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Funds Won't Hold Spain, Ireland Debt

By The Moscow Times

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The Finance Ministry has excluded Ireland and Spain from a list of countries approved for bond investment by the country's two sovereign wealth funds, according to the ministry's web site.

The two countries were not mentioned in a document specifying the national debt acceptable for purchase by the Reserve Fund and National Welfare Fund, which together represent more than $130 billion, or more than half of Ireland's $227 billion gross domestic product in 2009, according to the web site.

"It's a question for the Central Bank whether they invested," Deputy Finance Minister Dmitry Pankin said Wednesday by phone. "What matters for us is that Irish and Spanish notes weren't part of the formula used to calculate the yield the Central Bank pays us."

A spokesman for the Central Bank did not return a call seeking comment.

The Irish government said Sept. 30 that costs to bail out the country's banks may reach about

50 billion euros ($70 billion). On the same day, Spain had its top credit rating cut one level by Moody's Investors Service, which cited the nation's "weak" economic outlook.

The Russian funds are managed by the Central Bank under guidelines set down by the Finance Ministry.

The decision was not surprising given that the two funds have a very low risk profile and how the yield differential between and Spanish and Irish debt had widened against the German bund, said Chris Weafer, chief strategist at UralSib.

"Ten years ago, the Irish Celtic Tiger was roaring while the Russian bear was licking its wounds," he said by telephone from London. "Today, the tiger is an endangered species while the bear is much more robust."

Russia's funds may still invest in the debt obligations of the governments of Austria, Belgium, Britain, Germany, Canada, Denmark, Luxembourg, Netherlands, United States, Finland, France and Sweden, the ministry said.

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