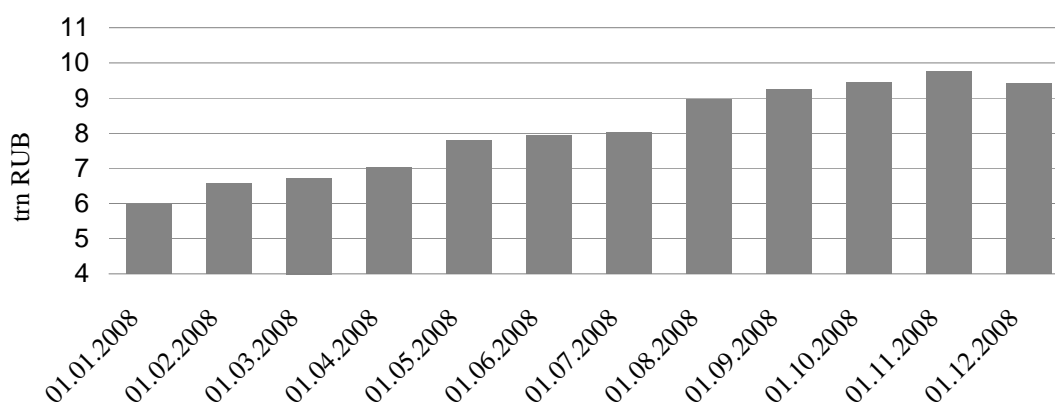


BANKS GROW RICHER OWING TO CENTRAL BANK

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Financial injections into the Russian banking system recently seemed the only right solution to the liquidity problem. The state started to support credit institutions (both directly and indirectly) long before they faced financial difficulties. Last year, banks' liabilities to the state increased 1.5 times (see Figure 1).

Figure 1. Banks' liabilities to the state

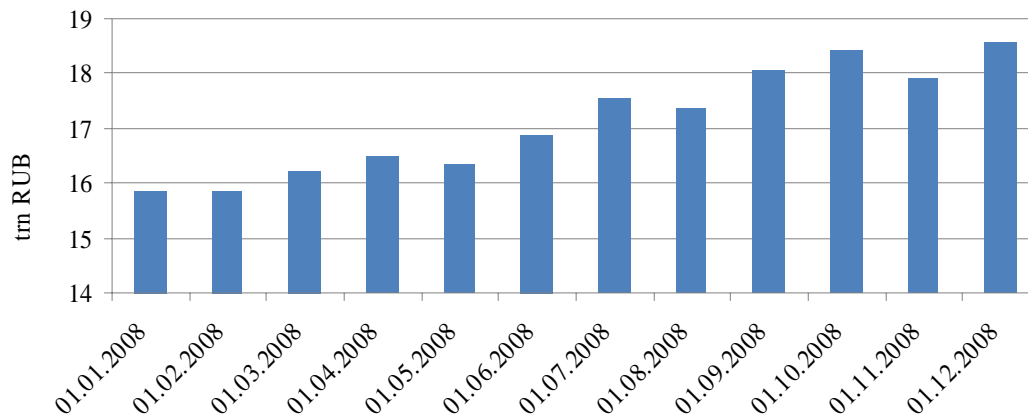


Source: the Bank of Russia

In the wake of the autumn 2008 economic turmoil, support to financial institutions came to the foreground anew. A confidence crisis was said to prevent the recovery of interbank payments and impede credit market development at the time. Methods to address the challenge remained unchanged, however: and the Bank of Russia continued to pump money into the banking system. The government prevented mass defaults in payment operations between credit institutions. The government subsidies resulted in a stronger pressure on the ruble and higher inflation.

At present, there are no signs of banks facing deficit of funds (see Figure 2). The problem stems from low-level risk management and unbalanced claims and liabilities at domestic credit institutions.

Figure 2. Banking liabilities



Source: the Bank of Russia

Meanwhile, giving short-term loans to banks, the Central Bank encourages them for forex speculations (the only efficient operations for credit institutions for the time being) thus making it harder to curb inflation. These monetary authorities' contradictory policies push down the ruble and drive up consumer prices. The Central Banks' recently stated that the ruble devaluation would be stopped (most likely, for a short period of time), however, amid new auctions for banks this statement turns absolutely pointless. Distrust of the government continues, inflation expectations increase, macroeconomic parameters do not improve, the ruble is weakening – all this in no way resembles anti-crisis measures. How long the Central Bank will continue to inject money into banking, decrease currency reserves and make people poorer depends on the government's determination to stop funding forex speculators.