



RUSSIAN ECONOMY NEWS

By LegalLife LLC

JULY 2010



This “Russian Economy News”, as the name suggests, is not intended to be a widely circulated newsletter but a concise digest of some of the most relevant news for LegalLife’s clients in the Russian Federation.

Sources include *The Moscow Times*, *modernrussia.com*, *USRBC Daily Update*, *Bloomberg*, *Itar-Tass*, *Financial Times*, *Ria Novosti*, *Kremlin.ru*, *Alfa Bank Morning Brief*, *Vnesheconombank news*, *Russia Today*, *World Bank Country Office in Russia news*.

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FOCUS

FINANCIAL TIMES' EDITORIAL ON RUSSIA

On July 27 the FT ran an editorial entitled "Re-privatizing Russia's economy". The op ed explained how Alexei Kudrin, the finance minister, is proposing that Russia should sell minority stakes in 10 state-controlled corporations, totaling perhaps \$29bn. The FT wrote that the proposal has many merits as the plan demonstrates the state's willingness to loosen its grip on the economy, and that it could bring in foreign strategic investors with capital and know-how. The key, the FT underlined, will be its execution, with auctions that should be carried out in an open and transparent manner, and foreign investors should be free to participate in a non-discriminatory way. But this, the FT says, would only be a start, as Russia still needs to strengthen protection of property rights. Such condition, we reckon at LegalLife, is vital to improve the overall investment climate to contribute to the modernization of the economy, along with the fight against corruption.

NEWS

✓ **Key lending rate.** Russia's central bank is likely to leave its key lending rate at a record low of 7.5 percent at its July 30 board meeting, amid lower inflationary pressure. Since April 2009, the central bank has lowered its refinancing rate 14 times from 13 percent to facilitate the country's exit from recession.

✓ **Skolkovo start up.** The Russian government will allocate a total of 3.99 billion rubles (\$132 million) in 2010 for the development of the Skolkovo research hub outside Moscow. Skolkovo is being built from scratch 20 kilometers west of Moscow. The center will focus on research in five priority spheres: energy, information technologies, communication, biomedical research and nuclear technologies. Medvedev has called on foreign companies to participate in the Skolkovo project.

✓ **Medvedev's visit to Italy encourages cooperation.** President Dmitry Medvedev called on Italian companies to cooperate in the Russian hi-tech sector, including in the Skolkovo research hub, during his visit to Italy on Friday. "If we're talking about the future, it's very important to us that Italian companies should partake in the hi-tech spheres of Russia's economy," Medvedev said after talks with Italian Prime Minister Silvio Berlusconi in Milan. He said he had told Berlusconi about the Skolkovo hi-tech hub, which is being built from scratch 20 kilometers west of Moscow. "There will be a special legal status there," he said. "We hope it will be convenient for foreign investors, including our Italian partners."



✓ **Medvedev on modernisation.** President Medvedev insisted that his modernization drive went beyond technological innovations, saying Russia could not be modernized without fighting corruption, curbing the state's involvement in the economy and introducing fair competition.

✓ **Russian internet group buys ICQ.** Digital Sky Technologies, the Russian internet company, said on Monday it had completed its \$187.5m acquisition of ICQ, one of the world's largest instant messaging service, from AOL. Digital Sky, owned by Yury Milner, controls Russia's largest e-mail provider, and bought stakes in Facebook last year.

✓ **According to UNCTAD Russia ranks 6th in FDI recipients.** International investment in Brazil, China, India and Russia is leading a recovery of that barometer of economic activity, which by 2012 will exceed the level seen before the global financial crisis, the United Nations said. Among FDI recipients, China rose to second place behind the U.S. last year. With Hong Kong fourth and Russia sixth, half of the six top destinations for FDI are now developing or transition economies.



✓ **Russian stocks show big gain during the week of 5-9 July.** Russian stocks had their biggest weekly gain since May as South Korea's unexpected interest-rate increase boosted confidence in the global economic recovery. OAO Mosenergo, the Moscow-based power generator, added 1.6 percent. OAO Gazprom the nation's export gas monopoly advanced 1.4 percent, helping push the Micex Index higher by 0.3 percent to 1,324.17 at the close in Moscow. The gauge increased 2.8 percent this week, boosted by higher oil prices, an IMF upgrade of its global economic growth forecast and a report that U.S. retail sales grew at the fastest pace in four years.

✓ **Banks' Lending Continues to Grow.** According to preliminary estimates released by the Central Bank of Russia (CBR), total lending rose by 2 percent in June. Lending to households dropped for 18 months out of 20, starting in November 2008 before rising in March 2010. CBR Chairman Sergei Ignatiev has forecast loan growth of 15 percent for this year.

✓ **On July 6th Italy's Enel held investor day in Moscow.** The Italian holding presented its strategy for Russia and some financial and operating guidance for 2011-14. The company noted that its business in Russia consists mainly of three assets: generating company Enel OGK-5 (56.4% owned by Enel); RusEnergoSbyt (a JV between Enel and ESN in which Enel holds a 49.5% stake); and a 40% stake in a JV with Italy's Eni in upstream gas company SeverEnergia. Enel expects Enel OGK-5's 2011 EBITDA to reach €471 mln (\$612 mln). Enel emphasized that it would focus on optimizing Enel OGK-5's OPEX by improving maintenance, restructuring headcount and diversifying fuel sources and logistics.

✓ **USA supports Russia's WTO entry.** During President Medvedev's visit to President Obama the main thing the two leaders achieved when they met late last month has been overlooked: a joint commitment to see Russia join the World Trade Organisation. As Mr Obama said: "That's good for Russia, it's good for America and it's good for the world economy." Russia, the world's sixth-largest economy and 15th-largest trading nation, is the only Group of 20 state outside the 153-member WTO. China – whose record on intellectual piracy and barriers to foreign companies is hardly better than Russia's – has been a member since 2001.



✓ **Severstal disposes of Lucchini to Alexei Mordashov.** Severstal announced on June 30th that it had sold 50.8% of Lucchini to its controlling shareholder, Alexei Mordashov. Severstal says that the transaction will protect the interests of its shareholders, improve its financial stability, and provide additional flexibility for the Lucchini sale process.

✓ **FDI Inflow Grows.** Foreign direct investment (FDI) into the non-financial sector of the economy grew from \$7.1 billion in 1Q10 to \$12.7 billion in 2Q10, according to the Central Bank of Russia's preliminary figures published on July 2. The growth in FDI inflows was largely attributable to the economic recovery and the appreciation of the ruble.

✓ **Electricity market now 80% liberalized.** According to Interfax, the Russian electricity market has passed the threshold of liberalizing 80% of the required amount as of July 1 (prior to that, the market was 60% liberalized). This is exactly in line with the schedule approved by the government. The next step is expected to be taken on January 1, 2011, when the market will be 100% liberalized.

✓ **New Customs Code to Take Effect.** The Customs Code of the Russia-Kazakhstan-Belarus Customs Union was scheduled to enter into force as of July 1. The RF Ministry of Economic Development officials have stated that the new code will initiate a new import licensing regime as of July 1. Sources in the legal community are advising companies who import goods into Russia to ensure that their logistics operators provide copies of all entry permits and certificates for the country of destination to customs officials at the border. To help manage the transition to the new code, the RF Federal Customs Service has set up a 24-hour hotline that can be reached at +7 (495) 740-18-18.