

Speech at the Russia Calling! Investment Forum:



PRESIDENT OF RUSSIA VLADIMIR PUTIN:

Good afternoon friends, ladies and gentlemen.

I know you had a very active discussion yesterday.

I want to welcome you all to this forum organised by VTB Capital. The forum has already become a regular event and I think it is very useful. Here, you can discuss the biggest issues concerning the Russian and global economies in an open, professional and friendly manner.

This year's forum is taking place only a month after the G20 summit in St Petersburg. Let me say a couple of words first about the summit's results.

The general conclusion is that the acute phase of the crisis is over and the current risks are more or less under control. However, hopes for swift recovery in the global economy, if anyone had them, are illusory. The crisis that the current economic model is going through is structural and thus long-term in nature. Practically all countries are experiencing a slowdown in growth rates, including Russia, of course.

We must coordinate our actions and find new sources of development. The Russian presidency made this the basic approach at the G20 summit in St Petersburg, and this strategy was cemented in the final action plan that the summit produced.

The G20 countries succeeded in finding mutually acceptable solutions to practically all of the complex issues before us. These solutions are equally important for the international community and for Russia.

A consensus has been reached on combining measures to stimulate economic growth with fiscal consolidation. The specialists know that reaching a consensus on these two different areas of action is quite difficult if at all possible. But the summit participants reached an agreement at any rate that we will proceed based on these two seemingly different vectors of action.

Medium-term targets have been set for each country in reducing budget deficits and carrying out structural reform. This involves labour market regulation, taxation, developing human capital and modernising infrastructure.

Financing investment was a big priority for the current presidency and a new theme for the G20. A specific G20 roadmap for improving the investment climate and encouraging long-term investment was drafted and is already being implemented.

The key issue at the summit was reforming tax policy in order to fight tax evasion, including through the use of offshore zones and schemes. We adopted principled decisions on this matter in St Petersburg, approved the action plan for combating erosion of the tax base and tax avoidance, and agreed on standards for exchanging information for tax purposes.

Another important result was that the G20 reiterated its support for the multilateral trade system. We agreed to extend until the end of 2016 our countries' commitment to limit protectionism in global trade. I can say that it was no easy task to persuade all of the summit participants to agree to this decision.

We also approved commitments to making regional trade agreements more transparent and bringing them into line with the World Trade Organisation's principles.

Judging by our G20 partners' reactions and the response from experts and the media, we can state confidently that the St Petersburg summit was a success.

As we saw it, the process of coordinating and approving the measures needed to make the global economy more stable went ahead in a regular and friendly fashion at the G20 summit, and this gives us confidence we do have a chance of making the global economy more receptive to long-term growth factors.

At the same time, we realise that each country will carry out its own national strategy and look for its own answers to the challenge this global structural crisis brings, based on its existing possibilities, resources and specific internal problems.

One of Russia's specific problems, one of the core challenges it has to address, is low effectiveness. In terms of the size of our GDP we are close to becoming Europe's biggest economy and the world's fifth-biggest economy. Last year, according to OECD data, Russia's GDP in purchasing power parity terms came to \$3.373 trillion. Germany's GDP was \$3.378 trillion. We are clearly just behind Germany now for this indicator. Our per capita GDP and consumption levels are similar to a number of the European Union countries.

But this is where the good news stops. We are more than double behind the developed economies in labour productivity. This gap between consumption levels and effectiveness is unquestionably dangerous. Living off natural resources at our future generations' expense, spending a fortune we did not earn and dividing up this unearned fortune cannot be sustainable and long term.

This is an unacceptable road for a country that has set big goals, lives in an open economy and therefore must compete for investment and technological leadership on global markets and give its citizens better living standards and conditions for realising their potential.

Today's labour productivity growth rate - it was 3.1% in 2012 - is not enough to close the gap in effectiveness with the leaders and essentially means keeping the economy as it is, that is, keeping its structural and raw materials bias in place. Labour productivity in Russia needs to grow by 5-6% a year, or double the rate we have today. This is the only way to swiftly close the effectiveness gap. I am confident that we can do this.

There are entire Russian regions that have already achieved labour productivity growth rates of more than 10%. Here are some of the figures for 2011, since the 2012 gross regional product figures are not completely ready yet. In 2011, in first place on the labour productivity index, considerably exceeding the national average, was Kaluga Region at 113.1%, followed by Orel Region at 112.3%, Tambov Region at 111.9%, Voronezh at 111.4%, Arkhangelsk Region at 110.6%, and Belgorod Region at 110.4%. Such results are possible when greater effectiveness and creating quality new jobs are a genuine priority, real goal and the purpose of development, and not seen as some kind of optional, sideline burden or secondary task.

Greater effectiveness would change the labour market's quality and the employment structure. Instead of old, obsolete and sometimes poorly paid jobs, we would be able to give millions of our people high paying and promising jobs in modern sectors, in small and medium-sized businesses, and in the non-raw materials sectors. We would help people to raise their qualifications and learn new skills. It is this constructive approach that must be at the core of the Government's and the regional authorities' work. Circumstances cannot be turned into a pretext for not carrying out this work.

But at the same time - I cannot but mention this, though it is something we will look at in greater detail at our meetings and discussions with the Government - only two of the state programmes the Government has drafted mention measures and give specific indicators for creating quality jobs.

So what exactly should we do? Above all, the state authorities themselves must set the example when it comes to effectiveness. This concerns companies with state participation, use of state assets, and the budget process at all levels, from federal to municipal.

The Government submitted the draft federal budget to the Parliament earlier this week. Ineffective spending and programmes that were not producing sufficient results have been curtailed. Spending for social commitments has been maintained, and in a number of cases, not all, but a number, has been increased. Additional funding has been earmarked for supporting the regions, including for developing the Far East and the Baikal region. In other words, we are concentrating our resources on the priority goals.

Let me say a few words about the decision to freeze infrastructure monopolies' tariffs. This is not only about creating conditions for development throughout the entire economy, but sends a clear signal to the state-owned companies that they need to make themselves more effective.

Let me stress here that state-owned companies' investment programmes must be carried out, but in the current conditions this has to be done by bringing down internal costs, and these companies must work as actively as possible to cut such costs.

Holding the tariffs in check also pursues the objective of bringing down inflation. Non-monetary factors have had a big impact on price rises over recent years. Inflation will be at around 6% this year. Next year though, we have a real opportunity to get inflation down to under 5%. If we succeed in achieving this rate, it will be the first time in the last 20 years.

Colleagues, improving the business climate is the key to making the economy more effective. To achieve this aim, we have launched, together with the business community, the national business initiative. We are now seeing some progress in access to the energy supply network, in tax administration and in real estate registration procedures.

But we must admit that these are still just the first modest steps. Some ministries and agencies often fail to see improving the business climate and administrative procedures as priorities in their work. We can no longer delay the fundamental decisions in this area; at least, we cannot push them back any further than 2015. I think that all of the measures to improve the business climate set out in the roadmaps we drafted should be carried out soon, over the next two years. I ask the Government to approach the task with this timeframe in mind.

Let me add that implementing the roadmaps does not mean that after 2015 we can consider the work fully completed. Of course, this will not be the case. Improving the business climate is a constant process because other countries and the world in general are not standing still. If we want to be competitive in the battle for investment, we must not only introduce the best world practice here, but also to take action to put us a step ahead.

Let me say again that much here depends on the regional authorities. We have regions that offer a genuinely comfortable environment for doing business, in just a short time have successfully raised billions in investment, including foreign investment, and have created tens of thousands of quality, high-paid jobs.

Let me give a few concrete examples. Four Russian regions have created more than 55,000 new jobs over the recent period. Of these, 16,000 are in Tatarstan, more than 14,000 each in Belgorod and Chelyabinsk regions, and 11,000 in Lipetsk Region. Kaluga Region, which I mentioned before, has created 3,000 new jobs in 2013, and 6,000 new jobs were created in Sverdlovsk Region. Five new plants have opened in Tyumen Region, and another eight plants - new businesses - are planned to open by the end of the year.

As far as attracting investment goes, I can cite the example of Ulyanovsk Region, where the total investment portfolio comes to 194.6 billion rubles. Projects are underway there with companies such as Bridgestone (tyre manufacture), Hempel (paints and varnishes), Schaeffler (car parts) and Gildemeister (machine-tool building). These investment projects will create nearly 36,000 new jobs. We want to see these kinds of results from all the regions, including the Far East regions.

The management team working on developing the Far East regions recently got a lot of new faces and has already begun its work. Creating the best conditions for investment and for opening new production facilities is the priority for the new deputy prime minister and the heads of the Ministry for the Development of the Russian Far East. They are firmly committed to a professional, substantive and targeted dialogue on specific projects. I ask all potential investors to get involved in this dialogue as actively as possible.

Colleagues, one of the key factors for economic growth and making the economy more effective is removing infrastructure limitations. I am sure that you have already mentioned this and my colleagues have spoken about it, but let me note in this context that in 2012, investment in the country's transport system alone came to around 1.3 trillion rubles [more than \$40 billion]. That is not counting pipeline transport. We plan to increase this investment over the coming years. We will invest too in the energy sector, communications and telecommunications, and other infrastructure sectors.

We already made a decision to modernise the Trans-Siberian Railway and the Baikal-Amur Mainline, build the Moscow-Kazan high-speed rail link and the Central Ring Road around Moscow. Total investment in these three projects comes to more than 1.8 trillion rubles. Of this, more than 660 billion rubles will come from private investors.

We will not stop at these three projects alone, of course. The authorities will share the risks with the private investors by investing on returnable and paying basis - I stress these two conditions - money from the National Prosperity Fund.

Concession mechanisms, co-financing and other forms of public-private partnership will be widely used. The necessary changes to the laws are being drafted right now.

Direct foreign investment in the Russian economy is growing. We received nearly \$55 billion over the first six months of this year, which is three times higher than the inflow of direct investment over the same period of 2012.

Another positive example of cooperation in carrying out big projects is the agreements the Russian Direct Investment Fund has signed, including with the Abu Dhabi Department of Finance, for example, which will see up to \$5 billion invested in Russian infrastructure projects.

At the same time, we will continue to build up our domestic resources: pensions savings and the funds of insurance companies and banks. We will focus particularly on creating convenient investment instruments and on raising confidence in the banking and finance sectors.

Today, I would also like to say that we will soon be renewing the composition of the Council for the Financial Market Development. And stimulating the nation's domestic investment potential is a key issue that it works on.

Overall, we believe that in the coming years, the total investment volume in the Russian economy must be 25% of GDP, and should reach 27% by 2018.

Colleagues, in current conditions, the development of non-oil exports becomes a highly important stimulus for economic growth. I will note that mechanical production accounts for only 5% of Russian exports, although the potential here is, of course, enormous. Today, Russia sells mechanical products worth less than \$30 billion dollars. Meanwhile, examples from many Asian nations, such as China, the Philippines and Taiwan, demonstrate that a qualitative shift in the structure of foreign trade and an explosive growth in machinery exports are possible. This calls for an upgrade of our production facilities and human resources, as well as for creation of an effective system for promoting Russian goods in foreign markets.

The main outlines and elements of such a support system have basically been created already. The Economic Development Ministry is reforming our network of trade delegations abroad, instructing them to promote the interests of Russian companies in foreign markets. We have launched mechanisms for insuring export contracts, providing tied loans to potential buyers through Vnesheconombank.

However, I must state directly that at this time, the export support system still works inefficiently and is not producing tangible results. It is only used by a few large companies, while mechanisms like this are practically inaccessible to small and medium-sized businesses. The government needs to figure out why this is happening and make the necessary improvements to this system.

And another very important topic. We are seeing an increase of protectionist measures in global trade. At the beginning, I said that the G20 has decided to extend its commitment against protectionism until 2016. The reason people are discussing this so actively at all forums is that the number of such protectionist measures is increasing, and we cannot fail to see this, take it into consideration and react to it. The heads of the WTO and the OECD - the main organisations supervising global trade - spoke about this increase in protectionism at the G20.

Many nations are continuing to subsidise their manufacturers or support them in other ways, essentially circumventing WTO regulations. "Energy adjustments" used by the European Commission to conduct anti-dumping investigations of Russian exports are just one example, in addition to the infamous Third Energy Package, quotas on agricultural supplies, and the tariff policy toward rail transport through certain EU nations.

We will learn to assert the rights of Russian businesses, actively using WTO mechanisms, same as the long-standing members of this organisation.

In this regard, I am asking the Government, jointly with Russia's business associations, to develop concrete approaches and launch procedures for protecting the interests of Russian producers in foreign markets - of course, I'll stress again, within the framework of current WTO regulations.

Colleagues, in conclusion, I would like to say that regardless of external conditions and objective difficulties that we must and will take into account, we will nevertheless continue all planned reforms, including the structural modernisation of entire sectors of the nation's economy, improving healthcare, education and science. We will certainly maintain our vector of development, creating a strong economy and a strong nation.

We invite everyone who is interested in working with us to engage in effective cooperation. And I want to wish everyone success. Thank you very much for your attention.