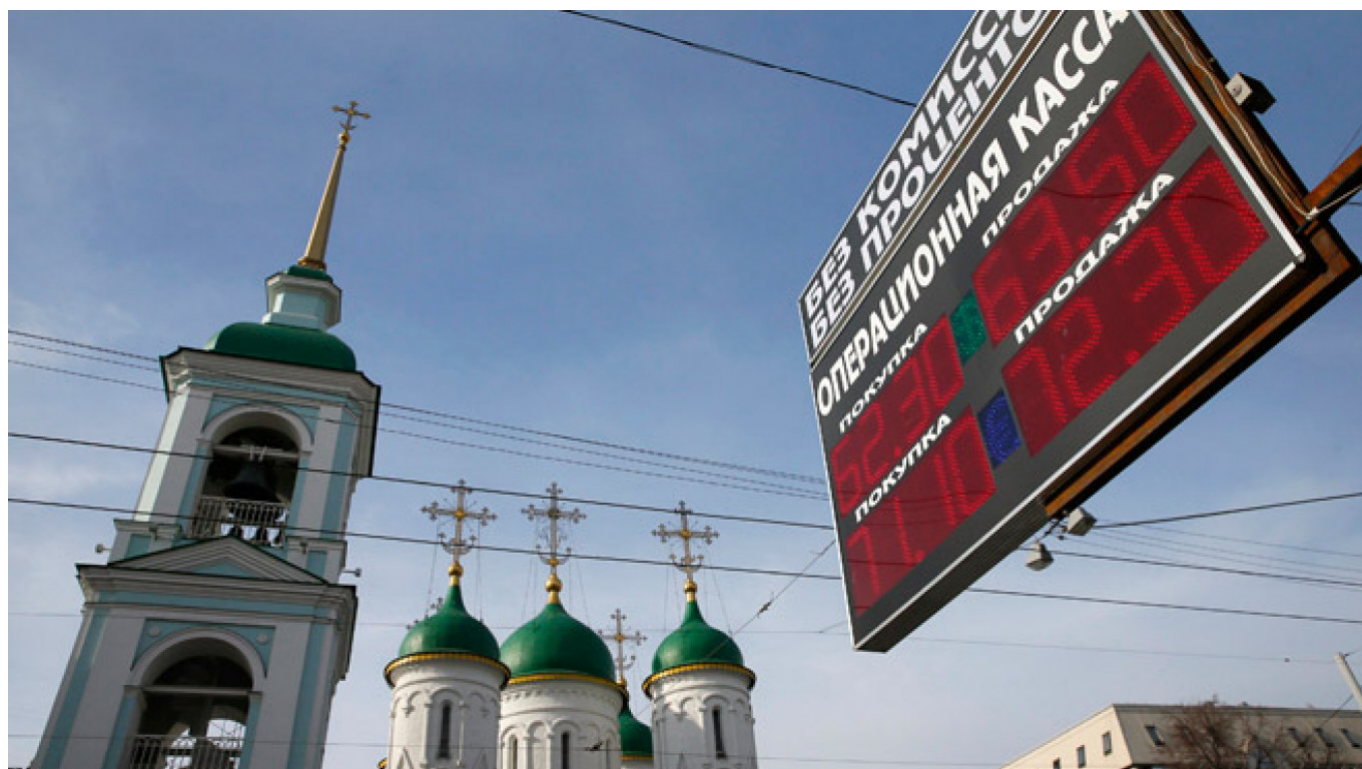


# Investors Unwilling to Take a Gamble on Russia

By [Gleb Kuznetsov](#)

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Both former Finance Minister Alexei Kudrin and current Finance Minister Anton Siluanov, along with numerous other Russian officials and pro-Kremlin economists were outraged and perplexed about the decision by Moody's and Standard & Poor's to assign Russia a "junk" rating late last month.

They claim that economic ratings have become a tool of political pressure and that the agencies themselves have political agendas and are biased toward Russia. "Look at the numbers," they say, "at Russia's assets and reserves."

Back in the boom years I suggested to a British investment banker that the rating agencies unfairly give Russia risk factors on a par with such developing countries as Ghana. He listened to me attentively and said: "We know what to expect from Ghana, but we don't know what to expect from the Russian economy. Economics is, first of all, about predictability. Considering the complete lack of predictability in Russia, we have to factor in added precautions."

All expert opinions and subjective formulas aside, low ratings reflect the possibility of investors losing their money if a country defaults — something that purely economic indicators do not necessarily reflect.

It is unrealistic to hope for a high rating when market players worry that Russian leaders can suddenly announce: "We refuse to repay our debts, however small and insignificant they are compared to our national wealth. And yes, we are seizing the property owned by nationals of countries with whom we have foreign policy differences."

Investors must obviously take such risks into account. For them, it makes no difference if a country defaults because it has no money or because it has no desire to pay. Accordingly, rating agencies must factor in the overall condition of society and where it is headed — as determined by the media agenda, major public protests or rallies, the results of public opinion polls and such things as the steady flow of weapons and "volunteer" soldiers into neighboring countries.

In the same way, the expectation of an electoral win for the Syriza Party in Greece depressed the economy in both that country and the wider European Union for six months. In Russia's case, the problem is not so much politically motivated moves by an insidious West as it is this country's political uncertainty combined with the constant stream of negative domestic news for investors.

For example, United Russia deputy Yevgeny Fyodorov recently proposed a constitutional ban on using U.S. dollars in Russia. What's more, deputies from the Liberal Democratic Party (LDPR) and the Communist Party — the second and third largest factions in the Russian parliament — regularly and boldly call for nationalizing foreign assets in this country.

Even if Russia's political elite do not take those proposals seriously, they have become so accustomed to seeing that agenda item that the idea no longer sounds so absurd. Why would investors give more weight to the words of Kudrin — who holds no official status — than they would to the largest political factions in the Russian parliament and the millions of voters who support them?

Economic and investment ratings reflect reality. And that reality is not just figures indicating the national budget's solvency, the price for oil and gas exports, the capitalization of Russia's largest companies and the government's ability to pay down its debt. It also includes the political reality consisting of the laws parliament passes, the public statements senior officials make and, ultimately, the general mood and inclination of the people.

Russia's economic ratings suffer as a result of its political risks, and those derive from the picture it presents to the world and the direction in which Russian society is headed.

If Russia was a rigid dictatorship, it would have lower risks. But Russia is ostensibly a democracy, and it constantly provides "updates" on the public mood by means of television shows, social surveys and statements by senior officials.

Again, the "rating" Russia receives is based not only on national budget figures, but also on the zealous anti-U.S. tirades of television show hosts and the constant stream of parliamentary initiatives meant to "limit," "ban" and "halt access to" this, that and the

other.

The Investigative Committee — the most influential policing and law enforcement agency in the land — has proposed removing the principle of the supremacy of international law over national law from the Constitution on the premise that it leads to "legal sabotage" against Russia.

Why should investors and rating agencies ignore the possibility that within six months' time the Russian legal system could degenerate into "a riddle wrapped in a mystery inside an enigma," rendering futile any attempt to seek justice in Russia through an appeal to international law?

Russian liberals often object to these questions. They argue that it is necessary to distinguish between the "domestic political" and "foreign economic" narratives of the Russian authorities, that the populism that finds acceptable use in domestic politics has no effect on the activities of economic entities and regulators.

Unfortunately, nobody really believes that the government can operate as a "two-faced Janus," showing the world its "political" persona — a grim-faced, bearded boor who longs for his medieval past, while showing investors its young, optimistic, innovative and friendly countenance.

And nobody — not investors, the leaders of neighboring states or Russian businesspeople hoping to develop their assets — can know with any certainty which of those faces they will encounter at any given moment. Will it be the bearded, ax-wielding Slav of lore or the progressive and pragmatic manager sporting a designer watch and fashionable haircut and holding a billion-dollar proposal for developing the untold riches of the Far East and Siberia?

This misunderstanding gives rise to all the risks that cause so much damage to Russia's foreign policy reputation, its economic rating and the social well-being of its citizens.

And not even the creation of a new ratings agency to counter the "slander" of the big three Western agencies, the lifting of sanctions that liberals would see as a sign of a "thaw" in relations, or a new Cold War that has the conservative world so scared will help Russia determine once and for all who it really is.

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*The views expressed in opinion pieces do not necessarily reflect the position of The Moscow Times.*

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