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Russia and U.S. Find a Foe in S&P

By The Moscow Times

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The “reset” in U.S.-Russian relations entered a tough spell in recent weeks, but both sides have found agreement in at least one area: They loathe credit rating agencies. Three weeks after Prime Minister Vladimir Putin castigated Russia’s lowly BBB credit rating as an “outrage,” President Barack Obama knows what it’s like to be in Putin’s shoes. The indignation of Obama and other U.S. officials as the United States weathers the shame of Standard & Poor’s first-ever downgrade of its government debt from the coveted AAA rating to AA+ echoes Putin’s fury.

“I think S&P has shown really terrible judgment, and they’ve handled themselves very poorly, and they’ve shown a stunning lack of knowledge about basic U.S. fiscal math,” U.S. Treasury Secretary Timothy Geithner said on NBC television Sunday. “I think they drew exactly the wrong conclusion.”

Obama made a failed attempt to reassure investors as markets reeled from Mumbai to Moscow on Monday. “Markets will rise and fall. But this is the United States of America,” Obama said. “No matter what some agency may say, we’ve always been and always will be a triple-A country."

In Moscow, the Finance Ministry rushed out a 48-page report arguing that Russia's debt was underrated. "Low rates of state debt ensure Russia's stands out significantly from a large majority of developed countries and emerging markets," the report said.

The braying from the Russian side is not unusual. Authorities and investors alike have been fuming since S&P and Fitch cut Russia's debt to a notch above junk grade in the wake of the 2008 recession. Summing up the bitterness, Troika Dialog chairman Ruben Vardanyan told an investment conference in February 2009: "The real question is why the United States' rating hasn't been downgraded."

Now that Vardanyan's question is answered, the United States and Russia find themselves on the same side of the fence after a polarizing month that saw President Dmitry Medvedev order retaliation for U.S. State Department travel restrictions on Russian officials implicated in the prison death of Hermitage Capital lawyer Sergei Magnitsky. Tensions also flared over U.S. missile defense plans, a unanimous U.S. Senate resolution for Russia to withdraw troops from Georgia's breakaway regions, and a leaked CIA report linking Russian intelligence to a September bombing near the U.S. Embassy in Tbilisi.

But when it comes to debt ratings, there is little room for argument. Both countries got what they deserved. Despite glowing numbers presented in the new Finance Ministry report, the government has failed to lower the risk level of the country's investment environment by allowing corruption to flourish, doing little to guarantee the independence of the courts, and stubbornly adhering to opaque governance practices that, among other things, have left investors wondering who will run in the presidential election less than seven months away.

That said, Russia might be in a slightly better position than the United States to win a credit upgrade. Fitch has hinted that it might raise Russia's rating this year, while S&P said Monday that the United States could harbor no such hopes amid a political stalemate in Washington.

The real tragedy is that when the Russian government spooks investors, they can flee to friendlier markets. But when U.S. lawmakers play a game of brinkmanship on whether to raise the U.S. debt ceiling or go into default, investors around the world — including in Russia — have nowhere to go, and we all end up footing the bill. Despite what Putin and Obama think, that is the real outrage.

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