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Warnings of Russian Financial Crisis Spread as Banks Start Failing

By Howard Amos

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German Gref issued a stark warning of the dangers to Russia's banking system.

The head of Russia's largest bank, German Gref, offered a bleak picture of the fate awaiting the country's banking sector in 2015 during the set piece Gaidar economic forum in Moscow this week.

"It's obvious that the banking crisis will be massive," the Sberbank chief told reporters.

"The state will capitalize the banks and increase its stake in them, and the banks will buy industrial enterprises and become financial-industrial groups," Gref said Wednesday. "All our economy will be state-run."

The warning from Gref, a former Minister for Economic Development and a prominent economic liberal, is not the only prediction of approaching stress for the country's financial system.

Amid a deepening recession and the collapse of one of Russia's top-30 banks late last year, many analysts are urging banking executives and government regulators to prepare for a crisis that could be as bad, or worse, than that which engulfed Russia in 2008 and 2009.

Already Underway

High interests rates — currently at 17 percent — and the pressures of a recession are already intensifying competition among banks for a shrinking pool of clients and good assets, while Western sanctions imposed for Russia's role in Ukraine restrict the ability of Russian banks to borrow abroad.

"We are already in a crisis," said Oleg Solntsev, the head of banking and monetary policy research at the Center of Macroeconomic Analysis and Short-term Forecasting in Moscow.

There are several different measures usually considered the threshold for announcing a banking crisis, according to Solntsev, and Russia already fulfills at least two of them: State support for the banking sector has exceeded 2 percent of gross domestic product and deposits are contracting.

Solntsev gave a thumbnail sketch of the likely progression of events: a growing squeeze on credit that pushes banks toward insolvency and an increasingly unstable situation that provokes macroeconomic problems. Finally, at the nadir, panic emerges among the population and runs on banks become possible.

"The speed of the crisis will depend on two key factors: the situation on the oil market … and the behavior of the Central Bank," said Solntsev, who predicted a stabilization might take place only in mid-2016.

Bank Failures

The shock of wild swings in the value of the ruble late last year have already claimed their first victims in Russia's banking sector.

The Central Bank stepped in to save Trust Bank, ranked the country's 28th largest bank by assets by banki.ru, on Dec. 22, after clients rushed to withdraw savings amid the currency collapse. The size of the bailout has subsequently ballooned to 127 billion rubles ($1.9 billion).

Another bank, mid-sized St. Petersburg lender Tavrichesky, is on the verge of being saved by the regulators, according to newspapers Vedomosti and Kommersant on Friday.

The Central Bank reportedly assigned 262.2 billion rubles ($4 billion) to bank bailouts in 2014, a figure that does not include all the money allocated to save Trust Bank.

"Up until recently there were only problems with top-100 banks but now it's reached the top-30. There will be more like Trust Bank," Solntsev said.

Regulatory Response

Central Bank officials have sought to calm fears over the extent of the problems facing the banking sector. Credit provision will expand between 10 and 12 percent this year, deputy

Central Bank governor Alexei Simanovsky told delegates during the Gaidar Forum on Thursday.

"It's difficult to call it a crisis," he said.

But Simanovsky added that the regulator was committed to keeping the banking sector healthy, and admitted the current situation was not "simple."

Some analysts have suggested that the appointment of Dmitry Tulin, an industry professional with significant experience of commercial banking, to the position of deputy governor at the Central Bank earlier this week was a sign that the regulator was looking to head off a crisis in the sector.

'Liquidity is King'

Official steps to provide greater access to capital for Russian banks are already underway.

At the end of last year the government decided to allocate 1 trillion rubles ($15 billion) to banks via bond issues. Officials later said that the money would be received only by banks with a capital requirement of over 25 billion rubles ($384 million). The first in line are Russia's second-largest bank, state-owned VTB, as well two other major state-controlled financial institutions, Gazprombank and Rosselkhozbank.

In a separate move, Finance Minister Anton Siluanov said Wednesday that 500 billion rubles ($7.6 billion) from Russia's wealth funds could be invested in short-term deposits with the country's banks, the Vedomosti newspaper reported.

Timely government action could contain the fallout of the crisis, according to some banking executives at the Gaidar Forum.

"Gref's fears are somewhat exaggerated," Oleg Vyugin, the chairman of the board of directors at MDM Bank, told a panel on banking on Thursday.

"Liquidity is king. If the Central Bank handles risk management inside banks effectively enough ... banks can exist with insufficient capital," he said.

But the former central banker warned that by toppling weaker players the crisis was still destined to have a deep impact.

"It will be the first time that we'll see a major change in the landscape of the banking system of this country," Vyugin said.

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