U.S. Stops Russian Bond Payments

The United States stopped the Russian government on Monday from paying holders of its sovereign debt more than $600 million from reserves held at American banks, in a move meant to ratchet up pressure on Moscow and eat into its holdings of U.S. dollars.

Under sanctions put in place after Russia invaded Ukraine on Feb. 24, foreign currency reserves held by the Russian central bank at U.S. financial institutions were frozen.

But the Treasury Department had been allowing the Russian government to use those funds to make coupon payments on dollar-denominated sovereign debt on a case-by-case basis.

On Monday, as the largest of the payments came due, including a $552.4 million principal payment on a maturing bond, the U.S. government decided to cut off Moscow's access to the frozen funds, according to a U.S. Treasury spokesperson.

An $84 million coupon payment was also due on Monday on a 2042 sovereign dollar bond.

The move was meant to force Moscow to make the difficult decision of whether it would use dollars that it has access to for payments on its debt or for other purposes, including supporting its war effort, the spokesperson said.

Russia faces a historic default if it chooses to not do so.

"Russia must choose between draining remaining valuable dollar reserves or new revenue coming in, or default," the spokesperson said.

The increased pressure comes as the United States and Europe are planning new sanctions this week to punish Moscow over civilian killings in Ukraine.

Russia, which has a total of 15 international bonds outstanding with a face value of around $40 billion, has managed to avoid defaulting on its international debt so far despite unprecedented Western sanctions. But the task is getting harder.

Russia was last allowed to make a $447 million coupon payment on a 2030 sovereign dollar bond, due last Thursday, at least the fifth such payment since the war began.

If Russia fails to make any of its upcoming bond payments within their pre-defined timeframes, or pays in roubles where dollars, euros or another currency is specified, it will constitute a default.

While Russia is not able to access international borrowing markets due to the West's sanctions, a default would prohibit it from accessing those markets until creditors are fully repaid and any legal cases stemming from the default are settled.

Adding to this thousands of auto workers have been furloughed and food prices are soaring as Western sanctions pummel the small Russian city of Kaluga and its flagship foreign carmakers, with more sanctions likely to come.

The Kaluga region, 190 kilometers (120 miles) southwest of Moscow, says it has attracted more than 1.3 trillion roubles ($15 billion) in investment, mostly foreign, since 2006.

But Western sanctions imposed in recent weeks over Russia's invasion of Ukraine have exacerbated lingering component shortages and halted production at two flagship car plants, Germany's Volkswagen, and Sweden's Volvo.

A third, the PSMA Rus plant that is a joint venture between Stellantis and Mitsubishi and employs 2,000, may halt production soon due to a lack of parts, Stellantis' chief executive said last Thursday.