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Sanctions Affect Half Of Russia's Banking Sector, Report Says

By The Moscow Times

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An office of Sberbank is reflected in a car window in St. Petersburg on Nov. 6, 2014.

Russian banks are the most vulnerable among the world's large emerging market economies due to Western sanctions and near-zero levels of economic growth, Standard & Poor's said in a report released Wednesday.

Sanctions directly affect more than 50 percent of Russia's banking sector, which is dominated by state financial institutions, the report said.

Western sanctions over Moscow's role in the Ukraine crisis have restricted the access of major state-controlled banks such as Sberbank, VTB, Vnesheconombank and Rosselkhozbank to long-term EU and U.S. financing, curbing their ability to refinance debts and hand out loans to businesses in Russia.

The lack of financing is already taking its toll. Russia's second-largest bank, VTB, is expected to report an 84 percent drop in third-quarter year-on-year net profit on Thursday, weakened in part by the need to set aside higher provisions to cover bad loans, Reuters reported.

Forced to operate in an unfavorable financial environment, Russian banks have become increasingly reliant on the Central Bank. According to S&P, reliance on the Central Bank has reached 10 percent of total liabilities. This is close to the 13 percent level reached at the peak of a previous funding shortage caused by the 2008-09 financial crisis.

S&P expects the risks for Russia's economy in general and for the banking industry in particular to remain high, as the consequences of sanctions are likely to have a prolonged effect. According to the agency, the main risk for next year is capital erosion on the back of rising risk costs and funding pressures.