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RUSSIA BOLSTERS BANKING SECTOR

Russia moved to bolster the country's increasingly stressed banking sector Wednesday, as the global economic turmoil deepened fears that the country could face a crisis similar to the one 10 years ago.

Russia's primary stock indexes, MICEX and RTS, plummeted, with banking stocks leading the way, prompting regulators to halt trading at 12.10 local time. Trading was also suspended on Thursday on the orders of the FSFM (Federal Service for Financial Markets)

"Trading has not started again. We have not received permission from the FSFM," a spokesman for the dollar-denominated RTS in Moscow told AFP.

A spokeswoman for the ruble-denominated MICEX, which has also been suspended, said: "We don't have any information. We're not commenting." The market's website appeared to show there had been no renewal in trading.

On Tuesday, both the RTS and MICEX indexes plunged, falling by 11.5 percent and 17.45 percent respectively, the largest one-day falls since the 1998 financial crisis. The RTS has now lost 57 percent since hitting an all-time high in May, a slump analysts put down to a mix of falling energy prices, global market turmoil and political issues including worries over the war with Georgia. [\(/util/savearticle?id=18946265\)](/util/savearticle?id=18946265)

The Central Bank on Wednesday said that for the third day in a row, its daily "repo" liquidity had been fully used by banks. The daily auctions, which are used to loan money to domestic banks, provided a record 361 billion rubles (\$14.1 billion) on Tuesday, before raising it to a new high of 430 billion rubles (\$16.8 billion) the following day.

After trading was halted on Wednesday the Finance Ministry said in a statement it would increase lending and extend deposit terms for major banks as markets have been unsettled by the fallout from the mortgage crisis in the United States and the collapse of investment bank Lehman Brothers.

The Finance Ministry said it was increasing liquidity for the country's three largest banks, raising lending to 1.12 trillion rubles (\$44.9 billion). The country's top banks - Sberbank, VTB, and Gazprombank - will be loaned federal funds for a minimum of three months, the ministry said.

"These are market-making banks capable of insuring the liquidity of the banking system," the Finance Ministry said in a statement.

"Essentially we're counting on them as core banks to be able to lend to small and medium banks," Finance Minister Alexei Kudrin said in televised comments.

However, Kudrin stated that the authorities do not as yet plan to dip into national reserves to raise the domestic banking sector's liquidity.

"The crisis is not so deep as to force us to resort to the [national wealth] funds," Kudrin said on the Vesti 24 TV news channel. "We can cope with the regular funds at the disposal of the Finance Ministry and Central Bank."

On Tuesday, Putin also moved to allay investor fears promising to channel state funds into frail equities.

"We are studying the possibility of using long-term instruments by the Central Bank. We will act carefully and judiciously," he said.

"We have no doubt that the safety nets that have been put into place in the Russian economy over the past few years will work to good effect," he added during a meeting with the Azerbaijani president.

However, Chris Weafer, chief strategist at UralSib bank, warned that investors are panicking, even though Russia's underlying economic fundamentals are sound.

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"The market is trading as if it is close to a default," Chris Weafer, chief strategist at Moscow-based UralSib bank, wrote in a note to investors Wednesday. "In reality it has the world's third largest financial reserves and is still earning about \$850 million everyday from crude, oil products and gas exports."

Still, fears have mounted that the building crisis of confidence among investors and bankers could spread to ordinary Russians, prompting a run on banks.

"This is the most important question," said Nataliya Orlova, chief economist at Moscow-based Alfa Bank. "At the current moment it's fine because Russians are not deeply involved in the financial markets, but I think this is the risk. ... This would be much worse than a confidence crisis between the banks."

First Deputy Prime Minister Igor Shuvalov on Wednesday called on everybody "to calm down," urging them to have faith in the government's ability to resolve the problems. Despite the sound economic fundamentals, including a budget surplus of 6 percent for 2008, Weafer warned that this may not be enough.

"Russia has the financial resources to weather this, but if they don't use those resources properly or deal with the issues properly, then it doesn't matter how much money they have, we could still certainly have a crisis. And that's why the market is down," he said

Despite the problems, Fitch Ratings Agency has said it is not expecting a change in Russia's long-term foreign and local currency issuer default rating of BBB+.

The agency said "a series of adverse shocks and mounting pressures in the banking sector have tilted risks more to the downside" but widespread downgrades of Russian banks are not anticipated at present.

Combined report (AP, RIA Novosti, MN)

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