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## Russia's Ministry of Finance returns to the bond market with a slight increase in yields

**The potential increase in borrowing may lead to an increase in cost, but the federal budget's expenditures on debt service will remain acceptable**

On April 7, 2020, the Ministry of Finance decided to resume federal bond (OFZs) auctions after a one-month break. Three OFZ issues were offered:

- OFZ № 29013RMFS — new 10-year OFZ issue with a floating coupon that depends on the short-term money market rate (RUONIA);
- OFZ № 25084RMFS — the shortest (three-year) OFZ issue with a fixed coupon;
- OFZ № 52002RMFS — the only eight-year inflation-linked OFZ issue available for placement.

According to the results of auctions held on April 8, the total placement volume amounted to RUB 22.1 bln at face value. However, ACRA notes that:

- The Ministry of Finance decided not to fulfill investor orders for OFZ № 29013RMFS due to the absence of bids with acceptable price levels;
- OFZ № 25084RMFS was placed in the amount of RUB 16.5 bln at face value with a demand of RUB 50.1 bln (the ratio of demand to actual placement volume is 3.0x) and weighted average yield of 6.45%. Previously, this issue was placed on February 19 in the amount of RUB 20.3 bln, with a demand of RUB 64.4 bln (the ratio of demand to actual placement volume is 3.2x) and weighted average yield of 5.56% (89 bps lower).
- OFZ № 52002RMFS was placed in the amount of RUB 5.6 bln at face value with a demand of RUB 10.3 bln (the ratio of demand to actual placement volume is 1.9x) and weighted average real yield of 3.0% annually. Previously, this issue was placed on February 19 in the amount of RUB 10.7 bln, with a demand of RUB 35.5 bln (the ratio of demand to actual placement volume is 3.3x) and a weighted average real yield of 2.6% (40 bps lower).

Therefore, demand for OFZs has decreased compared to the first two months of this year, while the cost of borrowing has increased slightly. According to ACRA, the Ministry of Finance needs to raise about RUB 50.0 bln at auctions in one day<sup>1</sup> by the end of this year in accordance with the adopted amendments to the federal budget law for 2020, which were prepared before the crisis. In these circumstances, the Ministry of Finance has the ability to act flexibly without fulfilling orders with prices that it considers unacceptable.

However, given the already announced fiscal stimulus measures and the possibility of their expansion, as well as the government's desire to limit the use of federal budget liquid assets, ACRA believes the government may need to expand its borrowing program in the future. In this case, its flexibility may decrease and the cost of borrowing may increase. At the same time, the potential increase in the cost of borrowing cannot be considered a significant risk factor, since the total cost of servicing the public debt (stipulated in the 2020 federal budget law) does

<sup>1</sup> The actual volume of borrowings for one day has averaged RUB 65.4 bln since the beginning of the year.

not exceed 1.0% of GDP, or 4.5% of federal budget revenues. In addition, public debt was low as of the end of 2019, amounting to less than 13.0% of GDP, or 68.0% of federal budget revenues.

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