The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

EU Sanctions to Raise Sberbank Borrowing Costs

By The Moscow Times

August 03, 2014

Russia's top lender, Sberbank, faces rising borrowing costs and a squeeze on its margins after being included in the latest European Union sanctions over the Ukraine crisis.

In its heaviest penalties on Moscow over the conflict in Ukraine, Brussels has banned all EU nationals and companies from buying or selling new bonds, equity or other financial instruments with a maturity of more than 90 days issued by five major state-owned Russian banks or those acting on their behalf.

Sberbank said it had sufficient resources to continue operating successfully despite the ban, which it said "violates the foundations of the global financial system."

Its shares still fell 1.7 percent by 3:00 p.m. GMT on Moscow's MICEX index, dragging down the broader market.

The European Union will review the ban, which also applies to Sberbank's rival VTB, after three months.

While Russia's Central Bank has said it is ready to support sanction-hit banks, the effective closure of access to European capital markets is likely to drive up borrowing costs at Sberbank, an important lender to Russia's $2 trillion economy.

"The sanctions could negatively affect the growth rates of Sberbank and VTB's balance sheets, especially credit, or pressure their net interest margin if they replace cheap funding in dollars or euros with expensive funding in rubles," analysts at Gazprombank said in a note.

Alexei Kudrin, Russia's former finance minister, said the EU sanctions would drive borrowing costs up by 1.5 to 2.5 percent but that Sberbank was in good shape.

"Sberbank, unlike the other state banks, isn't sanctioned by the United States. The bank has risk management in place. They [the EU sanctions] can be overcome," Kudrin wrote on Twitter.

Russia's publicly listed banks last year raised almost half of their 15.8 billion euros ($21 billion) in capital needs in EU markets, where interest rates are significantly lower and maturities longer than in domestic markets.

The ultimate costs for Sberbank could depend on the generosity of the Central Bank, which in June boosted lending to the banking sector to its highest level since 2009.

Sberbank must pay off almost $1.7 billion in Eurobonds and subordinated loans in 2014 and almost $3.5 billion in 2015 — a manageable debt burden — and has not been barred from U.S. financial markets.

But the EU measures could scare off investors afraid that further Western sanctions will follow.

Hours after the EU's list of sanctioned banks was published on Thursday, stock index compiler MSCI said it was launching world and emerging market stock indices excluding Russia for clients seeking to avoid exposure to Russia.

Economic Shock

Sberbank is Russia's largest bank, with more than 107 million customers and over 250,000 employees, and is sometimes portrayed as an instrument of state power under high-profile chief executive officer German Gref.

Gref, a former economic development and trade minister, was the architect of liberal market reforms during Vladimir Putin's first spell as president and is widely seen as a proponent of modernization.

Sberbank said the latest EU moves would hit the global financial system and that the bank had no connection to "geopolitical processes" — a reference to the conflict in Ukraine, where Russia denies charges of arming separatists fighting government troops in the east of the country.

By targeting Sberbank, which owns a third of the assets in the Russian banking sector, the EU sanctions are likely to further strain Russia's economy, which is on the brink of recession.

"For the economy there are important indirect negative effects on confidence indicators and, as a result, internal demand, rising cost of loans and a decrease in their availability," said Dmitry Polevoy, chief economist for Russia and CIS at ING bank in Moscow.

Ratings agency Moody's said the latest raft of sanctions was unlikely to provoke a Russian liquidity crisis but would add to Moscow's economic challenges.

Russian officials have been at pains to dismiss the idea that Western sanctions could cause much damage to the economy, but analysts are turning increasingly pessimistic on Russia's economic prospects, predicting growth of just 0.3 percent this year.

Coupled with slowing investment and soaring capital flight, tighter lending conditions could further constrain growth.

"The EU sanctions will inevitably impact Russia," said Timothy Ash, chief emerging markets analyst at Standard Bank in London. "They will raise borrowing costs and subdue growth over the longer term."

See also:

EU Sanctions to Squeeze Russian Banks, Consumers