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Rallies Ushering Out Business as Usual

By Anatoly Medetsky

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A record turnout at the weekend's opposition rally prompted economists Monday to predict a longer period of political uncertainty for business and the chance of a runoff in the presidential election.

Prime Minister Vladimir Putin's spokesman Dmitry Peskov, however, ruled out a runoff because a similarly large crowd gathered on the same day in support of the government.

Saturday's opposition rally was the third since the start of December that has called for political reform, clouding prospects of an easy Putin victory in the March 4 presidential election and a return to political predictability.

Numbing cold, New Year's holidays and the improvement in Putin's approval rating could have thwarted a lot of people from showing up, Alfa Bank said in a note to investors Monday. Instead, both official and independent estimates of the turnout exceeded the record set at the previous demonstration.

"This creates a risk that protest activity will persist even after the presidential election," the bank said.

Officials said 36,000 people marched in central Moscow, up from 25,000 that protested on Dec. 24.

The rally's organizers asserted that the march drew 120,000 people, or at least 20,000 more than the Dec. 24 demonstration. Attendance also increased on the regional level.

"We take this as confirmation that the protest mood of the population remains high," Alfa Bank said.

According to opinion polls, Putin enjoys a huge lead. While that leaves "little doubt" of his victory in the election, "the recent events do keep a possible second round of the election on the agenda," the bank said.

Citibank also noted the increased number of protesters, drawing the same conclusion as its Russian rival.

The new development "points to escalation rather than compromise," Citibank said Monday.

"Although many investors would like the March election to draw a line under the political uncertainty, we believe that the protests will continue," it said. "Now that the middle class has been politicized, there are many issues that could spark further protest.

"We believe that political change is coming. ... In the short term, the elite will likely seek to change the system from within, but if they are unsuccessful, then we believe that change will come from without."

Clemens Grafe, chief economist at Goldman Sachs in Moscow, said the protest movement appeared to have decoupled from the election cycle and was likely to persist beyond the presidential ballot. Reports of falsifications in Dec. 4 voting for the Duma triggered the first demonstrations.

"It is difficult to see that people who got politicized after the [Duma] elections will put their jackets back into the cupboard and never make their voices heard again," he said by phone.

Events like the tearing up of Putin's portrait by left-wing activist Sergei Udaltsov at Saturday's march suggested that the focus of protesters' anger has shifted away from rigged elections and toward a demand for Putin to leave.

Continued unrest could not only preserve the discount on Russian stocks, but also limit direct investment, Grafe added. "On the equity side, you have less confidence from investors," he said.

Jochen Wermuth, founder and chief investment officer of Germany-based Wermuth Asset Management, said Russia would probably go through a repeat vote for the Duma soon.

"Ultimately, we see two options here, in terms of how the authorities will respond," he said in e-mailed comments. It is most likely that the demonstrations and the "widespread opinion

in Russia's elite that change is needed means that there will be new Duma elections before long.

"The only alternative would be a 'Lukashenkozation,' which at this stage we think is unlikely."

Lukashenko is the president of Belarus, whom the United States once labeled the last dictator of Europe.

Wermuth added that: "From a foreign investor's point of view, the continued demonstrations and open debate on Russia's future are very good news. Admittedly we are concerned by the apparent understatement of the number of participants and the overstatement of supposed pro-Putin demonstrators."

The demonstrations have had a major impact by prompting Putin to commit to moving Russia from 124th to 20th place for the attractiveness of its business climate last week, Wermuth said.

"We see this as a very positive sign and are confident that the protests have had and will continue to have a positive impact on Russia's future," he said. "The fact that so many people came out to demand fair elections at minus 20 degrees Celsius reminds me of [Winston] Churchill's comment: 'A people that eats ice cream in freezing weather will never be defeated.'"

But some economists said protest activity was on the decline and will not surge unless provoked again.

"We are already seeing a lowering of the political risk," said Yaroslav Lissovolik, chief economist at Deutsche Bank in Moscow. "It's possible that we will see the continuation of the protest movement during the first quarter, but then it will abate, although a lot will depend on how the [presidential] election goes."

A pro-Putin rally Saturday also drew tens of thousands of people, although news reports were full of stories that its organizers paid participants to come.

Peskov said in an interview to Komsomolskaya Pravda published Monday that the rally showed that Putin had enough support to win the elections in the first round.

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