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Wermuth Asset Management GmbH  
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## Russian Investment Climate Initiative, a comment by Dieter Wermuth

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Yesterday we attended a session at the annual Troika Dialog forum in Moscow which featured Igor Shuvalov, who is one of two First Deputy Prime Ministers in Vladimir Putin's cabinet and thus at the very center of political decision making. The topic was how to improve the investment climate in Russia.

The panel of six did not dispute the fact that there are many serious problems. In spite of fairly sound fundamentals such as solid educational standards, a steady stream of hard currency inflows from commodity exports and, now, the fairly brisk recovery from the deep recession, the image of Russia among domestic as well as foreign investors is quite bad.

Just as Mr. Medvedev not long ago, Mr. Shuvalov acknowledged that the bad image is indeed based on a number of negatives. His message was that he will address and solve them. This is now his main brief within the government. Investments in Russia come with an unnecessarily high risk premium and are thus much lower than they could be. So it is in everybody's interest to improve the investment climate. "Russian economic modernization is impossible without quickly making fundamental changes in the investment climate", he said.

Red tape may be the biggest problem. It is endemic, as Mr. Shuvalov told the audience. Even his own family and close friends have to put up with it, let alone normal citizens without much influence or connections. Administrative barriers must urgently be reduced, especially for those who want to start up a business. We have, of course, heard such promises many times. Disappointingly, Mr. Shuvalov failed to explain how he intended to get from here to there.

Joining WTO remains a top-priority. "Currently the negotiating groups are working to find a solution. We hope that the accession will take place once we manage to find compromises on the remaining questions", Mr. Shuvalov stated. A lot depends on Russia's partners; the process will be complete the moment the US and the EU have made up their mind to support Russia on this issue. This, of course, is a rather vague statement as well.

The customs Union with Belarus and Kazakhstan which starts on July 1, 2010 has not changed Russia's WTO project. WTO representatives had previously made clear that a currency union may not apply for membership – only countries can do that.

Another important topic was the 2010 privatization program: it will be significantly expanded.

Mr. Shuvalov was quite positive about the results of the anti-crisis policies. He said that "it worked better than in many other countries". The main concern during the crisis had been social stability. He congratulated himself that this had been well maintained. After all, real GDP had declined by no less than 8 ½% in 2009.

Since the economic recovery is under way now while government finances are in bad shape the government will not continue to cut taxes. Support for business will come in other forms.

Migration policies, including border controls, have finally become an important issue for the government: Shuvalov promised to make them more civilized and liberal.

His comments were warmly applauded by the audience of Russian and foreign business people.

### Background information:

Jochen Wermuth, Chief Investment Officer of Wermuth Asset Management GmbH, is German and was

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- head of the EU- and World Bank-financed Economic Expert Group under the Russian Ministry of Finance between 1993 and 1997, participated in IMF and World Bank loan negotiations
- member of the management committee which set up Deutsche Bank Russia between 1997 and 1998; as head of debt origination he raised \$8bn of debt for Russia
- founder of Wermuth Asset Management GmbH and adviser to the Greater Europe Funds; over ten years they have invested more than \$1.5bn into Russian capital markets, real estate and private equity

Wermuth Asset Management GmbH is the exclusive adviser to four investment vehicles which combined have some \$300m in assets under management. It specializes in value investing and friendly activism, bottom-up and macro economic analysis. Its regional focus is Eastern Europe, in particular Russia and the countries of the former Soviet Union.

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