Russian business & finance

Chinese lenders extend billions of dollars to Russian banks after western sanctions

Beijing has pushed renminbi as alternative global currency to dollar

ICBC is among the banks to extend its exposure to Russia © EPA-EFE

Owen Walker in London and **Cheng Leng** in Hong Kong YESTERDAY

Chinese lenders have stepped in to extend billions of dollars to Russian banks as western institutions pulled back their operations in the country during the first year of Moscow's invasion of Ukraine.

The moves by four of China's biggest banks are part of Beijing's efforts to promote the renminbi as an alternative global currency to the dollar.

China's exposure to Russia's banking sector quadrupled in the 14 months to the end of March this year, according to the latest official data analysed for the Financial Times by the Kyiv School of Economics.

The lenders took the place of western banks, which came under acute pressure from regulators and politicians in their home countries to exit Russia, while international sanctions made doing business much harder.

The Industrial and Commercial Bank of China, Bank of China, China Construction Bank and Agricultural Bank of China increased their combined exposure to Russia from $2.2bn to $9.7bn in the 14 months to March, according to Russian central bank data, with ICBC and Bank of China accounting for $8.8bn of the assets between them.

During the same period, Austria's Raiffeisen Bank — the foreign bank with the biggest exposure to Russia — increased its assets in the country by more than 40 per cent, from $20.5bn to $29.2bn.

Raiffeisen has said it is looking at ways of pulling out of the country and has reduced its assets to $25.5bn since March.

The moves by Chinese banks are part of a shift by Russia to adopt the renminbi rather than the US dollar or euro as a reserve currency.

"The loans by Chinese banks to Russian banks and credit institutions, which are for the most part a case of the yuan taking the place of dollars and euros, show the sanctions are doing their job," said Andrii Onopriienko, deputy development director at the Kyiv School of Economics, who compiled the data.

The rise of renminbi trading highlights Russia's economic pivot to China as trade between the two countries hit a record $185bn in 2022.

Before last year's invasion, more than 60 per cent of Russia's payments for its exports were made in what the country's authorities now refer to as "toxic currencies", such as the dollar and euro, with renminbi accounting for less than 1 per cent.

Toxic currencies have since dropped to less than half of export payments, while the renminbi accounts for 16 per cent, according to data from Russia's central bank.

Raiffeisen is one of the few western banks that has kept a significant presence in Russia after several other foreign lenders cut ties and sold subsidiaries last year.

But reforms brought in by the Kremlin last summer have made it much harder for foreign banks to sell their Russian subsidiaries. On Friday, Russia's deputy finance minister Alexei Moiseev reaffirmed the government's position to obstruct foreign bank sales.

Profits at Raiffeisen's Russian business rose 9.6 per cent to €867mn in the first six months of this year, with the Austrian lender raising pay for its Russia-based staff by €200mn.

The European Central Bank is increasing pressure on lenders it supervises, including Raiffeisen, to exit Russia.

Raiffeisen said it was trying to find ways of selling or spinning off its Russian business while staying compliant with local and international laws and regulations.

"We are committing to further reducing business activity in Russia whilst we continue to progress such potential transactions," the bank added.

Overall, the proportion of Russian banking assets held by foreign lenders decreased from 6.2 per cent to 4.9 per cent in the 14 months to March.

ICBC, Bank of China, China Construction Bank and Agricultural Bank of China all declined to comment.