

Government Paints a Brighter Picture at VTB Event

By [The Moscow Times](#)

October 09, 2011

The  Moscow Times

The terror seems to be in retreat a little as the stock markets recovered somewhat this week. I just spent the last two days at the VTB Capital "Russia Calling" conference, that is now one of the two main events on the calendar (Troika Dialog's in February is the other).

The mood was, if not upbeat, at least calmer than the markets suggest at the moment. 'Pragmatic' would be the best way to put it.

The main message — repeated by almost everyone — is there is not going to be another meltdown, but there was going to be slow growth or a mild recession in the world that will impact Russia.

And even if the EU screw up and let Greece go thorough a disorderly default that sparks a major financial meltdown in Europe Russia is well prepared to cope and it will not hurt as much as the last one.

Having said that, VTB's CFO Herbert Moos went on record saying there would be 'margin calls' (see my last note) if the stock markets fell any further that could lead to a 'death spiral' of selling and precipitate a much nastier crisis. But he was the lone doomsayer at the event.

And there is some reason to be optimistic. Prime Minister Vladimir Putin turned up (2 hours late and kept waiting a room of 1500 people that collectively control hundreds of billions of dollars – how rude is that?) sporting his new face-lift and looking slightly alien as a result. But he did a good job of calming fears by rattling off lots of statistics in his usual efficient fashion.

The numbers are convincing but the main number that makes the point best is given that Russian stocks track the oil price so exactly, the stock market is now pricing Russia shares at an effective oil price of \$70 – below the general consensus that oil could fall to \$80 next year – whereas oil prices are largely unchanged at over \$100. (Brent was at \$105 at the time of writing on October 7).

So clearly there is a big disconnect between the fear-laced perception of the state of the world and the actual state of the world.

Will the two view points start to converge as reality reasserts itself? Well, it has to eventually. In the meantime I reproduce the main points from Minister for the Economy Elvira Nabiullina speech which pretty much covers everything.

Minister for the Economy Elvira Nabiullina speaking at the VTB Capital 'Russia Calling' event on October 6, 2011

VTB Capital

- **Global markets are turbulent at the moment.** Even before the events in August, the Ministry for the Economy's estimates of world GDP growth were lower than consensus. MinEconomy now expects it to be less than 4% (with growth in developed countries not exceeding 2%). For Russia, this is another reminder that the country needs to pursue a policy of macroeconomic stability. In January–August, GDP expanded 4% and is set to reach 4.1% for 2011 as a whole. Unemployment is falling, and touched 6.1% in August. Inflation is also down and is seen reaching 7% this year.
- **There are good reasons for further growth in consumer demand.** Currently, 36% of the population has an income of more than USD 10,000 per year.
- **Government debt is still below 10% of GDP.** Budget indicators are also good. This year the budget will be balanced.
- **In a stress scenario with oil at USD 80/bbl, GDP will expand 2–2.5% in 2012.** With oil at USD 60/bbl, GDP might drop 1–1.5%. However, even with oil at this latter level, there is room for fiscal stimulus with a deficit of 4–5% of GDP. This would be enough to support banks, most vulnerable sectors and social liabilities.
- **The corporate sector now looks more stable.** The debt of the top ten companies has decreased 19% since 2008, while their external debt is down 40%. Households' debt is

only 15% of their income.

- **The Customs Union is an important step.** A push is being made to change the tax and customs regulations. The target is to attract USD 70bn in FDIs per year. The Russian Foreign Investment Fund has been launched, with USD 2bn this year, and it will increase to USD 10bn.
- **There are regional programmes to attract investment.** Many regions are competing for Russian and foreign investment, and the government understands that there are problems with the investment climate. There is an ombudsman for foreign investors as well as special representatives in the regions.
- **Privatisation plan is to raise USD 40bn.** The main purpose is to reduce the state's role in the economy and to enhance transparency (not just for fiscal purposes). The government has invited leading investment banks to help with a transparent privatisation. And while it might be postponed due to the turbulent markets, that would only happen if advisors think it is wise to do so.
- **Government expects productivity growth of 13% a year.** The key sectors for productivity growth are machinery and energy. In the next three years, Russia is to attain energy efficiency savings of 7%.
- **Infrastructure development.** There are resources for programmes to support infrastructure, transport infrastructure and infrastructure monopolies. This would help to eliminate bottlenecks.
- **Positive outlook.** The Russian economy is expanding 4% a year and the government is striving to boost it further.

The views expressed in opinion pieces do not necessarily reflect the position of The Moscow Times.

Original url:

<https://www.themoscowtimes.com/2011/10/09/government-paints-a-brighter-picture-at-vtb-event-a352>