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Russia's external debt

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External debt of the Russian government is relatively low and foreign exchange reserves are still quite high – even after declining by approx. 28 % during the year 2014. At first glance the picture appears positive but it is put into perspective when the liabilities of state-owned banks and enterprises are taken into account.

External debt declining

In the second half of 2014, total external debt of Russia decreased by approx. 18 % to an estimated USD 599 billion. Previously, after the recession in 2009, external debt had amounted to about one third of GDP. Banks, businesses and households account for almost the entire amount of external debt (91 %) and, accordingly, for its decline.

In the second half of 2014, banks, businesses and households had to repay approximately USD 140 billion of foreign liabilities. Due to the financial sanctions and poor risk assessment, they probably experienced more difficulties receiving (re-)financing from abroad. Their foreign debt has therefore declined by almost the same amount (USD -112 billion).

Accordingly, domestic financing may become more important. Indeed, claims of credit institutions against enterprises and households have increased. Banks themselves have especially increased their borrowing from the central bank and their activity in the interbank market, while funds raised from credit institutions (including funds from foreign banks) have remained relatively stable (Figure 2). Since the beginning of 2013, Russian credit institutions have extended more funds to non-resident banks than what they have received in return.

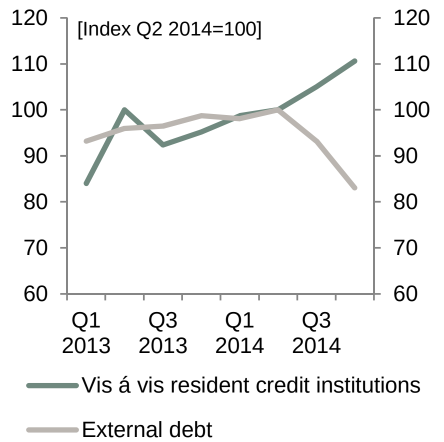
High public sector debt from state-owned banks and corporations

The government itself accounts for only a small share of external debt but 64 % of the external debt of the banking sector and 38 % of the corporate sector are attributed to public banks and companies. It is expected that these banks and companies will be saved by the central bank and the government because of their importance to the economy, should they ever get into financial difficulty. After all, the state-owned banks are among the largest in Russia and the state-owned companies are located in major industries such as the energy sector. Russia has one of the highest shares of public companies (including banks) in the ten largest companies in the country (81 %), according to the OECD.

Foreign currency reserves with a negative trend

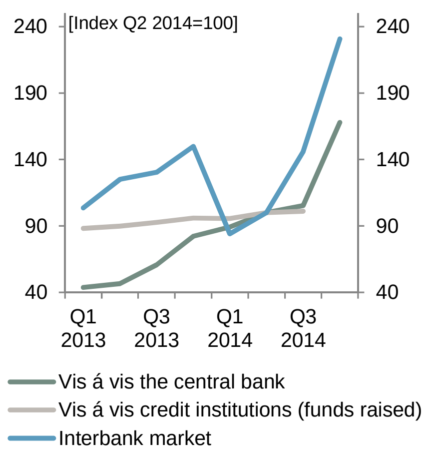
The public sector share of external debt increases from approx. 7 % to 52 %, when state-owned enterprises and banks are taken into account. The ratio of foreign exchange reserves to external debt deteriorates accordingly. Depending on the assumption on the further development of public external debt in foreign currency (constant percentage or average growth rate of external debt), it will already exceed foreign exchange reserves at the end of 2015 or not until the second half of 2016. Although no sovereign default is expected in a strict sense, Russia's foreign exchange reserve cushion is diminishing. ■

Figure 1: Liabilities of households and enterprises



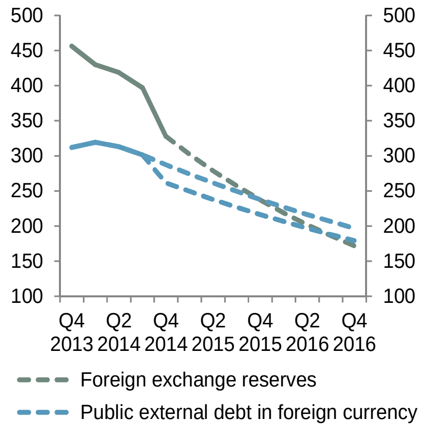
Source: Bank of Russia, own calculations.

Figure 2: Liabilities of credit institutions



Source: Bank of Russia, own calculations.

Figure 3: Reserves and external debt (in USD 1,000 million)



Source: Bank of Russia, own calculations.