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Foreign Investors Included in Privatization Plan

By Olga Razumovskaya

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Economic Development Minister Elvira Nabiullina. She told reporters after a government budget meeting that the expected privatizations are “a way for us to influence the structure of the economy.” **M. Stulov**

The government is counting on foreign investors to help it privatize an estimated $29 billion in assets to reduce the state's "excessive" presence in the economy, Economic Development Minister Elvira Nabiullina said Thursday.

Stakes in 11 state-run companies will be offered starting next year, and the sales will proceed even if state revenues outpace expectations, Nabiullina said during a government meeting on budget plans.

What’s up for grabs

Company	Current State Stake, %	Planned Stake Sale, %
Transneft	78.10	27.10

Sberbank	60.30	9.30
VTB	85.50	24.50
Rosneft	75.16	24.16
Rosselkhozbank	100.00	49.00
Federal Grid Co.	79.11	28.11
RusHydro	60.38	9.38
Sovkomflot	100.00	25.00
Rosagrolizing	99.99	N/A
Rosspirtprom	100.00	N/A
United Grain Company	100.00	N/A

Sources: Finance Ministry, company data

The timing and size of the sales — the largest since the controversial loans-for-shares privatizations in the mid-1990s — are still being discussed. But foreign investors said they were encouraged by the focus on restructuring the economy and raising funds, rather than just unloading property.

"The privatizations should not just be a fiscal matter and not so much oriented toward raising funds for the budget, although that's also important. ... They are in large part a way for us to influence the structure of the economy," Nabiullina told reporters following the meeting.

Any changes to the list of companies will be made before a draft budget is submitted to the State Duma, she said.

Nabiullina conceded that the government has not yet arrived at a revenue forecast for the sales, although she said the Economic Development Ministry expected earnings of 600 billion to 700 billion rubles ($19.9 billion to $23.2 billion) from 2011 to 2013.

Finance Minister Alexei Kudrin, who is usually more conservative than Nabiullina in his forecasts, estimated privatization revenues at 883 billion rubles ($29.3 billion) during a meeting with Prime Minister Vladimir Putin on Wednesday — a figure that Vedomosti estimated could eventually become two times higher.

The Finance Ministry presented an updated list of companies Thursday, which dropped Russian Railways and the Mortgage Lending Agency, or AIZhK. The state will maintain controlling stakes of at least 50 percent plus one share in all of the companies.

Investors and analysts said the discrepancies in the ministries' estimates and shuffling of the list were natural and would likely persist as the government refines its plan toward the end of the year.

"It is very difficult to predict privatization revenues, especially when the market constantly changes and you do not know whether you will actually sell your stake and at what price," said Liam Halligan, chief economist at Prosperity Capital Management.

The ministries did not have enough time to discuss the details, and media coverage has added hype to the sales, said Yaroslav Lissovolik, chief economist at Deutsche Bank Russia.

Despite the lack of firm plans, analysts welcomed the movement toward privatization, calling it a positive sign for Russia's investment climate and the overall economic situation.

"In general, privatization is a good thing for Russia. ... I absolutely believe that the government wants to lower its stake in the Russian economy. There have been lurches and some regress, of course, but overall, over the past 10 years, the state has been stepping back," Halligan said.

The economic crisis left the government with a much broader presence in the economy and influence on the market. State banks helped industry refinance its debt to foreign lenders and even purchased shares on the open market to help support plummeting stock prices.

Those measures, which helped avert a deeper economic fall, were generally welcomed by the market as a temporary digression from the government's path toward a reduced role in the economy.

The main question now, analysts say, is whether the state will break its habit of maintaining control over the country's largest corporations.

"Overall this [privatization] is positive for private investors, but some uncertainty remains, as the government plans to retain controlling stakes in these companies," Marina Shestakova, deputy chief investment officer on listed assets at Wermuth Asset Management, told The Moscow Times.

Investors also fear that dumping large stakes on the market could negatively affect prices for companies that are already traded. And while some of the 11 companies on the list might still be removed, the importance of the privatization message would not be diminished, Halligan said.

"The $29 billion is an unrealizable sum for the domestic market," Shestakova said. "So the Russian government will have to attract foreign investors.

"But I would be oriented toward Asia, and not the U.S. or Europe. Maybe China or India," she said.

But for foreigners to come, Russia will need to work on improving its investor climate, analysts agreed. Bringing clarity to its taxation plans for natural resources companies and increasing transparency would be a good start.

Foreigners would not want to invest in companies where it is unclear how money is spent, Shestakova said.

The government looks determined to make the sales happen, which will mean finding a way to ease investors' concerns, Lissovolik said.

"The need for additional sources of financing is strong, so they will not pull back," he said.