

Research Update:

Russia Ratings Lowered To 'CCC-' And Kept On CreditWatch Negative On Increasing Risk Of Default

March 3, 2022

Overview

- Russia's military conflict with Ukraine has prompted a new round of G7 government sanctions, including ones targeting the foreign exchange reserves of The Central Bank of Russia (CBR); this has rendered a large part of these reserves inaccessible, undermining the CBR's ability to act as a lender of last resort and impairing what had been--until recently--Russia's standout credit strength: its net external liquidity position.
- To mitigate the resulting high exchange rate and financial market volatility, and to preserve remaining foreign currency buffers, Russia's authorities have--among other steps--introduced capital-control measures that we understand could constrain nonresident government bondholders from receiving interest and principal payments on time.
- As a result, we have lowered our long-term foreign and local currency sovereign credit ratings on Russia to 'CCC-' from 'BB+' and 'BBB-', respectively, and kept them on CreditWatch with negative implications.

Rating Action

On March 3, 2022, S&P Global Ratings lowered its foreign and local currency sovereign credit ratings on Russia to 'CCC-/C' from 'BB+/B' and 'BBB-/A-3', respectively. We also revised downward our transfer and convertibility assessment to 'CCC-' from 'BBB-'. The ratings remain on CreditWatch with negative implications, where we placed them on Feb. 25, 2022.

As "sovereign ratings" (as defined in EU CRA Regulation 1060/2009 "EU CRA Regulation"), the ratings on Russia are subject to certain publication restrictions set out in Art 8a of the EU CRA Regulation, including publication in accordance with a pre-established calendar (see "Calendar Of 2022 EMEA Sovereign, Regional, And Local Government Rating Publication Dates," published Dec. 16, 2021, on RatingsDirect). Under the EU CRA Regulation, deviations from the announced calendar are allowed only in limited circumstances and must be accompanied by a detailed explanation of the reasons for the deviation. In this case, the reason for the deviation is capital-control measures introduced by the authorities, which could disrupt timely government debt service. The next scheduled publication on the Russia sovereign rating is on May 27, 2022.

CreditWatch

The ratings remain on CreditWatch negative to indicate that we could lower them further over the next few weeks. We expect to resolve the CreditWatch placement once we have more clarity on the technical ability and/or willingness of the government to honor its debt obligations in full and on time.

Rationale

The downgrade follows the imposition of measures that we believe will likely substantially increase the risk of default. Among these are capital controls introduced by authorities that aim at shielding the ruble from the impact of severe economic sanctions while preserving remaining useable reserve buffers. The new G7 government restrictions were imposed on Russia in response to its accelerated military actions in Ukraine.

We estimate that international sanctions have reduced Russia's available foreign exchange reserves by as much as one half, including foreign currency deposits and securities domiciled in the U.S., the EU, and Japan. This has substantially weakened Russia's external liquidity during a period of rising foreign currency demand. The sanctions also imposed restrictions that deny or significantly diminish access of the Russian banking system to the global financial system, markets, and infrastructure.

We understand from public information and press reports that capital control measures entail the ban on cross-border financial flows, including debt service payments of both the private sector and the government. We believe this will very likely restrict the ability of nonresident domestic and foreign currency bondholders to receive interest and/or principal payments on time.

Environmental, social, and governance (ESG) credit factors for this change in credit rating/outlook and/or CreditWatch status:

- Other governance factors

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | Sovereigns: Sovereign Rating Methodology, Dec. 18, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

Related Research

- Sovereign Ratings List, Feb. 7, 2022
- Sovereign Ratings History, Feb. 7, 2022

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see Related Criteria And Related Research).

Ratings List

Downgraded

	To	From
Russia		
Sovereign Credit Rating		
Foreign Currency	CCC-/Watch Neg/C	BB+/Watch Neg/B
Local Currency	CCC-/Watch Neg/C	BBB-/Watch Neg/A-3
Transfer & Convertibility Assessment	CCC-	BBB-
Russia		
Senior Unsecured	CCC-/Watch Neg	BB+/Watch Neg
Senior Unsecured	CCC-/Watch Neg	BBB-/Watch Neg

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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