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Kudrin Stands Firm on Defense Spending During 'Timeout'

By The Moscow Times

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Alexei Kudrin, fired by President Dmitry Medvedev as finance minister two weeks ago, told investors Friday that he was taking a "timeout" before deciding on career plans and warned against rising budget spending.

Kudrin, who had led the ministry since 2000, reiterated his opposition to higher military and social outlays that sparked a rift with Medvedev because it left Russia more vulnerable to external risks, people who attended the closed-door briefing at a VTB Capital investment forum said.

"He was very level-headed. He said you've got to deal with the budget deficit, you've got to cut expenditures," said Jochen Wermuth, who helps manage about $350 million as chief investment officer at his Russia-focused Wermuth Asset Management. Kudrin said Russia would have to raise taxes to pay for the outlays, raising the state's share of the economy and threatening growth, according to Wermuth.

Kudrin repeated objections to spending increases that he attributes to Medvedev a day after Prime Minister Vladimir Putin, speaking at VTB's conference, called the former minister a close friend. Putin, who plans to return to the Kremlin next May by swapping jobs with his successor, said he had agreed with Medvedev that Kudrin would remain "part of our team."

Kudrin has remained chairman of the National Banking Council, an advisory body to the Central Bank, and he is also dean of St. Petersburg State University's liberal arts and sciences department. He declined to speak to reporters after the meeting.

Kudrin may regain policy influence as chairman of the Central Bank after Putin's return, Andrei Kostin, chief executive of VTB Group, has said.

The former finance minister said he was taking a "timeout" before deciding on what he will do next, said Bruce Bower, managing director at Moscow-based Verno Capital, which has $150 million under management.

"Kudrin was reveling in his independence" as he made his case for tighter fiscal control, saying Russia faced risks that intensified in the three months after the Finance Ministry drafted the new budget, Bower said. "He says this is Exhibit A for why you should run a very tight ship."

Risks to the global economy would "sharply rise" after a Greek default as yields on Italian and Spanish debt would also jump, Kudrin told reporters in Washington on Sept. 24, the day he said he "didn't see himself" in a Cabinet led by Medvedev.

Medvedev, whom Putin handpicked to succeed him as president in 2008, said last month that the ruling United Russia party should nominate Putin as the next president. Putin indicated that Medvedev may become prime minister.

Wermuth, who said he reported to then-First Deputy Finance Minister Kudrin in 1997 as a World Bank adviser, said he hoped that Kudrin might eventually return as prime minister.

"He made very many, very important points," Wermuth said. "Investors left saying — finally, this is someone who speaks clearly, to the point. Someone whom you can have confidence in."

During the meeting, Kudrin proposed a higher pension age, saying Russians are effectively retiring at 50, Wermuth said. The pension age is now 60 for men and 55 for women. The country may have 112 working people for every 100 pensioners in two years and reach parity by 2030, compared with the current ratio of 128 to 100, Kudrin has said.

The former minister also told investors that Russia should extend its rearmament program for the military to 15 years, from the 10 planned now, to ease the immediate burden on the budget.

Russia is planning to spend 20 trillion rubles ($620 billion) on defense spending through 2020, a policy that Putin told investors Thursday was sustainable, even as Russia tries to be fiscally disciplined.

Additional defense spending backed by Medvedev through 2014 will reach 2.1 trillion rubles, roughly equivalent to spending for all education in Russia this year, Kudrin said Sept. 24.

The measures create "additional risks for both the budget and the economy as a whole," he said.

Prime Minister Vladimir Putin said Friday that the government will spend more than $13 billion in the next three years on revamping the nation's aging defense plants, The Associated Press reported. Putin told Friday's government meeting that 1,700 weapons factories need to be radically modernized, in what he described as "colossal work." Putin said the government will earmark 400 billion rubles ($13.7 billon) for the modernization of military industries over the next three years. "If we want to have weapons that answer the demands of today's combat... we need to revamp the military industrial complex," he said.

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