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Depositor Confidence at Risk in Cleanup of Banking System, Says Ratings Agency

By The Moscow Times

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The Central Bank's cleanup of the domestic banking sector should raise governance standards and dispose of nonviable banks but in the short-term may aggravate risks to depositor confidence, Fitch Ratings said Monday.

Russian banks on average have liquidity buffers sufficient to withstand deposit outflows of 20 percent, the ratings agency said, suggesting that they are well-placed to withstand pressure. Liquidity risks are also mitigated by the country's deposit insurance scheme, which covers up to 700,000 rubles ($21,250) per person, covering most retail deposits.

However, risks remain. After the withdrawal of licenses at Bank Pushkino and Master Bank for misconduct, a number of other mid-sized banks, including Smolensky, Project Finance and Solidarnost, experienced liquidity problems from a deposit run. This was despite the fact that Solidarnost held liquid assets — mostly cash — equal to 20 percent of customer deposits, based on the bank's accounts at the end of October, Fitch said. The Central Bank will have to react promptly to guarantee confidence if its shakeout is to continue, it added.

Another factor mitigating any anxiety about the fragility of the system is draft regulation set to increase its scrutiny of systemically important domestic banks, which should ensure a stable core to a sector that numbers about 900 banks.

Judging by official statements to alleviate potential concerns about the sufficiency of deposit insurance reserves — which are equal to only 1.2 percent of sector retail deposits — Fitch said it expected the cleanup to continue. Cementing this impression, the Central Bank has also recently been granted the right to lend to the Deposit Insurance Agency, bumping up its capacity to deal with bank closures.

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