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Russia No Longer a Good Option for Foreign Banks

By The Moscow Times

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The economic fallout of the Ukraine crisis has transformed perceptions of Russia among foreign banks and will likely see lenders curtail the operations of their Russian subsidiaries, ratings agency Standard & Poor's said Tuesday.

Foreign banks piled into Russia in the early 2000s in the hope that near 10 percent annual economic growth would create a booming middle class and a huge growth market in the country of 140 million people. European lenders such as Austria's Raiffeisen and Italy's UniCredit were among the leaders, and accumulated billions of dollars in assets in the country.

But with growth now stalled and Western sanctions over the Ukraine crisis compounding fears of a long period of economic stagnation, foreign banks now see Russia as a risky bet and a drag on margins, S&P said.

The agency said it expected the Russian economy to grow by an average of 0.5 percent in 2015-18. The World Bank predicted Monday that Russia's economy would shrink by 2.7 percent this year.

"This will significantly impinge on the banking sector in Russia through weak new business generation, increased exchange rate volatility, worsening asset quality, and deterioration in the profitability and capital positions of Russian banks," S&P analysts wrote in the report.

Amid fears of a full-blown banking crisis in December the Russian government allocated 1 trillion rubles ($19 billion) to support troubled banks, and billions of dollars in aid have already been dispersed.

Banking profits have meanwhile evaporated, with the country's banking sector reporting combined net losses of 20 billion rubles ($380 million) in April, according to the Central Bank. First Deputy Prime Minister Igor Shuvalov warned last month that banks would see barely any profits "in the foreseeable future," the TASS news agency reported.

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