Russia's Economic Transformation: A Conversation With Ruben Vardanian

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2:30 PM - 3:45 PM

Speaker:
Ruben Vardanian, Chairman and CEO, Troika Dialog Group

Interviewer:
Michael Intriligator, Senior Fellow, Milken Institute; Professor Emeritus of Economics, Political Science and Public Policy, University of California, Los Angeles

Despite its abundance of natural gas, oil and precious metals, Russia has always been considered the riskiest of the BRIC countries for foreign investors. Seeking to change this image, Russian President Dmitry Medvedev has laid out an ambitious plan of modernization that includes cleaning up the nation's pervasive corruption. Medvedev insists that Russia must end its overreliance on commodities, and indeed, its economy contracted sharply in 2008 as oil prices fell. Can Russia diversify and prosper by creating a more knowledge-based economy? Will the recent uptick in foreign investment gain momentum? As oil prices surge once again, is Russia in for another boom-and-bust cycle? What lies ahead for the ruble? What are the risks for foreign corporations doing business in Russia? Ruben Vardanian, chairman and CEO of Troika Dialog and a key figure in Russia's capital markets, will join us for a one-on-one interview that will shed new light on the changes under way in the Russian economy.
Russia – country with a large span

- Time zone span: UTC+2 to UTC+11
- Geography: lowest point -28m, highest point 5,633 m
- Resources: 1/6 of the world’s land mass
  - 33% of the world’s proven gas reserves
  - 16% of the world’s proven coal reserves
  - 770 mln hectares of forests (Canada - 244 mln ha)
  - 4,312 cubic km of fresh water (Europe - 2,900 cubic km)
- Temperature: -68°C in January in Oymyakon, +40°C in July in steppe areas
- Diversity: over 130 nationalities and practically all religions represented
- Lifestyle: primitive communal in remote villages, modern urban in the capital and large cities
Political environment
Map of changes in the political landscape

- **Golden Hundred* (3 pers.)**
- **Putin’s call (38 pers.)**
- **Ex-regional officials (10 pers.)**
- **Ex-federal official (10 pers.)**
- **Ex-military/KGB officials (2 pers.)**
- **Medvedev’s call (25 pers.)**
- **Political heavyweights (20 pers.)**

*Top 100 young leaders
[Source: Institute for Regional Policy - Regionalistica]
Number of government employees per 1000 people in Russia

[Source: Federal State Statistics Service]
Market share of state-owned banks, % of total AuM

[Source: Higher School of Economics]
State bailout, % of GDP

China: 15%
US: 5.80%
India: 1.30%
Russia: 1.10%
UK: 1.10%
Brazil: 0.20%

[Source: The Economist]
Macroeconomic environment
GDP

[Source: Troika Dialog estimates, IMF, CIA]
GDP per capita, $

![Graph showing GDP per capita for Russia, Brazil, China, and India from 2006 to 2011 with projected data for 2010F and 2011F.](image)

[Source: Troika Dialog estimates, IMF, CIA]
Unemployment rate

[Source: Troika Dialog estimates, IMF, CIA]
International reserves

[Source: Troika Dialog estimates, IMF, CIA]
CPI

[Source: Troika Dialog estimates, IMF, CIA]
Public debt

[Source: Troika Dialog estimates, IMF, CIA]
External debt

[Source: Troika Dialog estimates, IMF, CIA]
BRIC trade balance

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[Source: Troika Dialog estimates, IMF, CIA]
Capital market environment
Trading volumes, $bn (daily average)

China: 5,316
Russia: 5,316
Brazil: 2,200
India: 2,300

[Source: Bloomberg, 2009]
BRIC stock market growth

[Source: Bloomberg]
BRIC market capitalization

Source: Bloomberg

[Graph showing market capitalization trends for BRIC countries (RTS, BOVESPA, SENSEX, Shanghai) from May 2001 to May 2009.]
BRIC market capitalization growth

Since 2001 Russian market has grown by 1913%

Chinese market – by 690%

[Source: Bloomberg]
Total M&A volume

[Source: Thomson Reuters]
Average M&A deal volume

Brazil
China
India
Russia

[Source: Thomson Reuters]
Total IPO volume ($mln)

[Source: Dealogic]
Average IPO deal volume ($mln)

[Source: Dealogic]
Financial market sophistication

Benchmark: 1

- UK
- Switzerland
- Luxemburg

- Brazil
- India
- Russia

Ranking

2007 2008 2009

[Source: Global Competitiveness Report 2007-2010]
Human capital environment
Population growth

[Source: Troika Dialog estimates, IMF, CIA]
Birth and death rates (pro mille)

[Source: CIA 2009 World Factbook]
Life expectancy

China

Brazil

India

Russia

62 64 66 68 70 72 74

[Source: CIA 2009 World Factbook]
Education and healthcare expenditures

- Education Expenditures / GDP
- Healthcare and sport/GDP

[Source: Federal State Statistics Service]
Literacy

Russia: 99.50%
China: 99%
Brazil: 99%
India: 97%

[source: CIA 2009 World Factbook]
Education

[Source: Federal State Statistics Service]
Quality of management schools

Benchmark: 1

- France
- France
- Switzerland
- Brazil
- China
- Russia

Ranking

2007 2008 2009

[Source: Global Competitiveness Report 2007-2010]
Brain drain

Benchmark: 1

US
US
US

Brazil
China
India
Russia

Ranking

2007 2008 2009

[Source: Global Competitiveness Report 2007-2010]
Corporate spending on R&D

Benchmark: 1 – Switzerland

Ranking

2007 2008 2009

[Source: Global Competitiveness Report 2007-2010]
Government spending on R&D, % of GDP

[Source: OECD, 2009]
Innovation

Benchmark: 1

Japan

US

US

China

India

Brazil

Russia

[Source: Global Competitiveness Report 2007-2010]
Mobile phone subscriptions per 100 People

- Russia, 132
- Brazil, 78
- China, 47
- India, 29

[Source: UNdata]
Investment climate
FDI

China

Russia

India

Brazil

[Source: Troika Dialog estimates, Central Bank of Brazil, IMF]
FDI in Russia by sector

- Manufacturing: 26%
- Extraction of raw materials: 20%
- Retail: 22%
- Financial: 4%
- Real estate, advertisment, etc.: 17%
- 5% Construction
- Transport and communications: 3%
- Agriculture: 1%
- Other: 1%
- Supply and redistribution of electricity, gas and water: 1%

[Source: Federal State Statistics Service, 2009]
Market share of foreign companies in Russia

- **Banking**: 25%
  - Citibank
  - Raiffeisen Bank
  - Unicredit

- **Power Generation**: 11%
  - Enel
  - E.ON
  - Fortum

- **Consumer**: Over 25%
  - Beer – 85%
  - Soft drinks – 53%
  - Packaged food – 15%

[Source: Troika Dialog estimates]
Russian Eurobonds compared to other countries

- **Spain Govt**
  - AA+/Aaa/AAA
  - BB

- **Russia**
  - BBB/Baa1e/B
  - BB

- **Italian Government**
  - A+/Aa2/AA-

- **Germany Govt**
  - AAA/Aaa/AAA

0.00% to 6.00%

Source: Troika Dialog.

*Russian USD Sovereign Eurobonds (in euro)

NB: All rating are represented in the following order: S&P/Moody’s/Fitch.
Russian Eurobonds compared to other countries

Source: Troika Dialog

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