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Bank Privatizations Risk Downgrades

By Howard Amos

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The fulfillment of a proposal by President Dmitry Medvedev to reduce the state's presence in the financial sector could hit the credit profile of Russia's biggest banks, rating agency Fitch said Monday.

Given the current appetite for privatization, there is a "significant probability" that the state will cut its holdings in the country's two largest banks — Sberbank and VTB — to below 50 percent over the next six years, Fitch analysts wrote in a report.

Medvedev ordered the Central Bank and the government last week to develop a proposal for turning their majority stakes in domestic banks to minority ones by Sept. 1.

But such privatizations "could reduce the potential for state support" and negatively impact the ratings of the affected banks, Fitch said.

Market leader Sberbank is 57.6 percent owned by the Central Bank. The government controls 75.5 percent of VTB and 100 percent of Rosselkhozbank.

Sberbank and VTB were the financial pillars of the Soviet Union and still enjoy significant state backing. Both received enormous support during the 2009 crisis, while last year VTB required a record state bailout of $14 billion following its takeover of Bank of Moscow.

Both Sberbank and VTB are rated BBB (stable) by Fitch. While the agency said it did not expect any sudden withdrawal of political support, a decrease in the state's holding introduced risk.

"If the government were to exit fully from the ownership structure of either bank, or to make any clear statements concerning burden sharing with creditors in case of bank failures, then downgrades ... could be more severe," Fitch said.

VTB is more vulnerable than Sberbank in this respect, Fitch added, as it has greater dependence on the state.

Sberbank is currently looking to privatize a 7.6 percent stake, which would preserve the Central Bank's majority control by one share. Sberbank president German Gref said Thursday that privatization below the 50 percent threshold was only realistic over a two- to four-year time frame.

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