The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

VEB Seeks Central Bank Refinancing as Ukraine Losses Loom

By Peter Hobson

April 22, 2014

Vneshekonombank has long had issues with its capital. Negotiations with the government last year ended with a pledge to transfer about 200 billion rubles from the National Welfare Fund, an oil revenue-funded state piggybank, to VEB as additional capital.

As economic forecasts for Russia become increasingly dire, state-owned development bank Vneshekonombank, or VEB, will likely be tapped to help prop up the struggling economy.

But the bank is entering the slowdown in a tricky position — it is negotiating massive refinancing and has warned of losses in its Ukrainian operations. Profits are down, and a $2.45 billion syndicated loan is due this month to Western creditors who have suddenly become less willing to roll over the bank's debt as a result of the ongoing crisis in Ukraine.

"Amid the political uncertainty, not all banks are ready to commit to a new loan," VEB's deputy chairman Alexander Ivanov said this week. Asian investors could take the place of Western ones, but it will not happen overnight, Ivanov said, and so VEB will simply have to repay the loan.

According to Svetlana Pavlova from rating agency Moody's, a further $1.3 billion is due next year, and $1.2 billion will mature in 2016, Vedomosti reported.

In light of that payment timetable, VEB is likely to seek refinancing from $2.5 billion to $5 billion over the next three years, Pavlova said.

VEB wants these funds to come from the Central Bank. Negotiations to use government-guaranteed investment projects as a security for Central Bank refinancing are in early stages, Ivanov said.

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But the money has still not been transferred, and the bank is likely to need more. Through 2016, the bank will need to bump up its capital by 400 billion rubles, according to a report by consultants McKinsey. If the government continues to use the bank as a tool to finance infrastructure projects — as it did in Sochi, where VEB provided huge loans for construction, many of which are now being restructured — a 700 billion ruble increase in capital might be required through 2020.

Vneshekonombank's profits more than halved last year, falling to 8.5 billion rubles from 17.5 billion in 2012, according to the bank's IFRS financial statements, released on Monday.

The bank's assets swelled by 13.5 percent to 3.3 trillion rubles, due mostly to the increase in the loan portfolio of almost 350 billion rubles.

This shows that VEB is already providing support to economy, said Mikhail Kuzmin, an analyst at Investcafe. But the quality of that portfolio is deteriorating, he said.

That was echoed by Vasily Solodkov, Director of the Banking Institute at the Higher School of Economics. The bank's investments are ineffective he said — huge sums have been granted to small- and medium-sized businesses that are closing rapidly, and much of the money will not be returned.

Most likely, he said, the government will end up picking up the tab and recapitalizing the bank, Solodkov said.

In its 2013 financial report, VEB also said that its assets in Ukraine were at risk from political and economic uncertainty. VEB owns 98.6 percent of Prominvestbank, Ukraine's 7th-largest bank with assets of about $5 billion, ratings agency Fitch said in February.

Last week, the Ukrainian prosecutor general announced that criminal investigations were ongoing against Sberbank, Russia's largest lender, and 13 other unnamed banks suspected of financing terrorism in the east of the country. The Ukrainian security service has also accused an unidentified Russian bank with arranging cash transfers to terrorist groups.

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