

Pregled ruskega trga, 7. april 2022

I. Sanctions update

On April 6, 2022, the US Department of the Treasury's Office of Foreign Assets Control (OFAC) took the following actions:

1. Full blocking sanctions on Sberbank and Alfa Bank

Treasury is imposing full blocking sanctions on Sberbank, Russia's largest state-owned bank, and Alfa-Bank, Russia's largest private bank. All entities owned 50 percent or more, directly or indirectly, by Sberbank and Alfa Bank are blocked under E.O. 14024, even if not designated by OFAC. In addition, pursuant to E.O. 14024, Treasury is designating 42 Sberbank subsidiaries and 6 Alfa Bank subsidiaries for being owned or controlled by, or for having acted or purported to act for or on behalf of, directly or indirectly, Sberbank and Alfa Bank, a person whose property and interests in property are blocked pursuant to E.O. 14024.

OFAC is also identifying five vessels owned by Alfa-Lizing OOO as blocked property: products tanker Lady Leila (IMO 9683740), chemical/oil tanker Lady Rania (IMO 9784893), products tanker Lady Sevda (IMO 9683738), general cargo vessel Sv Konstantin (IMO 9203710), and general cargo vessel Sv Nikolay (IMO 9482926).

2. Ban on new investments

On April 6, 2022, President Biden issued Executive Order on "Prohibiting New Investment in and Certain Services to the Russian Federation in Response to Continued Russian Federation Aggression," to ban all new investment in the Russian Federation by US persons, wherever located, as well as the export, reexport, sale, or supply, directly or indirectly, from the United States, or by a United States person, wherever located, of any category of services as may be determined by the Secretary of the Treasury, in consultation with the Secretary of State, to any person located in the Russian Federation.

3. New SDN designations

Treasury is targeting family members of President Vladimir Putin and Foreign Minister Sergey Lavrov, as well as Russian Security Council members.

More particularly:

Aleksandr Beglov, Governor of Saint Petersburg

Vladimir Bulavin, head of the Russia's Federal Customs Service

Yuriy Chayka Presidential Plenipotentiary Envoy to the North Caucasus Federal District

Konstantin Chuychenko, Minister of Justice

Aleksandr Gutsan, Presidential Plenipotentiary Envoy to the Northwestern Federal District

Vladimir Kolokoltsev, Minister of Internal Affairs.

Igor Komarov, Presidential Plenipotentiary Envoy to the Volga Federal District

Igor Krasnov, Prosecutor General

Valentina Matviyenko, Speaker of the Federation Council of the Federal Assembly of the Russian Federation
Dmitry Medvedev, Deputy Chairman of the Security Council of the Russian Federation
Mikhail Mishustin, Prime Minister of the Russian Federation
Sergey Naryshkin, Director of Russia's Foreign Intelligence Service (SVR)
Rashid Nurgaliev, Deputy Secretary of the Security Council
Anatoliy Seryshev, Presidential Plenipotentiary Envoy to the Siberian Federal District
Igor Shchegolev, Presidential Plenipotentiary Envoy to the Central Federal District
Anton Siluanov, Finance Minister
Sergey Sobyenin, Mayor of Moscow
Yuriy Trutnev, Deputy Prime Minister, and Presidential Plenipotentiary Envoy to the Far Eastern Federal District
Vladimir Ustinov, Presidential Plenipotentiary Envoy to the Southern Federal District
Anton Vaino, Chief of Staff of the Presidential Executive Office
Vladimir Yakushev, Presidential Plenipotentiary Envoy to the Urals Federal District

As a result, all property and interests in property of the persons above that are in the United States or in the possession or control of U.S. persons are blocked and must be reported to OFAC. In addition, any entities that are owned, directly or indirectly, individually or in the aggregate, 50 percent or more by one or more blocked persons are also blocked. All transactions by U.S. persons or within (or transiting) the United States that involve any property or interests in property of designated or otherwise blocked persons are prohibited unless authorized by a general or specific license issued by OFAC, or exempt. These prohibitions include the making of any contribution or provision of funds, goods, or services by, to, or for the benefit of any blocked person and the receipt of any contribution or provision of funds, goods, or services from any such person.

4. General licenses

The Department of the Treasury's Office of Foreign Assets Control (OFAC) has issued Russia-related [General License 8B](#), Authorizing Transactions Related to Energy, [General License 9B](#), Authorizing Transactions Related to Dealings in Certain Debt or Equity, [General License 10B](#), Authorizing Certain Transactions Related to Derivative Contracts, [General License 21](#), Authorizing the Wind Down of Sberbank CIB USA, Inc., [General License 22](#), Authorizing the Wind Down of Transactions Involving Public Joint Stock Company Sberbank of Russia and [General License 23](#), Authorizing the Wind Down of Transactions Involving Joint Stock Company Alfa-Bank.

Sources: <https://home.treasury.gov/policy-issues/financial-sanctions/recent-actions/20220406>
<https://home.treasury.gov/policy-issues/financial-sanctions/recent-actions/20220406>
https://home.treasury.gov/policy-issues/financial-sanctions/recent-actions/20220406_33

II. Russia's sovereign debt

Russian Finance Ministry made the first payment on Eurobonds in rubles

On April 4, 2022, the US banned Russia from using frozen dollar reserves to pay foreign debt and JPMorgan's correspondent bank from processing payments. Prior to this, the Russian Finance Ministry reported that it made several payments on external debt. For instance, five coupon payments were made in the amount of about US\$ 614 million, the last one in the amount of US\$ 329.2 million took place on March 31, 2022. The funds for those payments were debited from the frozen accounts of the Central Bank of Russia in the US financial institutions.

On April 4, 2022, the Russian Finance Ministry for the first time made a full payment on Eurobonds in rubles, the Ministry said in a statement. The decision was made due to the refusal of the foreign correspondent bank to execute orders in dollars. Thus, the Ministry claimed it had fully fulfilled its obligations under Eurobonds maturing in 2022 and 2042 for a total of US\$ 649.2 million. The Ministry of Finance transferred funds to the National Settlement Depository for making payments in rubles at the official exchange rate of the Central Bank of Russia for the date of payment. The investors from "unfriendly" countries received payments to type "C" accounts.

In this regard, it is important to note, that the "unfriendly" non-residents will be able to use the funds on type "C" accounts only to pay taxes in Russia and purchase OFZs. According to the position of the Russian Ministry of Finance, the restoration of Russia's access to the frozen currency accounts "will create prerequisites for the Russian financial authorities to take decisions that allow investors to convert funds in rubles from these accounts into foreign currency."

The press service of the Ministry reported that the obligations under the bonds "Russia-2022" and "Russia-2042" mentioned above were fulfilled in full. However, experts argue that such payments will be interpreted as a default by foreign investors. According to estimations, it will be quite difficult to get any compensation from Russia in this case. Experts also do not exclude that corporate issuers will follow the same path as the Russian Ministry of Finance.

Sources: <https://www.vedomosti.ru/finance/news/2022/04/06/916877-minfin-vpervie-v-rublyah>
https://minfin.gov.ru/ru/press-center/?id_4=37851-minfin_rossii_perechislil_sredstva_dlya_vyplaty_kuponnogo_dokhoda_i_pogasheniy_a_yevroobligatsii_v_natsionalnyi_raschetnyi_depozitarii
<https://www.kommersant.ru/doc/5295088?from=mainKommersant>

III. Banking sector

Annual inflation in Russia accelerated to 16.7%

Annual inflation in Russia accelerated to 16.7 % as of April 1, 2022, according to data from the Russian Economic Development Ministry. As of March 25, 2022, inflation rate

was 15.66 %. As of April 1, food inflation in annual terms amounted to 18.75 %, and the increase in prices for non-food products amounted to 20.21 %.

The inflation target in the country is 4%. According to the consensus forecast of the Central Bank of Russia, the inflation rate in Russia will reach 20% by the end of 2022, and in 2023 it will decrease to 8%.

Sources: <https://eng.rosstat.gov.ru/>
<https://www.vedomosti.ru/economics/news/2022/04/06/916972-godovaya-inflyatsiya-v-rossii-uskorilas-do-167>

Reverse effect: Russian ruble strengthening amid sanctions and the threat of default

On April 7, 2022, the ruble continued to grow at the opening of trading: the dollar fell to 74.26 rubles, which is the lowest since February 11, 2022, and the euro fell to 80.84 rubles for the first time since October 2021, follows from the data of the Moscow Exchange. Thus, the ruble won back almost all the losses incurred since the end of February 2022, despite the effect of the imposed sanctions and the threat of a technical default on Eurobonds. According to US Treasury Secretary Janet Yellen, the current value of the Russian ruble does not objectively reflect the situation in the Russian economy, since the ruble market is currently not free, and restrictions are imposed on the export of foreign currency and its purchase.

Among the factors influencing the strengthening of the ruble, Russian economists name the following:

- Introduction of a commission for the purchase of dollars and euros on the stock exchange in the amount of 12%.

This measure made speculative purchases for the medium term pointless. The position of the Russian Finance Ministry in this sense is tough: the conversion into foreign currency will be returned no earlier than the country regains access to frozen foreign currency accounts.

- The current ban on the sale of ruble assets by non-residents

In addition, the purchase of foreign currency in the domestic market was suspended as part of the budget rule. In such circumstances, the introduced norm on the sale by exporters of 80% of foreign exchange earnings in the domestic market seriously pushes the dollar down. According to analysts, the mandatory conversion of exporters' foreign exchange earnings, as well as the increased commission for exchange transactions for individuals, will continue to affect the ruble until September 2022.

- Russian gas exports

A powerful support for the ruble in the face of sanctions' pressure is the ongoing export of Russian gas, including the decision of the Russian President to switch trade with "unfriendly" countries to rubles with the opening of accounts by foreign partners in 'Gazprombank'. According to experts, the updated terms of trade were relaxed for Western importers, but the mechanism introduced on April 1, 2022, does precisely mean the sale of gas for rubles. Gazprom receives the Russian currency, albeit according to a rather confusing scheme for counterparties. The payment (fulfillment of the contract) is considered to be executed when rubles are received on Gazprom's accounts. All currency conversion operations are internal for 'Gazprombank' and do not concern foreign buyers.

Analysts believe that the inability to abandon Russian energy resources has become a "huge hole in the sanctions" imposed by the coalition of US allies, and significantly strengthened the ruble.

- Constant inflow of foreign currency into Russia

The raising prices for oil and gas, as well as the stability of Russia's trade relations with other major economies such as China and India, ensure a constant inflow of foreign currency into Russia and, accordingly, contribute to the strengthening of the ruble. In the conditions of a severe energy crisis, acceleration of inflation, shutdown of factories and agricultural enterprises, it is absolutely obvious that the West cannot afford any oil and gas embargo, since the dependence on Russian energy resources is too great.

Medium-term forecasts regarding the stability of the ruble exchange rate

Medium-term forecasts regarding the stability of the Russian currency are very different, as events develop unpredictably. Disconnecting more and more banks from SWIFT complicates the process of international transfers and may lead to a reduction in the inflow of foreign currency into the country, which is negative for the ruble. At the same time, the freezing of part of the Central Bank's gold and foreign exchange reserves limits the regulator's ability to maintain the national currency rate.

According to analysts, if the current market situation and the possibility of non-residents to withdraw from Russian assets persist, the dollar exchange rate might be 105-115 rubles over a three-month horizon. If the geopolitical pressure weakens, and foreign exchange earnings continue to be sold on the market in excess of what is necessary to ensure payment for imports, the possible range of quotations is 80-105 rubles per dollar. The tightening of sanctions is still capable of taking the Russian currency to the levels of 120-150 per dollar.

Sources: <https://ria.ru/20220406/rubl-1782170702.html>
<https://ria.ru/20220407/dollar-1782225107.html>
<https://ria.ru/20220407/rubl-1782181768.html>

De-listing of Russian companies

The State Duma approved a draft bill on the de-listing of depositary receipts issued by Russian companies on foreign stock exchanges. The draft bill will hurt foreign investors, but it will also complicate an access of Russian companies to global capital markets.

Source: <https://www.kommersant.ru/doc/5294752>

Russian State Duma allowed the recognition of cryptocurrencies as property in 2022

The State Duma will consider amendments to the Tax Code by the end of the spring session to recognise cryptocurrencies as property, this will entail mandatory reporting on the turnover of digital assets to the Federal Tax Service (FTS).

Source:

<https://www.rbc.ru/finances/07/04/2022/624e571e9a79478c21d25751?from=newsfeed>

IV. EAEU integration

The Council of the Eurasian Economic Commission approved the parties' proposal to expand the list of goods that are temporarily imported into the EAEU at a zero rate of customs duty

The new list includes a wide range of critical imported goods, in particular, food products and components for their production, packaging materials, chemical products, and components for production and repair of vehicles.

Source: <https://eec.eaeunion.org/news/eaes-obnulyaet-poshliny-na-novye-gruppy-tovarov-i-uproshchaet-protsedury-importa/>

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