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Moody's Downgrades Big State Banks

By The Moscow Times

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Moody's Investors Service on Friday downgraded the long-term senior debt and deposit ratings of several major Russian banks following a reassessment of the government's capacity to provide monetary support to these lenders in case of need.

The outlook on these ratings remains stable, the international ratings agency said in a statement.

The list of the affected banks includes Sberbank — from A3 to Baa1, VTB and VTB24 — from Baa1 to Baa2, and the Russian Agricultural Bank — from Baa1 to Baa3.

"Moody's review for the downgrade focused on the sustainability of government finances and reserves to cover for any capital and liquidity shortfall at large banks in the context of a systemic crisis," the agency said.

The agency, which launched the review for the downgrade in April, justified the rationale behind its reassessment by citing two key factors affecting the stability of the country's banking system: "The government's fiscal position has weakened compared to 2008, reducing the country's ability to absorb potential shocks, such as a prolonged decline in oil prices," Moody's said.

"Fiscal reserves [the Reserve Fund and National Wealth Fund] accumulated by the government to cover the budget and pension deficits diminished materially since 2008 and accounted for 8.5 percent of the country's GDP in mid-2013, as opposed to 16.1 percent in 2008."

At the same time, the stable outlook "reflects Moody's opinion that the debt and deposit ratings of large government-controlled banks are unlikely to come under severe negative pressure in the next 12 to 18 months," the agency said.

Moody's had earlier noted Russia's lower postcrisis growth potential as well as stagnating oil production and "the economic volatility that stems from Russia's dependence on commodity output and exports."

According to the official forecast by the Economic Development Ministry, the country's GDP growth is expected to be 3.6 percent this year and 4.3 percent in 2014. Meanwhile, the government is planning to keep inflation at 5-6 percent.

GDP grew only by 3.4 percent last year, the lowest since the deep recession of 2009, with weak demand for Russian exports in Europe and faltering investment.

Net income at Sberbank rose 5 percent year on year to around 192 billion rubles ($5.8 billion) in the first six months of 2013, boosted by a rise in interest income, the bank said Friday, Reuters reported.

Net interest income rose 15 percent to 333 billion rubles in the January to June period, the bank said. Both figures were calculated according to Russian accounting standards.

Sberbank in May posted a 4 percent fall in first quarter profits under international accounting standards as it set aside $1 billion to cover potential bad loans.

Sberbank's results under Russian accounting standards are seen as a guide to its performance under international reporting standards. Reporting under the Russian standards is generally seen as less transparent than international standards, as it reflects parent company earnings rather than a group's consolidated financial performance.

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