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Moody's Says Russia Risks Billions of Dollars If Cyprus Defaults

By The Moscow Times

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Russian banks and companies exposed to Cyprus risk losing billions of dollars should the island's government default on its debt obligations, Moody's credit-rating agency said Wednesday.

Cyprus has been negotiating with the European Union and Russia on a 17 billion euro ($22 billion) aid package that would recapitulate its oversized banking sector, but also service debt and government expenses.

Euro zone finance ministers have pledged to agree on a bailout for Cyprus by the end of March and have set a meeting for Friday, but there are still no details on financing the rescue attempt.

Moody's said there is a high probability of Cyprus defaulting, or at least the authorities being forced by the size of the debt to "pursue every avenue for debt reduction, including privatesector losses on Cypriot debt."

Russian banks had between $30 billion to $40 billion in cross-border loans to Cypriot companies tied to Moscow and about $12 billion on deposit with Cypriot banks at the end of last year. There is a risk that some $19 billion may not be recovered, Moody's said.

Cyprus is a favored offshore center for Russian big business, due to its low taxes and light regulation. It ranks as the largest source of foreign direct investment into Russia, money that is largely Russian in origin.

Losing the possibility to repatriate the $19 billion, the amount estimated by Moody's in corporate deposits at Cypriot banks, could also affect the servicing of bank debt back in Russia, said Eugene Tarzimanov, author of the Moody's report.

"A potential Cyprus moratorium on external payments could block loan repayments to Russia, leading to some asset-quality pressures," Tarzimanov said.

Cyprus has asked Russia for a five-year extension of an existing loan of 2.5 billion euros that matures in 2016 as well as a reduction in the 4.5 percent rate of interest.

Most of Russia's largest banks have some credit exposure to Cyprus. VTB, Russia's second-largest bank by assets, had $13.8 billion in assets and $374 million through its Cypriot subsidiary, Russian Commercial Bank, at the end of 2011.

Cypriot President Nicos Anastasiades is to travel to Russia to meet President Vladimir Putin in the coming weeks. One risk to Russia's state banks identified by Moody's is that the Kremlin may direct them to lend more to tide Cyprus over.

Euro-zone officials have said Russian investors were interested in buying a majority stake in Cyprus Popular Bank and increasing their holdings in Bank of Cyprus, the two biggest banks on the Mediterranean island.

German officials, backed by the Netherlands and Finland, as well as the International Monetary Fund, have pushed for depositors in Cypriot banks, many of whom are Russian and British businesspeople, to help pay for the cost of the rescue.

Should all rescue plans fail, Russian loans, which corresponded to 15 to 20 percent of Russian banks' capital base last year, will suffer, Moody's said.

"In case of restrictions, Cyprus would simply block debt repayments to Russian banks."

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