

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
<b>Russia</b>		
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-
<b>Russia</b>		
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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

Copyright © 2022 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.