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Russia Makes Bond Payment, Avoids Default – Finance Ministry

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Andrei Nikerichev / Moskva News Agency

Russia has completed a closely watched bond payment, the Finance Ministry said Thursday, avoiding what would have been the country's first default on its foreign debt obligations in more than a century.

"A payment order for the payment of coupon income on the Russian Federation's external bond loans ... in the total amount of $117.2 million ... was sent to a foreign correspondent bank on March 14, 2022 and has been executed," the Finance Ministry said in a statement.

Russia had previously touted the idea of defaulting on its government debt in response to the imposition of tough Western sanctions, including the freezing of around $300 billion of Russia's Central Bank reserves.

Finance Minister Anton Siluanov raised the prospect of either paying bond holders in rubles — which investors largely agreed would constitute a technical default, as it is not allowed under the terms of the bond contract — or issuing the order to pay the bonds out of the

country’s frozen assets.

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The Russian government said that the payment had been "fulfilled" in U.S. dollars. In a statement on its official Telegram channel, the government added: "there are no problems with servicing the national debt."

CNN reported that the U.S. Treasury department allowed the payment to be made out of Russia’s frozen assets, under an exemption which runs until May 25 — after which Russia will be unable to service foreign debts using its barred $300 billion of international reserves.

It remained unclear whether bondholders had received the payments Thursday morning, which had not arrived by the original due date of Wednesday evening, investors said. In its statement the Finance Ministry said it would provide an update later as to whether the funds — which have been sent to a correspondent account held by Citi bank in London — had been credited to the final recipients.

AFP and Bloomberg reported Thursday evening that investment bank JPMorgan Chase had processed the payment after checking with U.S. authorities as to the legality of the using the funds, according to unnamed sources.

The payments, due Wednesday, were the first major installments due on Russia’s foreign debt since it invaded Ukraine, and seen as a crucial indicator of Russia’s commitment to continue servicing its international financial obligations.

Echoes of 1998 — when Russia last defaulted on some of its debt — have swirled as the invasion and subsequent sanctions have pushed the Russian economy to the brink of a deep crisis. That year, Russia defaulted on its locally issued debt; the last time Russia failed to pay international bondholders was after the Bolshevik Revolution in 1917.

International investors have reduced their exposure to Russian government debt since Moscow annexed Crimea in 2014, and Moscow owes less than $20 billion in foreign currency to foreign investors, according to calculations by the Institute of International Finance.

Meanwhile, Russian corporates — including state-owned hydrocarbon giants like Gazprom — have around $100 billion in outstanding hard currency loans, investment bank JP Morgan estimates.

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