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$785Bln Soviet Debt Might Spoil Rating

By Howard Amos

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If all the outstanding debts of the Soviet Union were treated on par with the government's other debts, that would significantly weaken the country's balance sheet and trigger a sovereign credit rating review, Fitch said Tuesday.

Credit rating agencies sat up and took notice when the European Court of Human Rights ordered the Russian government to pay damages to Yury Lobanov, 74, earlier this year in compensation for bonds he purchased in 1982, when Leonid Brezhnev was in power.

Fitch was "not about to make any immediate judgment" that could affect Russia's credit rating, said Paul Rawkins, a senior director at the international rating agency. "We need more official clarity."

But if the authorities stopped differentiating Soviet debts from post-Soviet ones, it would officially add 42 percent of gross domestic product to public debt and push total debt to 55 percent of GDP, Rawkins said at a conference in Moscow.

There is approximately $785 billion worth of outstanding Soviet debts, according to the government. Rawkins said the real amount was "unquantifiable."

The reappearance of Soviet debt-related issues is potentially problematic for Russia's sovereign rating, which determines the cost of borrowing on international markets.

Top officials regularly cite the low level of state debt as one of the country's macroeconomic strengths.

President Vladimir Putin denounced the country's sovereign rating as an "outrage" last year.

Fitch reviewed Russia in June and currently rates it as BBB, the same as Kazakhstan but below emerging European economies like Poland and the Czech Republic.

Putin's recent re-election to a third presidential term amid mass street protests has not helped the Kremlin's hopes of securing an upgrade.

Fitch lowered its outlook on Russia in January from positive to stable as demonstrations reached a peak, a position that it confirmed last month.

The agency no longer sees political instability as a significant risk, however, Rawkins said.

"We don't think Putin is going to be overthrown tomorrow," he said. "It's hard to identify a clear alternative."

But Putin's pre-election spending promises have tied the country's budget to significant expenditures and will cost 5.9 percent of GDP between 2012 and 2018, Fitch said.

Standard & Poor's confirmed Russia at BBB in June, and Moody's rates Russia as Baa1, the third-lowest investment grade.

All the rating agencies express concern with the possibility that external shocks in the eurozone or the oil price could be transmitted to Russia via its dependency on commodity exports.

The current price of oil at which Russia's budget will balance is about $110 a barrel, Rawkins said.

This is the highest figure for any oil-producing country covered by Fitch, he added.

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