

# HOUSEHOLD OVER-INDEBTEDNESS IN RUSSIA

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# HOUSEHOLD OVER-INDEBTEDNESS IN RUSSIA

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## ACRONYMS

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<b>BOFIT</b>	Bank of Finland
<b>CBR</b>	Central Bank of Russia
<b>CONFOP</b>	International Confederation of Consumer Societies
<b>ECA</b>	Europe and Central Asia
<b>FX</b>	Foreign currency
<b>FZ</b>	Federal law
<b>GDP</b>	Gross Domestic Product
<b>MFI</b>	Micro Finance Institution
<b>NAFI</b>	National Agency for Financial Studies
<b>NPL</b>	Non-performing loan
<b>OECD</b>	Organization for Economic Co-operation and Development
<b>OKB</b>	United Credit Bureau
<b>PDL</b>	Pay day loan
<b>PP</b>	Percentage point
<b>Rosstat</b>	Russian Statistical Agency
<b>RUB</b>	Ruble
<b>USD</b>	United States Dollar
<b>VAT</b>	Value added tax
<b>WBG</b>	World Bank Group
<b>Yoy</b>	Year on year

## EXECUTIVE SUMMARY

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**In the last three years, household debt has risen by a third as disposable income declined.** Declining interest rates, ease of access to credit for consumers and poorly regulated microfinance lending practices led to fast growth in consumer debt. Consumer lending in the banking and microfinance segments has been growing in double digits in 2017-2018, reaching a total of RUB 14,90 trillion (USD 230,8 million), or 14 percent of the Russian GDP. At the same time, real disposable income has been declining: as of 2018, it is 13 percent below 2014 levels.

**Accelerated consumer lending has been monitored by the Central Bank of Russia to adjust the supply side of consumer finance, but no in-depth assessment has been made on how this has been affecting households.** To provide a demand-side assessment, the World Bank Group in cooperation with the Russian Consumer Protection Service (Rospotrebnadzor) and the International Confederation of Consumer Societies (CONFOP) conducted an over-indebtedness study in 2018-2019. The objective of the study was to take a deeper look at the increasing levels of indebtedness of individuals in Russia, provide a demand-side view on the issue and assess potential social and economic implications. The results of the study afford a unique perspective on the issue of consumer over-indebtedness in Russia and provide Russian financial-sector regulator and consumer-protection authorities with additional context for reviewing and adjusting their existing policies in the area of consumer protection, responsible lending and related areas. The study was conducted in a form of a survey covering over 4,000 individuals in 16 Russian regions.

**This report reviews the results of the over-indebtedness survey in Russia, highlights a range of arising issues and indicates policy implications to be considered by the authorities.** The results of the study highlight the significant pressures and vulnerabilities faced by borrowers, the potential impact of these vulnerabilities on future lending opportunities of the industry, the well-being of borrowers and their households and the wider social and economic implications. While the survey did not show clear signs of an immediate debt crisis emerging in Russia, it showed that debt levels are high, especially compared to previous studies conducted by the World Bank Group in other countries in the ECA region. Fifty-seven percent of borrowers are exposed or vulnerable to over-indebtedness and over ninety percent of borrowers have experienced at least one form of financial pressure because of their debt.

**The Russian market includes bank lending practices that might mask the actual level of over-indebtedness and need to be investigated further.** It seems that the stability of the current situation is built upon disproportionately long repayment cycles in relation to the use of loan funds and the affordability of monthly payments for bank borrowers. Furthermore, a growing number of bank borrowers are approaching other non-bank lending institutions as their financial situation worsens and they are unable to obtain bank loans. Throughout the survey, this segment shows considerable financial pressure, high levels of problem debt and worsening attitudes towards financial institutions and the overall financial outlook. Considering the currently declining or stagnating incomes and frequent loan refusals among bank borrowers, it is not unlikely that multiple lender borrowing will grow further. Preventive financial awareness and consumer protection measures could help in assisting over-indebted people improve their financial situation.

**Low-income borrowers show high financial vulnerability.** Whilst lower-income households do not appear to present a structural/systemic threat to the stability of the lending sector, there are significant social risks in relation to their high indebtedness. The domestic budget position for a large majority

of these borrowers is delicately balanced and is highly sensitive to adverse economic and lifestyle events. Current lending practices do not appear to be differentiated to reflect the particular budgetary dynamics of low-income borrowers, who are particularly vulnerable because they use multiple lenders.

**The current organic growth of debt seems limited, according to the survey, but this needs to be examined further.** The masking effect of the long repayment periods and the presence of multiple lenders nevertheless could lead to further debt provision as they cast an artificially favorable light on the debt affordability of borrowers and distort the perception of the scale and impact of problem debt. Thus, the findings of the survey propose the need for further discussion and consideration of a set of actions to respond to, and mitigate, these rising financial and social safety risks.

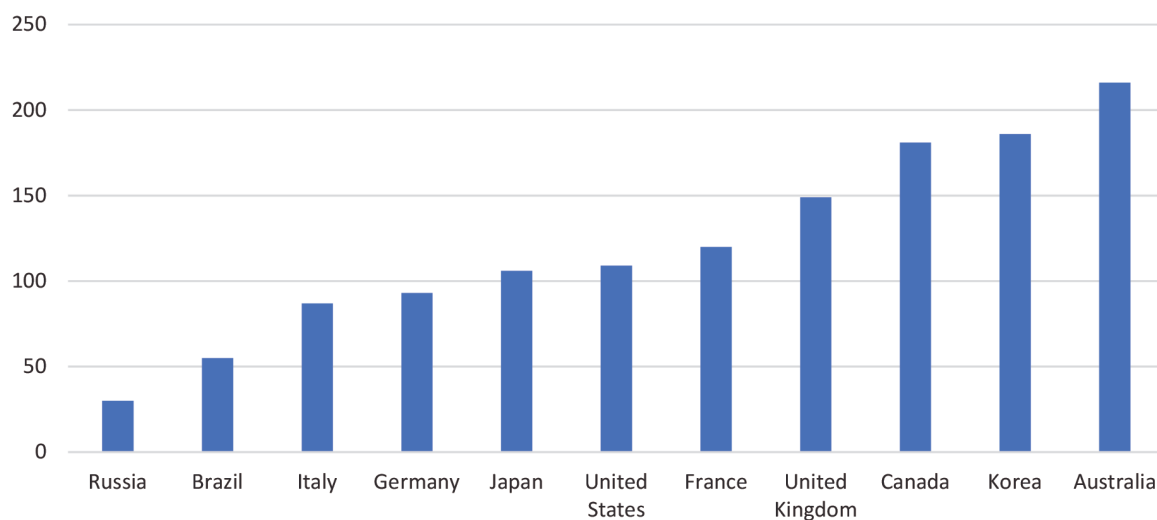
**While the over-indebtedness study brought to light some of the main implications of the accelerated consumer lending on households, further actions are needed to clarify and address the emerging issues.** First, it is important to garner a consensus among all stakeholders on the issue of over-indebtedness. As the survey has shown, several groups of individuals and lending institutions are part of the issue and are interconnected. For example, further increase of lending by non-bank institutions such as Micro Finance Institutions (MFIs), can damage the viability of banks due to the widespread borrowing from multiple lenders. Second, continued and reliable monitoring of the level of indebtedness is necessary. When financial pressure is increasing and debt affordability is decreasing, continued monitoring can help in avoiding an unmanageable situation where further trust in the financial sector is lost. Third, the consistency of legal and regulatory supervision across the different types of lending institutions needs to be ensured. While the report did not take a deep look at the regulatory landscape, the survey responses showed that there seems to be considerable differences in the terms and structures of loans provided to individuals across the different types of institutions. A review of the scope and coverage of consistent regulation between similar types of loan products from different lending institutions would be prudent.

## I. INTRODUCTION

**The prevention and alleviation of consumer over-indebtedness has been increasingly the focus of public authorities and international organizations since the last financial crisis.** That crisis demonstrated the desirability of strengthening consumer protection policies and ensuring that the use (or misuse) of individual financial products do not become a source of financial instability. In general, it has been found that there are consequences of household over-indebtedness for the overall health of the economy in terms of aggregate demand, employment, and growth. From a social point of view, the excessive accumulation of debts accompanied by households' liquidity constraints causes a deterioration in households' social and economic well-being, thus leading in the short and medium term to social exclusion and poverty. National and international efforts have intensified to enhance measurement of household over-indebtedness and design and implement consumer-protection policies. Policies that protect the interests of consumers of financial products and services contribute to enhanced risk-management by households, more competitive financial markets, and greater financial stability.

**In the last three years, Russia has observed rapid growth of household debt against a backdrop of stagnating incomes.** Declining interest rates, ease of access to credit for consumers and poorly regulated microfinance lending practices led to fast growth in consumer debt. At the same time, real disposable income is 13 percent below 2014 levels<sup>1</sup>. While the level of household debt remains low by international standards (see Figure 1), it is important to look at the consequences of growing over-indebtedness on households and to gain a perspective on the demand side of debt. Moreover, in comparison with the more advanced economies, in Russia, the existing household debt is often secured with fewer financial assets, such as currency and deposits, equity and investment fund shares, or assets held with life insurance companies and pension funds. The survey findings will also help in informing the ongoing discussion on consumer lending and indebtedness, which relies heavily on existing supply-side data available, and further allow the adjustment of policy and regulatory measures, if needed.

**Figure 1. Total household debt, % of net disposable income**



Source: OECD, 2017 or latest available

<sup>1</sup> Rosstat.

**To access the level of over-indebtedness and its effects on individual borrowers and households in Russia, the World Bank in cooperation with Rospotrebnadzor, the Russian consumer protection authority, and the International Confederation of Consumer Societies (CONFOP), conducted an over-indebtedness survey in 2018-2019.** The survey sought to take a closer look at the household debt situation on the Russian market, with a particular focus on borrower perspectives on over-indebtedness, and how it affects their financial position. The report aimed at informing the Russian financial sector regulator and the consumer protection authorities on the issues emerging in the area of consumer over-indebtedness in Russia, and at supporting them in designing targeted analyses of the issues highlighted. While the report did not aim to provide detailed policy recommendations, it helped identify emerging issues and potential directions for policy response in the area of consumer protection, responsible lending and other relevant regulation.

**The report is divided into four major sections.** First, it provides an introduction to the topic of over-indebtedness in general. Second, it gives some context on the Russian banking and microfinance market and existing lending practices in the country. Third is the survey analysis itself, which provides a detailed assessment of the capabilities of borrowers to meet their existing debt as well as their attitudes and feelings toward their current financial situation. Fourth is a conclusion summarizing the main findings of the survey, with recommendations and practices from other countries in the area of over-indebtedness.

## II. DEFINITION OF OVER-INDEBTEDNESS

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**The most common explanation why individuals take out loans and go into debt is to smooth out their consumption pattern over a long time-frame.** Once debt accumulates and the debtor is unable to service his debt, over-indebtedness emerges or is implied. This inability can be attributed to a combination of two major causes: internal and external ones.

**Internal factors cover the characteristics and behavior of borrowers that can lead to over-indebtedness.** Low financial capability of borrowers and their inability to manage money can result in the fact that they take on loans they do not understand and are unable to repay. Low capability, furthermore, can result in so called “bad deals,” where individuals not only take out loans beyond their means, but also pay higher interest rates than they actually should. Another internal factor that often plays a role for over-indebtedness is the reasoning behind the loan and the individual attitude towards borrowing. More often than not, people who borrow for consumption (non-productive purposes) are more likely to be affected by over-indebtedness than business borrowers, as their loan does not generate any additional revenue stream at a later stage. This may result in difficulties to repay the loan later on.

**External factors are most often circumstances and events that result in additional expenses or lower income, in turn creating difficulties to repay the loan.** Such events can involve a death or a birth in the family, business failures, crop losses or medical expenses. The main causes of over-indebtedness tend to be unemployment and divorce. An external factor can also be a result of a broader shock or downturn in the economy, which creates a difficult employment environment and raises pressure for financial institutions to collect on previously given loans. For low-income households that rely on irregular incomes and are more likely to experience a number of unexpected events and expenses, this can be even more pronounced.

**Regardless of the reasons, over-indebtedness can have negative effects on individuals, lending institutions, the financial sector and the economy as a whole, and these effects can be considerable.** For example, borrowers may immediately need to forgo consumption or reduce other expenses to service their debt. This can lead to stress and conflicts in the family. Furthermore, in the long term, people can be excluded from borrowing and other activities in the future as a result of a bad credit history. In Russia, over-indebted borrowers can be barred from leaving the country when overdue debt exceeds RUB 30,000 (USD 463). In 2018, this already barred over 2 million people from traveling abroad.

**Over-indebtedness leads to increased loan arrears for the lender, resulting in a worsening financial performance.** First, this can increase the possibility of default and endanger the stability of the financial sector. Second, this can tarnish the reputation and erode trust in the financial institution. In the worst case, it can lead to bank runs. This reputational issue has been visible during the most recent microfinance crisis, when microfinance institutions shifted away from their more socially oriented mission in light of increasing over-indebtedness and worsening financial indicators. In turn, this resulted in higher interest rates for borrowers and more predatory lending by the MFIs.

**Over-indebtedness also leads to poverty, especially among already vulnerable groups such as low-income, old-age, or single-parent households, affecting society as a whole.** This in turn can lead to lower social cohesion and decreased trust in the financial sector, which in turn also affects economic growth as financial institutions reduce their loan offers to solvent borrowers and participation in the formal financial sector decreases.



**Given the numerous negative effects and the many routes that can lead to over-indebtedness, there is no standard definition of over-indebtedness.** It varies from country to country and can have different purposes (See Box 1). In the UK, there is a strong focus on loan arrears. The German definition has a more long-term view, raising questions as to how to evaluate short-term actions by the borrower. The most commonly used definition and best practice test for indebtedness is “the inability to pay debts as they fall due” (the cash-flow test) or “total liabilities are greater than assets” (the balance sheet test). While these are data points that are easy to measure and provide an overall picture, they cannot take into account the borrowers’ perspective and the social cost of indebtedness for individuals as previously described. They only measure and describe the final stage of over-indebtedness when the loan arrears have already occurred.

**A more detailed definition can create difficulties in evaluating over-indebtedness.** For example, if we take a more borrower-centric approach, such as “the customer is over-indebted if he/she is continuously struggling to meet repayment deadlines and structurally has to make unduly high sacrifices related to his/her loan obligations,” it creates another problem. While the definition covers several aspects of over-indebtedness, it is hard to measure. What is a “continuous struggle” or an “unduly high sacrifice?” In this regard, the report will have a closer look at the situation on the Russian market to provide the borrowers’ perspective on over-indebtedness and their attitudes towards debt, financial position and debt pressure.

**At its core, the over-indebtedness survey was developed to recognize that debt is not only about financial and supply-side impacts.** Domestic, social and emotional impacts also play a key role in the borrowers live and in the context of over-indebtedness. It has to be recognized that over-indebtedness is a situation in which the debt causes both financial pressures and an adverse impact on the lives of the borrower and/or family. Each individual has a different tolerance to risk – and so, over-indebtedness is not a formulaic calculation, but an interaction of affordability, confidence and concern within the individual. Overall, the survey will inform how responsibly borrowing is conducted in Russia. From the financial institutions side, we will examine to how much the financial well-being of the borrowers is considered, and from the borrowers’ side, their understanding of whether the debt can be managed and how it impacts their daily life.

#### Box 1. Definitions of over-indebtedness used in different countries

As this chapter has shown there is no standard definition of over-indebtedness. The box provides some example definition used by different countries:

##### **United Kingdom**

“A situation “where households or individuals are in arrears on a structural basis, or at a significant risk of getting into arrears in a structural basis”.

##### **Germany**

“A situation where household income ‘in spite of a reduction of the living standard, is insufficient to discharge all payment obligations over a long period of time”.

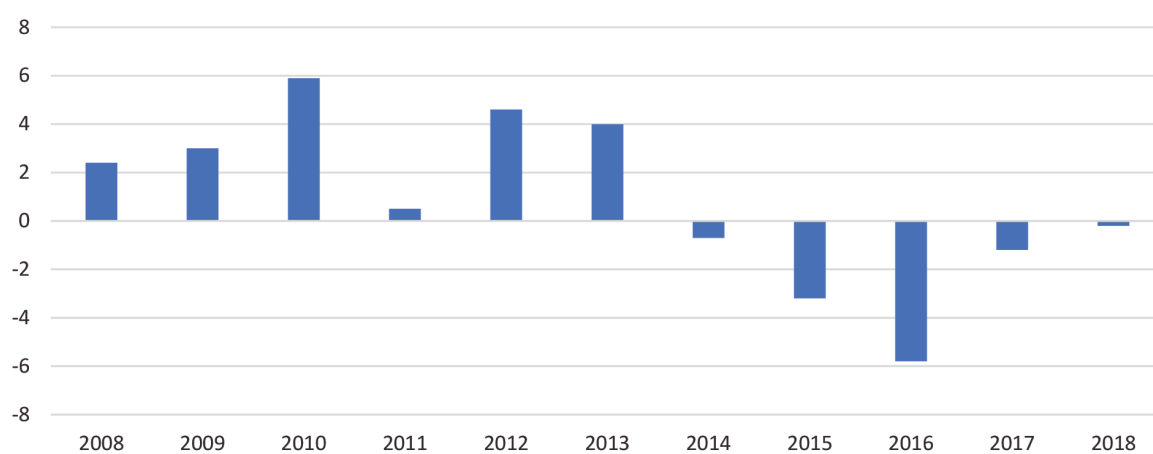
##### **EU Commission**

“An over-indebted household is defined as one whose existing and foreseeable resource are insufficient to meet its financial commitment without lowering its living standards”

### III. THE RUSSIAN CONTEXT FOR CONSUMER LENDING

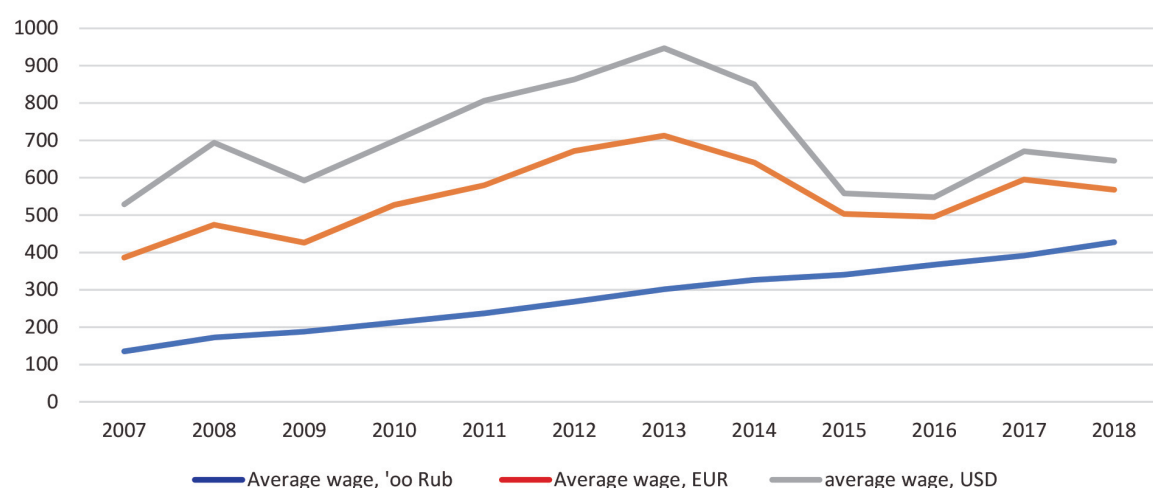
In the past few years, Russia has been going through a period of low economic growth, which has reduced real disposable incomes by 13 percent since 2013. In 2018, real incomes decreased by 0.2 percent, and the economy was predicted to grow by only 1.4 percent in 2019 (see figure 2). In light of the recent value-added tax increase and continued slow economic growth, a change of this situation cannot be expected. Thirty-one percent of Russians complained that they did not have enough money in 2018, a 12-percentage point increase from 2017. As a result, they are reducing their spending consumption on vacations (43%), entertainment (24%), medical treatments (22%) and household items and clothes (20%).<sup>2</sup>

Figure 2. Annual change in real disposable income



Source: Rosstat

Figure 3. Average Wage in Russia



Source: BOFIT

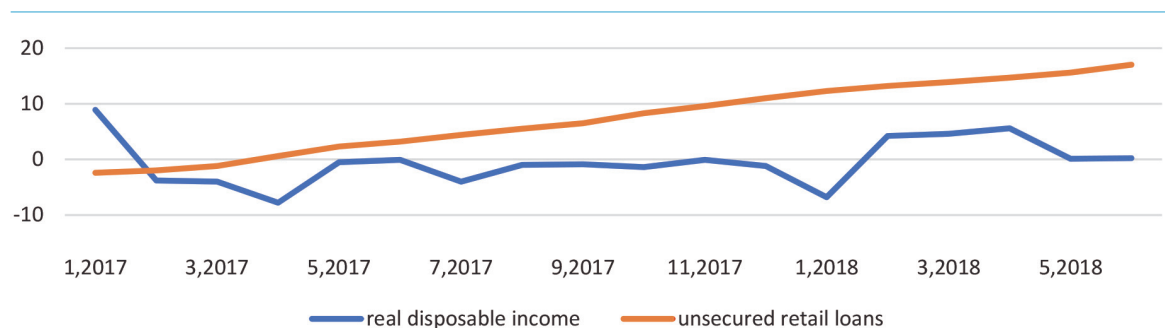
<sup>2</sup> NAFI, 2018

**During the recent recession, savings of the population have decreased, especially in regions outside of Moscow and Saint Petersburg.** According to the latest World Bank Findex data, the share of people who saved any money during the last year decreased from 40.7 percent in 2014 to 36.2 percent in 2017. Among the poorest 40 percent of the population, this reduction was even more pronounced, falling by 7.3 percentage points to 30.5. The most preferred method of saving in 2017 were property (49%) and an account at a state-owned bank (25%). Furthermore, an increase in the preference of saving in cash can be noticed, from 17 percent in 2015 to 30 percent in 2017.<sup>3</sup>

**The use of credit products has increased, specifically in the segment of short-term, high-interest loans.** In 2017, only 41.3 percent of adults borrowed any money during the previous year (up from 37.0 percent in 2014).<sup>4</sup> Retail/consumer loans were the most used product among bank product offerings, growing 22.4 percent in 2018 alone. The total household credit stock rose from RUB 10 trillion in 2016 to RUB 14.9 trillion (USD 230 trillion) at the start of 2019, with over 50 percent of the portfolio in consumer loans.<sup>5</sup> During the first quarter of 2019, 8.84 million new loans were issued, reaching a total amount of RUB 1.97 trillion (USD 30 billion). This is an increase of 11 and 17 percent respectively year-on-year. Overall, 28.85 million new loans were issued during the first three quarters of 2018.<sup>6</sup>

**Loan repayments as a share of income have been increasing in the last three years.** In 2018, the average expenditure of a Russian household on loan repayments amounted to 10 percent of total income. It owed an average of RUB 234,000 (USD 3,600) as of September 2018. With an average monthly salary of RUB 42,750 (USD 662) (see figure 3), this amounted to almost half their annual income and an increase of 19 percent compared to 2017. The average amount overdue was RUB 14,400 (USD 223).<sup>7</sup> Taking a more regional look, according to CBR data, the North Caucasus, and the Central, Volga and Southern federal districts enjoyed the lowest levels of indebtedness. Moving East, the numbers increased in the Siberian, Ural and Far-Eastern districts. Kalmykia (where indebtedness is 51% higher than the nationwide average), Tuva (49%) and Chuvashia (39%) are the most indebted regions. Furthermore, lower-income and lower-literacy individuals are turning to MFIs for loans at high interest rates, in particular to payday and consumer lenders, as they are increasingly unable to obtain loans from banks due to stricter lending policies.

**Figure 4. Borrowing and income growth**



Source: Rosstat, CBR

**Declining interest rates, a VAT increase and a major international event hosted in Russia contributed to the recent growth in consumer credit.** In 2018, Russia hosted the World Cup and increased the VAT. Combined with the low base interest rate of 7.75 percent and inflation of 2.4 percent, they spurred an increase in spending among the general population. Also, it seems the decrease in real income led

<sup>3</sup> NAFI, 2018

<sup>4</sup> World Bank Findex, 2017

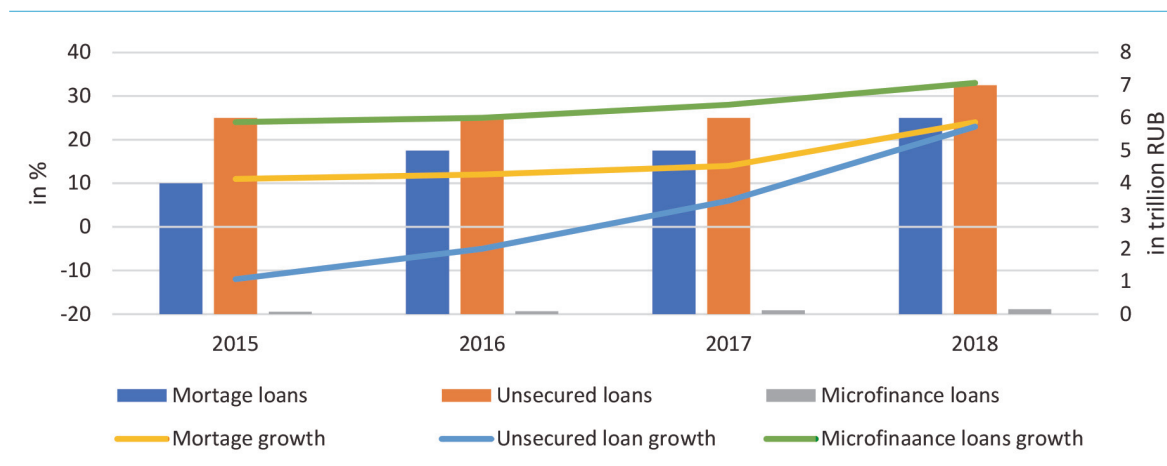
<sup>5</sup> CBR, 2019

<sup>6</sup> United Credit Bureau, 2019

<sup>7</sup> All-Russia People's Front, 2018

to more and more people financing daily expenditures through credit. Overall, 21 percent of Russians thought in 2018 that now is the best time to take out a loan – an increase of 10 percentage points over 2017. Thirty-three percent of Russian have taken out a loan or are repaying an existing loan.<sup>8</sup>

Figure 5: Loan growth and size



## Bank consumer lending in Russia

**Retail consumer lending has been outpacing the rest of the banking sector.** The most recent banking crisis occurred during 2014-15, in the wake of the Ruble devaluation. The sector has since stabilized. Total banking-sector assets amounted to RUB 94,084 billion (USD 1,454 billion) in 2018. Low economic growth and investor confidence have led to lower growth in business loans, which decreased by 5.95 percent in 2016 and grew by just 2.8 percent in 2017. In 2018, this number increased to 10.5 percent. The sluggish growth in the corporate sector has been picked up by loans to individuals. Accounting for a quarter of total loans, it grew by 11.1 percent and 22.2 percent in 2017 and 2018 respectively (see figure 5), the highest growth rate three years in a row, exceeding nominal economic growth (6.8%) and increases in personal incomes (4%) during the same time period considerably.

Table 1. Russian banking sector indicators

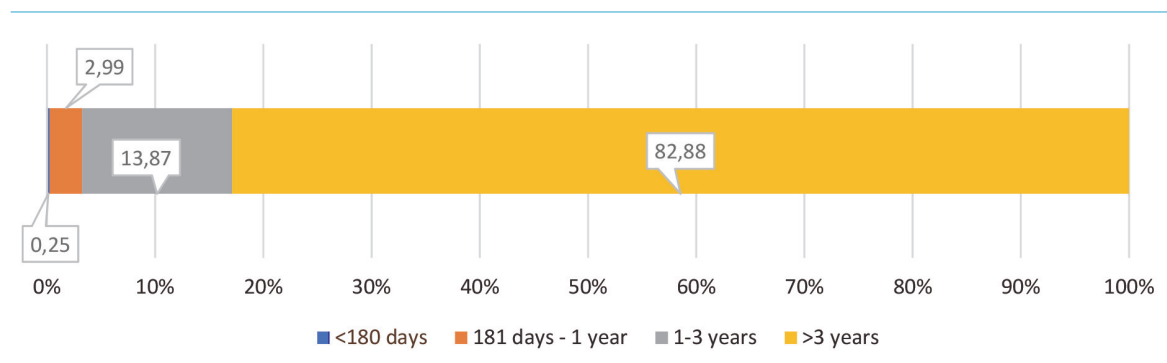
Indicator	Jan 1, 2018	Jan 1, 2019	Jan 1, 2020 (f)
<b>Assets (billion Rubles)</b>	85 192	94 084	101 611
<b>nominal increase (%)</b>	6,4	10,4	8
<b>Total mortgage loans (billion Rubles)</b>	5 187	6 410	7 564
<b>nominal increase (%)</b>	14,3	23,6	18,0
<b>Total auto loans (billion Rubles)</b>	685	791	838
<b>nominal increase (%)</b>	14,9	15,5	6
<b>Other consumer retail loans (billion Rubles)</b>	6 302	7 700	8 997
<b>nominal increase (%)</b>	11,1	22,2	16,8
<b>Delinquent retail loans / total retail loans (net of mortgage loans, %)</b>	11,2	8,1	9,7
<b>Delinquent mortgage loans / total mortgage loans (%)</b>	1,3	1,1	1,0

Source: Raexpert

<sup>8</sup> NAFI, 2018

**The considerable growth in retail lending has been in part a result of increased unsecured lending.** Overall, 7.3 percent of the Russian GDP was made up of unsecured retail loans as of October 2018<sup>9</sup>. Over the last few years, this number has increased as bank lending practices have become more relaxed and loans most often have had long repayment periods, resulting in small monthly debt repayments.<sup>10</sup> There has also been a rise in unsecured loans of up to 15 years, with an average tenure of five years. This is also visible in CBR data, which reports that over 80 percent of loans extended by credit institutions had a maturity of more than three years (see figure 6).<sup>11</sup>

**Figure 6. Structure of all Loans Extended by Credit Institutions to Individuals in Rubles by Maturity (Feb 2019)**



Source: CBR

## Microfinance in Russia

**As real incomes fell, more individuals turned to non-bank financial institutions for their financing needs.** Microfinance institutions have been active in Russia since the 1990s. In 2008, 2,000 MFIs reached 700,000 customers, around 1 percent of the population, with a total loan portfolio of around USD 2.4 to 3 billion. However, until 2010, the sector lacked a legal framework regulating its activities. This changed with the law “On microfinance and microfinance institutions” (No. 151-FZ) in 2010, when the sector came under the control of the Central Bank of Russia. Just two years after the Law on Microfinance was passed, around 4,294 microfinance institutions were already serving 950,000 borrowers (900,000 of which were consumer-loan recipients<sup>12</sup>), and 3,494 credit cooperatives were reaching 1.1 million people.

**The consumer microfinance market has been growing considerably, reaching RUB 152 billion (USD 2.35 billion) in 2018, an increase of 35 percent YOY (Raexpert, 2019).** Lending to individuals accounted for 80 percent of the market. The sector is growing because of the strong performance of online microloans and the inclusion of more affluent customers who previously were bank borrowers. At the same time, the market is consolidating. As of January 2019, there were 2,009 MFIs officially active and falling under stricter CBR regulations (down from 3,666 in Feb 2016) serving a total of 6.43 million individuals in 2017.<sup>13</sup> Of these, only around 1,000 of these have been active on the market for longer than 3 years<sup>14</sup> (Raexpert, 2019).

<sup>9</sup> CBR, 2018

<sup>10</sup> EUI, 2019

<sup>11</sup> Fitch Ratings, 2019

<sup>12</sup> It has to be mentioned that the higher number of consumer loan shows a certain peculiarity of the Russian microfinance market where short-term, high- interest rate, and high write-off consumer lending prevails.

<sup>13</sup> NAFI, 2018

<sup>14</sup> Raexpert, 2019

## 1. Segments of the Russian microfinance market

The market itself is split into three main segments: consumer microloans, microloans to SMEs and payday loans (PDL), which differ in target groups, volumes, terms, and effective interest rate. Most companies just specialize in one type of loan. For the purpose of this report, we will have a closer look at the payday and consumer microloan sector only, due to their importance in borrowing to individuals specifically. Table 2 gives a short overview of the growth of the three segments during the first nine months of 2018. Non-performing loans (NPLs) are a common occurrence in the Russian microfinance sector and have been growing since 2013. For example, in 2015 loans overdue 30 days and more grew by 6 p.p., reaching 43 percent.

**Table 2. Russian Microfinance Market in 2018**

	Payday loans	Consumer microloans	Microloans to legal entities
<b>Segment volume (in bn RUB, 2018)</b>	34	87.2	29
<b>Growth (% yoy)</b>	43	37.32	20%

Source: RAEX

### **Payday loans (PDL)**

**PDLs make up a small share of the microfinance market, but have shown high growth rates, in addition to having the worst reputation of all the lenders.** As table 2 above shows, the total volume of the segment reached RUB 34 billion (USD 527 million) in 2018, growing by 43 percent compared to 2017. At the end of 2018, the average interest rate of a loan RUB 30,000 (USD 464) or less was 637.8 percent, and the average loan amounted to only RUB 8,200 (USD 127). Payday loans are most popular in the regions of Kemerova, Belgorod, Irkutsk, Sverdlovsk and Kirov.<sup>15</sup>

**Despite very high interest rates, payday loans are used for a wide range of purposes.** To receive a payday loan, minimal documentation is required. The average borrower is 31-45 years old, and most likely a woman. Twenty-six percent of borrowers owe more than their monthly income, 11 percent 1.5-times and 15 percent more than double.<sup>16</sup> Looking at the use of the loan, 24 percent of borrowers take out a payday loan to repay another debt, though the overall uses differ between the capital and regional cities. Sixty percent of Muscovites use them to buy luxury goods such as mobile phones, jewelry and clothing, compared to 8 percent outside of Moscow. In other cities, payday loans are used to repay existing debt (18%), buy food (10%), medical treatment (10%), and payment of fines/taxes (15%).

### **Consumer Microloans**

**The biggest segment of the microfinance market, with a share of over 50 percent, are consumer microloans.** The standard loan in this segment has a maturity of six to twelve months and a loan size ranging from RUB 10,000 to 50,000 (USD 150-800). With an effective interest rate of 250-350 percent p.a., it is considerably higher than in the banking sector (50 percent maximum), but it does not reach payday loan levels. The main target group for MFIs in this sector are people with higher incomes who do not qualify for bank loans. In 2014, 14 million people belonged in this group, and with the devaluation of the ruble, the worsening economic situation and the fact that Russian banks are tightening client-scoring procedures, this number has likely increased. For most borrowers, consumer microloans

<sup>15</sup> NBKI, 2018

<sup>16</sup> NAFI, 2018

are the only way to obtain money, making the Russian microfinance market special in the sense that consumer and not business loans play such a prevalent role. The level of past-due loans in this segment is on average around 20 to 30 percent, several times higher than in the Russian banking sector.

## Problems and developments in the area of indebtedness

### 1. Financial Literacy, Attitudes and Awareness

**According to a 2011 financial literacy survey, 46 percent of Russians have an unsatisfactory or non-existent level of financial literacy.** Similarly, in 2018, 44 percent of Russians said that they needed to improve their financial literacy and 88 percent did not know what institutions protected their consumer rights. Since 2012, the Russian authorities together with the World Bank have been actively working to improve the level of financial literacy in Russia and especially among the young. As a result, the most recent OECD ranking on financial education puts Russia in the mid-field, while among G20 states, it took ninth place. Furthermore, as part of the PISA study, Russians' ranking in financial literacy rose from 10th place in 2012 to 4th place in 2015. A new national financial literacy strategy, approved in 2017, should further help in improving financial literacy in the country by 2023.

### 2. Personal bankruptcy in Russia

**Personal bankruptcy proceedings, introduced in 2015, were an important step forward in improving consumers protection practices, especially among the vulnerable low-income segment of the population.** But high associated costs limit its use. In the time period from 2016-2017, 94,000 people began bankruptcy proceedings, while the total number of potential bankruptees was estimated at 748,200<sup>17</sup>. Overall, high numbers of potential bankruptcies and low number of actual legal actions are a result of the complexity of the procedure itself and its specific features. For example, it is obligatory for the potential bankruptee to pay for the services of a financial administrator (court-appointed) in the amount of RUB 25,000 (USD 385). This announcement has to be furthermore announced and published in a state-authorized newspaper costing an average of RUB 20,000 (USD 310). Apart from the fact that the individual might not be able to pay for the required services, there is also a lack of qualified staff for the position countrywide. This is combined with the fact that bankruptcy cases are handled by arbitration courts which are harder to access and find compared to district courts. Thus the high cost and limited accessibility of the bankruptcy procedure for overindebted individuals limits the use of this important tool. Reportedly, the minimum cost of bankruptcy proceedings is about RUB 50,000 (USD 773), more than the average monthly wage in Russia.

## The regulatory response to accelerated consumer lending

**The Central Bank of Russia has been actively working to improve the regulatory environment around consumer lending.** In September 2018, the regulator toughened the rules for consumer credits and increased the risk weight associated with unsecured lending. But this only applies to new loans, so its effect on financial institutions remains to be seen. In addition, a new law is in discussion in the Russian parliament to prohibit lending to households if the monthly repayment amount exceeds 50 percent of the total household income. Furthermore, in the microfinance sector, starting in January 2019, the maximum amount of a loan (including fines, interest etc.) has been capped at 2.5 times the original amount. This number will slowly decrease during 2019 to 2 times on July 1st, 2019 and 1.5 times January 1st, 2020. The CBR furthermore is limiting the daily interest rate to 1.5 percent starting January 2019, which will further decrease to 1 percent come summer (Raexpert, 2019). Nevertheless, fighting illegal practices on the market is difficult and the effect of these measures have yet to be seen.

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<sup>17</sup> United Credit Bureau (OKB), 2019



## IV. OVER-INDEBTEDNESS SURVEY

To access the level of over-indebtedness and its effects on individual borrowers and households in Russia, the World Bank, in cooperation with Rospotrebnadzor, the Russian consumer protection authority, and the International Confederation of Consumer Societies (CONFOP) conducted an over-indebtedness survey during 2018-2019. The goal was to determine the increasing levels of indebtedness by individuals in Russia, as outlined in the previous chapter, and provide a demand-side view of the issue. In total, 4,013 people from 16 regions were interviewed. Table 3 provides additional details on the regions and the respective numbers.

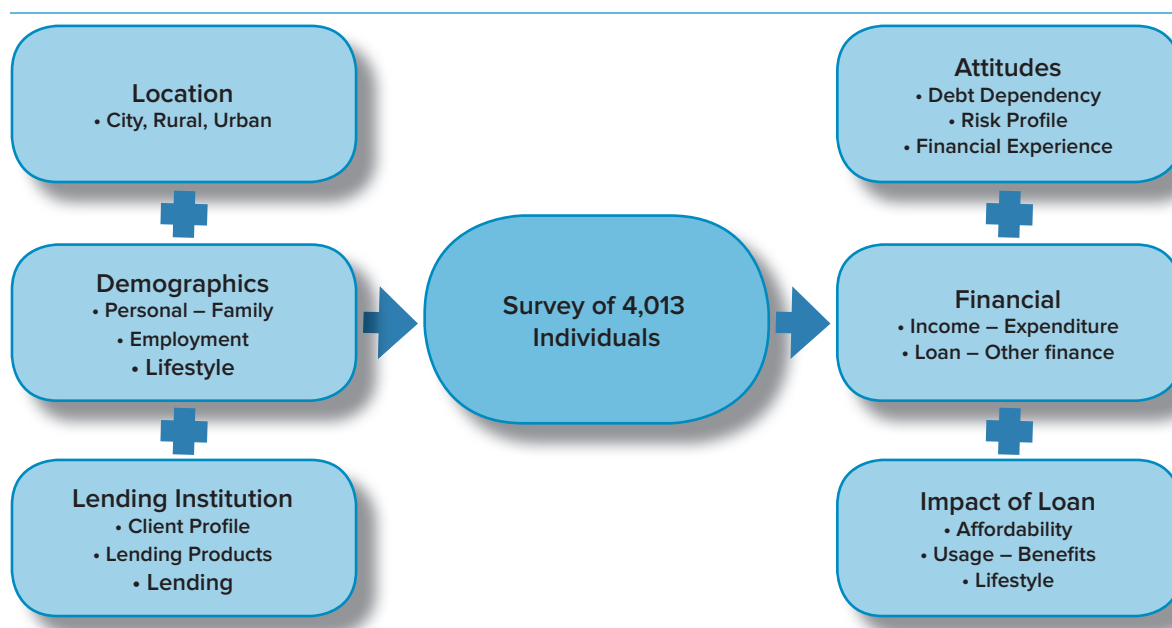
**Table 3. Survey Data Collection**

Region	Number	Time period
Moscow	303	March-April 2018
Saint Petersburg	248	March-April 2018
Republic of Bashkortostan	232	March-April 2018
Belgorod Oblast	253	March-April 2018
Kemerovo Oblast	221	March-April 2018
Krasnodar Krai	251	March-April 2018
Nizhny Novgorod Oblast	251	March-April 2018
Rostov Oblast	250	March-April 2018
Republic of Tatarstan	250	January-March 2019
Altai Krai	250	January-March 2019
Stavropol Krai	252	January-March 2019
Volgograd Oblast	252	January-March 2019
Orenburg Oblast	250	January-March 2019
Saratov Oblast	250	January-March 2019
Sverdlov Oblast	250	January-March 2019
Yaroslavl Oblast	250	January-March 2019
Total	4013	

### Survey Methodology & Background

The survey was conducted by NAFI in the form of face-to-face interviews of individuals in geographically and economically diverse regions. The questionnaire comprising 87 questions was based on similar surveys previously conducted by the World Bank Group in Georgia, Azerbaijan, Bosnia and Herzegovina, Kyrgyzstan and Tajikistan. A copy of the questionnaire is attached in the annex of the report. As can be seen in Graphic 1, survey questions were framed around three major factors. First, location covering 16 overall regions in the Russian Federation as well as split between different human settlement sizes (villages, towns, cities) within their respective region, to ensure a wide coverage. Second, demographics was harnessed to guarantee a balanced gender selection and a wide spread of socio-economic backgrounds. Third, several lending institutions reviewed potential differences between borrowers from banks, MFIs, payday lenders and pawnshops. With this framework in mind, the survey findings provide greater insight into borrower attitudes, their financial situation and the general impact of their loans. A more detailed description of the methodology is provided in the Annex.

Graphic 1. Survey methodology

**Box 2. The issue of incomplete survey responses and resulting gaps in financial data**

As the following sections will show, the survey relied on a selection of questions related to financial income and expenditure of borrowers to assess and segment the financial pressure and vulnerability experienced by different segments of the Russian population. Only 45 percent of borrowers provided their complete financial information during survey. While this does not limit the message of the data and the resulting findings it nevertheless created constraints in the segmentation of the different borrower types and thus needs to be highlighted prior to the survey analysis.

## Survey Analysis

**Over the next few pages, the report will look at the financial situation and debt load of three main segments of the Russian population: bank borrowers, non-bank borrowers,<sup>18</sup> and non-borrowers.** First, the report will have a look at the general characteristics, income and expenditure of each segment. This will be followed by an assessment of their debt load, its affordability and its impact on the individual borrowers. Then this the report will highlight what factors have driven households to their current financial situation, the general understanding of the individual borrowers of their situation, and the actions taken by the borrowers to tackle that situation. Finally, the report will have an overview at the overall financial pressure and debt tolerance of Russian households.

### 1. Domestic profiles of borrowers

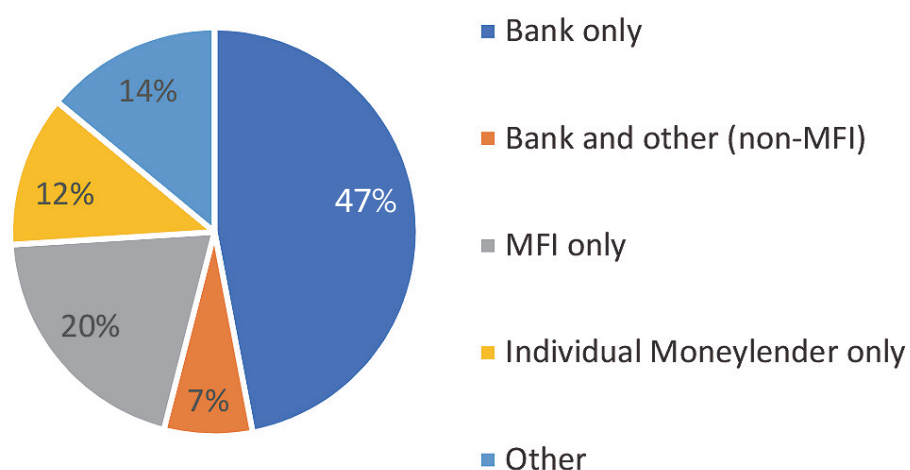
**Different characteristics are noticeable between the three groups, particularly in relation to the gender profiles across lending institutions and source of income.** Seventy-eight percent of bank borrowers have regular work, while 27 percent of non-bank borrowers do not have a stable source of income. Non-borrowers tend to be on average younger and show the lowest number of females, compared to the borrower segment. This might suggest that there is some behavioral influence that might cause women to borrow. Such situations can occur when for example the male partner is unemployed or cannot access loans for other reasons.

<sup>18</sup> For the purpose of this survey non-bank financial institutions included the following: Microfinance Organization, Internet/ Pay-day lender, Pawnshop, and Money lender.

**Table 4. Borrower Characteristics**

	Male	Female	Age	Household	Income Source		
					Regular Work	Pension/State Benefits	Irregular Work & Self-employed
<b>Bank Borrowers All</b>	43%	57%	40.8	2.8	78%	16%	15%
<b>Non-Bank Borrowers All</b>	50%	50%	42.1	2.8	76%	12%	27%
<b>Non-Borrowers</b>	58%	42%	38.0	2.7	66%	13%	25%

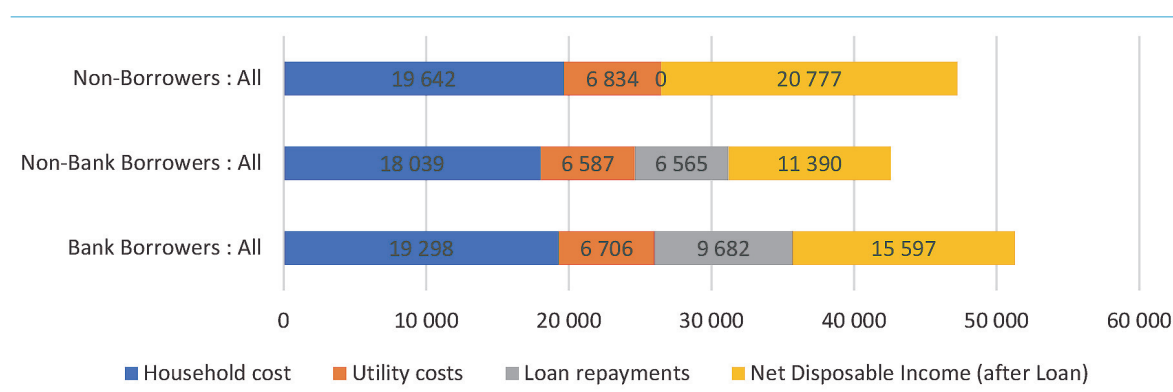
Overall, the biggest share of individuals borrows from a bank (47 percent), followed by 20 percent from microfinance institutions (MFI) (see figure 7). Fifty seven percent of bank borrowers are female, compared to 41 percent of MFI-only borrowers. Overall, women tend to prefer banks over non-bank institutions, a result that differs from other studies conducted in Russia. As mentioned before, non-bank borrowers tend to have irregular sources of income. Surprisingly, this is also true for internet and payday lenders, where 24 percent of borrowers either rely on irregular work or are self-employed. Thus, it seems that many loans by these institutions are not directly related to the income of the borrower, as the name “payday lending” would suggest, but are provided on a more general basis.

**Figure 7. Source of Borrowing**

## 2. Income profile of borrowers<sup>19</sup>

**Bank borrowers show a slightly higher level of household income than the other surveyed groups, averaging RUB 51,284 (USD 794) in total.** This is 20 percent higher than that non-bank borrowers, who have an average income of RUB 42,581 (USD 659). For the average non-borrower, total household income stood at RUB 47,253 (USD 731) (see figure 8). One of the main reasons for this difference is the fact that bank borrowers tend to have more additional income sources that contribute to the overall household income. Household costs and utilities are similar between the different groups. Income distribution between the three groups is also broadly similar.

<sup>19</sup> Tables in this chapter are based only on respondents with complete financial data.

**Figure 8. Income & Expense profile of Russian households (in Rubles)**

**Forty-nine percent of bank borrowers and 57 percent of non-bank borrowers have a household income of less than RUB 40,000 (USD 619).** This is close to the average monthly wage of RUB 43,431(USD 672) reported in official statistics.<sup>20</sup> From the survey questions, it seems apparent that financial institutions mainly focus on the overall household income when considering loan applications, rather than available net disposable income (after domestic essentials) at different levels of household income. This presents a significant risk vulnerability and exposure to lower-income households.

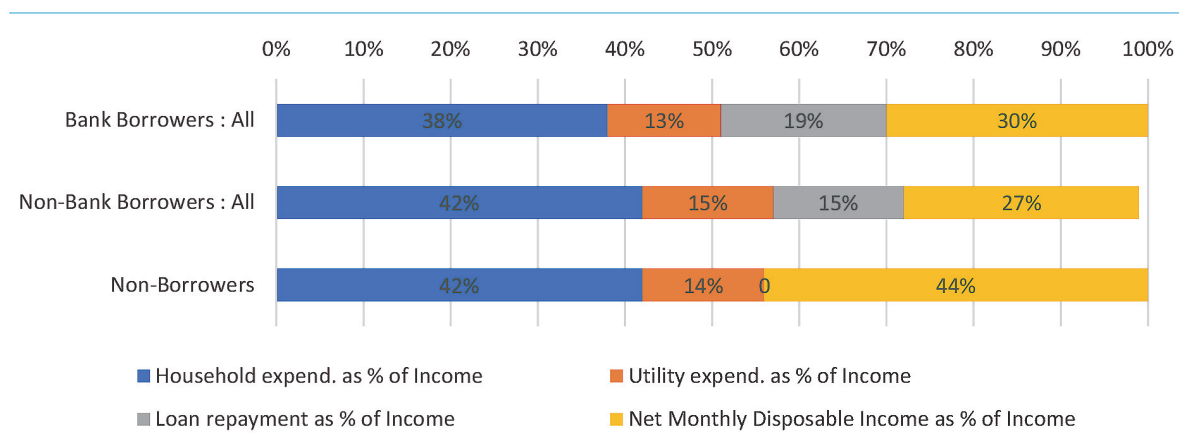
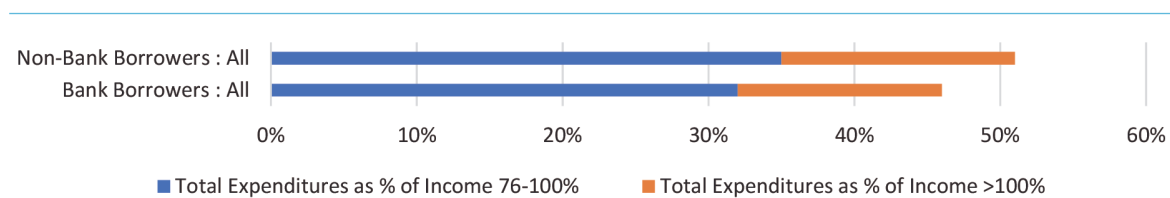
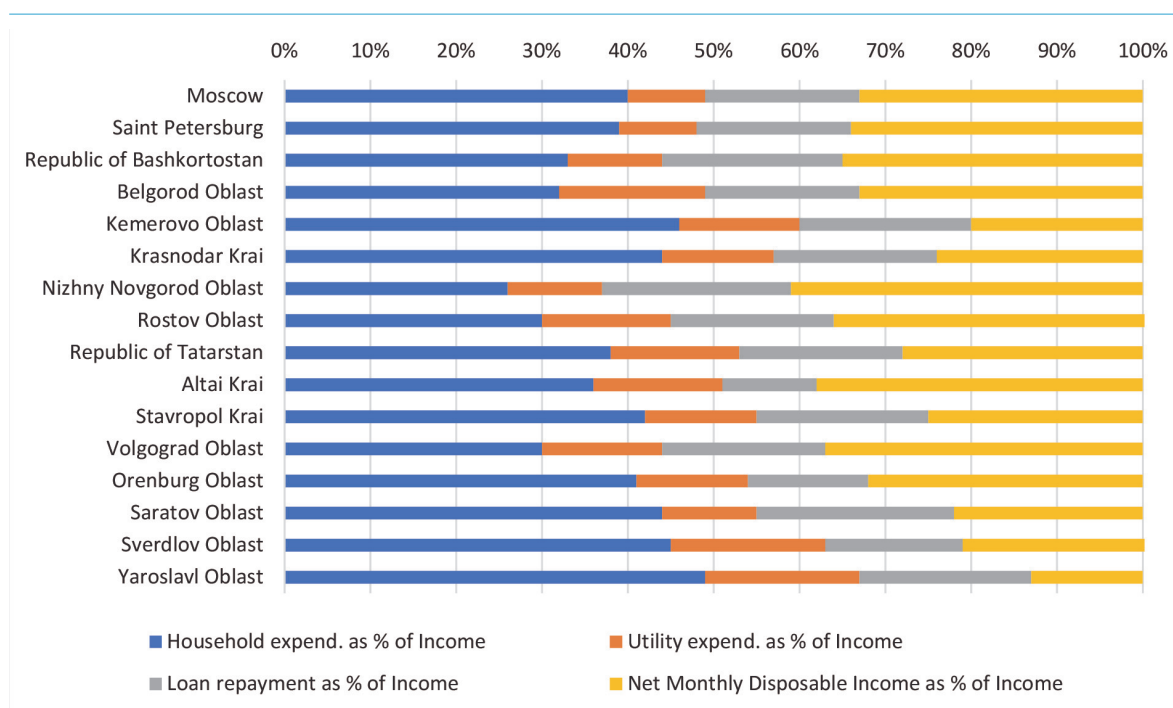
**Table 5. Income and expenses profile by borrowers**

All Borrowers (complete financial data)	Income	Loan repayments	Net Disposable Income (after Loan repayment)	Average individual loan balance
<b>Bank Only</b>	52,365	9,753	16,639	356,639
<b>Bank and MFI</b>	41,230	8,555	8,958	120,304
<b>Bank and Other (non-MFI)</b>	52,948	9,675	15,647	333,622
<b>MFI only</b>	43,693	6,598	12,361	32,925
<b>MFI and Other (non-bank)</b>	37,193	7,722	6,798	34,093
<b>Internet/Payday only</b>	45,492	5,987	14,133	31,967
<b>Pawnshop only</b>	44,517	7,961	8,658	33,729
<b>Moneylender only</b>	39,796	6,054	10,640	44,489
<b>Multiple Other (non-bank, non-MFI)</b>	42,720	5,684	9,832	19,360

### 3. Domestic budget expenditure

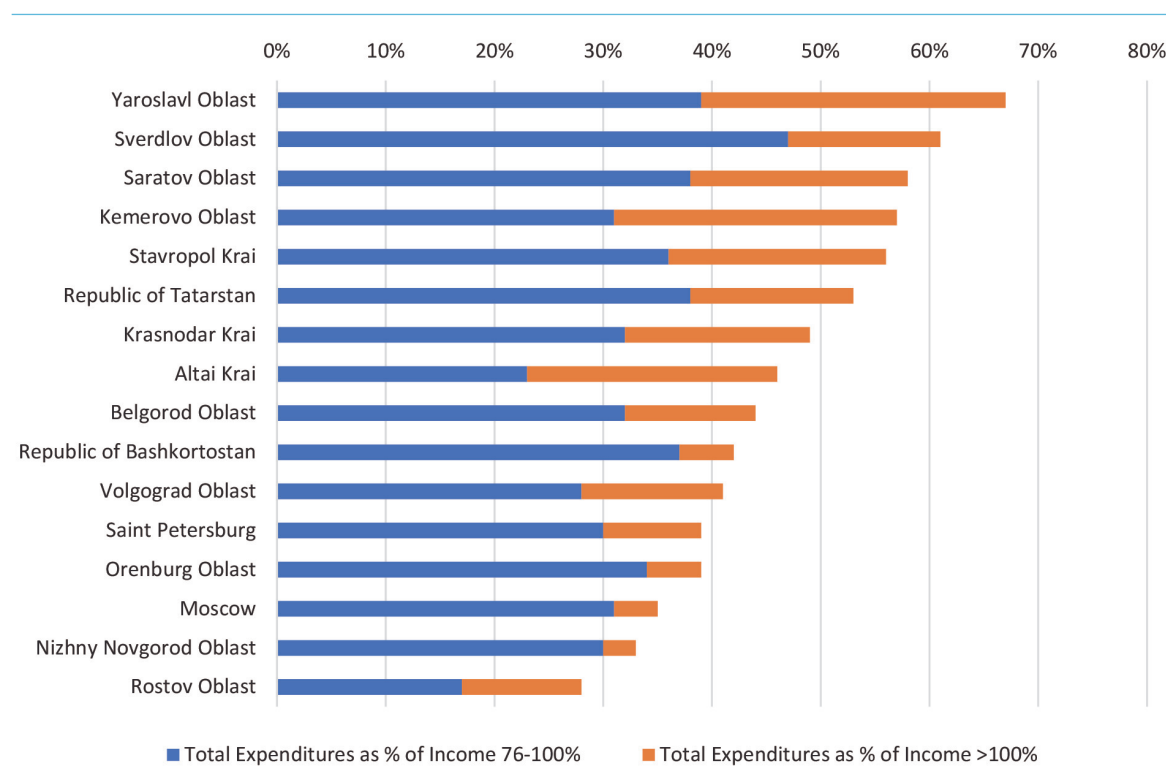
**Almost 50 percent of borrowers have basic expenditure commitments for more than 75 percent of their income.** However, this comparison favorably skews the financial health of Russian borrowers, as the long loan repayment periods positively affect their overall income and decreases budget pressure (see next chapter). It also might mask the overall indebtedness issue. We can see in figure 9 that bank borrowers have an overall lower share of expenditure as percentage of overall income, compared to non-bank borrowers. Furthermore, 46 percent of bank borrowers and 51 percent of non-bank borrowers spent more than 75 percent of their income on basic expenditures. This shows that almost a majority of all borrowers already face considerable financial pressure to meet their monthly obligations and necessities (see figure 10).

<sup>20</sup> BOFIT, 2019

**Figure 9. Domestic budget expenditure****Figure 10. Total expenditure as a share of income borrowers with >75% expenditure ratio****Figure 11. Domestic budget expenditure of bank borrowers by region**

**Household expenditures and loan repayments as a share of income do not vary considerably between regions.** On the income side, the higher cost of living in cities such as Moscow evens out the higher income. On the loan expenditure side, it seems that banks and borrowers adjust the loan terms and size, resulting in a similar level of expenditure of between 18-21 percent in the different regions (see figure 13). Finally, in six out of 16 regions, the financial pressures felt by bank borrowers is high. For over 50 percent of borrowers in these regions, basic financial expenditures exceed 75 percent or more of their income (see figure 12).

**Figure 12. Total expenditure as a share of income**



#### 4. Debt repayment and the affordability of debt

The significant level of debt pressures and decreasing income is recognised by a substantial minority segment of borrowers. Sixty-one percent of bank borrowers and 65 percent of non-bank borrowers say that their household expenses have risen faster than their income in the last 6 months (see figure 13). The cash-flow benefits of the extended repayment periods of bank debt may be anticipated to have a favourable influence upon the recognition of financial problems, without which debt pressures would be higher. Loan arrears, at 10 percent for bank borrowers and 8 percent for non-bank-borrowers, are still relatively low.

**Borrowers also indicate an underlying, and increasing, debt-affordability problem.** Overall loan demand is high, with almost 40 percent of individuals surveyed having applied for a loan in the last 12 months. It should be noted here that 24 percent of bank borrowers and 39 percent of non-borrowers said they were refused a loan at least once (see figure 13). The bank borrowers may likely approach other lenders such as MFIs, whose clients face the highest financial pressure among all types of borrower (see table 6). The number for non-borrowers – 39 percent – is surprising, as the financial profile of borrowers and non-borrowers is similar (see chapter 2.1), so there must be other underlying issues, such as adverse credit history or financial situations that led to the loan refusal.

Figure 13. Debt repayment and the affordability of debt

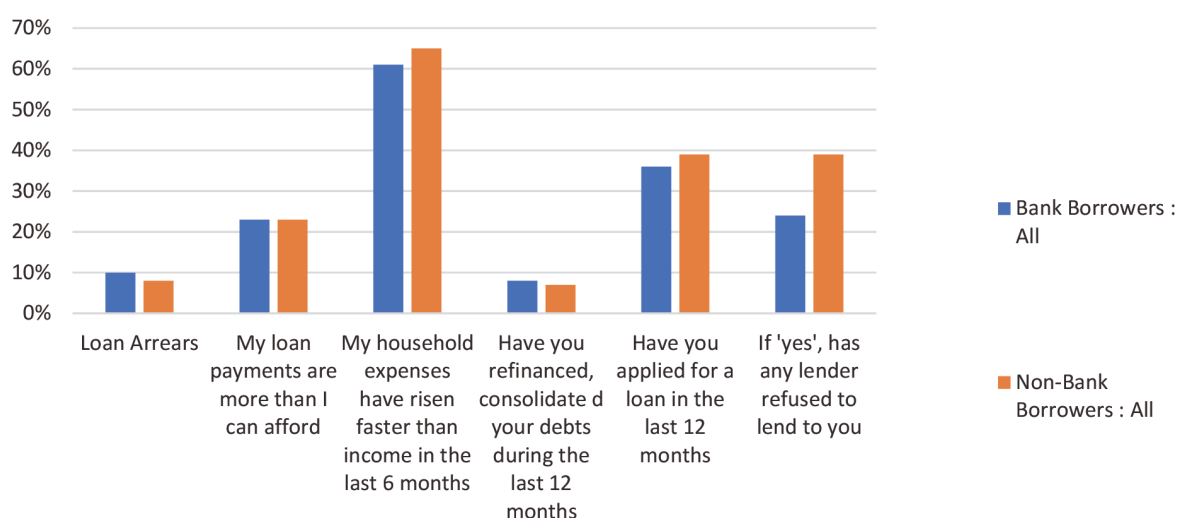


Table 6. Debt Repayment by borrower type

	Loan Arrears	My loan payments are more than I can afford	My household expenses have risen faster than income in the last 6 months	Have you refinanced, consolidated your debts during the last 12 months	Have you applied for a loan in the last 12 months	If 'yes', has any lender refused to lend to you
All Borrowers: Bank (complete financial data)						
Bank Only	6%	19%	59%	6%	32%	18%
Bank and MFI	30%	38%	69%	18%	60%	29%
Bank and Other (non-MFI)	12%	31%	67%	7%	37%	34%
All Borrowers: Non-Bank (complete financial data)						
MFI only	10%	25%	65%	8%	50%	37%
MFI and Other (non-bank)	17%	24%	67%	13%	64%	58%
Internet/Payday only	4%	30%	60%	4%	38%	16%
Pawnshop only	9%	24%	63%	13%	35%	41%
Moneylender only	5%	15%	63%	3%	11%	49%
Multiple Other (non-bank, non-MFI)	13%	19%	81%	15%	44%	50%



**Financial pressure among household incomes and different borrower segments is broadly similar.**

Both segments recognize at similar rates that rising prices are affecting their net income position, and they highlight that loan payments are more than they can afford. Nevertheless, this number is higher on every income level for bank borrowers than non-bank borrowers, even though bank borrowers face lower monthly debt repayments due to the extended repayment periods. This might highlight a potential significant built-up of debt pressure in this segment.

**Table 7. Financial pressures across the range of household incomes**

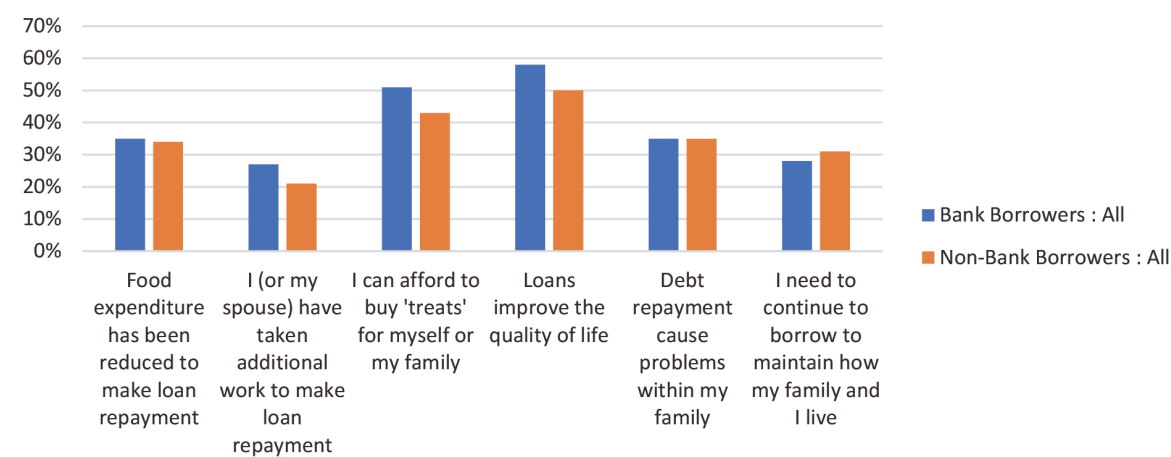
	Loan Arrears	My loan payments are more than I can afford	My household expenses have risen faster than income in the last 6 months	Have you refinanced, consolidated your debts during the last 12 months	Have you applied for a loan in the last 12 months	If 'yes', has any lender refused to lend to you
All Borrowers: Bank						
<30,000	16%	30%	69%	9%	40%	30%
30,001-40,000	9%	25%	63%	7%	33%	23%
40,001-50,000	8%	27%	63%	8%	34%	28%
50,001-70,000	6%	14%	54%	7%	34%	25%
>70,000	6%	13%	52%	7%	38%	16%
All Borrowers: Non-Bank						
<30,000	9%	26%	68%	6%	39%	42%
30,001-40,000	9%	17%	64%	6%	39%	41%
40,001-50,000	6%	22%	66%	7%	41%	38%
50,001-70,000	7%	20%	65%	11%	40%	36%
>70,000	6%	8%	54%	13%	40%	29%

**Borrowers with microfinance institutions also show high levels of financial and debt pressure.** The most worrying numbers are among people who borrow from banks and MFIs with 30 percent and 38 percent respectively. Furthermore, over 40 percent of MFI borrowers applied for additional loans in the last 12 months and were turned down. This suggests this segment is refinancing existing debt with new loans, or trying to, resulting in increased financial pressure. While credit reporting on bank and microfinance lending is collected and shared, this might indicate that the MFIs might not check the credit reporting data accordingly or simply do not lend in a responsible manner.

**5. The impact of debt payments on lifestyle**

**About 35 percent of borrowers acknowledge an adverse impact of debt upon their lifestyle.** More specifically, 35 percent of bank borrowers spent less on food because of high debt levels, and 27 percent took on additional work. Nevertheless, over 50 percent of borrowers still see loans as a tool to improve their quality of life, while 30 percent depend on loans to maintain their lifestyle and will continue to borrow (see figure14). Considering this range of attitudes and compared to neighboring countries, financial pressure may appear to be not yet at a similar level. However, these numbers occur despite continuing access to debt and the beneficial effects of lower repayments on long-maturity loans that mask the actual impact of debt.

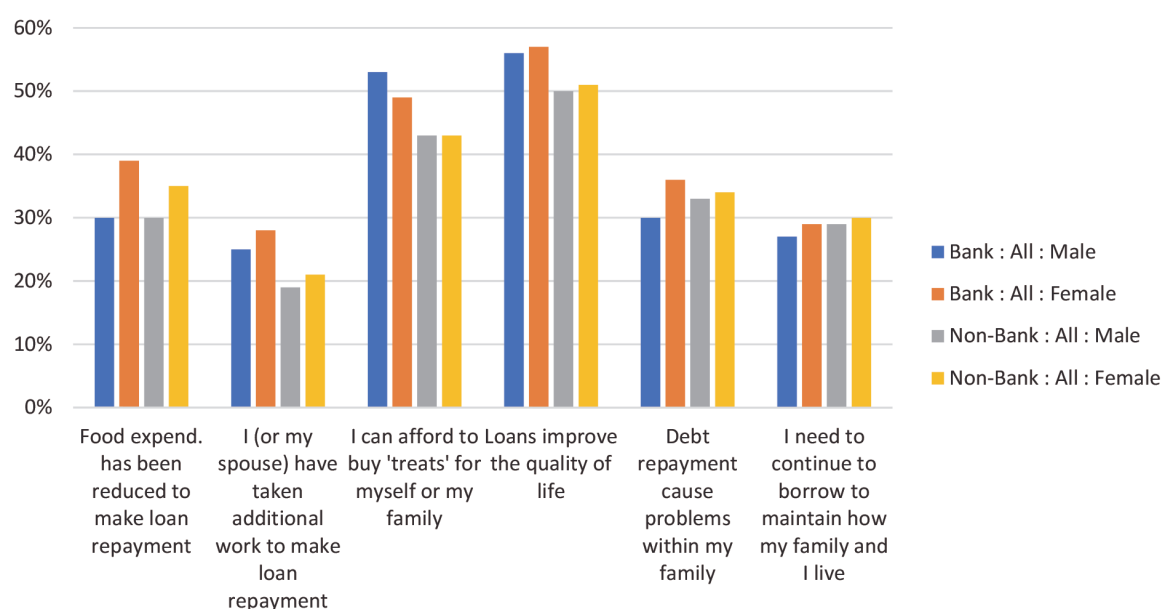
Figure 14. Impact of debt payments on lifestyle



**Negative effects of debt are more pronounced the smaller the population settlement gets as can be seen in table 8.** Again, as seen in the previous chapter, the most adverse numbers were reported by borrowers with multiple loans from bank and non-bank organizations. In urban settlements alone, 50 percent of these types of borrowers reduced food consumption and for almost 60 percent, debt issues have led to conflicts in the family. The need to keep on borrowing to maintain the existing life-style is also strongest in this category.

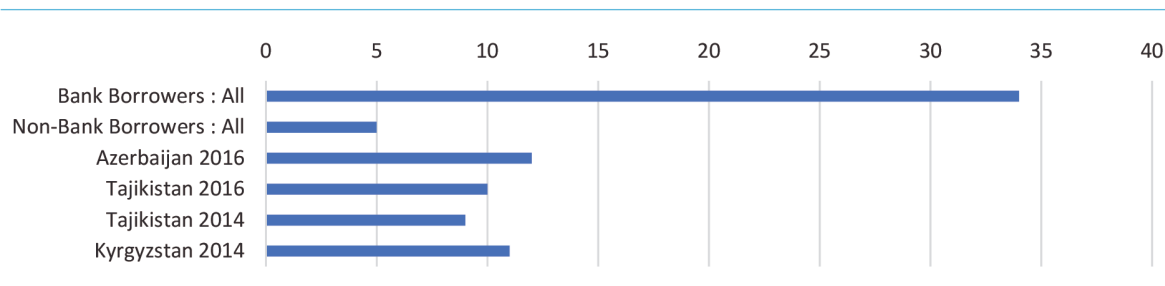
Table 8. The impact of debt by settlement type

Location of Residence	Food expenditure has been reduced to make loan repayment	I (or my spouse) have taken additional work to make loan repayment	I can afford to buy 'treats' for myself or my family	Loans improve the quality of life	Debt repayments cause problems within my family	I need to continue to borrow to maintain how my family and I live
Bank Only						
City (>1mln)	25%	20%	58%	61%	29%	29%
Town (1mln-100k)	35%	27%	56%	59%	31%	23%
Rural <100k)	38%	30%	64%	69%	26%	12%
Bank & Other Lenders						
City (>1mln)	44%	43%	37%	52%	61%	44%
Town (1mln-100k)	50%	39%	37%	55%	59%	46%
Rural <100k)	39%	25%	48%	62%	20%	19%
Non-Bank						
City (>1mln)	35%	24%	41%	51%	38%	37%
Town (1mln-100k)	33%	18%	50%	56%	32%	28%
Rural <100k)	42%	23%	33%	47%	36%	28%

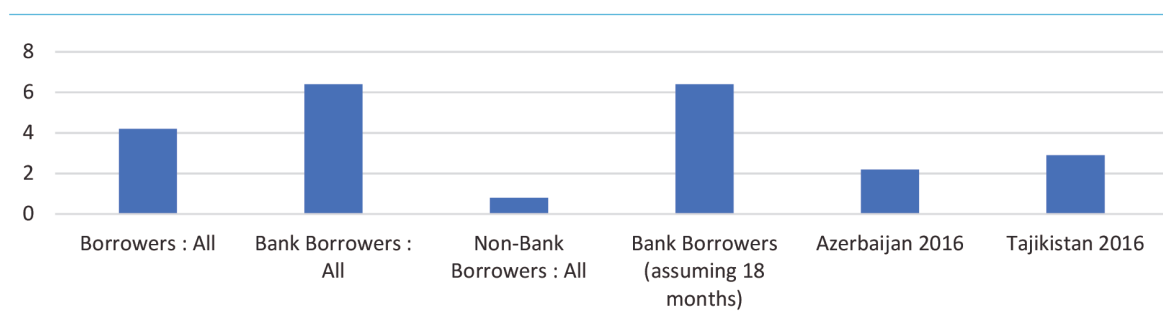
**Figure 15. Impact of non-collateralized debt payments on lifestyle by gender**

## 6. Lending standards and long repayment periods<sup>21</sup>

**It seems that long repayment periods with low monthly payments enable current lending affordability ratios to obscure the potential risk exposure of bank borrowers (see figure 16).** Current debt structures present a fundamental and latent risk exposure to the risk quality and performance of debt. Repayment affordability appears sustained by a maturity structure (e.g. long repayment periods and thereby low monthly payments) which is unrelated to, and dysfunctional of, the underlying usage of loan funds (see chapter 4.7). Such practices might make it harder for regulators and consumer protection authorities to measure the real extent of over-indebtedness. In light of the low economic growth, this should be handled as an area of potential concern.

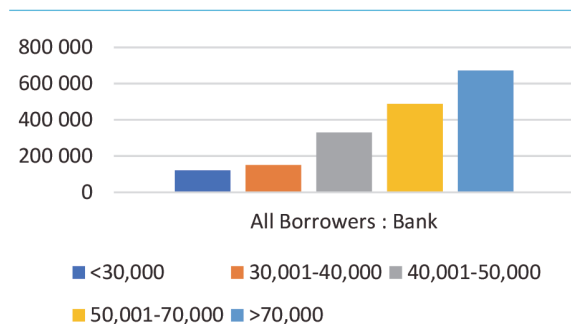
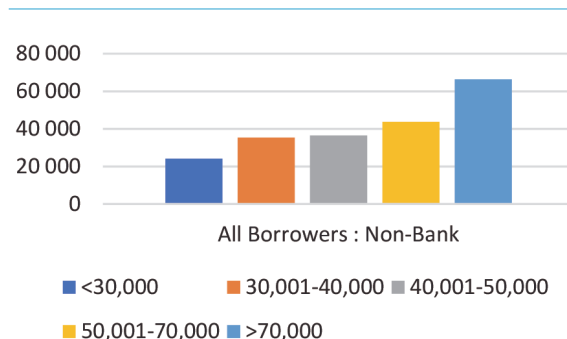
**Figure 16. Average remaining repayment period in months**

<sup>21</sup> Tables in this chapter are based only on respondents with complete financial data.

**Figure 17. Outstanding Loan as a Multiple of Monthly Total Household Income**

### *The masking effect of long repayment periods on debt affordability*

**Looking at lending practices and the leverage structure of debt, it appears at a first glance that the current debt is affordable for borrowers.** Debt service accounts for 19 percent of total household income. Noticeable, though, is the high residual repayment period<sup>22</sup> of Russian borrowers, with an average of 24 months, specifically driven by bank borrowers. As it has been outlined in the beginning of this report, this seems to be a result of the extension of 5-to-7-year loans that were heavily promoted by lending institutions in recent years. Bank loans average RUB 356,639 (USD 5,517) (see figure 18) but show low monthly repayments. Outstanding debt was eight times higher for bank borrowers than for non-bank borrowers (see figure 17), while loan repayments increased only by 47 percent between the two borrowing groups overall. Even when drilling down on this statistic (see figure 17), bank borrowers have a considerable higher average individual loan balance than MFI borrowers, but low monthly repayment amount reaching almost MFI borrower levels: RUB 6,598 (USD 102) for MFI borrowers compared to RUB 9,753 (USD 150) for bank borrowers. This is the result of the considerably longer residual repayment periods of bank loans (34 months) compared to non-bank borrowers (5 months) (see figure 16). It seems that this practice of long repayment cycles is a critical bank lending policy that has significant financial and social ramifications.

**Figure 18. Average Individual Loan Balance (in Rub)****Figure 19. Average Individual Loan Balance (in Rub)**

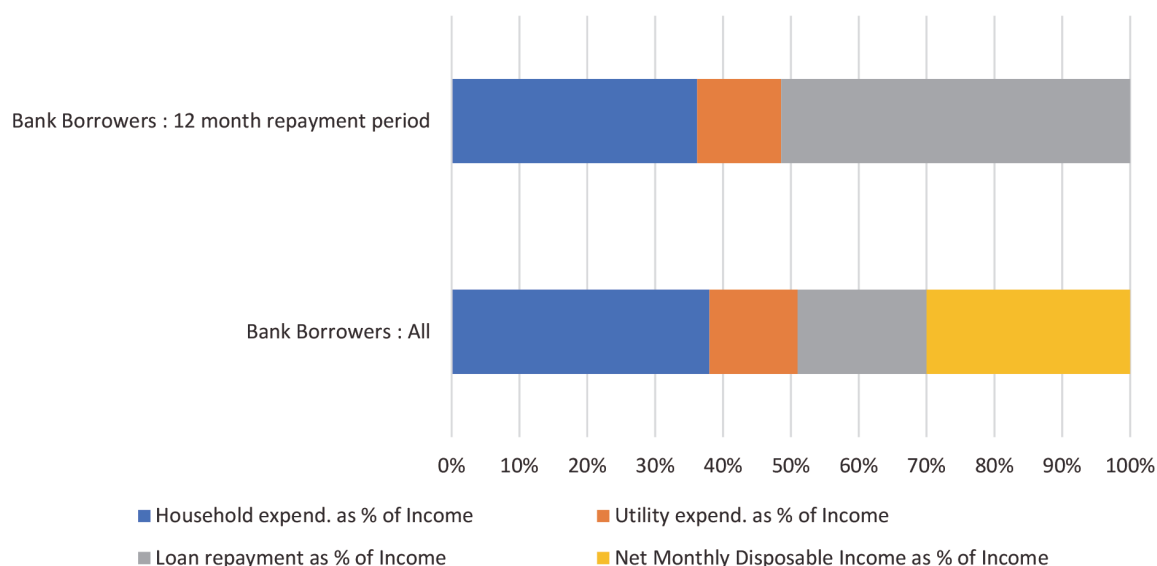
**Extremely long repayment periods result in increased net disposable income (after loan payments) for bank borrowers.** If the repayment period for bank non-collateral lending<sup>23</sup> were reduced from the implied 28.1 months to even an average 18 months (implying an average 3-year loan maturity), the monthly repayment amount would increase by 45 percent. This would reduce the net disposable income from currently RUB 15,830 to RUB 11,166, (USD 245 to USD 172). Figure 21 shows the change

<sup>22</sup> Residual repayment period means outstanding debt divided by monthly payment.

<sup>23</sup> In the annex the report is looking at some of the peculiarities of collateralized lending.

for the different income segments. Considering the fact that a residual repayment period of 18 months is still quite long, the ability to absorb any additional financial shocks would still be limited among Russian borrowers. Thus, in figure 20, it can be seen that if Russian borrowers would face repayment periods of 12 months, the loan repayment as percent of income would increase for bank borrowers from 19 percent to 54 percent, deteriorating their financial situation even further and increasing financial pressure faced by this segment.

**Figure 20. Domestic Budget Expenditure**



**Figure 21. Net disposable income of Russian households (current and assumed 18 months repayment period)**

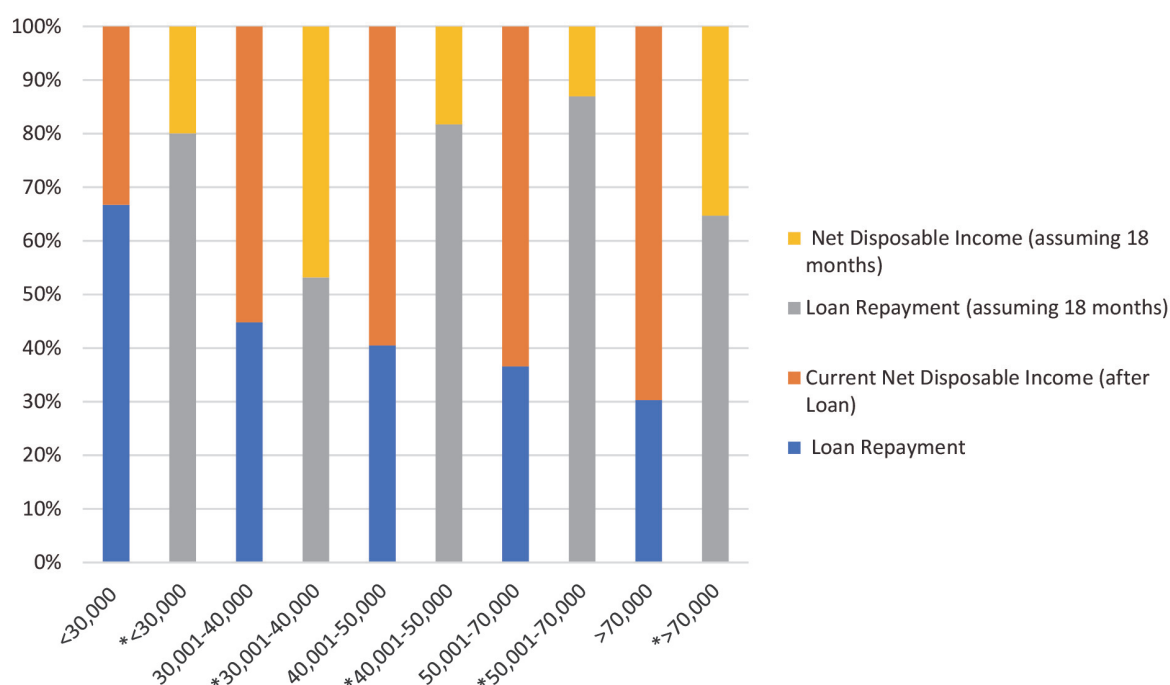


Table 9. Loan repayments by borrower segments and share of income

	Distribution of Borrowers	Loan Re-payment as % of Total Household Income	Loan Re-payment as % of Net Disposable Household Income	Loan Repayment as % of Individual Income	Outstanding Loan as a Multiple of Monthly Total Household Income	Residual Repayment Period (months)
All Borrowers: Bank (complete financial data)						
Bank Only	47%	19%	37%	32%	6.8	37
Bank and MFI	4%	21%	49%	28%	2.9	14
Bank and Other (non-MFI)	7%	18%	38%	32%	6.3	34
All Borrowers: Non-Bank (complete financial data)						
MFI only	20%	15%	35%	25%	1	5
MFI and Other (non-bank)	3%	21%	53%	33%	1	4
Internet/Pay Day only	4%	13%	30%	17%	1	5
Pawnshop only	3%	18%	48%	31%	1	4
Moneylender only	12%	15%	36%	25%	1	7
Multi Others (non-bank, MFI)	1%	13%	37%	21%	1	3

Table 10. Loan repayments by borrower segment

	Loan Pay- ments	Net Dispos- able Income (after Loan)	Average Individ- ual Loan Balance	Loan Ar- rears: (All respon- dent)	My loan payments are more than I can afford (all respondents)	Total Expenditures as % of Income	
						76-100%	>100%
All Borrowers: Bank							
Bank Only	9,753	16,639	356,639	6%	19%	30%	14%
Bank and MFI	8,555	8,958	120,304	30%	38%	43%	18%
Bank and Other (non-MFI)	9,675	15,647	333,622	12%	31%	33%	15%
All Borrowers: Non-Bank							
MFI only	6,598	12,361	32,925	10%	25%	33%	15%
MFI and Other (non-bank)	7,722	6,798	34,093	17%	24%	30%	30%
Internet/ Pay Day only	5,987	14,133	31,967	4%	30%	29%	11%
Pawnshop only	7,961	8,658	33,729	9%	24%	31%	21%
Money lender only	6,054	10,640	44,489	5%	15%	41%	15%
Multiple Others (non-bank, MFI)	5,684	9,832	19,360	13%	19%	40%	20%

**Non-bank borrowers demonstrate a fundamentally different and lower leverage structure than do bank borrowers.** Drilling down on the data based on the use of lending institutions, we gain some additional insights. The numbers starkly highlight the different commercial and regulatory strategic and operational challenges of lending institutions. Residual repayment periods for bank borrowers remain very long. Debt leverage is also lower for non-bank borrowers. Borrowers with both a loan from an MFI and a bank are affected the worst among all segments. This is further outlined below, where we can see that 30 percent of individuals in this group have loan arrears. This creates a potential risk: if banks stop lending or create any additional constraint to their existing clients, borrowers might approach MFIs to sustain their lifestyle, increasing the potential for over-indebtedness. This is not unlikely as 44 percent of bank borrowers have a level of expenditure (basic, loan repayment & utilities) that exceeds 75 percent of their income.

**The apparent stability of debt affordability is highly sensitive to any increased use by bank borrowers of non-bank, higher-rate debt.** Lending institutions do not appear to differentiate adequately the credit lending standards in relation to the level of household income, which creates particular pressure upon the debt affordability of lower-income households. Taking a closer look at the income levels, not surprisingly financial pressure increases the lower the income group is. It seems that lending institutions mostly focus on loan repayment to total income in their lending decisions, as the numbers seem broadly similar across income groups, leaving aside other characteristics that would be worth considering. Thus, not surprisingly, while the loan repayment as a percentage of the total household income only increases slowly by income group the percentage of loan repayment to net disposable income increases rapidly, reaching over 60 percent among households with an income below RUB 30,000 (USD 464). A total breakdown of the Russian population by income group is provided in the annex.

**Table 11. Loan repayments by income group**

	Loan Repayment as % of Total Household Income	Loan Repayment as % of Net Disposable Household Income	Loan Repayment as % of Individual Income	Outstanding Loan as a Multiple of Monthly Total Household Income	Residual Repayment Period (months)	My loan payments are more than I can afford (all respondents)
<b>All Borrowers: Bank</b>						
<30,000	24%	66%	32%	5.2	22	29%
30,001-40,000	17%	42%	27%	3.5	20	23%
40,001-50,000	17%	37%	30%	5.0	29	26%
50,001-70,000	16%	33%	29%	5.7	36	14%
>70,000	14%	23%	25%	4.3	31	13%
<b>All Borrowers: Non-Bank</b>						
<30,000	19%	61%	26%	1.0	5	24%
30,001-40,000	15%	38%	24%	0.9	6	18%
40,001-50,000	14%	32%	25%	0.8	5	21%
50,001-70,000	14%	31%	26%	0.6	5	19%
>70,000	12%	21%	21%	0.6	5	9%



**The debt profiles of bank borrowers present some fundamental issues for consideration and assessment by the regulatory authorities.** They highlight the vulnerability of a majority of borrowers to adverse economic trends and the dependency of bank borrowers upon lower repayment levels resulting from long debt repayment periods.

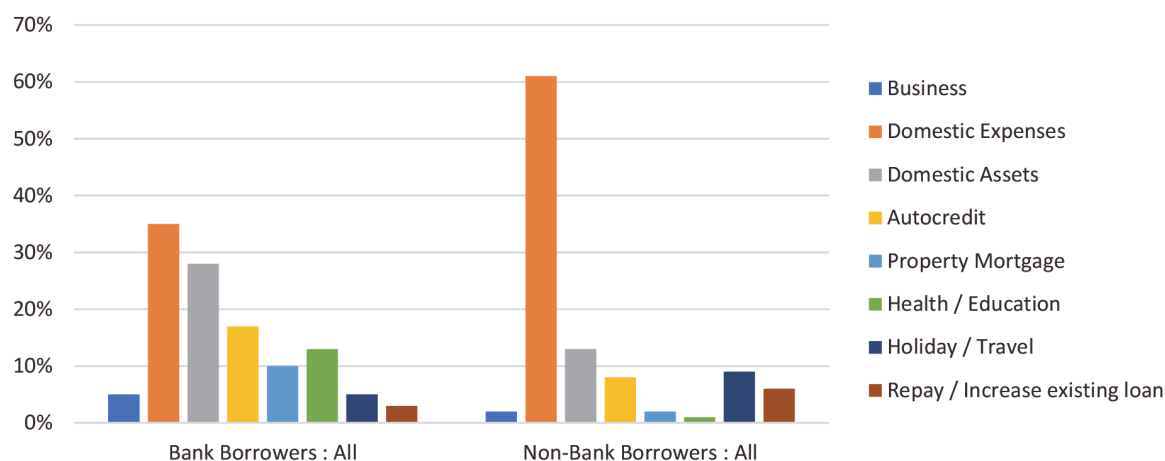
## 7. Use of loan funds<sup>24</sup>

**Borrowing for short-term purposes and consumption dominates most client segments.** As it can be seen in figure 22, the biggest category is for domestic consumption, both for bank (35%) and non-bank borrowers (61%). Fifty-five percent of bank borrowers and 72 percent of non-bank borrowers took out loans for domestic purchases, health, education, holiday or travel. This appears to be inconsistent with a residual repayment period of 28 months for bank (non-collateral) borrowers, which implies a 4 to 5-year original repayment period. This number is also in line with the average term reported by the regulatory authorities. It seems many borrowers “borrow long-term and spend short-term.” Thus, the usage of loan funds appears inconsistent with the terms and structure of bank debt (see box on the right). As outlined in the introduction chapter on over-indebtedness, this can be one of the main drivers of over-indebtedness among borrowers.

### Box 3. Usage of loans

A traditional canon of lending is that the structure of the loan (including repayment period) should be related to the use of funds. The reasoning behind this is that short-term usage of loan funds against long debt maturities will require a repayment programs to extend beyond the ‘life cycle’ of the use of the expenditure. The core risk is that the borrower will need to renew such expenditures (domestic consumption, health, education) whilst existing loan repayment continue - and will, therefore, need to seek additional loans. If income has not increased, the options are either i) consolidate and extend the overall debt repayment period, or ii) seek additional loans from other lenders.

**Figure 22. Use of loan funds**

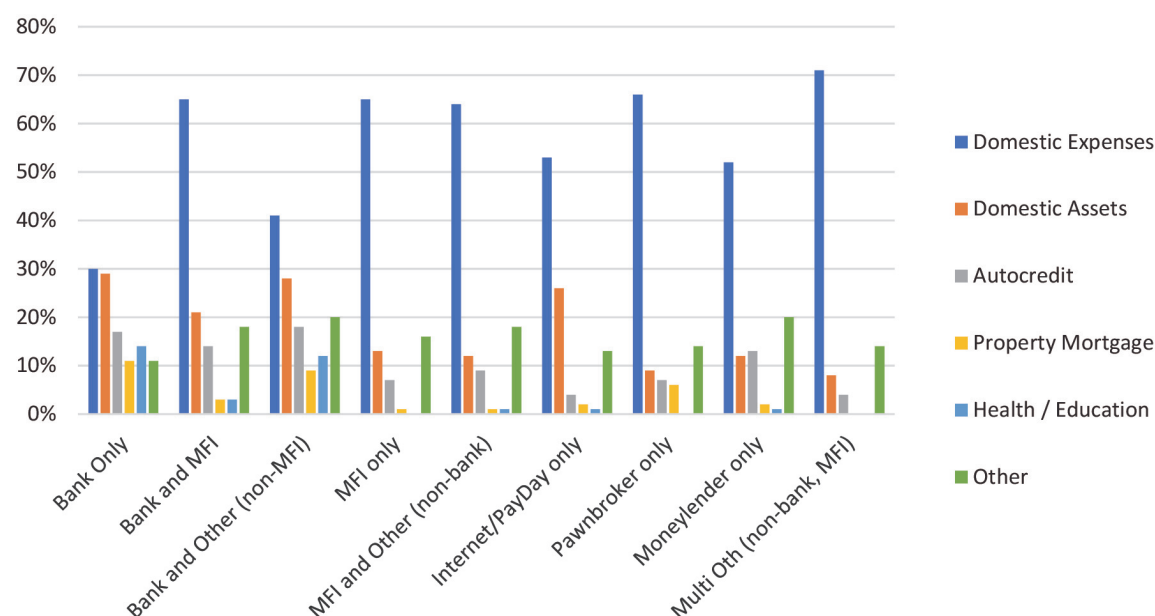


There are differences between bank and non-bank borrowers, but both borrow mostly to satisfy domestic consumption needs (see figure 23). The difference in loan funds usage between “bank only” and “bank and other lenders” is particularly marked. This may be considered to be a lead indicator of debt pressure on the borrower. The shorter repayment periods on such non-bank lending as shown

<sup>24</sup> Tables in this chapter are based only on respondents with complete financial data.

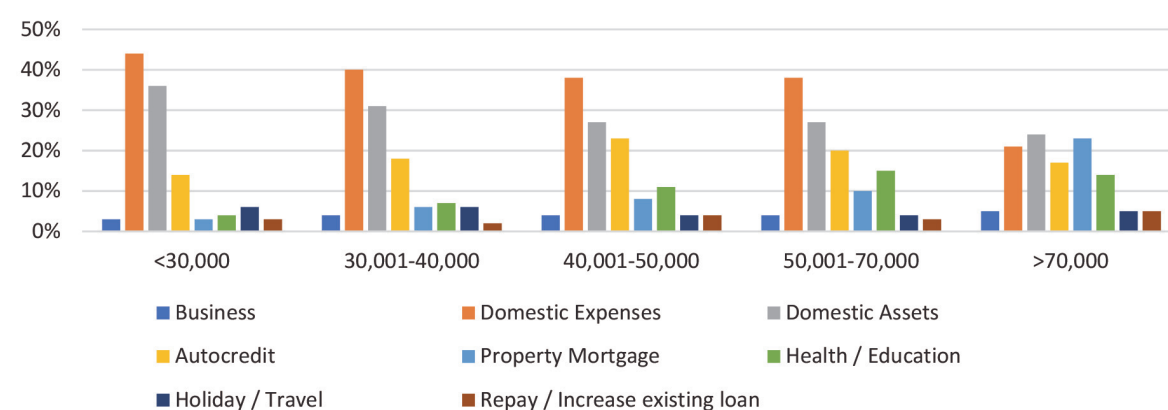
in the previous chapters (with residual repayment periods up to 6 months) is more appropriate, but it is nevertheless still a long period if funds are used for domestic consumption, as is the case for a majority of non-bank loans.

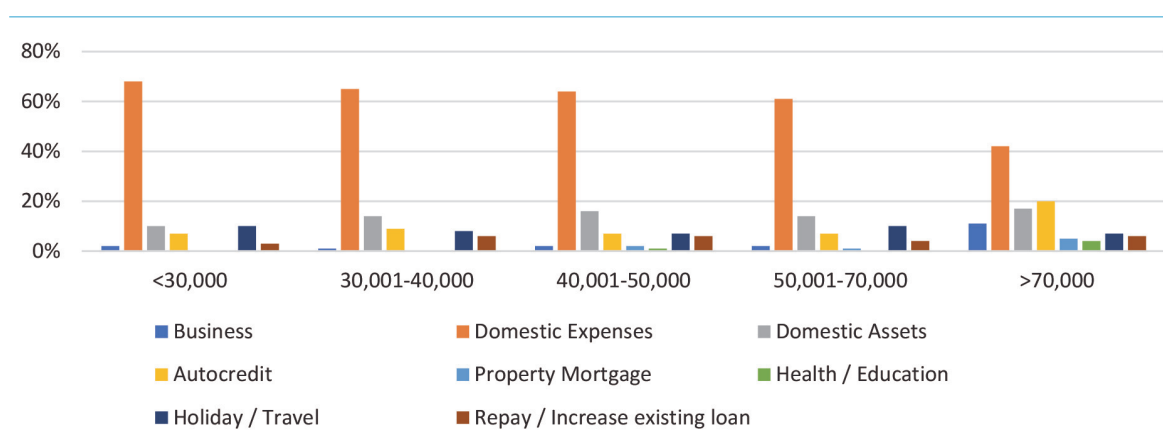
**Figure 23. Use of loan funds by lender**



There is also a high usage of the most recent loan for basic domestic consumption needs across almost all the ranges of household incomes, except in the highest income segment earning over RUB 70,000 (USD 1,083). This suggests a consistent pressure on domestic budgets to enable domestic consumption and maintain lifestyles. There seems to be little capacity for increased loan payments and the scope for any further extension of the effective loan repayment appears to be limited.

**Figure 24. Use of loan funds by bank borrowers and income group**



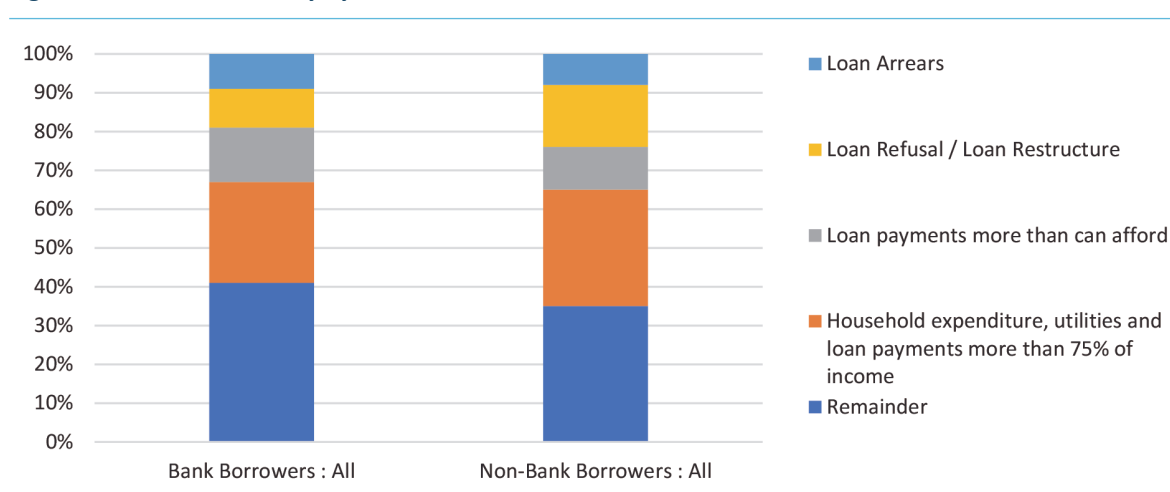
**Figure 25. Use of loan funds by non-bank borrowers and income group**

## 8. Debt affordability by borrowers

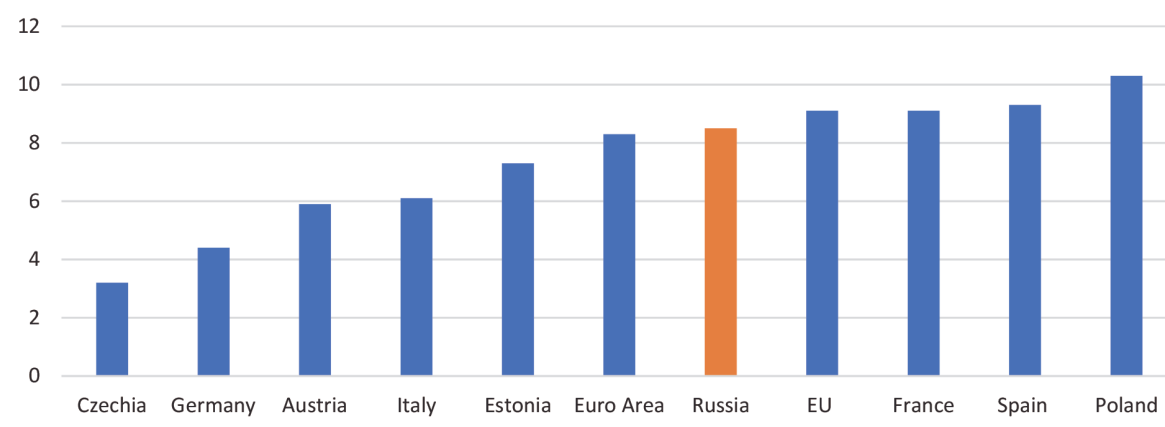
The underlying credit risk pressures of the Russian respondents at first seem to be not severe. The long extended-repayment structure of bank lending may have hidden these pressures.

The survey enabled the quantification of debt affordability in a five-step approach<sup>25</sup> that started with loan arrears:

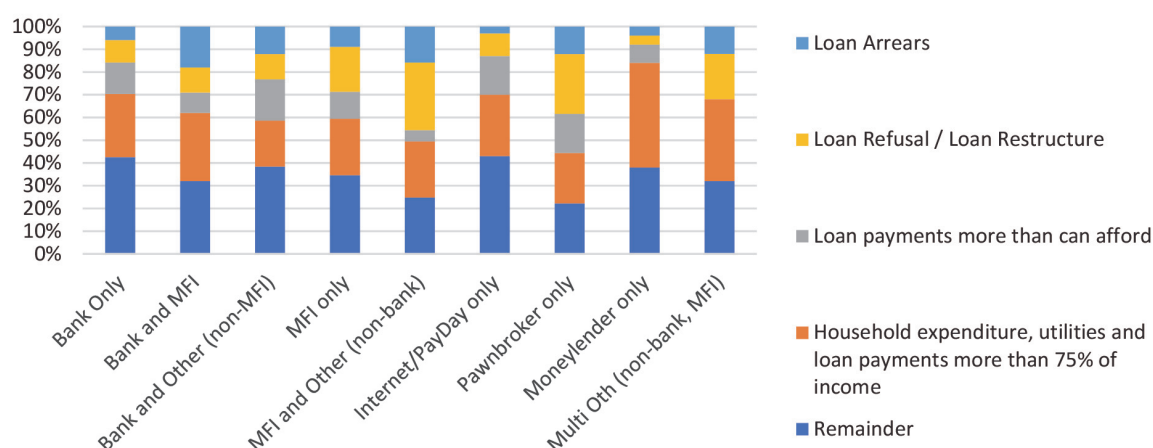
- i) Arrears: payment arrears with a current loan;
- ii) Loan refusal and loan restructure: a lender has turned down a loan application from the borrower, or has undertaken refinance, and/or consolidation of debt, and/or extension of loan repayment period in the last 12 months;
- iii) Repayment difficulty: the borrower acknowledges to have difficulty in making the loan repayments;
- iv) Expenditure: > 75% Income: the aggregate of essential household, utility and loan repayment expenditures exceed 75% of household income;
- v) Remainder: all borrowers not included in segments i to iv.

**Figure 26. Debt affordability by borrowers**

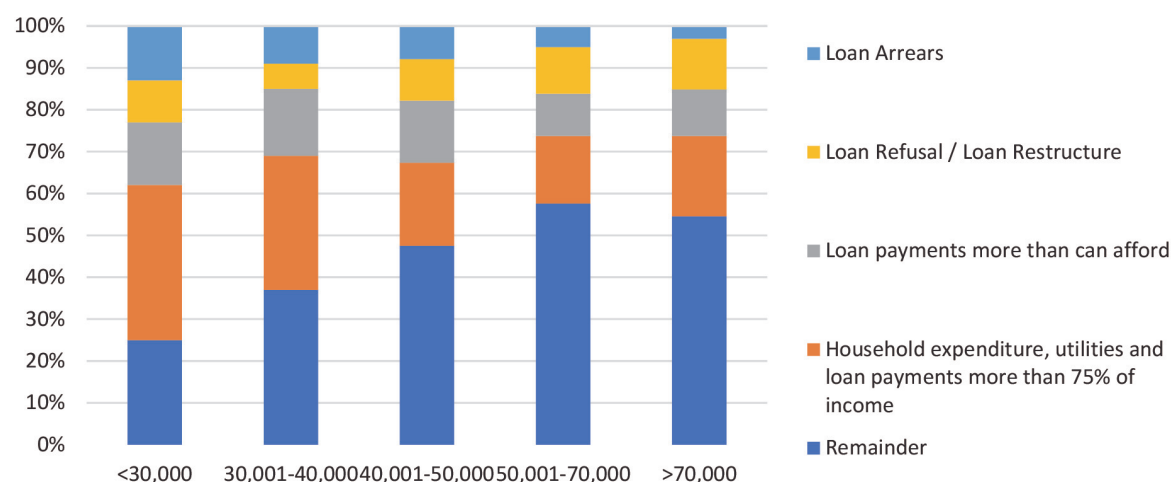
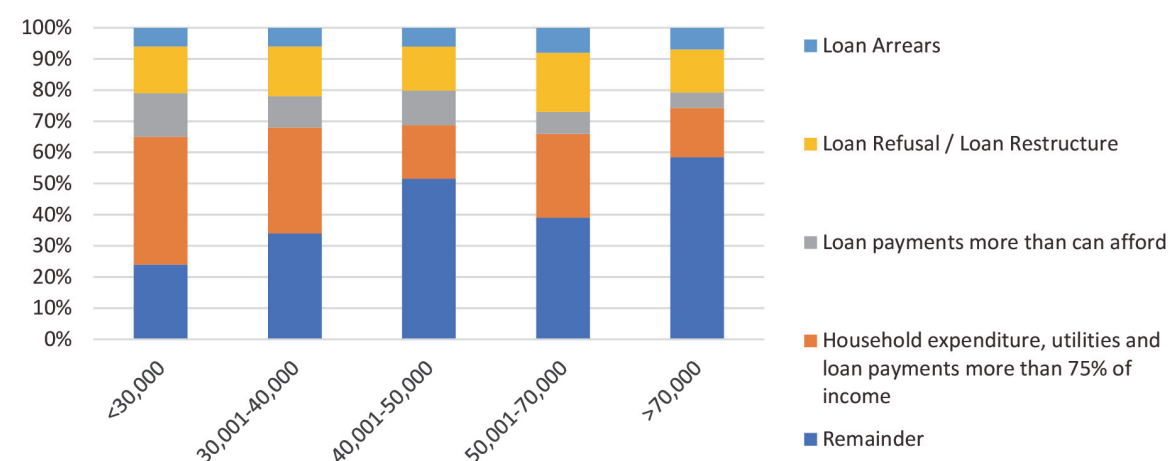
<sup>25</sup> The five steps are hierarchical, and no borrower appears in any subsequent segment after «qualifying» for a risk characteristic.

**Figure 27. Arrears (mortgage or rent, utility bills or hire purchase) as reported by the ECB & Survey Results**

**Arrears are the most visible sign that a debt is not affordable anymore.** With 9 and 8 percent respectively of their loans in arrears for bank and non-bank borrowers, the most visible aspect of debt is in line with what we see in other European countries (see figure 27). Nevertheless, arrears are only at the end of the debt affordability ladder for a borrower, meaning there are additional steps borrowers will take before they default on their debt. Going down the indicators, the performance among Russian borrowers gets worse. While the number of total arrears is low, the fundamental question remains as to how much the extended loan repayment periods mask the real issue of debt affordability in Russia and should raise alarm bells.

**Figure 28. Debt affordability by lender**

**Overall, more than 50 percent of borrowers face some kind of debt pressure (see figure 28).** Looking at the different income groups, a similar picture emerges, with those earning below RUB 50,000 (USD 774) affected the worst (see figure 29 & 30). Nevertheless, all segments will be affected if the lending environment worsens. The fundamental challenge for the lending institutions is to determine the extent to which they should lend further funds to each of the borrower segments and, if so, on what terms. Conversely, for the regulator, the concern should relate to the quality of incremental lending, or the extent to which the scale and recognition of problem debt is being suppressed by the actions of lenders and borrowers.

**Figure 29. Debt affordability by income group (bank)****Figure 30. Debt affordability by income group (non-bank)**

## 9. External factors impacting the borrower

### Over 25 percent of borrowers admit that they do not feel in control of their finances (see figure 31).

While this number seems low at first, most often in a stagnating or worsening economic environment, people feel that they are coping, they get used to the financial pressures, accept that these are the norm and so, because they are surviving, they feel that they are in control. Overall, the fact that that one in four doesn't feel in control suggests the need for the provision of financial guidance. As outlined previously, the impact of prices rising faster than income is widely felt by a large majority of borrowers, together with a wide incidence of financial pressures in communities across all income levels.

**The overall attitude of bank and non-bank borrowers, while not as negative as in the neighboring countries, is still not good.** Household expenses have increased and the number of people who feel their financial situation and quality of life have improved is quite low. This might seem to contradict the higher number of individuals who feel in control of their financial situation – 73 percent of bank and 65 percent of non-bank borrowers (see figure 31). Normally, these high numbers are more a result of a

Figure 31. External factors Impacting the borrower

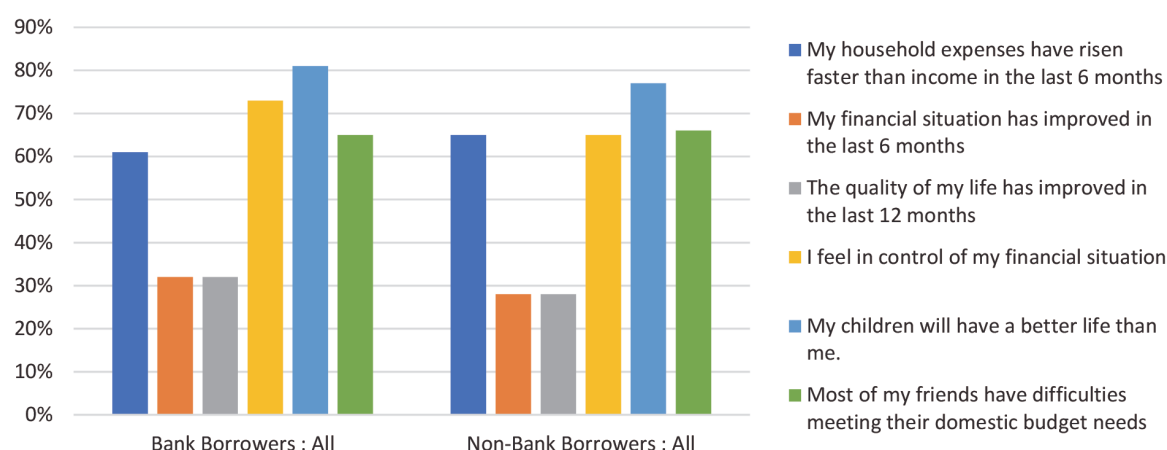
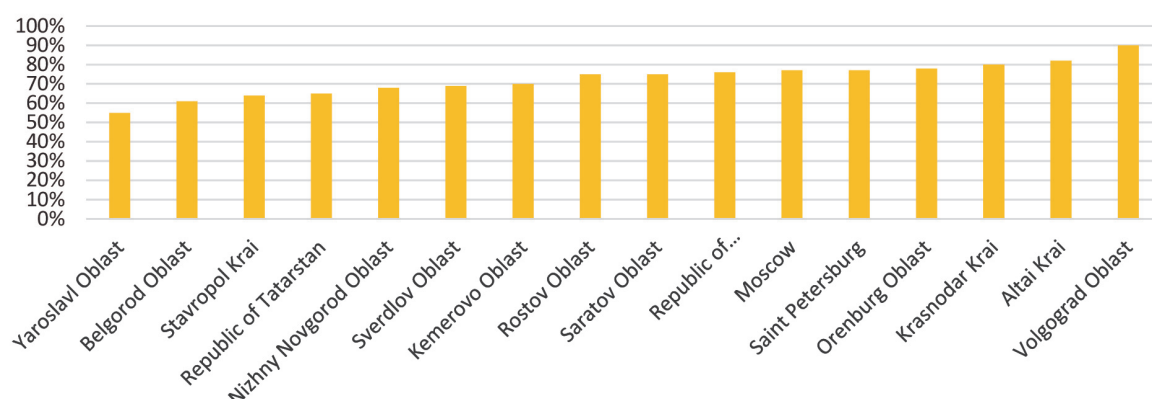


Figure 32. Borrowers who feel in control of their financial situation by region

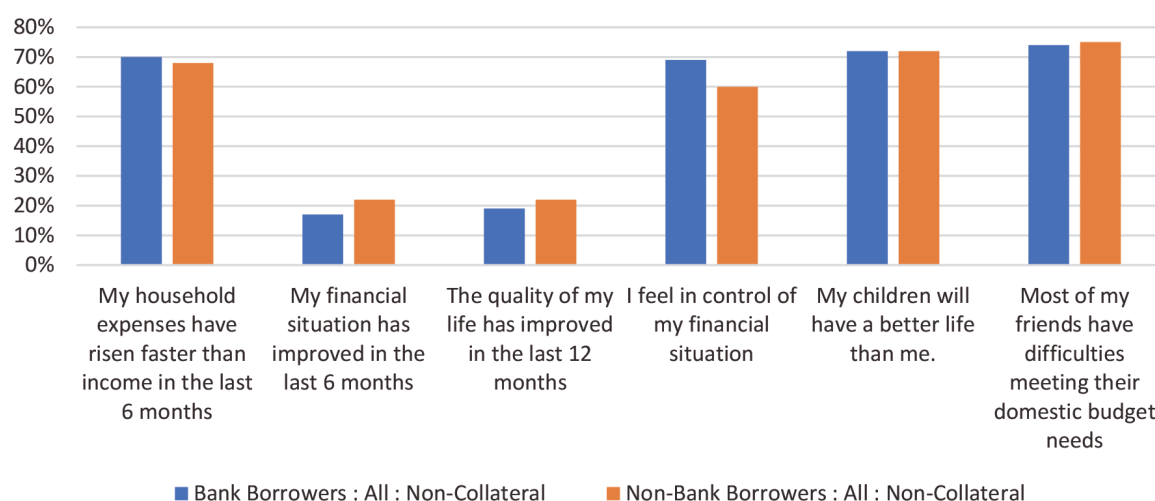
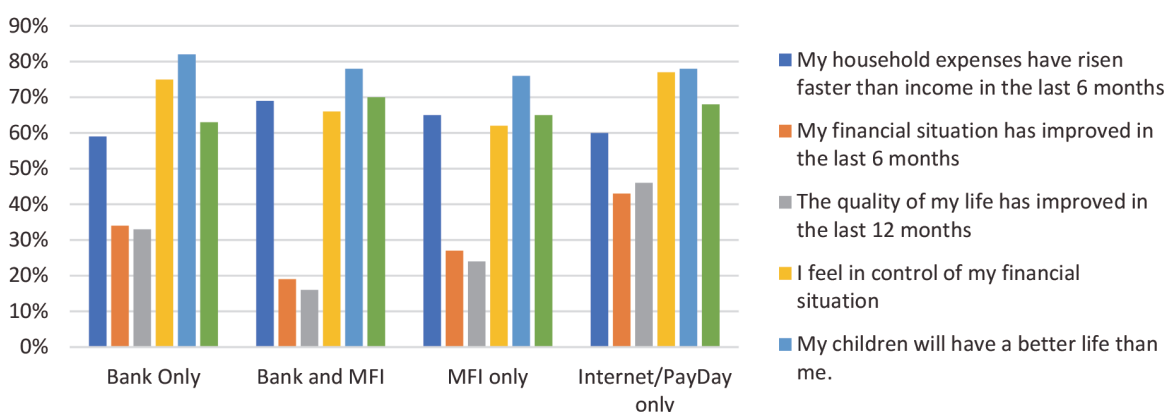


pragmatic attitude of the borrower accepting his or her financial situation. Nevertheless, turning these numbers around, over quarter of borrowers do not feel in control of their financial situation, which is worrisome.

**Between 10 percent to 45 percent of individuals, depending on the region, do not feel in control of their financial situation (see figure 32).** Providing guidance and help to them will be important, especially if their real income continues to decrease. Overall, increasing financial pressures are well-recognized.

**The adverse impact of external factors is felt most strongly by lower-income households, which represent about 50 percent of borrowers.** Thirty-one percent of bank borrowers and 40 percent of non-bank borrowers with a monthly income of less than RUB 30,000 (USD 464) a month do not feel in control of their financial situation (see figure 33). Furthermore, around 80 percent highlight that their quality of life and financial situation has not improved for a long time. Still, even among higher-income groups, negative attitudes toward their current situation are quite pronounced. Throughout all segments, financial pressure and difficulties with debt seem to be accepted as the norm.

**Overall, a similar picture emerges if we split the survey results by source of borrowing.** But surprisingly, over 40 percent of internet/pay day loan borrowers say that their financial situation and quality of

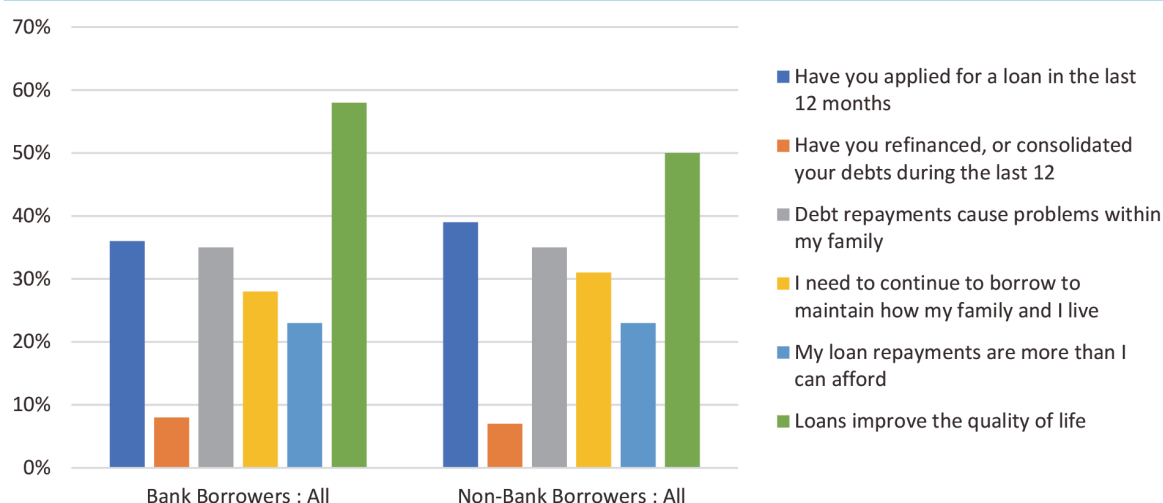
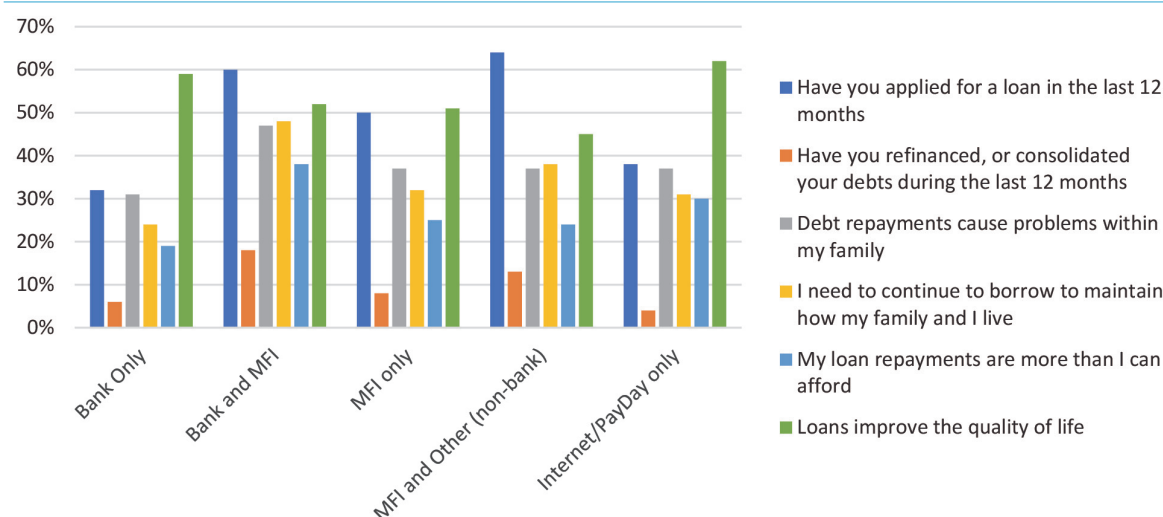
**Figure 33. External factors impacting the borrower (Income <30,000 Rub)****Figure 34. External factors impacting the borrower by lending institution**

life has improved over the last 6 to 12 months (see figure 34<sup>26</sup>). Considering their vulnerable financial situation, assessed previously, this seems surprising and might suggest that there is a lack of understanding of their complete debt situation or other factors at play.

## 10. Financial awareness of borrowers

**There is no strong indication of either excessive concern or lack of confidence amongst borrowers of their financial position.** Overall the Russian, over-indebtedness survey showed no stark differences from other countries, which suggests that the financial situations and pressures are broadly similar. Nevertheless, as we can see in Figure 34, for 35 percent of borrowers, their debt repayments caused stress in the family and 58 percent of bank borrowers and 50 percent of non-bank borrowers do not see any positive effect of loans on their quality of life. Overall, while these numbers are concerning, no clearly negative or positive picture of an immediate debt crisis is emerging from the data collected. However, factors that could affect this assessment are the extent and timing of potential future loan demand, the extent to which bank debt repayment periods change, and the extent to which bank borrowers need to take additional loans from the non-bank sector players.

<sup>26</sup> Based on borrowers with complete financial data.

**Figure 35. Financial Awareness of borrowers****Figure 36. Financial Awareness of borrowers by lending type**

**Among the non-bank lending types, MFI borrowers show the highest risk profile and the strongest appetite for additional funds.** Sixty percent of these borrowers have applied for a loan in the last 12 months. Considering that the demand for loans is high among other non-bank borrowers (e.g.: payday loans, pawnshops, etc.) and the cost for these services is considerable, it suggests that these borrowers are price-insensitive, which indicates a greater need to borrow than is recognized (see figure 35 & 36).

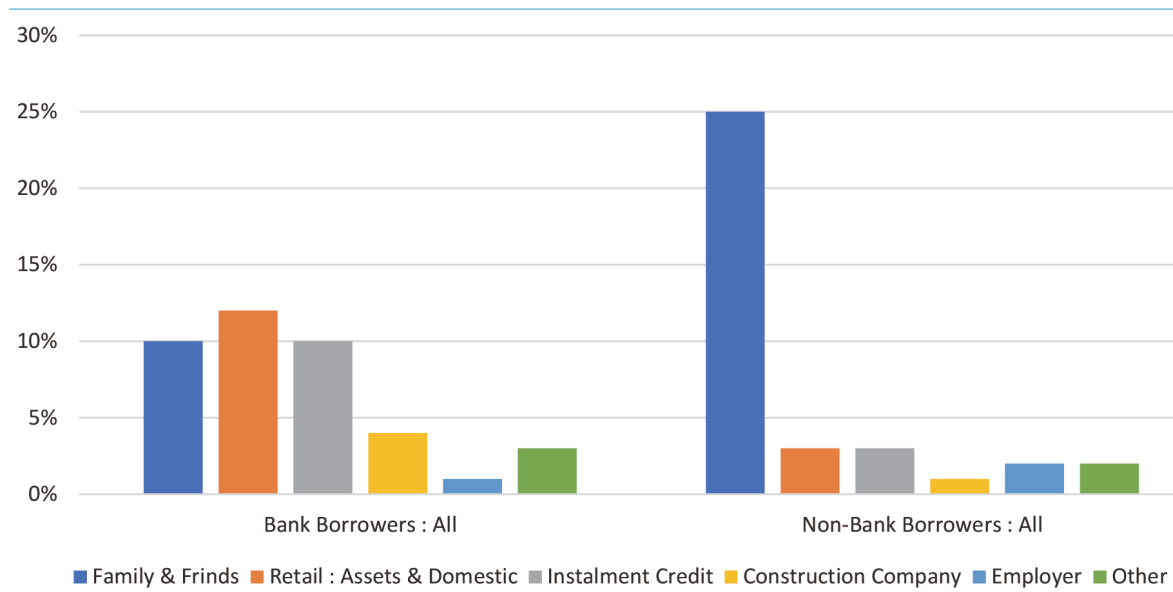
## 11. Additional debt by existing borrowers

**Demand for loans across the whole borrower segment of the population and financial pressure upon loan repayment is rising.** If the demand cannot be met by formal financial institutions, or if the pressure for repayment rises, borrowers might turn towards other sources of loans. This primarily occurs in the form of loans from family and friends, together with retail credit for domestic assets. In the case of the Russia over-indebtedness survey, there are indications of “loan round-abouting,” whereby borrowers provide informal loans to friends and family, which may, therefore, be available to maintain loan repayments and thereby obscure the recognition of problematic debt situations.

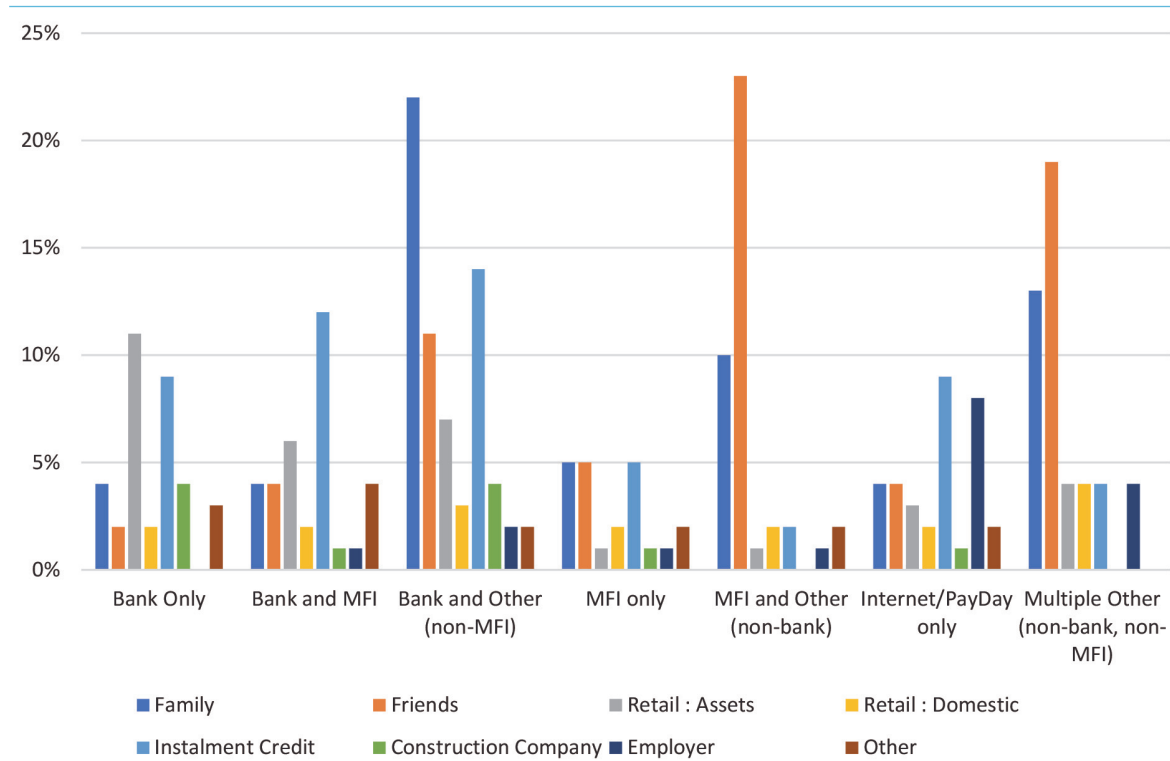


**Borrowers do not only approach financial institutions to fulfill their borrowing needs, but also use other sources to borrow (see figure 37).** This seems to be more pronounced among non-bank borrowers, where 11 percent borrowed additional funds from family, and 14 percent from friends. For bank borrowers, retail lending and installment credits are quite pronounced. Considering the fact that 18 percent of bank borrowers and 10 percent of non-bank borrowers use more than one lender, this considerably affects their overall indebtedness and financial pressure. The survey also showed that around 15 percent of borrowers have outstanding loans of more than RUB 3,000 (USD 46) to family and friends.

**Figure 37. Additional Debt by borrowers**



**Figure 38. Additional debt by lending type**

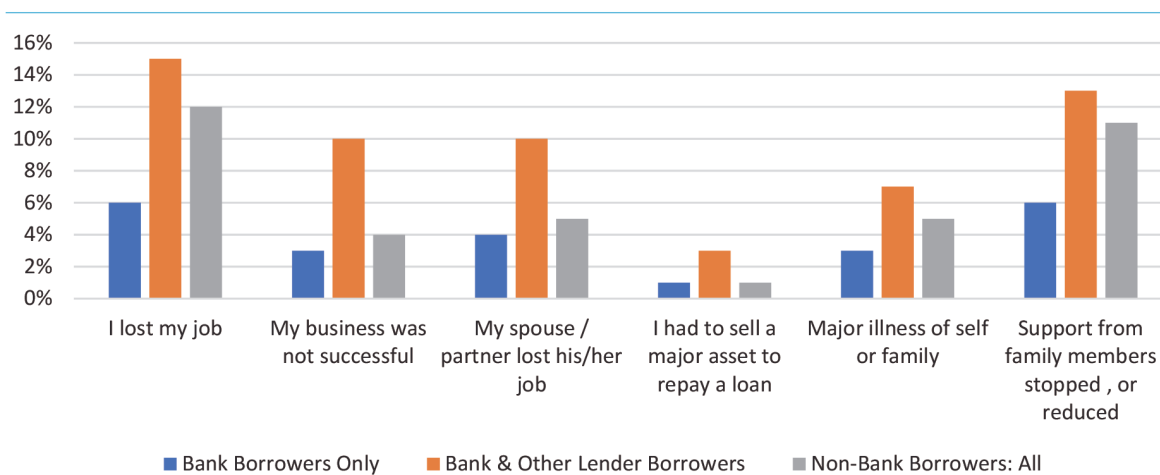


**Additional lending is furthermore more pronounced among borrowers who are already using multiple formal financial institutions (see figure 38).** This highlights the importance for lending institutions to understand the complete financial situation of borrowers before lending, and whether they can do so remains in question. Furthermore, as mentioned before, we can see that instalment credits and retail loans are most prevalent products among bank borrowers.

## 12. The impact of the unexpected

**The impact of unexpected events is low and Russian respondents show a relative high level of stability against lifestyle-changing events.** During the discussion on over-indebtedness in chapter 3, it was shown that external factors can be one of the main drivers for over-indebtedness. This chapter will take a closer look at this issue. Disruption to the income of the borrower or family support are the primary events. Employment issues are more pronounced among non-bank borrowers, with 12 percent, compared to 6 percent among bank borrowers (see figure 39). Thus, it seems that unexpected events within the family do not have pronounced effect on borrowers, leaving a worsening economic environment as one of the potential main external drivers for over-indebtedness.

Figure 39. Impact of the unexpected



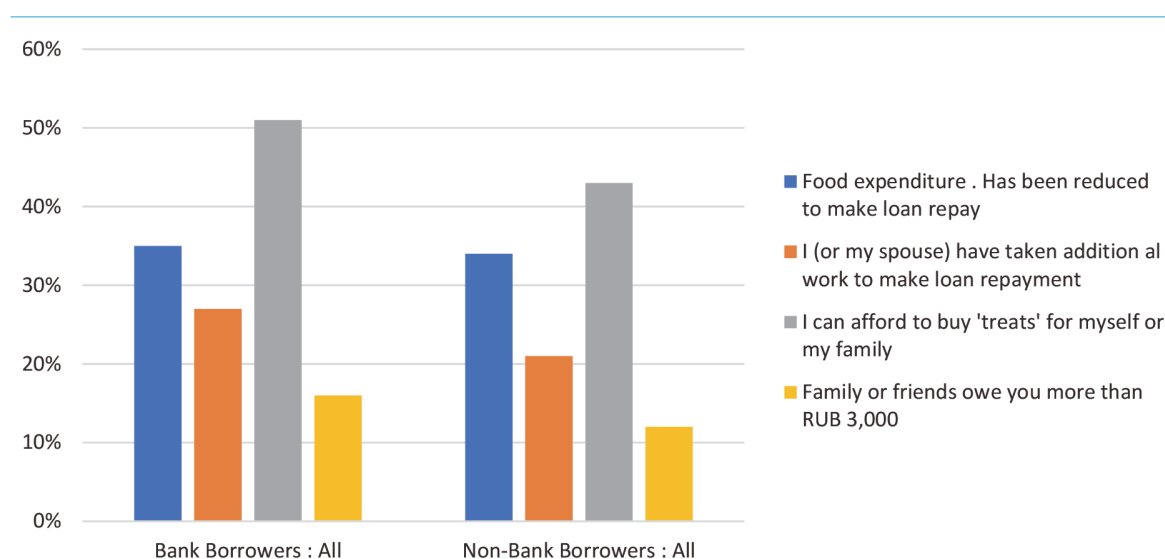
**The use of non-bank lending institutions is greater amongst borrowers who experience adverse exceptional life events.** This indicates the need for greater financial awareness and guidance at times of such heightened personal crisis and uncertainty, together with an appropriate response structure from the primary lending institution. Certain regions also show a higher incidence of the occurrence of such events.

## 13. Actions taken by the borrower

**Borrowers are often not passive in relation to their financial and debt commitments and undertake a range of actions to enable loan repayments to be continued.** As we can see in figure 38, around 35 percent of borrowers reduced food consumption to meet loan repayments. Considering that financial expenditure is nevertheless similar across the countries as shown in the previous chapters, it might imply that food expenditure is already low in Russia. Furthermore, a high number of Russian borrowers show a reduction of non-essential expenditure, with 51 percent of bank borrowers and 43 percent of non-bank borrowers not able to afford to buy “treats” for themselves

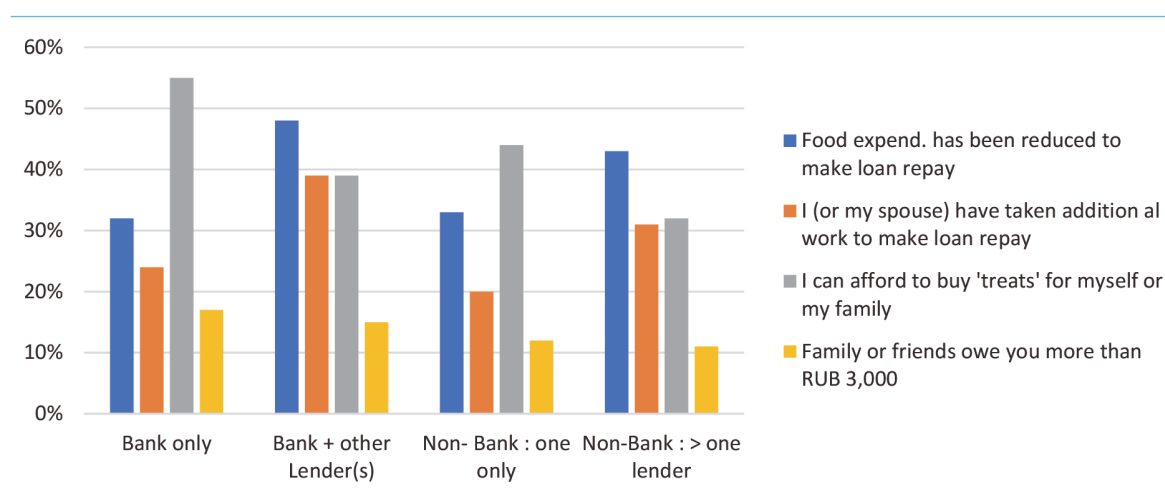
Table 12. Impact of debt

	I lost my job	My business was not successful	My spouse / partner lost his/her job	I had to sell a major asset to repay a loan	Major illness of self or family	Support from family members stopped, or reduced
<b>Bank Borrowers: All</b>	8%	4%	5%	1%	4%	8%
<b>MFI Borrowers: All</b>	14%	5%	7%	2%	6%	11%
<b>Internet /Payday Borrowers: All</b>	11%	3%	3%	2%	4%	10%
<b>Pawnshop Borrowers: All</b>	19%	7%	9%	4%	7%	16%
<b>Moneylender Borrowers: All</b>	12%	6%	7%	2%	7%	13%
<b>Bank Borrowers with Collateral: Household Income</b>						
<b>Bank: Collateral &lt; R 30,000</b>	24%	3%	3%	6%	15%	12%
<b>Bank: Collateral &lt; R 30-40,000</b>	3%	18%	17%	0%	3%	7%
<b>Regions: Bank Borrowers showing those regions for which one of the events represented 10% or more of respondents</b>						
<b>Saint Petersburg</b>	11%	6%	10%	3%	5%	12%
<b>Republic of Tatarstan</b>	5%	2%	2%	3%	4%	2%
<b>Sverdlov Oblast</b>	7%	2%	4%	1%	9%	13%
<b>Belgorod Oblast</b>	13%	7%	7%	2%	4%	4%
<b>Orenburg Oblast</b>	7%	10%	8%	1%	10%	8%
<b>Rostov Oblast</b>	8%	6%	6%	4%	3%	15%
<b>Saratov Oblast</b>	7%	1%	7%	1%	1%	10%
<b>Volgograd Oblast</b>	15%	6%	9%	0%	3%	12%
<b>Usage of Lending Institutions</b>						
<b>Bank Only</b>	6%	3%	4%	1%	3%	6%
<b>Bank and MFI</b>	15%	10%	8%	2%	3%	7%
<b>Bank and Other (non-MFI)</b>	11%	8%	10%	3%	6%	12%
<b>MFI only</b>	13%	4%	6%	1%	5%	10%
<b>MFI and Other (non-bank)</b>	15%	4%	7%	5%	6%	16%
<b>Internet/Payday only</b>	8%	4%	2%	1%	3%	7%
<b>Pawnshop only</b>	14%	3%	3%	3%	6%	13%
<b>Moneylender only</b>	11%	5%	4%	0%	6%	9%
<b>Multiple Other (non-bank, non-MFI)</b>	22%	5%	9%	2%	4%	28%

**Figure 40. Borrower actions**

and their family. While the numbers are not so worrisome (see figure 40), chapter 2.3 on domestic budgets has shown that the ability to reduce further expenditure for Russian borrowers is limited, notably for low-income households.

**Pressure on domestic expenditures is greater amongst lower-income households and those borrowers who have debt with multiple lenders (see figure 41).** Twenty-one percent of bank borrowers, and 9 percent of non-bank borrowers who have outstanding debt with more than one lender, show higher levels of food reduction and other issues across the board. This table reinforces the need for the lending institutions (and regulatory authorities) to identify and monitor the quality of incremental changes in lending across a range of lending institutions. Additionally, intra-family loans are owed to about 15 percent of borrowers, despite the financial pressures and outstanding indebtedness of these individuals. Overall, the actions being taken by a significant minority of borrowers can obscure the recognition of problem-debt situations by the lending institutions and demonstrate the need for financial awareness by such borrowers of the implications of their actions on their financial position.

**Figure 41. Borrower actions by lending institution**

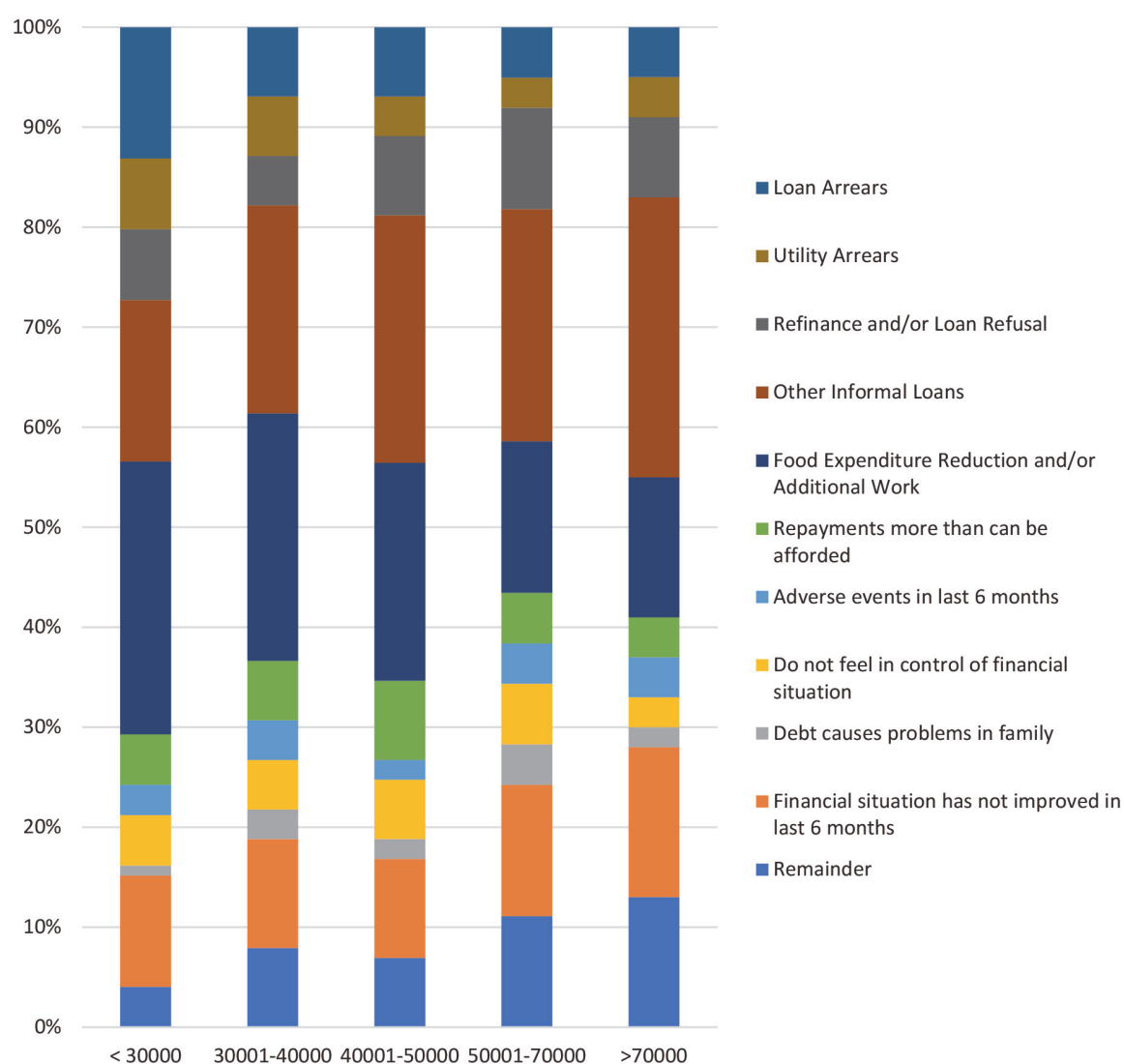
## 14. Financial pressures – The tip of the iceberg

### **Loan and utility arrears alone do not adequately demonstrate and measure over-indebtedness.**

The earlier sections have demonstrated a range of perspectives on how loan affordability and debt pressures impact the lifestyles of borrowers and their households. The following chapter seeks to bring together a range of these factors to reflect a wider view of the risk profiles of borrowers and the pressures they face. Arrears are normally only the tip on the iceberg. Normally, borrowers will seek to meet their loan repayments through other means, which can also result in social stress at home or manifest itself in other ways. This can be for example a result of the fact that they seek to avoid the potential loss of assets held as collateral.

**Figure 42 and 43 is used as a basis for a tip-of-the-iceberg analysis.** It shows the financial pressure faced by the different borrower segments. The representation is progressive: those borrowers included in the previous section are excluded from subsequent sections. The pyramid is divided from top to bottom into the following sections:

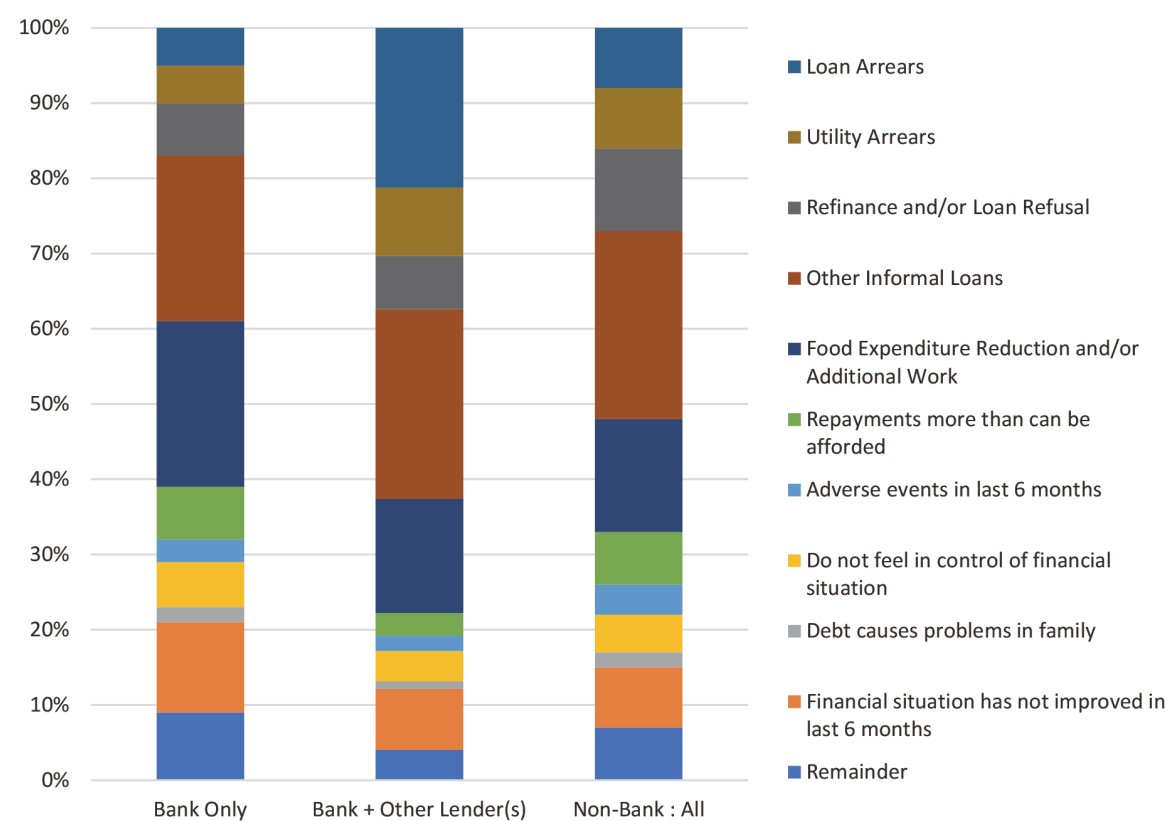
1. Arrears: loans and utility bills: a strong indication of financial pressures.
2. Refinance and/or loan refusal: Indications of financial pressures. – This segment shows above-average levels of concern. The borrower has recognised the need to take action to address the indebtedness situation.
3. Other informal loans: These include loans from family, employers or moneylenders – such liabilities will not be apparent to the lender and repayments to these may be undertaken prior to loan repayments.
4. Reduced food expenditure and additional work: Positive in relation to the borrower taking pro-active initiatives to maintain repayments, but adverse in that the existing loan assessment would not have been based upon this action. This is a strong indication of over-indebtedness, with the loan repayments straining the domestic budget cash flow. Informal loans and reduced food expenditure are so pervasive that the remaining segments are much constrained.
5. Repayments become more than can be afforded: recognition of the cash flow pressures. On this basis, the borrower appears to act responsibly but either the loan was too much, or the repayment period too short. Nevertheless, there is a recognition that there is no capacity for increased financial commitments.
6. Adverse events: Loss of job (borrower or spouse) or serious family illness are ‘event’ risks that they could not reasonably have foreseen (unless they are particularly risk averse).
7. Does not feel in control of finances: recognition of the situation of domestic budget weakness.
8. Debt causes family problems: Another indication of the adverse impact of debt on the stability of the family.
9. The remainder: Some borrowers do not appear to have any form of adverse impact arising from their loans.

**Figure 42. Loan arrears pyramid - The tip of the iceberg by income**

**Russian borrowers feel financial pressure coming from many different directions.** Overall, the pyramid below shows how arrears are only the tip of the iceberg. Bank lenders with multiple other lending sources show worrying numbers, with 30 percent already having loan and utility arrears. As we can see in figure 42, the lower the income, the higher the financial pressure at almost every step of the pyramid.

**It is noticeable that the issue of loan arrears is not as of yet as pronounced in Russia,** but the use of informal loans is quite high. Overall, four major points emerge:

1. In the area of loan arrears, the survey showed borrowers from multiple lenders are more likely affected. This raises the questions as to how aware financial institutions are about the issue of borrowing from multiple lenders.

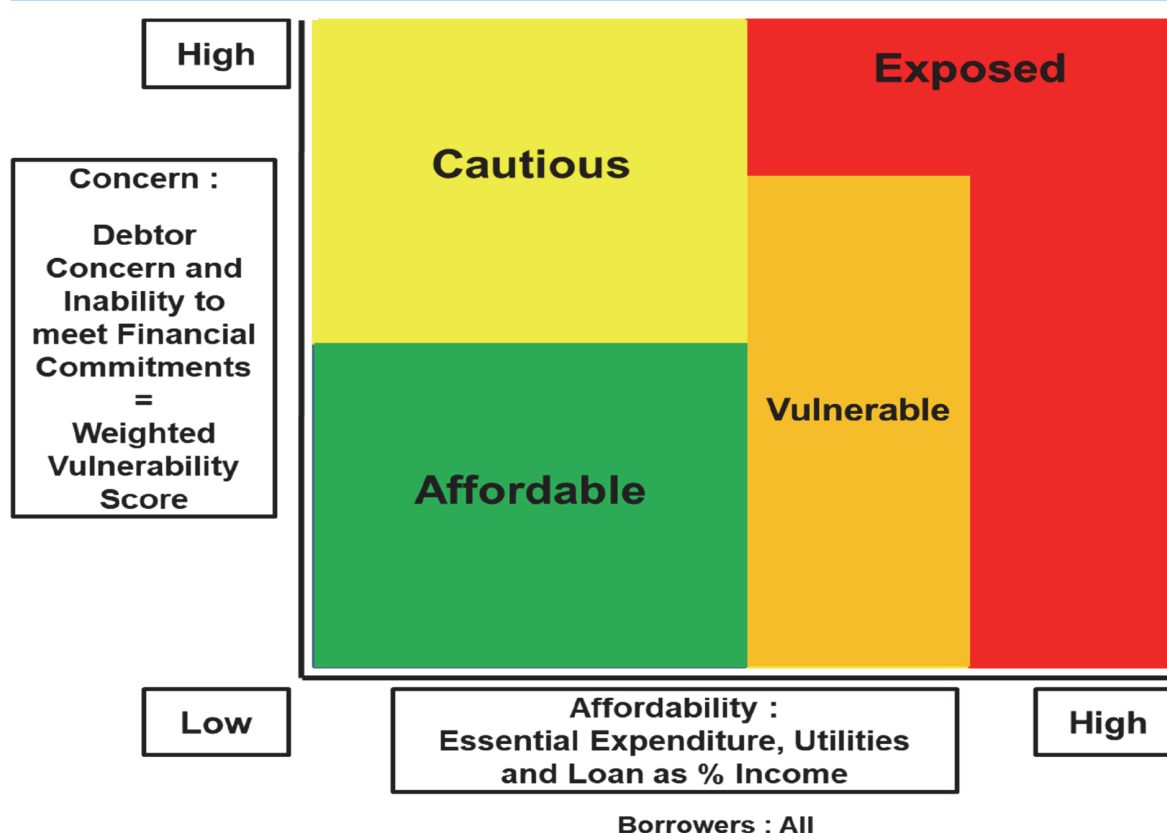
**Figure 43. Loan arrears pyramid - The tip of the iceberg**

2. A large number of borrowers have refinanced their debt or were refused an additional loan, which likely indicates increased financial pressure for these households. In the case of potential additional adverse situations that might lead to a decrease in income or an increase in expenditures, they could turn to other financial institutions for borrowing.
3. Informal loans are common among Russian borrowers, especially among the more vulnerable segments (see chapter 2.11).
4. The sums owed are more than many can afford, with over 25 percent of borrowers admitting they have a debt repayment problem. In light of the extended repayment periods, this low figure might be skewed to show a more favorable situation than is really the case and should be evaluated with caution.

## 15. Debt tolerance

**Borrowers show a highly disparate range of concern for their financial situation.** The previous section described some of the financial pressures faced by borrowers and the extent to which these pressures affect different borrower segments. This chapter provides a structural framework for the segmentation of the risk vulnerability profiles of individuals. In turn, this will yield an overview of an individual's attitude towards debt and risk.

Graphic 2. Borrower Segmentation



This type of segmentation has been used in previous surveys on over-indebtedness. As we can see in the graphic above, the horizontal axis shows the quantitative assessment of affordability based upon the respondents' assessment of income and basic expenditures. This includes the cost of loan repayments and reflects the current position, as reported in the survey, which is not necessarily the situation the borrower declared to the lender in the loan application.

The vertical axis reflects the potential vulnerability of the borrower, based upon the responses to the qualitative questions in the survey. The questions reflect different aspects of the borrower's financial position and provide a complementary dimension to create a broader view of the borrower's position. This 'Concern' score is based upon a judgemental assessment. It does not replace a credit score and, therefore, should not be seen as a predictor of the creditworthiness of the borrower. Nevertheless, it is proposed as an initial 'common-sense' assessment of the question, "If I knew these facts about the borrower, would I approve a loan application?" It is recognised that this is not a statistical measure of the risk probability of a debt failure. It is proposed, however, that it demonstrates the concern with which a borrower views his/her position.

Based on this risk assessment the following groups can be recognized:

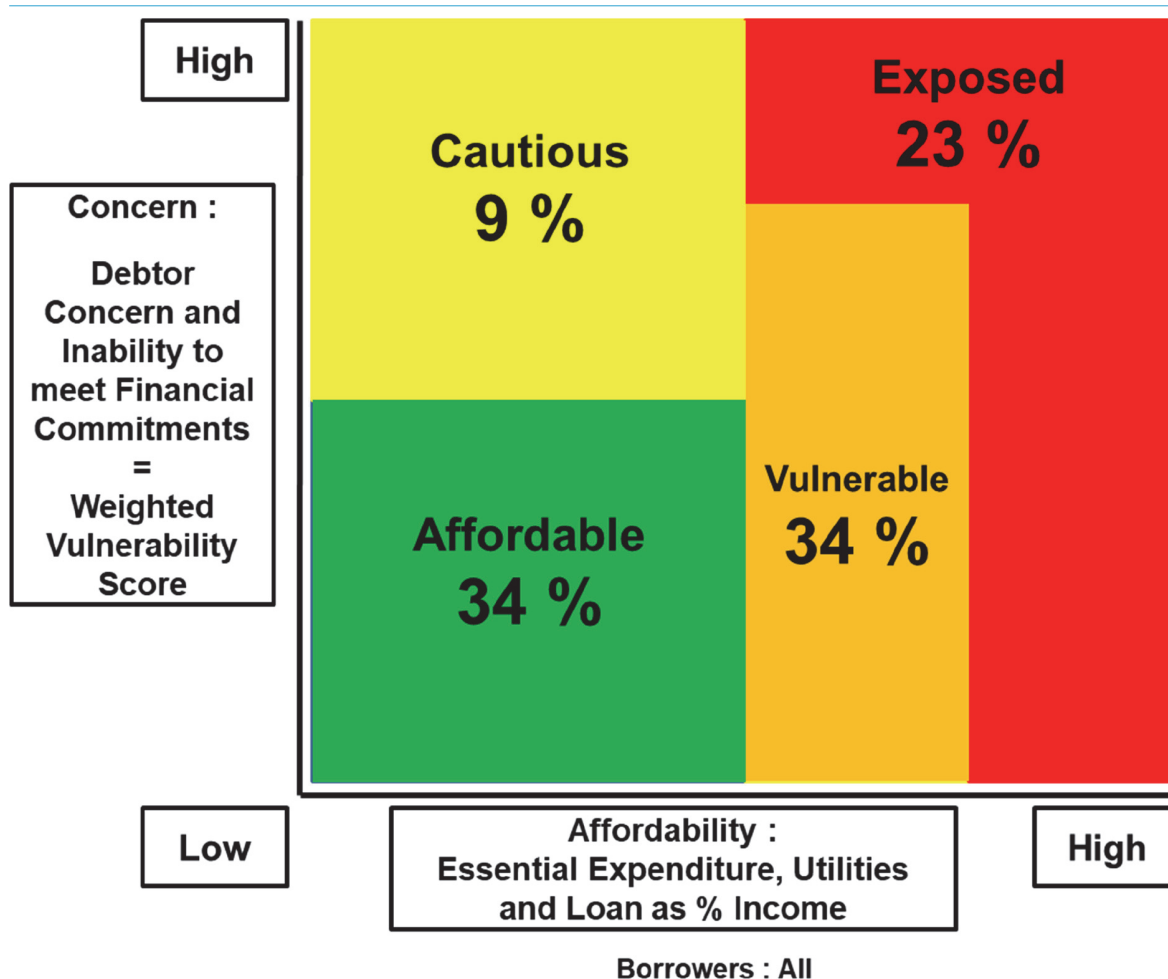
1. **Affordable:** should be able to manage their debt levels.
2. **Concerned:** may be either cautious/prudent people who are concerned to avoid any undue exposure to financial/budgetary risk or may be people who realise that their financial situation is becoming increasingly delicate and are feeling greater budgetary pressures in meeting



their commitments. Such individuals may be particularly sensitive to adverse changes in their income/expenditure balance (such as any disproportionate increase in the cost-of-living expenditures).

3. **Vulnerable:** with high expenditure-to-income ratios, there is not much capacity to absorb any adverse budgetary pressures. This segment is 'vulnerable' with a low 'concern' score. They might be very cautious budget managers (knowing the precarious position of their finances) or simply reflect a low level of concern of their financial fragility.
4. **Exposed:** with extremely high levels of committed expenditures in relation to income, these borrowers have a high vulnerability to additional, occasional expenditures or adverse changes in their cost of living and a range of recognition of the sensitivity of their situation.

**Graphic 3. Borrower Segmentation in Russia**



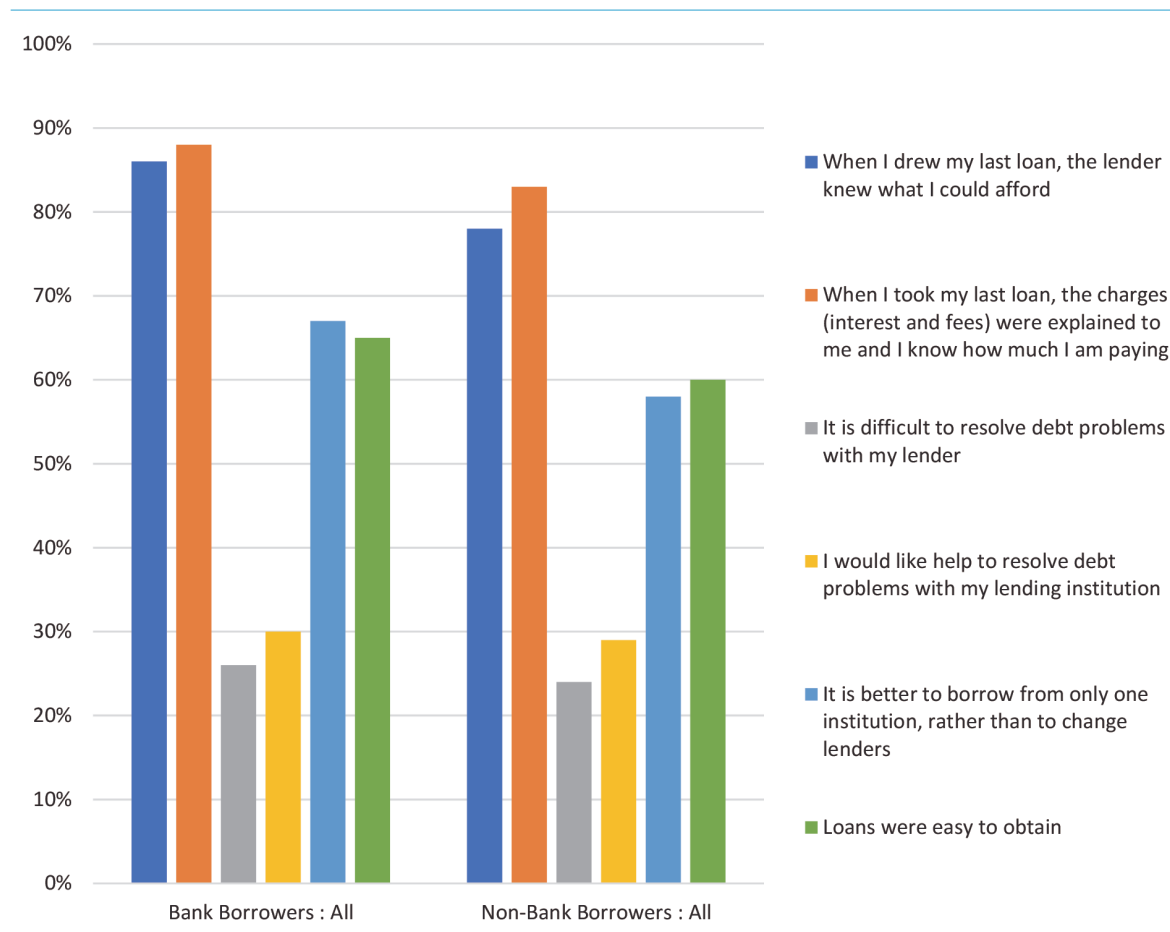
The overall situation shows a lower risk profile than in previous studies conducted by the WBG. But 57 percent of borrowers are either vulnerable or exposed to over-indebtedness. Furthermore, outstanding debt and repayment periods, especially for bank borrowers, are quite high, which creates a more favorable profile of the Russian behavioral pattern and might mask additional over-indebtedness issues. This issue was discussed in detail during the previous chapters and should be handled as a potential warning sign for underlying issues not visible in the survey.

## 16. The relationship of borrowers with their lending institutions

**There is a relatively low level of allegiance by borrowers to a particular lending institution.** The transparency of loan terms appears to be insufficient. The independent attitude of borrowers (rather than a positive relationship with a lending institution) highlights the need for a significant level of financial awareness amongst borrowers on the implications of their actions – a characteristic not widely demonstrated by the overall survey responses.

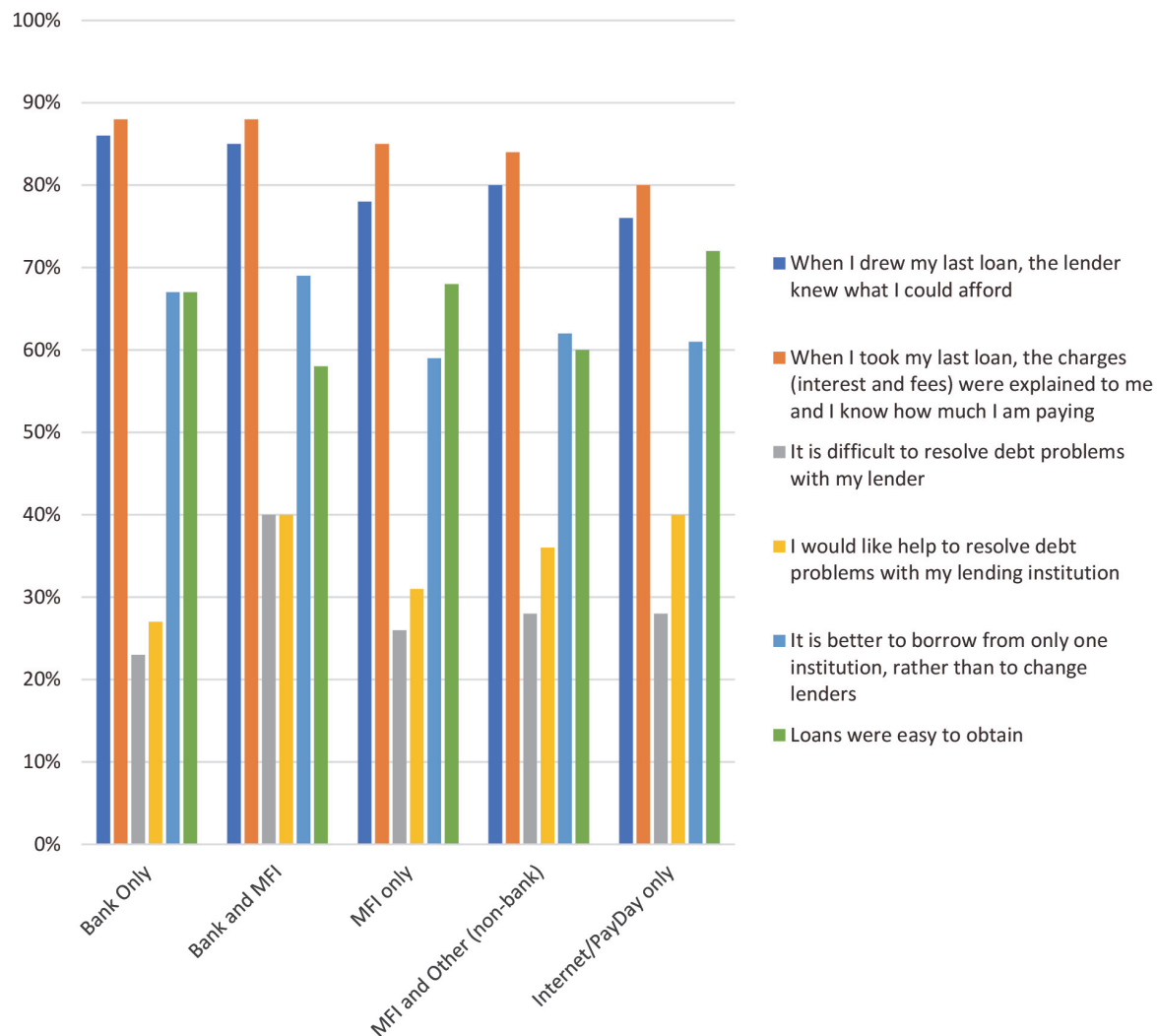
**Russian borrowers have a modest perception of the assessment of loan affordability by the lending institutions as well as of the overall cost of the loan.** Almost 30 percent of borrowers want help with resolving debt issues, which is surprising as around 80 percent of individuals surveyed say that the financial institution knew how much they could afford (see figure 44). The responses suggest that either (i) the lender did not determine the situation, or (ii) the borrower realizes that his/her financial position is somewhat different from the lenders' assessment. Issues with resolving debt is in line with the 23 percent of borrowers who say they have difficulties in repaying their existing debt (see chapter 2.4). Nevertheless, these numbers can deteriorate quickly as seen in other WBG over-indebtedness studies.

**Figure 44. Relationship of borrower and lending institutions**

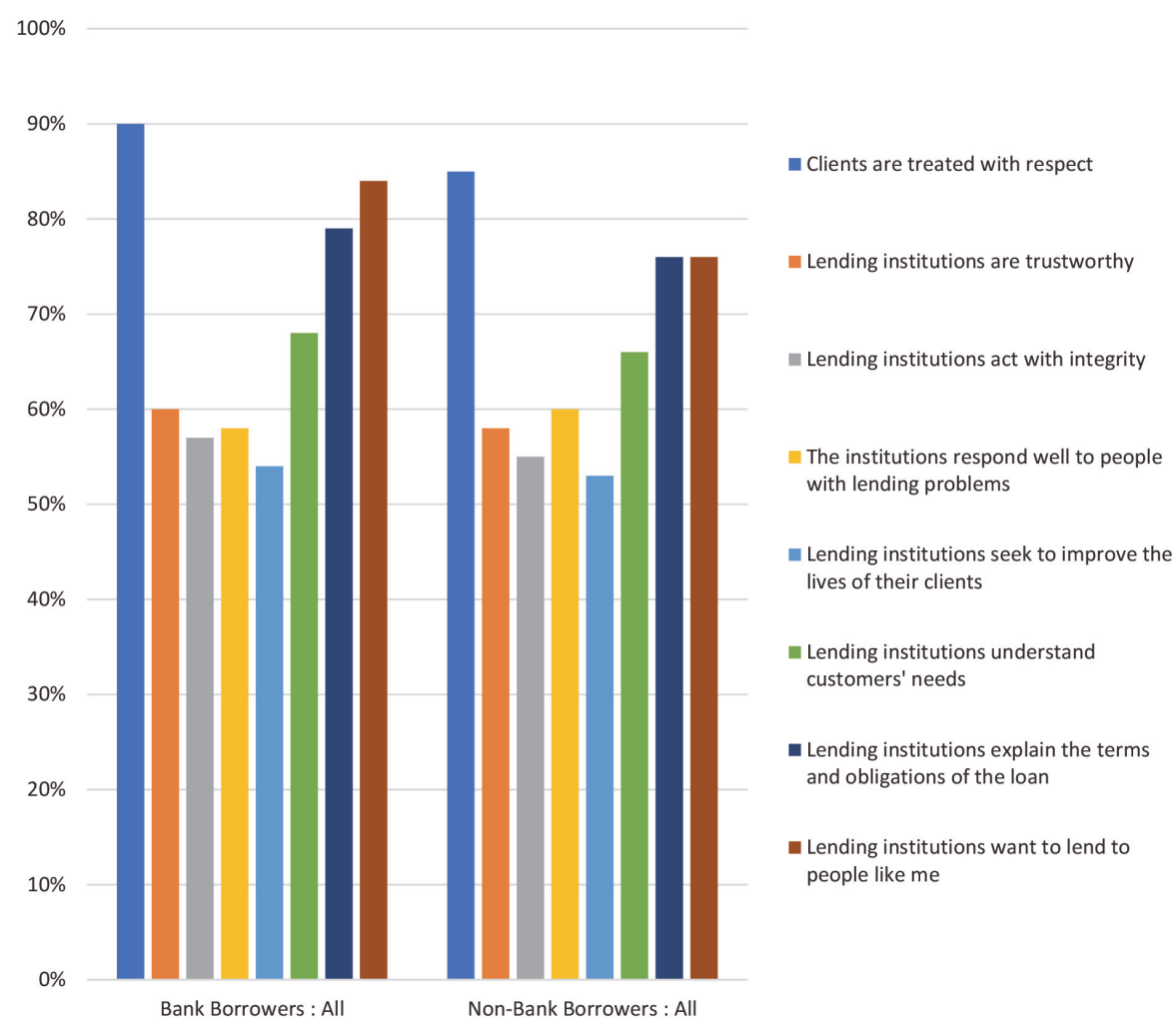


**Non-bank lending institutions seem to not care about the overall financial situation of their borrowers and their ability to repay loans (see figure 45).** Seventy-eight percent of MFI-only borrowers say that the lender knew how much they could afford, compared to 86 percent of bank only borrowers. Furthermore, we can see that borrowers with MFI organizations tend to have a higher need for help in resolving debt issues with their lender. With 40 percent, this is most dominant among internet/payday clients as well as borrowers with loans from a bank and MFI.

**Figure 45. Relationship of borrower and lending institutions**



**Looking at the reputations of lending institutions, they appear to be weak and broadly similar between bank and non-bank borrowers (see figure 46).** This lower reputation shown by the Russian responses seems to relate to cultural value dimensions such as “trustworthiness” (60%), “integrity” (57%), “client understanding” (68%), and “responsiveness” (58%), which should be core attributes of the financial sector. As lending institutions depend on a positive reputation, especially in times of financial pressure, this might lead to issues in the Russian market in the event that over-indebtedness issues emerge, and the industry is facing a challenging situation.

**Figure 46. Reputation of lending institutions**

## V. CONCLUSION

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**As the results of the consumer over-indebtedness survey have shown, financial pressure is mounting and expenditures on debt repayments have reached levels that could deteriorate quickly if the surrounding economic situation changes and/or other external factors come into play.** This is especially true for low-income households. Overall, 57 percent of borrowers are exposed or vulnerable to over-indebtedness, meaning they have little capacity to absorb any adverse budgetary pressures or economic shocks. Furthermore, over 90 percent of borrowers have experienced at least one form of financial pressure or negative effect, such as stress in the family or taken on additional work, because of their debt.

**Some bank lending practices on the Russian market, such as long repayment periods, might mask the actual level of over-indebtedness.** The long lending terms in Russia are considerably extended compared to previous over-indebtedness studies conducted by the WBG in other countries and highlight the fact that the use of the loan may be inconsistent with the term of the loan. As a result, much Russian debt is considered affordable because its repayment is stretched over long periods. Considering the fact that most loans are taken out for non-productive purposes, there is a potential for an increase of over-indebtedness if the surrounding economic situation deteriorates and borrowers are not able to fund the next round of consumption spending. This situation definitely needs to be monitored further as it is a core strategic business risk and social challenge.

**Additionally, the dire situation of borrowers owing money to multiple lenders, notably banks and MFIs, must be highlighted.** Throughout the survey, this category of borrowers showed the most worrisome numbers and attitudes towards their situation. Considering the ongoing economic developments and the rates of loan refusals among bank borrowers, it is not unlikely that this category will grow further.

**Overall, the capacity for organic growth from within the current loan portfolio appears to be limited.** The survey indicates that there is minimal capacity for any increase in the debt repayment commitments for over 60 percent of borrowers. The “lend long, spend short” structure of a majority of bank loans suggests that such expenditures will need to be renewed or replaced while the repayment of prior debt continues. It is likely, therefore, that there will be a continuing demand for additional loans. However, the affordability of any such additional debt is limited in a majority of borrowers, unless repayment periods are extended still further. Any significant increase in the use of additional non-bank debt may be anticipated to have a severe and adverse impact upon the budget capacity of such borrowers.

**While the objective of this study was to examine the social and demand-side effects of over-indebtedness, there are some short-term actions that might be considered by the authorities.** However, additional target research is required to substantiate the details behind the issues highlighted in the report and allow for the development of specific recommendations.

**First, it is important to garner a consensus among all major stakeholders (including regulatory authorities, financial institutions and consumer protection authorities) on the issue of over-indebtedness.** As the survey has shown, several groups of individuals and lending institutions are part of the issue and are interconnected. For example, current long-repayment periods, while good for the

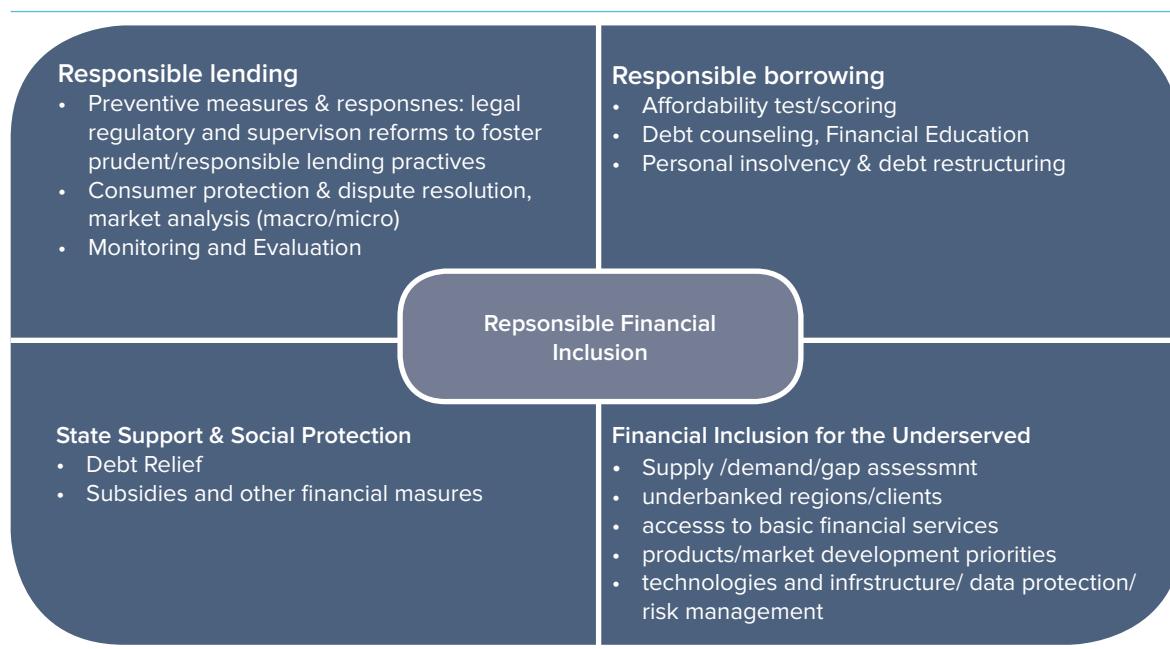
bottom line of the banks, might create difficulties for the regulator and consumer protection agencies to monitor the real extent of over-indebtedness. Furthermore, an increase of lending by non-bank institutions could deteriorate the situation of banks due to the common practice of borrowing from multiple lenders. Thus, only once all stakeholders agree that this is an issue that needs to be tackled can solutions be found that are beneficial for everyone.

**Second, the potential impact of a worsening economic situation on debt affordability and the borrowers' capacity to repay their debts needs to be assessed further.** Additional research could help gain further understanding on the issue of over-indebtedness. This could cover focus group discussions with different borrower segments to gain greater understanding of budget pressures and actions. Or it could involve additional research into the lending practices of financial institutions to understand how much the affordability of debt for the borrower is considered in their credit decisions.

**Third, continued and reliable monitoring of the level of indebtedness is necessary.** As has been shown, the financial pressure is increasing and debt affordability is decreasing. Monitoring could cover an assessment of the current reporting processes of bank and non-bank lending institutions and determine the reliability, integrity, and consistency of the reported information. The situation is such that continued monitoring can help avoid an unmanageable situation where trust in the financial sector significantly deteriorates. Additionally, a focus of the regulator should be on periodic demand-side monitoring of over-indebtedness similar to the one provided in this report. This would complement the considerable range of supply-side data already available and would work as an additional alarm bell in case of a worsening borrowing environment.

**Fourth, the consistency of legal and regulatory supervision across the different types of lending institutions needs to be ensured.** While the report did not take a close look at the regulatory landscape, the survey responses showed that there might be considerable differences in the terms and structure of loans provided to individuals across the different types of institutions. A review of the scope and coverage of consistent regulation between similar types of loan products from different lending institutions might be prudent.

**Graphic 4. Responsible financial inclusion matrix**



**Tackling issues of over indebtedness can cover a broad range of activities and should be done in a holistic manner to achieve impact and sustainability (see graph below).** Several countries and governing authorities have also gone through issues of household over-indebtedness and these could guide the relevant Russian stakeholders in their approach towards dealing with over-indebtedness.

**In the aftermath of the 2008 financial crisis, the European Union identified a building block of six areas that might help deal with issues of over-indebtedness.** Three of them are preventive in nature and cover policies that a) increase financial capability, b) improve consumer protection and encourage responsible lending practices, and c) assist with debt and arrears management and help with debt resolution between lenders and borrowers. The other three are more alleviating in nature and focus on a) assistance and advice to consumers under financial pressure, b) provision of arbitration and other forms of debt resolution outside of the courts, and c) personal bankruptcy regulation (European Commission, 2008). Russian authorities and consumer protection agencies are already active in a range of these categories, but a continued effort to improve the lending environment is still necessary.

**The Russian authorities and consumer protection agencies have been actively working on all these building blocks in recent years.** The microfinance sector is facing increased regulation that is in line with international practice. Interest-rate caps and repayment ceilings are widely used. For example, the United Kingdom limits payday loans to 0.8 percent daily interest rate and a maximum repayment amount of 100 percent of the original loan amount. The similar combination of loan size and interest caps in Russia is a good sign and will help to avoid an increase in non-interest fees and charges. The new regulations will probably also lead to a further consolidation of the microfinance market and the CBR should closely watch who will fill this potential gap in borrower demand. Borrowers should not be allowed to turn to informal lenders formal and responsible lenders should be there to fill this gap. Comparing cross-country experience can nevertheless be challenging and the effect on the Russian market will have to be monitored closely. Additionally, in the area of financial literacy and consumer protection, much improvement has been achieved since 2012, and further work is ongoing. Nevertheless, room for improvement remain in the whole sector. Responsible borrowing and lending practices should be at the core of lending institutions in Russia. Evaluation of affordability guided by borrower cash flows, and training of staff in responsible borrowing and avoidance of over-indebtedness, can be key. Following are two examples that might help the regulator in this direction.

**In the case of Georgia, which has seen an increase of household debt in recent years, the National Bank of Georgia introduced a new retail lending directive based on principles of responsible lending.** Among other things, the directive sets a maximum acceptable payment-to-income ratio based on the total monthly net income of the borrower and limits the difference between monthly income and debt repayment to the national minimum wage. Furthermore, the directive limits the maximum maturity of loans based on their purpose. These were 15 years for mortgage loans, 10 years for renovations and secured consumer loans, 6 years for car loans and 4 years for all other types of loans. In light of the extensive repayment periods and financial pressure visible in Russia, this might be worth considering.

**Tackling the negative impact of payday lending can also help in mitigating the issue of multiple borrower over-indebtedness highlighted in the survey.** In recent years, the United Kingdom and its Financial Conduct Authority have introduced regulation increasing responsible lending practices within the British PDL sector. For example, in 2015, the payday lending market investigation order was introduced. It required online payday lenders to publish a detailed product description on at least

one price comparison website approved by the regulator, allowing the borrower to get a clearer understanding of the cost of borrowing and compare prices. This website would display the PDL loans by cost and loan duration and additional requirements to the website providers.<sup>27</sup> Combined with ongoing CBR regulations in the sector, this could prove beneficial in improving lending practices in the sector.

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<sup>27</sup> <https://bit.ly/2Yi4R29>



## VI. ANNEXES

### Annex 1: Collateralized Lending

The focus of the survey analysis has been mostly on the overall borrowing situation of non-collateralized lending. They were intentionally excluded to avoid any distortion of the analysis as a result of the overall difference in loan size between non-collateral bank loans to non-bank loans of around 700 percent. Nevertheless, as they account for 12 percent of all bank borrowers this annex will highlight and summarize some of the observations on collateralized lending.

**Table 13. Borrower income**

All Borrowers (complete financial data)	Income	Loan Repayments	Net Disposable Income (after Loan)	Average Individual Loan Balance
<b>Bank: All - With Collateral</b>	60,441	16,788	14,371	840,579
<b>Bank: All - No Collateral</b>	49,549	8,336	15,830	233,997
<b>Non-Bank All - with Collateral</b>	43,494	8,619	8,939	55,601
<b>Non-Bank All - no Collateral</b>	42,465	6,304	11,701	32,601

**Collateralized borrowers demonstrate a high-risk profile.** While this relates to a relatively small number of high-value debts within the survey sample, loan arrears are more pronounced with 12 percent of bank borrowers and 22 percent of non-bank borrowers compared to non-collateralized loans. Furthermore, despite the scale of their loans, 43 percent of collateralized bank borrowers and 49 percent of non-bank borrowers have applied for an additional loan within the last 12 months. This might imply that, as is the case for other bank borrowers, the loan was not issued based on the affordability of the loan to the borrower, but rather the fact that the loan is collateralized with an asset was driving the decision of the lending institution.

**Table 14. Debt repayment and the affordability of debt**

Borrowers: Collateral and Non-Collateral	Average Individual Loan Balance	Loan Arrears	My loan payments are more than I can afford	My household expenses have risen faster than income in the last 6 months	Have you refinanced, consolidate d your debts during the last 12 months	Have you applied for a loan in the last 12 months	If 'yes', has any lender refused to lend to you
<b>Bank: All - With Collat.</b>	840,579	12%	28%	58%	13%	43%	31%
<b>Bank: All - No Collat.</b>	233,997	9%	23%	61%	7%	35%	23%
<b>Non-Bank All - with collat.</b>	55,601	22%	32%	72%	21%	49%	48%
<b>Non-Bank All - no collat.</b>	32,601	7%	22%	64%	6%	37%	37%

**The impact of debt on daily life seems to be also more pronounced among collateralized borrowers.** Collateralized bank borrowers have taken on additional work to meet their debt obligation (35%) and have a greater recognition of the adverse impact of debt on family lifestyle. Forty-three percent report problems within the family as a result of existing debt. However, they show also a stronger favorable impact of debt upon the quality of life (68%). Collateralized non-bank borrowers show a much higher intensity of reaction to budget economies. This may reflect a perception that their lenders may be more likely to foreclose on the collateralized assets.

Table 15. Impact of debt

	Net Disposable Income (after Loan)	Food expenditure has been reduced to make loan repayment	I (or my spouse) have taken additional work to make loan repayment	I can afford to buy 'treats' for myself or my family	Loans improve the quality of life	Debt repayment cause problems within my family	I need to continue to borrow to maintain how my family and I live
<b>Bank: All - With Collateral</b>	14,371	36%	35%	52%	68%	43%	27%
<b>Bank: All - No Collat.</b>	15,830	35%	26%	51%	57%	33%	28%
<b>Non-Bank All - with collat.</b>	8,939	48%	27%	39%	46%	51%	43%
<b>Non-Bank All - no collat.</b>	11,701	32%	20%	43%	51%	33%	30%

**There also seems to be some underlying issues with collateralized borrowers in their attitude towards lending institutions.** Thirty-one percent of collateralized bank borrowers had difficulties with resolving debt problems with their lending institution, 6 percentage points higher than among non-collateralized borrowers. A further 39 percent would like help to resolve existing debt problems, compared to 29 percent of other bank borrowers. The same can be observed between non-bank collateralized and non-collateralized borrowers.

Table 16. Relationship with lending institutions

	When I drew my last loan, the lender knew what I could afford	When I took my last loan, the charges (interest and fees) were explained to me know how much I am paying	It is / was difficult to resolve debt problems with my lender	I would like help to resolve debt problems with my lending institution	It is better to borrow from only one institution, rather than to change lenders	Loans were easy to obtain
<b>Bank: All - With Collateral</b>	89%	90%	31%	39%	58%	60%
<b>Bank: All - No Collateral</b>	85%	87%	25%	29%	68%	66%
<b>Non-Bank All - with collat.</b>	74%	76%	34%	38%	60%	55%
<b>Non-Bank All - no collateral</b>	79%	84%	23%	28%	58%	61%

## Annex 2: Methodology and data comparison

The survey was conducted by the NAFI research center. Founded in 2006, the center is one of Russia's leading research companies specializing in the study of financial behavior, strategies and motivations of financial decisions of individuals and businesses.

NAFI is an experienced institute in a wide range of research methods, including face-to-face and telephone surveys, in-depth interviews, focus groups, mystery shopping, online surveys and desk research. It has worked with the World Bank Group and the IFC on several occasions.

The NAFI research center follows the international quality standards set by the largest professional associations and is a certified member of ESOMAR (European Society of Marketing Research Professionals) and AMKO (Association of Service Quality Monitoring Agencies). All stages of research data collection and processing are bound to comply with the ESOMAR Code of Market and Social Research, as well as with the national legislation of the countries under study.

The principal characteristics of the survey implementation were:

1. Survey interviews were undertaken in two time periods: i) March-April 2018 with 2,009 survey respondents; and ii) January-March 2019 with 2,004 survey respondents.
2. The survey was conducted in a total of 16 regions (eight in each tranche). The respective levels of responses were broadly similar, to ensure a wide range coverage in Russia, but do not reflect directly on the scale of the underlying market.
3. The survey covered and identified the profiles and characteristics of borrowers of a range of segments and sub-segments, with a specific focus on MFI borrowers.
4. Interviews were conducted in the form of face-to-face interviews.

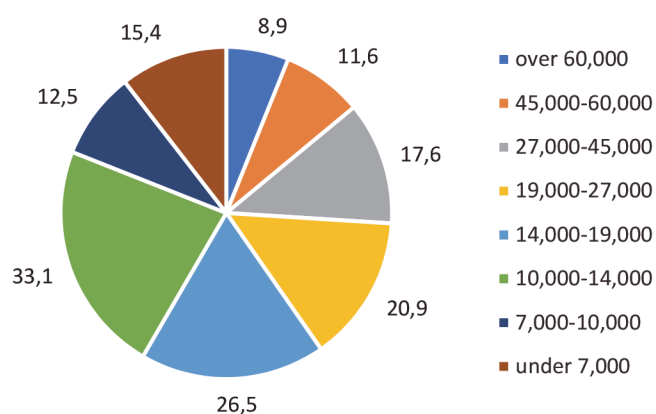
The table below provides more detail regarding the survey responses. As we can see, a significant level of individuals surveyed were unwilling or unable to provide full details of their income, expenditure and debt financial position. Thus, there are two major dimensions of the survey that should be noted:

1. The different time periods of the two tranches of response, with an intervening period of about 10 months; and
2. The lack of complete financial data from more than half of the respondents in both tranches of the survey.

Table 17. Borrower characteristics

Borrowers	Tranche 1		Tranche 2		Total	
	Total sample size	Complete Financial Data Sample	Total Sample Size	Complete Financial Data Sample	Total Sample Size	Complete Financial Data Sample
<b>Bank Only</b>	797	294: 37%	871	415: 48%	1668	709: 43%
<b>Bank + Other Lenders</b>	174	61:35%	276	159: 58%	450	220:49%
<b>Non-Bank</b>	730	311:43%	774	408:53%	1504	719:48%
Borrowers	Tranche 1		Tranche 2		Total	
	Total sample size	Complete Financial Data Sample	Total Sample Size	Complete Financial Data Sample	Total Sample Size	Complete Financial Data Sample
<b>Bank Borrowers: All: No Collateral: Household Income</b>						
<b>&lt;30,000</b>	144	64: 44%	251	146: 58%	395	210: 53%
<b>30,001-40,000</b>	132	64: 48%	177	107: 60%	309	171:55%
<b>40,001-50,000</b>	107	49:46%	141	83: 59%	248	132: 53%
<b>50,001-70,000</b>	125	59:47%	114	91: 80%	239	150: 63%
<b>&gt;70,000</b>	112	65: 58%	76	53: 70%	188	118: 63%
<b>Non-Bank Borrowers: All: No Collateral: Household Income</b>						
<b>&lt;30,000</b>	124	65: 52%	232	159: 69%	356	224: 63%
<b>30,001-40,000</b>	108	63: 58%	112	82: 73%	220	145: 66%
<b>40,001-50,000</b>	98	63: 64%	91	62: 68%	189	125: 66%
<b>50,001-70,000</b>	88	50:57%	69	50: 72%	157	100: 64%
<b>&gt;70,000</b>	62	32:52%	21	12: 57%	83	44:53%

Figure 47. Population by income group, in mil (2016)



Source: Rosstat

### Survey Interviews undertaken in two time periods

The two survey periods were broadly one year apart. While this might have resulted in a seasonal impact, the survey responses do not indicate this. Overall, they are broadly similar across the tranches, as seen in the tables below.

**Table 18. Comparison between the different survey cohorts**

Borrowers Tranche 1-2	Industry / Production	Production (Consumer)	Re- tail/ Trade	Hotels / Tourism / Restau- rants	Construc- tion / Real Estate	Service	Agricul- ture	Gov- ern- ment / Public Sector	Other
Bank: 1	12%	5%	21%	2%	8%	22%	2%	9%	13%
Bank:2	16%	5%	17%	2%	8%	21%	2%	13%	7%
Non-Bank: 1	11%	8%	17%	3%	15%	21%	2%	7%	10%
Non-Bank: 2	17%	3%	14%	2%	7%	24%	3%	6%	7%
Borrowers Tranche 1-2	Regular Work	Irregular Work	Self-em- ployed	Rent		State benefits	Other	None	
Bank: 1	78%	9%	10%	1%	15%		7%	1%	
Bank:2	78%	6%	10%	1%	15%		4%	1%	
Non-Bank: 1	68%	18%	9%	1%	11%		8%	3%	
Non-Bank: 2	64%	15%	8%	1%	15%		8%	4%	
Borrowers Tranche 1-2 Ruble	Household expenditure as % of Income		Utility expenditure as % of Income		Loan repayment as % of Income		Net Monthly Dispos- able Income		
Bank Only: 1	39%		11%		19%		31%		
Bank Only: 2	36%		13%		18%		32%		
Bank + Other Lender: 1	39%		13%		19%		29%		
Bank + Other Lender 2	40%		16%		20%		24%		
Non-Bank: 1	45%		14%		15%		26%		
Non-Bank: 2	40%		17%		16%		27%		

### Financial Data of Respondents

The levels of respondents' disclosure of financial data was shown at the beginning of this annex. Only 45 percent of borrowers provided their complete financial information during the survey. While this does not limit the significance of the data and the resulting findings, it nevertheless created constraints in the segmentation of the different borrower types and thus needs to be highlighted prior to the survey analysis.

**Table 19. Financial data comparison between the different survey cohorts**

Borrowers Tranche 1-2 Ruble	Income	Household costs	Utility costs	Net Disposable Income (pre-loan)	Loan Repayments	Net Disposable Income (after Loan)	Average Individual Loan Balance
<b>Bank: Complete: 1</b>	57241	22180	6641	28420	10860	17560	394855
<b>Bank: Complete: 2</b>	47600	17516	6747	23338	8954	14384	290912
<b>Bank: All: 1</b>	54504	21771	7479	25253	11163	28382	360595
<b>Bank: All: 2</b>	46379	17430	7050	21899	9063	23216	275425
<b>Non-Bank: Compl:1</b>	48894	21768	7013	20113	7236	12877	32974
<b>Non-Bank: Compl:1</b>	37768	15196	6263	16310	6053	10256	36882
<b>Non-Bank: All: 1</b>	51468	21224	7502	22742	7795	28669	33490
<b>Non-Bank: All: 2</b>	38058	15758	6569	15731	5964	18955	34402

Bank borrowers with complete financial data show a higher level of income than those with incomplete financial data. The net disposable income to be derived from all available data is consistently lower than that based upon respondents with full financial data. It may be that this indicates that those respondents with full financial data present a comparatively stronger financial position. Nevertheless, it is appropriate to undertake the financial assessment based only on those respondents who provided full financial information. However, the underlying financial position of borrowers may be less favorable than that shown by those respondents disclosing full financial data.

### ***Face-to-face formal interviews***

The report covered a total of 87 questions that were delivered during face-to-face interviews.

To ensure the highest quality, all interviewers were trained according to the rules of conducting interviews specifically for the project in question. Training the interviewers included clarifying survey goals and objectives, the peculiarities of interaction with the respondents, the rules of selecting respondents, the content of introductory conversations with respondents and conditions for obtaining their consent to the interviews, as well as instructions for completing the questionnaires. The interviewers carried out their duties strictly in accordance with a specially designed set of instructions, which clarified the details and peculiarities of the survey and stipulated an algorithm of required actions.

In addition, interviewers were trained on the terms related to financial literacy. The training module was accompanied with control options, which allowed the interviewers to demonstrate their competence during test interviews and briefings involving real case studies.

Each interviewer got a set of field documents: the name of the selected location; the instructions on selecting respondents' households; a route map; questionnaires, business cards with the name of the company, the interviewer, and the date of the interview.

### ***Validation of Data***

Chapter 5 has provided a considerable amount of information on existing borrowing data in Russia. This short note will compare some of the data made available by the survey respondents, specifically focusing on financial data available from other sources.

Table 20. Data Comparison

Data Source	Income	Average loan	Loan repayments	NPL banking	NPL MFI
Existing Data	42,750	234,000	23,400	8.1	43
Survey	47,487	201,736	8,322	10	8

Overall, the financial data collected aligns with existing reported data, as can be seen in the table above. Also, other data collected on attitudes towards the financial sector are broadly similar, such as 31 percent of Russians who say they do not have enough money (NAFI, 2018) compared to 41 percent of Russian who do not feel in control of their financial situation. Nevertheless, some outliers can be noticed. For example, the average loan repayment size reported in our survey was considerably smaller than that found in other studies, as well as the NPL rate for MFIs. The lower repayment amount might be a result of the higher number of MFIs borrowers within the survey. The lower NPL ratio for MFIs on the other hand might have been influenced by the fact that some of the poorest regions of Russia, where the financial situation of individual borrowers is worse, were not covered, thus painting a more favorable picture than reality.

Table 21. Detailed Comparison of External Data with Survey Responses

Dimension	External Data	Survey Responses	Comment
<b>Economic</b>	31% of Russians complain that they do not have enough money (2018) <i>Source: NAFI</i>	62% recognize expenses have risen faster than income in last 6 months 66% recognize that their friends have difficulty meeting domestic budget needs	Survey shows a significantly higher level of financial pressure
<b>Economic</b>	Regional levels of indebtedness: Low: North Caucasus, Volga, Southern High: Siberia, Ural and Far-Eastern, Tuva, Chuvashia <i>Source: All-Russia People's Front.</i>	Lowest: Rostov, Yaroslavl, Saratov, Volgograd oblast Highest: Kemerovo, Krasnodar krai, Respublika Tatarstan, Moscow	Survey indicates some consistencies, but not a perfect 'match', this might be a result of the smaller coverage of the WBG survey
<b>Domestic Budget</b>	36% of people saved in previous 12 months (2017), of which 25% saved at a state-owned bank (implied 9%) <i>Source: NAFI 2018</i>	Saving (greater than zero) in last month Bank: 27 % ... (17% < RUB 5,000 pm) Non-Bank: 17 % ... (12% < RUB 5,000 pm) Non-Borrowers: 40 % ... (20% < RUB 5,000 pm)	The difficulty with this type of issue is the interpretation of 'saving', particularly in relation to the duration for which the savings are held. The survey responses appear to be broadly consistent with the external commentary
<b>Domestic Budget</b>	Average monthly salary Rubles 42,750 (September 2018) <i>Source : Rosstat</i>	Survey : Rubles per months Household: 47,500 Individual: 28,600 Bank 51,300 30,300 Non-Bank 42,600 26,100 Non-Borrow 47,300 25,600	Survey indicates strong consistency <i>Note: survey is not weighted for geographical distribution</i>
<b>Bank Lending</b>	Outstanding loans : Rubles billions Bank mortgages 7,564 Bank auto 838 (9% of non-mortgages) Bank consumer 8,997 <i>Source : Raexpert</i>	Auto credit 17% of bank non-collateralized 12% of bank collateralized (based on usage of last loan funds)	Survey is broadly consistent

Dimension	External Data	Survey Responses	Comment
<b>Bank Lending</b>	Bank loan delinquency – retail : 9.7% Bank loan delinquency – mortgage: 1.0% <i>Source : Raexpert</i>	Bank loan arrears – overall: 10% Bank only – real estate collateral: 3%	Survey is strongly consistent
<b>Bank Lending</b>	Maturity structure of bank debt < 180 days ...0.25% 181 days – 1 year ...2.99 % years ...13.87 % > 3 years ...82.88 % Assumed to be all bank lending including mortgages and residual contractual maturity <i>Source: CBR</i>	Residual maturity structure: Bank borrowers Clients Non-Collat Collat < 6 months 20 % 10 % 6-12 mths 26 % 16 % '> 12 months 54 % 74 % Outstanding Debt Non-Collat Collat < 6 months 2 % 0 % 6-12 months 6 % 2 % '> 12 months 92 % 92 % <i>(based upon respondents with full financial data)</i> Survey real estate collateral debt shows 85% over 12 months, within which 78% is over 2 years This is based on the number of months required to repay current outstanding debt	Survey shows a shorter repayment profile than that indicated by external data. The external data may be impacted by contractual repayment periods of real estate mortgage lending (RUB 7.6 trillion) compared with consumer (RUB 9.8 trn) and other collateralized bank lending debt Note: It is a truism that the level of outstanding debt must necessarily be minimal for the short-term periods. <i>Note: Residual repayment periods in Russia are significantly longer than seen in other countries (based on WBG surveys)</i> Russia: Bank: Collateral 50 months Russia: Bank: Non-collateral 28 months Azerbaijan 2016 12 months Tajikistan 2016 10 months Bosnia 2014 22 months <i>Note: External data may be based on original maturity period.</i>
<b>Non-Bank Lending</b>	Total outstanding debt (2018) RUB 152 bn Non-bank borrowers = 6.43 m (2017), implies average debt RUB 23-25,000 <i>Source: Raexpert</i>	Non-bank: average outstanding indebtedness – Rubles MFI only 32,900 Payday only 32,000 For info Pawnbroker 33,700 Moneylender 44,500	Survey is consistent, assuming some increase in debt since data of external data <i>Note: external data relates to 2017-2018 – external data does not relate to pawnbroker and moneylender</i>
<b>Non-Bank Lending</b>	Market share: Rubles bn. Microfinance 87 bn ... 58 % Payday 34 bn ... 23 % Micro-business 29 bn ... 19 % <i>Source: Raexpert</i>	MFIs used by 53% of non-bank borrowers, compared with 11% using Payday lenders MFIs used by 10% of bank borrowers, compared with 1% using Payday lenders	Survey shows higher usage of MFI consumer loans compared with Payday debt
<b>Non-bank consumer microloan</b>	Average loan: RUB 10-50,000 Average term: 6-12 months Loan arrears 20-30 % <i>Source: Raexpert</i>	Average outstanding MFI consumer loan = RUB 32,900 (excl bank borrowers) Residual repayment period = 5 months Loan arrears = 10 % (excl bank) Loan arrears = 30 % (bank + MFI)	Survey is consistent.



Dimension	External Data	Survey Responses	Comment
<b>Payday Borrower</b>	Average age: 31-45 years Female: 65 % Loan higher than monthly income: 26 % <i>Source: NAFI (2018)</i>	Average age = 38.7 years Female = 39 % of borrowers Average Payday loan = RUB 32,000 (Payday only) against household income = RUB 45,400 within which 9% have a loan greater than monthly income (Payday loan borrowers only) but if all borrowers using Payday loans are assessed, then 11% of borrowers have outstanding indebtedness greater than monthly household income	Survey shows a different profile from that of the external data. <i>Note: the basis/definition of the respective data needs to be compared</i>
<b>Borrowing</b>	41% of adults borrowed (any money) during 2017 <i>Source: FINDEX</i>	Survey based on borrowers, not overall population	
<b>Borrowing</b>	Total loans to individuals amounted to Rubles 14.9 trillion (2019) involving 35.8 m individuals (2017) <i>Source: CBR, United Credit Bureau</i>	Survey showed that the average number of persons in household was c. 2.8, with an average of 0.8 dependents ... which implies about 2.0 adults in household – with an average of about 1.9 wage-earners in each household. The level of multiple borrowers in the household was 8.5%	
<b>Borrowing</b>	35.8 m individual borrowers, being 41.3% of the adult population, implies total adult population of 86.7m, which implies about 80% of households are borrowers <i>Implied from Source: United Credit Bureau</i>	The level of multiple borrowers in the household was 8.5%.	This indicates that the number of borrowers would not be substantially inflated by the incidence of multiple borrowers within a household.
<b>Borrowing</b>	Loan repayments accounted for an average of 10% of average household income <i>Source: All Russian Front</i>	Loan repayments as % of household income Bank only... 19 % Bank + other lenders 20 % Non-bank ... 15 %	Survey shows a significantly higher commitment. This difference is consistent with the longer repayment profile being shown by the external data (see above)
<b>Borrowing</b>	Average household indebtedness was Rubles 234,000 (September 2018) <i>Implied from Source: All Russian Front</i>	Average outstanding indebtedness: Rubles Bank only ... 356,600 Bank + other lenders ... 246,800 Non-bank ... 35,200  Bank - collateral ... 840,600 Bank – non-collateral ... 234,000	Survey shows broadly consistently responses and non-collateralized bank debt is strongly consistent. This is further supported by the high market penetration of bank lending shown by external data.

## Annex 3: Questionnaire

### CLIENT SURVEY - INDIVIDUAL

We would like to better understand about how you undertake loan repayments.  
All responses will remain confidential - No Personal Identification or Contact Details are requested

		Do you have loans with :				If Yes, how many in each currency		
		Yes, loan(s) for personal needs	Yes, loan(s) for business	Not now, but in last 2 years	Never	RUB	FX	
<b>1-2</b>	<b>Loan Identification</b> (All Respondents)							
Q.1a	Commercial bank					Q.1a		
Q.1b	Microfinance Institution					Q.1b		
Q.2a	Internet-based / Payday Loan Provider					Q.2a		
Q.2b	Pawnshop					Q.2b		
Q.2c	Individual Moneylender					Q.2c		
<b>3-9</b>	<b>Please tell us about yourself :</b> (All Respondents)							
Q.3	Gender : Male <input type="checkbox"/> Female <input type="checkbox"/>	Q.4				Age : <input type="text"/>		
Q.5	Number of people in household (inc. respondent) <input type="text"/>	Q.6				Number of dependents <input type="text"/>		
Q.7	Marital Status Married <input type="checkbox"/> Single <input type="checkbox"/> Widow/Widower <input type="checkbox"/> Divorced <input type="checkbox"/>							
Q.8	Where do you live : City / Town (>1million) <input type="checkbox"/> Town (100-999 thousand) <input type="checkbox"/> Town (<100 thousand) <input type="checkbox"/> Rural (<100 thousand) <input type="checkbox"/>							
Q.9	How long have you lived in this neighbourhood years <input type="text"/>							
<b>10-13</b>	<b>Income</b> (All Respondents)							
Q.10	What is the source of your income : Regular work <input type="checkbox"/> Irregular work <input type="checkbox"/> Self-Employed / Own Business: Income <input type="checkbox"/> Rent <input type="checkbox"/> Pensions/ State benefits <input type="checkbox"/> Other inc. occasional sales and social subsidies <input type="checkbox"/> None or Unemployed <input type="checkbox"/>							
Q.11	In which sector(s) do you earn your income (Tick any which apply) Industry / Production <input type="checkbox"/> Production (Consumer Food and Goods) <input type="checkbox"/> Retail / Trade <input type="checkbox"/> Hotels / Tourism / Restaurants <input type="checkbox"/> Construction / Real Estate <input type="checkbox"/> Service <input type="checkbox"/> Agriculture <input type="checkbox"/> Government / Public Sector <input type="checkbox"/> Other <input type="checkbox"/>							
Q.12	How would you describe the receipt of your income payments (Tick any which apply) From employer by bank transfer <input type="checkbox"/> From employer by cash <input type="checkbox"/> Income from social subsidies <input type="checkbox"/> Occasional or irregular payments <input type="checkbox"/> Income from self-employed/own business <input type="checkbox"/>							
Q.13	How many people earn income in your household (Please enter number)	<input type="text"/>						
<b>14-25</b>	<b>Household Budget</b> (All Respondents)							
Q.14a	How much is the average total monthly income into your household budget	RUB	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	
Q.14b	How much is your own individual average total monthly income	RUB	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	
Q.15	How much do you spend each month (on average) on total household food and household expenditure	RUB	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	
Q.16a	How much do you spend each month (on average) on total household gas, electricity, water, rent, garbage collect	RUB	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	
Q.16b	How much do you spend each month (on average) on total household telephone and internet services	RUB	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	
Q.17	Do you have any payment arrears with any of electricity, gas, water, or housing costs	Yes <input type="checkbox"/> No <input type="checkbox"/>						
Do you have loans from other sources		Yes, loan outstanding	Not now, but in last 2 years	Never				
Q.18	Family	<input type="text"/>	<input type="text"/>	<input type="text"/>				
Q.19	Friends	<input type="text"/>	<input type="text"/>	<input type="text"/>				
Q.20	Retail shop (not banks) : to purchase higher-value assets (such as car, washer, refrigerator)	<input type="text"/>	<input type="text"/>	<input type="text"/>				
Q.21	Retail shop (not banks) : to obtain normal domestic items (such as food, personal items, household needs)	<input type="text"/>	<input type="text"/>	<input type="text"/>				
Q.22	loans or purchase on credit or installment purchase (pokupki v credit ili rassrochku)	<input type="text"/>	<input type="text"/>	<input type="text"/>				
Q.23	Construction Company : purchase of apartment or land	<input type="text"/>	<input type="text"/>	<input type="text"/>				
Q.24	Employer	<input type="text"/>	<input type="text"/>	<input type="text"/>				
Q.25	Other	<input type="text"/>	<input type="text"/>	<input type="text"/>				

**26-38** Lifestyle*(All Respondents)*

Did any of the the following situations happen to you in the last six months

*(Please tick all which apply)*

	Yes	No		Yes	No
Q.26 I lost my job	<input type="checkbox"/>	<input type="checkbox"/>	Q.27 My business was not successful	<input type="checkbox"/>	<input type="checkbox"/>
Q.28 My spouse lost his/her job	<input type="checkbox"/>	<input type="checkbox"/>	Q.29 I had to sell a major asset to repay a loan	<input type="checkbox"/>	<input type="checkbox"/>
Q.30 Major illness of self or family	<input type="checkbox"/>	<input type="checkbox"/>	Q.31 Support from family members stopped , or reduced	<input type="checkbox"/>	<input type="checkbox"/>

We would like to know how much you agree with the following statements

Strongly Agree

Agree

Disagree

Strongly Disagree

Do Not Know /  
No Opinion

	Strongly Agree	Agree	Disagree	Strongly Disagree	Do Not Know / No Opinion
Q.32 My financial situation has improved in the last 6 months	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Q.33 I feel in control of my financial situation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Q.34 My children will have a better life than me.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Q.35 My household expenses have risen faster than income in the last 6 months	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Q.36 The quality of my life has improved in the last 12 months	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Q.37 I can afford to buy 'treats' for myself or my family	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Q.38 Most of my friends have difficulties meeting their domestic budget needs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**39-43** Loan Dimensions*(Current and Former Borrowers)*

Please tell us about your loan(s)

Q.39 What type(s) of loan do you use now and in which currency

*(Please tick all which apply)*

RUB

FX

- Business loan
- Agricultural loan
- Consumer loan
- Instalment loan
- Auto credit
- Overdraft
- Mortgage loan : house, apartment, land for house construction
- Health or education loan
- Credit card
- Payday loan

<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>

Q.40 What was the main reason(s) for your last loan and your next loan

Last loan

Next loan

*(Mark up to two reasons)*

- Business : Investment
- Business : Working capital
- Individual : Domestic daily expenditures
- Individual : Household appliances (such as TV, refrigerator, )
- Individual : Housing improvement (remont)
- Individual : Autocredit
- Mortgage loan : house, apartment, land for house construction
- Domestic : Health or education
- Domestic : Holiday or travel or family event
- Repay / increase existing loan

<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>

Q.41 During the last 2 years, how many loans have you taken

Enter number

Q.42 How many lenders have you used for these loans

Enter number

Q.43 How many guarantees/collateral have you given to support debts of other people which are still outstanding

Enter number

<input type="text"/>	<input type="text"/>
<input type="text"/>	<input type="text"/>
<input type="text"/>	<input type="text"/>

**44-62 Loan Dimensions (Current Borrowers)** Please tell us about your loan(s)

**Q.44** Total amount outstanding of all loans individual respondent RUB

**Q.45** How much is total monthly repayments for (include MFIs, banks, house mortgage) RUB

**Q.46** Total amount outstanding of all loans total household RUB

**Q.47** How much is total monthly repayments for total household loans RUB

**Q.48** Have you pledged any assets as collateral to secure your loan ☐ Yes ☐ No

**Q.49** If 'yes', which collateral was provided (please tick all which apply)

Business ☐ Residential ☐ Business ☐ Domestic ☐ Vehicle ☐ Guarantee ☐ Jewellery ☐

Property ☐ Property ☐ Equipment ☐ Asset(s) ☐

**The following questions (Q.48-61) relate only to borrowings by the individual respondent**

**Q.50** Is any of your loan indebtedness (Q.43) outstanding in a currency which is not Russian RUB ☐ Yes ☐ No

**Q.51** If 'Yes' (Q.50), what is the foreign currency loan balance US\$  Euro  Other  Amount

**Q.52** If 'Yes' (Q.50), did the lending institution explain the risks of exchange rate changes to you ☐ Yes ☐ No

**Q.53** Are any of your loan payments in arrears or not fully up-to-date ☐ Yes ☐ No

**Q.54** Have you extended the maturity, or refinanced / consolidated any of your debts during the last 12 months ☐ Yes ☐ No

**Q.55** If Yes (Q.54), after the revision of the loan terms, was the amount of the loan indebtedness Higher  Lower  Same

**Q.56** Have you applied for a loan in the last 12 months ☐ Yes ☐ No

**Q.57** Has any lender refused to lend to you in the last 12 months ☐ Yes ☐ No

**Q.58** Do your family or friends owe you in total more than RUB 3000 ☐ Yes ☐ No

**Q.59** How long ago did you take out your last loan Within  1 month  1 - 3 months  4 - 6 months  7 - 12 months  Over 12 months  Cannot remember

**Q.60** Compared with 12 months ago your present total loans are Much  Higher  The Same  Less  Much Less

**Q.61** After the next 12 months, do you expect your debt level to be Much  Higher  The Same  Less  Much Less

**Q.62** Who undertakes the loans in your family Only you ☐ Only your spouse ☐ You ☐ Your spouse jointly ☐ Both of you ☐ Other Family ☐ No one ☐

(Tick applicable boxes)

**63-70 Lending Institution (All Respondents)** When you think about lending institutions, how much do you agree with the following statements

Strongly Agree Agree Disagree Strongly Disagree Do Not Know / No Opinion

**Q.63** Clients are treated with respect ☐ ☐ ☐ ☐ ☐

**Q.64** The institutions respond well to people with repayment problems ☐ ☐ ☐ ☐ ☐

**Q.65** Lending institutions are trustworthy ☐ ☐ ☐ ☐ ☐

**Q.66** Lending institutions seek to improve the lives of its clients ☐ ☐ ☐ ☐ ☐

**Q.67** Lending institutions act with integrity (honesty, probity, rectitude) ☐ ☐ ☐ ☐ ☐

**Q.68** Lending institutions understand customers' needs ☐ ☐ ☐ ☐ ☐

**Q.69** Lending institutions explain the terms and obligations of the loan ☐ ☐ ☐ ☐ ☐

**Q.70** Lending institutions want to lend to people like me ☐ ☐ ☐ ☐ ☐

**71-84 We would like to know your opinion, and how much you agree with the following statements (Current and Former Borrowers)**

Strongly Agree Agree Disagree Strongly Disagree Do Not Know / No Opinion

**Q.71** Loans improve the quality of life ☐ ☐ ☐ ☐ ☐

**Q.72** When I took my last loan, the charges (interest and fees) were explained to me and I know how much I am paying ☐ ☐ ☐ ☐ ☐

**Q.73** I understand which type(s) of loan should be used for different needs ☐ ☐ ☐ ☐ ☐

**Q.74** Loans are easy to obtain ☐ ☐ ☐ ☐ ☐

**Q.75** I borrowed too much ☐ ☐ ☐ ☐ ☐

**Q.76** It is / was difficult to resolve debt problems with my lender ☐ ☐ ☐ ☐ ☐

**Q.77** Debt repayments cause problems within my family ☐ ☐ ☐ ☐ ☐

**Q.78** My loan repayments are / were more than I can afford ☐ ☐ ☐ ☐ ☐

**Q.79** I need / needed to continue to borrow to maintain how my family and I live ☐ ☐ ☐ ☐ ☐

**Q.80** I would like help to resolve debt problems with my lending institution ☐ ☐ ☐ ☐ ☐

**Q.81** It is better to borrow from only one institution, rather than to change lenders ☐ ☐ ☐ ☐ ☐

**Q.82** When I drew my last loan, the lender knew what I could afford ☐ ☐ ☐ ☐ ☐

**Q.83** Food expenditure has been reduced to make loan repayments Yes ☐ No ☐

**Q.84** I (or my spouse) have taken additional work to make loan repayments Yes ☐ No ☐

**85-86 We would like to know your attitudes towards saving. (All Respondents)**

**Q.85** How much do you save each month : national currency :RUB Nothing ☐ <5000 ☐ 5001-10000 ☐ 10001-20000 ☐ >20000 ☐

**Q.86** How much do you save each month : foreign currency :RUB equivalent Nothing ☐ <5000 ☐ 5000-10000 ☐ 10001-20000 ☐ >20000 ☐

**87-89 From which institution(s) have you borrowed in the last 2 years (Current and Former Borrowers)**

**Q.87** Commercial Bank Please name institution :

**Q.88** Microfinance Institution (MFI) Please name institution :

**Q.89** Non bank or MFI lenders (such as PayDay, Intenet, Pawnshops) Please name institution :

Thank you for participating in this survey - All answers will remain confidential and will be used for research purposes only. Sharing Personal Identification or Contact Details is optional

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