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Alternative to Bank Privatizations Found

By Howard Amos

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A share issue would raise capital, countering a slowdown in loan growth. **Vladimir Filonov**

The Central Bank is looking at additional share issues that would dilute state control in Russia's two biggest banks and offer an alternative to the equity sales formerly expected to be the main mechanism for the government's ambitious privatization agenda.

While top officials in the Kremlin and the government have repeatedly stated their support for the state sell-offs, the proposal is the latest indication that strong forces remain committed to obstructing privatization.

“We have the privatization of Sberbank and VTB in our plans,” Central Bank First Deputy Chairman Alexei Ulyukayev said in an interview with Izvestia published Thursday. “But is the sale, the fiscalization, of these stakes really needed?”

Abandoning share saleswould mean the loss of huge revenues for the government: the 7.58 percent stake in Sberbank alone is worth up to $6 billion. “This is a formal rejection of privatization,” Ulyukayev said.

Unlike a direct sale, however, a share issue would provide the banks themselves with more capital — instead of simply switching capital ownership from the Central Bank to investors. Additional financing would help offset a current slowdown in loan growth and provide a buffer in the case of macroeconomic deterioration.

Prime Minister Dmitry Medvedev's cabinet has committed to reducing the state's holding in Sberbank by 7.58 percent, and in VTB by 25 percent, within 18 months. A divestment of the stake in Sberbank was scheduled for fall last year but has been repeatedly delayed because of turbulent market conditions.

New share issues are no easier to achieve in adverse markets than equity sales. “If this decision is made it will not be well taken by the markets,” said Dmitry Vinogradov, deputy head of research at UBS. “Essentially it exposes shareholders to additional risk.”

But Ulyukayev stressed that a share issue would have the same effect as privatization. “In substance it is the same thing,” he said. “We will get privatization through an increase of private ownership.”

“This option is likely being considered as a preventive measure,” said Troika Dialog analysts in a note to investors Thursday. “The government would at least lower its participation in banks and remove from the table the potential issue of supporting their capital.”

“In terms of capitalization VTB is in a more vulnerable position [than Sberbank],” said Vinogradov — which might make it a more attractive as an initiator of new share issues. Credit rating agency Fitch re-affirmed Sberbank's credit rating Thursday as stable at BBB, the same as Russia itself, and described the financial institution's capitalization as “reasonable.”

But analysts said it was unlikely that the government's privatization schedule for VTB and Sberbank could be carried out entirely by gradually watering down control via new share issues. A combination with equity sales was the likeliest outcome, they said.

“Such large primary issues seem on the high end and unrealistic given the markets' fragile mood,” wrote Troika.

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