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**Analysis of the efficiency of the CBR's financial recovery mechanisms of the banking system**

***Abstract:*** The report investigates the practice of applying the mechanisms of sanation and liquidation of commercial banks by the Bank of Russia. The estimation of efficiency of using these mechanisms of financial rehabilitation, based on their influence on the banking sector is given

***Keywords:*** banking system, the Bank of Russia, sanation, liquidation, efficiency.

The Central Bank of Russia is the main monetary institution of the state. In conditions of economic tension, it has a decisive influence on the main economic indicators in the country.

Important functions of the Central Bank are maintaining stability and financial recovery of the banking sector, which, especially in times of crisis, are becoming extremely relevant. These functions are carried out by the Central Bank through the licenses withdrawal from troubled commercial banks and their sanation.

Consider the practice of implementing these functions by the CBR. In 2013, the Central Bank began large de-licensing activity. From 2013 to 2017, he revoked licenses from almost 300 banking institutions. The peak of license revocation came in 2015 and 2016, when the Central Bank withdrew 93 and 97 banking licenses, respectively.

The main reason for the revocation of licenses from banks in 2017 was the violation of banking legislation, inability to meet creditors' claims, unreliable reporting and problems related to capital insufficiency.

As a result, the total number of banks decreased by a quarter. Despite the fact that most banks were not among the first two hundred, there are many examples of licenses revocation from large organizations in which the money of millions of Russians was kept.

The policy of the CBR to revoke licenses from private banks raises a lot of controversy. On the one hand, such a policy carries out a "recovery" of the banking sector, on the other hand, this policy is called a "sweep" of small banks, meaning unreasonable revocation of licenses. And precedents with the return of revoked licenses to banks after appealing in court confirm this.

An example is Atlas Bank. In 2015, the Arbitration Appeals Court ruled that the Central Bank's order to revoke the license from this bank was invalid. However, Atlas Bank could not be able to continue its activity not only due to reputational problems, but also because the bank was excluded from the register of legal entities immediately after the CBR order was issued, without waiting for a court decision. Thus, confirmation of an unjustified license revocation did not save the bank from liquidation.

Reducing the number of players in the banking market gives rise to some negative trends. The main is increasing monopolization. According to the Central Bank, as of October 1, 2017, the share of assets of the five largest Russian banks in the assets of the entire banking system amounted to 55.9%, while the top 20 banks accounted for 79.2% of the total banking sector assets. Such a tendency to declining of the competition in the banking sector has a large negative impact on consumers, and also causes new licenses revocation from small banks, which cannot compete with large once.

In 2017, the number of license revocations dropped to 50. The reason could be the Central Bank concern of the financial situation of large banks. Because the cessation of their activities could turn into serious problems for the entire banking sector. In this regard, in the second half of 2017, attention was focused on the mechanism of sanation, which will work under the new scheme.

The previous sanation mechanism was carried out through the Deposit Insurance Agency, which received loans from the Bank of Russia and then gave them on a competitive basis to the investor banks at preferential rates. However, this model has been criticized by the Central Bank, which indicated that the old scheme of sanation created uncompetitive conditions in the banking market, since the bank that was in the process of financial rehabilitation could violate the norms without taking punitive measures for it from the Central Bank. Furthermore*,* not all investors use loans efficiently, many of them ask for additional funds after a while, and some projects even have a negative effect on the financial situation of the investors themselves.

In mid-February 2017, the government supported a new mechanism for the sanation of banks, proposed by the Bank of Russia. Since then, the sanation of banks will be carried out by the Banking Sector Consolidation Fund.

The reasons for the problems for all banks are similar: a risky business strategy, the purchase of large assets for borrowed funds, active lending without due attention to risk management. Besides, Otkritie, Binbank and Promsvyazbank also acted as sanators of other credit institutions. Another important reason is the negative information background, its rapid spread and the outflow of funds from customers' accounts.

The fact that three banks that were under sanation themselves were sanators, confirms the non-viability of the previous scheme of sanation and the need for a new one.

But did the Banking Sector Consolidation Fund become the best solution? Indeed, the rapid reaction to the developing events of the banks themselves and the ability of the regulator to promptly remove the negative information background contribute to the solution of the problem. But there are downsides. Based on the name of the fund, the Central Bank decided to maintain the long-established trend towards consolidation of the banking sector in Russia. But if earlier large banks absorbed smaller ones, now the regulator is engaged in it. Thus, there is a process of not only consolidation, but also an increase in the state's share in the banking sector. These processes do in fact have a positive effect on the banking system, eliminating problematic and unscrupulous banks, supporting systemically significant ones in a difficult economic situation and, as a result, increasing stability. However, there are also negative consequences of nationalization of the banking system, and consequently, the application of a new sanation mechanism.

First, the monopolization of the banking sector will continue. In 2017, the profit of the banking sector amounted to 790 billion rubles. This is 15% less than in 2016. However, 85% of this indicator (674 billion rubles) was the net profit of Sberbank, which despite the trend of declining profits in the whole sector increased by 30%. This is confirmed the fact that, as a result of the current policy of financial recovery, the largest state banks have an advantage. Because individuals and especially companies cease to trust not only small but large private banks. If, apart from Sberbank and VTB Group, the third giant state banking group of those who now rehabilitated by the Central Bank appears in Russia, small private banks could not remain competitive.

Second consequence is large costs that the Central Bank will incur to rescue troubled banks. Thus, for the capitalization of the Otkritie, the Central Bank spent 456 billion rubles (and this amount could grow in 2018), Binbank's capital requirement is 350-370 billion rubles, the lack of capital of Promsvyazbank is 100-200 billion rubles. Besides, it will be troublesome to compensate these costs by selling the stake of the Central Bank to private players. It will be extremely difficult to find a buyer for such giant problem banks in the foreseeable future. Mikhail Zadornov, Chairman of the Board of FC Otkritie, said that the improving of the situation in the bank will take 3-4 years. Also there is an opinion that due to a lack of funds at the disposal of the regulator the DIA started filing lawsuits against the depositors who withdrew their funds from their accounts less than a month before the bank ceased operations. The regulator sees this as criminal intent. About 800 claims have been filed. Such actions undermine the confidence of depositors in the banking system. That's why they will make deposits in large state-owned banks.

Thirdly, the participation of the supervisory authority regulating the market in the share of a commercial bank creates a conflict of interest.

Thereby, financial recovery politics of the Bank of Russia cannot be considered effective. This is also evidenced by the crisis of the banking system, which, despite the efforts of the Central Bank, has not yet been overcome.

We cannot but agree that the actions of the Central Bank to improve the banking system bring positive results in the form of eliminating unscrupulous players from the market, but this process proved to be much more time-consuming and costly than anticipated, and according to the CBR estimates it will last at least 3-4 years.

The Central Bank is aware that the massive withdrawal of licenses has not yet made the Russian banking system fundamentally more reliable and honest. That is why together with the Ministry of Finance, he prepared a bill that changes the amount of penalties for banks for violating legislation. The Central Bank decided to bind the amount of fines for banks that do not comply with the law and do not comply with the regulator's instructions, to the value of their own capital. The upper limit of the fine is not established. The Bank of Russia estimates that the modified fines will replace the revocation of licenses and improve the situation for bank customers.

As recommendations for sanation, it is proposed to create conditions that will allow for the financial rehabilitation of banks without public resources. Both investors and creditors should be more actively involved To the sanation of the bank. For example, companies can participate in the sanation, leaving their funds in the bank. This precedent is already in place in Russia - the reorganization of Tavrichesky Bank was possible by the fact that two clients of the bank agreed to leave their funds (12,7 billion rubles) in it for 20 years. This is still the only case in Russian practice.

In addition, it is advisable not to directly finance the rescue of banks, but to provide them with indirect support, in particular by facilitating the supervisory regime for the time of sanation, reducing the reserve requirements, exempting part of the profits from taxation.

Such a relief measure, instead of liquidation and for its prevention, is advisable to provide to support small regional players who try to survive in a highly competitive financial market. Most often, these banks are at risk not because they violate legislation, but simply because they may not be competitive in comparison to large players. The liquidation mechanism should be used only for unscrupulous banks that violate the law, if the justification of the charges is confirmed by the court.