

European Research Studies Journal
Volume XX, Issue 2B, 2017

pp. 236-250

Assessment of Availability of Consumer Loans in the Regions of Russia

Anna Aleksandrovna Sysoeva¹, Natalia Vladimirovna Rezepova, Elina Ildarovna Abdyukova, Zohrab Mnatsakanovich Dokhoyan

Abstract:

The article deals with the current situation on the consumer credit market and stresses the need to assess the availability of loans. It gives the analysis of the volume of provided loans to consumers in roubles and foreign currency in 2015 and 2016. The authors consider the dynamics of loans share with overdue payments in total, as well as the average weighted interest rates on consumer loans.

The study is conducted to determine the availability of consumer loans in various regions. The article emphasizes characteristics of the basic problems in lending realm considering the present stage of development. The authors discuss the prospects of the consumer credit market in Russia, as well as recommendations on improving procedures of loans disbursement taking into account new credit instruments contributing to the development of consumer activity.

The results of the research can be used by credit organizations to make decisions in crisis periods and within unstable circumstances of economic environment progress, as well as within the framework of making policy on the balanced social and economic development of the country.

Key Words: *credit system; commercial banks; availability of loans; individual; interest rate; regional bank; relevant factors; conditions; problems; potential of the region*

JEL Classification: *G21.*

¹*Plekhanov Russian University of Economics, 117997, Moscow, Stremyanny Lane, 36.*

Introduction

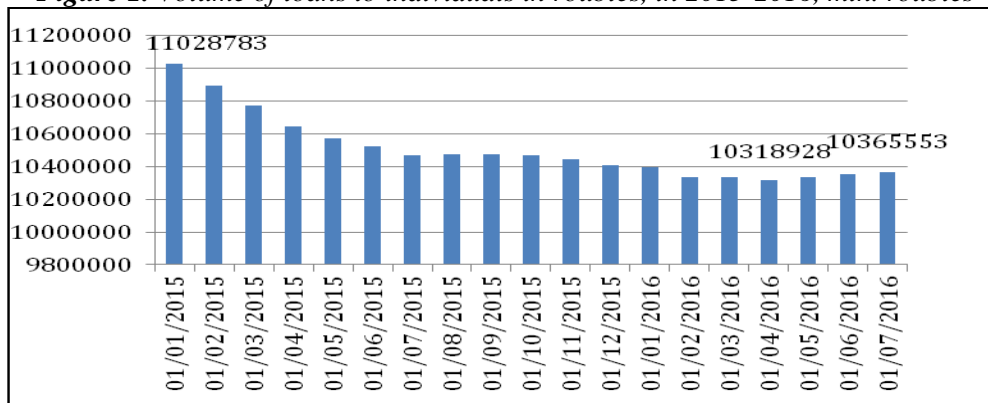
The development of Russia's banking sector has been very uneven in the recent 15 years. Major crises in the economy (for example, the crises of 1998 and 2008) led to the bankruptcy of some largest banks. The economic reform, which has been undertaken lately, opened a new stage and goals in the development of the banking system. The pre-crisis state of the economy stimulates an increase in the number of loans granted to individuals, i.e., consumer loans.

Consumer loan is one of the most common types of banking activities in developed Western countries. It should be mentioned that the scope of application of consumer loans is significant, as they are used not only to buy durable goods, such as cars, appliances, etc. For example, buying property in installments is basically also one of the varieties of long-term consumer loans; current purchases made with credit cards are not inferior to the use of consumer loans, as far as large purchases are concerned. Consumer loans are very widespread in industrialized countries primarily because owing to the use of this technique to finance purchases market capacity on a range of consumer goods and real estate is greatly increasing. Without limiting the preceding, in ongoing conditions availability of credit resources of commercial banks is very appealing to individuals, as there is a tendency of decreasing the key interest rate of the Central Bank of the Russian Federation. It has been 10% since 19 September 2016. The results of the research can be used to smooth out the uneven availability of credit resources in different regions of Russia and, as a result, their unbalanced development, as well as for the balanced development of the Russian economy on the whole.

Data and Methods

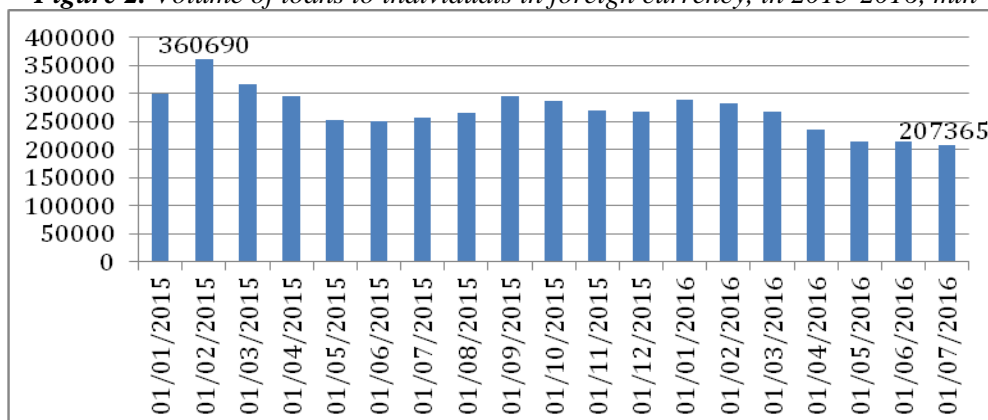
Consumer credit market in Russia is going through lean times (Natocheeva and Rusanov, 2016; Molodyko, 2015; Gerzelieva, 2016; Rusanov *et al.*, 2015; Sharma, 2014; Sibirskaya *et al.*, 2016). This is evident from the data presented in Figure 1.

Figure 1. Volume of loans to individuals in roubles, in 2015-2016, mln. roubles



According to the Bank of Russia, there was a significant reduction in the volume of loans in January 2015 compared to January 2016, and this figure fell by 6.4%. The largest volume of loans was provided in January 2015 (11,028,783 mln. roubles), and then gradually decreased until it reached the minimum of 10,318,928 mln. roubles in April 2016. According to Figure 1, we can also notice a slight increase in the cost of loans granted to individuals. Thus, in July 2016 individuals received loans for a total amount of 10,365,553 mln. roubles. As far as the volume of loans granted in foreign currency is concerned, a negative dynamics can be traced there as well (Figure 2).

Figure 2. Volume of loans to individuals in foreign currency, in 2015-2016, mln



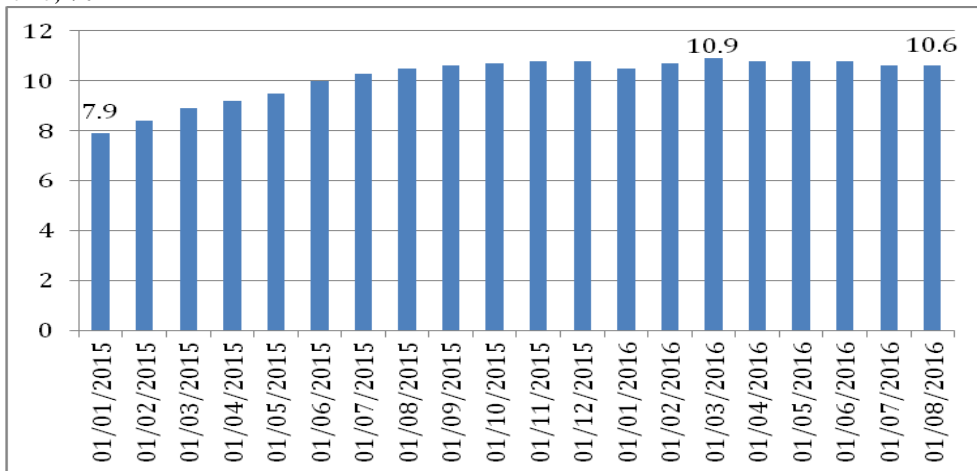
The drop in volume of loans is not as rapid as the one in the national currency. For example, in February 2015 the volume of loans increased by 19.9% and amounted to 360,690 mln roubles in comparison with January of the same year, which is the highest value in the period from January 2015 to July 2016. The lowest value was recorded in July 2016 and amounted to 207,365 mln roubles.

The slowdown in growth of the loan market to individuals is to a greater extent due to the financial crisis in 2014, which resulted in a decrease in personal income, rising prices, weakening the rouble as well as an increase in interest rates.

One reason for the decrease in the volume of loans to individuals is the loss of credibility to consumers (Sysoeva, 2015; Tursunov, Sergeeva, 2016; Arslan-Ayaydin *et al.*, 2014; Nechaev and Antipina, 2016), which is caused by an increase in the number of loans to cover arrears. Thus, according to Fig. 3, it can be inferred that the share of loans to cover arrears over 90 days, granted in roubles, increased by 7.9% in January 2015 and by 10.5% in January 2016. However, this indicator reached its maximum of 10.9% in March 2016 and dropped by 0.3% and amounted to 10.6% in August 2016. Consequently, the volume of outstanding loans to individuals formed a steady downward trend. Citizens tend to quickly pay debts and are cautious to take new loans. The amount of overdue loans on these types of loans

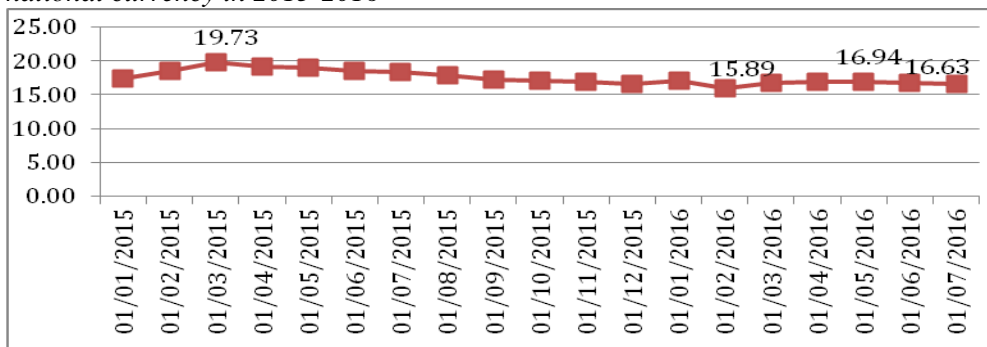
has grown rapidly, reaching an average of 8.5% in the Russian Federation. This trend raises concerns since it leads to increased expenses in banks: first, through the creation of reserves for possible losses on poor quality loans, and later - when writing off arrears to the bank's losses. The level of overdue loans of individuals is significantly different in various regions of Russia. In the Southern, North Caucasian and Siberian Federal Districts, as well as in Moscow, this figure exceeds the Russia's average.

Figure 3. Share of overdue loans on payments over 90 days in roubles, in 2015-2016, %



It is necessary to analyze the interest rate fluctuations on the example of the average weighted loan rate over 3 years. According to Fig. 4, the average weighted interest loan rate over 3 years reached its maximum value in March 2015 and amounted to 19.73%. After March 2015, the value of the interest rate gradually decreased with some fluctuations, and reached the lowest value, equal to 15.89% in February 2016. After that, the average weighted interest rate rose again to 16.94% in May 2016 and then began to gradually decline to 16.63% in July 2016.

Figure 4. Consumer loans over 3 years: average weighted interest rate in the national currency in 2015-2016



According to the Central Bank of the Russian Federation, despite the disappointing figures, credit organizations in Russia have made a profit of 532 billion roubles since the beginning of 2016, which is seven times higher than last year's figure for the comparable period that was equal to 76 billion roubles.

Results

Russian banks faced some problems in 2015-2016. It is crucial to scrutinize some of them:

Saturation of the market: Financially reliable people either have no desire to take a consumer loan for various reasons (reduced income, no need to purchase goods, etc.) or already have consumer loans (Theriou *et al.*, 2014).

Complacency of the market: Complacency adhered to many banks which are implied in not making customers aware of hidden fees in the credit agreement. As a result, the borrower has to pay more money than expected (Theriou and Aggelidis, 2014).

Loan default: The borrower can make a mistake in the assessment of own ability to disburse the loan. The increase in interest on the deferral in the future may lead to a shortage of funds to disburse the loan (Budik and Schlossberger, 2015).

Many banks are trying to get the maximum profit in the shortest possible time. Therefore, loan programmes tend to have very high interest rates. This discourages borrowers. It is confirmed, in particular, by a significant excess of interest rates on credit operations over interest rates on deposit operations. In international practice, for example, the average annual excess of the loan interest over the deposit one is the following: China - 3.06%; the US - 3%; Norway - 2%; Japan - 1.28%. In Russia, the interest margin on rouble currency transactions was 7.2% in 2014 (Abdyukova and Sysoeva, 2016; Stroeva *et al.*, 2016; Thalassinos *et al.*, 2014; 2015a; 2015b).

Another transformation factor for the increased rate of the loans (Kuklin, Schneider, 2007; Keynes, 1935; Cipovová and Dlasková 2016; Topcu *et al.*, 2015; Carstina *et al.*, 2015) has historically been the refinancing rate of the Bank of Russia (Table 1).

Table 1. Changes in refinancing rate of the Bank of Russia, in 2009-2016, %

Validity of the rate	Amount of the refinancing rate of the Bank of Russia
27.12.2009 – 22.02.2010	9,00
23.02.2010 – 27.03.2010	8,75
28.03.2010 – 28.04.2010	8,50
29.04.2010 – 30.05.2010	8,00
01.06.2010 – 27.02.2011	7,75
28.02.2011 – 02.05.2011	8,00
03.05.2011 – 26.12.2011	8,25

26.12.2011 – 13.09.2012	8,00
14.09.2012 – 01.01.2016	8,25

According to official sources of the Bank of Russia, all rates on the bank loan are higher than the key rate (Table 2). This makes businessmen look for the possibility of obtaining loans abroad at lower interest rates.

Table 2. Changes of key rate of the Bank of Russia, 2014-2015

Validity of the rate	Amount of the key rate of the Bank of Russia
03.03.2014	7,0
28.04.2014	7,5
28.07.2014	8,0
05.11.2014	9,5
12.12.2014	10,5
16.12.2014	17,0
02.02.2015	15,0
16.03.2015	14,0
05.05.2015	12,5
16.06.2015	11,5

The banking margin also affects the high cost of credit resources. Interest rate obviously depends on the banking margin. The dynamics of this indicator over the years represented the following figures: 106.8% (1995), 21.2% (1998), 12.5% (2001), 7.4% (2004), 6% (2009), 5.2% (2012), 4.3% (2013), 7.2% (2014). For comparison, in the EU it was 1.4%, in Eastern Europe - 2.7%.

Incomes of the population play a decisive role in the formation of the resource base of banks. In particular, pension savings with their stable and high value are a significant element in the structure of funding sources of the credit organization. Considering the abovementioned, people and legal entities are discouraged to save money (Table 3).

Table 3. Attracted funds of the population, 2014 - 2016 (mln. roubles)

Reporting date	in roubles	in foreign currency
01.01.2014	13,985,238	2,953,123
01.02.2014	13,424,316	3,251,346
01.03.2014	13,496,310	3,390,362
01.04.2014	13,202,370	3,352,412
01.05.2014	13,469,593	3,326,500
01.06.2014	13,503,951	3,235,090

01.07.2014	13,678,452	3,176,606
01.08.2014	13,790,600	3,423,741
01.09.2014	13,923,798	3,451,251
01.10.2014	13,855,844	3,524,480
01.11.2014	13,822,702	3,971,091
01.12.2014	13,778,640	4,426,075
01.01.2015	13,699,086	4,983,991
01.02.2015	13,511,981	5,981,235
01.03.2015	13,883,100	5,330,633
01.04.2015	14,046,420	5,146,863
01.05.2015	14,502,778	4,738,670
01.06.2015	14,560,671	4,913,757
01.07.2015	14,793,598	5,194,824
01.08.2015	14,969,702	5,512,620
01.09.2015	14,989,208	6,246,255
01.10.2015	15,066,059	6,261,139
01.11.2015	15,145,147	6,113,179
01.12.2015	15,338,196	6,242,012
01.01.2016	16,347,070	6,912,395
01.02.2016	15,879,147	6,977,848
01.03.2016	16,188,382	6,899,635
01.04.2016	16,338,734	6,287,100
01.05.2016	16,719,956	6,061,482
01.06.2016	16,846,688	6,177,303
01.07.2016	17,109,434	6,057,397
01.08.2016	17,209,103	6,355,935
01.09.2016	17,235,622	6,174,715

There are several reasons for this, such as call-back of banking licenses as a consequence of people distrust to savings in banks; devaluation of the rouble, which leads to the withdrawal of rouble deposits and then conversion of the money into foreign currency; lack of income growth in real terms (Table 4); low level of capitalization of the banking system; inflation targeting.

Table 4. Income of population in Russia, 2014 – 2016

	in % to	
	the corresponding period of the last year	the prior period
	2014	

I quarter	97.2	71.8
II quarter	100.8	117.6
III quarter	102.6	101.2
IY quarter	96.5	113.0
Year		99.3
2015		
I quarter	97.7	72.6
II quarter	95.2	114.6
III quarter	94.8	100.9
IY quarter	95.6	113.9
Year		95.7
2016		
I quarter	96.3	73.1

The last two reasons should be analyzed in a more thorough way.

Low level of capitalization of the Russian banking system:

The total size of the Russian assets of commercial banks was 72.2 billion roubles in 2015. However, analyzing the growth rate, we find that the banks' assets increased by 15.9% in 2013, and only by 11.6% in 2014. In 2015, the total capital of the Russian banking sector amounted to 8 billion roubles, which amounted to 9.5% of GDP, despite the fact that in both developed and developing countries this figure is on a considerably higher level. For example, in Brazil it is 30%, in France - 25%. Steady low bank capitalization reduces the possibility of large-scale projects, which volume of business greatly exceeds the total capital of banks.

Partial discouraging savings process when applying inflation targeting:

Due to inflation targeting, the Central Bank sets the nominal interest rate that does not fall below zero. However, if inflation is higher than nominal interest rates, real interest rates become negative and, as a consequence, there is a tendency to consume and borrow rather than save money.

To determine availability of loans it is vital to know the needs of the population in taking loans in the regions of Russia (Panova, 2015; Posnaya, Vorobyova, Sokolova and Leonova 2017; Epifanova *et al.*, 2015; Frank *et al.*, 2016; Hamid and Won Kie, 2016). It should be mentioned that there are certain types of consumer loans that are required at present. They are:

- credit cards. A bank offers various types of credit cards, for example, the premium class, the standard or classic ones, co-branded and “instant issue” cards;
- loans to buy real estate. In PJSC “Sberbank of Russia” a borrower can receive a loan to purchase an under construction or ready-made housing. For military service there is a special program - military mortgage;

- education loan. With the help of it you can pay 100% of tuition fees in most schools. There is an approved list of higher education institutions, which is available on a bank's website;
- urgent loan. There is a possibility of obtaining an uncovered and covered loan, or a loan with a third-party guarantee;
- debt refinancing in other banks. Under the terms of this programme, the borrower may transfer his/her loan service from one bank to another one. This can be both a mortgage and consumer loan for household needs;
- partnership programmes. These are unique programs developed by PJSC "Sberbank of Russia" with the participation of its partners, such as MTS, Aeroflot and the charity fund "Gift of Life".

Discussion of results

It is necessary to consider the factors that had the greatest impact on the development of the consumer loan market in Russia.

1. The most negative forecasts made about the collapse of the rouble and the decline in oil prices at the end of 2014 and possible further sanctions did not come true.

One should admit that the Russian banking sector is in crisis. Profits have fallen markedly, overdue loans are growing, and the dynamics of the main indicators is rather weak. However, the overall result is satisfactory. According to the experts of RIA Ranking, the ability of Russian banks to adapt to the crisis is high. However, nobody can promise that the crisis will be over the next year. It will probably continue, but will be less shocking than the one in 2008-2009.

2. During the first half of 2016 a great number of banking licenses were revoked, and now plans to have 300 banks in Russia in 5-7 years are becoming feasible.

Revocation of licenses and "cleansing" of the banking sector have significantly accelerated in recent years. At the same time there have been forecasts about the reduction in the number of Russian banks, but it sounds like a radical and not relevant scenario. The determination of the Central Bank of Russian Federation to revoke licenses suggests that the scenario of the banks reduction may be well implemented.

3. The role of non-state pension funds (NPF) in the financial system on the whole and in the banking system in particular has increased dramatically but the situation is not satisfactory.

Despite the freezing of pension savings, pension funds significantly increased their role in the financial system of Russia. In many cases, NPF cooperated with major banking groups. This resulted in the fact that in 2015 the transactions in a number of major IPO banks were carried out at the expense of NPF, and as a result, many

future retirees suddenly became co-owners of the banks. However, with the revocation of licenses from DBK Group, 6 NPF connected with this group of banks also left the market. On the one hand, the accumulation of a large amount of funds in NPF develops the market of long-term savings in Russia. On the other hand, it increases the interest of fraudsters in this market.

4. Private banks demonstrated significant activity in cooperation in 2015.

During the crisis, more activity was expected from the state-owned banks, which tend to cope with problems better during lean times because of the access to cheaper funding. The high activity of private traders on the market of mergers and takeovers was due to the presence of NPF's resources to finance the deals. As a result, a private bank "FC Otkrytie" swiftly tapped into the market and was listed within the five largest banks in the country, which for a long time had only been state-owned banks.

5. The introduction of Basel III.

The Central Bank of Russia intended to introduce new stricter regulations, although bankers requested for another delay. Leaders of several major banks and officials suggest that the Bank of Russia should postpone or even cancel the introduction of certain rules of the Basel Committee. In particular, bankers are worried about the introduction of margins for the capital maintenance (capital buffer) for important banks. According to experts of RIA Ranking, lowering the minimum values of adequacy of the total capital base to a level of 4.5% and 8% compensates for the introduction of most of the new requirements, but for some banks the introduction of Basel III still presents considerable problems.

6. Before 2015, revocation of licenses of the banks rarely ended with criminal cases against management and shareholders, and this year it has become the general rule.

High-profile case was the arrest of Andrzej Malczewski in connection with schemes in Mosoblbank. At the end of the year Larissa Marcus, the president and co-owner of Vneshprombank, was arrested.

It is crucial to mention that 2015 was marked by a decline in demand for financial products of the banks, reduced household incomes and the mass revocation of licenses from banks. According to experts, 2016 is the beginning of a new milestone in the history of Russian loans. Banks take a new look at lending policy, which is now based not on the number of signed contracts but their quality. Financial institutions prioritise those borrowers who have a long experience of work in one place, get a stable salary and can boast of a positive credit history. In this very case they are more likely to get a loan. Mortgage market is now actively developing. The numbers of mortgage contracts will most likely increase by 30-40% by the end of 2016.

According to TASS, the Russian Prime Minister Dmitry Medvedev said that mortgage market in Russia has grown by 40% since the beginning of 2016. In addition, the Prime Minister cited statistics according to which since 2005 the volume of mortgage loans in Russia has increased more than 20 times to a record level of 2014, which amounted to 1 trillion 760 billion roubles.

According to the United Credit Bureau, in the 2nd quarter of 2016 the volume of overdue debts on mortgages in Russia increased by 6% or 9 billion roubles and reached 157 billion roubles. At the same time, during five months on 2016 the banks granted loans in the amount of 550.4 billion roubles, which exceeded by 1.5 the amount of the issuance of the first five months of 2015. In 2015, a Russian borrower on average took 1.7 loans. In 2015, in Moscow citizens received 2,309 million loans, 414 billion roubles worth. This is about 10.6% of total number of loans in Russia in 2015 and almost 17% of the total volume of loans in roubles. In the Moscow region 1.4 million loans (6.5% of the total) were granted in the amount of over 236 billion roubles (8.7% of the total). Table 5 presents the amount of loans granted in the leading regions in 2015.

Table 5. Number of loans granted in regions in 2014-2015

Region	2014	2015
Moscow	3,334,590	2,309,867
Moscow Region	1,944,586	1,405,895
Krasnodar Territory	1,062,888	692,563
Bashkortostan	953,571	690,166
Sverdlovsk Region	880,346	647,373
Kemerovo Region	831,033	606,667
Samara Region	800,000	543,970
Chelyabinsk Region	767,972	541,314
St. Petersburg	740,962	534,727
Rostov Region	726302	520,177

Table 5 demonstrates that there was a significant reduction in the number of loans granted in all the leading regions in 2015 compared with 2014. It is informative to examine the dynamics of the loans granted in qualitative terms. This information is represented in Table 6.

Table 6. Volume of loans granted in regions in 2014-2015, roubles

Region	2014	2015
Moscow	711,405,135,682	413,814,572,496
Moscow Region	406,423,854,227	236,782,965,922
St. Petersburg	218,380,034,639	125,871,005,430
Sverdlovsk Region	139,941,484,176	80,595,395,180
Krasnodar Territory	134,576,407,317	67,801,392,961
Bashkortostan	114,220,831,174	60,743,470,426
Khanty-Mansiysk Autonomous District	113,993,367,794	53,250,805,764

Chelyabinsk Region	98,388,500,969	51,603,847,121
Rostov Region	96,776,726,197	49,207,018,212
Samara Region	92,092,662,957	48,400,690,874

Viewing the qualitative indicator of the regions on loans granted, table 6 differs with a composition of the Russian Federation regions and also it demonstrates that in 2015 there was a substantial decrease in the volume of granted loans compared with 2014. The average size of the loans granted in 2015 by loan types is of great academic interest. The dynamics in regions is shown in Table 7.

Table 7. Average size of granted loans in regions in 2015, roubles

Region	Loans in cash	Mortgage Loans	Car Loans	Credit Card
Moscow	146,704	2,087,070	866,057	50,776
Moscow Region	134,916	1,950,566	737,839	44,258
Khanty-Mansiysk Autonomous District	130,423	2,065,107	774,298	44,752
St. Petersburg	116,707	2,039,181	689,032	51,313
Sverdlovsk Region	114,464	1,523,195	613,274	35,166
Krasnodar Territory	87,070	1,516,181	706,986	31,100
Rostov Region	82,705	1,468,969	622,700	31,090
Chelyabinsk Region	79,345	1,203,308	554,523	28,162
Bashkortostan	73,249	1,301,360	483,318	31,187
Samara Region	70,547	1,286,269	523,316	29,417
Kemerovo Region	54,633	1,261,327	598,997	24,189

As for loans in cash, the highest lending share is noticed in Moscow, and the smallest - in Kemerovo Region. As for mortgage loans, Moscow takes the leading position and the lowest proportion is noticed in Chelyabinsk Region. As for car loans, the largest share is spotted in Moscow, the lowest – in Bashkortostan. As for the credit card, the leader is considered to be St. Petersburg, and the lowest share is in Kemerovo Region.

Conclusions

Despite the above-mentioned problems, there are quite good prospects for development of the consumer credit market (Rakhmatov, 2016; Abramyan, Savenko, 2015; Jorion Philippe, 2003; Nelson, 1901; Novokreshchenova *et al.*, 2016; Rupeika-Apoga and Nedovis, 2015). Banks need to develop a strategy that will not only help to overcome obstacles but also lead to the development of the consumer credit market. It is necessary to use a flexible policy on crediting issues towards customers. Unfortunately, not all applicants get loans due to the inefficiency of the banking system. Moreover, to reduce the number of defaults because of the high cost of loans, it is essential to create conditions to reduce interest rates.

It can be of great importance for banks not only to develop interbank strategies but also focus on new forms of loans, such as loans with plastic cards or overdraft. In addition, banks should conduct market research to know the public needs. In ongoing conditions it is much faster, easier and more convenient to request and get a consumer loan. Indeed, there are a lot of various banks, so borrowers have to make a choice. There are more liberal programmes when a consumer can take a larger amount of money without backers and inquiries.

There are several things that can help contribute to the development of the credit market, such as open programmes for different categories of citizens; attracting more attention to this issue; thorough and accurate verification of new organizations and the timely paying back of the loans.

Simultaneously, commercial banks in the regions need to actively implement modern technologies and expand their scope. The time of banking operations affects both the operation of the credit institution and the mood of customers. It is significant not to put the onus for some problematic aspects on the financial crisis. It has worsened the economic situation in the economy, however, the population had lost interest in loans before, and the crisis only aggravated the situation (Costa, Khan, Levy, Natale, 2014). It is therefore necessary to make integrated management decisions so that to solve not only the key problems of consumer loans in the long run but the current ones as well. The development of this market depends not only on the state but also on each participant, including customers.

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