

Challenges to the Financial Stability of the Russian Banking Sector in 2020-2024

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Abstract

The structure of the Russian banking system is currently based on a group of 5 major credit institutions (CIs). They concentrated 66.5% of banking assets; the banks ranked 6th to 10th by asset size account for about 13.5%. Russian banks are actively looking for ways to improve their competitiveness, efficiency and financial stability. Over the past five years, banks have faced external crisis factors, including financial sanctions from leading economically developed countries. The article reveals a set of current financial risks and methods of managing these risks used by Russian banking institutions. Much attention is also paid to the increased role of the Bank of Russia as a regulator of financial markets and to the instruments of supervision and regulation of the banking sector. The interaction of market institutions and regulatory bodies has made it possible to maintain financial stability in the Russian economy, despite numerous challenges.

Keywords

Banking Sector, Customer-Oriented Business Model, Systemic Risk, Risk Management, Financial Sanctions, Anti-Crisis Financial Policy, Financial Stability

1. Introduction

1.1. Conditions of the Russian Banking Sector in the Last Two Decades

The development of the national financial system of Russia took place in the process of periodic clashes and overcoming of financial and economic crises. On the one hand, this contributed to the development of a high capacity of the banking sector and banking management to adapt to constantly emerging challenges. On

the other hand, the Russian state actively developed and improved methods of banking supervision and regulation. Since the mid-2000s, the Bank of Russia has begun to develop macroprudential regulation of financial market institutions. The Bank of Russia has successfully implemented a digital regime for prudential banking supervision (SupTech) and banking regulation (RegTech). The essence of this approach is to coordinate macroeconomic monetary policy with ensuring the stability of financial markets.

Over the last decade and a half, in the course of overcoming the consequences of the 2007-2009 recession, competition in the financial market, primarily bank loans, has been conducted using Fintech information technologies and through the creation of financial conglomerates (ecosystems). Banks have thus significantly changed their business models. Banking groups (holdings) have moved towards a customer-oriented business with a focus on remote provision of services, which they offer to both households and the corporate sector.

In order to achieve the stated goals and to unite the instruments in the hands of a single regulatory body, the federal law “On Amendments to Certain Legislative Acts of the Russian Federation in Connection with the Transfer of Authority to Regulate, Control, and Supervision in the Sphere of Financial Markets” (Federal Law dated 23.07.2013 No. 251-FZ) was adopted. The Bank of Russia was transformed into a mega-regulator of the entire market financial sector of the Russian Federation.

Understanding of the current structure of the Russian banking sector is important for the future regulatory activity and financial stability of the country. This manuscript provides a comprehensive overview of the Russian economy’s response to changing international relations and trading as well as systemic risk caused by financial uncertainty. As a review article, its purpose is to provide readers with an image of how Russia was able to overcome economic sanctions, including extensive embargoes and export restrictions, so an opportunity to further explore, hypothesize, and research this topic would arise.

1.2. Roadmap

The article contains 6 major sections:

- 1) Introduction
 - 2) Macroeconomic Conditions for the Development of the Russian Banking Sector
 - 3) Development of the Russian Banking Sector in the Context of the Geo-Economic Crisis
 - 4) The Main Directions of the Anti-Crisis Policy of the Government of the Russian Federation and the Bank of Russia
 - 5) Digitalization Trends, Competition and Financial stability of Russian Commercial Banks
 - 6) Conclusion
- (1) In the introduction historical development of the Russian banking sector in

the 21st century is outlined to provide context for the further review of the macroeconomics conditions. (2) In the section “Macroeconomic Conditions for the Development of the Russian Banking Sector” the authors introduce such major factors in the 2020-2024 banking sector as the global financial crisis of 2007-2009, the economic slowdown in 2010-2020, the recession of 2014-2016, the devaluation of the Russian ruble, the disruption of the supply chains during 2020-2021 pandemic, and the economics uncertainty as well as sanctions resulting from the special military operation (SMO) in Ukraine. (3) Section “Development of the Russian Banking Sector in the Context of the Geo-Economic Crisis” offers a quantitative analysis of the sector’s structural characteristics and of the performance indicators of credit institutions. (4) In “The Main Directions of the Anti-Crisis Policy of the Government of the Russian Federation and the Bank of Russia” a comparison of the foreign and Russian approaches to overview the anti-crisis policy as well as the adaptation to the new geo-economic conditions strategy of the Bank of Russia can be found. (5) In “Digitalization Trends, Competition and Financial Stability of Russian Commercial Banks” authors focus on the influence of developing financial technologies on the banking industry to explore the financial risks arising from it. (6) Conclusion summarizes the main points from the article and states the conditions for the efficient governmental regulation and further successful development of the banking sector.

2. Macroeconomic Conditions for the Development of the Russian Banking Sector

The national financial system of the Russian Federation includes both the non-market state sector and the market sector. The first, non-market, includes institutions of the budget system, the tax system, and state social insurance funds. The capital of market institutions belongs either to private owners (individuals and legal entities) or is of a private-public nature. The leading role in Russian financial markets belongs to banks. It is banking institutions that control the overwhelming majority of assets in the market sector. Banks form holding groups that control leading insurance companies, non-state pension funds (NPF), and management companies of investment funds that conduct transactions with securities. However, as many Russian experts have emphasized, the market sector of the Russian financial system has been bank-oriented for more than the last three decades, i.e. the entire post-Soviet period of building a market economy. See, for example, the article by renowned experts M.E. Doroshenko, S.K. Dubinin, A.S. Loleit “Market-Oriented and Bank-Oriented Financial Systems: Post-Crisis Relationships in Russia and the World.” (Doroshenko et al., 2019)

It is advisable to trace the current stage of development of the Russian banking sector using materials from the period following the end of the global financial crisis of 2007-2009. During the years of this crisis, the weaknesses of many Russian banks became obvious. The recession in the Russian economy was deep, with the decline amounting to about 6.6% of the country’s GDP. Under these conditions,

banks faced a massive realization of the credit risk of their counterparties. The economy faced the threat of a large-scale systemic crisis, which could lead to the destruction of financial stability in the country.

The need to cleanse the banking sector of insolvent, unprofitable credit institutions has become a pressing task for the Bank of Russia. At the same time, leading Russian banks that have maintained their solvency are faced with the issue of improving their corporate governance, primarily compliance principles and the use of internal stress testing models by banks, as well as risk and capital management methods.

This situation was aggravated by the fact that economic growth in Russia slowed in the period of 2010-2020. The average annual growth rate of GDP in real terms was at around 1.0%. This was the result of regular economic downturns. Over the past fifteen years, the Russian economy has experienced three economic downturns accompanied by financial problems. The 2014-2016 recession resulted in a 3.5% annual decline in GDP. It was accompanied by a deep devaluation of the Russian ruble. In these conditions, both banks and their subsidiary management companies working with investment funds and serving private investors were looking for an adequate response. The next economic downturn occurred in 2020, which was a response to the COVID-19 pandemic. Internal and external conditions for the country's development have become much more complex. The economic downturn in 2020 reached a year-on-year figure of minus 8.5% of GDP. State restrictive sanitary measures have acquired the broadest nature (Zubarev et al., 2024).

The disruption of supply chains during the slowdown in intercountry trade relations during the 2020-2021 pandemic led to a slowdown in global economic growth. The decline in demand for raw materials exported from Russia created the conditions for an economic recession. The acceleration of economic growth in the second half of 2021 did not lead to withdrawal from the crisis, since in 2022 the development of the country's economy faced the geo-economic, meaning related to the economic relations with countries situated nearby Russia, consequences of the conflict in Ukraine. Primarily, the disruption of Russia's usual international economic relations.

In 2022, the special military operation in Ukraine also created a new situation that was unexpected for most economic practitioners and theoretical experts. The period 2022-2025 has almost accustomed participants in the Russian financial market to a state of "uncertainty", i.e. the economic scenario of the future has ceased to be inertial. In January 2022, businessmen assumed that economic growth lay ahead. The same as it was in 2021. In practice, annual GDP showed "negative growth" of minus 1.2%. In January 2023, few experts expected annual GDP growth of more than 3.5%. These data were later changed by the Federal State Statistics Service (Rosstat RF) to 4.1%. The 2024 figure also stood at 4.1% in real terms. The nominal size of GDP was RUB 200 trillion (Forbes.ru, 2025). Data may include biases. Annual GDP growth adjusted for inflation demonstrates the

acceleration of economic growth in Russia. **Table 1** contains current data on this trend.

Table 1. Indicators of macroeconomic dynamics of the development of the Russian economy^a.

	2020	2021	2022	2023	2024	2025 Forecast	2026 Estimation
GDP growth (%)	-2.7	5.9	-1.4	4.1	4.1	0.5-1.5	1.7
CPI inflation (%)	4.9	8.4	11.9	7.4	9.5	6.8	4.6

^a. [Bank of Russia \(2025a\)](#), Macroeconomic survey. Data may include biases.

The IMF has slightly improved its forecast for Russia's GDP growth in 2025 to 1.4%; in October 2024, the forecast was 1.3%. The forecast for 2026 remains unchanged GDP growth of 1.2% ([TASS, 2025](#)). Data may include biases.

However, the nature of macroeconomic forecasts remains quite "uncertain." In May 2023, K.V. Yudaeva, who was then First Deputy Chairperson of the Board of Directors of the Bank of Russia, emphasized that it is important for the regulator that the process of structural transformation of the Russian economy is not accompanied by the accumulation of financial stability risks. It is also necessary to seek a balance between short-term and long-term risks of the financial system. ([Association of Russian Banks, 2023](#)). Data may include biases.

A number of economic experts and Russian official bodies hold much more optimistic estimates of economic growth in the coming years. The Ministry of Economic Development forecasts this figure at 2.5% in 2025, 2.6% in 2026, 2.8% in 2027. This forecast was submitted as an official assessment of the Russian Government to the State Duma in September 2024 ([Ministry of Economic Development of the Russian Federation, 2024](#)). Alexander Novak, Deputy Prime Minister in December 2024 confirmed this growth estimate at 2.0% - 2.5% per year ([Interfax, 2024](#)). Data may include biases.

Ensuring control of the Bank of Russia and government bodies over the inflation process is of paramount importance for the stability of the Russian financial system. Due to the current political priorities, accelerated stimulation of budgetary expenditures on defense and the corresponding state order for the defense industry continues to grow annually. The volume of aggregate demand in the Russian economy remains at a high level. It is this excess of demand over supply of goods and services for households that is the determinants of the inflationary process in Russia. "Uncertainty" in estimates of inflation and its sources has also taken on a long-term nature.

In January 2025 Rosstat estimated annual consumer price inflation (CPI) at 10.14%. Inflation expectations of the population reached 14.0%; business expectations for inflation in the manufacturing sector amounted to 28.3% ([SberCIB Investment Research, 2025](#)). Data may include biases.

In February 2025, the Bank of Russia conducted a survey among 27 economic experts. They were asked to answer a question about their forecast estimates of the GDP growth dynamics year-on-year and the consumer price index in 2025 and 2026. The figures represent the median value of the indicators reported by the participants (Bank of Russia, 2025a, Macroeconomic survey). Data may include biases. The data in **Table 1** reflect the poll results with forecasted for 2025 GDP growth being 0.5% - 1.5% and CPI Inflation being 6.8%; and estimated for 2026 GDP growth being 1.7% and CPI Inflation being 4.6%.

Ksenia Yudaeva, who previously served as First Deputy Chairperson of the Board of Directors of the Bank of Russia, rightly emphasized during her analysis of inflationary trends: “Budget-related inflation risks” also pose more general risks to financial stability, due to high volatility of rates and a decrease in the level of confidence in the market. “...The debt burden [on corporate loans] creates additional risks for the banking system.” Mortgage and retail lending risks are also rising, increasing risks to financial stability (Yudaeva, 2023).

3. Development of the Russian Banking Sector in the Context of the Geo-Economic Crisis

Currently, the Russian banking system is adapting to new domestic and foreign economic challenges. This applies both to the structural characteristics of the banking sector and to the performance indicators of credit institutions, and to banking activities in various financial markets.

Table 2. Current credit institutions^a.

As of	01.01.2023	01.01.2024	01.01.2025
Total, pcs	360	360	351
Incl. banks	325	323	312
- with universal license	224	223	216
- with basic license	101	100	96
Non-bank credit institutions	35	37	39
CIs with licenses revoked since the beginning of the year	6	0	8

^a. Bank of Russia (2024b), Statistical indicators of the banking sector of the Russian Federation. Data may include biases.

The quantitative reduction in the number of banking institutions (See data in **Table 2**) is a direct continuation of the trend of previous years. The number of operating banks decreased from 325 as of January 1, 2023 to 312 as of January 1, 2025. During the period 2001-2024, the total number of revoked banking licenses was 681. Ten years ago, during the economic downturn, the number of licenses revoked each year reached its highest level. In 2014 it was 73; in 2015 it increased to 89 and in 2016 it reached 94 (Combanks.ru, 2025). Data may include biases. Over the past four years, few banks have lost their licenses. In 2023 their number was zero. This is primarily due to the “regulatory relaxations” that were provided

to the Russian banking sector by the Bank of Russia as an anti-crisis policy measure.

Table 3. Structure of assets, liabilities and capital of the banking sector^a.

	01.01.2024 (RUB billion)	01.12.2024 (RUB billion)	%
Assets, total	190,218	195,563	100.0
Cash	12,518	14,722	7.5
Deposits with the Bank of Russia	3667	4692	2.4
Mandatory reserves with the Bank of Russia	272	504	0.3
Loans to banks	17,429	18,010	9.2
Securities	21,681	22,409	11.5
Participation in the authorized capital	3577	3854	2.0
Loan portfolio	101,421	121,438	62.1
- loans to non-financial legal entities	61,559	74,835	38.3
- Overdue loans	1953	2151	1.1
- Loans to individuals	33,742	37,411	17.6
- Overdue loans	1181	1370	0.7
- Claims on derivative instruments	620	943	0.5
Digital financial assets	0	35	0.0
Total Liabilities and Capital	190,218	195,563	100.0

^a. [Bank of Russia \(2024b\)](#), Statistical indicators of the banking sector of the Russian Federation. Data may include biases.

The ratio of assets of financial institutions (banking and non-banking) to GDP in 2022 amounted to 102.5%; in 2023 - 128.3% and reached 131.5% in 2024. By the beginning of 2025, the assets of the banking sector have come very close to the level of 98% of the current volume of Russia's GDP ([Bank of Russia, 2024a](#), Main directions of development of the financial market of the Russian Federation). Data may include biases.

As evidenced by the data in [Table 3](#), the most important component in the structure of banking assets is the loan portfolio (62.1%); corporate loans to non-financial legal entities constitute the main category of loans to bank borrowers (38.3%); the volume of loans to households is approximately two times smaller (17.6%).

Analytical data from the Bank of Russia show a fairly high quality of the loan portfolio. As of the third quarter of 2024, non-performing corporate loans amounted to RUB 3.8 trillion, while their share in the corporate portfolio was 4.8%. Non-performing loans are covered by prudential reserves by 61%. The quality of consumer loans is declining somewhat. The share of non-performing loans, i.e. loans that have not been serviced for more than three months (NPL90+) reached 7.9%. Such loans are covered by individual reserves by 92% ([Bank of Rus-](#)

sia, 2024d, Banking sector). Data may include biases.

According to the Bank of Russia, in 2023 the number of Russian citizens who used credit products reached 50 million. This is more than 40% of the Russian population over the age of 16. There were 119 million of them in the country. Of these 50 million, 42 million have debt only with banks; 3.9 million have debt with both banks and microfinance institutions (MFIs); 4 million have debt only with MFIs. Half of the retail loan debt is owed by borrowers with three or more loans. (Feinberg & Koshkina, 2024).

Table 4. Concentration of assets in the Russian banking sector^a.

Distribution of CIs ranked by asset size	01.01.23		01.01.24		01.12.24	
	RUB billion	% of the total	RUB billion	% of the total	RUB billion	% of the total
Top-5	84,926	63.1	107,933	64.3	129,992	66.5
6 - 10	18,879	14.0	23,655	14.1	26,307	13.5
11 - 20	13859	10.3	17,200	10.2	18,168	9.3
21 - 50	9835	7.3	11,311	6.7	12,879	6.6
51 - 100	4503	3.3	4875	2.9	5269	2.7
101+	2617	1.9	2856	1.7	2948	1.5
Total	134,620	100	167,830	100	195,563	100
SICI	105,157	78.1	131,628	78.4	153,319	78.4
CIs controlled by foreign investors	12,728	9.5	15,872	9.5	19,446	9.9
Herfindahl-Hirschman Index, %	13.2		13.3		13.7	

^a. Bank of Russia (2024b), Statistical indicators of the banking sector of the Russian Federation. Data may include biases.

The data in **Table 4** demonstrate a high level of banking assets concentration in the Russian banking system. Over the past three years, there has been a slow increase in the share of the top five banks in the total assets of the banking sector. If on January 1, 2022 this figure was 63.9%, then on the same date in 2024 it increased to 64.3%, and in December 2024 it increased to 66.5%. The share of systemically important credit institutions (SICI) increased from 77.5% to 78.4% during this period. It can be stated that 20 leading banks consistently account for more than 87% of banking assets (in 2022 87.2%; in 2024 89.3%). The Herfindahl-Hirschman Index (HHI), an indicator for assessing the degree of market concentration in an industry, remains stable and amounts to over 13.0%. This relatively low level is due to the fact that the shares of the individual market participants themselves are obviously very unequal. Sberbank and VTB stand out for their size against the background of other Russian banks.

The article by S.K. Dubinin and L.E. Telichko stated that “the Russian banking sector is in search of updating its business model, strengthening its client orientation.” These authors point out that 9 out of 10 leading banks form bank holding companies. They are banking groups that operate according to business ecosystem

models. “This ensures that the business model is customer-focused, as the range of services offered within a single group is expanded. In turn, companies working with investment funds and serving private investors are also looking for an adequate response in transforming their activities. Banks are constantly resorting to participation in the capital of non-bank financial intermediaries. At the same time, banks are outsourcing financial services by attracting specialized non-credit financial intermediaries to banking groups.” (Dubinin & Telichko, 2022) This adaptation process has boosted the digitalization of banking activities, i.e. to the technological development of the banking sector and financial markets in general. On this basis, its economic efficiency has increased significantly.

The balance sheet capital of the banking sector in Q2 of 2024 amounted to RUB 14.8 trillion. The total capital adequacy ratio (N1.0) was 12.1%. In Q3 of the same year, the volume of balance capital increased to RUB 17.9 trillion, while the adequacy ratio remained at the same level. In 2023, the ROE indicator in the banking sector was 29.0%, in 2024 ROE was 25.0%. The number of profitable banks in December 2024 was 280, their share of the total number of banks was 88.9%. (Bank of Russia, 2024c, On the development of the banking sector of the Russian Federation; Bank of Russia, 2024d, Banking sector). Data may include biases.

Table 5. Financial results of banks’ activities^a.

As of	Net profit (+)/loss (–) for the current year, RUB billion			Number of CIs, units		
	01.01.23	01.01.24	01.12.24	01.01.23	01.01.24	01.12.24
Banks						
Total	129.8	3175.5	3724.6	325	323	315
Profitable	1168.1	3233.4	3757.4	272	292	280
Unprofitable	–1038.3	–57.9	–32.7	53	31	35
Current year profit before tax	3,952	4,513				

^a. Bank of Russia (2024b), Statistical indicators of the banking sector of the Russian Federation. Data may include biases.

The situation in 2022 was negative for the banking sector. Financial sanctions against Russian banks have significantly limited their ability to conduct international transactions. This reduced the amount of profit received by banks. However, the pre-tax profit figures of Russian banks have increased significantly in the last two years. In 2023, the profit volume amounted to about RUB 4.0 trillion, in 2024 it reached the level of RUB 4.5 trillion. See data in Table 5.

4. The Main Directions of the Anti-Crisis Policy of the Government of the Russian Federation and the Bank of Russia

Russian and foreign experts use generally common approaches and characteristics to analyze the policy of sanctions pressure on the Russian economy. Thus, I.N.

Timofeev, the program director of the Russian International Affairs Council, writes with reference to the works of Western colleagues: “Economic sanctions imply that the initiating country creates conditions under which economic damage, lost profits, as well as their consequences for society and the political system, make it unprofitable to maintain the old political course and force the target state to make concessions to the demands of the initiating country” (Timofeev, 2020).

R. Nephew describes effective sanctions as follows: (1) clearly define their purpose; (2) understand the target country’s vulnerabilities and its ability to “endure pain”; (3) justify a strategy for selecting targets on which the initiating country should focus its attacks and weaken the target country’s ability to take retaliatory measures; (4) continually adjust its strategy; (5) clearly define the conditions under which sanctions can be lifted (Nephew, 2018).

In 2022-2024 the foreign financial sanctions were focusing primarily on undermining stability of the leading financial institutions. The target was to cause the systemic banking crisis. “The leading sanctions are financial. At the top of the list are the effective freezing of assets held abroad by Russia’s central bank and selected Russian commercial banks, and the exclusion of most Russian intermediaries from the SWIFT messaging system...” (Cecchetti et al., 2022).

As a result of the banking crisis threat the Bank of Russia had worked out an anticrisis regulation complex. It was aimed to prevent the systemic risk and shock propagation. The task was to avoid the so-called “contagion effect”, when the failure of one institution can quickly spread to others.

According to IMF definition “A systemic crisis emerges when problems in one or more banks are serious enough to have a significant adverse impact on the real economy. This impact is most often felt through the payment system, reduction in credit flows, or the destruction of asset values. A systemic crisis often is characterized by runs of creditors, including depositors, from both solvent and insolvent banks, threatening the stability of the entire banking system.” (IMF, 2003)

In this context, remarkably the problem of contagion channels and financial shocks network propagation are attracting the attention of numerous researchers after the world financial crisis 2007-2009. For example, S. Nasini, D. Erdemlioglu wrote in the article:

“The episodes of financial turmoil in the last decade have compelled market participants to examine in depth the roots of transmission channels behind contagion. The prevailing evidence from prior research suggests that shocks spread within the financial network through supply-chain linkages as a fundamental channel for propagation dynamics.” (Nasini & Erdemlioglu, 2019)

K.B. Hansen, the researcher of cultural and intellectual history and financial behavior theory, stressed that

“The concept of contagion is quite often employed in discourses on financial markets and speculation when the common economic theories tend to come up short. Be it financial panics, bank runs or the inflation of a speculative bubble, contagion is a go-to metaphor for financial writers attempting to capture the pro-

cess through which such events build up and unfold.” (Bondo Hansen, 2021)

In 2022 the Bank of Russia primarily target was ensuring the financial institutions stability. Responsive to the sanctions threat, all the regulator’s decisions were aimed at preventing panic and the “banking runs”. Just after the start of the special military operation and financial sanctions enforcement the Bank of Russia raised the key interest rate up to 20%. That measure resulted into the banks’ deposits interest rates surge, which incentivized corporate and household depositors not to withdraw savings. Bank of Russia had introduced strict regulation of the capital export and import. As well as the Russian ruble free market exchange rate restriction.

At the next stage of the stabilization policy Bank of Russia put into life the numerous “regulatory relaxations” in the area of bank balance sheet formation. A set of such measures includes easing requirements for the bank reserves and banks capital adequacy; deferral up to 2032 of the obligatory reserves for the blocked assets; and reduction of surcharges to capital adequacy requirements for SICI and for all banks with a universal banking license.

The practice of Russian market agents and state regulators resisting sanctions pressure, from 2014 to the present, demonstrates the possibility of maintaining financial stability in Russia over a fairly long period. Solving this problem also required the mobilization of all resources and efforts to maintain the national financial system in working order. The balance between growing aggregate demand and limited supply due to Russian production and import of goods and services is maintained through rising prices and a gradual weakening of the exchange rate of the Russian ruble. The mega-regulator of Russian banking credit and securities markets has focused on preventing systemic risks. In these conditions, anti-crisis measures of state regulation are focused on addressing the following tasks:

- During 2022-2023, the capital of 29 banks was replenished through additional issue of shares. They were placed among private investors and, in some cases, using federal budget funds. During the same period, the average daily volume of bank refinancing through Bank of Russia loans increased from RUB 1.5 trillion to RUB 2.3 trillion. The average annual share of Bank of Russia bank refinancing in sources of banking liquidity amounted to 54.1% in 2023 and reached 96.1% by the beginning of 2024 (Gaidar Institute, 2024). Data may include biases.
- The Bank of Russia widely uses supervisory stress testing (SST) for analytical assessment of the state of the country’s leading banks. In early 2023, after a one-year break, a bottom-up SST was carried out for all 13 SICI. In the autumn of the same year, the SST was carried out by 30 of the largest banks (more than 80% of the sector’s assets). Based on the results of these procedures, recommendations were developed for banks on recapitalization of credit institutions. Additional requirements were also introduced to improve risk management, including the use of internal bank ratings.
- The Ministry of Finance and the Bank of Russia have significantly expanded

their preferential corporate lending programs. Preferential loans provided for compensation to banks from the federal budget for lost interest income on loans issued primarily to the largest corporations in the manufacturing industry; exporting companies; lending to investors within the framework of state national projects; as well as compensation for unpaid bank interest on mortgage loans in the retail sector when concluding a contract for the purchase of housing with developers and construction companies. Preferential loans were also provided to SMEs on the condition that they maintain the number of employees.

- Overcoming restrictions for Russian banks in carrying out international settlements using traditional currencies of highly developed countries. The freezing of correspondent accounts in freely convertible currencies, primarily in dollars and euros, was the result of the inclusion of leading Russian banks in sanctions lists (SDN-List; CAPTA List; SSI List), which made it impossible to carry out transactions. In December 2024, the Office of Foreign Assets Control (OFAC) imposed new sanctions against the Russian financial sector. More than 50 Russian banks are included in the SDN (Special Designated List). Including the systemically important Gazprombank, its foreign subsidiary banks and a number of other banks, including Dom.RF, BBR Bank, NRB, Trust Bank. Personal sanctions were extended by OFAC to E.S. Nabiullina, the Chairman of the Bank of Russia. She is included in the SDN List. The sanctions affected 11 managers of the Bank of Russia (RBC News, 2024).

In his analysis of the development of the global monetary and financial system, S.A. Kondakov states that structural processes of transition to a new global monetary order are currently being observed—“the driving factors of this process are rather political (geopolitical) in nature...” At the same time, “this transition will take decades.” (Kondakov, 2024)

Table 6. Currency structure of settlements of the Russian Federation for export and import of goods and services (with all countries, in %)^a.

Year	2021		2022		2023	
	Export	Import	Export	Import	Export	Import
Russian ruble	14.4	28.2	27.7	28.0	39.1	29.9
Friendly countries' currencies	1.0	4.2	8.5	15.4	29.2	35.6
Currencies of unfriendly countries	84.6	67.6	63.8	56.6	31.8	34.5

^a. Turov, 2024.

Russian regulatory authorities have encouraged interbank agreements on the use of non-traditional currencies in the implementation of payment and settlement relations with friendly countries. Such decisions are not always public due to concerns about secondary sanctions being applied to counterparties. The data in **Table 6** show that the currencies of friendly countries and the Russian ruble are

gradually replacing the US dollar and the euro in international settlements to service current accounts of the balance of payments of the Russian Federation. This is evidenced by export of currencies of unfriendly countries declining from 84.6 in 2021 to 63.8 in 2022 to 31.8 in 2023; import of currencies of unfriendly countries declining from 67.6 in 2021 to 56.6 in 2022 to 34.5 in 2023. According to M.V. Mishustin, Russian Prime Minister, the share of national currencies in mutual settlements between the EAEU countries has reached 90% (WRI, 2024). Data may include biases.

Mutual settlements between Russian and Chinese counterparties have become of fundamental importance. In July 2023, the share of national currencies in settlements between Russian enterprises and partners in Asia increased to 84%. Of these, 33% are in the Russian ruble, and another 51% are in other currencies (for example, yuan or rupees). In particular, the yuan accounted for 75% of settlements in all Russian-Chinese trade turnover (Stroiteleva & Grachev, 2024).

Of course, such a development of events is directly determined by the sanctions pressure on the Russian financial system. Changing the structure of payment and settlement relations in Russia has become a powerful tool for adapting the economy to the challenges of geo-economic conflict.

5. Digitalization Trends, Competition and Financial Stability of Russian Commercial Banks

Significant challenges come from the financial sector digitalization. New financial technologies may not only influence the consumer of financial services but also affect competition model and financial results of Russian banks. Such financial innovation in Russia include:

- mobile banking development,
- Faster Payments System (SBP) implementation,
- financial marketplaces development,
- potential digital ruble launch.

Mobile banking is the widespread and well-known financial innovation, but combined with the Faster Payments System (SBP) and the availability of financial marketplaces services in Russia it critically affects competition in banking sector by creating additional potential for medium sized banks. Since May 2024 it is allowed for any bank client to transfer up to 1m Rub (approximately 12 thousand USD) between their bank accounts free of charge every day through the bank mobile apps based on Faster Payments System (SBP) infrastructure launched by the Central Bank of Russia. Financial marketplaces concept has been developing since 2017, but has achieved growing popularity only in 2024-2025. Financial marketplaces provide both information on attractive bank products and possibility to open deposits in banks using, for instance, Faster Payments System (SBP) or mobile apps. Thus, it is possible for the majority of the financial services consumers to replace all their own funds from one bank to another within several days. This creates competitive threats for large banks and opportunities for medium sized

banks as the latter may achieve wide access to potential clients via financial marketplaces. This can lead to a slight deterioration of large banks financial performance but the beneficiaries of such changes are not only the medium sized banks but also the financial marketplaces and the consumers of financial services.

Potential launch of the digital ruble is a challenge for commercial banks as it can accelerate competition and deprive them from nearly zero cost financing from the funds of clients' current accounts. According to estimates (Grishchenko et al., 2021), up to 25 - 30% of net interest income of Russian banks is provided by such funds, and in case if digital ruble gets sufficient share of money turnover (Chapyshev & Shaidullin, 2024) commercial banks financial performance can seize. Despite potentially negative effect of financial technologies on large commercial banks financial performance, many researches state that correct implementation of such innovations will not lead to any threats for financial stability in banking system (Andolfatto, 2020; Penikas, 2022; Keister & Monnet, 2022).

Importantly, Bank of Russia recognizes the risks involved with digitalization, which is visible when its strategy is compared with international views on this problem. On May 16 2024, Reuters published an information about Basel Committee on Banking Supervision report, on the digitalization of banking which examined new opportunities and risks, created by this process (Jones, 2024).

“The digitalization and entry of Big Tech into finance create new vulnerabilities and amplify existing risks in banking system that may need new rules to mitigate, global banking regulations said... These can include greater strategic and reputational risks, a larger scope of factors that could test banks' operational risks and resilience, and potential system-wide risks due to increased interconnections.” (Ibidem)

The Basel Committee Report included the enumeration of several innovative key technologies driving the banking digitalization:

- Application Programming Interfaces (APIs);
- Artificial Intelligence (AI) and Machine Learning (ML);
- Distributed Ledger Technology (DLT);
- Cloud computing.

“As digitalization increases interconnections within the financial system, systemic risks emerge, demanding vigilant oversight and flexible regulatory frameworks. For banks and regulators, working together in vital to foster responsible innovation and ensure financial stability. By skillfully balancing innovation with strategic risk management, banks can master the digital transformation, seize new opportunities, and strengthen their resilience.” (LHoFT, 2024)

In 2024, the Bank of Russia approved and published two documents, dedicated to the view on the digitalization development in banking system. It demonstrated the full solidarity with the Basel Committee approach, which is based on the clear and reliable principles.

“...Basel Committee on Banking Supervision is evolving frameworks to ensure responsible innovation... To stay competitive banks must balance innovation

with risk management, foster collaboration with regulators and technology partners, and adapt to the changing digital landscape.” (Ibidem)

In 2024, the Bank of Russia approved the Guidelines for Financial Technologies Development for 2025-2027. (Data may include biases.) The Bank of Russia will continue to develop financial technologies focusing on the following:

- 1) Improving regulation.
- 2) Fostering payment and digital infrastructure.
- 3) Implementing SupTech and RegTech solutions.
- 4) Ensuring the secure adoption of financial technologies.
- 5) Facilitating the international cooperation.

(Bank of Russia, 2025b)

In conclusion, the Bank of Russia declared: “The Bank of Russia delivers on the above-mentioned objectives in cooperation with financial market participants, fintech companies and concerned government agencies. Measures stipulated in Guidelines contribute to the implementation of the Digital Economy of the Russian Federation program and other fintech-related projects.” (Ibidem)

In the other strategic statement, Bank of Russia warns of specific risks for creditors and depositors of banks that form the basics of ecosystems. These risks are related to the banks of entering non-financial sectors that are new to them and include strategic risk, risk of being forced to support non-core business, and information security risks (Bank of Russia, 2023). Data may include biases.

“The trends in the development of the platform market show that elaboration of approaches to regulating platforms and ecosystems remains relevant in the current settings. The ecosystem regulation should be introduced in a way that retains all the advantages of the ecosystem development for individuals and businesses, while limiting related risks, including potential abuse of dominance and financial stability risks, and ensuring protection of suppliers and consumers’ rights.” (Ibidem)

6. Conclusion

The banking sector plays the role of the main financial intermediary in the Russian economy. The function of transforming savings into loans for corporations and households is combined with addressing issues of control over the multiplication of the money supply and the volume of aggregate demand. This is related to the fact that foreign financial sanctions are primarily aimed at restricting the activities of leading financial institutions. Accordingly, state economic regulatory bodies consider interaction with banks and support for their performance as a priority in ensuring financial stability.

The restructuring of the Russian economy in the context of military operations and the priority development of defense industries required a change in the goals and objectives of the banking system as well. The Bank of Russia has assumed the role of a major source of short-term liquidity for banks. The stabilization programs to support banking institutions were simultaneously conditioned by their

participation in preferential lending to leading corporations in the processing and mining industries. Balancing all of these goals has led to a significant increase in federal budget expenditures, on the one hand, and expanding support from the banking sector for the revenue side of the budget, on the other hand. In addition to the growth of tax payments due to the increase in banking profits, in this regard, one should keep in mind the growth in the volume of placement of government bonds to cover the budget deficit. Banking institutions and the investment funds they manage act as their buyers.

Thus, the policy of supervision and regulation of banking institutions can only be effective if the broad macroeconomic context is taken into account. All the external and internal economic risks and challenges considered in this article currently make it immanently necessary to increase the regulatory activity of government agencies.

Conflicts of Interest

The authors declare no conflicts of interest regarding the publication of this paper.

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