



"Your average Russian consumer is not going to stop spending because of problems in the US sub-prime mortgage market"

Ben Wikening, Mint Capital

tested the \$100 a barrel mark in recent months it's easy to claim that Russia has simply benefited from the growing global demand for oil. "The recovery in the oil price has clearly helped Russia a lot," says Halloran at Pharos. "But in 1998 nobody knew where oil prices would go." And as Halloran points out, in countries such as Nigeria, Venezuela and Iraq high oil prices have not delivered the widespread economic benefits that they have in Russia. The clear difference is that in recent years Russia has benefited from the type of political stability that has been lacking in many other oil-rich nations. Any discussion about Russia's economic recovery inevitably revolves around the emergence of one key figure, Vladimir Putin, Russia's president since 2000 and the man widely credited with restoring the country's pride in itself. "Patriotism was completely lacking in the 1990s in Russia," says Halloran at Pharos. "Everything that happened was driven by a handful of oligarchs who acted in their own best interests and not in the country's." Traditionally, pride is regarded as one of the seven deadly sins, but in terms of nation building a sense of pride is essential. Doubts about Putin's democratic credentials notwithstanding, Halloran

UralSib looks to the regions for growth

When the Russian government defaulted on its debt in 1998, the country's banks, with one or two honourable exceptions such as Alfa Bank, followed suit too. Many of them had played fast and loose with their depositors' money, effectively betting their customers hard-earned roubles on high-yield, high-risk investments in the bond and foreign exchange markets. When those bets failed to pay off, many banks were bankrupted overnight and millions lost their life savings.

A look at the banking sector today reveals an altogether different picture, with the vast majority of banks focused on serving the everyday needs of retail and corporate customers, rather than acting like wannabe hedge funds. Given the strong economic growth of recent years – GDP growth has averaged more than 7% since 2000 – both corporate profits and individual incomes have risen sharply, boosting banks' balance sheets and their confidence in lending to the real economy. Much still remains to be done, however, and the name of the game for banks in the coming years will be to expand the scale and scope of their operations.

"We're following the financial supermarket model, offering customers a broad range of products and services," says Leonid Vakeev, executive director of UralSib Bank, one of a new generation of private-sector banks that is transforming itself into a truly national player so as to be able to challenge the reach of state-controlled institutions such as Sberbank and VTB. The product of a five-way merger in autumn 2005, UralSib is looking to double its network across Russia to more than 1,000 branches by 2012.

"The big goal is aligning our regional footprint," says Vakeev, adding that with the exception of the Russian Far East the bank is already well represented in all of the country's seven federal districts. Despite the advances made in terms of financial intermediation in recent years, Vakeev admits that there is still much to do. "The Russian banking sector is still underdeveloped compared with the likes of Kazakhstan and Turkey," he says.

At 53%, banking assets as a percentage of GDP in Russia still lags way behind the 90% level common in central and eastern Europe and are a fraction of the 350% level in western Europe. Similarly, at 30% the proportion of loans to GDP is a far cry from the 60% and 130% levels in those regions. With penetration levels in the regions still much lower than in Moscow and St Petersburg, Vakeev says that capturing growth potential through regional expansion is UralSib's main priority in the coming years, with a particular focus on building up its retail and small and medium-sized enterprise banking franchises. "We want a bigger, more diversified customer base, as more than 70% of our funding comes from depositors."

says that he has restored a sense of self-belief to Russia that was sadly lacking in the late 1990s. "More than anything else, Putin wants Russia to be a great nation," he says.

Halloran says that when Putin took power in 2000 he stopped