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Central Banker Slams Vast Criminal Cash Exports

By The Moscow Times

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Russia's Central Bank chief said nearly $50 billion, or 2.5 percent of the national income, had been sent abroad illegally in 2012, much of it controlled by a single group of people — whom he did not identify.

Wednesday's findings by the Central Bank, one of the country's most respected institutions, amounted to an indictment of lawlessness and corruption in the system of "Kremlin capitalism" that has taken hold under President Vladimir Putin.

They also sent a parting shot from the soft-spoken Sergei Ignatyev, who retires as chairman in June after 11 years largely free of controversy. A successor has yet to be named.

"You get the impression that they are all controlled by one well organized group of people," Ignatyev, 65, told Vedomosti newspaper in a front-page interview after the study found that more than half the flows involved firms linked to each other. "With a serious concentration of efforts by law enforcement agencies, I think it is possible to find these people."

He called for urgent legislation that would allow banks to close down accounts being used for dubious purposes and also urged lawmakers to tighten rules for setting up companies.

Ignatyev was citing the findings of a study that the bank said it would publish later on Wednesday. By lunchtime in Moscow, only Ignatyev's interview had been posted on the Central Bank's web site, not the study itself.

In a further indication of its sensitivity, Ignatyev did not touch on the subject of illegal capital flight in testimony Wednesday morning to the Federation Council, the upper house of parliament. Nor was he asked about it by lawmakers.

Asked by a reporter before his testimony to identify the "well-organized group" he mentioned in the interview that was making half the illegal transfers abroad, Ignatyev declined comment and left the upper house without speaking to journalists.

The Kremlin also did not comment, beyond saying that it thought the figures were exaggerated, and there was no word from the wealthy businessmen known as "oligarchs" who struck it rich after the Soviet Union collapsed in 1991.

Meanwhile, in the State Duma lower house, the former head of the chamber's ethics committee resigned his mandate after revelations that his family owned a number of apartments in the U.S. state of Florida.

The lawmaker, Vladimir Pekhtin, has denied wrongdoing two months after Putin announced a drive to "de-offshore" the economy by imposing restrictions on officials investing abroad.

The Central Bank study found that $49 billion, or around 2.5 percent of gross domestic product, was spirited illegally out of Russia last year.

"It can be payment for narcotics ... 'grey' imports ... bribes and kickbacks to officials [and] managers making large-scale purchases," Ignatyev told Vedomosti. "It can be schemes to avoid tax."

Anti-corruption activists say that capital flight can take any number of forms, with some banks shifting money through complex paper trails, shell companies and so-called "encashment" schemes designed to evade regulators.

Big state enterprises in particular are involved in shifting large sums of money abroad, sources say, while Russia's super-rich tycoons use offshore centers to safeguard their businesses.

Statistics show that Cyprus is the largest source of foreign investment into Russia. Most of that money coming from the island is itself Russian in origin, bankers say.

The amount of dirty money flowing in and out of Russia has more than doubled over the past eight years, robbing the country of productive capital and driving a huge underground economy, a recent study by a U.S. think tank found.

Global Financial Integrity, based in Washington, estimated that an average of $62 billion in money earned from corruption, human trafficking, arms smuggling and other illegal activities has entered or left Russia each year since the start of 2004.

That is a 228 percent increase from the $27.06 billion in illicit funds seen annually on average in the prior decade, the study found.

The most high-profile recent case of suspected illegal capital flight was investigated by investment fund lawyer Sergei Magnitsky, who died in a Russian prison in 2009.

Magnitsky's employer, Hermitage Capital, has accused law enforcement officials of stealing $230 million by seizing control of its companies and fraudulently securing a tax rebate.

Investigators in Switzerland and other countries are investigating the flows of the so-called "Magnitsky money", some of which, Hermitage says, ended up in real estate investments in the Gulf trading hub of Dubai.

Russian officials have denied any wrongdoing. They have instead pressed ahead with plans to try Magnitsky posthumously for tax evasion and to prosecute Hermitage founder Bill Browder, a British citizen, in absentia.

Of the total illegal outflows in 2012, the Central Bank estimated that $14 billion was related to trade operations, with the remainder made up of $35.1 billion in "dubious" capital transfers.

The latter represents 60 percent of last year's officially reported total net capital outflow of $56.8 billion, according to the study.

The Kremlin "took note" of the findings, but made clear that it did not share the Central Bank's views, pointing to other officially backed research that concluded illegal capital flight from Russia is far lower.

The research, by a state-backed investment fund, concludes that the figure for capital outflows is "highly exaggerated", Putin's spokesman, Dmitry Peskov, said Wednesday.

"We take all points of view into account, but our position is that this is a natural process," Peskov said. "Illegal outflows, if we are talking about the laundering of dirty money, are a matter for law enforcement agencies."

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