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Siluanov Shrugs Off Possible U.S. Default

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The U.S. Senate cut a temporary deal to raise the country's debt ceiling Wednesday, possibly sparing the global economic system the consequences of a government debt default in the world's biggest economy.

But the compromise may not pass the House of Representatives or get over all of the procedural hurdles in time to refinance the government. And if it does, the stopgap deal will only delay the issue until February 2014.

In Russia, opinion is divided on how destabilizing a default might be. Finance Minister Anton Siluanov on Wednesday said the possible U.S. default would not affect the Russian economy, a statement that put him at odds with some market players.

Investment companies pointed to some tangible risks, including a sharp drop in the value of the ruble and an ensuing surge in the prices of many medicines and groceries, which are mostly imported.

If the Senate's deal to raise the debt ceiling does not make it into law by the Thursday deadline, the U.S. government will default on its treasuries, which make up two-fifths of Russia's foreign reserves.

The dramatic negotiations have prompted banks and brokers around the world to make contingency plans. But Russian policymakers, even if they have such plans in the works, sounded nonchalant as the deadline drew closer.

“There will be no consequences for us if the default occurs,” Siluanov said, Interfax reported.

Investment company Nord Capital's head of research Vladimir Rojankovsky said the U.S. will likely roll over its treasuries that expire in the next 12 months into longer-term treasuries if the default takes place.

Siluanov said, however, that Russia did not hold such short-term bonds.

Ksenia Yudayeva, first deputy chairwoman of the Central Bank, said Wednesday that Russia estimated the likelihood of a U.S. default as “very low.”

Even if it happens, Russia will not reduce its investment in U.S. Treasuries any time soon, she said.

In the event of a default, the Central Bank will pump more liquidity into the market using its time-proven instruments, such as raising its repo ceiling, Yudayeva said.

Investcafe brokerage analyst Dmitry Demidenko said Siluanov appeared to downplay the threat.

“The Finance Ministry is, of course, playing coy,” he said. “There may be no securities [that are at risk], but there are, of course, reserves in dollars. And a default is fraught with a loss of trust not only to U.S. Treasuries, but also to the greenback, which will lead to a devaluation of the U.S. currency and a devaluation of these reserves.”

Rojankovsky said there was high probability that the U.S. would restructure its debt if the decision on ceiling remained elusive.

By undermining trust in the securities, the move would deal a blow to Russia's currency, which is backed up by the Central Bank reserves of U.S. dollars and treasury bonds, he said.

That would send the ruble tumbling down by at least 15 percent, Rojankovsky said.

Prices on medicines and groceries would surge and affect the wellbeing of a broad swath of people because Russia imports these goods en masse, he said.

“Expensive medicines would be a key problem,” Rojankovsky said.

International rating agencies, such as Moody's and Standard & Poor's, might lower Russia's position, forcing the yields on Finance Ministry bonds to increase, he said. The ministry would have to spend more money to service the debt.

David Gray, managing partner at PwC in Russia, said it was difficult to predict the final consequences, if any, of the long inability of U.S. politicians to agree on a deal around increasing the debt ceiling.

“There has even been speculation around the possibility of some form of default on U.S. debt, but this remains highly unlikely,” he said in a statement Wednesday commenting on the release of the firm's latest Global Economy Watch report. “Nevertheless, such incidents contribute additional uncertainty to the market which disrupts investments decisions and increases risk premiums.”

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