

Russia: Corporate sector increased foreign debt in 2Q20

In 2Q20, the Russian corporate sector had the biggest quarterly increase of foreign debt in six years. The still high net private capital outflow over the same period suggests that accumulation of foreign obligations – driven purely by non-financials – was offset by an even more active increase in foreign assets



Source: Flickr

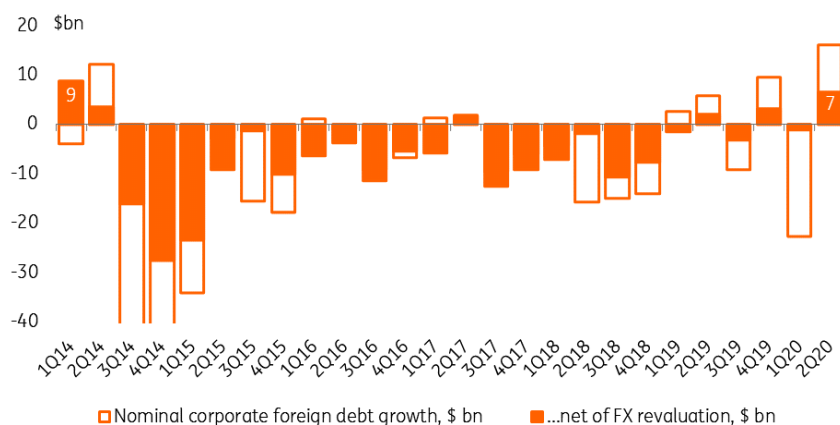
Corporate foreign debt growth in 2Q20 the highest in six years

The Russian [foreign debt](#) statistics for 2Q20 provides additional colour to the general [balance of payments](#).

- Nominal corporate (of banks and non-financial companies) foreign debt increased by US\$16 billion in 2Q20 to US\$401bn as of mid-2020. However, as up to 45% of the corporate debt is denominated in EUR and RUB, a significant portion of the 2Q20 nominal growth reflects paper gains due to quarterly appreciation of EURUSD from \$1.10 to \$1.12 and USDRUB from 77.7 to 70.4. Adjusted for this effect, the actual increase in corporate foreign debt was around US\$7bn.

- The estimated US\$7bn increase is the highest quarterly growth in over six years. The last significant increase in corporate foreign debt – at US\$9bn – was recorded in 1Q14, on the eve of a significant deterioration in the foreign policy backdrop that resulted in 4.5 years of active deleveraging (see Figure 1).
- According to our estimates, the US\$7bn increase in corporate foreign debt in 2Q20 was assured purely by the non-financial sector, which net attracted almost US\$10bn (also a six-year high), while banks reduced their foreign debt by around US\$3bn.
- The composition of the foreign debt increase by the non-financial sector appears to be evenly split between direct investment inflow, which may represent support to companies coming from non-resident shareholders, and regular foreign debt, including loans, trade finance, and other debt liabilities.

Figure 1: 2Q20 corporate foreign debt growth the highest since pre-sancions 1Q14

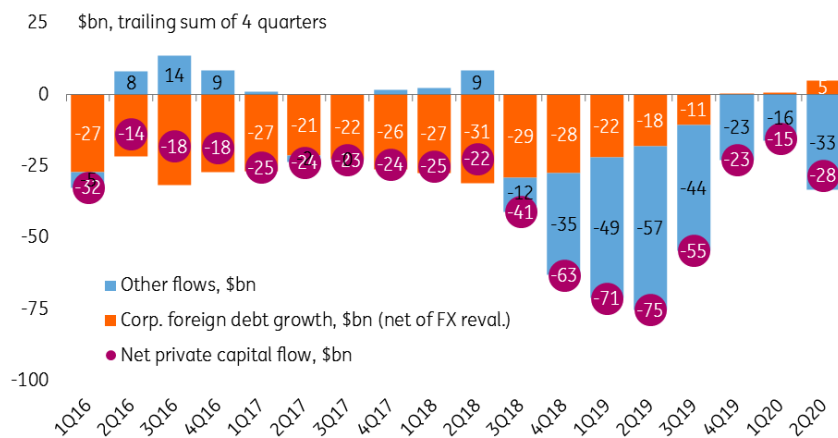


Source: Bank of Russia, ING

Foreign debt is not a stability concern, but it raises questions on the nature of 2Q20 capital outflows

An estimated US\$7bn quarterly increase in the corporate foreign debt in 2Q20 is not a concern in terms of financial stability, especially following the nearly US\$170bn net redemption seen since mid-2014 till the end of 1Q20. Meanwhile, taking into account the high US\$12bn net capital outflow, also reported for 2Q20, it means that the increase in foreign liabilities has been outperformed by a larger deterioration of other capital flows (Figure 2), mainly the increase in international assets. The nature of this accumulation is unclear at this point. In the best case, the surprising accumulation of foreign assets may be technical and could be related to a shift in the [dividend payout schedule](#) due to the pandemic (affecting both current and capital accounts). However, in the worst case, it could reflect negative trends in local confidence.

Figure 2: The role of capital outflow unrelated to foreign debt redemption has increased



Source: Bank of Russia, ING

The surprisingly high US\$7bn increase in corporate foreign debt in 2Q20 is no threat to financial stability, however, the fact that it did not prevent a noticeably high net capital outflow of US\$12bn confirms the uncertainties regarding the Russian capital account for 2H20.

Author

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10

Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.