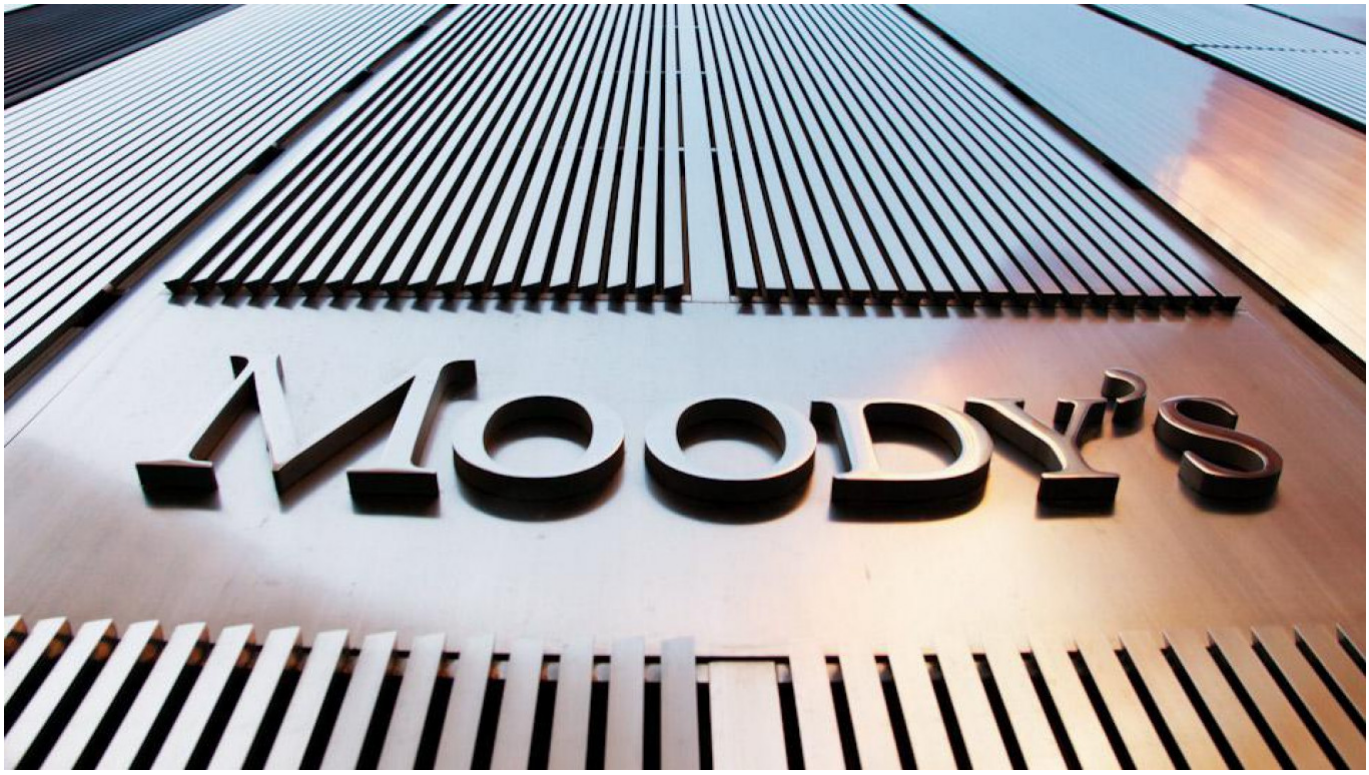
The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

# U.S. 'Love' of Sanctions Won't Stop Moody's Upgrading Russia

By Bloomberg

October 29, 2018




**Imago / TASS**

Moody's Investors Service thinks it's likely that the U.S. will sanction Russia's sovereign debt. But it might just upgrade the country to investment grade anyway.

"Those sanctions are likely to come because they would target what the administration has in mind: trying to impose pain on Russia," Moody's analyst Kristin Lindow said in an interview in Moscow. At the same time, Russia's low borrowing requirements make it "resilient," she said.

Moody's, which rates Russia one notch below investment grade, is currently the most downbeat of the three major ratings agencies after S&P Global Ratings upgraded earlier this year. Lindow and her colleagues put the country on positive outlook in January, meaning they have to make a decision on a possible promotion before the middle of next year.

It's a tricky call to make because there's so much uncertainty around U.S. plans to punish the Kremlin for alleged election interference. A proposed ban on Americans buying new Russian sovereign debt appears to be gaining traction in Washington after it appeared on at least two bills that have bilateral support in Congress.

**Related article**: Russia Can Weather Any New U.S. Sanctions, Says Moody's

Lindow says Russia can cope with such a measure because it doesn't have any urgent need to borrow. The nation's outstanding debt is among the lowest in emerging markets and it's on track to run a budget surplus in 2018 for the first time in seven years. That's given the Finance Ministry leeway to skip recent ruble bond auctions when it felt the price was too high.

Still, an upgrade would do little to stem the exodus of foreign capital from Russia because investors aren't comfortable with the sanctions uncertainty, Dmitry Dolgin, an economist at ING Groep NV wrote in a research note last week. Non-residents have sold about 500 billion rubles ($7.6 billion) of government bonds since U.S. sanctions in April, according to central bank data.

Russia's upgrade to investment grade could be delayed if the penalties from Washington are more punitive, covering the secondary bond market, or if a proposal to block some of the country's biggest banks from making dollar transactions makes it to law, Lindow said. The latter could have severe repercussions for global commodity markets because Russia wouldn't be able to process its oil sales, she said.

Progress on the sanctions bill has been delayed ahead of the midterm elections early next month, and their severity may depend to some extent which party wins more seats. Lindow thinks it's likely that some kind of new penalties will make it into law because sanctions have been the diplomatic tool of choice for Washington in recent spats.

"After the developments with Saudi Arabia and earlier with Turkey, you can see that the U.S. Congress is in love with sanctions," Lindow said. "This has become a tool that Congress loves to use, whether it's effective or not."

Original url:
https://www.themoscowtimes.com/2018/10/29/us-love-of-sanctions-wont-stop-moodys-upgrading-russia-a63331