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Russia’s Credit Outlook Cut as U.S., EU Widen Sanction Lists

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By Olga Tanas | 2014-03-21T09:08:37Z | **- Comments** **Email** **Print**

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Russia’s credit rating outlook was cut to negative by **Fitch Ratings**, citing the potential impact on a slowing economy of widening U.S. and European Union sanctions imposed as it absorbs **Ukraine**’s Crimea region.

Fitch followed a similar move by Standard & Poor’s yesterday. Both companies affirmed the former Soviet republic at BBB, the second-lowest investment grade, on par with **Brazil**. Yields on 10-year sovereign ruble bonds rose to 9.66 percent, within 13 basis points of the five-year high on March 14, while The ruble continued declines.

European Union leaders added 12 names to their list of Russians and Ukrainians hit with asset freezes and travel bans, and U.S. President **Barack Obama** yesterday ordered financial sanctions against a wider swath of officials and billionaires seen as allies to Russian President **Vladimir Putin**.

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“Since U.S. and EU banks and investors may well be reluctant to lend to Russia under the current circumstances, the economy may slow further and the private sector may require official support,” Fitch said in a statement.

Sanctions War

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Russia and the West are facing spiraling sanctions, with the Foreign Ministry in Moscow saying today it’s preparing to expand a list published yesterday of sanctions against nine U.S. lawmakers and officials. The Kremlin has accused the West of ignoring ultranationalist threats in Ukraine with the ouster of its president last month, while Russia's intervention in the Crimean peninsula has driven relations with the West to a post-Cold War low.

Even before the U.S. and the EU announced sanctions, the economy was showing signs of "crisis," Deputy Economy Minister Sergei Belyakov said March 17.

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"Growth slowed to 1.3 percent in 2013 and investment is contracting," Fitch said. It has lowered its forecast for Russia's economic expansion to less than 1 percent this year, while S&P cut its growth estimate to 1.2 percent in 2014.

With Russia on the verge of annexing Crimea and massing troops near Ukraine's eastern border, the U.S. and the EU are moving to coordinate responses as they press Putin to back down.

Russian companies have to repay more than $80 billion of debt by the end of the year, according to Economy Minister **Alexei Ulyukayev**.

Scrapped Sale

"Global creditors are reluctant to agree to prolong loans, that's why we have to substitute this credit mass with internal sources," Ulyukayev said yesterday in Moscow.

The Finance Ministry scrapped its sixth local debt sale of this year on March 18, as borrowing costs soared amid the crisis with Ukraine.

Russian 10-year government ruble bonds fell, pushing the yield up 35 basis points, or 0.35 percentage point, to 9.66 percent. The ruble declined 0.1 percent to 42.6165 against Bank Rossii's dollar-euro basket by 1:07 p.m. in Moscow, extending this year's decline to about 10 percent.

"If corporate financing needs cannot be met in the markets, the authorities could draw on ample foreign-currency reserves to provide foreign-currency liquidity, through the state-owned banks or from the **Reserve Fund**," Fitch said.

Russia's foreign-currency and gold reserves fell to $493.2 billion as of March 14 from $509.6 billion at the start of the year, the central bank said yesterday.

Capital Outflow

S&P said yesterday that about $60 billion has left Russia in the first three months of this year, approaching the total outflow for the whole 2013.

Obama is set to travel next week to **Europe**, where he’ll consult with European Union officials about coordinated action to increase pressure on Russia. EU leaders meet today to try to formulate a unified position.

Moody’s Investors Service rates Russia as Baa1, the third-lowest investment grade, with a stable outlook, according to data compiled by Bloomberg.

Yields on **government bonds** have fallen in half the instances when a rating action by Moody’s and S&P suggests they should climb, according to data compiled by Bloomberg on 314 upgrades, downgrades and outlook changes going back as far as the 1970s. When S&P downgraded the U.S. government in August 2011, bonds rose and pushed Treasury yields to record lows.

“I see no signs that Russia’s ability to service its debt is worsening,” Deputy Finance Minister Alexey Moiseev said by phone. The budget is being carried out without a deficit, he said. Russia had two-month budget surplus of 30.5 billion rubles, or 0.3 percent of gross domestic product, according to **Finance Ministry** data.

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