

I. Russia's credit rating

IMF expects deep recession in Russia due to Western sanctions

On March 13, 2022, the International Monetary Fund (IMF) Managing Director Kristalina Georgieva said in an interview with CBS that the IMF expects Western sanctions over Ukraine to lead Russia into a deep recession. She also admitted the possibility of a default in Russia.

Source:

<https://tass.ru/ekonomika/14056167>

Russia is ready to fulfill its obligations on the public debt

The Western sanctions have deprived Russia of access to almost half of its gold and foreign exchange reserves, worth about US\$ 300 billion, Russian Finance Minister Anton Siluanov said on the TV channel "Russia-1" on March 13, 2022. "We have a total amount of reserves of about US\$ 640 billion, about US\$ 300 billion of reserves are now in a state in which we cannot use them," he said. He also pointed out that Western countries are seeking China to introduce similar restrictions on access to a part of Russia's gold and foreign exchange reserves in yuan. Pressure is also being exerted in an attempt to limit Russia's trade with China.

Last week, Moody's, S&P and Fitch downgraded Russia's sovereign credit ratings to pre-default. Fitch has assigned Russia the lowest C rating in foreign currency. Analysts questioned Russia's readiness to service the public debt against the backdrop of President Vladimir Putin's decision to allow individuals and companies, municipalities, regions and the state to pay debt obligations to creditors only in rubles, and not in the currency of issue. S&P downgraded Russia's credit rating by eight notches at once - from BB+ to CCC- with a negative outlook, and Moody's - by six notches from B3 to Ca with a negative outlook. Russia has not had such ratings since 1998.

On March 14, 2022, Russian Finance Minister Anton Siluanov commented on the desire of the West to arrange an artificial default in Russia: "The statements that Russia cannot meet its obligations on the public debt do not correspond to reality. We have the necessary amount of funds to service our obligations. The freezing of currency accounts of the Central Bank of Russia and Russian government can be regarded as the desire of a number of foreign countries to organise an artificial default that has no real economic grounds," the press service of the Russian Finance Ministry quoted.

Minister Siluanov stressed that Russia is ready to pay the holders of the Russian government bonds denominated in foreign currencies in rubles at the rate of the Central Bank of Russia, set on the date of payment. In this regard, Minister Siluanov noted that for Eurobonds issued since 2018, such a possibility was provided in the issuance documents. The debts that Russia has to pay to "unfriendly states" which introduced sanctions against Russia and restricted the ability to manage its reserves on foreign currency accounts, will be paid in ruble equivalent.

Sources:

<https://www.vedomosti.ru/economics/news/2022/03/14/913303-siluanov-o-zhelanii-zapada-ustroit-defolt>

<https://ria.ru/20220314/gosdolg-1777992409.html>

<https://www.vedomosti.ru/finance/news/2022/03/13/913241-300-mlrd>
<https://ria.ru/20220314/siluanov-1777991602.html>
<https://minfin.gov.ru/ru/ministry/>

Russian Finance Ministry approved a temporary procedure for payments on public debt in foreign currency

On March 14, 2022, the Ministry of Finance approved a temporary procedure for payments on Russian government debt obligations in foreign currency. The actual possibility of such payments will depend on the sanctions against the ability of the Russian government and the Central Bank of Russia to manage their reserves on their foreign currency accounts.

In order to fulfill the obligations under Eurobonds, the Russian Finance Ministry will issue payment orders to agent banks for payments in foreign currency. If a foreign correspondent bank will fail to execute a payment order for Eurobonds, it will be subject to withdrawal. In that case, the Russian Finance Ministry will make the payment in rubles at the rate of the Central Bank of Russia on the day of payment, the press service of the Russian Finance Ministry reports.

Sources:

<https://www.vedomosti.ru/finance/news/2022/03/14/913288-nalichii-sredstv-vipolneniya-obyazatelstv-gosdolgu>
<https://minfin.gov.ru/ru/ministry/>

II. Banking sector

Central Bank of Russia will temporarily extend the time span for calculating the official USD/RUB and EUR/RUB exchange rates

In order to improve the representativeness of the US dollar exchange rate against the ruble amid elevated volatility in the foreign exchange market, the Central Bank of Russia will extend the time span for calculating the official USD/RUB exchange rate, and also streamline the procedure for setting the official EUR/RUB exchange rate.

The official exchange rate of the US dollar will be set on the basis of the Moscow Exchange data on the average weighted USD/RUB exchange rate for transactions concluded from 10:00 to 16:30 Moscow time. Previously, the calculation period was 10:00 – 11:30 Moscow time. The official EUR/RUB exchange rate will be set in the same manner, as the official exchange rates of other foreign currencies against the ruble. A draft of respective instruction was sent for registration to the Ministry of Justice of the RF and will come into force from the day of its official publication.

Source:

<https://www.cbr.ru/eng/press/event/?id=12753>

Bank of Russia temporarily, until 9 September 2022, forbids banks to charge fees for foreign cash withdrawals by individuals

The Bank of Russia Board of Directors has decided to prohibit banks until 9 September 2022 from charging fees on individuals for US dollar withdrawals from foreign currency deposits or accounts (regardless of the currency of an account or deposit), as well as fees for foreign currency conversion into US dollars when it is made to then withdraw cash in US dollars. Banks

are to refund the fees they received for foreign cash withdrawals by individuals beginning from 9 March 2022.

Source:

https://www.cbr.ru/eng/press/pr/?file=11032022_225700ENG_PP14032022_111021.htm

Russian government partially allowed transferring currency abroad

The Russian government eased the ban on crediting foreign currency to foreign accounts, the press service of the Russian Finance Ministry reported on March 14, 2022. The companies were allowed to transfer currency to accounts in foreign banks and other financial institutions, if these funds are needed to finance the activities of branches and representative offices. The amount of funds should not exceed the amount of funding for the previous year.

The resident individuals are allowed to transfer currency to accounts in foreign banks and other financial institutions and carry out conversion. The account must be opened before March 1, 2022 and declared to the Russian Tax Service. Additionally, it is allowed to accept foreign currency into accounts abroad in the form of salaries from a foreign organisation, rent, coupons and dividends on securities, and other interest payments.

Initially, on March 1, 2022 by President Putin's decree, Russian companies and citizens were completely banned from crediting foreign currency to their accounts and deposits abroad. The measure was introduced to prevent the collapse of the ruble and the outflow of capital.

Sources:

<https://www.vedomosti.ru/economics/articles/2022/03/14/913332-perevodit-valyutu-za-rubezh>

<https://expert.ru/2022/03/13/v-rossii-sozdali-birzhu-importozamescheniya/>

<https://minfin.gov.ru/ru/ministry/>

Russian banks are launching accounts in various currencies

Russian banks allow their clients to open deposits in the currencies of those countries that have not introduced restrictions against Russia. VTB and Alfa Bank are launching the opportunity to open an account in yuan through a mobile application. Tinkoff Bank offers deposits not only in yuan, but also in Azerbaijani manats, Belarusian rubles, Kazakh tenge, UAE dirhams, Turkish liras, Indian rupees, Armenian drams, Hong Kong dollars and other currencies. Citibank launches the opportunity to open a multi-currency card, to which the accounts in several currencies could be linked.

Source:

<https://ria.ru/20220314/vklady-1777981803.html>

III. Russian economy support measures

Creation of the "Import substitution exchange" digital service

The "Import substitution exchange" digital service is being created by the Russian Ministry of Industry and Trade together with the Russian Ministry of Digital Development, Gazprombank, and the Agency for Technological Development. The electronic trading platform is designed to provide direct interaction between Russian manufacturing companies and customers. In the

online service, customers can publish requests for the purchase of industrial products, spare parts and components, and suppliers can send their price offers and offer analogues.

In addition to the provision of direct interaction between Russian manufacturing companies and customers, the system is aimed at the reduction of bureaucratic and administrative burden on enterprises. In the future, foreign suppliers who are ready to continue or start cooperation with Russia may also be included in the digital service base.

Source:

https://expert.ru/2022/03/13/v-rossii-sozdali-birzhu-importozamescheniya/?utm_source=mis&utm_medium=vk&utm_campaign=rss&utm_term=/2022/03/13/v-rossii-sozdali-birzhu-importozamescheniya/

IV Commodity markets

The conflict in Ukraine will raise food prices

World food prices could rise by 8-22% from their already high levels due to the conflict in Ukraine, the UN Food and Agriculture Organization (FAO) predicts. A report released by FAO notes that Russia and Ukraine are major global producers of agricultural products. The two countries account for more than a third of the world's grain exports. Russia and Ukraine are leaders in the supply of rapeseed oil, and their share in the sunflower oil market is 52%. In addition, the Russian Federation occupies a leading position in the world market of mineral fertilizers.

FAO notes that the sharp decline in grain and sunflower exports from the Black Sea region can only be partially offset in the 2022/23 agricultural year at the expense of other countries. The ability of the latter to increase supplies may be limited by increased production costs. This may cause an increase in world prices for food and animal feed. In addition, FAO points to the risk of rising food prices due to rising oil prices, which is caused by the military conflict between Russia and Ukraine.

Source:

<https://www.kommersant.ru/doc/5252538?from=main>

Russia will introduce a ban on the export of grain and sugar to the EAEU countries until August 2022

Russia decided to introduce a temporary ban on the export of grain and sugar to the countries of the Eurasian Economic Union (EAEU) until August 31, 2022. The decisions are aimed at ensuring the country's food security and protecting the domestic market in the current conditions. An exception is provided for deliveries under export licenses issued by the Russian Ministry of Industry and Trade. The needs of the EAEU countries in Russian grain have been more than doubled since the beginning of the 2021/2022 season. According to the Ministry of Agriculture of Russia, at present, the grain supply in Russia exceeds 150%.

Source:

<https://www.vedomosti.ru/economics/news/2022/03/10/912983-rossiya-vvedet-zapret-na-eksport-zerna-i-sahara-v-strani-eaes-do-kontsa-avgusta>

Prospects for suspension of exports of Russian mineral fertilizers

Taking into account the current situation with the work of foreign logistics operators and associated risks, the Russian Ministry of Industry and Trade was forced to recommend Russian producers to temporarily suspend the shipment of Russian fertilizers for export. Against the background of rising prices for fertilizers, Russia already introduced quotas for the export of nitrogen and complex nitrogen-containing fertilizers for the period from December 1, 2021 to May 31, 2022. The total volume of quotas for the export of nitrogen fertilizers from Russia was set at 5.9 million tons.

A possible suspension of export deliveries of Russian mineral fertilizers could lead to serious consequences against the backdrop of a reduction in their production in other countries due to the sharp rise in price for natural gas. The European fertilizer producers such as Yara International and Borealis have announced production cuts. Foreign experts predict a new acceleration in food prices against the backdrop of an aggravated shortage of fertilizers in the world.

Source:

https://www.ng.ru/economics/2022-03-10/1_8388_fertilizer.html

Russia plans to introduce a ban on the export of timber

The Russian Ministry of Industry and Trade proposed introducing a ban on the export of wood and certain types of wood products to "unfriendly countries" by the end of 2022. The corresponding draft government decree has been submitted for approval to the Russian Ministry of Economic Development and the Cabinet of Ministers.

According to the Ministry, restrictions on exports guarantee that the needs of the domestic market for raw materials will be met and will stimulate an increase in the depth of processing. In addition to raw wood, the ban will affect birch pulpwood (raw material for paper), fuel chips and plywood logs (raw material for plywood).

The EU is most dependent on the supply of Russian birch plywood - about 50% of consumption. According to WhatWood, approximately 1.4 million cubic meters were supplied from Russia in 2021 in the amount of US\$ 900 million. The share of other Russian timber products in Europe is not so significant. Export of lumber to Europe reaches 5.4 million cubic meters per year, but this is less than 7% of the EU market. Wood pellets (granular fuel) from Russia account for about 8% of the total EU consumption (2.2 million tons supplied in 2021). As for the USA, the share of consumption of birch plywood from Russia is almost 100%.

Currently, work is underway to reorient the supplies to other markets - the countries of the Middle East, North Africa and Asia, especially China, where there is a demand for these products. The main issue in this vein is the organisation of logistics.

Source:

<https://www.vedomosti.ru/business/articles/2022/03/10/912995-postradaet-zapreta-drevesini>

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