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Article Excerpt

TOP NEWS

Medvedev: The global crisis will force Russia to seek radical change in the world's economic system

MOSCOW. (Interfax) - Dmitry Medvedev focused on electoral and democratic reform, the global financial crisis, and security in his first annual address to the nation as Russian President on November 5.

Medvedev said that the global crisis will force Russia to seek radical change in the world's economic system and that Russia would only be strengthened by the current financial turmoil, suggesting it will emerge from it a global financial center.

Russia will insist on a radical change in the world economic and political systems, Medvedev said.

The world's political and economic systems require a dramatic overhaul, Medvedev said.

"The lessons of the 2008 crisis have proven to all nations that it is time to act. We need to radically reform the political and economic systems. Russia, in any case, will insist on that," he said.

Medvedev said Russia will "work on this with the U.S. with the EU, with the BRIC [Brazil, Russia, India, and China] countries, and with all interested countries."

"We will do everything to make the world fairer and safer," said Medvedev.

"We will overcome the consequences of the world financial crisis and will come out of it even stronger than we were," said Medvedev.

The world financial crisis began as a local emergency on the U.S. national market, said Medvedev. "Being closely connected with the markets of all developed countries and at the same time being the most powerful of these countries, the U.S. economy caused a decline on the financial markets worldwide, and this crisis became global," he said.

Blowing a money bubble to ensure its growth, the U.S. not only did not make an effort to coordinate its decisions with the other market participants, but neglected the elementary feeling of measure and ignored numerous warnings from its partners, including from Russia, he said.

Russia has long made its choice in favor of deep integration in the world economy, said Medvedev. "We understand our responsibility. Receiving considerable advantages in the period of active growth of the world economy, Russia is ready to continue working with other countries on dealing with the difficulties caused by its slowdown," said Medvedev.

"But there is a need to create mechanisms to block those decisions made by some members of the world community that are wrong and sometimes just dangerous," said the president.

Medvedev said the world financial crisis will make Russia even stronger than it was before it.

"We will overcome the consequences of the world economic crisis and will come out of it even stronger than we were," Medvedev said.

Any delays in implementing anti-crisis measures intended to help overcome the consequences of the ongoing situation on global markets are unacceptable, Medvedev.

"It is important today that these [anti-crisis] measures should be put into practice in full. I would like to draw the attention of the government, the Bank of Russia and all governmental organizations to the fact that any delays in implementing these measures are unacceptable," he said. He said that despite the global financial problems Russia is able to oppose any external challenges.

"I am certain that we will deal with all problems and very soon will form a modern independent financial system capable to meet any external challenges and to make sure that its own goals are being steadily achieved," Medvedev said.

The government has adopted an action plan aimed at helping minimize the consequences of the crisis for Russia, rehabilitate the banking system and support individual sectors of the economy, the Russian president said.

"It is primarily necessary to break up financial clots that have appeared in the economy to allow funds to reach their final recipients," Medvedev said.

The president also underscored the need to support enterprises operating in crucial industries such as agriculture, construction, machine building, and the defense sector. Small-sized businesses should be supported as well, he said.

"Each ruble should be spent effectively," he said.

"The economic crisis is far from over. Throughout this period we need to be extremely organized and pay maximum attention both to how efficiently we work and to how new plans and programs are being substantiated. This applies to the state, and businesses, and every individual," the president said.

Today's Russia needs trust and cooperation more than anything, he said.

A package of bills that would make Russia a global financial center needs to be adopted before the end of 2008, he said.

"A package of bills forming the basis for the creation of one of the world's leading financial

centers in Russia needs to be passed before the end of this year. This center should serve as the nucleus for an independent and competitive Russian financial system," he said.

Medvedev also called for a swift transition to payment in rubles for oil and gas.

"Practical steps are needed to strengthen the ruble's role as an international settlement currency and to finally achieve the transition above all to settlements in rubles for gas and oil, over which we have, regrettably, taken a long time," Medvedev said.

Medvedev again stressed his anti-corruption message, saying his package aimed at graft is systemic and targeted. He called private property inviolable and said there would be no nationalization program. He also highlighted a strengthened role for innovation in the Russian economy.

Medvedev said the use of the current economic situation in Russia for dishonest competition and settling accounts is unacceptable.

"The worst thing that can happen is the use of the current situation for settling accounts for dishonest competition, including with the use of administrative resources," Medvedev said.

Medvedev pointed it out to state servants, law enforcement officials, and company officials that "such actions are unacceptable and immoral today." "Today, it is easy to earn a reputation, but it is also easy to lose it, and it will take a lot of time to restore it, if at all," said Medvedev.

"Our policy should be based on ideology, which is focused on people," said Medvedev. "Now it is more important to us than it has ever been. Today we simply have to focus on our national priorities," said Medvedev.

Medvedev said he hopes his package of anti-corruption measures will be approved as quickly as possible.

"Their advantage is in their inclusive, systemic and targeted approach," Medvedev said.

The measures aim to remove the causes of corruption "generated by the imperfection of our political and economic mechanism," he said.

"Already changes are being made to the laws governing the customs and interior authorities, prosecution, the Federal Security Service, judges and court officials, governmental bodies, municipal authorities and others," the Russian president said.

Private property in Russia is inviolable, and there will be no nationalization in the industrial and financial sectors despite any problems that the Russian economy is facing, Medvedev said.

"I would like everyone to know that our goals are unchangeable. Dramatic surges in the political and economic trends, turbulence in the global economy, and even the military-political tensions that are being fomented now will not serve as a pretext for dismantling democratic institutions or nationalizing the industry and finances. The people's political freedom and their private property are inviolable," Medvedev said.

Medvedev has called on governmental institutions and businesses to spare no financial resources to fund the development of innovative technologies.

"Our steps in the economy will be based on the previously announced concept of four "I"s - institutions, investment, infrastructure and innovations. This approach is documented in a government-drafted development strategy for Russia for the period until 2020," Medvedev said.

This strategy can be made complete if "a fifth element - intellect - is added to it," he said.

"Our priority is the production, including export in the future, and knowledge of new technologies and advanced culture. It means the achievement of leading positions in science, education and art," the Russian president said.

Russia has to act at the frontline of innovations in the economy and the social sector, he said.

"Both the state and business should generously spend on such purposes even during difficult financial periods," he said.

Medvedev has called for a search for talent in Russia and abroad to successfully implement the nation's socioeconomic development plans.

"We need to arrange a comprehensive and systemic search for talent in both Russia and abroad, to launch, I would say, true headhunting to help young talented people to come to fundamental and applied science," Medvedev said.

Whatever ideal laws and strategies are adopted based on the constitution, the practical implementation of their essence depends on particular individuals, Medvedev said.

"Their intellectual energy and creative power is the nation's main asset and the key resource of progressive development," he said.

Medvedev has asked the government and the presidential administration to launch a management training program before the end of this year.

Medvedev said that this program should be worked out "together by the public bodies, local self-governing bodies, and public organizations."

"The management reserve should have three levels: municipal, regional, and federal, and the most successful managers should compose of the so-called presidential thousand," said Medvedev.

Medvedev has said that before the end of this year the government should make radical decisions concerning the reform of the pension system and prepare mechanisms on how to compensate additional pensions liabilities to businesses.

"The pension can no longer be based on some abstract average pension indicators. Everyone should be absolutely clear how they can reach a certain level of living when they retire, what is being guaranteed by the government, how many mandatory contributions they will receive, and how much they should contribute," Medvedev said.

"The fundamental decisions on these issues have already been made, including on increasing pensions for those who earned part of their pension during the Soviet period," he said. Besides, it was decided to increase pension insurance rates to a level reaching the European pension standards.

"For the employer, it is an additional financial burden. So the government should decide this year how to compensate businesses," the president said.

## TOP NEWS

Losses in Russian banking system up 11-fold to 13 bln rubles in Q3 - Central Bank

MOSCOW. (Interfax) - Total pretax losses for Russian banks in the first nine months of

2008 came to 13.113 billion rubles, up 11 times in comparison with 1.193 billion rubles in the first half of the year, the Central Bank of Russia said on November 1 in a publication on the country's banking system.

In the first eight months of 2008, pretax losses in the banking sector came to 5.695 billion rubles. Therefore, in September total losses increased 130%. Losses for each month of the third quarter doubled.

For comparison: total maximum losses for banks in the first eleven months of 2007 reached 2.133 billion rubles. By year's end, however, this figure dropped to 907 million rubles.

In the first eleven months of 2007, a total of 35 banks posted losses. This number dwindled to 11 banks by year's end.

In the first half of 2008, a total of 49 banks posted losses while 92 banks had losses in January-August. By the end of the third quarter, only 65 banks had losses.

Total pretax profit in the Russian banking sector in January-September 2008 came to 367.933 billion rubles, a year-on-year increase of 7% from 344.566 billion rubles. In the third quarter, total pretax net profit increased by 55% from 221.844 billion rubles.

By October 1, 1059 banks of the 1126 banks in Russia (94%) posted profits. In the same period of 2007, 1127 banks out of 1149 institutions (98%) posted profits.

## TOP NEWS

VEB gets 45 bln rubles to buy securities, 125 bln rubles for subordinated loans as of Nov 1

MOSCOW. (Interfax) - The Russian Finance Ministry as of November 1 had provided the Bank for Development and Foreign Economic Affairs (Vnesheconombank, VEB) with 45 billion rubles from the National Welfare Fund to buy the shares and bonds of Russian companies and 125 billion rubles to issue subordinated loans to banks, the ministry said in a statement on November 1.

The government has allowed the Finance Ministry to deposit up to 625 billion rubles with VEB in an attempt to improve the efficiency of the management of the Welfare Fund.

Up to 450 billion rubles of that amount can be deposited for a period until December 31, 2019 with quarterly interest payments at a rate of 7% and the possibility of returning the deposits ahead of schedule with VEB's consent.

Another 175 billion rubles can be deposited under terms set by the Finance Ministry, which has said it set the timeframe for deposits until 2013 at a fixed interest rate of 7% annually. VEB will acquire the shares and bonds of Russian companies with the funds deposited on these terms.

After VEB forms an investment portfolio, the fixed interest rate is to be replaced by a floating rate with interest payments based on the yield of the securities that make up the portfolio.

## TOP NEWS

Court sentences former managers of Neftyanoi Bank

MOSCOW. (Interfax) - The Moscow Tagansky District Court on November 1 has found former Neftyanoi Bank managers guilty of illegal banking and sentenced them to 3.5 to five years in custody.

The ex-managers were acquitted on the laundering charges.

Former bank CEO Yana Makarova was sentenced to three and a half years in custody, the same as former head of the bank's Bills of Exchange department Vera Gavrilova.

Bank deputy CEO Stanislav Prosolov was sentenced to four years in custody.

Former first deputy CEO Andrei Salimov, former deputy CEO Marina Borisova and former chief accountant Natalia Frolova will spend five years in custody.

All of them are prohibited from holding banking positions for three years after their release.

Makarova and Borisova were taken into custody in the courtroom.

The judge admitted alleviating circumstances but said it was possible to correct the convicts only in a penitentiary.

She also repealed the impoundment of the convicts' property.

The defense may challenge the sentence within ten days.

The criminal case derived from the Federal Financial Monitoring Service's report on Neftyanoi operations, which looked like money laundering.

"In the opinion of detectives, the organized criminal group utilized accounts of dozens of dummy commercial organizations for holding illegal banking operations and laundering money. The returns exceeded hundreds of millions of rubles," the Prosecutor General's Office said.

"More than 400 billion rubles and \$300 million were transferred through dummy companies in 2002-2003," the office said. Some 12.5 billion rubles were cashed.

The convicts gained 163 million rubles in interest and commission and laundered over 144 million rubles, detectives said.

The Prosecutor General's Office asked the Central Bank to revoke the Neftyanoi license.

## ANALYSIS

### Russian GDP growth slows to 5% in October - VTB Europe

MOSCOW. (Interfax) - Russian GDP growth fell sharply in October to 5% as both manufacturing and services registered worsening conditions, VTB Bank Europe said in a research note on November 7.

The bank said its Russian GDP Indicator, a composite indicator based on PMI data for the Russian manufacturing and service sectors, suggested a sharp slowdown in economic growth entering the fourth quarter.

At 5.0%, the Indicator pointed to the weakest annual rate of increase in GDP since May 1999.

Moreover, the latest PMI survey findings pointed to broad-based weakness in both sectors.

Meanwhile, price pressures eased on both the input and output measures.

The GDP Indicator is derived from VTB Bank Europe's PMI surveys of business conditions in the manufacturing and service sectors of Russia. By weighting together the output measures from these surveys, an indicator of total output is produced.

The Total Activity Index registered 48.0 in October, down sharply from 54.6 in September, indicating a decline in private sector business activity in Russia. It was the first reading below the no-change mark of 50.0 that separates expansion from contraction since October 1998.

Both the manufacturing and service sectors registered lower activity levels in October compared to one month earlier, driven in each case by falling new business volumes.

"The Russian GDP Indicator fell sharply in October, suggesting annual growth of +5.0% - the weakest increase in GDP since May 1999. Underpinning the weakening in activity prospects has been a broad-based weakness in both manufacturing and service sector activity, driven by falling new business volumes. Looking ahead, the GDP indicator is signaling weaker growth for 2008 than the official Economy Ministry estimate of +7.3%, with the indicator averaging +6.5% growth over the past ten months," said Chris Green, Senior Economist at VTB Bank Europe Research.

## ANALYSIS

VTB Europe's service sector index for Russia down for first time

MOSCOW. (Interfax) - VTB Bank Europe's PMI services sector index for Russia contracted for the first time in seven years of monitoring as the financial crisis spread, the bank said on November 6 in a research note.

October PMI data from VTB Bank Europe signaled that the Russian services economy endured a downturn at the start of the fourth quarter. Activity, incoming new business and employment levels all declined compared to September, while inflationary pressures on both the input and the output measures moderated, the bank said.

The headline seasonally adjusted Russian Services PMI is a composite indicator designed to give a single figure snapshot of the overall health of the service sector.

The PMI plummeted from 55.5 to 47.4 in October, the first sub-50 reading in eighty-five months of data collection, to signal an overall worsening of business conditions in the service sector.

Four of the PMI's five components - business activity, new business, employment and future activity - registered record lows during the month.

The Russian Services PMI is derived from a monthly survey of 300 purchasing executives in Russian services companies which has been conducted since October 2001.

Readings above 50.0 signal an increase on the previous month while readings below 50.0 signal a contraction.

Having signaled slowing activity growth throughout the third quarter, the survey indicated a contraction in Russian services output in October. Declining activity levels were commonly linked to the fallout from the credit crisis as customers postponed spending decisions and uncertainty surrounding the wider economy rose.

The detailed sector data underlined the spread of the financial crisis across the service economy, as activity in Post & Telecommunications and Transport & Storage declined along with Financial Intermediation.

The overall volume of incoming new business to Russian service providers declined for the first time in the survey history in October. Almost twice as many firms reported lower receipts of new work as those seeing growth.

"The Russian Services PMI for October indicated a contraction in the sector's activity for the first time in the seven-year history of the survey. In particular, the monthly survey plummeted from 55.5 to 47.4 in October, with record lows recorded in business activity, new business, employment and future activity," said Commenting on the survey, Svetlana Aslanova, Senior Corporate Analyst at VTB Bank Europe Research.

"The declining activity levels were commonly linked to the negative impact of the credit crisis, as customers postponed spending decisions and uncertainty surrounding the wider economy increased. Consistent with this weakening activity profile, pricing pressures softened in October, with average input prices rising at the weakest rate thus far in 2008," she said.

## ANALYSIS

Russian manufacturing activity down for third month in row - VTB Europe

MOSCOW. (Interfax) - Russian manufacturing sector activity declined in October, for the third month in a row, VTB Bank Europe said in a research note on November 5.

PMI data from VTB Bank Europe suggested that the downturn in Russia's manufacturing sector that began in August had gathered notable traction at the start of the fourth quarter.

Crucially, new orders declined at the fastest rate in any period in the survey history, leading to a fall in output for the first time since the financial crisis of 1998. The survey highlighted a further weakening of price pressures, as input costs rose at a rate well down on the highs of the summer while output price inflation eased to a series low.

The bank's seasonally adjusted Russian Manufacturing PMI remained below the no-change mark of 50.0 for the third successive month in October, indicating a sustained overall decline in business conditions. Moreover, the index fell to 46.4, signaling the strongest contraction since October 1998.

The PMI reflects changes in new orders, output, employment, vendor performance and input stocks, and all except suppliers' deliver times exerted negative influences during the latest period.

The Russian Manufacturing PMI is derived from a monthly survey of 300 purchasing executives in Russian manufacturing companies which has been conducted since September 1997.

Readings above 50.0 signal an increase on the previous month while readings below 50.0 signal a contraction.

The volume of incoming new business to the Russian manufacturing economy declined for the second time in three months in October. Moreover, the rate of contraction was the fastest since the survey began in September 1997, suggesting that the recent escalation of the global financial turmoil had a clear impact on clients' spending decisions.

In particular, firms reported the suspension of construction-related contracts. The overall fall in new orders was apparent in both the domestic and export markets, with the latter registering a decline for the third time in four months.

The slide in new orders during October was sufficiently strong to lead to a decline in manufacturing output for the first time since October 1998. Firms completed existing workloads at a marked pace, extending the current period of falling backlogs to over two years.

"The Russian Manufacturing PMI index fell in October to 46.4, signaling the strongest

contraction in the sector since October 1998. Underpinning this decline, new orders fell at the fastest rate in the survey's history, leading to the first decrease in output in ten years. On the whole, these data suggest that the downturn in the manufacturing sector that began in August gained momentum at the start of the fourth quarter. More positively, input price inflation slowed sharply over the month, reflecting weakening commodity prices," said Dmitry Fedotkin, Economist at VTB Bank Europe Research.

## FORECASTS

IMF lowers global, Russian economic growth forecasts

MOSCOW. (Interfax) - The International Monetary Fund has lowered its GDP growth forecasts for the global economy and several countries, including Russia.

The IMF released its World Economic Outlook on November 6 and lowered forecasts for key economic indicators in a number of countries.

The forecast for growth in the global economy has been reduced to 3.7% from 3.9% in 2008 and to 2.2% from 3% in 2009.

The IMF expects Russian GDP to grow 6.8% in 2008 compared to the previous forecast of 7%. The forecast for Russian GDP growth in 2009 has been lowered to 3.5% from 5.5%.

## OPINION

U.S. elections to have positive impact on global economy - Kudrin

MOSCOW. (Interfax) - Russian Deputy Prime Minister and Finance Minister Alexei Kudrin believes the outcome of the U.S. elections will have a favorable effect on the global economy.

"The U.S. elections will have a positive impact on the global economy by virtue of new expectations," he told journalists on November 5.

"Now expectations are connected to entirely new policy principles that are aimed at stabilizing the global financial system," he said.

"Of course, it will be very difficult to alter some of the core trends that have taken shape, but I am confident that Barack Obama's new economic team will come in and reevaluate a lot of what has been done and breath new life into the decisions that the current U.S. presidential administration is making," he said.

## OPINION

U.S. to hold closer dialogue on global economy after Obama's victory - Dvorkovich

MOSCOW. (Interfax) - Russian presidential aide Arkady Dvorkovich has said he believes that the results of the U.S. presidential elections will lead to closer discussion on global economic...

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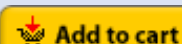
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