

Russia and Wto: Prospects of the Leasing Market

¹Ya. S. Matkovskaya and ²D.D. Daev

¹Department of World Economy and Economic Theory, Volgograd State Technical University
²“Economy” Education Program “International Business”
Department of World Economy and Economic Theory, Volgograd State Technical University

Abstract: Russia joined the WTO and many Russian markets became more open to foreign investors. This article is focused on analysis of the situation Russian economy in global financial market. The objective is to identify features and trends of the Russian leasing market, consider the prospects for its development and its attractiveness for foreign investors. The conclusions of the article provide recommendations for foreign leasing companies for success in the Russian leasing market.

Key words: Leasing • Leasing Market • The Russian Investment Market • Leasing Innovative Products
• The WTO • The Global Financial Market Innovation

INTRODUCTION

Russian economy has changed a lot for the last two decades. There has been sweeping changes related to the transition, the path from ultra-liberal reforms to spreading government ownerships and government sector. Russia has been aimed to accede in WTO since 1993. As we all know, the way of Russia's accession to the WTO was one of the longest, compared with other countries. In contrast to the other economies of the world, the Russian economy took long time for the accession to the WTO. Russia is a member of WTO now and despite on financial markets and leasing market are not fully accessible they have viability because of fast growing rate and pent-up demand. It allows suggesting that Russian leasing market can be attractive for foreign companies. But to gain market success nonresidents have to understand the Russian leasing market specificity. That is why in this article was made analysis of the features, contradictions and prospects of the Russian leasing market.

Literature Review: Defining the purpose of researching Russian leasing market in the context of WTO, authors of this article have found out lack of fundamental theoretical and practical papers about developing this market in Russia. The lack of papers about this topic in Russian magazines doesn't impact on the matters of this article. Of

course, there are a huge amount of researches who dealt with studying of this market. For example, E.Rid, R.Cotter, E.Gill, R.Smitiandetc. Among Russian scientists serious contribution to the research of the leasing market contributed V.D.Gazman, V.V.Kovalev, A.G.Ivasenko, O.A.Lewkowicz, V.A. Goremykin, etc. However, the question of what will be the leasing market in Russia after the accession to the WTO has not yet study. This was the reason the writing of this article. To write this article we used our own papers about researching leasing where were mentioned the basics of partners' relations methodology between lessee and lessor which is the main thing for successful leasing settlements development in Russia, also a variety of analysis findings of the consulting firms and expert service providers which are on open access, for example, RBC. Marketing.Research., PA «Expert», government statistics data, OECD statistics.

RESULTS AND DISCUSSION

In this regard, it is worth drawing attention to the inconsistency of the Russian leasing market. On the one hand, the growth of leasing in Russia has almost unprecedented rates, relative to other financial markets and even similar markets in other countries and on the other - the demand for leasing services cannot be considered to be satisfied. Growth rates illustrate the data in Table leasing. 1

Corresponding Author: Ya. S. Matkovskaya, Doctor of Economics, Professor of Department of World Economy and Economic Theory, Volgograd State Technical University.

Table 1: Key indicators of the Russian leasing market in 2009-2012

Indicator of development of the leasing market,	2009	2010	2011	2012
The volume of new business billions of dollars (billions of rubles)	10.3 (315)	23.87 (725)	42.80 (1300)	55.97 (1700)
The average transaction amount, billions of dollars (billions of rubles)	0.26 (8.1)	0.34 (10.6)	0.39 (12.1)	0.45 (13.8)
Amount received payments billions leasing, billions of dollars (billions of rubles)	10.5 (320)	11.52 (350)	17.7 (540)	23.04 (700)
Volume of financed assets (billions of rubles)	5.07 (154)	14.81 (450)	24.26 (737)	32.26 (980)
The total portfolio, billions of dollars/ billions of rubles	31.6 (960)	38.85 (1180)	61.23 (1860)	100.41 (3050)
The share on GDP,%	0.81	1.63	2.39	2.8

Note: Course is designed by the authors at the CBR rate on 30.12. 2012 (30.3727 rubles/U.S. dollars)

What does contribute to the development of the Russian leasing market? It is quite objective factors. The global financial crisis, economic growth, which, contrary to global trends do not strongly influenced to the growth rate of the Russian leasing. This is explained by the fact that a significant part of fixed assets in enterprises is outdated Russian residents, inherited from the Soviet economy. Lifetime of this equipment has long expired and the potential for its recovery from its own funds or credit from residents is very low. Hence the growing interest in the modernization of production by means of leasing services. Second, as in any other economy in the Russian economy leasing gives advantages in tax breaks, accelerated depreciation opportunities, many leasing deals contract terms can approach the normative operation the leased asset and the leasing of the card, except for depreciation deductions, includes a number of additional elements, including interest for provision of leasing capital. Also leasing is “protected product “ and therefore get the necessary equipment leasing easier than get credit for buying it, especially for small and medium businesses.

However, Russian leasing market is characterized by specific features. So, in the last three years on it is a strengthening process segmental and geographical concentration and consolidation of leasing transactions. This trend was especially in the first half of 2013, when the share of transactions attributable to one of the largest leasing companies accounted for 34% (in the 1st half of 2012 – 31% in the 1st half of 2011 – 16% in 1st half of 2010 - 11, 8%). While the share of the top 10 companies has not changed - they accounted for 66.2% of new business (in 2012 – 67.4%, in 2011 - 68.5%, in 2010 – 56.8%).

At the same time, there are trends that can reduce the rate of growth of the leasing market. Thus, the policy of the Bank of Russia on the reduction in reserve requirements for banks may contribute to tighter quality requirements for borrowers and increase lending to the corporate sector and the volatility of the modern stock and currency markets may create additional difficulties of access to long-term financing and leasing portfolio slowdown residents.

However, there are trends that may contribute to the qualitative transformation leasing. Primarily - a trend caused by the fact that under the circumstances to obtain the financial resources leasing companies need to raise the level of own funds that can become natural barrier to entering the market leasing new players. To obtain bank loans and resell them at a certain premium, leasing companies must be creditworthy and attractive investment. As a result, the leasing business can begin to stand apart as a separate, independent from the banking sector or industry to integrate into the holdings. This will require increasing the equity leasing companies. In such a scenario may occur and disruptions in payments leasing companies banks on credit issued under the leasing transactions. However, this worst-case scenario has not been developed, operated as another trend - the development of an operating lease, respectively, “secondary” leasing market in the near future should lead to a revival of the market. According to the Russian Association of Leasing Companies, even in 2007, when the volume of transactions under operating leases amounted to slightly more than 0.16 billion (5 billion of rubles (At the CBR rate on 30.12.2007), increased by 2006 to 0.12 billion dollars (3.6 billion of rubles by CBR exchange rate on 30.12.2006) or 2.57 times. And it took place in an environment where this type of financial lease remained legally uncertain.

Growth in the number of finance lease agreements continues today. As can be seen from Fig. 1, compiled by the authors according to the Russian Association of leasing companies, the total value of new prisoners in 2012 finance leases amounted to \$ 10.1 billion, increasing by \$ 4.8 billion, or 190%.

According to forecasts of the Bank of Russia in 2014 in the banking system liquidity deficit will grow. Of course, the Bank of Russia is ready to cover the deficit, if it occurs, for leasing companies that will be dangerous and will lead to a number of consequences, such as: reduction in operating margin, an increase in lease payments, refinancing difficulties operating leases, reduction of the lease portfolio diversification and quality of customer service, the prevalence of short positions in

Table 2: Tendencies in the development of modern Russian leasing market

Sphere of activity	Observed/expected changes
Market positioning	Integration and consolidation of the leasing companies;
Leasing portfolio	Increasing the number of foreign leasing companies
Operating activities	Package extension of leasing services
Finance and capital structure	Enlargement deals
Investment	Improving the quality of leasing services by automating business processes and implementation of standardization

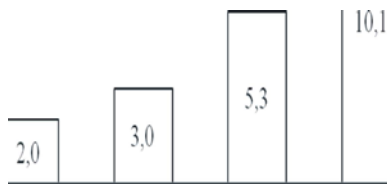


Fig. 1: Volumes of leasing in Russia in 2009-2012, billions of dollars

the absence of financial support from shareholders, increasing demand for credit resources, globalization of financial markets makes Russia dependent on global trends in the development of modern leasing market. But Russia has its own specifics. For example, the Russian news agency - RBC, in a special review, identify several key trends in the development of the Russian leasing market, which are grouped by the authors in Table 2.

The authors of this article, is a supporter of the investment nature of leasing, which is reflected in our special [1], drew attention to the fact that there are other trends in the Russian leasing market: first, the market gets regional development and secondly, it is an increase in the share of state-owned companies and thirdly, almost all new leasing companies with foreign capital to enter the market before the entry into the WTO, began to work in the sectors of leasing motor vehicles and rolling stock.

Again emphasizing the great potential of the Russian market of leasing and paying attention to the fact that Russia has almost unprecedented in world experience growth in the leasing market, we give some more data, the proposed public financial news agency RBK: over the past five years, the Russian leasing market growth is in the range from 40 to 70% per year, while its average growth in the world market for 10 years from 1996 to 2005 by only 3.6%. During these 10 years, the global leasing market grew by 35.9%. Russian leasing market in the last 7 years grows from 2000 to 2007 increased by 20 times from 1.2 to 24 billion dollars (despite the fact that large-scale development of the leasing market began only after 1999!).

Thus, it becomes obvious that the Russian leasing market is one of the most attractive markets in the world, which is especially important in the context of saturation

and low growth in the developed markets of traditional exporters of capital: the U.S., EU and Japan. Additional attractiveness of the Russian leasing market in the eyes of foreign investors can be caused also by the following factors: the extremely low level of defaults lessees - an average of less than 1%, the lack of regulatory burden on the leasing business (unlike banks), as well as investment grade sovereign credit rating of Russia.

Another important point that defines the high investment potential of the Russian market of leasing is that the Russian leasing companies hold leading positions not only in Russia but also in the territory of the Customs Union and the CIS markets and even Eastern Europe, becoming "East European leasing leaders" that in the near future will create conditions for the development of competition for markets and leasing services in the future.

It is possible that in the coming years, major foreign investments in the Russian leasing market will be the driving force behind the growth of this market, especially as the leasing market in Russia's WTO accession is not protected by a long-term perspective, which it has implemented a relatively banking sector.

In speaking of Russia's membership in the WTO, we note that the growth rate of the lease for the period of its membership in this organization, not decreased. Developing research leasing market in Russia, we call attention to its structure by the leased asset, which is shown in Fig. 2.

Obviously, the most promising are not only already mastered Russian companies (including government) market segments, but also underdeveloped segments. The first is - agricultural machinery market, its share is very small - around 3% (2012), although it increased in comparison with, for example, the year 2011 more than 4 times. It turns out that the Russian leasing companies do not provide the consumer with this product. This is surprising, as Russian agriculture in need of modernization of fixed assets. Therefore, farmers need innovative leasing products and services that they would be easier to use. Thus, in this market there are significant prospects for development and possible cooperation with Russian and foreign leasing companies.

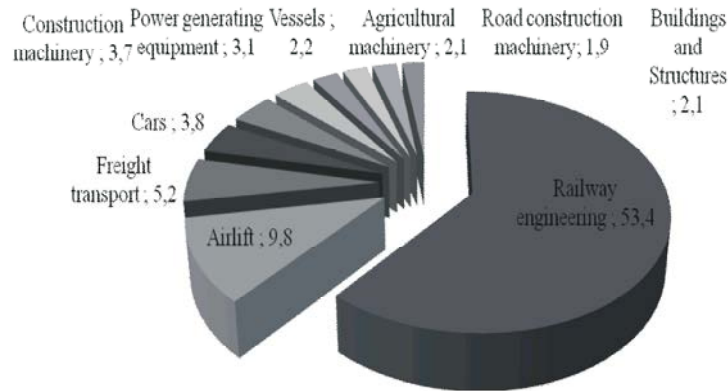


Fig. 2: Top-10 segments of the Russian leasing market by share of the leasing portfolio, % [2]

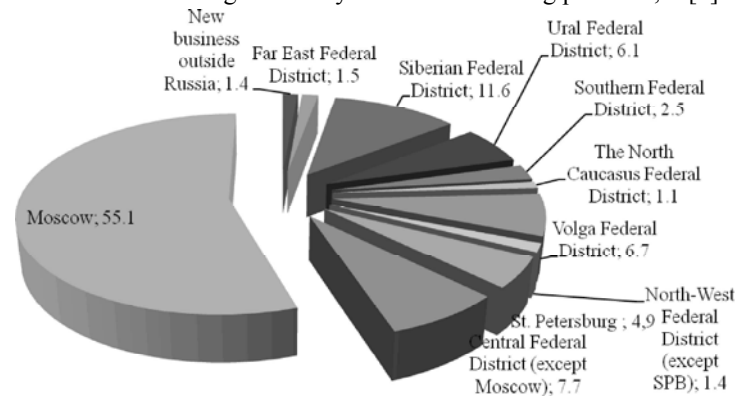


Fig. 3: Geographical distribution of the volume of new leasing transactions in 2012 [4]

Perhaps another promising direction of development of the Russian leasing market and the future will be equipment for utilities, which accounted for 0.2% in 2012 and its share dropped by 1.5 times compared to 2011. But one of the most promising markets for the objects of leasing transactions should become market road construction machinery, for example, which in 2012 was only 2.9%. Surprisingly, this market also declined (by 0.5% compared to 2011) [3]. Let's pay attention to another important trend consisting in explicit geographical concentration of the Russian leasing market (Figure 3).

The diagram shows the geographical concentration of fact leasing market: most leasing transactions takes place in the central region of the country, primarily in Moscow and Moscow region, which determines the future growth of another, consisting in the fact that most of the regional markets leasing poorly developed.

Thus, the Russian leasing market continues to be one of the most promising and fastest growing, even in post-crisis in the global economy. It is obvious that in the current situation, the Russian leasing companies, banks started it and mutual funds, have the greatest prospects for expanding the portfolio and strengthen market

position. But, at the same time, there is reason to distinguish the leasing market in a separate segment of the market, which is likely to be traditionally focused on leasing products in the field of construction equipment, automotive.

Of course, Russia is interested in foreign investment, including in the form of leasing, but the Russian side during the negotiations on WTO accession were some restrictions [5], for example, relating to what were tax benefits on VAT for leasing companies, limited to a few years of participation in the Russian market of foreign insurance companies (except for certain types of insurance products). However, these restrictions are temporary and soon the Russian financial market will be open. It should be considered when constructing an investment policy of leasing companies. In addition, according to RBK, today Russia has a very large number of foreign banks, their share in the total authorized capital of Russian banks in 2011 reached 0.15 trillion. dollars (4.7 trillion. Rubles by CBR exchange rate on 30.12.2011) and according to experts RBC.Research, in 2012 this share has amounted to about 0.17 trillion. dollars (5.2 trillion. Rubles by course CBR 30.12.2012) [6]. Thus, in the

Russian market, leasing companies can develop now, but in the leasing portfolio of products needed for this to have innovation.

Another important detail to generate significant leasing business development strategies should be that for the Russian consumer financial services more attractive not only innovative product leasing and leasing service, which will act as a single proposal to the financial value that combines the financial and insurance product, i.e. some services, which is based on the development of marketing partnerships. Proof of the importance of this approach are given by the authors [7], which describes the “rational model of organization of leasing”, in which the leasing company (and insurance company) act as “full partner” of the bank, which in turn has a “strategic partnership” with his client.

CONCLUSION

To summarize this paper, we note that the Russian financial market, on a number of developed countries has not yet such a large development, but shows rapid growth, the leasing market in Russia is growing particularly rapidly. At the same time the needs of many segments of the market and, especially, geographical, are dissatisfied. By joining the WTO, Russia is protecting its own financial and insurance markets, but soon the barriers are removed and the Russian banks and Russian leasing companies are expanding the post-Soviet space and in Eastern Europe. The basis of competition for Russian leasing market and the relevant markets in Eastern Europe and the CIS will be innovative leasing services holdings, especially welcomed by consumers in these markets.

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