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Investors Give Rallies Mixed Reviews

By Irina Filatova

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Kudrin, center, approaching Troika chairman Vardanian, seated, during the investment conference Thursday. **Vladimir Filonov**

Climate was a recurring theme at a forum Thursday with government officials and investors discussing Moscow's severe frost and the impact next month's presidential election will have on the business environment.

But while the extreme cold doesn't seem to have reduced the opposition's determination to go ahead with another anti-government protest on Saturday —with nearly 27,000 people already signed up via Facebook — some participants in the investment forum organized by Sberbank and Troika Dialog said foreign investors are concerned.

Investors are worried about how government players may change, said Hawk Sunshine, managing director of Metropol's portfolio investments department.

"Any changes among the players could have a serious detrimental effect on domestic companies, which are highly dependent on their relationship with the government," he told

The Moscow Times on the sidelines of the forum.

Two December demonstrations in the aftermath of parliamentary elections were the biggest Russia has seen since the breakup of the Soviet Union.

"Investors are not responding very positively," said Sberbank head German Gref. "They see what's going on. It's not that they are seriously worried, but it creates tension," he told reporters in response to a question from The Moscow Times.

However, it's important that the protests were held in a civilized manner, with the protesters' demands being clear and the government's reaction being prompt, he said.

Meanwhile, some forum participants were more optimistic about the rallies and said they indicate deep social change.

The protests are a positive sign for Russia because they reveal the strength of the middle class, Jochen Wermuth, co-founder of Wermuth Asset Management, told The Moscow Times. There is little chance of violence and revolution while the oil price remains high and there is no economic undertone to the demonstrations, he said, "but it's a gradual process that has by no means ended yet."

Troika Dialog's chairman Ruben Vardanian said investors who "understand what's going on" are positive about the protests.

The middle class, which has traditionally been reluctant to publicly express its opinion, made its voice heard in a sign that it chooses change, not stagnation, he told reporters on the sidelines of the forum. He was echoing the words of former Finance Minister Alexei Kudrin, who was also present at the event.

Reforms involving an easing of the rules for the registration of political parties and the reintroduction of gubernatorial elections proposed by President Dmitry Medvedev following last month's protests mark "one of the most important historic moments in our country," while the protests themselves indicate that political competition in Russia is growing, Kudrin told a panel session.

Sergei Guriev, rector of the New Economic School, said he believed that creating a competitive political system would improve the country's investment climate — one of the major challenges facing the Russian economy.

Prime Minister Vladimir Putin also made ameliorating conditions for investors the theme of his speech at the forum.

In his presentation to a room packed with foreign investors, Putin echoed the themes that he touched upon in his 5,000-word article on the economy published in Vedomosti on Monday. The prime minister trumpeted the successes of the Russian economy, including low debt, low inflation, a budget surplus and more than 4 percent annual growth. He said the country would soon become the fifth-biggest economy in the world.

But he admitted that there were serious problems with the investment climate. He promised that Russia would go from 120th place in a world ranking of attractive business environments

to 20th place, although he did not commit to a time frame for this achievement.

In a specific proposal, Putin said he would create an ombudsman to oversee the rights of all businessmen — not only foreign investors. First Deputy Prime Minister Igor Shuvalov is already the ombudsman for foreign investors.

Moving from theory to practice, Putin then sent the share price of state-controlled VTB soaring thanks to a jocular exchange with the country's leading bankers.

VTB shares jumped almost 3 percent after Putin told its chairman, Andrei Kostin, to consider buying back equity from investors who had participated in the bank's 2008 "people's IPO."

Kostin, who was in the audience and not on the stage, valued the cost of such a buyback at between 15 billion rubles and 18 billion rubles. As the audience laughed, Putin turned to Sberbank head German Gref and said Russia's biggest lender could help VTB out if the sum was too high.

Forum participants said they expect more foreign investors after the March 4 presidential election.

Russia will see more foreign investors if the new government ensures stability and economic growth, said Kirill Dmitriyev, chief executive of the Russian Direct Investment Fund, a vehicle created last year to reduce investment risks and attract investors.

Dmitriyev said foreign investors regard the protests positively as long as the opposition and the government conduct a civilized dialogue.

"It's a good sign, which indicates that society has reached a certain level of development," Dmitriyev said. "But if for some reason serious instability arises, this will scare investors off for a long time."

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