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Two's a Crowd as State Banks Squeeze Rivals

By The Moscow Times

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State banks Sberbank and VTB are set to strengthen their duopoly as the financial sector emerges from crisis.

Two developments this week offer a taste of things to come, with state-controlled VTB placing a 10 percent stake with investors and Barclays shutting down its fledgling retail operation in Russia after concluding that it cannot compete.

Sberbank and VTB have been assigned a leading role in underwriting credit, investment and growth. Privatization serves as a means to that end by boosting investor scrutiny and, it is hoped, operational efficiency.

Private-sector banks, whose state rivals enjoy the backing of an investment-grade sovereign, suffer higher funding costs and face no alternative but to merge if they are to survive and prosper, senior bankers say.

"The pressure is on," said Oleg Vyugin, chairman of midsized MDM Bank and a former financial market regulator. "Sberbank's funding costs two percentage points less than private banks'. They can cut lending rates at will."

But the only serious M&A going on in the banking sector involves the state-controlled banks as they seek a bigger slice of a national banking balance sheet that remains relatively small at 75 percent of gross domestic product.

VTB recently bought 43 percent in TransCreditBank, controlled by the state railways, and is poised to win control over Bank of Moscow, Russia's No. 5 bank.

VTB, the foreign trade bank of the Soviet Union, has built up an investment banking platform by acquiring talent, while Sberbank, the Soviet-era savings bank, is close to making a similar move by buying Troika Dialog.

The privatization of a 7.6 percent stake in Sberbank, worth more than $5 billion at current market prices, is also planned for this year or next and could include a foreign placement.

"It's obvious from every principled point of view that the state banks should not expand," said Anders Aslund, a senior fellow at the Peterson Institute for International Economics in Washington and an adviser to post-Soviet Russian governments.

"They are crowding out everything, buying other assets rather than doing ordinary banking for big Russian companies."

The Central Bank's plans to raise minimum capital requirements for banks almost threefold through 2015 are intended to pressure the minnows among Russia's 1,000 banks into merging — but have had little result so far.

State banks account for between 50 and 60 percent of the overall banking system in Russia, said Yekaterina Trofimova, a director at Standard & Poor's ratings agency.

"In the private sector, apart from isolated deals, you can't see a trend towards mergers and acquisitions," she said.

"What you need to do is use market discipline to create a more competitive banking system across Russia. It's easy to say, but more difficult to do," said Roland Nash, a senior partner at fund manager Verno Capital in Moscow.

"Russia has been growing by 5.5 percent a year for a decade without having an efficient means of intermediating capital. Imagine the potential if they get that right."

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