

Framework for a new dialogue

INTERVIEW WITH HERMAN GREF

MINISTER OF ECONOMIC DEVELOPMENT AND TRADE, RUSSIAN FEDERATION



HERMAN GREF graduated in law from the University of Omsk State in 1990. From 1991-98 he was a member of the St Petersburg Municipal Property Management Committee, serving as Chairman from 1997-98. Between 1998 and 2000 he was First Deputy State Property Minister of the Russian Federation and was appointed Minister of Economic Development and Trade in 2000. Mr Gref also serves as Deputy Governor from the Russian Federation on the International Bank for Reconstruction and Development and the Multilateral Investment Guarantee Agency (MIGA).

How would you rate the past success of the St Petersburg International Economic Forum and what are your objectives for the 2007 event?

I would like first of all to welcome participants and guests of the 11th Saint Petersburg International Economic Forum. Recently, the Forum has become an important occasion to strengthen Russia's international economic relations and to highlight the opportunities for investment in our country. It has acquired a reputation for high level debate, where heads of government and business alike can communicate openly in an atmosphere of professional cooperation.

It is an annual event and ten Fora have been held since 1997. Over these years it has enabled an objective assessment to be made of the state of the Russian economy and its place in the world. Last June several thousand people attended the Forum from 46 countries. We expect at least this number this year, as Russia's international commercial links have broadened and strengthened, especially considering the listing of Russian businesses on international markets, London in particular.

In similar manner Russian businesses are having a greater impact on international markets and this generates a keen desire for information among businessmen from many countries. The success of the Forum has been largely due to the relevance of the programmes and themes of successive events that have addressed these strategic issues, especially the challenges of globalisation and its impact on the competitive position of leading developing countries, and new mechanisms to stimulate investment.

Our purpose this year is to continue this process and the format established in previous years will be maintained. The stated objective is to encourage international dialogue and cooperation by assembling government, business and academic leadership from around the world to consider the problems of global economic growth. The first full day's programme is devoted to consideration of the conference themes in a Russian context. The second day's programme has a global and regional focus that will examine the challenges of integrating developing countries into the global economy.

The attendance of a distinguished group of political and business leaders from all over the world is to be welcomed and will ensure a high quality debate of crucial issues affecting all countries. It demonstrates the high regard in which the St Petersburg International

Economic Forum is held.

We are also concerned to ensure that all guests attending the event enjoy themselves too! We are arranging an extensive programme of social and cultural events of which performances by the Scorpions and Robin Gibb of the BeeGees, the performance of Swan Lake under the baton of Valery Gergiev and the Snow Show at the Peter and Paul Fortress are highlights. These events should leave our guests with good memories of the unique character and charm of St Petersburg, which for a few days will become the 'Capital of the World'.

How is the Russian economy currently performing and what are the characteristics of this growth?

Russia holds a leading global position in terms of the speed of economic growth: average GDP growth since 2000 has been 6.8 per cent.

There has been a significant transformation in the model of our economic growth since 2004 which is based on both investment and consumer demand inside the country. These changes provided the country with the opportunity to use efficiently the current favourable situation in world energy markets, to achieve a stable ratio of national debt to GDP, to maintain trade and payment balances, to increase significantly gold and exchange currency reserves, and to stimulate growth in the banking sector and in stock market capitalisation. We have also seen a sharp rise amongst companies auditing their operations according to international standards of book-keeping. It is a sound and widely accepted tendency that covers most Russian enterprises.

We focus on six key issues to ensure that the federal authorities achieve state economic objectives, namely:

- Controlling government spending;
- Promoting economic diversification;
- Modernising industry to world standards;
- Financing social programmes more efficiently;
- Further integration of the Russian economy into the world economy; and
- Increasing the efficiency of state structures.

What policy options exist for Russia to ensure future growth of the economy and how do you encourage investment to modernise the country's infrastructure?

There is no alternative to an open market-based policy. My colleague Mr Alexey Kudrin and I remain firmly in

charge of economic policy and the direction is established. In the first quarter this year gross domestic product grew 7.7 per cent and foreign investment increased 150 per cent on the same period in the previous year.

There are many techniques which can be applied by the authorities to finance private sector projects from reserves. Granting concessions can stimulate investment in projects that are unattractive from a commercial point of view (such as the construction of roads, airports, railways etc.).

A successful example of private/state partnership is the purchase of Sochi city airport by Bazoviy Element Company. This aluminium holding company will invest in 'air gates' in South Russia, while the construction of the runway will be funded from central Russian Government sources. We invite other businesses to join us in similar partnerships. I can also assure investors that property rights remain intact in Russia, and that my Ministry will adhere to the liberal economic course of recent years.

The key thesis we would like to convey is that Russia has undergone a very major transformation. Now we have arrived at the stage of its modernisation.

Russia's economic goals depend on being open to global investment. This is a policy that is no longer a matter of debate in the Putin administration. This openness can only be completed if the economy is open to foreign investment, with an auspicious investment climate, security for property rights and stable macroeconomics. Our actions are geared towards those goals.

You recently attended the annual meeting of the EBRD's Board of Governors. How do you see the bank's contribution to the development of Russia and its neighbours?

The European Bank for Reconstruction and Development has implemented the policy of a "shift to the east and south" as set out in the Bank's strategy for 2006-2010. The adoption of this policy flowed naturally from the Bank's completion of its mission in central and eastern European countries, which essentially completed the transition to the market economy with their entry into the European Union.

A year ago, the Russian Federation emphasised that the "shift to the east and south" would give the Bank major new opportunities to carry out its mission, and we criticised the adoption of relaxed plans as not aiming for growth but for a reduction in the Bank's annual business volume. The past year has confirmed that our position was correct: planned at €3.7 billion, the actual volume of the Bank's operations in 2006 was €4.9 billion and in Russia it almost doubled – from €1.1 billion to €1.9 billion. In other words, in just one year of serious work in the countries of the east and south, the Bank achieved results that were

planned to be reached by 2010. We congratulate the Bank on this performance in the region as a whole and, in particular, in Russia.

This trend must be continued, and this requires strenuous work from the Bank. For the time being, the Bank is stepping up its operations mainly in Russia, Ukraine and Kazakhstan. The countries of Central Asia, Moldova and Belarus, with their vast natural resources and an undeveloped industrial base and infrastructure, remain hardly touched by the Bank's operations. Building up operations in these countries and in the regions of Russia will facilitate the balancing of the EBRD portfolio and help the Bank to maintain its role as a catalyst of market development. Effective work in the countries of the east and south, involving vast territories and challenges on a new scale, requires substantial financial and human resources. An analysis of the Bank's financial situation indicates that it has more than enough capital for this, but it must be used efficiently. **E**

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Diversifying the economy is central to the Russian Government's policy for growth



Photograph: Novosti (London)