

# CURRENT STATE AND PROSPECTS OF LEASING FINANCE DEVELOPMENT IN RUSSIA

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**Abstract:** the history of Russian lease market, in essence, lasts near for 15 years: full of ups and downs. Nevertheless, the demand in leasing of some industries – railway and airline – saved market from the crisis and significant drop. Now, in conditions of economic crisis, Russian government try to support domestic lease market by subsidiaries, new reforms. Thus, Russian lease market will has the real possibility to maintain its investment attractiveness as well as effectiveness.

**Keywords:** Russian leasing market trends, leasing market perspectives, leasing reforms, leasing transactions, lessor, lessee.

## ТЕКУЩЕЕ СОСТОЯНИЕ И ПЕРСПЕКТИВЫ РАЗВИТИЯ ЛИЗИНГОВОГО ФИНАНСИРОВАНИЯ В РОССИИ Хорева И.В. (Российская Федерация)

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**Аннотация:** история лизингового рынка России, в сущности, насчитывает около 15 лет: полная взлетов и падений. Тем не менее, спрос на лизинг в таких отраслях как авиа и ж/д спасли рынок от кризиса и существенного падения. Сейчас, в условиях глобального экономического кризиса российское правительство старается поддержать внутренний лизинговый рынок путем субсидий, новых реформ. Поэтому лизинговый рынок России имеет реальную возможность сохранить свою инвестиционную привлекательность и эффективность.

**Ключевые слова:** тренды лизингового рынка России, перспективы лизингового рынка, лизинговые реформы, лизинговые транзакции, лизингодатель, лизингополучатель.

Due to the reduced demand for leasing services over the past two years, the volume of leasing business in Russia has fallen by 30% over the period from 2013 to 2015. As a result, by the volume of new business, the Russian market dropped from the 5th to the 11th place in the ranking of European leasing markets as of 01.01.2016. In the volume of Russia's GDP, the share of leasing business in 2015 was about 1%. Among European leasing markets in this indicator, Russia is comparable with Spain, Italy and Turkey (see Figure 1).

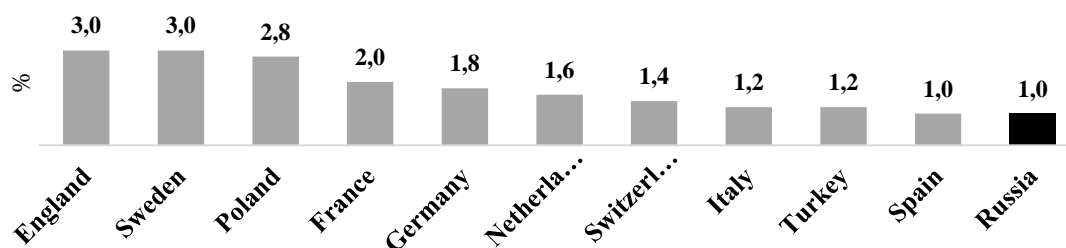


Fig. 1. Lease share in GDP of different countries, 2015

Because of weak ruble, the Russian leasing portfolio for the year 2015 in euros declined by 26%, which is the worst result among the largest leasing markets in Europe.

By the size of the portfolio (from 2013, the volume of the leasing portfolio is about 3 trillion rubles), the leasing segment is the second after the banking segment. However, the real importance of the leasing industry and its impact on the financial market was noted by the regulator after the collapse of Transaero, which was one of the key clients of the largest leasing companies.

According to RAEX report “Leasing Market Results for 9 Months 2016: Towards Reforms”, developed by JSC Expert RA company, for the last 9 months of 2016 there was a growth of lease business in Russia by 17% and this growth could be amounted to RUB 450 bln (+17% compared to 9 months of 2015). In the III quarter of

the cost of the property transferred in leasing was approximately 175 billion (previous year 140 billion), about 80% of which were in the top 20 leasing companies. So significant increase is associated with the low base effect of last year. In addition, the gradual stabilization in the Russian economy led to a partial recovery of the leasing market, who a year earlier reduced by 26% (Figure 2) [1].

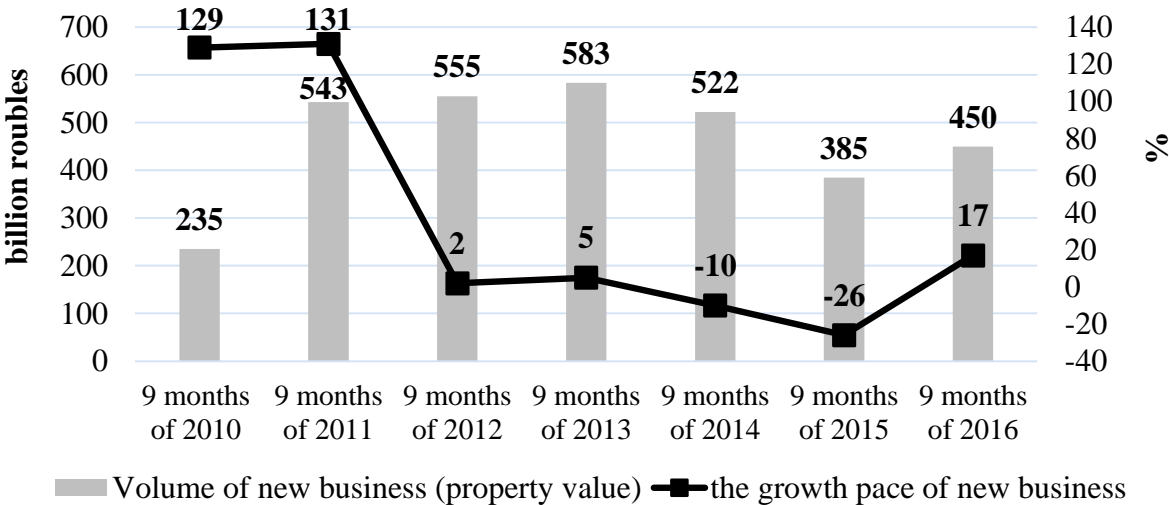


Fig. 2. Volume of Russian lease business in 2016

Thus, the amount of new lease contracts in January – September 2016 increased by 15% and amounted to about 680 billion rubles. The volume of leasing portfolio at 01.10.2016 was 2.9 trillion rubles, which corresponds to its level on 01.10.2015. The reasons for the continued stagnation of the portfolio are its inertness and disposal of major leasing contracts with problematic clients. In addition, the reorientation of leasing companies in retail segments with shorter-term trades than on large corporate contracts, does not allow to significantly increasing the total volume of the portfolio. In addition, despite the positive dynamics of financed vehicles (+38%), their volume in 2013 continues to yield to the volume of received leasing payments.

Thus, for the first 9 months of 2016, a market leader in terms of new business volume, as in the previous year, was the company "VTB Leasing". On the second line up "Public transport leasing company" (PTLC), which rate of growth of the leasing business in January – September of the current year was 69%. The third position, showing a small decline (-5%), took "Sberbank Leasing". Support to business leasing companies of the top 3 had transactions with aircraft. In total, the three largest companies account for about 36% of total new business (38% a year earlier).

Talking about the most perspective lease segments in Russia for foreign investors, quite important to mention trucks, passenger cars segments and aircraft – the biggest segments with largest volume of new business on the leasing market [1].

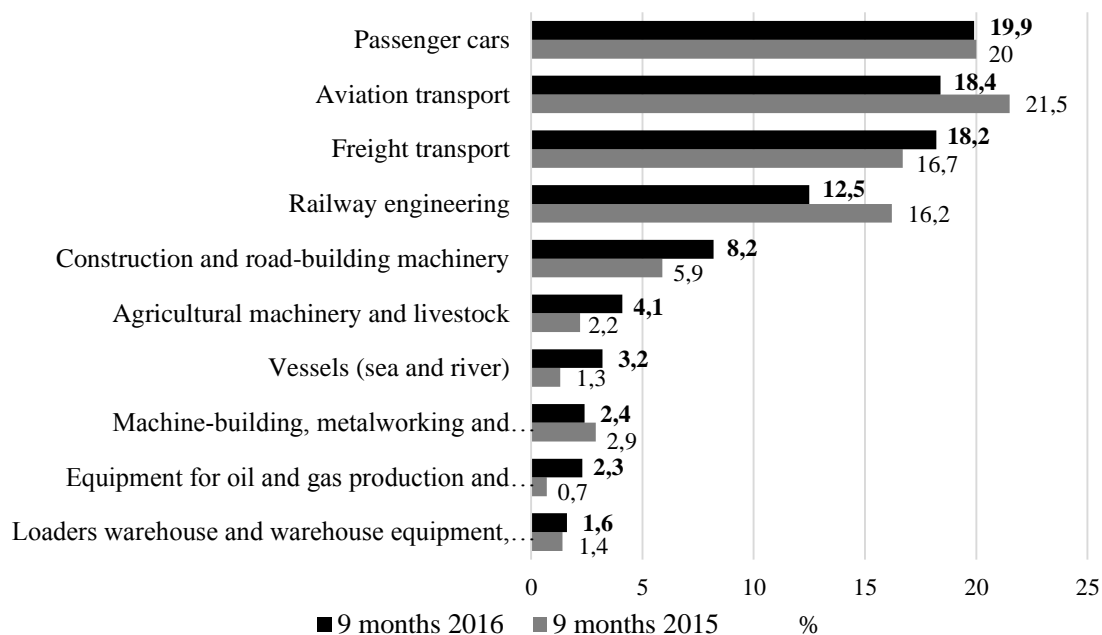


Fig. 3. Russian lease market by segments, 2015 - 2016

Since 2014, the segment of trucks and cars remains the largest in terms of new business in the leasing market. According to the results of 9 months of 2016, the share of auto leasing amounted to about 38% (a year earlier 37%) in the volume of property leased. In absolute terms, the auto segment grew by 21%, reaching 171 billion rubles. The state program on preferential car leasing had a positive effect on deals with cars.

The second segment in terms of the volume of new business was aircraft, the share of which in the market was 18 compared to 22% a year earlier. The concentration of air shipments at the largest companies is still high, with at least 50% of new business transferred to customers in operational leasing. Despite the increase in rental rates for rolling stock in 2016, the volume of new business with railway equipment in the 9 months of 2016 fell by 10%, and the share of railway machinery in the market decreased from 16 to 13% compared to 9 months of last year.

Significant increase (+ 64%) showed construction and road construction equipment, whose share in the volume of new business in January-September 2016 was about 8%. The segment of agricultural machinery (Figure 3) also showed a positive trend: its share in the market grew from 2 to 4%.

Talking about the perspective of Russian lease market development, very important take on a board changes and reforms, which are going to be introduce to native lease market (Figure 4).

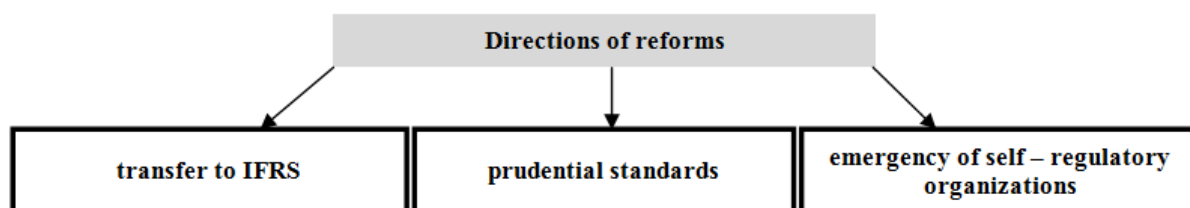


Fig. 4. Directions of Russian lease market reforms

Firstly, because of market reforms and changes in legislation, leasing in Russia can become an exceptional activity, which will be prohibited from combining any other. In addition to improving regulatory framework from 2019 companies will transition to IFRS reporting. However, preliminary there will be carried out by the Ministry of Finance of Russia the transfer of lessors to new RAS standards, harmonized with IFRS.

Secondly, the next stage after the introduction of IFRS in the market may be the introduction by the Bank of Russia of prudential standards. One of the most discussed and contradictory issue for lessors - capital adequacy (the ratio of the company's own funds to assets, weighted by the level of risk), since not for all companies a high level of sufficiency will be indicative. For a lessor with manufacturers, this indicator may not be appropriate because such companies, in fact, can be a separate unit for the sale of equipment to customers and not to attract market funding.

In our opinion, the liquidity ratios should become more indicative for leasing companies, since liquidity problems are one of the main reasons for the bankruptcy of lessors.

Thirdly, in the coming years, a significant change for the market will be the emergence of self-regulatory organizations, which will have an opportunity to develop industry standards, collecting reports, statistics and others. Similarly, the Bank of Russia has already entered the markets of microfinance organizations, NPFs, insurance and management companies.

Positive impact on the market will be the transfer of lessors to IFRS reporting, which gives a more objective view of the company's leasing activity than RAS. The introduction of IFRS will increase the attractiveness of the leasing industry for potential investors. So, increasing transparency of the industry will promote more active use of the leasing mechanism in the framework of state programs on economic development.

According to the study of RAEX agency for 9 months of leasing companies the second consecutive year, the main negative factor for the market remain high interest rates on loans. The second position, as in the previous year, is the lack of solvent "quality" customers. The three key challenges also included the lack of the lessors debt financing in sufficient volume, and the fourth relevance was the lack of funding with long-term. The devaluation of the ruble, which led to the failure of customers from expensive foreign equipment, and now ranks fifth (previous year third) among the negative factors.

In general, reforming the market with involvement of leasing companies in this process should increase the competitiveness of leasing, which now loses significantly to the loan.

Nevertheless, there is the positive dynamics of the leasing market will continue in 2017, with auto leasing still the market leader [1]. Despite the completion of the state program for preferential car leasing, partial implementation of deferred demand can prevent a strong decline in the volume of leasing transactions with cars. After four years of reduction, the rail segment may stabilize or even become a small plus because of further decommissioning of the cars, as well as growth in loading on the Russian Railways network.

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