The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Kudrin Wants Privatization Fund

By Derek Andersen

November 24, 2010

Finance Minister Alexei Kudrin proposed creating a reserve fund of proceeds from privatization, interest from which could be used to plug budget gaps, during a finance forum Wednesday.

The minister also announced a potential major deal between VTB and Bank of Moscow.

Speaking at the Financial Forum of Russia, organized by Vedomosti, Kudrin premiered the reserve fund idea, in the context of a trend in international finance, on the heels of the recent economic crisis.

Kudrin said the European Union is now forming a stabilization fund, while the IMF has tripled its lending capacity to $750 billion. The Russian government set up a similar fund in 2006, fed by oil and gas windfall profits. Kudrin praised the role that the fund, now split into two, has played in the economy.

The government will reduce its holdings in most companies slated for privatization to 25 percent plus one share in a second round of sell-offs in three years. In the meantime, the government will retain a controlling package of 50 percent plus one share in those companies.

Finam chief economist Alexander Osin estimated that the proposed new fund could be worth anywhere from $17 billion to twice that amount, and said the plan is a good idea.

"But there are two sides to the question," Osin added. He said "good companies that earn money" for the government will be privatized, depriving it of future income. The government's motivation for privatization, he said, is to attract healthy foreign investment into the economy, rather than just generate cash for itself.

The government will encourage regions to sell off assets before appealing to the federal budget for funding, Kudrin said.

Speaking to reporters after the forum, the minister said VTB may buy the 46.48 percent share in Bank of Moscow that is directly owned by the city.

Kudrin, who is chairman of the VTB supervisory council, said: "The issue is being discussed; no decision has been made. We are interested in the entire package of 46 percent."

The Moscow government indirectly owns another 17.32 percent of Bank of Moscow through subsidiaries of its Capital Insurance Group, according to Kommersant.

City officials had earlier denied rumors of an impending deal.

"There are no grounds for comment on that information," Moscow Deputy Mayor Yury Roslyak said Tuesday, according to Interfax. "Such questions have not been worked out in relation to the policy on [the city's] assets."

Bank of Moscow president Andrei Borodin, who along with his partner Lev Alaluyev owns 20.32 percent of the bank, also did not confirm that a deal was in the works.

"There are all sorts of proposals," he said. "So far nothing is planned."

Bank of Moscow responded to a written inquiry from The Moscow Times that "based on the principles of business etiquette, [we are] not commenting on the words of the Russian finance minister."

According to Reuters, Bank of Moscow has a market capitalization of $5.6 billion. It is ranked fifth in the Interfax-100 listing of Russia's top banks. VTB is ranked second.

Moody's Eastern Europe vice president Eugene Tarzimanov said he was surprised by Kudrin's announcement.

"Why one state bank would buy another is not clear," he said.

"Bank of Moscow is a large institution," Tarzimanov said. "The strategy of VTB is to grow organically and through midsize acquisitions. Bank of Moscow is not a perfect fit for that strategy."

Tarzimanov noted that such large deals typically have ratings implications for at least one of the parties involved.

The Fitch agency changed Bank of Moscow's rating to negative after the dismissal of former Moscow Mayor Yury Luzhkov.

Tarzimanov also said VTB historically buys controlling ownership in banks.

The Economic Development Ministry published a plan for the sale of state shares in a number of companies Tuesday. That plan includes the reduction of the government share in VTB to a blocking package by 2015 "on the condition that reliable investors are found," RIA-Novosti reported.

Original url: https://www.themoscowtimes.com/2010/11/24/kudrin-wants-privatization-fund-a3224