The Moscow Times
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Moody's Not Ready to Up Russia's Rating

By The Moscow Times

April 19, 2011

Moody's Investors Service said it has no plans to lift Russia's debt rating, even as investor confidence sends credit-default swaps tumbling, because of corruption and the economy's reliance on energy exports.

Enforcement of property rights and economic diversification are needed for "upward pressure" on the rating, said Dietmar Hornung, Moody's senior credit officer in charge of Russia's rating.

Moody's has kept a "stable" outlook since December 2008 on its Baa1 rating, the third-lowest investment-grade category, equal with Mexico.

"Institutional strength is relatively low, reflecting weak governance, rule of law, transparency and the business uncertainties that relate to the impaired rule of law and the high level of corruption," Hornung said Monday from Frankfurt.

"What's really currently constraining the Russian rating" is a "lack of diversification," he added.

The 15 percent rally in crude prices this year has sent the cost of protecting Russian bonds against nonpayment tumbling to the cheapest level since August 2008 on April 6.

Russia is ranked as the world's most corrupt major economy on Berlin-based Transparency International's 2010 Corruption Perceptions Index released Oct. 26, behind Nigeria at 134th place and Brazil at 69th.

Oil and gas made up 47 percent of Russian government revenue in the first quarter, according to VTB Capital. The country's reserves of gold and foreign currency reached $508 billion this month, the highest since 2008, as oil surged to a peak of $113.46.

Crude, lifted by disruptions in the Middle East, has spurred a 7.8 percent rally in the ruble this year. Nondeliverable forwards, which provide a guide to expectations, show the ruble at 28.58 per dollar in three months.

"Russia's credit upgrade is long overdue," Maxim Tishin, who helps manage $850 million at UFG Asset Management, said in e-mailed comments Monday. "Russia's standing on ability-to-pay and willingness-to-pay scales certainly merits a higher rating."

The government's debt is equivalent to about 8.5 percent of 2011 gross domestic product, compared with 43 percent for Mexico and 66 percent for Brazil, according to the International Monetary Fund's World Economic Outlook Database in April.

The extra yield investors demand to hold Russian debt rather than U.S. Treasuries fell six basis points Monday to 185. That's more than the spread of 135 basis points for Mexico and 176 for Brazil, according to JPMorgan Chase's EMBI+ indexes.

The yield spread on Russian bonds is 82 basis points below the average for emerging markets, down from a 15-month high of 105 in February 2010, according to JPMorgan Indexes.

Russia's dollar bonds due in 2020 rose, cutting the yield by four basis points, or 0.04 percentage point, to 4.93 percent. The yield has fallen from 5.31 percent when the bonds first traded in April last year.

The price of ruble notes due August 2016 fell, pushing the yield up six basis points to 7.50 percent. The yield on Russia's ruble eurobond due in 2018 was little changed at 7.10 percent.

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