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RUSSIAN DEBT MARKET: HOLDERS OF SECURITIES WITH ACRA RATINGS HAVE NO REASON TO WORRY

ACRA's opinion on the current state of the Russian public debt market and forecast regarding the fulfillment of coupon payments and bond redemption obligations are based on an analysis of issues that the Agency has assigned ratings to on the basis of information provided by issuers and used in credit analysis.

ACRA ratings have been assigned to securities with an aggregate volume of liabilities accounting for about half of the public ruble debt market. In the banking sector, this indicator is over 90%, in the non-financial sector it stands at almost 40%, while in the regional sector it is about 75% (calculated based on the number of issuers of ruble issues).

Among the current issue ratings assigned by ACRA on the national scale, there are currently no pre-default ones (ratings of CCC(RU) and below). When forecasting, it should also be noted that the rated entities among ACRA's clients have not defaulted on ruble bond issues since the beginning of 2016, while there have been around 70 issuer defaults in the market¹.

Corporate sector

There are practically no companies in the corporate sector that raise funds exclusively in the public debt market. Issuers usually diversify their obligations by resorting to a combination of bank loans and bonds. An analysis of repayments/refinancing scheduled for 2022 shows that their volumes are not disproportionately significant in relation to future periods. These repayments are as follows: rating category A — RUB 25.5 bln, BBB+ — RUB 1 bln, BBB — RUB 3.5 bln, BBB- — RUB 1.6 bln, and B+ — RUB 0.07 bln. Repayment risks are already factored into the liquidity assessments of issuers; this indicator is taken into account when assigning a particular level of credit rating. ACRA's current corporate sector ratings reflect all possible risks, including the risks of redemption of bonds at the same time as not being possible to refinance them. ACRA takes into account the stable condition of the banking sector, both in terms of capital adequacy and liquidity position, which will allow banks to grow their credit portfolios in forthcoming years.

¹ According to Cbonds; default events for issuers were taken into account once, regardless of the number of issues; calculations did not take into account technical defaults and covenant violations.

The general state of the economy and individual industries also does not indicate the accumulation of credit risks in any industry that could lead to mass defaults. For example, a high-risk sector such as residential construction operates as follows: banks provide the bulk of financing secured by objects under construction, which significantly mitigates the risk of default. Developers use bonds primarily to acquire land plots for construction, which are highly liquid.

Sectors related to gas production, petrochemicals, fertilizer production, metallurgy, and mineral extraction are currently demonstrating better financial results compared to previous periods, which is due to the extremely favorable pricing situation in world markets.

The higher credit risk of companies rated BB and below is, of course, due to less affordable bank and bond financing. However, the current ratings of these companies already reflect the degree of their potential default, which is not critical.

Financial sector

In the banking sector, the ability of both Russian and international financial institutions that issue bonds in the Russian market to service their borrowings is not a cause for concern. Most importantly, ACRA notes that the number of banks that finance their assets through bond issues is relatively small, with only five credit institutions funding more than 10% of their assets via bonds, and all these banks are either directly or indirectly controlled by state or foreign structures. Most of the time, bond issues are nothing more than an instrument that helps banks moderately diversify the traditional sources of their resource bases — client funds. In order to replenish capital, a number of banks place subordinated bonds, some of which are perpetual. In addition, in the overwhelming majority of cases, the volume of highly liquid assets exceeds the size of liabilities to bondholders over the next two years.

Over the past two years, leasing companies have shown that they are increasingly interested in financing operations through bond issues. According to ACRA's assessments, this trend should continue in the future. However, the Agency does not expect leasing companies to face problems servicing their debts due to high business profitability and acceptable portfolio quality.

Sub-sovereign debt

In 2021, the Russian Government announced it would restructure Russian regions' debt worth more than RUB 500 bln; this debt was mainly short-term and medium-term commercial debt. As a result, around one-fifth of current debt will become long-term and conditionally free by the end of the year. This is a positive factor in the assessment of the credit quality of regions that are participating in the restructuring program.

Although the country's regions, like other market participants, are subject to interest risks and will have to refinance the remaining part of their debt, ACRA cannot see any critical interest expense indicators being recorded this year or next year among the Russian regions and municipal entities that it rates.

In conclusion, we stress that the Agency does not expect any debt servicing problems for issuers who have ACRA credit ratings. The Agency's assessment of the parameters of bond issues, payment schedules for them, as well as the current financial condition of their issuers on the basis of the information provided by them,

indicates that there is no significant likelihood of an increase in the number of defaults in the ruble debt market over a horizon of one year.

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