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Russia says it paid foreign dollar debt in rubles amid default fears

New blow to Russian efforts to avoid a sovereign default

MOSCOW: Russia said Wednesday it had been forced to make foreign debt payments on dollar-denominated bonds in rubles, in a new blow to its efforts to avoid a sovereign default amid unprecedented Western sanctions over the Ukraine conflict.

The announcement came on the 42nd day of Russia's military campaign in pro-Western Ukraine, with thousands killed and more than 11 million displaced as refugees or within the country in the worst refugee crisis in Europe since World War II.

The West has pummeled Russia with debilitating sanctions since President Vladimir Putin sent troops to Ukraine on February 24. On Wednesday, the United States and EU were readying new sanctions after Ukrainian President Volodymyr Zelensky showed the UN Security Council harrowing images of violence. The Russian finance ministry said on Wednesday that it had been forced to repay $649.2 million to foreign debt-holders in rubles after a correspondent bank refused to execute payment instructions.

"A foreign correspondent bank refused to execute instructions for the payment" of debt on two bonds on April 4, the ministry said in a statement. "In order to fulfil the state debt obligations of the Russian Federation," the finance ministry said it "was forced to attract a Russian financial institution to make the necessary payments."

The finance ministry did not specify if the ruble payment had been accepted. The United States from Tuesday barred Russia from making debt payments using funds held at American banks, ramping up the economic pain in Moscow.

Analysts say the risk of a debt default is rising, and major ratings agencies have downgraded the country.

'Putin impoverishing Russia'

The Kremlin denied suggestions that Russia could default on foreign debt payments.

"Russia has all the necessary resources to service its debts," Kremlin spokesman Dmitry Peskov told reporters. "There are no grounds for a real default." Timothy Ash, an emerging markets strategist at BlueBay Asset Management, said, however, that it was hard to see Russia avoiding a sovereign default.

"Putin is impoverishing Russia for years to come," he said in a note to clients.

"Default might not crash Russian markets and the economy immediately but will have devastating longer term consequences," he said, adding that investment, growth and living standards will be affected. Russia missed payments on domestic, ruble-denominated debt in 1998 amid a broader financial crisis, but last defaulted on its foreign currency debt in 1918, when Bolshevik revolution leader Vladimir Lenin refused to recognize the obligations of the deposed tsar's regime.

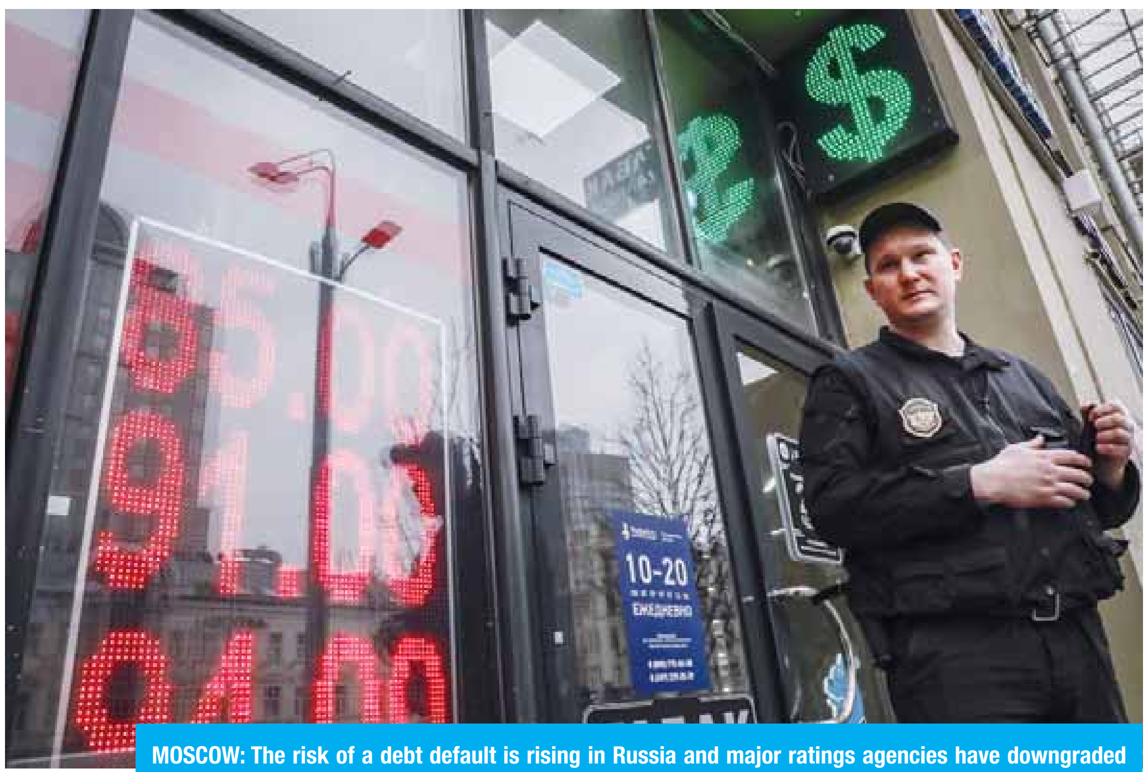
In recent years, Moscow amassed about $600 billion in foreign currency reserves, including gold, largely from oil and natural gas sales.

The government owes about $40 billion in dollars or euro-denominated debt, though only half of that is held by foreign creditors-a relatively small amount given the size of the economy and its oil earnings. The sanctions also sparked an exodus from Russia of hundreds of foreign companies, which have mothballed their subsidiaries in Russia or announced full pullouts.

US officials expect the sanctions to plunge Russia, which has heavily relied on imports of manufacturing equipment and consumer goods, into deep recession. Ordinary Russians have been bracing for tough times, stocking up on food and other supplies as inflation soars.

New car sales sank almost 63 percent in Russia in March year-on-year, industry data showed Wednesday, with Russians less likely to buy imported cars after the ruble plummeted in value.

Only 55,129 cars or light commercial vehicles were sold last month, a 62.9-percent drop from the same period last year, said the Association of European Businesses. —AFP



MOSCOW: The risk of a debt default is rising in Russia and major ratings agencies have downgraded the country.

Dubai utility DEWA readies Gulf's largest IPO since 2019

DUBAI: The Dubai Electricity and Water Authority said Wednesday it had raised 22.3 billion dirhams ($6.1 billion) for the Gulf's second-largest IPO since 2019. The 18 percent stake in the emirate's state-owned DEWA is the biggest IPO in the Gulf region since that of Saudi oil giant Aramco.

Some nine billion shares will be listed from April 12 on the Dubai stock exchange, with the price set at 2.48 dirhams ($0.68). The deal, in which more than 65,000 institutional and retail investors participated, values the company at 124 billion dirhams ($33.9 billion), the statement said.

The record for the largest public listing in the Gulf, and in the world, is held by Saudi oil company Aramco, which raised $29.4 billion by listing 1.7 percent of its shares on the Riyadh Stock Exchange in December 2019. DEWA CEO Saeed Mohammed Al-Tayer said the strong demand for the company's shares, which reached 315 billion dirhams ($85.7 billion), was a testament to "the attractiveness of Dubai as a global capital market".

The emirate, which is less oil-rich than its neighbors, has diversified its economy by focusing on finance, tourism and trade. But it is facing increased competition in the region, notably from Saudi Arabia, which is also seeking to reduce its dependence on hydrocarbons. —AFP

EU takes sanctions aim at Russia fossil fuel exports

BRUSSELS: EU leaders on Wednesday said the bloc will soon have to sanction all of Russia's hydrocarbon exports as they blamed Moscow for "war crimes" discovered in Ukraine, especially in the town of Bucha. The declarations, made to the European Parliament in the French city of Strasbourg, came as the European Union was poised to implement a fifth round of sanctions cutting off Russian coal imports, while NATO and G7 foreign ministers gathered in Brussels for further steps on coordinated action.

The EU must also impose oil and gas sanctions on Russia "sooner or later", European Council chief Charles Michel told MEPs. The deaths of civilians in Bucha and other parts of Ukraine were "war crimes" and "yet more proof that Russian brutality against the people of Ukraine has no limits," he said.

"We the EU, we will not turn our backs. We will look reality straight in the eye. There must be, and there will be, severe consequences for all those responsible," he said.

European Commission President Ursula von der Leyen echoed that, saying: "We will hold accountable those who are responsible for war crimes. The perpetrators must pay after Bucha more than ever."

She said the EU intended to keep ramping up "smart" sanctions that would hurt Russia more than the European Union. The latest package of measures, she said, "will not be our last sanctions".

"Yes, we've now banned coal. But now we have to look into oil. And we'll have to look into the revenues that Russia gets from the fossil fuels," she said. Russia's oil, gas and coal exports are its key sources of foreign income, with the EU its main customer.

Some EU countries, notably Germany, have been reluctant to hit Russian energy exports because of the damage it would do to their own economies. But pressure has been building to go after them following the reports of mass civilian deaths in Bucha and other areas in Ukraine formerly held by Russian troops. The EU's foreign policy chief Josep Borrell stressed to the European Parliament that the bloc's payments for Russian fossil fuels were funding President Vladimir Putin's war in Ukraine.

"A billion euros ($1.1 billion) is what we have paid Putin every day for the energy he provides us since the beginning of the war. We have given him 35 billion euros," since the February 24 invasion date, Borrell said. "Compare that to the one billion (euros) that we have given to the Ukraine in arms and weapons.

"This gigantic difference has to highlight the importance and need of implementing what the (European) Council asked to do-we have to reduce energy dependence." —AFP

Brazilian real hits two-year high against dollar

BRASILIA: The Brazilian real traded near a two-year high against the dollar Tuesday, boosted by foreign investors drawn to high interest rates set by Brazil's central bank. The dollar started the week at 4.61 reais, its weakest against the Brazilian currency since March 4, 2020 — a week before the World Health Organization officially declared COVID-19 a pandemic.

The dollar strengthened slightly Tuesday, buying 4.66 reais, according to the Brazilian central bank's foreign exchange data. That was still well below 2021, when the real averaged 5.39 to the greenback.

The real has gained 21 percent this year against the dollar, one of the best-performing emerging market currencies. Analysts say the upswing is mainly driven by foreign investors buying reais to take advantage of high returns in Brazil created by aggressive interest rate hikes by the central bank, which is trying to rein in surging inflation. "Brazil's central bank started raising interest rates before other emerging markets, and that attracts capital," said economist Mirella Hirakawa of investment fund Az Quest.

Brazil has been on one of the most hawkish monetary tightening cycles in the world, raising the benchmark Selic rate nine straight times, from two percent in March 2021 to 11.75 percent currently.

It has struggled to tame inflation, currently at 10.54 percent-far above the central bank's target of 3.5 percent. The effect on the real may be short-lived, however, as the US Federal Reserve and other central banks start raising interest rates, too. Analysts currently forecast an average value for the real of 5.25 to the dollar for 2022. —AFP

Easier for Europe to give up Russian coal than gas

PARIS: The EU is preparing to hit Russian coal with sanctions. While European Council chief Charles Michel said Wednesday the 27-nation bloc will have to impose oil and gas sanctions on Moscow "sooner or later", it has been reluctant to do so for now.

Here is a look at the reasons behind the hesitation:

A boon for Russia

Russia is a major fossil fuel producer, and revenue from oil and gas made up 45 percent of the federal budget last year, according to the International Energy Agency. That's why Ukrainian President Volodymyr Zelensky urged the EU to stop buying Russian energy so "Russia will have no more money for this war".

Russia exported nearly five million barrels per day of oil in 2020, with half going to European countries, especially Germany, the Netherlands and Poland, according to US data. The United States, a major energy producer, has put an embargo on Russian energy including oil. But there is only an EU proposal to ban coal imports, although Brussels aims to reduce purchases of Russian gas by two-thirds this year.

Coal: replaceable

Russia holds 15 percent of the world's coal reserves, according to BP's annual report on global energy.

Certain European countries like Germany and Poland are especially dependent on Russia for coal, used to produce electricity. The trend in the EU is to move away from polluting coal: consumption of solid fossil fuels dropped from 1.2 billion to 427 million tons between 1990 and 2020, according to the Brussels-based Bruegel Institute think-tank.

Europeans also closed their mines but they became more dependent on imports.

The EU purchased 40 million tons of Russian hard coal in 2020 (54 percent of imports) compared with eight million tons in 1990 (seven percent). But Germany plans to live without Russian coal by this autumn. "Russian coal can be replaced because global coal markets are well supplied and flexible," noted Bruegel. Other major producers of coal include the US from where the EU imports 17.5 percent of coal today or Australia, representing 16 percent of the bloc's purchases. Other options include South Africa or Indonesia.

Oil remains possible

Russia is the world's largest oil exporter and supplies more than 25 percent of the EU's crude, according to the EU statistics agency Eurostat. In the first six months of 2021, Russia provided 75 percent of crude to Bulgaria, Slovakia, Hungary and Finland.

"In principle, replacing Russian oil will be easier than replacing Russian gas" because the imports arrive by ship and not infrastructure like pipelines, wrote Bruegel.

Experts also refer to the phenomenon of "communicating vessels": Russian barrels would ultimately be sold in China, replacing those from the Middle East, which would then become available to Europe.

But Russia also exports 1.5 million barrels per day of diesel, which Europe is very fond of.

"(An embargo) will pose a real problem for diesel," warned French ecological transition minister Barbara Pompili. If there is an embargo, it will be necessary to find other sources of diesel, and not just crude oil. French energy giant TotalEnergies plans to import oil from its Saudi refinery.

Expensive choice

Russia exports gas directly to Europe via a network of pipelines. With 155 billion cubic meters imported annually, Russian gas represents 45 percent of the EU's imports and meets nearly 40 percent of consumption. A potential embargo on all Russian energy divides Europe because some are more dependant than others, like Germany where 55 percent of its gas is from Russia.

"Russian gas deliveries are not exchangeable" and cutting them off "would harm us more than Russia", German Finance Minister Christian Lindner said.

Russian gas made up 75 percent of imports of 10 countries-Austria, Bulgaria, Czech Republic, Estonia, Finland, Hungary, Latvia, Romania, Slovakia and Slovenia-last year, according to Eurostat. —AFP