RUSSIAN FEDERATION
For publication

Address by the Deputy Governor for the Russian Federation
Mr D B Pankin
at the Annual Meeting of the Board of Governors of the EBRD
Warsaw, 15 May 2014

As demonstrated by recent forecasts published by international organisations, the world economy is emerging from a period of post-crisis adaptation and is entering a growth phase. Investment demand is rising, and the growth of international trade is gathering pace. In many countries, the efforts to achieve budget consolidation have brought with them the restoration of macroeconomic stability and renewed investor confidence.

The role of the EBRD as a major development institution with exceptional competence in the current situation is undeniable. In this situation, the main task of the Bank’s management is to identify the special place – the “niche” – that the Bank should occupy in the day-to-day economic reality, bearing in mind the need to scale back its mandate in countries where its mission is nearing completion and retain the declared business volume in its traditional countries of operations while simultaneously maintaining strict financial discipline in expanding its operations into new regions.

In this context, we regard the Bank as justified in the main thrust of its new medium-term guidelines – the need to give fresh impetus to reforms and to invigorate transition processes. Given the existing strategic trend, the key task is to adhere strictly to the Bank’s proven business model – market orientation combined with careful risk assessment. Consistent performance without alteration of the systemic nature and the ideology of the EBRD’s
operations, retention of its credit rating combined with taking full account of the risk factors – these are the key foundations on which the EBRD’s development should be built.

The geographic distribution of the Bank’s business volume should continue to be as depoliticised as possible, as is indeed implied by the essential nature of our institution, and should be based on the Bank’s business logic and its mandate. Departures from proven principles could threaten the stability of the Bank’s capital position, and it is our view that this must not be allowed.

As to business activity in the South and East Mediterranean, which is a new region for the Bank, we would call attention to the need to maintain the existing client requirements and adhere to the EBRD’s strict internal rules and policies concerning the cost effectiveness of projects, the priority of investing in the private sector, support for State companies operating only in competitive environments, and transparency and predictability in structuring transactions. Thus far, our work in the new area hasn’t provided a total solution to the issues underlying the expansion.

Another of the Bank’s tasks, which deserves separate mention, is to improve our client liaison performance. It is a known fact that the EBRD’s advantages over commercial financial institutions are frequently nullified by its lengthy and labour-intensive procedures. It is our view that the Bank should make an effort to work with greater openness, responding promptly to its clients’ needs.

No discussion of the Bank’s future can be complete without a mention of its forthcoming five-year strategy for 2016-2020; the work on this strategy is already under way. We are not
questioning the majority of its medium-term tenets. It is right that clearly enunciated principles and parameters of the EBRD’s operations should underlie the new strategy. The formulation of the Bank’s specific challenges and tasks and their submission to its shareholders is work which will occupy the Bank’s management in the immediate future.

Bearing in mind the trends to which I have referred, it is our view that in the coming years the Bank will be able to make good the contraction of business experienced in the year just past and restore the growth rate of its portfolio in the region of its operations.

Against the background of the changing environment, the Russian business of the EBRD, in spite of last year’s relatively more modest performance, can still boast a high-quality portfolio and good profitability, enabling the Bank to operate in a more complex political and economic environment. The Bank’s Russian portfolio has shown high-quality credit performance and is steadily generating a considerable proportion of the EBRD’s income.

In spite of the fact that last year the Bank’s Russian business did not reach its declared volume, its work in individual areas deserves a high rating. Projects deserving special mention are those relating to reducing the energy consumption and energy intensity of the Russian economy. In addition, aspects to note in the 2013 performance are the support of companies in the manufacturing industry and in the IT sector. Good results have been achieved through capital investments in companies with potential, including the EBRD’s investments in private equity funds designed to invest in fast-growing companies in high-tech industries and the service sector. We must not fail to mention the Bank’s projects offering support to foreign investors in Russia and generating a significant multiplier effect thanks to the development of contacts with Russian suppliers and buyers.
The last, but not the least important, reason for maintaining the EBRD’s involvement in Russia is its stable macroeconomic situation – the fact that the Federal budget is balanced, the country’s large gold and foreign currency reserves and its positive trade balance.

I would also note the positive outcomes of the EBRD’s dialogue with the Russian authorities on the enhancement of the regulatory and legal framework for entrepreneurial activity, including the introduction of PPP mechanisms in the regions. The development of PPP and concession laws continues, and it takes into account the needs of international investors.

The Russian Federation is continuing to develop better business roadmaps that include measures for reducing the time and cost of doing business, to improve the regulatory environment, to increase the availability of loans, and to facilitate company access to energy registration and tax administration.

One of the key and “specific” areas of development of regional potential is the improvement of regulatory regimes for clusters offering preferential terms to investors – special economic zones. To date, 23 areas in Russia have been designated as special economic zones. All are granted tax concessions in the form of reduced corporation tax rates, temporary land tax and property tax exemptions and preferential transport tax regimes.

I should now like to turn briefly to the reform of our budget system, now being successfully implemented by the Russian Government. In this context, we must above all note the final transition to the programme-based principle of budget planning. Budget planning is now based on State programmes relating to all key areas of State activity, each of which represents
a system of measures (grouped together in terms of objectives, implementation dates and resources) and tools of national policy aimed at achieving the priorities and objectives of the various specific areas. Such a system presupposes the development of “management by results” mechanisms that establish a clear link between the results achieved by State bodies and the budget funds allocated to them for the achievement of those results.

The implementation of the programme-based principle of budgeting has as its objectives a change in the approach to medium-term forecasting and the development and implementation of long-term strategies and programmes for the development of the Russian Federation as a whole, and also of individual regions and sectors of the economy. As part of the development of the programme-based approach to budgeting, in 2013 we drew up and submitted to the Government a draft budgeting strategy for the years up to 2030.

The past year has also seen much progress in the area of financial regulation. We have developed the legal framework for a single financial market regulator, to be based at the Bank of Russia, for revitalisation of the National Pension Fund system and for safeguarding pension savings. We have passed laws on the securitisation of financial assets, particularly loans to small and medium-sized enterprises. We hope that these measures will make for closer and more effective cooperation between Russia and the EBRD.

We regard support for regional development as an extremely important area of collaboration between the Russian Government and the EBRD. Our country is host to a network of seven regional offices of the Bank, facilitating constructive work on promoting investment outside Moscow and St Petersburg. We are looking forward to a further geographic expansion of our cooperation with the EBRD, regarding it as a way of reducing inequalities in the economic
development of Russia’s regions, which is one of our national priorities. In support of regional initiatives, this Annual Meeting will include a special session on investment in Russia devoted to the investment potential of the Russian regions. We hope that the presence of specialists and of direct participants in the process, the sharing of experience and exchanges of views will make clearer the specific character and the advantages of investing in the regions and help to identify the “bottlenecks”, and also stimulate continued Bank efforts in this area.

In noting the major contribution that the joint efforts of Russia and the Bank have made to the creation of a firm basis for the diversification and modernisation of the Russian economy, we wish to highlight the Russian Government’s great interest in the intensification of those joint efforts in high-priority areas. We hope for a widening of the cooperation between Russia and the EBRD in the achievement of agreed objectives.