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Crisis And Bank Performance In The Covid-19 Era: Russia Case Study

Abstract

This study aims to investigate Russia's financial performance during the COVID 19 outbreak and the financial crisis. We use indicators of bank financial performance as the dependent variable in this study. An indication of bank success is bank profit after taxes. As independent variables, general reserves and finance were utilized. For this investigation, the Russian financial services regulator used a sample of all bank transactions across the country that were recorded (Central Bank of the Russian Federation). This study covers a population of all financial institutions in Russia, including those that are registered and those that are not, throughout a monthly time span from January 1995 to January 2021. We found that financing generally has a very favorable impact on Russian banking performance. However, general reserves have a detrimental impact on Russian bank performance. This makes perfect sense since in a stable economy, financing is the spearhead of bank income with measurable risks so when financing increases, bank income also increases. On the other hand, if the reserves increase, more money will settle and in the end, it will have an impact on the loss of opportunities to earn income. However, during a crisis, financing becomes very risky so it is negatively related to bank performance during a crisis, but it is reserved that are the driving force for bank income from deposits to the central bank.

Keywords:
JEL Classification : C10, G21, M40, M41

Background

Typically, a limited number of banks were affected by the crisis, which was defined by the outflow of funds (Baubeau, Monnet, Riva, & Ungaro, 2021). In Russia, the term banking crisis appeared in 1979, which provoked an increase in loan interest rates, a massive withdrawal of deposits, a decrease in loan amounts, and an increase in the bankruptcies of financial organizations (Bhowmik, 2018).

The rise of fictitious deposits from bank management, which seeks to creatively boost bank stability, is linked to the overall banking system issue (Torku & Laryea, 2021). Liquidity difficulties are short-term in nature, resulting in panic and, as a result, large withdrawals of funds in all credit institutions. Thus, the scale of the crisis continues to increase (Mohammad, Asutay, Dixon, & Platonova, 2020).

Triggered by sharp changes in the prices of financial goods and services, usually associated with panic. This phenomenon began to occur a long time ago, and since then scientists are actively studying the causes of its occurrence (Loxton, Truskett, Scarf, Sindone, Baldry, & Zhao, 2020). The most obvious are a decrease in production, an increase in speculative operations, restrictions on the solvency of borrowers, and depreciation of securities and assets (Plaskova, Prodanova, & Reshetov, 2020). The main reason for this was the economic state of the system itself, prior to the banking crisis. First of all, the ability to sell assets quickly, the provision of equity capital, and the quality of the loan portfolio (Shim, 2019).

Because the crisis is the country's circulatory system, it has an adverse effect on the financial system and the state of the economy. Without it, financial transactions cannot

be completed and public funds cannot be distributed (Asteriou & Spanos, 2019). Over the past few decades, the banking industry has experienced many crises. So, in the '80s, small credit organizations in England almost ceased to exist (Laeven & Valencia, 2020). This is a consequence of the economic boom that followed the tightening of monetary policy by the Bank of England (Bukowski & Gowers, 2018).

Norwegian banks are not ready to shift to state control of financial markets, as they rely on state budgetary policies (Wood, 2019). In the late 1980s, under the influence of declining revenues and increasing losses, equity capital was destroyed (Kose, Ohnsorge, Reinhart, & Rogoff, 2022).

The Japanese crisis in 1993 occurred because of the economic structure of the country itself. Exports are directly dependent on companies in foreign markets, while real estate and land prices continue to rise. Most members of the public considered this a good investment, but in 1993 there was a boom in this market, and as a result, there was a great recession (Rosenberg & Boyle, 2019).

The US mortgage crisis, credit institution failures, and declining stock prices contributed to the historic catastrophe that happened in 2007–2008. (Bawono, Zainuri, & Wilantari, 2019). That served as the catalyst for the liquidity crisis that many global banks experienced; as a result, they ceased giving loans for the purchase of automobiles, which led to a fall in demand for problematic car goods. After that, it changed its course of action to focus on production, which led to a decrease in all areas of the economy(Alexeevna & Joseph, 2020).

The financial crisis is a complex phenomenon that has dozens of different definitions. In general, the financial crisis was followed by the banking crisis. Internal and external mechanisms can shake the stability of the banking structure. Disturbances in the balance of the monetary system can occur due to news of spontaneous bank failures, released by competitors. Clients who react to the news will rush to withdraw deposits, others will decide to immediately take out a loan, the payment of which may be delayed if the information is correct. The factors behind customer behavior may not be triggered, as they are triggered by other phenomena such as global crises (Marcu, 2021).

The bankruptcy of a bank at a certain point in time to fulfill its obligations to customers can be resolved by competent management of the policy of the institution, which provides loyal conditions for depositors and tightening measures for issuing loans (Donnelly & Asimakopoulos, 2020). In the 20th century, a number of developed countries such as the United States, Japan, Britain, Spain, Norway, Finland, and Sweden experienced a global banking crisis. And the methods for dealing with them have accumulated a good foundation, demonstrating positive international experience in dealing with disasters (Bolibok, 2020).

In order to stabilize the work of banks during periods of crisis upheaval, the generally accepted maximum amount and other measures are used in combination, which, in general, can help to overcome the instability caused by crisis unrest (Chiaramonte, Dreassi, Girardone, & Piserà, 2022). Crises are classified according to the region and the causes of their occurrence and development (Dai, Duan, & Zhang, 2020). A crisis can be caused by a balance of payments crisis and the development of factors that cause stable changes in exchange rates (Demir & Razmi, 2022).

The crisis can also be caused by the accumulation of state debt and prolonged bankruptcy on accounts, provoking a currency crisis (Brunnermeier, & Krishnamurthy, 2020). The crisis can also be caused by an increase in the private debt of banks and companies and a fall in prices (Aikman, Bridges, Kashyap, & Siegert, 2019). Crises can be caused by the accumulation of debt from public and individual policies, triggering increased inflation and distrust in the country's currency (Echarte Fernández, et al.,

2021). Thus, the crisis phenomenon is closely related to debt obligations, the causes of their occurrence and accumulation, and requires government intervention to stabilize the banking system (Agarwal & Varshneya, 2022 ; Prabowo, Sulisnaningrum, & Harnani , 2021).

The banking crisis and its aftermath have removed the volatile small banks in Russia from the arena, while the leaders worked quickly, some suffered small losses but persisted (Crouch, 2020). The Russian government carries out a series of measures to clean up banks, conduct audits that identify financial institutions operating outside the law, carry out fictitious transactions, and ensure the transfer of funds abroad. A number of banks have lost their licenses, and some managers have been sued (Dobrowolski & Sułkowski, 2019 ; Tsindeliani, Proshunin, Sadovskaya, Popkova, Davydova, & Babayan, 2021).

The possibility of mass bank bankruptcy is always there, especially in conditions of the world economic crisis (Piotrowski, 2020). The beginning of 2016 in Russia there was already a wave of mass bankruptcies, which was largely due to the unfavorable development of the business environment and in large part to the fulfillment of the obligations and regulations of the Russian Federation (Petrovskaya, 2020).

Banks that have gone bankrupt are repeatedly reprimanded for abusing their obligations to customers and the state (Kvasha, Zahynei, Shapoval, Kurylo, & Nikitenko, 2019). The main task of the Bank of Russia in the context of the coronavirus pandemic which began in March 2020 is to pursue anti-crisis policies aimed at stabilizing markets and supporting the economy and population. At various stages of development of the situation, a combination of monetary and macroprudential policies, provision of liquidity, operations in the foreign exchange market, and relaxation of regulations was used (Razumovskaia, etal., 2020).

The spread of the pandemic to almost all countries of the world, and the widespread announcement of the restrictive measures caused panic in the markets. Under these conditions, governments and central banks of the world immediately introduced major measures to support the economy and population, new non-standard tools to stabilize markets and maintain financial stability (Keane & Neal, 2021). In the second half of the year in the covid 19 era, the global economic recovery began, but it was uneven across countries and sectors due to the second wave of the epidemic, as well as different vaccination rates and levels of government support in different countries (Grech, Grech, & Fabri, 2020).

Taking into account the increased risk of short-term inflation against the backdrop of a weakening ruble, the Bank of Russia in March 2020, decided to suspend monetary policy easing at this stage. However, it soon became clear that in the event of such a crisis, the main blow would fall on small businesses (Bozhechkova & Trunin, 2020). In the context of the stringent restrictive measures that began at the end of March 2020, it became necessary to further stimulate the banking sector to provide support to residents and businesses (Revinova, Ratner, Lazanyuk, & Gomonov, 2020). During this period, the Bank of Russia imposed several anti-crisis measures. The withdrawal from strict restrictive measures and market stabilization renders some regulatory easing irrelevant, in particular, with regard to the ability not to revalue assets on bank balance sheets (Åslund, 2020).

Greater openness of the economy, and continued growth in demand, have a more significant impact on inflation expectations. This includes encouraging public access to the stock market. Inflation is starting to grow, deposit rates remain low, and people are looking for more profitable instruments (Meyer, et al., 2022). The policy to free the banking sector from weak players is to strengthen it and the availability of capital

reserves to take risks. This is the reason for the effective response of the banking sector to incentives (Cai & Luo, 2020). Financing and reserve funds are options that become trade-offs in developing banking performance (Viphindrartin, Wilantari, & Bawono, 2022 ; Widarni & Bawono, 2022). This study aims to investigate Russia's financial performance during the COVID 19 outbreak and the financial crisis.

Research Method

We use indicators of bank financial performance as the dependent variable in this study. An indication of bank success is bank profit after taxes. As independent variables, general reserves and finance were utilized. For this investigation, the Russian financial services regulator used a sample of all bank transactions in Russia (Central Bank of the Russian Federation). This study covers a population of all financial institutions in Russia, including those that are registered and those that are not, throughout a monthly time span from January 1995 to January 2021. We use the panel threshold regression analysis with the following equation:

$$Y_{ti} = \alpha_0 + \beta_0 I_0 + \sum_{j=1}^{p} \beta_j Y_{t-j} + \sum_{j=1}^{q} \gamma_j u_{t-j} + u_{ti}$$

Where,

$t = 1, 2, \cdots t$

$i = 1, 2, \ldots i$

where α_0, β_j $(j = 0, \cdots, p)$ and γ_j $(j = 1, \cdots, q)$ are unknown scalar parameters; $I_0 = [-1/2, 1/2]$ is a unit interval; u_t is an interval innovation with $E(u_t|I_{t-1}) = [0, 0]$, where I_{t-1} is the information available at time $t - 1$. T is time period, i is bank to i. Variable descriptions are presented in table 1.

Table 1. Variable Descriptions

Variable	Description	Source	Unit of Analysis
Eat	Bank profit after tax	Central Bank of the Russian Federation	million russian ruble
Fin	financing	Central Bank of the Russian Federation	million russian ruble
Grev	General reserves	Central Bank of the Russian Federation	million russian ruble

Results and Discussion

Stationary data are necessary for the Threshold Autoregressive. Therefore, the data stationarity test is performed before calculating the Threshold Autoregressive. Table 2 presents the outcomes.

Table 2. The Results Of Stationarity Test

Method			Stat.	Prob.**
ADF – Fisher			0.74112	0.0819
ADF - Choi			-0.31136	0.0921
	Prob.	Lag	Max Lag	Obs
Eat	0.0891	0	4	312
Fin	0.0923	0	4	312
Grev	0.0714	0	4	312

** An asymptotic Chi-square distribution is used to calculate the probabilities for Fisher tests. For all other tests, asymptotic normality is assumed.

The Islamic banks included in this analysis have a stationer data, according to the findings of the ADF test. Table 3 displays the outcomes of the Threshold estimate.

Table 3. The Results of the Threshold Autoregressive Estimation

Variable	Coeff.	t-Stat

Threshold Variables (linear part)		
Fin	0.316211	1.421721
Grev	-2.113127	-2.526609
nonlinear part		
Fin	-1,124211	-1.731235
Grev	2.101249	2.412019
SLOPE	0.000311	0.011371
THRESHOLD	0.112316	0.121132
1		
R-squared	0.817234	
Adjusted R-squared	0.793211	

Finance in general significantly improves the performance of Russian banks over a linear time. However, on the contrary, General reserves have a negative effect. This is very reasonable because in a stable economy, financing is the spearhead of bank income with measurable risk so that when financing increases, bank income also increases. Conversely, if the reserves increase, the more money that settles and ultimately has an impact on losing opportunities to earn income. However, in times of crisis, financing becomes very risky so that it is negatively related in the dynamic part, but it is reserves that are the driving force for bank income from deposits to the central bank.

Conclusion

Financing generally has a very favorable impact on Russian banking performance. However, general reserves have a detrimental impact on Russian bank performance. This makes perfect sense since in a stable economy, financing is the spearhead of bank income with measurable risks so when financing increases, bank income also increases. On the other hand, if the reserves increase, more money will settle and in the end, it will have an impact on the loss of opportunities to earn income. However, during a crisis, financing becomes very risky so it is negatively related to bank performance during a crisis, but it is reserved that are the driving force for bank income from deposits to the central bank.

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