

“BRICS BANKING: REVIEW OF SIGNIFICANT BANKING OPERATIONS”

Praveen Kumar¹, Guru Prasad Rao Y.² and Sandeep S Shenoy³

¹ Assistant Professor, Department of Commerce, Manipal Academy of Higher Education (MAHE), Manipal, India

² Assistant Professor (Sr. Scale), Department of Commerce, Manipal Academy of Higher Education (MAHE), Manipal, India

³ Head of the Department, Department of Commerce, Manipal Academy of Higher Education (MAHE), Manipal, India

* Corresponding Author

1. INTRODUCTION

The acronym BRIC stands for Brazil, Russia, India, and China. The term was coined by the Chief Economist of Goldman Sachs, in 2001, in a paper titled ‘Building Better Global Economic BRICs’, which looked at the growth prospects of the four largest emerging economies that are culturally and geographically disparate. In 2009, BRIC countries held their first summit. In 2010, South Africa asked to join and was invited – thus transforming BRICs into BRICS. (Source: <https://www.weforum.org/agenda/2015/07/five-questions-about-the-brics-nations/>)

BRICS have acquired a vital role in the world economy as producers of goods and services, receivers of capital, and as potential consumer markets. The BRICS economies have been identified as some of the fastest growing countries and the engines of the global recovery process, which underscores the changed role of these economies. Even in the G-20 countries’ forum, BRICS are playing a formidable role in shaping macroeconomic policy after the recent financial crisis. At present, these five countries encompass over 40 per cent of the world’s population and account for nearly 25 per cent of total global GDP in terms of PPP. If one compares the GDP in PPP terms, four economies figure among the top ten i.e., China, India, Russia and Brazil. (Source: **BRICS REPORT 2011**).

In 2015, BRICS countries accounted for a total nominal GDP of 16.92 trillion, equivalent to 23.1% of world GDP. Their territories are home to 3.073 billion inhabitants (53.4% of the population). (Source: <http://brics.itamaraty.gov.br/about-brics/economic-data>)

It is widely perceived that over the next few decades the growth generated by the largest developing countries, particularly the BRICS, could become a much more significant force in the world economy. Among the BRICS, India and Brazil are relatively more domestic demand-driven economies. As a group, they witnessed faster economic recovery from the 2008 financial crisis than advanced and other emerging market economies (EMEs). Although they have strong external linkages, they have nonetheless undergone significant rebalancing of their economies towards their domestic sectors in the post-crisis period.

According to an estimate by Goldman Sachs, the four original BRIC countries are expected to represent 47 per cent of global GDP by 2050, which would dramatically change the list of the world’s 10 largest economies. The inherent strength of the BRICS emanates from strong domestic demand-based economies in the case of India and Brazil and the significant outward linkages of China and Russia. South Africa benefits from its large resource base and proximity to untapped growth potential of the African continent.

The salient features of the BRICS economies are their large geographical dimensions and size of population. It is widely perceived that all the BRICS markets have great potential for establishing the most stabilizing of forces, that is, a prosperous middle class. This middle-income group in each country is growing at varying rates but the future direction is clear, that is, the middle class will both broaden and deepen, providing a solid base for the growth and development of the economies.

India has hosted the 8th BRICS Summit during its Chairmanship which took place as scheduled on 15-16 October 2016 in Goa. The theme of India's BRICS Chairmanship is **B**uilding **R**esponsive, **I**nclusive and **C**ollective Solutions.

2. RESEARCH METHODOLOGY

2.1. Research Objectives

- (i) To understand the concept of BRICS and their contribution to Global Economy.

Country ↕	Population ↕	Nom. GDP mil. USD (2015) ^[48] ↕	PPP GDP mil. USD (2015) ^[48] ↕	Nom. GDP per capita USD (2015) ^[48] ↕	PPP GDP per capita USD (2015) ^[48] ↕	GDP Growth (2015) ↕	Foreign Exchange Reserves (2015) ↕
 Brazil	204,451,000	1,799.6 Tr	3,207.9 Tr	8,802	15,690	▼-3.5%	\$362,744 bn
 Russia	140,975,920	1,205.9 Tr	3,470.0 Tr	8,447	20,744	▼-2.7%	\$350,500 bn
 India	1,276,267,000	2,182.6 Tr	8,027.0 Tr	1,688	6,209	▲7.5%	\$352,131 bn
 China	1,376,049,000	11,384.8 Tr	19,510.0 Tr	8,280	14,190	▲6.8%	\$3,899,285 bn
 South Africa	54,956,900	317.3 Bn	724.0 Bn	5,784	13,197	▲1%	\$47,190 bn

- (ii) To study banking operations of BRICS nations with respect to specific parameters (Number of Banks; Financial Literacy; Technological Development in Banking Activity; Retail Loan Growth and Non-Performing Loans).

2.2. Data Source

- (i) This study is based on secondary research, with detailed review of articles and reports published in the BRICS Annual Conference Proceedings and the Reports and Statistics published by Banking Regulators of the BRICS Nations.

2.3. Scope of the Study

The scope of this study is limited to the banking industry of BRICS Nations.

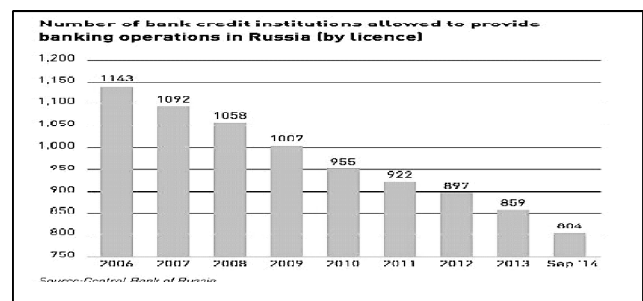
3. DATA ANALYSIS WITH REFERENCE TO SPECIFIC PARAMETERS

BRAZIL: There are about 50 large banks in Brazil in terms of total assets. Banco da Brasil is the largest bank in the country and in Latin America. The top 5 banks of

Brazil comprise of Banco do Brazil, Itau Unibanco, Bradesco, Caixa Economica and Santander.

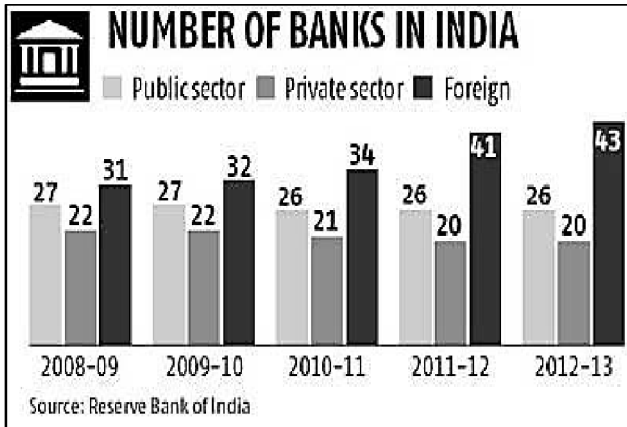
Russia

Interpretation: From the figure above it is observed that there has been a sharp decline in the number of players in the Russian banking industry as a result of economic instability, Sanctions and the Crimean crisis.



India

Interpretation: The above figure shows that the Indian banking industry comprises of a good mix of Public, Private and Foreign players. It also indicates uniform and



steady growth of foreign institutions in the country as the result of a dynamic approach of the Regulatory authority and government alike

China

The People's Bank of China was the central bank and the foundation of the banking system. PBOC has full autonomy in applying the monetary instruments, including setting interest rate for commercial banks and trading in government bonds.

More than 100 commercial banks has been established, all of which are profit-oriented.

Leading these banks, there are four big state-owned commercial banks, including the Bank of China (BOC), the China Construction Bank (CCB), the Agricultural Bank of China (ABC), and the Industrial and Commercial Bank of China (ICBC).

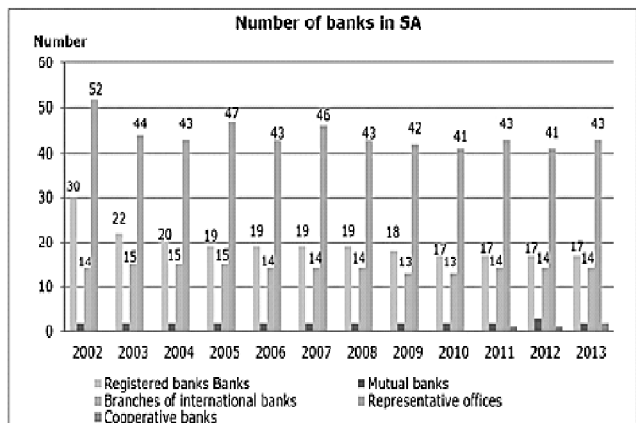
The Chinese banking industry also comprises of the Big Four -

- The Industrial & Commerce Bank of China (ICBC)
- The Bank of China (BOC)
- The China Construction Bank (CCB)
- The Agriculture Bank of China (ABC)

South Africa

Interpretation: The above Figure indicates that the South African banking industry enjoys a fair share of national and international players, which reflects that the economy has fared well over the past few years. Although

Figure 1 - Number of banks in SA

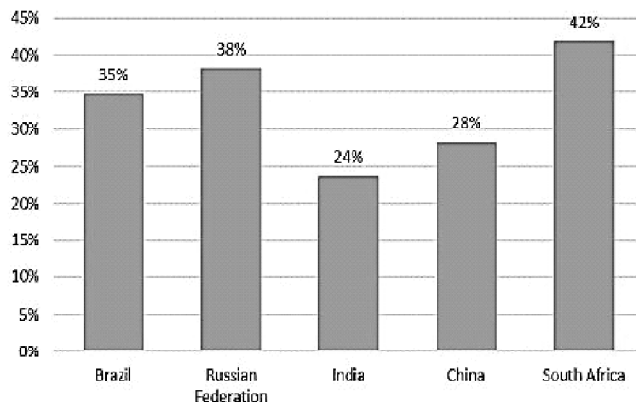


Source: SA Reserve Bank

there has been a decrease in the number of registered banks, the International banks have maintained their consistency in terms of presence. It also shows a pattern in which the Central bank and the government have tried to consolidate the banking industry and promote a synthesis of national and international players for the benefit of the banking public.

Financial Literacy in Brics Nations

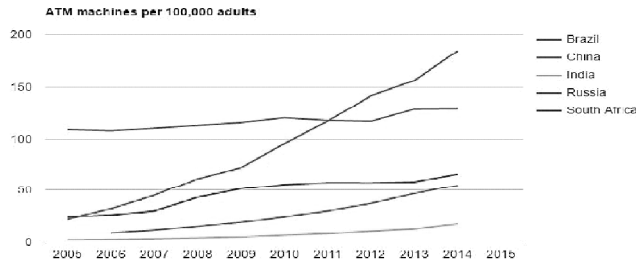
Interpretation: From figure, it can be inferred that the highest financial literacy exists in South Africa with 42% of the population covered, whereas the Russian federation and Brazil are moving at consistent rates of 38% and 35% respectively. It is observed that two of the most ambitious and fast growing economies i.e. China and India are way below the other three countries at 28% and 24%



respectively. This also shows that China and India have a long way to go in terms of attaining a good score in Financial Literacy in spite of their booming economies.

Technological Advancement in Brics Nations

Interpretation: Figure 4.4 is a comparison of the ATM MACHINES per 100,000 adults in BRICS nations, which gives us a brief overview of the technological advancements in their banking industry.



Source: TheGlobalEconomy.com, World Bank

On data analysis of the following nations we can clearly interpret that Brazil is consistent in terms of adopting technical advances over the past 10 years in its banking industry, on the other hand Russia has shown a steady increase in adopting technological advancement and exposing its population to the same. India being a bustling economy, has shockingly shown very less inclination towards the adoption of technical advancements in its banking industry and has a long way to go in terms of equipping its banked public with newer facilities.

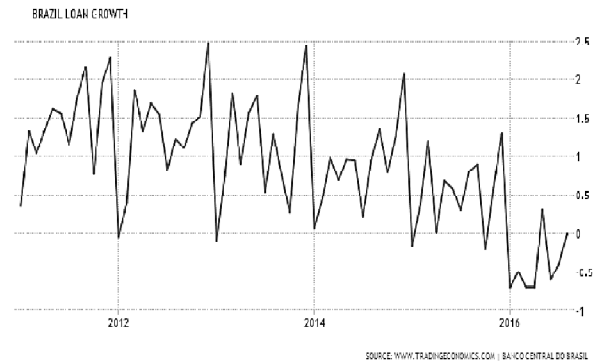
China and South Africa together have been consistent for a while and shown subtle increase in adoption of technological advances in their banking industries. But they have nevertheless tried to compensate for the same by showing steady increase in provision of such facilities in the recent past.

RETAIL LOANS GROWTH RATE

Brazil

Interpretation of Loan Growth in Brazil (2011-2016):

The value of loans in Brazil was unchanged from the previous month at BRL 3115 billion in August 2016, after falling by 0.4 percent in July. Lending to companies went down for the third consecutive time by 0.6 percent to BRL 1575 billion while loans to households rose 0.6 percent to BRL 1540 billion, the fourth straight month of gains. Loan Growth in Brazil averaged 1.26 percent



from 2007 until 2016, reaching an all-time high of 3.68 percent in September of 2008 and a record low of -0.70 percent in January of 2016. Loan Growth in Brazil is reported by the Banco Central do Brasil.

Russia

Interpretation of Loan Growth in Russia (2012-2015):

The above figure shows that, Russia has shown a uniform



Source: Central Bank of Russian Federation, J'son & Partners Consulting

increase in terms of retail lending in spite of the recent changes in the Russian Economy due to the Crimean Crisis, Sanctions, and due to partial isolation by other stable economies. It also shows that the general public still has confidence on the banking institutions despite the various factors contributing to the tumble in Russian Economy.

India

Interpretation of Loan Growth in India (2012-2016):

Indian banks' loans rose 10.4 percent in the two weeks to September 30th, 2016 from a year earlier. Loan Growth

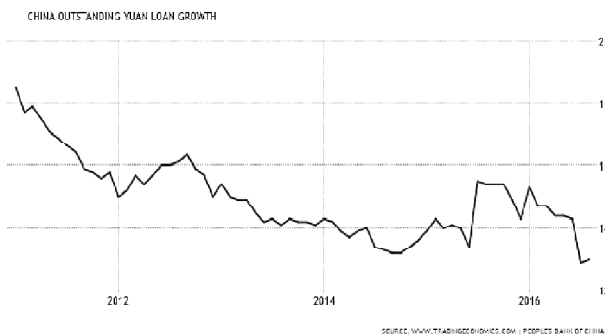


in India averaged 13.01 percent from 2012 until 2016, reaching an all-time high of 18.70 percent in April of 2014 and a record low of 8.70 percent in June of 2016. Loan Growth in India is reported by the Reserve Bank of India.

China

Interpretation of Loan Growth in China (2011-2016):

The value of loans in China increased 13 percent in August of 2016 over the same month in the previous

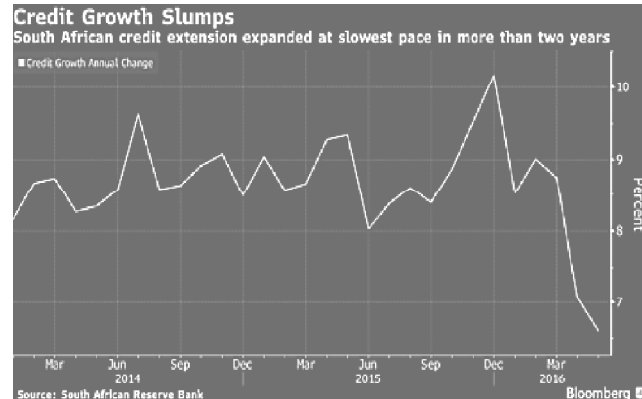


year. Loan Growth in China averaged 16.40 percent from 1998 until 2016, reaching an all-time high of 34.44 percent in June of 2009 and a record low of 10.60 percent in February of 2002. Loan Growth in China is reported by the People's Bank of China.

South Africa

Interpretation of Loan Growth in South Africa (2012-2016):

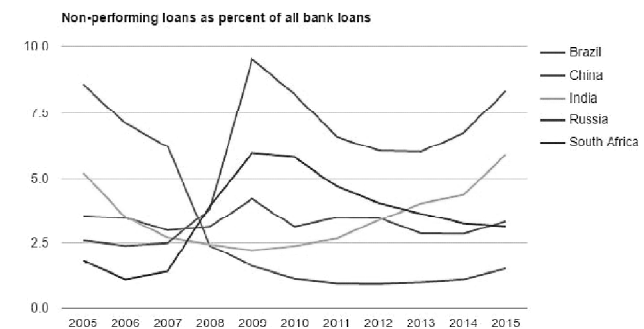
From the graph above it is observed that credit disbursement has barely grown over the last few years in South Africa. Banks have made fewer loans, backed by more fairly valued assets and serviced by less indebted



clients. Bank earnings can be seen starting from a lower base with less downside risk. Growth in credit extended to South African businesses and consumers through mortgages, credit cards and leases slowed in May to the lowest rate since December 2013. Demand for loans is being stifled by accelerating inflation and rising borrowing costs after the central bank raised its benchmark repurchase rate by 200 basis points to 7 percent since the start of 2014.

Non-performing Loans

Interpretation: With respect to managing of bad loans, BRICS Nations have been successful enough in



Source: TheGlobalEconomy.com, World Bank

controlling them despite severe economic crisis and US economy failure. BRICS Nations have implemented effective credit risk management in their banking system, which is the sole reason for controlled bad loans. Among BRICS Nations, China has been extremely successful to control bad loans and Russia has been showing a negative effect – the opposite of China.

BRICS Banking: SWOC Analysis

	<i>Brazil</i>	<i>Russia</i>	<i>India</i>	<i>China</i>	<i>South Africa</i>
STRENGTH	Strong banking regulations. Large banked population. Technological advancements.	Involvement of mixed players. High banked population. Financial literacy	Banking regulations with presence of high quality reforms and rules. Presence of mix players in the industry.	Banked population. High involvement of government players. Strong regulatory policies. Effective credit risk management.	Growing economy. Mixed player involvement. Financial literacy.
WEAKNESS	Credit monitoring mechanisms. Legal system.	Political imbalance. Economic crisis. Rising NPAs	Legal system. Uncontrolled credit disbursement.	Financial literacy. Financial inclusion.	Technological advancement and acceptance from operations. Credit monitoring mechanisms.
OPPORTUNITIES	Banking expansion. Technological advancements.	New banking regulations and Reforms. Strong credit management policy.	Effective credit policy formulation. Need-based lending and priority sector financing.	Opportunities of tapping the untapped market in Tier II cities & beyond. Credit creation and need based lending.	Bank expansion. Credit expansion.
CHALLENGES	Policy implementation Credit risk management	Economic sustainability. NPAs and there monitoring mechanisms.	Collaborative approach between regulatory and legal system. Recovery of bad loans.	Technological acceptance by Tier II cities & beyond. Strict government policies on involvement of private players.	Collaborative approach between regulatory and legal system. Innovations with respect to technological products.

4. CONCLUSION

The 'BRICS' Nations are renowned across the globe as some of the most promising emerging economies. There have been various factors contributing towards this image of 'BRICS' world over, and one of the major agent fuelling these economies is the financial sector or the banking industry to be precise. Banking has played a significant role in these nations by creating credit and allocating it judiciously to deserving sectors in order to generate fairly superior economic outcomes.

These nations haven't had the best track record in terms of economic stability in the past, but in the better part of a little more than a decade, the world has witnessed drastic growth in the 'BRICS' economies in particular. Although the governments of these countries have tried their best to bring down poverty and corruption, and promote education and technology for the betterment of these nations, it is the banking industry which has been

their lifeblood. It has been responsible for implementing their Monetary policies, promoting financial literacy and inclusion, expanding credit to retail borrowers, industries/ businesses, financing the priority sectors and introducing state-of-the-art banking technology to benefit the citizens.

In spite of such reforms and strong regulators, the 'BRICS' nations still have numerous challenges to combat. For instance, Brazil, Russia and India have to sufficiently concentrate on their credit risk management and implement formulated policies with respect to the recovery of bad loans. Additionally, India and South Africa have work on establishing strong collaborations between the regulatory and the legal system. On the other hand, China has to focus on easing out policies which have restricted the entry of private players into its banking industry. It also has another task at hand - to promote the acceptance of technology in the banking industry among its population.

However, these challenges aren't here to stay if these nations pursue the underlying opportunities that trail them. The 'BRICS' nations can find tremendous potential in their banking industry if they manage to convert these opportunities into strengths. One of the major opportunities for these nations lies in their unbanked population. Countries such as Brazil, India, China and South Africa have a larger portion of their population which has remained untapped by the banking sector. This provides a greater scope for the banking industry, which if en-cashed, can bring about many other results such as the creation and disbursement of credit to those sectors of the economy that haven't been prioritized for a while. But, one common objective to achieve for these nations remains in formulating and implementing strong credit recovery mechanisms in order to tone down on their bad loans and concentrate on need based lending. Lastly, all these nations need to incorporate better technological advancements into their banking industry in order to facilitate ease of banking. The populations of these countries have been reluctant in adopting technology for carrying out their banking activities, but that is where the opportunity lies. It involves the engagement of the governments in spreading awareness about how technology in banking can help their citizens.

Emerging markets such as 'BRICS' have contributed greatly towards the global economy in the recent years. With changing landscape, Onus now lies on these nations

to step up and spearhead positive developments in their banking and financial sector in order to fuel other sectors of their economies. In addition to what is said above, the governments of these nations on the whole have to concentrate on the five parameters mentioned in this report (i.e. number of banks, financial literacy, technological advancements, loan growth rate and controlling bad loans) in order to achieve the objective of the entire banking industry of each of these countries.

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