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Russia Faces Surge in Corporate Bankruptcy, Experts Warn

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The Magnitogorsk Iron and Steel Works in the city of Magnitogorsk. **Sergei Bobylev / TASS**

Russia's economy is facing a potential surge in corporate bankruptcies, the Vedomosti business daily reported Monday, citing experts from a government-aligned think tank.

The Central Bank's decision to raise its benchmark interest rate to 21% — its highest level since the invasion of Ukraine — in October 2024 has driven up business debt burdens.

More than 20% of manufacturing companies were paying interest costs exceeding two-thirds of their pre-tax profits (EBIT) at the end of 2024, compared to just 10% a year earlier, Vedomosti cited analysts at the Center for Macroeconomic Analysis and Short-Term Forecasting (CMASF) as saying in an analytical report.

The most affected sectors include investment-intensive industries, with transport engineering companies experiencing the greatest strain, CMASF experts noted.

Businesses' ability to generate profits to cover loan payments is also declining.

According to the state statistics agency Rosstat, the economy's overall financial balance (profits minus losses) fell by 17% year-on-year during the first 10 months of 2024, translating to a loss of nearly 5 trillion rubles ($51 billion).

Coal companies, hit by international sanctions and declining exports, have accumulated 80 billion rubles ($823 million) in losses. Shopping malls, burdened by tax hikes and rising loan costs, are also under threat, with 800 potentially facing bankruptcy. Other vulnerable sectors include road carriers, with 30% at risk of insolvency, road construction firms, which have seen revenue halved, about 30 airlines and the IT industry.

A credit squeeze has already taken hold, the CMASF experts said, as new loan issuance to key economic sectors plummeted by 30-50% in November and December.

Borrowing on the debt market has also become increasingly challenging. Bond yields have risen, and spreads between corporate bonds and government securities (OFZs) have widened significantly.

"The combination of these factors creates significant refinancing difficulties for borrowers with high debt burdens. In the near future, this could lead to a wave of defaults and cross-defaults," the CMASF report warned.

According to Rosselkhozbank estimates, Russian companies are due to repay a record 7.5 trillion rubles ($77.2 billion) in bonds in 2025, with 2.6 trillion rubles ($26.7 billion) due in the fourth quarter alone. A cascade of defaults could trigger a market chain reaction, the CMASF cautioned. Falling bond values would erode banks' collateral, forcing financial institutions to tighten credit conditions further, exacerbating corporate debt woes.

The CMASF is a government-aligned think tank that is headed by the brother of Defense Minister Andrei Belousov.

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