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Russia's Banks Make 'Colossal' Efforts to Find Funding as Sanctions Bite

By Howard Amos

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By severing Russia's banks from international stockpiles of cash, Western sanctions are forcing lenders like Sberbank to find billions of dollars from new sources.

The head of Russia's biggest lender, Sberbank, said Friday that the bank was doing a "colossal" amount of work to re-orient itself toward domestic funding sources, as Western sanctions imposed on Moscow for its annexation of Crimea and support of separatist rebels in eastern Ukraine begin to hit Russia's banking sector.

Other top Russian bankers at an investment forum near the Black Sea warned that Asian money could not replace the loss of U.S. and European capital markets.

"Of course sanctions have had an impact on business conditions. ... In the finance and banking sector we are feeling them in full. Practically all external markets are now closed, and we are now conducting a colossal amount of work to switch over to internal sources of funding," Sberbank president German Gref said, the Prime economic news agency reported.

Russian banks will need to refinance about $57 billion of external debt this year and next, according to estimates by Standard and Poor's credit rating agency.

State-owned Sberbank was sanctioned by the U.S. earlier this month and is banned from buying or selling new bonds, equity or other financial instruments with a maturity of more than 30 days in Europe.

All major state-controlled Russian banks, including VTB, Bank of Moscow, Gazprombank, Russian Agricultural Bank and development bank VEB face similar restrictions.

Russia's publicly listed banks raised almost half of their 15.8 billion euros ($21 billion) for capital needs in the European Union last year. Standard and Poor's has said that more than 50 percent of Russia's banking sector assets are directly affected by sanctions.

The head of VTB, Russia's second largest bank, poured cold water on the idea Friday that U.S. and EU capital could be quickly replaced with financing from Asia.

"The march toward the financial markets of the East will be successful but long," Andrei Kostin was quoted by Prime as saying in Sochi. "The situation is changing. But in general it requires painstaking work and time to attract investment from the East."

Successive rounds of sanctions imposed by the EU and U.S. on Moscow in March, July and September have not had any dramatic short-term consequences for large Russian state-owned companies, but analysts and experts warn that if the measures remain in place, the domestic financial system will become more vulnerable and credit ratings will be threatened.

"Funding and liquidity risks, together with deteriorating asset quality, will be the main triggers for negative rating actions on Russian banks over the next few quarters. More than two-thirds of our outlooks on Russian banks are already negative. The longer sanctions last, the more acute funding imbalances and liquidity pressures could become," Standard and Poor's said in a report released Friday.

The sanctions could increase the vulnerability of smaller Russian banks to funding shocks while deepening the dependency of bigger players on support from the Central Bank, Standard and Poor's said.

"Banks' growing and durable dependence on Central Bank funding indicates that they are unable to maintain a self-funded business model," the credit rating agency said.

A reliance on the Central Bank for financing shows an inability to attract funds from elsewhere. A narrower funding base makes the system inherently more unstable and dependent on the financial muscle of Russian state, which is struggling to avoid recession amid sliding oil prices and Western sanctions.

The Central Bank now funds 10 percent of banks' total liabilities, according to Standard and Poor's, just 3 percent lower than at the height of a liquidity squeeze in 2009 during the global economic crisis.

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