Blog

Cracks in the wall (of Russian banking sector)

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International observers have been making increasingly alarmed comments about the Russian banking sector in recent months. What is behind these concerns, and could emerging vulnerabilities lead to a genuine crisis?

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- Western sanctions have isolated Russian finance, leading to the development of alternative systems like SPFS and Mir, increased reliance on non-Western currencies, and heightened domestic credit growth due to limited foreign investment opportunities.
- Domestic financial vulnerabilities are emerging, with rising non-performing loans and the need for recapitalization in banks, which could result in reduced lending and slower domestic investment.
- The Russian banking sector faces liquidity challenges due to increased cash demand and constrained international funding, potentially impacting government financing and indicating a need for a possible central bank intervention to manage inflation and fiscal deficits.

Western sanctions reshape Russian finance

Following Russia's full-scale invasion of Ukraine in February 2022, Russian financial markets have been left isolated from the rest of the world. Alongside the Central Bank of Russia (CBR), an increasing number of Russian banks have lost their access to the SWIFT messaging network, dollar and euro clearing and funding, as well as had their assets abroad frozen. International portfolio investment has all but disappeared.[1] Russia has responded by building its own parallel payments system based on the domestic SPFS messaging system, the Mir payment card scheme and a web of intermediaries that use yuan, rubles, dirhams and, increasingly, stablecoins. The state bank for military procurement, Promsvyazbank (PZB), has become the central operator for the ruble-backed A7A5 stablecoin created in 2024.

As the current account remained positive and sanctions complicated investment abroad, domestic banks benefited from a steady increase in customer funds. This increase in funding, coupled with government interest-subsidy programmes, fuelled a credit boom in 2023–2025. Corporate debt have grown since the end of 2021 by roughly 100 % and household debt by about 50 %. Corporate exposure to foreign debt and forex-denominated lending declined significantly in the same period.

Limits to lending increasingly clear

Even as the external vulnerabilities of the banking sector have receded, domestic vulnerabilities have become more pronounced. Since the second half of 2025, lower economic growth, increased tax rates and higher borrowing costs have weighed on corporate performance, a change that threatens to degrade the quality of bank loan books.

While some banks already sit on large piles of bad and restructured loans, the average share of non-performing corporate loans across the sector is still below 4 % and the broader "problem loan" category still under 12 % of the total corporate loan book. Given Russia's history, these are not alarming levels.[2] However, the volume of bad loans is increasing (up 13 % yoy in June 2026), and restructured loans are not always reflected in the aggregate figures released by the CBR. For example, Sberbank, Russia's largest bank, reported that impaired loans rose from 4.8 % to 5.5 % of its total loan portfolio between the first and second quarters of 2026. Sberbank CEO German Gref said in July that the bank's credit committee had "effectively turned into a committee on problem assets, now focused primarily on loan restructurings."[3] With corporate bankruptcies on the rise, this problem is unlikely to disappear anytime soon.

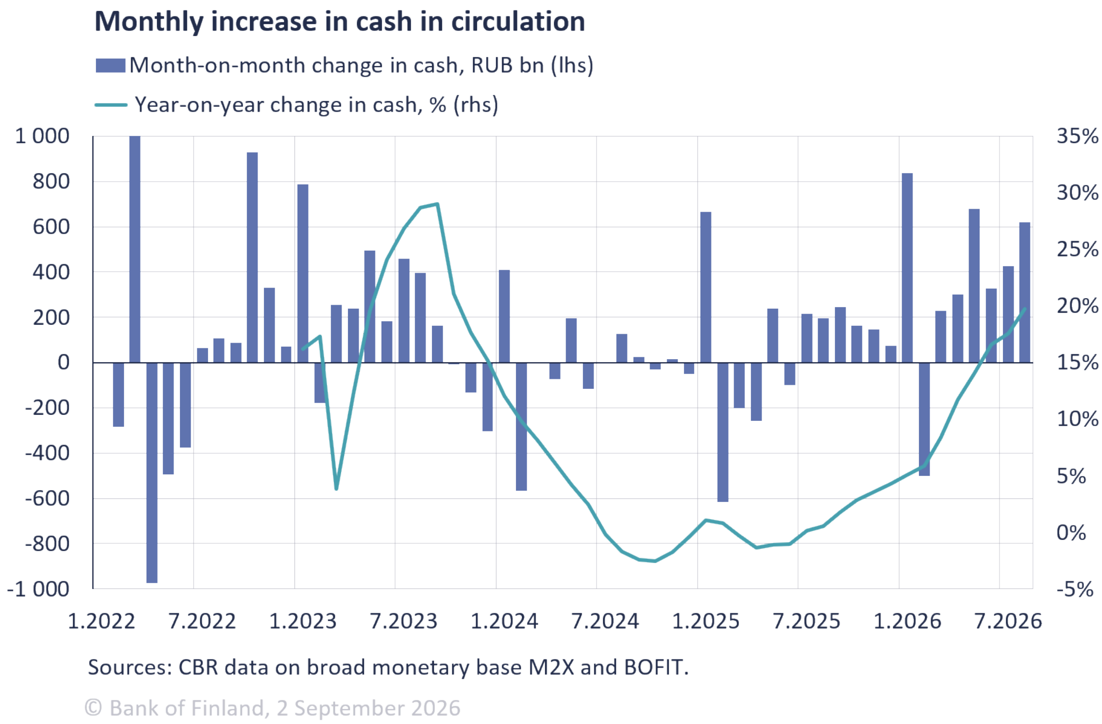
To cope with rising bad loans and the required loan-loss provisions, some banks may need to raise additional capital. Banks typically rely on retained earnings or owners' pockets to recapitalise. Large banks may also issue shares through secondary public offerings. So far banking sector profitability remains at comfortable levels, but market funding or investments from the National Wealth Fund could become increasingly difficult to arrange. In April 2026, Andrei Kostin, CEO of state-owned VTB Bank, said that VTB would need roughly 700 billion rubles (7 billion euros) in new capital over the next three years — on top of the 1.7 trillion rubles (17 billion euros) he mentioned last year.[4] Even without taking these figures literally, it is clear that the recapitalisation needs of Russian banks have grown. Banks that cannot recapitalise must cut back on their lending. Such a shift would inevitably slow domestic investment, but in itself is unlikely to precipitate an acute crisis.

New challenges emerge

Right now, the banking sector appears to be facing a new challenge. Demand for cash has increased significantly this year, and data for April and July indicate exceptionally large spikes in cash demand. The increase has been attributed to e.g. rising uncertainty and greater tax evasion. At the same time, growth in customer deposits has decelerated. Occasional rumours about the confiscation of bank deposits naturally erodes trust in banks. However, the increases in cash demand are nowhere close to the levels seen in February or September 2022. Nevertheless, the current trend is worrisome if it continues. Since international funding is unavailable, the options for smoothing liquidity shortages are limited. Tighter liquidity means less lending.

Large systemically important banks appear to be short of the liquidity needed to both fund their retail customers and invest in new government ruble bonds. As a result, government bond auctions were cancelled in late July. In an unusually candid interview, Sberbank CFO Taras Skvortsov conceded that Russian banks "have only enough funds to lend to customers" and lack the liquidity to buy government bonds (OFZs).[5] Given the widening federal budget deficit and restricted access to any other funding sources,[6] this sounds deeply worrying.

Chart 1.



Underlying data of Chart 1 is available at Central Bank of Russia.

Acute crisis is avoidable

The combined impact of these shifts could lead into much lower credit growth going forward, with a high likelihood that customers who rely on market-based bank lending feel the squeeze first. Government-supported mortgage lending and corporates that enjoy preferential loan terms may increasingly crowd out other lending.[7] This misallocation of credit is likely to harm Russia's long-term growth potential.

A key macroeconomic challenge right now is the restarting the OFZ issues, not a potential crisis ignited by sudden bank runs. To finance the federal government budget deficit, someone in the financial system must step up and acquire a sizable amount of government bonds. And if that someone is not Russia's (mainly state-owned) systemically important banks, responsibility falls to the central bank as lender of last resort. Such a move would further complicate CBR's task to bring down inflation.

Keywords

banking sector, Russia, sanctions