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Moody's Downgrades Russian Banking System

By Howard Amos

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International credit rating agency Moody's lowered its outlook on the Russian banking system Monday to negative on the back of global economic fears.

Addressing the credit conditions in the market for the next 10 to 18 months, the report suggested that the poor performance of the world economy coupled with the adverse effects of the sovereign debt crisis in Europe will cause a contraction in liquidity, slow credit growth and pressure on asset quality.

A negative outlook is one that is likely to be marked by "volatility and uncertain conditions," Moody's said. The "stable" label, which the sector had previously enjoyed, denotes an environment likely to generate sustainable profitability.

The survey of 111 financial institutions justified its prognosis for the banking sector through the identification key problem areas. It said Russian banks are exposed to contagion from global markets, that depositor confidence is low, asset quality is weak, poor corporate governance is endemic and that there are regulatory deficiencies.

"Global financial market volatility, reduced access to wholesale funding, continued capital flight and downward pressure on the ruble have already led to a liquidity squeeze in the Russian banking system," Moody's vice president and report author Yevgeny Tarzimanov said in written comments.

In September, the ruble lost 10 percent against the dollar, and Russia's stocks have seen significant falls in recent months in line with international trends.

Moody's said Russia's gross domestic product growth in 2012 would fall to 2.8 percent, from an estimated 3.8 percent this year. Prime Minister Vladimir Putin said last week that growth would be above 4 percent in 2011.

But the report said government support for Russian creditors was an important strength for the sector, and that the state had already begun assistance to maintain liquidity.

Many experts believe that the Russian banking system is in a much stronger position to weather a crisis today than it was in 2008.

"Bankers are much calmer. They have accumulated experience, [and] they are ready," Anatoly Aksakov, president of the association of regional banks said Friday.

But Richard Hainsworth, director of RusRating, an independent bank rating agency, told The Moscow Times that it was not a global economic downturn that would hurt Russia, but the decisions made by Russia.

Hainsworth said it was Russia's brief war with Georgia that really spooked investors in 2008, rather than global problems, and stressed that domestic decisions were also of paramount importance today.

"There is a problem in the world, but it will not affect Russia unless Russia catalyses the uncertainty," he said.

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