Characteristics and Problems of the Russian Leasing Market
Características y problemas del mercado de arrendamiento ruso

Fecha recepción: octubre 15 del 2021
Fecha aceptación: noviembre 4 del 2021

Tatyana V. Varkulevich
Candidate of Economic Sciences, Associate Professor, Head of Economics and Management Department
Vladivostok State University of Economics and Service, Vladivostok, Russian Federation
E-mail: Tatyana.Varkulevich@vvsu.ru
ORCID: 0000-0001-8214-7839

Svetlana E. Broder
Bachelor of economics, Economics and Management Department
Vladivostok State University of Economics and Service, Vladivostok, Russian Federation
E-mail: broder.lana@mail.ru;
Orcid: 0000-0001-5370-9783

Natalya Y. Titova
PhD in Economics, Associate Professor of Economics and Management Department,
Vladivostok State University of Economics and Service, Vladivostok, Russian Federation
E-mail: Natalya.Titova@vvsu.ru
ORCID: 0000-0002-0263-8636
Abstract

The leasing market in Russia is developing and becoming a popular and profitable instrument for financing the renewal of non-current assets of enterprises. The level of competition is becoming especially high, which allows for the development of this market and the creation of a high economic concentration. A number of problems and distinctions in connection with the emergence of a leasing instrument in Russia are drawn out.

Key words and word combinations: Leasing, lease portfolio, new business volume, competition in the leasing market, major segments of the Russian leasing market, problems of the Russian leasing market

Resumen

El mercado de leasing en Rusia se está desarrollando y convirtiéndose en un instrumento popular y rentable para financiar la renovación de activos no corrientes de empresas. El nivel de competencia se está volviendo especialmente alto, lo que permite el desarrollo de este mercado y la creación de una alta concentración económica. Se destacan una serie de problemas y distinciones en relación con la aparición de un instrumento de arrendamiento en Rusia.

Palabras clave y combinaciones de palabras: arrendamiento, cartera de arrendamiento, nuevo volumen de negocios, competencia en el mercado de arrendamiento, principales segmentos del mercado de arrendamiento ruso, problemas del mercado de arrendamiento ruso.
Introduction

The popularity of leasing is increasing rapidly now. This instrument of financing the renewal of non-current assets, being favored over the traditional purchase or lending, is used by more and more enterprises. In connection with the development of the leasing market, the number of companies providing this type of service is increasing, so is competition, and, accordingly, the range of offers and special conditions for concluding transactions is extending, as well as there appear problems in this area that need to be formulated for companies to make better choices in the current environment. Thus, the study of the distinctions of the leasing market is relevant.

Leasing, in the modern sense of the term, appears in the United States of America. The founder of financial leasing is Henry Schoenfeld who created a leasing company in 1952. An interesting fact is that initially the company was created for one single transaction in the railway sector, however, later, Schoenfeld became convinced of the profitability of that business. That is how the world’s first leasing company, the United States Leasing Corporation, was founded (International Practice of Leasing Activities).

Then leasing began to be extended gradually throughout the world. The scientific and technological revolution has become a catalyst for the development of this type of business. The emergence of modern advanced technologies made it necessary for companies to update their production assets, which was rather costly. With the help of the leasing mechanism, companies could upgrade their equipment on more favorable terms than, for example, lending. Leasing companies increasingly enlarged the spectrum of offers for financial lease, bidding lower interest rates, new forms of leasing.

Leasing came to Russia much later than to America or Europe, which was influenced by the later onset of the scientific and technological revolution and the privacy of economy. Until the 1990s, there was no legislation regulating leasing operations, and only those companies that had connections with the international market had access to this instrument. In 1993, the government decided to set up predominantly state-owned leasing companies in order to stimulate the renewal of fixed funds. In 1994, the Rosleasing Association of the Russian Federation was created, which incorporated 15 companies that
operated on the basis of the legislative framework (International Practice of Leasing Activities).

Leasing activities in Russia and in the world are actually determined by two main trends: world economic and financial globalization and competitive expansion.

With each passing year the equipment market develops, and leasing continues to be a profitable form of financing. Competition in the field of leasing is growing, and companies are looking for new ways of development in order to withstand difficult conditions. For example, there are product differentiation, the emergence of additional services, mergers, etc.

**Methods**

The purpose of this study is to determine the state of the leasing market in Russia. The research tasks are:

- Identification of contemporary tendencies of leasing market development;
- Consideration of the dynamics of the Russian leasing market;
- Determination of the leading segments of leasing in Russia;
- Classification of the problems of the leasing market;
- Description of the main problems of the leasing market. To achieve this goal, the study used the methods of bibliographic analysis and generalization of materials on the research topic; classifications of factological material characterizing the factors of leasing development; the methods of economic, institutional, structural and statistical analysis to establish relationships between the key characteristics of leasing.

New directions of companies’ actions in the market have emerged from two leading trends, which also shape its characteristics. (Borodina & Kalipov, 2016):

- Specialization or focus on specific products, in-depth study of specific markets, which allows offering the most profitable products;
- Consolidation or combination of companies as a result of which they can finance their activities with common assets;
Características y problemas del mercado de arrendamiento ruso

- Formación de alianzas estratégicas para facilitar la capacidad para funcionar en ciertos mercados creando una infraestructura colaborativa para proporcionar beneficios significativos a los participantes. Estas alianzas pueden incluir compañías de leasing, proveedores, alquileres, inversores, financieros y otros intermediarios;

- Pequeños bancos entrando en el campo del alquiler de equipos como modo de diversificar sus actividades y buscar nuevos beneficios competitivos;

- Creación de programas de ventas en forma de ofertas de condiciones favorables especialmente para el alquiler de un cierto tipo de equipo;

- Desarrollo de leasing operativo en conexión con el rápido desarrollo del mercado de equipos, para muchas empresas no compran equipos de manera total, sino que se refieren a leasing operativo por un cierto periodo;

- Securitización de activos – la venta de parte de los activos de empresas de leasing en el mercado a través del emisión de valores.

Para determinar el estado del mercado de leasing en Rusia, se debe considerar su dinámica en términos del volumen de nuevos negocios y el volumen del cartera de leasing. El cambio en el volumen de nuevos negocios en el mercado de leasing implica el número de nuevos contratos de leasing firmados por empresas en un año dado del periodo de revisión. El cambio en el mercado de leasing por el volumen de la cartera de leasing muestra cuántos contratos de leasing están en vigor en un año dado del periodo de revisión.

Según los datos de la encuesta de empresas de leasing proporcionados por la agencia de calificación Expert RA (Proyección del mercado de leasing para 2021), la situación general en el mercado de leasing se representa en el gráfico 1.
Based on the diagram, it can be seen that the market was growing from 2016 to 2019, the growth rate was unstable. However, in 2020, there was a decline in the leasing market by 6%. It can be explained by the economic crisis that the economy suffered in 2020 due to the pandemic. However, it should be noted that this decline is not critical, the indicator did not fall below the level of 2018.

The dynamics of the leasing market by volume of the leasing portfolio is shown in Figure 2.

**Figure 1.** Dynamics of the Russian Leasing Market in 2016-2019 by the Volume of New Business

**Figure 2.** Dynamics of the Russian Leasing Market in 2016-2019 by the Volume of the Leasing Portfolio
Características y problemas del mercado de arrendamiento ruso

There is no a decline in the volume of lease portfolio in contrast to the decline in the volume of new business in 2020. This suggests that in 2020, leasing agreements concluded earlier continue to operate. This graph shows the growth of the leasing portfolio since 2016 at different rates. Despite the 2020 crisis, companies did not lose their revenue base, but even increased it. But it should be noted that the quality of lease portfolio is deteriorating, however, companies are taking measures to restructure leasing agreements, thereby mitigating the consequences of the crisis. For example, in April 2020, opportunities were provided to defer payments or, during the period of quarantine restrictions, to pay only 50 percent of the amount of a previously established payment. This allowed lessees to restore their financial position without unnecessary financial burden, and lessors to receive payments a little later, while not losing clients due to temporary difficulties.

The spectrum of segments that leasing companies serve is quite large. The leading segments are freight and light automobile transport. Despite the slumping sales of automobiles in 2020 which according to the Association of European Businesses decreased by 9.1% (Preparedness for Shocks), car leasing shows an increase of 6%. This growth mainly falls on the second half of 2020, for many restrictions related to the Covid-19 pandemic have been eased and many trade operations have resumed. A similar situation exists in the segment of construction and road construction equipment, agricultural machinery, as well as equipment for metalworking. In other areas there is a decline, which is again associated with a difficult epidemiological situation in 2020. However, it should be noted that the decline was not strong, as the companies tried to cope with the crisis by acquiring equipment under finance lease, for this method turned out to be the best for them.

Let us consider the problems that are especially urgent for the leasing market at the present time. According to the results of a sample survey of the business activity of organizations operating in the field of finance leasing, conducted by the State Statistics Service, six factors have been identified that negatively affect the activities of organizations in the field of finance leasing.
In this case, a factor that negatively affects the activities of organizations is understood as a set of processes and phenomena that have a negative impact on the leasing market, which is facilitated by the problems that arise in these areas. In other words, these factors are the reasons why the market situation may be aggravated.

Competition is a vast area of concern in the leasing market. The relevance of the influence of this factor was noted by 47.30 percent of companies in 2019, and this value has increased greatly since 2015. Other problems are arising in the leasing market in connection with the aggressive competition. Competition in the market has always been present, but in crisis situations it becomes even more aggravated. Enterprises respond to crises in different ways, but small and medium-sized businesses are most damaged (Shashlo et al., 2018). The share of small and medium-sized businesses is significantly declining, which means that the number of potential customers for leasing companies is decreasing, which is why competition is even more intense. In order to withstand the crisis, companies begin to reduce leasing rates, hoping in this way to be more attractive to customers. However, only large companies have such an opportunity, thus there is a problem of monopolization of the leasing market. There are also leasing companies, part of the shares of which are owned by the state, which allows them to have access to the cheapest sources of financing for their activities. The general decline in leasing
rates has a negative impact, primarily on small private leasing companies, generally contributing to an increase in market concentration (Simonov et al., 2019).

Thus, the following problems are distinguished within the framework of competition:

- The problem of increasing market concentration;
- The problem of different opportunities for accessing funding sources;
- The problem of reducing the share of small and medium-sized businesses among potential leasing recipients.

In international practice, to solve this problem, the creation of leasing associations is actively used, which include major leasing companies that set market trends and provide support to small and medium-sized businesses. Such communities include “Leaseurope” – European Federation of Associations of Leasing Companies.

This trend is favorable for consumers, for more new attractive conditions for them emerge. For example, companies, in addition to leasing of equipment, provide additional services related to leasing. In order for companies to continue to function in a competitive environment, it is necessary to consider possible risks when making decisions.

It should be noted that the problem of a high percentage of commercial credit depends on the economic situation in the country on the whole. It can be attributed to a problem arising from the conditions existing in the market, that is, this problem is formed from the problems existing in the credit market. Lending activities have been and remain the most popular source of financing for leasing companies.

Companies are looking for alternative sources of financing, the most common of which is issue of bonds and advances. Based on the presented diagram, it can be observed that the share of credit in the funding of leasing companies decreases from 60.4 to 58.4 percent. Previously, this problem of a high percentage of commercial loans was in the first place in terms of urgency, but now its influence is falling. This suggests that among all the options for updating the fixed assets of an enterprise, leasing is seen as taking the lead, banks are increasingly cooperating with leasing companies and formulating lucrative offers. Some leasing companies are daughter companies of banks that have
expanded their functioning. Thus, the problem of a high percentage of business credit is gradually decreasing and is no longer pervasive as four years ago.

The problem that has become the third most important in recent years is the lack of financial resources. The problem of lack of financial resources is common most of all to small and medium-sized businesses, and it can be considered both from the leasing provider and from the lessee. Leasing companies, as a rule, use borrowed funds to finance their activities, and the share of their own funds in this structure is insignificant, which can make it financially fragile to crises and economic tremors. A small company willing to lease equipment may also lack its own funds, that is, an enterprise may show a low level of solvency, and this criterion is widely used in assessing the future potential of an enterprise. This problem especially affects the small business segment, because most of the enterprises included in it have a minimum authorized capital, or they have been created recently and have not yet managed to earn funds for a positive financial result, or they can be individual entrepreneurs with relatively few assets. Thus, many small businesses have the intention and need to lease equipment to use it in their activities, but due to the lack of their own funds, they cannot do this. Also, the problem with a lack of funding can be attributed to the problem of arrears, which the company may be exposed to as a result of factors outside its control, such as seasonality (Moiseev & Morgunova, 2017).

The next most important problem is the current level of taxation. According to Articles 171 and 172 of the Tax Code of the Russian Federation, a company has the right to apply VAT to set off included in lease payments (Tax Code of the Russian Federation, 2000). Thus, for some companies that do not pay VAT, the leasing instrument is less attractive since then the amount of VAT will be added to the portion of their lease payments.

There are cases of greater attention of the tax service to some transactions, for example, in the case of leaseback. This is due to two main aspects: the application of VAT credit included in the lease payments; abridgement of times of payback of fixed assets received in a finance lease. Judicial practice shows that when revealing the fact of ob-
taining a tax credit without carrying out a real business transaction, this benefit is unreasonable (Vakutin).

One of the solutions to problems in the field of taxation can be online interaction with the Federal Tax Service by introducing a tax monitoring system, as was done by the VTB Leasing company (Leasing Market Forecast for 2021). This system will allow companies to correctly use leasing instruments from the point of view of tax legislation.

To solve a number of problems relating to the difficulty to access a commercial loan, there are the following solutions used in practice in the Russian Federation:

- Special loan programs with more lenient conditions for leasing companies;
- The provision of subsidies to reimburse part of the costs upon payment of an advance upon concluding a lease agreement for entrepreneurs (Grebenik, 2016; Miroshnikova & Taskaeva, 2018; Petruk & Vorozhbit, 2017; Rakhmanova & Schneider, 2018; Razumova & Levine, 2019; Vasilenko & Titova, 2019; Vasilenko & Yachmeneva, 2018; Polukhina, 2019)

The significance of the issue with the imperfection of leasing legislation has decreased and now it ranks last in the rating of problems, however, this problem exists and its relevance is emphasized by 13.80 percent of the surveyed companies.

The leasing market in Russia has been developing. It arose much later than the American or European leasing market and developed independently regardless of the experience of these countries. The dynamics of the market in terms of the volume of lease portfolio has revealed steady growth over the past five years, despite a slight decrease in the volume of new business in 2020, which indicates that the leasing market in Russia is positively managing the fallout from the 2020 crisis. Leasing in Russia covers a wide range of market segments, which means that companies can lease almost any equipment. In the Russian leasing market, firms face a number of challenges, the dominant of which are keen competition and increased market concentration. But at the same time, the market continues to function, and competition, to some extent, becomes a factor in the development of the market. There are other problems and shortcomings in the leasing market, but this mechanism remains and even becomes more popular. In
Características y problemas del mercado de arrendamiento ruso

general, the leasing market has prospects for development, since scientific and technological progress is under way and companies will always need new equipment. Leasing has primacy over other forms of financing, so its development will take place in conjunction with the development of the market for equipment.

References


Características y problemas del mercado de arrendamiento ruso


Características y problemas del mercado de arrendamiento ruso


