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FINANCIAL POSITION OF INSTITUTIONS: TRENDS AND RISKS

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Abstract: *The article is devoted to the study of the dynamics and the identification of trends in relative indicators of the financial position of credit and non-credit institutions in the Russian Federation. The main differences in the approaches to calculating the basic coefficients characterizing the financial stability of organizations are reviewed: liquidity, solvency and capital adequacy. The methods of reducing the risk of loss of financial stability are provided.*

Keywords: *Lack of own funds, liquidity ratio, solvency ratio, capital adequacy ratio.*

1. INTRODUCTION

Currently, the economic situation in Russia is relatively stable, while at the same time, the national economy is vulnerable to the negative effects due to steady decline in crude oil prices, significant devaluation of the Russian ruble, as well as sanctions imposed by some states against Russia. The contradictions between the financial sector and the real economy are aggravated. A.G. Aganbegyan characterizes the current situation in Russia with three processes: stagnation, recession and stagflation (Aganbegyan 2015).

Credit and non-credit institutions that carry out their activity on the territory of the Russian Federation are vulnerable to risks associated with political and economic situation in the country as a whole (Flannery, et. al. 1993). In spite of the stabilization measures undertaken by the state for the purpose of providing liquidity and refinancing foreign debts of Russian banks and companies, there is still uncertainty regarding the access to sources of capital, which could negatively affect the financial stability of the companies. The instability in the capital markets may lead to significant deterioration of liquidity, stability of capital in the banking sector and the manufacturing industry in the Russian Federation (Blank 2011).

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2. METHODS

The study is conducted using both scientific methods of analysis and synthesis and special methods of statistical description of the data – in particular, the method of time series.

3. RESULTS

The negative trend, especially characteristic of 2011-2016, is associated with the introduction of economic sanctions restricting access to Western capital market for domestic companies, which resulted in a significant number of companies going bankrupt and ceasing their operations during this period (Figure 1).

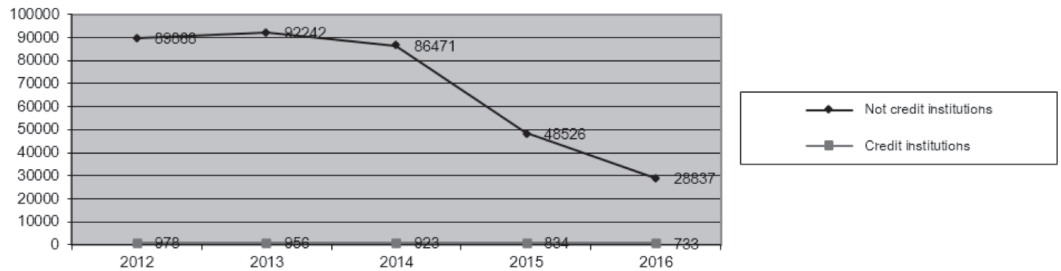

Figure 1: Dynamics of the number of active legal entities on the territory of Russia in 2012-2016

For a detailed analysis of the coefficients that characterize the financial stability of the institutions, we introduced the characteristic of the coefficients for credit and non-credit institutions in the Russian Federation, and compared the dynamics of changes in the following indicators.

1. Solvency ratio: There are many types and calculations of this indicator, depending on economic entities. In this case, we consider the solvency ratio as an indicator showing the institution's ability to meet its obligations at the expense of current assets.
2. Current ratio (CR): This ratio considers the possibility of returning the borrowed funds by the enterprise, at the expense of working capital.
3. Capital adequacy ratio/equity ratio.

Table 1 shows the approaches to the calculation of the solvency ratio in the Russian Federation, both for credit and for non-credit institutions (Gorfinkel 2013).

Table 1
Differences in the approach of calculating the solvency, liquidity ratio

Credit institution	*Non-credit institutions*
The ratio of total assets of a financial institution to its current liabilities. *The recommended value is greater than or equal to 1.*	The ratio of total capital to total assets of the company. *The recommended value is greater than or equal to 1.*
The ratio of assets that a bank can realize within the next 30 days, to the obligations of the bank, which it must fulfill or may be required to fulfill over the next 30 days. *The minimum value set by the Bank of Russia is 0.5.*	The ratio of working capital of the company to the value of current liabilities. *The value of the liquidity ratio in the range from 1.5 to 2.5 is considered normal.*
Capital adequacy ratio of the bank (R1) controls the risk of bank insolvency and defines the requirements for the minimum value of own funds (capital) of the bank required to cover the credit, operational and market risks. Ratio R1 is defined as the amount of own funds (capital) of the bank and the amount of its assets weighted by risk level. The calculation of the ratio R1 includes: value of credit risk on assets, value of credit risk on credit-related contingencies; value of credit risk on forward transactions and derivative financial instruments, value of operational risk, value of market risk. *The minimum acceptable numeric value of the ratio R1 is set as 0.1 percent.*	Capital adequacy ratio is defined as the ratio of the own working capital to the value of the working capital of the enterprise. Size of the own working capital is calculated as the difference between the own capital of the enterprise and its non-current assets. The minimum acceptable numeric value of the ratio R1 is set as 0.1 percent.

You can find below the dynamics of the solvency ratio on an annual basis among the credit and non-credit organizations in Russia on the basis of the data of Rosstat (except small businesses). (Investments in the Regions of Russia 2014; Finnerty 2007).

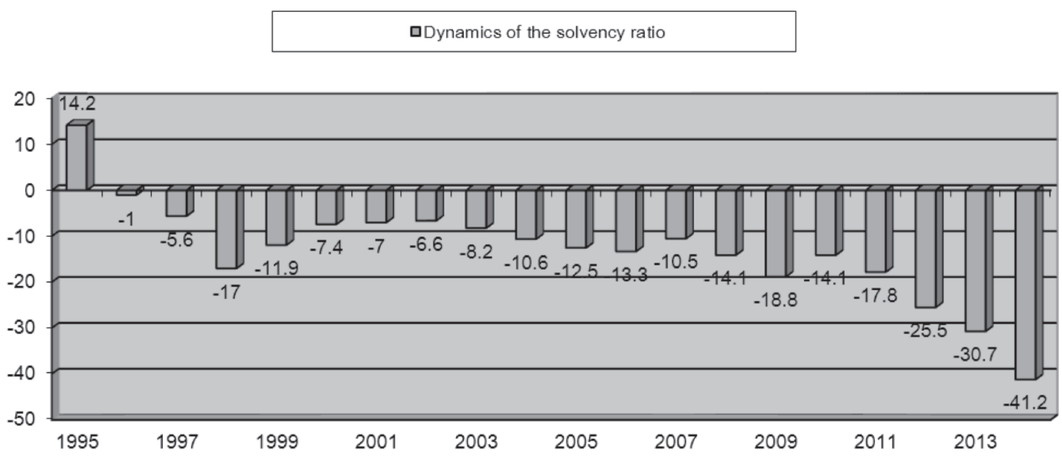

Figure 2: Dynamics of changes of solvency ratio in Russia during 1995-2014, %

Figure 2 reflects the negative trend of the solvency ratio: the number of legal entities – the credit and non-credit institutions – significantly reduces from 2012 to 2016 due to lower solvency and as a result, bankruptcy.

Figure 3 shows the dynamics of the current liquidity ratio on an annual basis among the credit and non-credit institutions in Russia on the basis of the data of Rosstat (except small businesses):

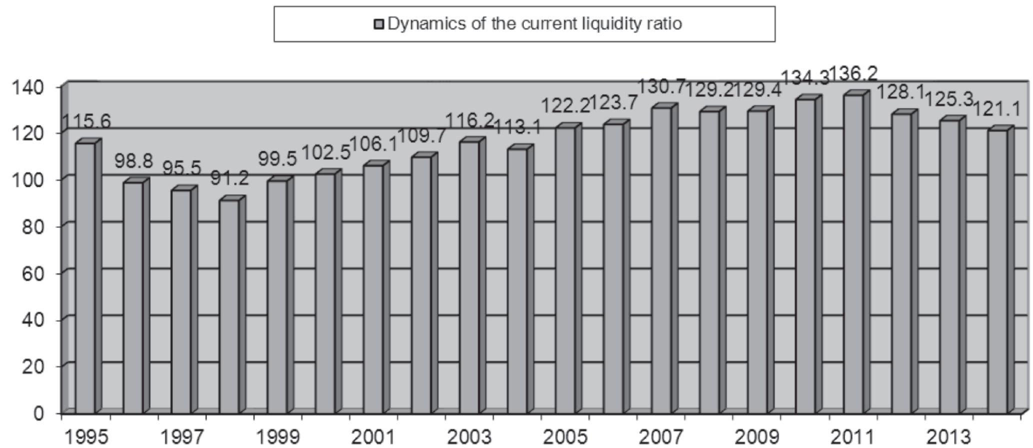

Figure 3: Dynamics of changes in the current ratio in the Russian Federation during 1995-2014, %

Based on data from the chart of the liquidity ratio change, we should note the negative trend characteristic of the current liquidity ratio in 2012-2014. It characterizes the fact that the ratio between current assets and liabilities has changed in the direction of increasing current liabilities, or increasing long-term assets with a maturity of more than 30 days. This trend indicates that it is more difficult for a number of enterprises to fulfill their current liabilities due to a lack of short-term assets.

The main way to address this gap is:

- for credit institutions: raising short-term interbank loans, repos, issuance of the own securities to raise deposits.
- for non-credit institutions: in the presence of long-term investments, the main ways to increase liquidity will be reclassification of these funds into short-term investments like overnight deposits, etc.

The data in Figure 4 also show us the negative trend associated with a reduction in the equity (stability) ratio of the own capital, which indicates the growth of borrowed funds in the resident companies of the Russian Federation (Novashina 2014). The main causes of this phenomenon for credit institutions are: increase in credit, market and operational risk in connection with the economic situation in the country.

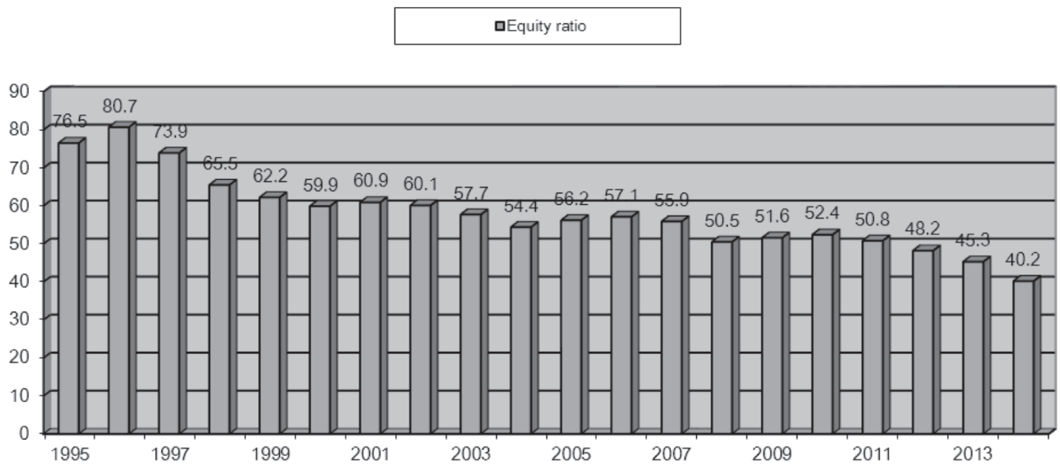

Figure 4: Dynamics of changes in the coefficient of capital adequacy in Russia during 1995-2014. (%)

The main way to address this gap is:

- for credit institutions: classification of subordinated loans in the capital, additional issue of securities, decrease of reserves (in the case of the validity of such decrease) by business diversification.
- for non-credit institutions: additional issue of securities by business diversification.

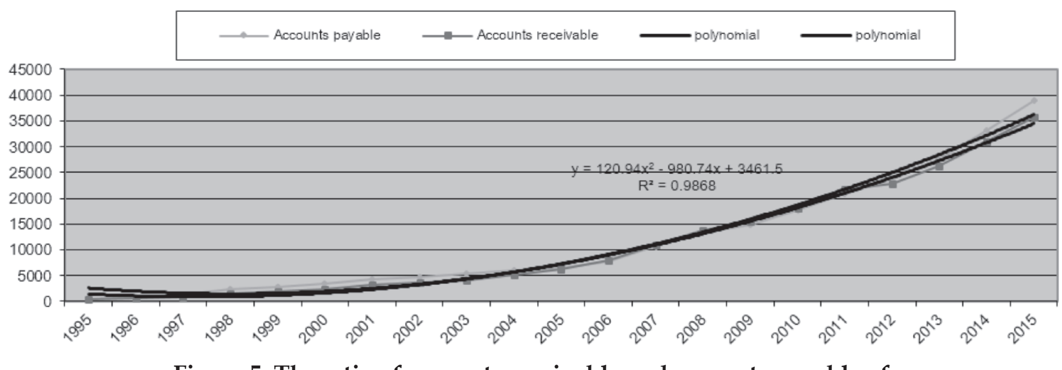

Figure 5: The ratio of accounts receivable and accounts payable of non-credit institutions (billion rubles)

The data in Figure 5 indicate excess of the accounts payable of economic entities over the accounts receivable for the period from 2013 to 2015. The banking business, as a key element of the financial system, is one of the most important sectors of the economy operating across national borders and reinforcing competition between the parties – credit and non-credit institutions (Ravilova and Fedotkina 2016).

4. DISCUSSION

Based on the analysis of the dynamics of the main coefficients that characterize the financial stability of credit and non-credit institutions in Russia, the following trends can be noted:

- decrease in economic activity of the companies due to failure to fulfill their obligations (this is evidenced by a decrease in the solvency ratio of companies and reduction in their number from 2012 to 2016);
- reduction of the annual values of the liquidity coefficient associated with a change in the structure of assets and liabilities of credit and non-credit institutions: the apparent imbalance in the structure of current and non-current assets and liabilities.

Any activity of the company is somehow related to major expenditure and income and is accompanied by a number of risks. Based on the conducted analysis, let's consider major financial risks.

1. Risk of reduction in financial stability, which generates imperfectiveness of the capital structure and, as a consequence, an imbalance of positive and negative cash flows of companies in volumes.
2. Risk of insolvency. It is created by a decrease in the level of liquidity of current assets, which leads to an imbalance in the cash flows of the company in time.
3. Inflation risk. It is characterized by the depreciation of the real cost of capital. This risk is given special attention because it constantly accompanies financial transactions.
4. Credit risk and other risks. (Global Structured Finance, 2015; Filipenco 2001).

5. CONCLUSION

Thus, the financial position of enterprises depends on a combination of financial, economic, political and social factors. In the context of major relative indicators of the financial position, the trends and prospects were identified in view of the financial risks affecting the yield and profitability, which all organizations are aimed at.

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