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Russia's Central Bank Offers Liquidity Lifeline to Banks as Markets Crash

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Financial institutions will be permitted to calculate their debt-to-capital ratios using asset prices from last week. **MT**

Russia's Central Bank on Tuesday loosened its capital requirements for Russian financial institutions amid extreme market volatility following Moscow's decision to recognize separatist regions in Eastern Ukraine.

Russia's financial markets have plunged over the past two days with stocks down by as much as 20% and the ruble having slid past the symbolic level of 80 against the U.S. dollar.

Amid the turmoil, the regulator said Tuesday it will give banks flexibility over how they account for government bonds and other assets on their balance sheets to avoid the need for possible multi-million dollar fundraising to fill the holes left by cratering prices.

Financial institutions will be permitted to calculate their debt-to-capital ratios using asset prices from last week, the bank said, citing "increased volatility" in the aftermath of the Kremlin's dramatic move to recognize Eastern Ukraine's breakaway republics and send in

troops. The rules will be in force until Oct. 1, and banks will be able to fix prices at Feb. 18 levels.

The Central Bank will also allow financial institutions to use the foreign exchange rate from that day for the purpose of calculating mandatory ratios.

Related article: Russian Markets Plunge on Recognition of Ukraine Separatists

Under both Russian law and international conventions, banks must hold a certain amount of liquid capital to cover short-term debt.

The Central Bank's latest move to support the financial sector comes as markets plunge amid fears of new Western sanctions.

The dollar-denominated RTS index of leading Russian firms was down 7.2% for the day at noon, while the ruble had depreciated to 80.3 against the dollar and 90.9 against the euro.

The White House responded to the Kremlin's recognition of the separatist republics by immediately sanctioning the two self-proclaimed governments.

While Washington and other Western governments have yet to announce the full range of sanctions they plan to implement against Moscow, Putin acknowledged the likelihood of severe punitive measures on Monday night, saying that even had Moscow not moved forward with stringent measures "they will be adopted anyway."

Tuesday's decision marked the second time since January that the Central Bank has intervened to protect the Russian economy from fallout stemming from the Ukraine crisis.

Last month, the regulator halted its usual purchases of foreign currency on the domestic market.

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