

## Deposit Insurance System Impact on Household Deposit Market

In 2008 the DIS had positive stabilizing influence on household deposit market, promoted positive trends observed in the sphere of bank household savings in recent years.

It is necessary to point out that timely increase (since October 1, 2008) of the deposit insurance coverage to 700 thousand rubles and decision to fully reimburse insured deposits up to this new coverage limit became a stabilizing factor for deposit market development in 2008.

The analysis of total deposits dynamics allows to divide the reporting year into two not equivalent periods. So, in the first half-year period of 2008 it was observed active inflow of household deposits into the banking system—increase by 11,9% to 5 742.4 billion rubles, which in whole got in line with initial Agency forecasts for deposit market growth rates in 2008 (32-33%).

However in the second half-year period of 2008 the household deposit market developed under influence of negative news both from the world financial markets and from the Russian market. As a result, deposit growth rates in the second half year amounted only to 3%, and initial annual forecast was decreased to 10–15%. The new forecast of the Agency was based on the assumption that the outflow of household deposits, observed in autumn, shall stop and be replaced with the fresh deposits inflow in banks at the end of 2008.

So it was: in November 2008 the deposit market stabilized and in December it grew by record 396.3 billion rubles almost completely having compensated the previous decline. As in past years the active inflow of household deposits into the banks in December was connected with payments of bonuses to employees of enterprises and organizations at the year-end. Similar payments make a significant impact on household deposit market condition since 2005. In addition, growth of deposits in December was partly caused by revaluation of foreign currency deposits because of the ruble's depreciation.

As a result deposits of individuals in DIS member banks in whole for this year increased by 14.7% (the absolute increase is 753.7 billion rubles) and reached 5 885.2 billion rubles.

The increase of deposit insurance coverage resulted in that deposits with amount from 400 to 700 thousand rubles expanded at the highest rates in the second half-year of 2008 and their volume in half-year increased by 21.4%. New deposits, opened in this period, amounted almost to 200 thousand rubles, and the share of such deposits in general volume grew from 8.9 to 10.5%. The volume of larger deposits, exceeding 700 thousand rubles for that period decreased by 1% (their share declined from 38.2 to 36.9%). On the whole the total change of deposits' structure by their size was not significant (Fig. 4).

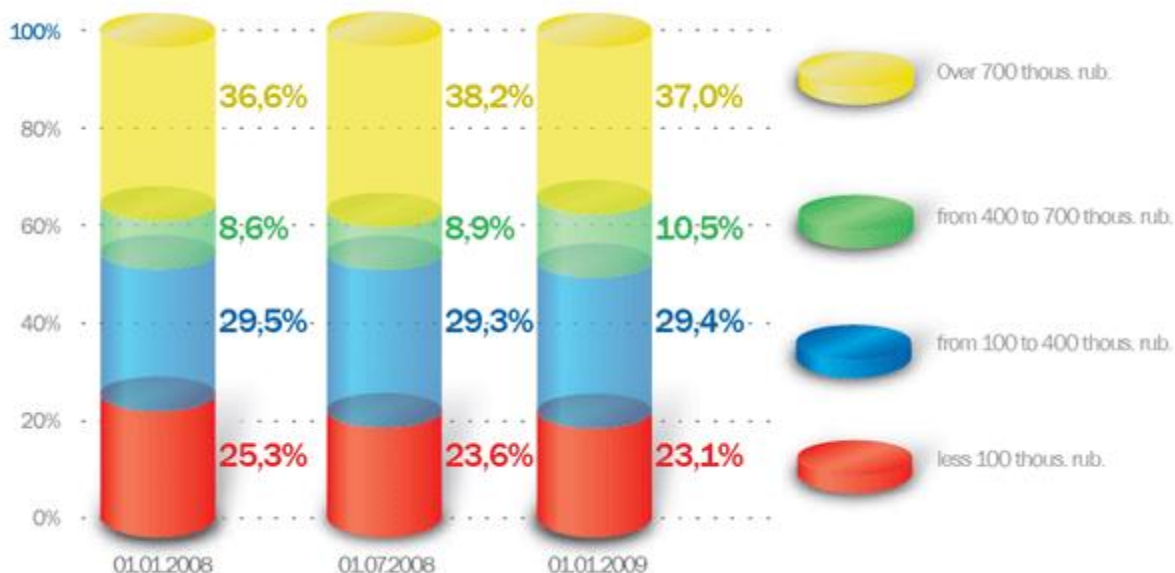


Fig. 4. Deposits' structure depending on size of deposits

The data of monitoring, conducted by the Agency in 100 largest retail banks during the year, showed the growth of deposit interest rates. The most substantial changes were observed in the fourth quarter, which also had positive impact on the household deposit market growth at the year end.

The average level of interest rates (weighted by size of deposits) as of January 1, 2009 for one-year deposits in rubles amounting up to 100 thousand rubles is about 10.8% per annum (increase for the year by 2,4 percentage points (p.p.)), amounting up to 400 thousand rubles – 11.0% (increase for the year – by 2.2 p.p.). Upon that, the average (unweighted) interest rates for deposits amounting up to 100 thousand rubles were 13,0% per annum and 13.2% for deposits up to 400 thousand rubles (increase for 2008 by 2.7 p.p. and 2.5 p.p. accordingly).

In 2008, the share of savings placed on long-term deposits by the population continued to increase. As a result, the share of deposits with maturity exceeding 1 year comprised 65.2% of individuals' savings placed in banks as of January 1, 2009, having increased by 2.6 p.p. as from the beginning of the year.

In the reporting year for the first time in recent years the share of foreign currency deposits increased. As of January 1, 2009 it grew two times, having increased from the beginning of year from 12.9 to 26.7% of general volume of deposits. This change was caused by growing attractiveness of deposits in euro and US dollars due to the ruble's depreciation against the currency basket in IV quarter of 2008. According to the Agency estimates the share of deposits in foreign currencies by the end of 2009 can stabilize within the range 30-35% of all deposits.