
Russia looks at all options to invest its oil billions abroad

By Christine Buckley
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Russia could soon follow the Middle Eastern sovereign wealth funds and invest billions of dollars in direct overseas investments if, as expected, its national welfare fund is given more freedom to invest.

Dmitry Pankin, Deputy Finance Minister, said that there was hot political debate about how the fund should be invested. He told The Times: "It is possible to invest ... abroad ... to buy corporate bonds ... to buy shares. It is less risky to buy government bonds than to buy corporate shares. But we are analysing all proposals."

Russia is awash with cash largely because of soaring revenues from its oil and gas. But the country is also struggling with inflation as the economy grows rapidly. For that reason, it is now having to limit government spending on infrastructure even though much of its transport network and other parts of its national framework badly needs to be upgraded.

Mr Pankin said that revenues from the spiralling oil price was "manna from heaven" but that it should be regarded separately because it would not last for ever.

Last year, Russia divided its huge stabilisation fund - large amounts of which have been used to improve its networks - into two. It kept the biggest part, more than \$125 billion (£63 billion), for a reserve fund and put more than \$32 billion into the national welfare fund. This fund will be capped at 10 per cent of GDP but it is expected that it will be able to make riskier, and potentially better rewarding, investments.

Mr Pankin told a Russian investment conference in London that it was difficult to resist pressure for more spending at home because there was so much money available. He admitted that "the roads are terrible and the healthcare is in a dire state", but said that inflation needed to be kept in check. He added: "It is not possible now to invest more money in Russia. In that case, inflation will grow and that will be very serious for our economy."

Last week, the Russian Government raised its forecast for inflation this year to 9 to 10 per cent from 8 to 9.5 per cent. The year-on-year rise in inflation in the middle of this month stood at 13.8 per cent. Inflation is being driven by high food prices, which are ratcheting the rate up despite a slowdown in import price inflation.

Roger Munnings, chief executive of KPMG in Russia and the Confederation of Independent States, the countries from the former Soviet Union, said that attempts by Russia to loosen parts of its economy while keeping a firm control of other parts meant it was at an economic crossroads.

"The rapidity of growth has been helped by oil prices and by utilising spare capacity," he said. "But it has also exposed the lack of investment over previous years. I think Putin and Medvedev understand the need for diversification. You can be a wealthy country if you have oil and gas and still have unemployment. I think they understand the importance of growing the small and medium-sized businesses."

The Government will decide later in the year how to invest its national welfare fund. It may then also create a special government agency to run the fund or devolve it to external management. The creation of such an agency would mark a huge swing away from the apparent tightening control by the Government on the economy.

Last year, Russia moved to a three-year budget, rather than an annual spending programme, to allow for the injection of more strategic planning into the economy.

Some of the national welfare fund may be pumped into domestic financial markets, but the amount could be restricted to 5 per cent to avoid excessive money supply.

Russia has become KPMG's fastest growing market, outstripping China for audit and consultancy services. Last year, the accountancy group's business there increased by 65 per cent.
