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Russia Weighs $16 Billion Capital Boost for Battered Banking Sector

By The Moscow Times

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Russian banks could get a capital boost of up to 1 trillion rubles ($16 billion) under a new law being prepared by the government to support a sector suffering from Western sanctions and an economic slowdown.

The potential capital boost comes after the Central Bank on Wednesday eased regulation for the financial sector, which is reeling from a sharp slide in the ruble, down some 45 percent against the dollar this year.

Russia's largest state-owned banks, including Sberbank and VTB, are under Western sanctions that restrict their access to international capital markets, driving up their cost of financing and hurting profitability.

The draft law published on the parliament's website would allow for up to 1 trillion rubles ($16 billion) to be invested in subordinated loans, bonds and preferential shares of Russian banks

with the help of the Deposit Insurance Agency, the retail deposit watchdog.

The draft law did not clarify which banks could benefit, but a similar method of supporting banks was a backup option in the 2008-09 global financial crisis. Interfax news agency said the State Duma, the lower house of parliament, would consider the law on Dec 19.

The Central Bank on Wednesday unveiled a package of measures to support banks, temporarily allowing banks to use a third-quarter exchange rate to value their risk-weighted assets and allowing them not to create loan-loss provisions for credits to companies suffering due to sanctions over Ukraine.

The bank said the measures should stabilize the ruble, whose slide has been accelerated by a sharp fall in oil prices since the summer.

The government has already provided state support this year in the form of additional capital to banks including VTB, as their margins are hurt by higher Central Bank interest rates and a spike in loan-loss provisions.

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