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29 Jun 2007

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Ratings Update - Tensions With US To Persist

RUSSIAN FEDERATION - RISK RATINGS

	Latest Rating*	Rank†	Previous Rating**	Trend	Regional Avg	Emerging Mkts Avg	Global Mkts Avg
S-T Composite Rating	79.3	21	80.5	-	71.5	65.3	66.8
L-T Political Rating	~49.9	117	49.9	-	74.1	62.0	65.6
S-T Political Rating	~69.2	78	71.3	-	74.4	68.4	70.0
L-T Economic Rating	73.1	20	73.1	-	62.9	58.9	60.8
S-T Economic Rating	90.8	1	90.8	-	69.1	63.0	64.6
Business Environment Rating	50.6	59	50.6	-	57.0	44.8	48.5

Trends reflect two consecutive months of movement in same direction

~ indicates rating is below global markets average tof 133 global markets rated *11/07/2007

**25/06/2007

Political Risk- Tensions With US And Europe To Persist

We expect tensions between Russia and the US and EU member states to persist, in spite of the informal meeting between President Vladimir Putin and President George Bush, due to take place in Maine over the June 29-30 weekend. That said, while the heightened tensions are a concern, we maintain our view that they will not fundamentally undermine foreign capital inflows, nor Russia's healthy macroeconomic outlook. Indeed, we believe that the increased rhetoric coming from the Kremlin has more to do with the domestic electoral cycle than any fundamental shift in Russian foreign policy. As such, while the rhetoric and tensions are likely to persist through to presidential elections in March 2008, we believe that there will be few real policy implications.

Our short-term political risk rating for Russia has fallen this month to 69.2.

Economic Risk- Bounce For The RTS?

We are maintaining our medium-term positive view on Russian equity, in spite of the lacklustre trading in Russian stocks this year. Investor risk appetite has shown little sign of abating, with an impressive US\$60bn in foreign capital flowing into the country in the first five months of the year. This is reinforced by a robust fundamental picture, which continues to be underpinned by historically high energy prices, as well as an expanding service sector and booming construction. Indeed, while oil and gas will likely continue to be the key drivers of the Russian economy over the medium term, we are expecting significant private sector growth in non-energy industries to increasingly feed through to the Russian equity market over the medium and long term.

Russia's short-term economy ratings has improved to 90.8 on account of the country's improved growth outlook.

Business Environment- New Pipeline To Improve Gas Flows

Russian President Vladimir Putin is pushing forward on negotiations with Bulgaria to develop a joint pipeline between Russian gas giant Gazprom and Italy's ENI that would carry natural gas

to south-east Europe. The 'South Stream' plan consists of a 900km pipeline under the Black Sea that would emerge in Bulgaria and then branch off to Austria and southern Italy. The development would enhance Russia's status as Europe's leading natural gas provider and undermine Austrian plans to develop a rival EUR4.6bn pipeline that would bring gas from the Caucasus and Middle-East via Turkey and the Balkans.

Russia's business environment rating is 50.6.

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Geography: [Russia](#)

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