

ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM
JUNE 21–23, 2012

Realizing Russia's Potential
THE REFORM AGENDA – AN ECONOMIC BLUEPRINT FOR THE COMING
DECADE

JUNE 22, 2012 — 10:00–11:15, Pavilion 4, Hall 4.3

St. Petersburg, Russia
2012

Panelists:

Ruben Aganbegyan, President, Chief Executive Officer, MICEX-RTS

Andrei Belousov, Minister of Economic Development of the Russian Federation

Anton Siluanov, Minister of Finance of the Russian Federation

R. Aganbegyan:

Good day, ladies and gentlemen. Thank you very much for finding the time to come to our briefing.

Today we are holding briefings by Anton Siluanov, the Minister of Finance, and Andrei Belousov, the Minister for Economic Development. We are going to work in the following manner: I will give a few minutes for short opening remarks from Mr. Siluanov and Mr. Belousov, and afterwards there will be time for questions; probably, I will ask one or two questions while you think of your own. After this, if any of you in the audience has any questions, we will give you a chance to ask them. We would like to note that our session will go until 11:15, and we would like to finish on time. Therefore, we ask you to please keep your questions short. Thank you very much. Mr. Belousov, the floor is yours.

A. Belousov:

Thank you, Ruben.

I'd like to give a few preliminary remarks about how we view the economic situation evolving strategically in Russia. We are entering into a significant stage in our development, a stage that fundamentally differs in several aspects from how we have been developing in the past decade.

The first important aspect is that we are entering into a period of oil production stabilization. I would like to remind you that in the period leading up to 2007, the growth rate from this reached 7–8% of GDP, and about 3% of the GDP was provided by increasing petroleum exports. In the foreseeable future, the level of oil production, according to forecast, will stabilize at about 510 million tons, due to the fact that the rate of growth of domestic use of oil in Russia will be around 1–2% a year, due to the increasing number of motor vehicles and growth in domestic consumption. This means that with stable production volume, oil export will decrease. This is essentially a new situation in comparison to the past, and this means that oil exports as the driver of our economic growth will gradually become a brake.

The second aspect is that we are entering into a period where we cannot put off modernization in the social sphere. Igor Shuvalov talked about this yesterday morning. In the past decade, substantial changes in the social structure of our society have taken place. A real middle class, on a European level, has developed, which accounts for about 20–25% of the population; that is, those who have better, or one could say decent, access to systems of health, education, and social welfare. Now, however, we already have a gap in the quality of these systems and their ability to provide acceptable services, on the one hand, while on the other hand, societal demand for them has grown very rapidly. This is where our second, imperative need comes from: reform of the social system.

And the third aspect is that for us, the coming decades will be decades of improving productivity. We have now reached a GDP level, if we are being precise, of a little more than USD 19,000 per capita. This is already a satisfactorily high level, one typical of Eastern-European countries, but, by all predictions, by the end of the decade, we will have reached the GDP level of USD 30,000-33,000 per capita. This is the current level of France and Germany, and we are already getting closer to Germany's current level. It is impossible to imagine, that, having that kind of level of GDP consumption per capita, we will maintain a gap in productivity with European countries of 2–2.5 times. That just does not happen. This means that we simply cannot support that level of consumption. Therefore, in order to ensure balanced growth, so that we will not fall into a familiar trap – devaluation of the rouble, with corrections of account balances and cutting consumption – we need to increase productivity. President Putin has set guidelines to increase productivity by 1.5 times by 2018.

These are the three tasks that are ahead of us, or, to put it more succinctly, the three features of our impending economic growth. This is the challenge that will determine our reform agenda.

In my view, independent of other priorities, our investment climate is improving. Again, Russia is special because there is no limit on the amount of domestic capital. Russia has one of the highest rates of gross national savings. It is about 30% per

year. That is a lot, especially against the backdrop of how we use these savings, these resources. The savings rate, if you take savings into basic capital, is about 20%. This means that the gap between the level of gross savings and the use of them in investments is about 10 percentage points of GDP. This gap is colossal, and it is mostly due to the export of capital. And the question of reducing this gap, the question of increasing domestic investment, is a question of the investment climate above all. This is point number one in the reform agenda, and one thing is important here, and that is that we need to change our approach; we need to change the paradigm of change, to improve the business climate. It is impossible to do this through bureaucratic means. We have been trying to go down this path for a long time, and with some results, but they are not very significant. The key question that we need to address now is the question of involving the business community, our leading business organizations, in decision-making in this sphere.

I must say here that we already have our first results. When we were developing our road map for national business initiatives on key questions that we had been trying to solve for many years, such as improving customs administration, improving construction regulations, and access to electricity, the participation of the business community in this work, in addition to maximum transparency and openness, yielded stunning results. We were able to come to an agreement with Customs. To be frank, this is not a simple thing to do. Those who have ever worked with the Customs Service know how complicated it is, since it is a very conservative organization. But we were able to find a common language. It is true that it took several months, but, nevertheless, we were able to do it and we are optimistic about the future in this area.

The second priority that I would like to speak about is the reformation of governance and civil service systems. This is the task that stands before us. It is a question of reducing corruption, and doing so hinges on transparency, certainly. We have already come up with sufficiently ambitious plans to implement an electronic government system to create a paperless workflow. It is no accident that Nikolai Nikifonov, the creator of the electronic government system in the Tatarstan

Republic, where it is working effectively, has started working for the Federal Government. There, there is no paper involved at all in decision-making processes. This is our second priority.

Priority number three, as I already said, is social reforms. Notably, a key characteristic of these reforms is that they are going to be conducted with very limited budget and resources, with very strict limitations on financing. I think that Anton is going to talk about that; he always says that there is no money. But the reforms need to be done, as I already said. It is also an imperative task.

And the fourth priority that I would like to speak about is the priority associated with the creation of a strategic management system. It is because we have a wide range of tasks; it is because we are forced, I would like to emphasize, to address issues dealing with increasing efficiency, on one hand, and on the other, with social reform, with very strict budget constraints, that we clearly need to learn how to work according to priorities. Until now, this has not really been happening, and so this task stands before us. This is the fourth priority that I wanted to speak about. Thank you.

R. Aganbegyan:

Thank you. Mr. Siluanov.

A. Siluanov:

Thank you. I will try to be brief.

Colleagues, our tasks will come from the challenges that stand before us right now. The first challenge is that we see instability in the world economy. It is unclear what the foreign demand will be for businesses in the Russian Federation. The rate of our economic development, the rate of maintaining our budget resources at all levels, and the ability the government has to finance its obligations, all depend on this.

The second challenge is the serious dependence of our budgetary system, especially the federal budget, on external economic conditions. As you are all aware, 50% of our revenues are financed by oil and gas.

The third challenge is the need to implement what is known as fiscal space. This is necessary in order to be able to transform the social sphere and to direct more funds to infrastructure development, since it is one of the foundations of business development and of maintaining the required growth rate of the economy.

So what tasks lie ahead of us? Budget reform. I see the need to introduce measures to reduce the dependence on revenues, and accordingly, the budget from these volatile revenues, which currently form a large part of the budget revenue. This has already been discussed here, at the Forum. We have prepared budget guidelines that should reduce this dependence. I would like to repeat that today, the budget for the current year is based on a price of 115 USD per barrel. This is quite a high price. Today, this prediction already seems unrealistic, although two months ago, it seemed that 115 dollars was completely normal, and when we discussed the price dynamics of oil, everyone thought, "Well, you will see, 110, 107, 105; this is just temporary, and then everything will go back to normal". Nothing like today, when it is already less than 90. As a consequence, the question of lessening the impact of fluctuations in foreign economies on our abilities is basically just a problem of budget guidelines. We will account for our revenues based upon oil prices that have developed over a sufficiently long period of time, and with this we can reduce the impact of price volatility on the generation of budget revenue. That is to say, if we were to take into account oil prices, then in this year budget revenue, according to budget guidelines, should be generated based upon a price 92 USD per barrel, and then next year, 93. In 2015, it will be 94 USD per barrel based on current predictions, and these predictions come from the fact that this year, it was 115 USD per barrel. If it turns out to be lower, then, accordingly, the trend will be correspondingly flatter. It is certainly true when they say that we have a large non-oil and gas deficit. We can compare it with the situation in other countries. When they have a 9% deficit in America, in European countries the deficit is also quite high. In our country, without oil and gas, then today we should have a deficit of 10.6%, and therefore, the safe level is about 5%. We believe that in the near future, we will need to ensure a deficit of 7% GDP or less, since before the crisis, we had a deficit of

about 2–3% of GDP, and were, for all intents and purposes, better protected from fluctuations in foreign economies.

Next, we need to ensure the predictability of budget expenditures. By this, I mean that, based on budget guidelines, we should determine the budget ceilings, and within these limits, we should identify the key priority programmes that the government of the Russian Federation should proceed with in the next few years. Just as the programme budget will increase the efficiency of budget expenditures, targets for the realization of programmes should be determined, for which the relevant ministers and departments will be responsible. The implementation of these governmental tasks (there is a specific ministry and department, there is a specific minister, there is monitoring the attainment of these objectives in the framework of the programmes that should be taking shape) will be by means of the KPI, which will be discussed in depth later.

Next, fiscal space: We see that today we need to put more support into social development, and we totally agree that education and health care need investment from the government. There are some nuances, because the health care we have already, incidentally, works on insurance principles, and here you can obtain services not only from the public sector, but also in the market, bearing in mind that insurance payments are redistributed to the organizations that provide the service. The question of education is more complicated. It is still a part of the public sector, and the government should provide quality services.

So we, of course, want more money. Andrei talked about what the Ministry of Finance always says: "There is no money". But that is not what this is about, because it is necessary to determine priorities within the budgetary constraints. What do we want to finance? Defence or education? Do we want to finance investment in the construction of educational facilities or improve the quality of already-existing educational facilities and modernize them? And so on. That is to say, in every sphere there are priorities. The task of the new government is to determine these priorities. You know that there is never enough money, and in conditions where we can see that our revenues are also volatile, simply increasing

expenditures and raising the deficit is a crazy policy. Therefore, we are proposing to implement fiscal space by reallocating the resource base of the budget, which has already been established and which we have for the next three years, and we are currently shaping the budget for the subsequent three-year term.

I will briefly talk more about challenges. Next is the competitiveness of our tax system. We want to make it so that the taxpayers who work here are comfortable. We want the tax regime to make investors want to come to us and the redistribution through the budget not to make business here unattractive. Incidentally, our current tax regime is sufficiently competitive. The current level of tax relief including oil and gas revenues is about 35.6% of GDP. Without the oil and gas budget, it is about eight to ten percentage points lower. This is a satisfactorily competitive tax exemption level.

Next, we should create a comfortable environment for business. What is this? It is the simplification of tax accounting. We talk about the need for clearer rules for interactions between business and our tax services, so we are talking about creating more comfortable communications, so that if there is some kind of problem, you do not have to bring it to court, as well as making the tax proceedings clearer and simpler at the tax authority level.

The next challenge is debt management. We are now creating a special agency that will be called the Debt Management Agency. It will control the volume of accumulated resources of the government (today it is almost 8% of GDP) for a more effective use of the reserves we have already accumulated. This is truly a very important measure. In the near future, the government will be making this decision, since we have the NWF, the reserve fund, and I will repeat once again, quite significant resources. Today we are making very conservative investments. This is good, but we could be getting more money from this.

The next issue is the interbudgetary relationship, about which we have already heard. It is necessary to interest the subjects of the Russian Federation in this so that they can make their own money, and to create incentives for this, as well as the targeting and requirement in the provision of the budgetary fund for specific

recipients. This is also our objective, so that for the Russian Federation and her subjects there are more rights in this sphere. Thank you.

R. Aganbegyan:

Thank you very much for your remarks. I think that everyone has been given much food for thought and for questions.

I will begin. If someone from the room would like to ask a question, you have the opportunity now.

Mr. Belousov, you spoke about improving the investment climate, about savings. Do I understand you correctly: do you think that the country has the sought-after long-term money that is necessary in order for us to become more competitive? And if we do have it, how will the investment system create the preconditions so that the money will have somewhere to go? What will be the means of getting it there? Finance or industrial? How will you get it from where it is to where it is needed?

A. Belousov:

I understand the background to this question. Yes, the long-term money is there, pension money (you wanted to hear about this).

R. Aganbegyan:

Not only about that; you also spoke about savings.

A. Belousov:

Yes, of course. And we have infrastructure that needs to be improved – I am talking about the stock market and so on.

But I nevertheless think that the key question, one as important as financial infrastructure, is the question of motives and motivation. Investors need to want to invest this money. This is where the main efforts are being concentrated today; this is where we are going to take them further.

As I already said, the formats are changing. First of all, there is the National Business Initiative, consisting of 22 concrete areas of focus for these existing sore spots.

Basically, the technique is as follows. An informal working group is created, headed by a representative of the business community, which is a must: a person who has a personal interest in the results. At the same time, when it comes to mass services, we have started using crowdsourcing, so that we can elucidate the issues and include a wide range of consumers. The working group must include representatives of the business community, representatives of government departments, and professionals. The working group develops a road map with concrete timelines, with concrete goals that can be judged clearly (the event happened or did not happen). To this end, we have been working with one of the largest companies, Boston Consulting Group (BCG). They have already been helping us work on this for a year. Once the road maps have been developed, they are subject to approval. First, they are considered by the Agency for Strategic Initiatives, the supervisory board of which is headed by Vladimir Putin, and afterwards they are approved by the government. After this is where the really interesting part begins. Next we include businesses, so that they monitor how the road maps are followed, so that the process is treated not just as a formality as it usually is (a law is passed, a resolution is passed, and therefore the order has been fulfilled), but it is real: did you manage to solve a given problem? Do the people on the spot, people in the regions, feel that things have got better for them? That is, in fact, the main task of monitoring. This monitoring is constant, and it will be conducted with maximum transparency. Transparency is here, in my view, the key to success. That is the work, basically.

R. Aganbegyan:

Thank you!

Mr. Siluanov, a question for you. The place, ideas, and discussion about the redistribution of the budgets between the federal centre and the regions. Is this an

urgent problem? It seemed to me that you did not mention this just now. What is your position: do we need to do this, or is it not necessary? Was this objective included in your budget guidelines?

A. Siluanov:

I understand. Well, actually, the problem of the redistribution of resources between the Federation and subjects is definitely important. Dmitry Medvedev posed this question, and right now the government is discussing it. What does this mean? It implies the transfer of a number of federal functions – oversight, monitoring and implementation of certain powers – to the subjects of the Russian Federation. And if today an entire series of functions is being transferred in the form of delegated authority, it has been proposed that we look at the possibility of transferring in the form of inherent authority. That is, if today we provide them with authority, transfer it to subjects of the Russian Federation, we could transfer it as their own authority, with legal and regulatory rights, as well as transferring their own income to them.

We have prepared a list of such powers. In the coming months, probably within a month or two, discussions will be conducted with subjects of the Russian Federation. After this, the resource base will be removed from these powers (revenue sources will be transferred; it will be determined in which form these powers will be transferred – inherent, or delegated; then the revenue sources in the form of tax revenues, or interbudgetary transfers will be determined), and this task will already be on the agenda for 2013–2015.

R. Aganbegyan:

A quick question, I would like for both of you to answer. I did not hear the word ‘privatization’ once during either of your speeches. Does this mean that it is not a priority? Or have you already said so much about it that there is no point in repeating it? I do not want to put words in your mouth. Would you explain your position: from the point of view of what you are doing, where is its place?

A. Belousov:

I think this question is mainly to me. Of course, in recent months, a lot of attention has been paid to this question, in the media as well, so that practically everything has been said here.

I can say that right now, finally, an extensive privatization programme has been approved. It is very ambitious in nature. Suffice it to say, last year, revenue from privatization amounted to RUB 121 billion. This is an all-time record for privatization. True, about RUB 100 billion was from the sale of shares of VTB. This year, our plan is for about RUB 300 billion. We have already prepared a large portfolio of government property for sale. This includes, as it is well known, several ports, large companies such as Apatit and SG-Trans, with an estimated value of around RUB 10 billion, plus part of the portfolio from the long list that the government prepared last year. In particular, we are talking about shares of Sberbank that have been prepared for sale, about shares of the United Grain Company (in fact, we can say that the sale has already taken place). SCF is ready for sale and so are a series of others. If these plans are realized, if the market allows us to do this, then, in principle, I think that we will achieve the volume that we have planned.

A. Siluanov:

Privatization has two goals. The first goal is structural. Of course, it is a lessening of the share of government in the economy. This is a fundamentally important measure. The second measure is, of course, resource-oriented: adding to the resources of the budget. Andrei was correct when he said that we have RUB 300 billion planned. That is substantial revenue. In the next year, RUB 380 billion, and in 2014, if my memory is not failing me, RUB 425 billion. That is no small amount of money.

But what is important here? When we implement structural measures, it is important that the shares (especially when speaking about large portfolios) are not purchased by resellers, who want to make money and sell in six months or a year, but that they have been purchased by strategic investors, so that we can, perhaps, even sign an

investment agreement with them about the further development of this business. Not with the goal of making money, but to develop these areas. This especially concerns our companies (not the financial sector, but companies), so we can say that it was an effective deal. Thank you.

R. Aganbegyan:

Thank you for your answer.

How about a question from the audience? Who wants to ask a question? Please.

From the audience:

Thank you, Ruben.

My question is about pension regulations. Long-term money. What plans does the new government have for the pension fund? It just seems to me this is a fundamental matter in the mobilization of long-term money, and investors have doubts. This is a key question for the stock market, investments, et cetera. Perhaps I would not be asking this question if the Central Bank had not created preconditions for this, meaning that they have achieved very encouraging results with the introduction of inflation targeting, realistic interest rates, et cetera. So there is everything, except mobilization. Thank you.

A. Siluanov:

That is a lot of questions in one question.

As for the pension system, currently (correct me if I am wrong) about RUB 4 trillion have been accumulated. Indeed, this resource is quite substantial. Today we are thinking about expanding the list of assets that people could invest in with their retirement savings, so that it can be used as long-term loans for the implementation of infrastructure projects, which could subsequently give returns, and so, naturally, the money would be returned.

As for the savings system as a part of the pension system. You know that today we are examining different questions. I would like to reiterate that a decision will be

taken soon by the government of the Russian Federation on the pension system, and in the autumn we are submitting proposals to parliament about what the pension system will be like in the near future.

About the savings system, there is a proposal to grant the right to use this system in an industry-based format, so that industries and organizations can participate in supporting this part of the pension system more independently, in order to encourage citizens to participate in savings systems independently. It's not just that these 6% of insurance payments are today going into the savings part, but we are proposing to redistribute part of this money within the pension system, ensuring greater stability of the Pension Fund. As for the savings part, we would provide to the appropriate sectors of the pension system the right to set this up and to attract as much money from citizens as possible. That is how I would answer right now.

R. Aganbegyan:

Mr. Belousov, would you like to add anything?

A. Belousov:

Yes, I would like to note two points.

The first point is related to the fact that we currently truly view the accelerated development of private pension funds as a main priority, and we are encouraging people to invest in these funds. Here there is a key question about the ensuring security of the money that is invested in them. Our ministry is preparing the relevant bills, and we expect that during the autumn session, our bills will be passed. They will create a legal safeguard for the population's money that is in private pension funds, and create opportunities for it to grow.

The second issue that you raised is key because, certainly, if real interest rates here have been negative in many cases, then it is very difficult to find how to apply these savings, since they should be productive, be deposited, at least for realistic positive interest rates. But we do have, in fact, many areas where the funds can be invested

where the interest rates are completely positive, and there are mechanisms that, in principle, ensure proper protection.

One such example is infrastructure bonds. We can invest the funds in infrastructure bonds, providing appropriate solutions through a mechanism of guarantees.

And other areas. Right now, we have a mechanism for providing state guarantees for large investment projects. The mechanism itself is quite cumbersome and complex. But still, it exists. Right now, we are thinking about how to make it better. But the given investment projects that are protected by state institutions, be it the budget or, for example, Vnesheconombank, which can also give guarantees – in principle, these kind of projects also can also be the subject of the investment of pension money.

R. Aganbegyan:

Thank you very much. There is a question on this side.

N. Melnikov:

Nikita Melnikov, Deputy of the Legislative Assembly of the Leningrad Region.

Sir, I did not hear anything about tariff regulations. Our election cycle has ended. In the next five years, are we going to work with tariffs in the sector of housing and public utilities, in the energy sector on the level of economic or administrative mechanisms? What we have now, in contradiction with government regulations, amounts to 6%. Or will we consider that economically viable?

A. Belousov:

You know, I strongly disagree with the underlying reason for your question, with the emphasis on the economic element. We often say 'economically viable' when we are covering up our mismanagement. In the regions, we have bred different kinds of intermediaries, some of whom are affiliated to local authorities on the municipal or regional level who, to put it simply, to call a spade a spade, are engaged in fleecing companies and the public. Very often, we are asked to set the tariffs at a level that

will cover this up. So that will not happen, I can tell you this with full confidence. Even last year, we made the important decision to raise rates in accordance with inflation, and to find resources to improve efficiency in places, including in the regions. That is the main direction. Although in some cases, of course, exceptions to the rule are made. But these are isolated, individual cases, where we can permit a rise in tariffs greater than the rate of inflation. I would like to emphasize that these are isolated, individual cases. Otherwise, we will have to deal with the fact that we have shifted the burden that our monopolies have created (including artificially-created monopolies in regions) to the population.

A. Siluanov:

I can certainly add something to this.

Several subjects of the Russian Federation had an unusual tariff structure, where the tariffs were not set at an economically sustainable level, and in these cases the Russian people are certainly entitled to ask questions about the unusual pace of changes in these tariffs, because the people were subsidizing public utilities to keep the tariffs lower than an economically viable level. The question about whether such subsidization will continue to take place, or whether the tariffs need to be raised, is a question, of course, of the interrelation between the people and the Federal Tariff Service. But in any case, it should be a very cost-effective, attractive investment sector, because there is constant cash flow and constant demand in this sector. All over the world, this is a very competitive economic sector. So that it will be competitive here, I agree with Mr. Belousov: we definitely need to talk not about raising tariffs, but about the cost-effective use of resources, because here it is all part of a communal system, and one full of holes, at that. Therefore, we need investment in this area. And investment yields substantial savings. You would be able to talk not about raising tariffs, but about the tariffs simply staying the same. In this area, there are great resources, great reserves for the economy, and, accordingly, the prospect of good profit. But for this to happen, there need to be clear tariff policies, about which Mr. Belousov spoke.

A. Belousov:

I will develop this theme. Vnesheconombank has already, in fact, developed a framework for insurance contracts related to energy efficiency, model contracts in accordance with orders given by Mr. Putin, when he was still Prime Minister. It will be a scheme that will allow for risks in the implementation of such contracts at Vnesheconombank. At the moment, these arrangements are being made in conjunction with Sberbank. They have, as far as I know, signed, or are going to sign, an agreement for the implementation of this framework. This is the main way to solve the problems about which our colleague spoke, and which Anton touched on just now.

R. Aganbegyan:

As a moderator, I would like to ask you a question myself, taking advantage of my position. My question is about IFC. You have all named main priorities, but neither the financial system, nor the International Financial Center as a project was mentioned. At the same time, both of your ministries are very active participants in the regulatory processes in these areas. How much of a priority is this project and is it going to continue?

A. Siluanov:

Well, that is question number one. Certainly, in our speeches, we could not, I suppose, talk about every single priority.

The IFC is one of our priorities. We have an entire group of colleagues working in the government to decide this problem. Right now, there is a draft of the road map for the creation of the IFC, and it is not only for the federal government, but also for the Moscow authorities, so that they can provide the infrastructure for such a centre. Actually, the IFC is not only finance. It is infrastructure, it is a working legal system, the protection of property rights; it is the creation of conditions for transparency in

investors' activity. That is, there is a set of structural reforms that will give us the possibility to say, "Yes, Moscow can be an international financial centre".

So right now we are passing the necessary legislation. The Law on the Central Depository has been passed. Right now the question of how to open an account in this Central Depository is being discussed; which foreign deposits will be allowed at once and which ones a little later. This process is, of course, not as fast as we would like, colleagues, but it is one of the key objectives that is necessary to accomplish in order for us to trade our financial instruments on the London Stock Exchange or in New York, and here, in Moscow; so that our securities are sold not at foreign exchanges but here, in Moscow. This objective is being implemented but, unfortunately, it takes a long time to be able to do everything.

R. Aganbegyan:

Thank you very much.

I have a question on the agricultural sector, related to the accession of Russia into the WTO.

A. Belousov:

I should say that yesterday, at a meeting with investors, I cited agriculture as an example of a sector that, in the 90s, was considered absolutely hopeless and on its last legs; but in the past ten years it has become one of the most attractive investment opportunities. Today the amount of investment that is going into agriculture surpasses the amount of investment that goes into the electricity utility industry and amounts to USD 13 billion annually. The amount of investment in the sector has doubled in the past decade.

Accession to the WTO, in fact, has been one of the factors that, we think, will work in agriculture's favour, provided that the planned measures are actually implemented. I want to say that under the terms of accession to the WTO, we have the right to increase aid by half, to nine billion dollars annually. Today, we spend about five billion dollars annually on agricultural support.

But it is necessary to implement a number of measures. These measures have been specified. There is a plan for adapting Russia's industry to the WTO, and, fundamentally, with regards to agriculture, they boil down to forms of support for agricultural enterprises, companies that we have today that will be modified into a form which complies with the WTO's conditions. Primarily, it is interest rate subsidization and certain types of expenditure; for instance, the purchase of certain kinds of fertilizers, the acquisition of agricultural equipment and other costs. The work, in general, is not that difficult, but it still needs to be done. If we do this, if we do everything properly, I think that the threat to agriculture that accession to the WTO poses will be minimal. But there are obvious advantages related to the fact that agriculture, like the entire Russian economy, will work according to clear and standardized rules for investors. We expect the growth in investment in agriculture will continue.

And lastly, I would like to add that, together with the Ministry of Agriculture, we have indicated the forecast of the rate of growth in agriculture for this year amounted to about 2%. But now, agriculture is growing at a rate of 4%, which is twice as fast as predicted. Based on the expected harvest, I think that the results, at least this year, in agriculture will be more significant and much better than we predicted at the beginning of the year. Thank you.

R. Aganbegyan:

Thank you very much. I would like to give the floor to Pavel Arkhipov.

P. Arkhipov:

UralVagonZavod, Pavel Arkhipov, Head of the Innovation Development Programme. There has been a lot of talk about economic diversification, and one of the key factors of economic diversification is innovative development and the creation of infrastructure for innovation. Significant initiatives of the state in prior periods have meant that corporations, with the participation of the government, have created their own infrastructures, and, generally, we expect a similar initiative from

the government. Is the creation of an infrastructure for innovation a priority for the government, and in what way, in what period will this kind of initiative be realized?

A. Belousov:

In general, we have been talking about innovative infrastructures, and not only have we been talking about them, but we also have been creating them, at least over the last five years. So this question seems a little strange to me, because they are well-known: Skolkovo, the creation of industrial parks, et cetera. I can say that we have now begun the implementation of new initiatives, initiatives for the creation of innovation clusters. There is a lot of interest in this topic. The appropriate criteria have been developed, and there are several dozen projects for the creation of innovation clusters in a competition. The competition has been concluded, and two groups have won. One of the groups is working on a suitable business plan. The participants have very clear ideas of how the innovation clusters should look, and with these innovation clusters, we shall turn to the government with proposals to provide support to the winners in the form of subsidies. On the question of price, it is about RUB 5 billion, and I hope that Mr. Siluanov will support us, bearing in mind the importance of this initiative for the development of our economy and society in terms of innovation. Besides this, we have also selected a group where this kind of support will be provided in terms of organization, in the knowledge that in this case there is not a need for special money, but for organizational support.

A. Siluanov:

Of course, we will support the initiative of Mr. Belousov within the budgetary limitations.

As for the state's activities in the sphere of innovation, we have created industrial parks and created special economical technological development zones. So if you have the initiatives, there are special regimes and preferential tax treatment available. You can use the instruments that are already in existence. You simply need to work; all of the possibilities for this are there.

L. Shub

Leonid Shub, movie studio Proline-film. You know us from Aleksander Sokurov's film *Faust*.

I have a question for Mr. Belousov. Everyone knows the wonderful phrase "Art will save the world". But nowadays in our tax system, there are no special benefits for businessmen who would like to support art, who are ready to do so. What is your position: how important is this, how much are you planning on doing about this?

A. Siluanov:

We consider the question of culture, of cultural development, to be one of our most important priorities. Incidentally, we have always managed to find an acceptable compromise to the Minister of Culture's proposals about increasing federal spending in this area. Unfortunately, it happens that these resources are not always used most effectively. But any proposals on supporting culture, the arts, which you are speaking about, always get a response from the government of the Russian Federation.

As concerns tax breaks, it seems to me that if we set this objective, it is not always necessary to solve it with the help of tax breaks. There are some priorities that, in the end, can be supported using budgetary funds. There can be some subsidies, some project financing. In terms of tax breaks for businessmen who would like to give money to art, we have some for charitable activities. Basically, they should be charitable activities on the part of businesses for development in this sphere. Therefore, today the current tax system allows for special tax benefits within a charitable framework for the support of cultural institutions or cultural events. Thank you.

From the audience:

We have attentively listened to your all of your presentations, thank you for the information, but there is something I would like to know. We all remember the long

article by Dmitry Medvedev entitled *Russia, Forward!*. But I have not heard whether this programme has been developed. Yes, we are lagging behind in productivity in comparison with advanced countries, but the manufacturers themselves cannot manage the needed modernization programme. This is because today, 75% of the machines used in manufacturing here are more than 25 years old. This is one of the most important questions.

Second question. In this country, our 'engine' has always been the defence industry, which has developed products that the country needed. Today, we see that we are also being left in the dark in relation to this question. So I would like you to set up some programmes so that investors are not sending USD 60–80 billion dollars from here to other places, but keeping it here. Let us think about it. We will be very grateful.

A. Belousov:

Thank you. To be perfectly honest, for me it is a bit strange to hear that manufacturers will not develop such programmes themselves, leaving it to the government. We believe that is the manufactures themselves which should make modernization programmes happen. The state should create a favourable environment to enable this; in particular by creating a favourable business climate so that those who invest money, who invest resources in such investment projects can, first of all, be sure that doing so will be easy and, secondly, that these investments will be protected. But there are some places, of course, where direct support is necessary. This is the case for the development of organizations in the military-industrial complex. You know very well that at this moment, a federal target programme has been created and approved for the military-industrial complex, and an unprecedented amount of resources will be invested in this sector. I cannot give you a number, because it is classified, but the growth will equal former levels.

As a matter of fact, there are more complicated questions. I think that perhaps the development of the military-industrial complex and manufacturing as a whole is now

not only dependent on money. Most of all, it is dependent on personnel. Right now our main objective is engineering personnel, qualified workers.

I will never forget how, during my visit to one of our aircraft factories, I found workers with grinders, because there were machine tools there from the 60s, even. They are slow, they cannot provide the required precision, so the experienced workers, close to retirement age, achieve the precision finish with grinders. The director of the factory, I will not say his name, said “God forbid these workers retire; then the work will stop altogether”. That is the main problem: obsolete machine tools and the need for training. These are our focus points and the corresponding objectives and plans, and we are already doing a lot.

R. Aganbegyan:

Thank you. From this side, if you will.

O. Breshkin:

Oleg Breshkin, Association of Russian Banks.

The topic of our session is economic development and the plans for the Russian economy in the coming decades. There is a well-known decree from Vladimir Putin of 7 May, where he set a task before the government and, in part, issued a challenge: to raise Russia from the low position of 120th place in the World Bank rankings to, at least 50th place by 2015 and to 20th place by 2018. Do you think that these measures that you have listed are sufficient for attaining 70th place in the next 2–2.5 years, according to the World Bank ratings? You spoke about encouraging investment, about renewing capital, but we have a slightly different situation today.

Actually, there are not too many sources. It is the funds of banks, it is the budget, it is the personal funds of entrepreneurs, and foreign capital. The stimulus should be here somewhere in this sphere. And if we look, let us say, at the banks as one of these sources? This week in Frankfurt, there was a speech by one of the chairmen of the Central Bank, Sukhov, who proposed penalizing banks with additional reserves for banks that offer long grace periods. This is a well-known way to

encourage investment in the world economy. Banks will be punished for long grace periods.

And, once again, modernization and innovation. The Central Bank is now doing everything according to the G 20 resolutions to hedge against risk, but modernization is a risk, and innovation is a risk. How do you proposing solving the problem of modernization in an environment of tightening conditions for risky operations? Thank you.

A. Belousov:

First of all, I should say that the road map that I mentioned at the very beginning does exactly this. It was created on the basis of tasks to move, by 2020, from our current 120th place to 20th, and they are very simply designed. For everything we are tackling, we are using the best practices in the world, and we assess this or that sphere. For example, Customs estimated the number of documents to be filed for the clearance of goods, and construction estimated the number of permits, according to the time period of decision-making related to the issuance of building permits. When, in which year will we be able to reach the level of best world practices in this regard? The road map has been developed from these exact criteria. The road maps that I am talking about, in the framework of national business initiatives, are our concrete plans to reach 50th place and then 20th. Those are the kinds of objectives we have. Although, of course, there are no absolutes in terms of business ratings: for us, the rationale for this rating is important, these parameters, these benchmarks, which stand for these or other areas.

As for stricter requirements for risks, you, as a banker, I believe, mean the stricter requirements for the H-1 parameter. The fact that the Central Bank is reviewing the risk assessment is, in my point of view, absolutely correct.

I should say that soon, the required minimum capital in our banking system will be lower. This is the trend. At the beginning of last year, sufficient capital, that is, the ratio of capital to assets, assessed by the level of risk, was 18%, and now it is a little

more than 14%. Granted, the standard that has been set is 10%, and we have an entire group of banks that are closer to 10%. We see this problem, and the Central Bank sees it. It is because of this that it is taking action, especially with conditions of instability in Europe and taking into account what is happening right now the banking system in Italy, with the banking system of Spain, with investors fleeing from the Southern banks, from the banks of Spain and France to the Northern banks of Switzerland and Germany. It is against this backdrop that the Central Bank is absolutely correct in taking measures to improve the security of seed capital and protecting depositors, first and foremost, measures to increase capital requirements for banks. At the same time, measures are being developed that allow, in the case of a crisis, the government to make a decision quickly in order to support the capitalization of banks. The banking system and the banks will not send anyone to the poorhouse. If you recall, in 2008, it was then that the most radical decisions in relation to the banking system were adopted in order to preserve the trust of depositors, in order to preserve the trust in the banking system as a whole. And it needs to be said that I have, in relation to this, a certain optimism related to the situation in May. In May, when after the weakening of the euro the rouble began to weaken as well, and the rouble weakened in May by about 15%, there were no signs of panic, thank God, there was no movement of the rouble into other currencies. I watched the reaction of the population very carefully. The population began to trade their euros for dollars, but nobody ran away from roubles. In my view, this is evidence of the correctness of these actions that the monetary authorities have taken; for example, placing increased demands on the banking system. Thank you.

A. Siluanov:

I can add a little. Our task is to raise the rating of the country. I am referring to the business rating. As a matter of fact, we have met with representatives from the World Bank, who gave our country this rating. Our meeting was about taxation. Among the rating criteria there are such factors as the amount of taxes, the time it

takes taxpayers to fill out tax returns, the time it takes to open a business, that is, how much time it was taking to open a business, do tax reporting, et cetera. And what was brought to light? The figures taken to assess Russia's tax system, unfortunately, did not always correspond to reality. We, the finance ministers, discussed our tax service with the specialists of the World Bank very objectively and why they rate us so lowly. In our view, there are problems with the ratings. I met with the head of the World Bank. By the way, about a month ago, a special mission on the subject of taxes visited us. I think that the relationship of the World Bank and the data that they use to rate Russia will be corrected, and we will soon be able to, based on objective data, raise our level in this rating, based on realities, and not from the calculations based on this incorrect data.

R. Aganbegyan:

Thank you very much. We have four minutes left, and I would like to finish today's session by a question about the following.

There is a lot of talk about openness, about feedback, about an initiative to open up government. And I am sure that everyone would like to meet more than once a year at such briefings, and to have the possibility, perhaps, to send some kind of messages, to get some feedback. How important is this for you? How do you see this in your work? What do you plan to do through the Public Council and through other means? I would like that all of the participants today learned how, if they wish, they can more actively participate in this process.

A. Siluanov:

I absolutely agree. It seems to me sometimes that ministries, departments, the government, work in their own way, within their own structure. We really do, sometimes, lose sight of the need for greater visibility of the activities of the relevant ministries and departments, even the Ministry of Finance. Every day, we stew over our questions and problems. But this closed-offness is never talked about. Ruben is absolutely correct when he talks about the need for greater awareness: what we are

thinking about, what steps we want to take, what options are being considered. In fact, the electronic budget that we are talking about, will be directed precisely to the openness of decision making, so that you, colleagues, investors, understand what workers in a particular department are thinking about, what is going on in the heads of the Ministry of Finance, what sectors we are thinking about. We can give further forecasts, and calculations, including those for businesses, for opening businesses, for business management, et cetera. This is very important, and we absolutely agree with the need to increase the transparency of our work. This is, of course, an open government, and probably communication through the Internet. We have a site for the Ministry of Finance, through which it is possible to get in touch with us, and we can answer in real time questions that interest you.

Speaking of which, when we discuss the budget (our main task is coming up with the budget), we have something called a zero reading with the State Duma. There is a special book published that outlines the fundamental parameters of the budget. In it, you can find out how we calculated this or that expenditure, why it is calculated one way and not another. We strive to go in this direction. Perhaps this does not always happen, but we need to be more transparent. I absolutely agree with this.

R. Aganbegyan:

Mr. Belousov.

A. Belousov:

In fact, we believe that openness is a key element of our work. If society and, most of all, these social groups to whom our efforts are directed to and oriented toward, our consumers for very specific areas, often do not understand or do not even know everything that is going on, then this is simply a key defect: we are not achieving results. Therefore, there are several questions and several trends that we are intent upon going forward with. I will name four of these.

First, of course, is the formation of expert councils, not only to inform and not even so much for information, as much as for participation in the decision-making

process. Without question, the minister and the deputy minister are going to be making the decisions: that is our duty, and we cannot undermine it. But in the decision-making process, without question, we should allow the participation of groups to whom these efforts are directed, the business community most of all. That is number one. And here we are planning to attract them, to include them in the work on the assessment of regulatory impact, to develop a series of bills.

The second area. We are right now completing the formation of a team, primarily of a team of representatives of the Ministry. It has already practically been formed; it is possible that one or two more people will be added. And I still intend to make the work of this team extremely public, including my colleagues' proposal to develop KPI, which we announced and which we ourselves will be orientated towards, and let an expert council and society monitor how the achievement of these targets is coming along.

The third area. I intend to significantly strengthen the work of our press corps, the entire system that works with journalists, to make speaking with journalists an everyday practice. So not only holding briefings from time to time, but to make this more systematic and more everyday.

And the fourth area is the same one that Anton talked about: to make our site more open, the Ministry's portal, to expand access to it.

There is also one more very important area. We have a range of public services. For example, the services that are provided by the Federal Service of State Registration, Land Surveying and Cartography (Rosreestr) involve 40,000 people across the country, and the territorial divisions, which millions of people work with. Practically every adult citizen of the country, at least once in their lifetime, will have an encounter with the property rights registration system or the land surveying system. I intend to establish a system in such cases for the public to evaluate the work and services in the field, like, for example, what Gref did with Sberbank's system. We think that evaluation is also a very important area.

R. Aganbegyan:

Thank you very much. Let us thank Mr. Siluanov and Mr. Belousov for this briefing.
Thank you very much. I apologize if some of you did not get to ask your question; I am sure that you there will be more opportunities to do so. Thank you.