

26 June 2009

# Flash Comment

## Russia considers bank bail-out

The *Financial Times* reports that Russia may initiate a banking bailout more far-reaching than measures taken by the US as fears of loan losses are mounting. According to the FT, Russian Deputy Prime Minister Igor Shuvalov will meet a group of experts today to discuss ways to recapitalise the banking system and will consider taking stakes in troubled banks – possibly by issuing OFZ (government bonds) to boost banks' balance sheets with the state taking preferred shares and possibly board seats and having veto rights in return.

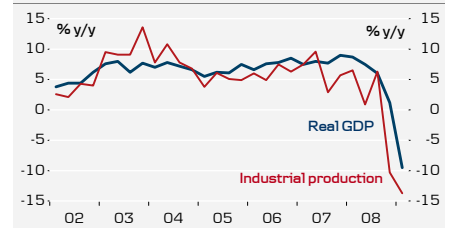
**Non-performing loans have risen to 4%**, and most watchers expect them to rise above 10% going into 2010, and some even predict 20%. The Russian central bank (CBR), which is very concerned about the banking sector, has previously said that if non-performing loans were to rise to 10-12% then banks would need around USD16bn of capital. However, should non-performing loans rise to around 20%, some analysts think that the banking system would need around USD45bn. Mr Shuvalov said yesterday that Russia would support only 100-150 banks from its 1,100-plus banking system but the government did not expect bad loans to exceed 10% of their total credit portfolio.

It has long been our view that Russia's main obstacle for a swift rebound in growth – as we are currently seeing in some parts of Asia – is the high degree of financial leverage and very high debt repayments throughout 2009 and going into 2010. The recession has become much deeper than anticipated during H1 09 – both in Russia but also in neighbouring countries in CEE such as Ukraine and Kazakhstan. The latter countries are important for Russian banks due to large exposure towards that region.

**Going forward external and domestic debt repayments are very large in the coming quarters, and there are real risks here that failure on these payments could create financial distress in Russian markets.** The government cannot save all institutions and will focus on the largest players – hence we can expect further consolidation and failures in the banking sector over the next year. The state will surely crave a high price for the bail-out – board members, veto rights, etc – and we are concerned that it will take a very long time before the bail-out would be reversed (as we are beginning to see in the US now). Hence the Russian state continues to increase its dominance in the Russian economy.

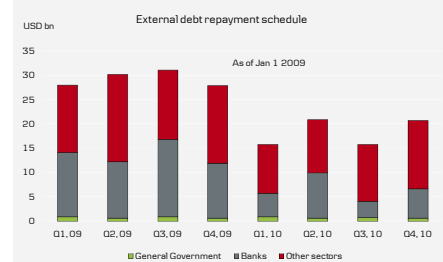
**Going forward we recommend hedging all exposure towards Russia.** Based upon a strong rouble, low volatility levels and low interest rate levels, we recommend hedging roubles. We also see value in buying RUB volatility given that markets are likely to turn more volatile over the summer. (One remark – if oil prices rise further this will limit risks somewhat.)

### Russian economy slumping



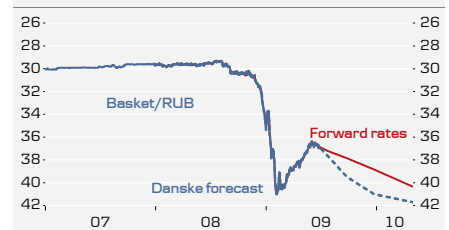
Source: Reuters Ecowin

### Large debt payments spell trouble



Source: Reuters Ecowin

### We recommend hedging RUB risks



Source: Reuters Ecowin and Danske Markets

Senior Analyst  
Lars Tranberg Rasmussen  
+45 2025 2798  
laras@danskebank.dk

## Disclosure

This report has been prepared by Danske Research, which is part of Danske Markets, a division of Danske Bank. Danske Bank is under supervision by the Danish Financial Supervisory Authority. The author of this report is Lars Tranberg Rasmussen, Senior Analyst.

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### First date of publication

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