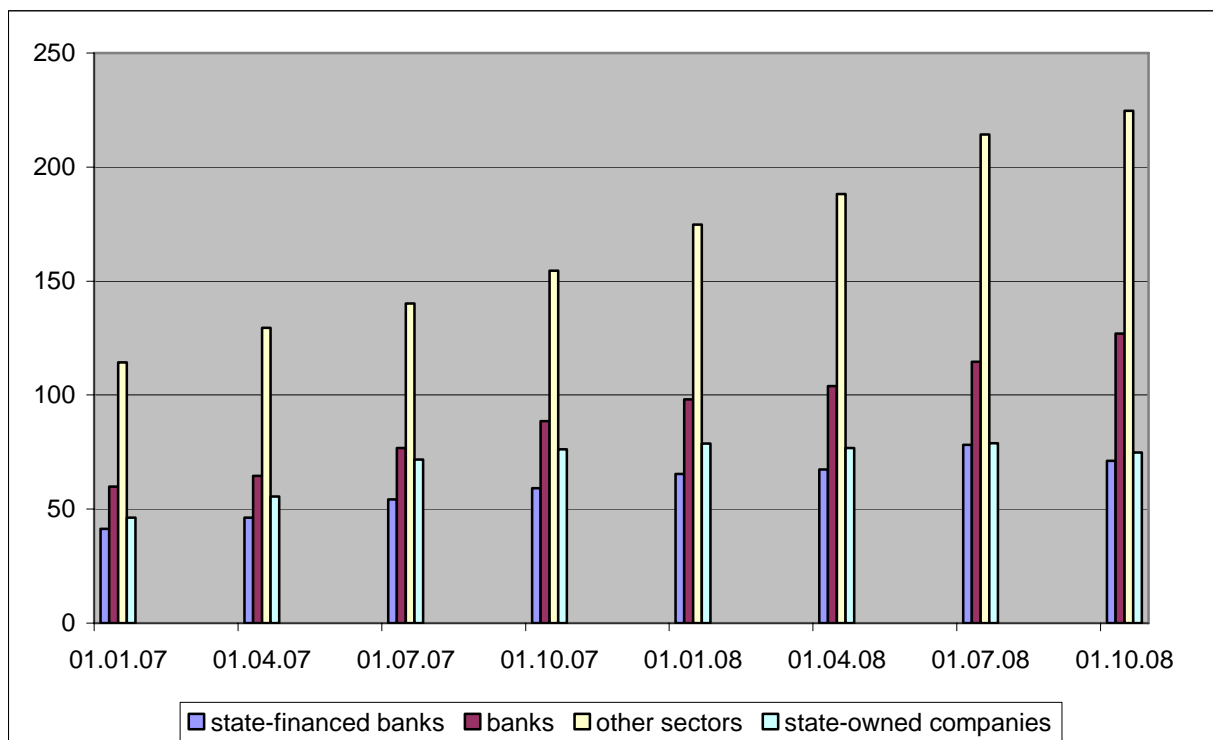


## BANKS LEARN NO LESSON FROM CRISIS

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Russian businesses' and banks' huge borrowings from foreign financial institutions are one of the factors that substantially raised the economy's vulnerability to external negative trends.

### *Amounts due to foreign creditors by different types of borrowers, billion dollars*



Source: the Bank of Russia

As we can see in the diagram, Russian borrowers (except state-run companies) continued to borrow funds last year despite that lending conditions worsened considerably.

After the Central Bank let the ruble depreciate in November 2008 it lost 32.6% of its value over the past months. A strong pressure on the ruble, weak oil prices and macroeconomic indexes decline prompted the authorities to devalue the ruble. Otherwise, sharp depreciation could have resulted in a currency collapse. According to the finance minister Alexey Kudrin, the government kept devaluation of the national currency gradual to prevent panic among the people. The authorities reached their goal. At the same time, the private sector's debts increased 33% (almost 3 trillion rubles) as a result of the exchange rate moves. Around 40% of banks' liabilities and around 17% of corporate liabilities are short-term loans to be repaid this year. The ruble weakened, the private sector shall pay around 5 trillion rubles in 2009 to return its external debts.

The Finance Ministry plans to give a bail-out to banks, including a 300 billion ruble injection into equity and 350 billion rubles of subordinated loans. This is just 12% of credit institutions' short-

term loans to be repaid to foreign lenders. Besides, banks have domestic liabilities: Russia's 30 largest banks hold deposits worth around 4.5 trillion rubles.

At this point, banks handle their financial issues with foreign creditors through talks and by means of the government money. But reserves may end, and the Russian ruble was the first to fall victim of the recession. Amid the production slowdown and decline of personal incomes, previous banking profits will be harder to maintain. This will seriously affect the inflow of investments. Meanwhile, Russian credit institutions continue to borrow, hoping for support from the government that, most likely, will be financing the banking sector.