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Major Banks Boost Outstanding Debt

By The Moscow Times

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Russia's leading banks have increased their outstanding debt stock by more than a third this year through new issues, throwing into question their ability to continue fundraising at the same rate next year.

Lenders have raised $25.7 billion this year in the international markets in U.S. dollars, Singapore dollars, Swiss francs, yuan and rubles, representing just under 20 percent of the region's total issue.

VTB leads the way, with $6.87 billion of bonds issued, followed by Sberbank at $6.23 billion, Gazprombank at $4 billion, Russian Agricultural Bank at $2.42 billion and VEB at $1.75 billion.

That issuing spree means that the total debt stock outstanding for those five state-owned lenders combined with that of the five most active bank issuers from the private sector — Alfa Bank, Home Credit and Finance Bank, Nomos, Promsvyazbank and Russian Standard Bank — is about $60 billion.

In comparison, that figure was $37 billion last year, Citigroup said.

The five privately owned banks have raised a combined $4 billion this year through bond and commercial paper issues.

Some capital-markets officials question how long Russian banks can continue to borrow at such a scale.

"It's what the Kazakh banks did, and look what happened to them," one banker said in reference to the likes of BTA, Kazkommertsbank and Alliance Bank, which got hit harder than others during the financial crisis because of their debt burden.

"It does remain a concern," another banker said about the Russian lenders' growing dependence on funding in the international capital markets. "Up to this point, their issuance has been absorbed fairly well because of the technicals, but when the music stops they need to be insulated against when the market doesn't allow a $1 billion deal every quarter."

Others are more sanguine. One syndicate official said Sberbank, for example, is largely funded through its huge deposit base.

Russia's biggest bank had about 9 trillion rubles ($286.8 billion) of retail and corporate deposits and accounts as of Nov. 1. VTB, the country's second-biggest bank, had 1.2 trillion rubles of retail deposits as of June 30.

"From a credit perspective, it still feels secure," the banker said. "And from a liquidity perspective, they issue on an opportunistic basis. So if the market is as hot next year as this, investors won't have to worry about their exposure, and if it's not as hot, the banks won't issue as much."

One reason issue could be less in 2013 is subordinated debt, which has accounted for $10.7 billion of deal volumes this year.

It is likely to become less popular because Basel's proposed cutoff date for old-style Tier 2 instruments is Jan. 1.

"Clearly, we've had this rush through the door on the capital side," said a banker. "Once the deadline passes, the same dynamic won't be pushing these deals. So presumably the capital trade should slow down."

That in itself might not be a good thing, however, because Russian banks remain undercapitalized.

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