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The Outbreak of the Russian Banking Crisis: What a Surprise!

In the second half of 2008, the world has entered into the first recession since the Great Recession. The impact of the global financial crisis turned out to be much deeper than expected. The impact of the crisis on Russia did not only disclose the structural weaknesses of the Russian economy, such as the high dependence on the oil price. The crisis also put the banking system in severe distress. Actually, the Russian banks have been strongly influenced by the worldwide financial crisis. Large government interventions were needed to mitigate the effects of the financial crisis on the banking system, the currency and the general economy. These government measures provide evidence for the fact that the financial crisis in Russia was at least partially home-made. Especially small and medium sized banks were affected by the financial crisis and were basically cut off the interbank market. This was due to their weak deposit base, given the dominance of either state owned or controlled banks. In addition these banks had to rely on international borrowing which exposed them to the reversal in capital flows, triggered by the flight to quality of international investors. The Russian banking system therefore is in desperate need for restructuring. We estimate an early warning model for the Russian crisis. We identified 47 Russian banks which failed between September 2008 and beginning of 2009. Using the Bankscope data set, we show that balance sheet indicators were informative about possible failures of these banks as early as 2006. The results of the bank failure prediction model revealed that especially better capitalized banks have a lower probability of failure. In addition the results indicate that less liquid banks have a higher probability of failure and that the higher the profitability of a bank the lower is the probability that it will fail.