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Daily Business Briefing >

U.S. blocks Russia's access to dollars for bond payments, heightening risk of default.

The U.S. Treasury tightened its restrictions on Russian financial transactions on Monday, when more than half a billion dollars in bond payments were due.


By Alan Rappeport and Eshe Nelson

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The United States has started blocking Russia from making debt payments using dollars held in American banks, a move designed to deplete its international currency reserves and potentially push Russia toward its first foreign currency debt default in a century.

A Treasury Department spokeswoman said the action was taken on Monday. It was the same day that more than half a billion dollars in Russian sovereign debt payments came due. The new restriction, the spokeswoman said, is intended to force Russia to choose between draining the remaining dollar reserves it has in Russia or using new revenue (from natural gas payments, for example) to make bond payments to avoid defaulting on its debt.

Since Russia invaded Ukraine in late February and sanctions were imposed, the Russian government has kept up its foreign currency debt payments. While it has shown a willingness to pay, it has been able to pay investors using American banks with the approval of the U.S. government. Last month, the Treasury Department created an exemption from its sanctions that allowed Americans to accept debt payments from Russia until May 25 to avoid destabilizing the broader financial system.

On Monday, a $2 billion bond came due as well as an $84 million coupon payment. But last week, Russia bought back about three-quarters of the bond that matured on Monday in exchange for rubles. It was a relatively unusual move, but it shrank Russia's dollar obligations, leaving about $552 million to be paid. The Treasury's action on Monday has blocked these payments, but Russia has a 30-day grace period to complete the transaction before it might be found to be in default.

"A default on its sovereign debt will be a potent symbol of the crippling blow that has been dealt to Russia's standing in the world economy by the combination of financial, trade, and technological sanctions," said Eswar Prasad, a former International Monetary Fund official.

Russia has confounded many expectations that it was at risk of imminent default after it began its war in Ukraine and the United States and Europe imposed sanctions on its central bank, freezing access to a large portion of its foreign exchange reserves. But Russia has continued to make payments and replenish some of its reserves using money from energy exports.

The Treasury spokeswoman said the action taken this week would create additional challenges for Russia's financial system. The Russian government has already imposed capital controls restricting the flow of money in and out of the country.

Additional punitive measures are expected. Jen Psaki, the White House press secretary, said on Tuesday that more sanctions were expected to be announced on Wednesday in coordination with the European Union and the Group of 7 nations. The sanctions will target Russian financial institutions, government officials and their family members, and state-owned enterprises.

"It is a part of the continuation of our efforts to put consequences in place," Ms. Psaki said during her daily news briefing.

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