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Putin Casts Shadow as Medvedev Is Driving Russian Investor Charm Offensive

Russia's president Dmitry Medvedev speaks during the opening address of the St Petersburg International Economic Forum in St Petersburg. Photographer: Andrey Rudakov/Bloomberg

June 16 (Bloomberg) -- Igor Yurgens, head of the Institute of Contemporary Development and an adviser to Russian President Dmitry Medvedev, discusses the outlook for the Russian economy and Prime Minister Vladimir Putin's future. He speaks with Bloomberg's Ryan Chilcote on the sidelines of the St. Petersburg International Economic Forum. (Source: Bloomberg)

Russia's prime minister Vladimir Putin. Photographer: Jock Fistick/Bloomberg

Russian President [Dmitry Medvedev](#)'s charm offensive to woo investors at the annual [St. Petersburg](#) conference had one missing ingredient: [Vladimir Putin](#).

The prime minister was absent from the three-day gathering of executives as Medvedev announced plans to step up state-asset sales and reverse the country's policy of "state capitalism." With Putin saying he's opposed to "liberal experiments," the risk for Medvedev is that few investors will bet his promises will come about until clarity over next year's presidential election is achieved.

Medvedev, picked by Putin to succeed him as leader in 2008, has made fighting corruption and cutting the state's role in the economy one of the cornerstones of his presidency. Putin, who kept the main levers of power as prime minister, hasn't ruled out a return to the Kremlin next year. The rivalry could check investment as [Russia](#) tries to cut its reliance on energy exports and bring growth near levels of rival emerging economies such as [China](#) and [India](#).

"Regardless of who serves as the next president, Putin and his views will remain very relevant, auguring policy continuity," said [Cliff Kupchan](#), an analyst at New York-based research firm Eurasia Group. "Also, even if Medvedev does serve a second term, he has a thin track record on implementation and would be constrained by a generally conservative elite."

Capital Flight

Doubts over who will run in the 2012 presidential vote are spurring capital flight, said [German Gref](#), chief executive officer at OAO Sberbank, the nation's largest lender. Russia's central bank posted \$30 billion of outflows in the first four months of the year, near the \$35.3 billion for all of 2010.

Some investors may decide to quit the Russian market altogether if Putin, who served in east [Germany](#) as an intelligence officer, returns as president, said Jochen Wermuth, chief investment officer at Wermuth Asset Management GmbH.

"If Putin came back as president, it could be difficult to convince sceptical investors that long overdue reforms would now start, and some investors could pull out," Wermuth, who helps manage assets worth about \$350 million at his Russia-focused hedge fund, said in an interview in St. Petersburg.

As prime minister, Putin was not scheduled to attend the St. Petersburg forum and spent the day of Medvedev's main June 17 speech at his private residence outside of Moscow, where he met the head of the national archives.

Growing Disappointment

Already, there is disappointment that Medvedev's initiative earlier this year to get rid of eight top government officials on state company boards isn't producing the promised results because they are being replaced by allies, said Chris Weafer, chief strategist at UralSib Financial Corp.

Deputy Prime Minister [Igor Sechin](#) was replaced by Alexander Nekipelov as chairman of the largest oil producer OAO Rosneft, the company announced June 10. Nekipelov earlier served as Rosneft deputy board chairman. Another candidate to replace Sechin had been Sergei Shishin, a vice-president at state-run VTB

Group, according to the state-run news service RIA Novosti.

"If Russia is to avoid stagnant growth, the only way to avoid it is with a substantial increase in investment and a substantial diversification of the economy," Weafer said. "Investors have priced in a return to the Putin government, a return to the old form of relying on oil."

Some bankers nevertheless argue that now is the time to invest in Russian assets.

'Enormous' Opportunities

"There's not a lot of wisdom to wait," said Christopher Barter, co-chief executive officer for Goldman Sachs Group Inc.'s Russia unit, said in St. Petersburg. "The opportunities are enormous and valuations are very attractive."

The government may cut its stake in Rosneft, which produces almost a quarter of Russian oil, to below 50 percent, [Arkady Dvorkovich](#), Medvedev's economic adviser, said June 17. Russia may also sell its entire shareholding in the second-largest bank, VTB, in three to five years, he said.

"We have increased the amount of assets possessed by the state, some of this property has to be sold now," Medvedev said in an interview with the Financial Times posted on the Kremlin website today. "Now it is time to sell. That's for sure."

Russia's benchmark Micex Index has risen 21 percent over the last year, advancing to a three-year high on April 6. That compares with a 15 percent gain in the [Dow Jones Industrial Average](#) and a 14 percent increase in Germany's DAX Index in the same period.

Status Quo

Russia's ability to catch up with foreign rivals may nevertheless be hurt by the fact that Putin and his supporters favor the status quo over Medvedev's drive to diversify the economy away from oil, [Igor Yurgens](#), a Medvedev adviser who heads the Institute of Contemporary Development in Moscow, said in an interview.

Russia's economy expanded 4.1 percent from a year earlier in the first quarter, compared with 9.7 percent in [China](#) and 7.8 percent in India. Medvedev said in a January interview in Davos, [Switzerland](#), that Russia sought to boost growth to between 8 percent and 10 percent within five years.

Medvedev needs to ensure his privatization plans are adopted as official government policy, said deputy Moscow mayor, Andrei Sharonov.

Investors want to see "practical steps to be reassured that it's not just a speech but a part of policy and day-to-day activity of the government," said Sharonov in an interview.

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