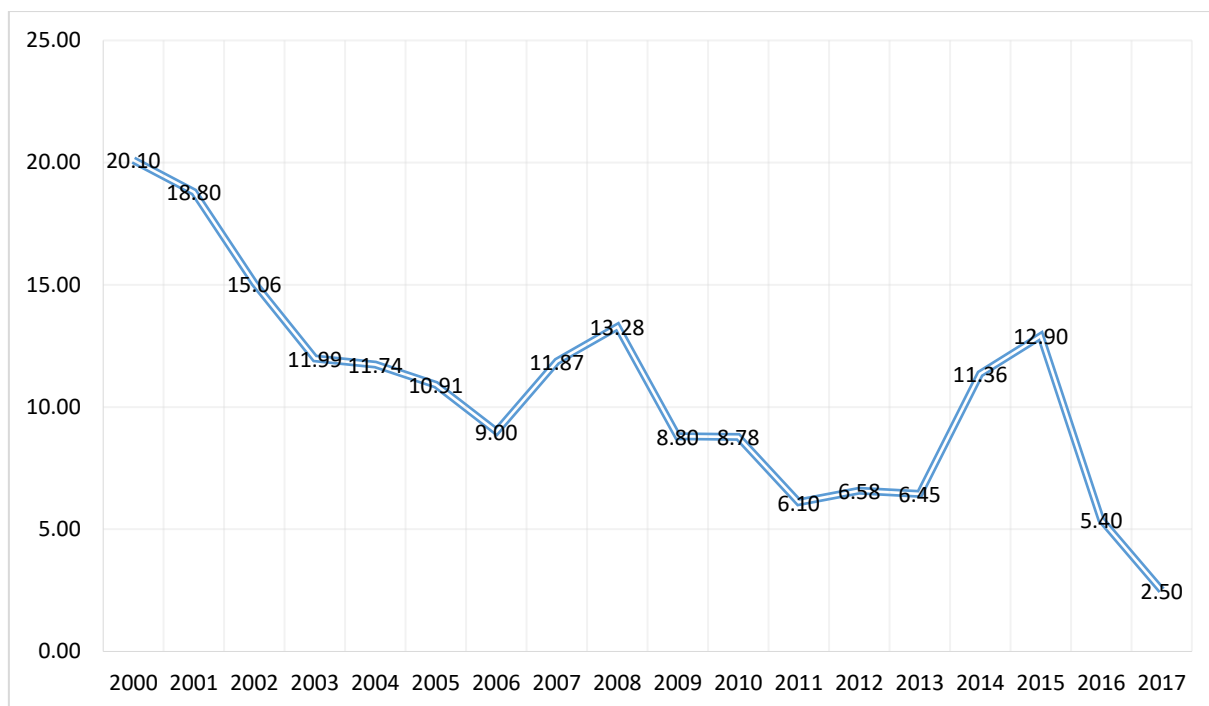
The weakening of the ruble has become one of the main factors for increasing inflation and, as a result, has contributed to a decrease in real disposable incomes of the population and a cooling of consumer demand. Inflation began to pick up pace since August 2014, after Russia introduced counter-measures to limit food imports. Subsequently, the effect of the devaluation of the ruble was added to this, sharply increasing at the end of the year.

Because of the factors, in the second half of 2014, food inflation sharply increased. The introduction of restrictions on food imports from a number of EU countries, Norway, the United States and Canada led to a reduction in supply, a weakening of competition and the imbalance of

markets. In the last two or three months of the year, the inflationary pressure on prices has also been exerted by the devaluation of the ruble. The peak of inflation was reached in 2015.

The main reasons for the decline in inflation in the period in 2016-2017 was a weak consumer demand, a strengthening of the ruble, a good harvest, as well as a reasonable monetary policy and a budget policy to limit the indexation of pensions and salaries.

Figure 9. Changes in inflation rate in Russia 2000-2017, %



Source: created by the author based on cbr, 2017

The main reason for stabilizing the economic situation in the country is unconditional monetary policy of the Central Bank of Russia. To stabilize the economic situation in general, in banking sector in particular, contain inflation and prevent speculation in the foreign exchange market, the Central Bank conducts appropriate monetary policy and changes the key interest rate.

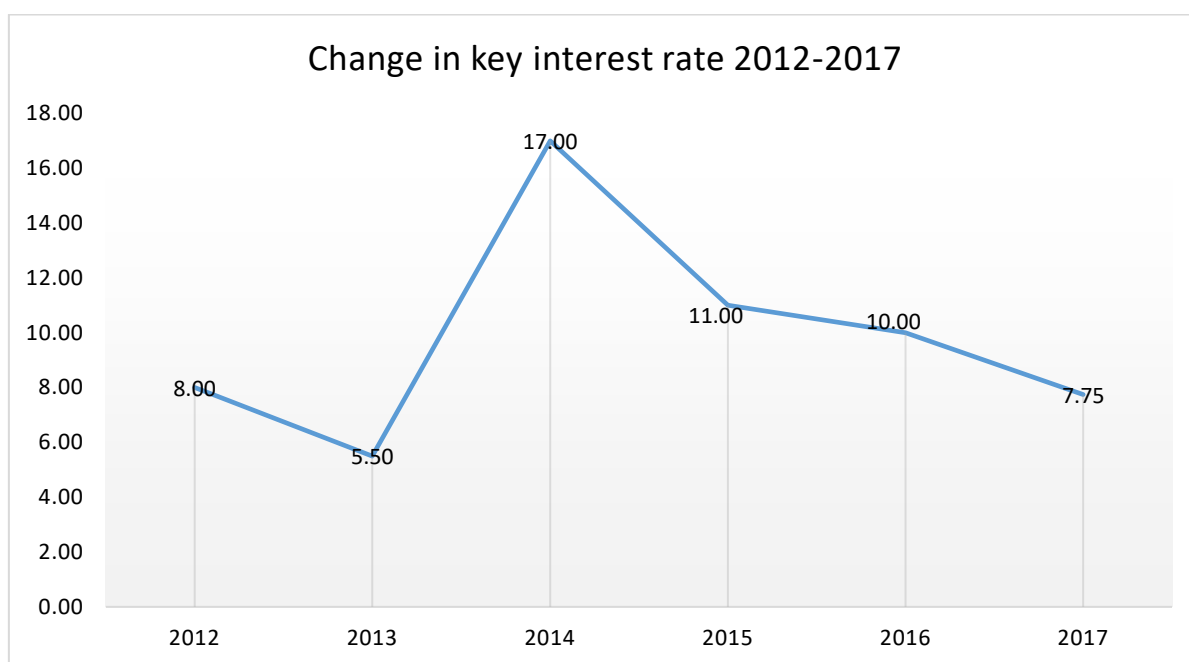
The Bank of Russia sets a key rate (the rate at which the Central Bank lends to commercial banks). That is, the Central Bank lends to commercial banks at the interest rate. The key rate is important in determining the interest rates on loans from commercial banks, influenced by the level of inflation. The Central Bank's rise in the key interest rate, as a rule, entails a rise in the price of the national currency and a reduction in inflation, but this simultaneously causes a decrease in lending volumes.

raised the key interest rate for commercial banks from 5.5% to 17%. Consequently, loans for individuals have become expensive and demand for consumer loans has fallen sharply.

Simultaneously with the introduction of a package of anti-Russian sanctions, the Bank of Russia decided on July 25, 2014 to raise the base lending rate to 8%. In connection with this, the credit conditions for Russian business worsened. Later, the Board of Directors of the Bank of Russia on October 31, 2014 decided to raise the key rate to 9.50% per annum. Moreover, since December 12, the key rate is already 10.5% per annum.

However, already on December 16, the Central Bank again sharply raised the key rate by 6.5 percentage points at once. Now its level is 17%. This decision was made relating to the need to limit devaluation and inflation risks.

Figure 10. Changes in key interest rate by Central Bank in Russia 2012-2017, %



Source: created by the author based on cbr, 2017

Despite a significant reduction in inflation over the period of 2015-2017, the Central Bank reduced the key rate only twice by 9.25%. The policy of the Central Bank in 2017 will remain rigid, by the end of the year the rate fell only to 7.5%

The decision of the Central Bank to raise the key interest rate was extremely necessary because it significantly reduced the risks of devaluation and inflation. An increase in the interest rate of the Central Bank also means that the regulator wants to squeeze liquidity in the banking sector, reduce speculation in the foreign exchange market.

For a particularly detailed study of the analysis of the banking system of Russia, it is more necessary to focus more precisely on the interaction of factors affecting the banking system. For achieving this goal, it is necessary to use econometric methods such as regression and correlation analysis.

Table 4. Data for correlation and relation analysis

Time	Profit of credit institutions in billion of ruble	Dummy variable (economic sanctions against Russia)	International reserves in mill USD	Revenue from oil export (mln USD)	Key interest rate (%)	Inflation rate
2000	17,2	0	19820,00	25,27	39,80	20,10
2001	70,8	0	33596,58	24,99	40,00	18,80
2002	105,0	0	41696,50	29,11	23,00	15,06
2003	133,3	0	59765,67	39,68	19,50	11,99
2004	178,5	0	90359,33	59,04	15,00	11,74
2005	269,9	0	145958,33	83,44	13,00	10,91
2006	372,4	0	237513,58	102,28	12,00	9,00
2007	508,9	0	383935,00	121,50	11,00	11,87
2008	409,0	0	524836,00	161,15	12,50	13,28
2009	205,1	0	407372,08	100,59	13,00	8,80
2010	550,0	0	463379,58	135,80	8,50	8,78
2011	848,0	0	513469,00	181,81	8,10	6,10
2012	1100,0	0	515888,00	180,93	8,00	6,58
2013	994,0	0	522836,33	173,67	5,50	6,45
2014	589,0	1	470119,42	153,90	17,00	11,36
2015	192,0	1	365182,00	89,59	11,00	12,90
2016	930,0	1	386865,42	73,71	10,00	5,40
2017	790,0	1	408850,75	68,20	7,75	2,50

Source: own calculations, based on cbr, 2017

For correlation and regression analysis, the following variables were chosen:

- profitability of commercial banks,
- dummy variable (economic sanctions against Russia),
- inflation rate,
- international reserves,
- revenue from oil export from Russia.

Profitability is the ability of a company to use its resources to generate revenues in excess of its expenses. This is the ability of the company to profit from its activities. Profitability is one of the most important points for the analysis of financial reporting and the efficiency of the banking sector.

A dummy variable is a qualitative variable that takes the values 0 and 1 included in the econometric model to consider the influence of qualitative characteristics and events on the explained variable. In this case, dummy variables allow you to take into account the influence of not only qualitative features that take two values, but also several possible ones. In this case, several dummy variables are added. A dummy variable can also be an indicator of the ownership of an observation to some subsample. In the analyzed model the value of 0 means period before the introduction of economic sanctions against Russia, the value 1 means period after the introduction of economic sanctions against Russia.

Inflation is an increase in the general level of prices, accompanied by a corresponding decrease in the purchasing power of money and leading to the redistribution of national income. Inflation is the main destabilizing factor of the market economy. The higher its level of topics, it is more dangerous.

The international reserves of the Russian Federation are high-quality external assets in foreign currency that are accessible and controlled by the Bank of Russia and the government. International reserves can be used to finance the balance of payments deficit and intervene in the foreign exchange markets. International reserves consist of funds in foreign currency, special drawing rights, reserve positions in the International Monetary Fund and monetary gold.

The Russian Federation is one of the largest oil producers and revenue from oil export is a big part of Russian budget. It is necessary to consider this indicator.

4.1.3 Correlation analysis

Correlation analysis is a method of establishing communication and measuring its tightness between observations, which can be considered random and selected from the population. The purpose of the correlation analysis is to identify the evaluation of the strength of the connection between random variables (characteristics) that characterize some real process.

The objects of correlation analysis:

- a) Measurement of the degree of connectivity (tightness, strength, severity, intensity) of two or more phenomena.
- b) Selection of the factors that have the most significant effect on the outcome, based on measuring the degree of connectivity between the phenomena. Significant factors in this aspect are further used in regression analysis.
- c) Detection of unknown causal relationships.

The values of the correlation coefficient vary in the interval $[-1; +1]$. The value $r = -1$ indicates the existence of a rigidly determined inverse correlation between the factors, $r = +1$ corresponds to a rigidly deterministic relationship with a directly proportional relationship of the factors. If there is no linear relationship between the factors is observed, then r will be equal to 0. Other values of the correlation coefficient indicate the presence of a stochastic coupling, and the closer $|r|$ to unity, the connection is closer.

If $|r| < 0.3$ it means that correlation between factors is weak; if $0.3 < |r| < 0.7$ it means that correlation between factors is medium tightness; if $|r| > 0.7$ it means that correlation between factors is close.

This evaluation includes just X-independent variables, it is connection between these X-independent variables can be strong or weak.

Independent variables in the correlation analysis are:

- dummy variable (economic sanctions against Russia),
- inflation rate,
- international reserves,
- revenue from oil export,
- key interest rate.

Correlation coefficients, using the observations 2000 - 2017

5% critical value (two-tailed) = 0.4683 for n = 18

Dummy variable (economic sanctions against Russia)	International reserves (mln USD)	Revenue from oil export (mln USD)	Key interest rate	Inflation rate	
1.0000	0.2767	-0.0394	-0.2108	-0.3155	Dummy variable (economic sanctions against Russia)
	1.0000	0.8939	-0.7559	-0.6786	International reserves (mln USD)
		1.0000	-0.6845	-0.5321	Revenue from oil export (mln USD)
			1.0000	0.8651	Key interest rate
				1.0000	Inflation rate

Source: own calculations, 2017

The strongest correlation coefficient is between revenue from oil export and international reserves. It is 0,8939 and it is make sense because the more revenue from oil export Russia gets the more international reserves Russia can make.

The strong correlation is between inflation rate and key interest rate, because increase or decrease in the key rate affects the level of inflation

The strong correlation is between inflation rate and international reserves as level of inflation rate and volume of international reserves characterize the state of economy.

The strong correlation is between key interest rate and international reserves. This is explained by the fact that the key rate affects the cost of loans and, accordingly the inflow of money into banks

(if the loans are cheaper, then the demand rises) and the more the income of the banking sector, the more the Central Bank has, the more reserves it can make.

The strong correlation is between key interest and revenue from oil export. This relationship is obvious, since the change in the prices of non-oil significantly affects the economic situation in Russia. Due to a decline in oil prices and, accordingly, losses from oil sales, the Russian ruble has become weak. To avoid crisis consequences and an attempt to stabilize the ruble, the Central Bank implemented monetary policy by raising the key rate to curb inflation.

The medium correlation is between inflation rate and revenue from oil export, it means that changes in revenue from oil export has an impact on inflation rate, but this impact is not strong.

The weak correlation is between dummy variable and inflation rate; dummy variable and international reserves; dummy variable and revenue from oil export. It means that there is correlation between these variables, but the correlation is weak. It makes sense because economic sanctions did not have as significant impact on Russian economy as it was expected.

4.1.4 Regression analysis

Regression analysis is a statistical method of investigating the effect of one or more independent variables on a dependent variable. Independent variables are otherwise called repressors or predictors, and dependent variables are criterial. The terminology of dependent and independent variables reflects only the mathematical dependence of variables, rather than the cause-effect relationship. The equation of regression is:

$$y = f(x_1, x_2, \dots, x_n),$$

y- dependent variable;

x - independent variable (factor).

Regression Analysis objectives:

1. Determination of the degree of determinism of variation of a criterion (dependent) variable by predictors (independent variables)
2. Predicting the value of a dependent variable with the help of an independent
3. Determination of the contribution of individual independent variables to the variation of the dependent.

Unlike the correlation analysis, which only answers the question of whether there is a connection between the analyzed characteristics, regression analysis gives its formalized expression. In

addition, if the correlation analysis studies any relationship of factors, then the regression one is a one-sided relationship, a link showing how the change in factor attributes affects the outcome.

For regression analysis, the following variables were chosen:

- profitability of commercial banks,
- dummy variable (economic sanctions against Russia),
- inflation rate,
- international reserves,
- revenue from oil export from Russia,
- key interest rate.

Profitability of commercial banks is dependent variable.

Dummy variable, inflation rate, international reserves, revenue from oil export from Russia are independent variables.

Model 1: OLS, using observations 2000-2017 (T = 18)

Dependent variable: Profit of commercial bans

	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-ratio</i>	<i>p-value</i>	
const	505.292	208.579	2.4225	0.0322	**
Dummy variable	100.42	128.845	0.7794	0.4509	
International reserves	-7.66563e-05	0.000691178	-0.1109	0.9135	
Revenue from oil export	4.18577	2.24351	1.8657	0.0867	*
Key interest rate	20.4673	9.2998	2.2008	0.0481	**
Inflation rate	-72.9593	18.6746	-3.9069	0.0021	***

Mean dependent var	459.0611	S.D. dependent var	346.8324
Sum squared resid	318145.5	S.E. of regression	162.8254
R-squared	0.844426	Adjusted R-squared	0.779603
F(5, 12)	13.02672	P-value(F)	0.000168
Log-likelihood	-113.5599	Akaike criterion	239.1198
Schwarz criterion	244.4621	Hannan-Quinn	239.8565
rho	-0.102944	Durbin-Watson	2.186705

$$y = 505.292 + 100.42x_2 - 7.665x_3 + 4.18577x_4 + 20.4673x_5 - 72.9593x_6 + u_1t$$

const - y

x2- Dummy variable

x3- International reserves

x4- Revenue from oil export

x5- Key interest rate

x6- Inflation rate

y- Profitability (dependent variable)

x2, x3, x4, x5, x6- independent variables

Interpretation:

If all independent variables were 0, income of commercial banks would be 505.292 million rubles.

If there were no economic sanctions against Russia, the profit of commercial banks would be 100.42 million rubbles higher.

If inflation rate increased by one unit, the profit of commercial banks would decrease by 72.9593 million rubles.

If international reserves of Russia increased by one unit, the profit of commercial banks would decrease by 7.665 million rubles.

If revenue from oil export from Russia increased by one unit, the profit of commercial banks would increase by 4.19 million rubles.

If key interest rate increased by 1%, the profit of commercial banks would increase by 20.4673 million rubles.

The coefficient of determination (R-squared) is the fraction of the variance of the dependent variable, explained by the considered dependence model, that is, explanatory variables. This is the unit minus the fraction of the unexplained variance (variance of the model's random error, or conditional variance of the dependent variable) in the variance of the dependent variable.

The coefficient of determination for a model with a constant takes values from zero to one. The closer the value of the coefficient to one, the stronger the dependence. When evaluating regression models, this is interpreted as the model's correspondence to the data. For acceptable models, it is assumed that the coefficient of determination should be at least not less than 50%. Models with a

coefficient of determination above 80% can be considered quite well. The value of the coefficient of determination 1 means the functional relationship between the variables.

According to the analyzed model, R-square is equal to 0.84 and it means that the value of the coefficient of determination means a functional relationship between the variables, which is 84%. The rest 16% means that the model has mistakes and it is sum of all unaccounted variables.

P-value is the value used in testing statistical hypotheses. In fact, this is the probability of an error in rejecting the null hypothesis. Hypothesis testing using the P-value is an alternative to the classical verification procedure through the critical distribution value. Usually the P-value is equal to the probability that a random variable with a given distribution will take a value not less than the actual value of the test statistic. For interpretation of this value, p-value is interpreted according to λ which is equal to 0,05. If $p\text{-value} < \lambda$, it means that the value is statistically significant.

According to the analyzed model, inflation rate and key interest rate are the most significant value. It means that inflation rate has the most significant impact on profitability of commercial banks. It is explained by the monetary policy, which the Central Bank implemented for stabilization of banking sector.

Key interest rate is one of the instruments of monetary policy. Raising the rate, the Central Bank tries to contain inflation. It is arranged like this: with a high key rate, interest rates on loans grow. On such conditions, demand for loans is falling, because of which the economy receives less money. A small amount of money in circulation leads to their appreciation, not depreciation. In the present case, even a sharp increase in the rate will have a limited impact on inflation.

The rest values had impact on the profitability of commercial banks, but it was not so significant in comparison with the impact of inflation rate.

5 Results and Discussion

The banking sector in Russia is the system of all credit institutions entering the country's economy, each of which has its own special function. The banking system of Russia is a two-tier system. The top level is occupied by the Central Bank of the Russian Federation; the second level is occupied by commercial banks. Each level performs certain functions.

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 and 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 most significant negative impact on the state of the Russian economy is 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, these were peaks of crises. 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%.

The role of the key rate in the country's economy cannot be overestimated. It is the most important financial and economic instrument in the sphere of the country's monetary and credit policy, which has a powerful influence on the policy of all Russian banks.

The key rate shows how expensive banks are to borrow money. A low-key rate allows you to set low interest rates on loans, a high key rate leads, respectively, to high interest, a "price hike" of money, making deposits and deposits more profitable as a financial instrument. 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 works 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.

The main problems of the development of the banking sector in Russia are:

- low capitalization;
- limited capacity of the banking system in the sphere of lending to the national economy;
- regional and sectoral disparities in the economy;
- macroeconomic instability;
- unreliability of the Russian banking system.

Thus, to solve the existing problems of the banking sector, it is necessary:

- increase the efficiency of savings accumulation and turn them into investments by the banking sector;
- to increase the role of the banking sector;
- increasing the competitiveness of Russian credit institutions;
- Increasing the systemic stability of the Russian banking sector.

In order to stabilize the ruble, it is necessary to ensure the country's economic output to a more advanced level, to diversify the structure of industries in order to increase the use of the national currency abroad. At the same time, it is necessary to promote the accumulation of ruble and ruble bonds in international reserves. The implementation of these goals requires the introduction of modern production technologies, attracting foreign capital to enhance Russia's international competitiveness.

An important point for stabilizing the banking sector and the economic situation in the country as a whole is to reduce dependence on oil prices. This moment is the most important and at the same time, it is very difficult to achieve these changes.

The banking system is an important part of the country's economic system. In turn, the economy is closely linked to politics, and disagreements on the political arena often lead to disagreements among countries on economic issues. Accordingly, Russia needs to find a balance between maintaining its own interests and adopting compromise decisions at the world level.

6 Conclusion

The banking system is a set of national banking and credit institutions operating within the framework of a common mechanism. It includes the Central Bank, a network of commercial banks and other credit and settlement centres. The central bank conducts state emission and foreign exchange policy, is the backbone of the reserve system and monitors the activities of commercial banks. Commercial banks carry out all types of banking operations.

The role of the banking system in the economy of any country is extremely high. The strict division of functions, that is, the definition of clear boundaries of authority and the division of spheres of influence between the Central Bank and commercial banks, greatly enhances the effectiveness of the banking system, which contributes to the development of the country's economy.

Despite some successes of the Russian banking system, there are, of course, many still unsolved problems. One of the most important is the stabilization of the level of inflation. The next important issue is the stabilization of the ruble. Stabilization of the ruble is possible only if the combination of well-conceived monetary and fiscal policies is properly combined with the creation of an appropriate legislative framework.

The main objective of the development of the Russian banking sector is to improve the level and quality of banking services provided to organizations and the population, while ensuring its systemic sustainability. This goal should contribute to improving management, including risk management, further improving market discipline and transparency of credit institutions. Achieving this goal will contribute to the development of the Russian economy and increase its competitiveness in the international arena through diversification and transition to an innovative development path.

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