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Russia Plans First-Ever Yuan-Denominated Bond Issue to Plug Growing Budget Deficit – Reuters

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Russia's government plans to issue domestic bonds denominated in Chinese yuan for the first time as it seeks to cover a ballooning federal budget deficit that is now expected to reach nearly five times the original target for 2025, Reuters reported Friday, citing sources familiar with the matter.

The Finance Ministry is preparing to place up to 400 billion rubles' ($4.9 billion) worth of yuan bonds on the Moscow Exchange with maturities ranging from three to 10 years, Reuters reported.

"The deal is planned for early December. They are aiming for the widest range of investors, from banks and asset management companies to brokers operating in the retail client market," one of Reuters' sources said.

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According to Reuters' sources, the Finance Ministry has already met with potential investors to promote the upcoming yuan bonds. A ministry official confirmed to Reuters that the issue is in the works and will be announced soon.

The move comes as the Russian government scrambles for funding amid a sharp drop in revenues.

The Finance Ministry now expects this year's deficit to reach 5.7 trillion rubles ($63 billion), compared with an initial forecast of 1.2 trillion.

Oil and gas revenues were down 20% year-on-year as of September, while customs duties fell 19%. Non-commodity tax receipts are rising but remain below expectations.

Budget amendments show that value-added tax (VAT) collections will undershoot projections by 1.19 trillion rubles, profit tax revenues by 167 billion and recycling fees by 440 billion.

The yuan bond sale is likely to be financed by large state exporters earning revenue in Chinese currency, analysts say, as the Moscow Exchange is under Western sanctions.

Oil giants Rosneft and Lukoil are currently repatriating their yuan earnings before new U.S. sanctions take effect on Nov. 21, Reuters said.

Earlier this week, the Finance Ministry allowed state companies to invest their free funds on the domestic market, including in government debt securities.

According to data from Cbonds cited by Reuters, there are 166 billion rubles' ($2 billion) worth of yuan-denominated corporate bonds in circulation in Russia.

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