

# Foreign Investors Applaud Stability

By [Nikolaus von Twickel](#)

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Dmitry Medvedev welcoming Oleg Govorun, right, to the government. **Yekaterina Shtukina**

Foreign investors praised the new Cabinet on Monday as a sign of economic stability, but said it reflects that Vladimir Putin is firmly in charge and no significant policy changes are in the offing.

“It’s business as usual,” said Kingsmill Bond, chief strategist at Citigroup in Moscow. “We never expected a particularly reformist government, and nor do we have one.”

Investors focused on the appointment of those with a liberal track record in government, in particular Arkady Dvorkovich, Olga Golodets and Igor Shuvalov to deputy prime minister posts.

While Shuvalov’s emergence as sole first deputy prime minister was taken as a clear signal that Putin is calling the shots, others speculated that his old adversary Igor Sechin would continue to wield influence from behind the scenes.

Shuvalov, 45, was widely seen as Putin's right-hand man in the old government, where he shared his seniority title with Viktor Zubkov, 70, who was not reappointed Monday.

The hawkish Sechin, dubbed the country's energy tsar, lost his seat as deputy prime minister but received Putin's support this month for returning to the chairmanship of Rosneftgaz, the state-owned company with a controlling stake in Rosneft.

Shuvalov came under pressure in March amid Western media reports that his wife, Olga, had netted more than \$100 million from a series of investment deals involving Russian billionaires.

He has admitted to the deals but said they were all legal and did not pose any conflicts of interest. National media have speculated that the information was leaked by forces linked to Sechin who oppose Shuvalov's liberal economic policies.

The Foreign Investment Advisory Council, a body of global chief executives — from PepsiCo to BP — and top government ministers founded in 1994, singled out Shuvalov as a particular asset.

"New people in the new government include some of our old friends, outstanding professionals," said the council's coordinator, Karl Johansson, a managing partner at Ernst & Young.

"We support the continuity in Russia's economic policy," he said in an e-mailed statement.

The council endorsed Putin's bid for the presidency at a meeting with the then-prime minister in October.

The appointment of liberal economist Arkady Dvorkovich as one of six deputy prime ministers was widely seen as a key concession. "This is Putin's present for Medvedev," said Vladimir Pribylovsky, head of the Panorama think tank.

Dvorkovich, who holds a degree from Duke University, has been the darling of international investors during Medvedev's presidency, when he served as the Kremlin's point man on the economy.

On the other hand, the appointment of Mikhail Abyzov to "minister for relations with the open government" was described as a blow to Medvedev, who reportedly wanted to install the businessman as deputy prime minister.

"Obviously Putin allowed Medvedev only one deputy prime minister" of his choosing, Pribylovsky said.

Instead, Abyzov will oversee his duty as a minister without ministry. Originally called big government, Open Government is Medvedev's pet project and supposed to open up ministries to hear more advice from independent experts.

Analysts warned that the deputy prime ministers are inherently weak because they lack their own ministries. "Their power is just on paper, and they need to work hard to establish authority," said Yuri Korgunuk of the Indem think tank. He said this might be a problem for

Dvorkovich because he has always been an adviser and never held an executive position.

Opposition leaders, still buoyant after the massive street protests against Putin this year, dismissed the Cabinet as entirely insignificant.

“I read the new government’s composition — there’s only one conclusion — the policies remain the same — pressure everybody, business and citizens,” Mikhail Kasyanov, who served as prime minister under Putin from 2000 to 2004, wrote on Twitter.

Kasyanov also criticized the appointment of Vladislav Surkov as deputy prime minister and Cabinet chief of staff and of Vladimir Medinsky as culture minister. “The propaganda machine built under Putin continues its work in the Cabinet,” he told Interfax.

Surkov became the Kremlin’s top spin doctor during his 12-year tenure in the presidential administration, which ended last December when Putin moved him to the Cabinet. Medinsky is widely reviled by the country’s liberals because of his controversial publications.

Former Finance Minister Alexei Kudrin, respected among the international business community for his fiscal conservatism while in office, said the new Cabinet was a “maintenance” Cabinet rather than “breakthrough” Cabinet, RIA-Novosti reported. “I have big doubts that they will be able to adequately answer the challenges that stand before Russia,” he said.

Still, foreign business representatives called the appointments good news.

The makeup of the Cabinet is “very positive,” Andrew Somers, president of the American Chamber of Commerce in Russia, told The Moscow Times.

He singled out the two new deputy prime ministers — Golodets and Dvorkovich — as particularly welcome figures.

His words were echoed by Frank Schauff, CEO of the Association of European Businesses.

“We see a more or less renewed team that reflects the will to go for modernization and innovation in terms of what to do for Russia’s economy and society,” he said.

But observers warned that labeling the new government as liberal before it has enacted any policies would be premature.

“We would discourage from making strong bets on the government’s ability to accelerate economic and structural reforms,” HSBC chief economist Alexander Morozov wrote in a research note.

He said the actual power wielded by the Cabinet could not be determined until the makeup of Putin’s presidential administration was clear.

Concern also was voiced that the expansion of the number of ministries and ministers would lower the government’s effectiveness.

“Different views mean that a good idea or a good policy can be watered down,” said Peter

Westin, chief equity strategist at Aton brokerage. "If you introduce more ministries, you have more actors on the political scene."

There will be 21 ministers under Medvedev, compared with 17 under Putin.

"The main impression I get is that Putin continues to strengthen the vertical of power," said Dieter Wermuth, chief economist at Wermuth Asset Management. "He is also intent on boosting Russia's capital spending and thus the long-term growth rate of the economy."

Despite the infusion of new blood and the exit of heavyweights like Sechin and Zubkov, some were skeptical that the appointments signified any real shift in the dispersion of political power.

"It's an investor-friendly lineup, but a question mark remains over whether the new Cabinet will be given enough authority and command enough respect to make a difference," said one investor with almost \$1 billion under management in Russia who requested anonymity to speak freely.

"Will they be puppets to the presidential administration and old guards like Sechin who may have simply moved to the background?"

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