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Russian Banks Shrug Off U.S. Sanctions, For Now

By Peter Hobson

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Gazprombank is now barred from medium and long-term dollar financing.

The two major Russian state-controlled banks hit with U.S. sanctions will be able to shrug off the measures, which fall far short of sector-wide sanctions, analysts said Thursday.

However, the new wave of sanctions will likely raise the cost of borrowing and slam the door on Russian banks' access to international loans, just as the market was beginning to revive.

The measures taken by the U.S. on Wednesday bar two of Russia's largest banks, Gazprombank and Vneshekonombank, or VEB, from access to medium- and long-term dollar financing, which the U.S. says will "impose additional significant costs on the Russian government for its continued activities in Ukraine."

On the face of it, the new measures amount to massive escalation. Previous rounds of sanctions hit relative banking minnows, while VEB and Gazprombank are two of the

country's largest lenders. Gazprombank, Russia's No. 3 bank, has assets worth some 4 trillion rubles ($116 billon). VEB, though not strictly speaking a bank but a government-controlled corporation, is the state's preferred tool for funding infrastructure projects and propping up industry and small business. It aims to grow its loan portfolio to 850 billion ($25 billion) by the end of this year.

Yanking the carpet from under these lenders would send Russia's economy spinning, but the new sanctions do no such thing, analysts said.

Earlier sanctions against SMP Bank and Bank Rossiya, whose owners were accused by the U.S. of being members of President Vladimir Putin's inner circle, effectively ejected them from the financial world beyond Russia's borders. Western companies were barred from dealing with them, and U.S.-based payment systems Visa and MasterCard stopped servicing them.

Wednesday's sanctions, however, target only financing for periods of more than 90 days, and even that restriction will be easy to outmaneuver with the help of canny financial advisers, according to Maxim Osadchy, head of analysis at Moscow-based Corporate Finance Bank.

Visa and MasterCard, meanwhile, announced Thursday that they would continue to service the two banks.

The immediate consequence of Wednesday's sanctions will be to raise the cost of borrowing on the international money markets, both for Gazprombank and VEB, and for Russian companies across the board as jitters push up Russia's country risk in the world's banking centers.

That may shave a few deciles off Russia's GDP, but is unlikely to bankrupt its major banks.

Underlining this, Central Bank deputy chairman Mikhail Sukhov was quoted by RIA Novosti news agency Thursday as saying the regulator had "an extensive number of [monetary] tools ... to maintain a stable situation with banks' liquidity"

According to Reuters data, Gazprombank has $3.7 billion in international loans and hard currency bonds outstanding, while VEB has $2.2 billion.

SMP Bank and Rossiya illustrate Russia's reluctance to let sanctions do damage. Putin was quick to open an account in Rossiya after it was targeted in March. Rossiya was later handed the right to service payments on Russia's $36 billion wholesale electricity market. SMP Bank, meanwhile, was recently given nearly 100 billion rubles ($2.9 billion) to bail out three banks shut down by the regulator.

Gazprombank said it was unscathed: "Sanctions do not have any material impact on Gazprombank's operations and financial standing," the bank said in a statement, adding that operations were continuing as normal.

VEB's chairman, Vladimir Dmitriev, said the bank was operating normally, and said it was sure the government would support sanctions-hit banks.

Why These Two?

Gazprombank and VEB were targeted because the U.S., just like the European Union, is wary of harming its own financial interests, said Chris Weafer, a senior partner with Macro Advisory, a consultancy advising macro hedge funds and foreign companies looking at investment opportunities in Russia. Had the U.S. wanted to inflict real damage, it would have targeted VTB or Sberbank, Russia's two largest banks, both of which are state owned.

Neither VEB nor Gazprombank have significant overseas business, Weafer said, still less in the U.S. They are big enough to grab headlines, but lack the strength to damage U.S. interests.

According to Osadchy, Bank Rossiya is rumored to control Gazprombank through the insurer SOGAZ, which may by why the U.S. targeted it.

The U.S. may suspect VEB — which is not subject to banking laws and is controlled by the government — of being involved in financing or the transfer of arms to separatists in eastern Ukraine, Osadchy said.

Vasily Solodkov, director of the Banking Institute at Moscow's Higher School of Economics, said VEB was targeted because of its role as prop to the domestic economy.

Consequences

In two indirect ways, however, Western sanctions will undermine Russia's banking sector. First, the freeze on international financing of Russian companies will continue to depress economic growth, which had been showing tentative signs of picking up from a standstill earlier this year.

International lending, having shut down in March, when Russia annexed Crimea, had seemed to be reviving over the past month, with banks including Gazprombank floating eurobonds. That window is now closed, Osadchy said.

Also, the renewed crisis atmosphere will incite more Russians to convert their savings into cash and cram it into safe deposit boxes. Economic and currency instability this year has seen Russians take billions of rubles out of banks. Aside from eroding banks' balance sheets, this hampers growth by stopping this money from being put to use in the economy, Solodkov said.

See also:

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