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Ruble's Fall Worsens Debt Troubles at Sanctions-Struck Russian Firms

By The Moscow Times

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People walk past an office of Gazprombank in central Moscow.

LONDON — In August 2010, when a dollar fetched 30 rubles, oil prices were on the rise, and Russia was in high favor with investors, Gazprombank went to global bond markets to borrow $1 billion.

Now as the debt comes up for repayment, Gazprombank, like many of its Russian peers, is shut out of global capital markets by Western sanctions imposed over Moscow's role in the Ukraine crisis. Oil, mainstay of the Russian economy, has fallen to $84 per barrel and the ruble is down some 40 percent this year to 45 per dollar.

Gazprombank is only one of many Russian companies — private and state-owned — which together have racked up $650 billion in hard currency debt and have seen debt servicing costs spiral in dollar terms as the ruble has plunged. Around $135 billion falls due over the coming year.

How worried should investors be?

Russia makes up 16 percent of the main emerging corporate debt index, the CEMBI, and comprises almost a tenth of what all emerging market companies owe next year, according to data from BNP Paribas. Russian firms' scramble for dollars is widely blamed for the ruble's recent collapse, overriding the Central Bank's $30 billion in interventions last month.

On the other hand, most Russian companies are commodity exporters and, thus, will have dollar revenues. Most also have enough cash to see them through the coming year, analysts following the sector generally believe.

"When you operate in Russia, generate ruble revenues and are indebted in hard currency, ceteris paribus [all other things being equal] your debt costs go up. That said, companies with revenues in dollars are less impacted," said Michael Ganske, head of emerging debt at Rogge Global Partners, which manages $57 billion.

"But even if you disregard the ruble effect, the risk premium on Russian companies is on the rise," he said, referring to the premium investors demand over U.S. Treasuries to hold Russian assets. He also said the rise in short-dated yields on Russian corporate bonds was a sign of stress.

"You are seeing elevated risk premium, a fractional increase in the default probability," he added.

Russian companies' average yield spread over Treasuries has widened by 215 basis points this year, while the underlying CEMBI index has barely changed, JPMorgan data shows.

Banks at the Sharp End

Most analysts reckon banks will be at the sharp end of the debt ruckus, even though the Central Bank will probably dip into its coffers to help them — as it did during the 2008 crisis.

Banks have over $50 billion in payments due in the coming year and, unlike commodity counterparts, have few dollar assets to set against dollar debts. Total external debts amount to $192 billion, a tenfold increase since the 1998 crisis.

With the weaker ruble pushing up the value of banks' liabilities relative to their assets, analysts at Capital Economics calculate that "if the ruble remains at its current level of 45 per dollar, the hit to banks' balance sheets could be around one trillion rubles ($22 billion)."

That equates to 1.25 percent of gross domestic product and 1.5 percent of bank assets, they say.

Banks are also vulnerable to the slowing economy and the rise in bad loans. Around $180 billion of their outstanding loans were made in hard currency, the servicing of which has suddenly become costlier for local companies and individuals.

In theory, companies not directly under sanction could tap dollar bond markets, as Gazprom did last week. The state-run energy company raised $700 million via one-year bonds but for this, it had to offer buyers a large 100 bps-plus premium to its existing bond maturing in 2015.

Gazprom supplies a major part of Europe's winter gas needs and unlike Gazprombank, the institution it founded in the 1990s, the gas firm was not placed on the Western sanctions list.

The longer sanctions stay in place, the more companies are likely to be forced into such extreme measures, says Zsolt Papp, client portfolio manager at JPMorgan Asset Management.

"You are replacing medium- to long-term debt with short-term debt so you are just pushing out the problem by a year," Papp said. "The maturity profile of your debt changes dramatically. The cost is higher and the maturity is significantly shorter."

Meanwhile, the debt schedule will keep the ruble under pressure. Companies' fear is that sanctions will be maintained or even extended, and that the ruble will weaken further, making it a good idea to buy dollars now.

Even though companies are believed to have enough cash to meet 2015 payments, another $85 billion is due in the year from end-2015, the Central Bank data shows.

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