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Foreign Investors Expand into the Russian Bond Market

By The Moscow Times

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The share of foreign investors in the Russian bond market is shooting up and may soon hit 50 percent, sparking fears at the Central Bank that the country will become dependent on financial conditions outside its borders.

The share of nonresidents grew from 7 percent a year ago to 30 percent at the beginning of June, Vedomosti reported.

On July 1, foreigners owned government securities worth about 930 billion rubles ($28.5 billion), out of a total of about 3.3 trillion rubles.

Overseas investors could soon hold 50 percent of the bond market, said Vladimir Chistyukhin, director of the Central Bank's financial stability department.

The increasing share of foreigners carries risks, said Chistyukhin. Banks will find their access to highly liquid securities limited, while Russia will become increasingly dependent on global conditions and the mood among foreign investors, he said.

If overseas investors take more than 40 percent of the market, the Central Bank will start active consultations with the Finance Ministry on how to respond, Chistyukhin said.

Chistyukhin's deputy director Sergei Moiseyev attributed the surge of interest to the liberalization of the financial market and the interest of large sovereign and hedge funds interested in buying bonds directly from the state.

Ten year Russian government bonds currently yield 7.1 percent, while U.S. Treasury bonds yield only 1.9 percent.

Beginning this year, foreign investors operate directly on the Russian stock market using accounts at Euroclear and Clearstream, two securities companies.

The Central Bank may have included foreign investors who used to buy bonds through their Russian subsidiaries, but have now transferred their accounts to either Euroclear or Clearstream, said Raiffeisen Bank analyst Dennis Poryvai. Only about 15 percent of the bonds are actually foreign-owned, he said.

Heightened interest from nonresidents has resulted in a significant reduction in the real profitability of government bonds as the spread between inflation fell to 1.5 percent on one-year bonds and almost zero percent on 10-year bonds.

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