

Foreign Investors Praise Putin

By Anna Smolchenko
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Prime Minister Vladimir Putin told foreign investors Monday that Russia hadn't been caught off guard by the crisis, unlike the West, and the investors praised the government, saying they had faith in the local market.

Speaking at an annual meeting of the Foreign Investment Advisory Council, Putin reiterated that the government was well prepared to deal with the effects of the global liquidity crunch and promised to take further steps to strengthen banks and companies.

"On the whole, our economy is well enough prepared for long-lasting external shocks," Putin said.

"The Russian government is seeking answers to these global challenges and finding them," he said.

Putin said he had ordered an additional 200 billion rubles (\$7.6 billion) to be provided to the Deposit Insurance Agency to secure the stable operation of banks. The government has drafted a bill to enable the agency to acquire troubled banks, First Deputy Prime Minister Igor Shuvalov said after the meeting. The bill was submitted to the State Duma on Monday, he said.

The government has pledged to allocate some \$200 billion in loans and tax cuts, among other measures, to help banks and companies deal with the country's worst financial turmoil since 1998.

As global economies continue to take a beating, Russia is well positioned to fund economic growth by using its internal resources, Putin said. He said the country has not registered any net capital outflow between January and September of this year.

Putin said foreign investors including Renault, Unilever and Nestle had reiterated multimillion-dollar commitments to Russia during the 2 1/2-hour meeting. Shuvalov said no one at the meeting said they would like to curtail their operations in the country.

"It has been acknowledged that the investment climate is improving in Russia," Shuvalov said.

James Turley, chairman and CEO at Ernst & Young who co-chairs the council, acknowledged, however, that investors had raised some concerns.

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When asked by a reporter whether they had mentioned the TNK-IP and Mechel disputes with Putin, Turley said they had discussed all issues, without elaborating. "I am not saying it's all rosy," he said.

Shuvalov told reporters after the meeting that Putin had assured Shell chief Jeroen van der Veer that investing into the country's oil and gas sector did not pose any risks for foreigners.

Turley stressed, however, that foreign investors "feel good" about the steps the government has taken to stem the crisis and about their investment into the local economy.

"We pledged to the prime minister our ongoing support," Turley told reporters.

Luis Cantarel, executive vice president at Nestle, announced the expansion of the company's instant coffee factory in the Krasnodar region, saying the Swiss-based company would invest 240 million Swiss francs into the operation. He said the crisis had not affected the company's plans in the country. "If we were scared to invest in Russia, we wouldn't make this decision," he said.

Putin said the government would like to intensify its cooperation with the FIAC, adding it would take into account proposals and suggestions made by the council's members.

Speaking at the start of the meeting, Putin repeated his criticism of the West, saying U.S. and British authorities, rating agencies, the International



Putin speaking to Minister Elvira Nabiullina at a FIAC meeting on Monday.

Monetary Fund, and the Basel Committee on Banking Supervision, which includes the United States, Canada, France and Germany, were all unprepared to deal with the worst financial debacle since the U.S. Great Depression.

He did offer measured praise for Western governments, commending their monetary institutions for taking measures to stem the liquidity crunch. "We believe this is a positive, good signal," he said. He said, however, that it was too early to make any final conclusions.

Putin said the crisis has shown that China, India, Russia and Brazil, known as the BRIC countries, will become the locomotive of the world economy. Citing IMF statistics, he said next year the

Chinese economy will grow by 9.3 percent, India by 6.9 percent, Russia by 5.5 percent and Brazil by 3.5 percent. By contrast, the United States and the European Union are expected to post zero growth in 2009, he said.

Emerging markets are now the central drivers of the global economy, contributing 78 percent to global growth and 63 percent to global inflation, according to Merrill Lynch. The figures are expected to rise to 88 percent and 71 percent, respectively, next year.

The global crisis will usher new opportunities and challenges like a shift to alternative energy, which Russia expects within the next 20 years, Putin said. "This challenge is doubly important for Russia," he said.

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toward realizing City Hall's housing program. But even as real estate companies reel from the liquidity crunch, Mayor Yuriy Luzhkov told an investment forum in Vienna on Friday that the global financial crisis had not had an impact on the city.

"The City Hall would not fail to discharge its social responsibility to execute programs that would improve the lives of Muscovites," Luzhkov told the Moscow-Invest-2008 forum. Prime-Tass reported.

"In part, the construction of residential buildings would continue at the same pace."

As part of a national affordable housing program, City Hall committed itself in June to provide up to 1 million square meters of subsidized housing to thousands of Muscovites before the year ends, something not even the raging financial turbulence could derail, analysts said.

"City Hall is under pressure to deliver on its promise to sell apartments to low-earners who have queued for years for apartments," said Boris Derevyagin, the deputy director of the Real Estate Market Indicators analytical center.

"The deal with PIK Group is the first step because Moscow government currently needs about 2.5 million square meters of apartment spaces to fulfill its criticism of the goal."

With the credit crunch pushing mortgage lending rates to 25 percent,

few developers could hope to sell completed projects, and analysts said City Hall's move was a welcome relief for PIK Group.

"The \$1 billion contract won by PIK is nothing other than a bailout for a company struggling to cope with the fallout from the international financial crisis," said Oleg Borisyonok, an analyst with real estate developer KomStrin.

"A recent financial statement by PIK Group indicates that the company is in dire financial straits mainly because of the company's accumulated borrowings for real estate development."

It would have been disastrous to leave PIK Group, a major developer of low-cost residential buildings in Moscow, to its fate at a time of financial uncertainty, Borisyonok said.

PIK Group, the first residential builder to go public in Russia, was founded as a mortgage company in 1994 by billionaire Kirill Psarev.

Last year, the company sold a 15 percent stake to raise \$2 billion, the largest real estate share issue in Europe.

Alfa Bank's real estate analysts, Yelena Mills and Alexei Kryuchkov, who visited several local construction sites on Oct. 16 to assess the current rate of construction activity, concluded that the credit squeeze had led to a slowdown in construction activity throughout the city.

"Given the current liquidity crunch, developers are clearly prioritizing the delivery of revenue-generating projects in order to maximize operating cash flow," Mills and Kryuchkov wrote in a research note on Monday.