C. Fred Bergsten: ... Deputy Prime Minister of the Russian Federation since May of 2000, almost 11 years ago. Minister Kudrin is now the longest serving finance minister in the G-20, so he’s the Dean of the global finance ministers’ mafia, which is meeting here this weekend at the IMF and World Bank. The G-20 finance ministers are meeting in a couple of hours, so he’s gracious enough to come and speak with us first before he begins his official duties on this weekend.

He’s got an incredible record as Minister of Finance, not only in Russia’s growth record, but he brought in budget surpluses from 2000 to 2008. He then converted a big surplus into a big deficit, and in fact provided the largest stimulus—to put the positive spin on it—he created the largest stimulus of any G-20 country.

So, he’s got lots to tell us about the situation in Russia—maybe to some extent, Russia’s role in the world economy—and providing a basis for our bottom line objective today, improving further, the economic relationship between Russia and the United States, finally bringing Russia’s accession to the WTO to fruition, passing PNTR legislation in the United States to regularize, normalize, and hopefully, maybe strengthen economic relations between our two countries.

Minister Kudrin, it’s a great pleasure to welcome you back to our podium. Thank you for coming.

Alexei Kudrin: As well as preventing new crisis. We’re not gathering as often as during the last two years. The crisis made us do so, but I’d like to note one result. I’ll say that the developing nations and emerging economies and advanced economies never ever before discussed the rules for the world economy so intensively and in such a tight interaction. So, those are the rules that are designed to prevent the crisis and the imbalances.
This process involves both advanced and developing economies. And on behalf of the BRICS countries, I can state that we see each other inside the global economy, we see each other in civilized partnership relations with other countries and we’re doing our best to establish this format of cooperation. The communication yesterday featured some common steps to elaborate collective decision to regulate the world economy.

I would like to note that among their key issues is the surveillance of different countries—advanced nations like US and China and developing nations—on some key indicators which are to show the state of our economy, whether it’s normal, whether or not we’re accumulating new imbalances and what is to become the prevention mechanism for accumulating imbalances and possible crisis.

Formerly, about two years ago, neither China nor the US were happy about being monitored by an independent group of representatives of foreign nations as so was created by the G-20 or the IMF. But today, these mechanisms are almost in place and all countries are ready for such a peer-to-peer critical analysis of our economies.

The question is whether we are ready to go further, whether we are ready to say that this analysis and recommendations should have a mandatory nature and whether sanctions are to follow non-implementation. Probably it’s not the question of today and not on the current agenda, but to understand that the global economy creates the need for such global regulators here even though economic theories are based not on national economies.

We were looking for solutions within national economies, but it became obvious for us today that we need to speak more about economic trends within the world economy and the place of our national economies within the global economy. So, that’s why one of the burning issues of the agenda is hot money, speculative capital flows, which for developing nations are very painful.

And today, the G-20 is deliberating recommendations—which steps are to be taken by individual member states that face the challenges of speculative inflow of capital. But from my viewpoint, I think insufficiently covered issue is the issue of responsibility of the reserve currency issuing countries that easily fill the gaps within the world economy with liquidity, including the contracts and commodities of foodstuffs. And we believe that our discussions today do not quite reflect the role of the currency issuing countries roles here and responsibilities. In the future, we are to extend the mandate of the IMF to regulate this issue.

Also, we’ll be discussing the monetary systems, so I’m quite sure that both the US dollar and the euro in the near term and in the long-term prospect
of 20 years will be key currencies. The [inaudible] cannot become a world currency to substitute these two. Of course, the [inaudible] is going to expand its functions. We’ll see some new elements within the system of application as they are entered. The basket of the [inaudible] should be expanded, but it cannot substitute for the world’s currency. And therefore, the stability of the American and European economy is of great importance for us, and we are following the developments very closely.

We’ll also be discussing the issues of regulating the financial markets. And one of the questions is: To which extent the leading countries are implementing their budget consolidation plans? This is what we agreed at the G-20 meeting, and that is by 2013 to cut by half, the budget deficits worldwide as compared to the crisis period. But not all of the countries are succeeding in implementing this goal. I’m aware of the serious debates in the United States in this regard, and I sympathize with my colleague, Secretary Geithner, but the whole world is looking at him. We do want these problems be solved successfully. We see the political competition in the United States, which also promotes finding the solutions of cutting the deficits and costs.

I remember the initial plan was to cut the US deficit by 2014 down to 4 %, but now I understand now that it’s very hard to see this task as a realistic one. And I also see that they have to compromise between political solutions, social stability, and the tight restrictions created by the world economy, created for our countries. It is not always that the political decisions follow the economical feasibility, including as I saw it in the advanced economies, and we’re feeling the same domestically. Nevertheless, we raised the question of cutting the budgetary deficit two-fold down to 3 % in 2013, and we are going to get a zero deficit of the budget in 2015.

Today for Russia, this question is as follows: we need to adjust it also to the oil prices, so we need to see at which assumed oil price we are to reach these results. And already this year, we’re assuming the oil price at around $105 per barrel for the euro’s brand of oil. And if we have this oil price, our deficits would amount 1 % or 1.4 %. So probably here, we see that the deficit is going down due to higher oil prices, but our goal is to be guided by a non-deficit budget in mid-term perspective at the assumption of $90 per barrel.

This is a very soft benchmark but we need to set ourselves some realistic goals. And even along this path, we have certain difficulties. For instance, our President decided to increase the military expenditures, and I spoke about this already, or we made a decision to cut the taxes to the pension system. First, we decided to increase these taxes but now this decision is being revised, so the deficit of the pension system will increase. So, that means that we too have some problems that are related to the coming
elections in Russia. So, we are thinking of getting a balanced budget assuming an oil price of $90 per barrel. So, that’s why the real resolution effort is moved to after the elections.

But at the same time, we don’t have domestically party which would be forcing us to get these goals implemented. We have an economic side of the government that is actually doing its best in striving to cut the deficit. Nevertheless, I want to say that in the coming few years, it’s [inaudible] for us--for the President, the Prime Minister, for the business community, that Russia is entering the stage of looking for their growth factors not related to the oil and gas sector.

This sector will remain, it will be quite significant, but its share in the GDP will go down from 19 % to date, to 13 % in 2020. So, we will be forced to shrink this sector within the GDP because the production growth will be lower than the general GDP growth. But the general GDP growth will happen through other sectors, including industry, transport, communication services. And all our measures and efforts are aimed at this. These measures are to stimulate and promote the development of these particular sectors.

I’m often asked the question, what was done over the last ten years? Why were we so slow in modernizing our economy? But it’s obvious that we lived through the period of higher oil prices as a result of which we had lots of revenues. And quite often, people don’t think about the effectiveness of using these revenues, but rather solving very rapidly the immediate tasks, such as solving social issues, or developing infrastructure or on having business. Those are the issues that accumulated over the nineties. And now, budgetary expenditures increased more than four times over that period; it’s more than the economic growth.

Nevertheless, we didn’t manage to reach all the goals, and until the goals that we set for ourselves can make our economy really effective, probably this inflow of petro dollars somehow made us more relaxed and less vigilant. But nevertheless, I think people do not take enough account of what has been achieved and what has been done.

I’ll give some figures. In terms of PPP in 2000, Russian GDP amounted US$1 trillion, US$120 billion, and in 2010, it was already US$2 trillion, US$223 billion. And we almost reached our pre-crisis level of 2008. In the beginning of next year or late this year, we will restore our GDP at the pre-crisis level. This provides evidence of the volume of our economy, and at the same time, the living standard of our people has been growing as well.

The average salary in 2000 was $79; currently it’s $700. So in general also, the living standard increased significantly. And I am asked the
question quite often, whether the people managed to get some of this oil opportunities of economic growth. Yes, in general the living standard increased and improved. The productivity of labor was growing quite rapidly as well, but not as fast as their salaries and wages. So, our test today is to make sure that the productivity is growing even faster.

Russia continues to remain a very convenient country for investment, including in trade. We attracted those in the form of imports for equipment and technologies. And in 2010, approximately $57 billion—and before the crisis it was $8 billion—that’s the import of technologies and equipment. Significant parts of modernization of our economy, and new enterprises, new technologies were happening with the help of foreign investments. And FDI enterprises amounted more than $30 billion a year in the past.

In this sense, I really want to say a few words about the role of Russia in the world trade. We continue to be a country with a rather open economy during all these years, and I want to say in the first place that over this period of time, the Russian economy grew until 2007 before the crisis, at a rate of 6.9%. But the export was growing even quicker, and US dollar elimination was increasing by 21%, and non-oil and gas export was growing at a rate of 15% a year. So, we were increasing our supplies to the world’s market, not only of oil and gas, but other products as well. Some other products were in demand. We increased the share of Russia in the world trade in such areas as chemical products, timber products, metals and products of metals, machinery exports. So, we would not have grown there very significantly; we remained at the same level basically.

The imports, as I said, of the capital growths amounted up to US$70 billion which showed that Russia is an attractive country for trade. Unfortunately, over this period, the trade with the United States- the share of the US in the foreign trade turnover of Russia decreased from 4.2% down to 2.1%. This is a very small share, and in the imports, the share also decreased to 4.7 from about 7-8%.

Other countries of the APEC were increasing the trade relations with Russia, and we were increasing both our imports and exports with those countries. So, this is my first remark. I see that Russia’s accession to the World Trade Organization will allow us to develop our relations quicker between the two nations. And we actually need the products that are being created here in the US in various sectors of their economy.

The share of Russia’s information technologies and communications was growing at a rate of 20-40% per annum from Russia to other countries. So, this sector has been developing quite well. And I must emphasize once again, that it’s not only the oil and gas exports from Russia that went to the foreign markets. We understand that the openness should exist in the area of capital movement, and movement of goods, commodities, and
flexibility of the labor force. These are three areas where we need to get some better results, but in 2006, we have liberalized the capital movement.

This is the most important fundamental structural reform that we carried out, and quite often, the experts are saying that maybe this decision was premature. For instance, Brazil at the moment is challenged by the speculative inflow, and Brazil has a chance to defend and protect its market introducing restrictions. But Russia did not introduce these restrictions even at the peak of the crisis, but we needed significant reserves to do so and those are the reserves that we were accumulating for a long time. Liberalized capital movement and a certain amount of reserves were necessary to meet the external shocks well prepared. We understood that and this is what our policies were aimed at.

We went through this crisis period quite successfully; we will not be restricting capital movement. And in general, the recommendations that are currently being deliberated by the IMF are not directly addressed to Russia. But we need to understand that this requires a very responsible macroeconomic policy in order not to create excessive risks for the capital, not create additional risks for the outflow of the capital from the country. So, this liberalization of capital movement before liberalization in 2005, FDI amounted approximately US$13 billion than compared to that level already in 2007, the FDI reached US$55 billion before the crisis. And this is also one of the results of the liberalization policies in the economy.

We understand that accessions with the World Trade Organization will be both the next important step during the liberalization of the Russian economy and increasing the trade turnover and reaching greater efficiency of the Russian economy. The World Bank believes that Russia will not gain much from its great involvement on the world market.

As of now, the scale of the Russian economy and its competitiveness is not high enough; it’s less than 1 % in the long-term prospect. So, that will be a very small gain. But through imports and investments, we will be getting an increase of the economy by more than 11 % in the long-term prospect. So, this is the effect that we will be getting through a different channel. That’s the assessment of the World Bank. Till today through various factors, the long-term effect of Russian’s accession to the World Trade Organization will amount more than 14 %, but we need to implement these opportunities. We understand that we need to work a lot to make it happen.

I believe that when in 2006, Russia and the US signed an accession protocol on trade markets, on services in the financial sector, agriculture and so on, we in essence prepared the framework, which already exists, that is satisfactory for both parties. We have an arrangement, but these
arrangements—these mutual opportunities [inaudible]. These opportunities are frozen due to the fact that Russia is still not inside the WTO.

We don’t need to carry out an extensive preparatory work to date, to mobilize all these opportunities which were being prepared for many years, and which are formalized in the form of the Protocol in 2006, between Russia and the United States. We need to do just a few small steps to make sure that these opportunities are implemented and are realized for everybody including the United States.

Naturally, we understand that introduces some limitations for Russia’s foreign trade policies, but this is an important rule and something that we need, and will need to set ourselves also, the benchmarks as regards competition in various sectors and the costs we will be needing to compare ourselves with the others.

And even before our accession to the World Trade Organization, we were gradually decreasing the level of our import tariffs into the Russian economy. In 2006, it amounted almost 13% the mean import tariff; in 2010, it was around 10%; and next year, we plan that it will be less than 10%. So, we are cutting the mean import tariff, but after the accession to the World Trade Organization—after the transition period of about seven years—the mean tariff will be about 8% or even less than that.

This means that step by step, gradually, on the basis of the arrangements, we will be decreasing the barrier for entering our economy and markets.

While very close to the final deal, some technical issues were related to the creation of the Customs Union between Russia and Kazakhstan and Belarus. This required an additional year or a year-and-a-half from us to include these mechanisms into the working party report. But nevertheless, it did not cancel our arrangements that were reached within the formats of bilateral negotiations and protocols, so this process is being completed. And it seems to me that the working party of the WTO should be working more actively now, and I believe that they will need just a few months to complete their work. We’d really want this work to be completed in summer this year and then the accession procedures could be initialized.

At the same time, we understand that we will need a structural reform, we will need to adjust ourselves to the new reality, but we are ready for this exercise. And so in general, in the coming few years, we expect our growth rate to be at a rate of 4.5%, and that’s the period of transition, rebuilding and preparation for the new factors of growth. And after that, we need to move to the growth rate of 6, 7 and more percent, and then Russia will remain an interactive country for imports and for investments.
In general, I would like to conclude here, understanding that I will take a few questions from the floor. Thank you.

C. Fred Bergsten: Mr. Minister, thank you very much for covering such a wide range of topics so thoroughly. Let me perhaps start off with a question where you started—since you’ve just come from China and a meeting with the BRICS. I guess the "S" in BRICS stands for South Africa now, so that’s fine. But tell us a little more about that group, since you’ve just met with them. Is that truly a functioning economic cooperation group that will take common positions on global issues like here at the G-20, at the IMF? Do you think that Russia’s interests are promoted by cooperating with the other members of the BRICS, all of which are lower income countries, and have a somewhat different economic structure than Russia has? Tell us a little bit more about both that group as an important component of the world economic order, and how it affects Russia’s interests.

Alexei Kudrin: Well, this group—the BRICS Summit was formalized quite recently. This was just the third leaders’ meeting in the format of five countries. We usually have regular meetings on the level of ministers, ministers of finance, ministers of economies and others. And the agenda that exists within BRICS, on the one hand, is still under construction of being developed. We are still looking for the items to be included in the agenda that will be interesting for everybody. But to a great extent, it was determined by the G-20 agenda.

It turned out, that there is a G-8, there is the IMF which elaborates and develops certain decisions. But the share of the advanced countries there is in nature a controlled package because the solutions [inaudible] the World Bank are solved on the basis of quotas, and the advanced economies have the full control there. And for instance, in this institution, Singapore has a great share in voting or greater voting powers than India. It was established a long time ago, when the first format of decision-making was created within these institutions.

And we decided that the weight and the voting power of the rapidly growing countries that are the locomotives of the world economy is not sufficient and is not really heard that well. And those countries don’t have enough weight in decision-making processes for the world economy, which is quite important. Therefore for instance, when there was this first vote related to the quotas in the IMF, where the share of the BRIC countries was increasing at about 1%, I abstained during the voting. I believed it did not correspond to the modern challenges of the world economy.

I was right because two years later, once again, we had to vote on this matter—that was last year—and we made a conclusion that we didn’t take
account of the crisis and the new realities and last year we had to review this decision, and new distribution of quotas and votes within the IMF.

But I have to say, I disagreed with that decision as well. It was simply symbolical and not sufficient. But nevertheless, BRICS gathered and decided to support this decision if by the beginning of 2013, a new formula is created for the distribution of votes.

The previous decision was actually dealing with the old formula in trying to look for the ways to solve the problem within the old formula, but we need to develop a new one now. And the G-20 at its summit, made a decision by the 1st January, 2013 to develop a new formula for the distribution of quotas and votes in the IMF, and by the 1st January, 2014 the distribution will actually take place. So, it will be the third distribution of votes and quotas—the third one in just a few years’ time.

And so BRICS made the suggestion supporting the temporary decision of last year. We had to gather and discuss these issues, and I must say that as regards key issues of the raising of the indices for monitoring of the world economy, we had a special meeting as well. And we are looking for a solution that would be close and more acceptable for the developing nations.

And then we were defending it and looking for compromises and try to match it with the suggestions by the advanced nations; same as related to the capital movement issue, the interests of emerging markets and developing markets, a big one that have a significant share within the world economy. And the world GDP from our viewpoint should be represented better and reflected much better.

So, very cautiously I say that this mechanism is becoming a workable one and it is bringing benefits to all of us.

Thank you.

C. Fred Bergsten: Okay, we open up the floor for questions. Please identify yourself. I’ll ask my colleague Anders Åslund to ask a question.

Anders Åslund: Thank you very much. It’s a very interesting speech. But there is one side that is very close to you; that’s Belarus. At the moment, there is a significant payment crisis in Belarus and the IMF and the West are not helping Belarus, so then I have just one question: What Russia is to do about Belarus? Please. Thank you.

Alexei Kudrin: We understand that Belarus is still to carry out certain reforms. They need to make their economy more competitive. The Belarusian economy to a certain extent depends on its exports to Russia and relations with Russia. Therefore, during the crisis Belarus lived through difficult times.
we as Belarus’ partner, failed to convince them in its approaches to carry out reforms and within the economy.

But the IMF managed to create a good program with Belarus and had a crisis program for Belarus. I should say this program was very tight and it was very tough. It was more than we could ask from Belarus, like freezing the wages to cutting the expenditure of the budget, increasing the tariffs on energy domestically; that was a very tough program. But the government of Belarus thought that they managed to overcome all these problems, and once the program was completed, they actually violated all the restrictions that were introduced by this program.

I am aware of the fact that the IMF is not ready to launch yet another program—a new program with Belarus before the exchange policies and the budgetary issues are not resolved or included in the governmental plans. Nevertheless, we do want to help Belarus, but we believe that these very important reform measures to be presented in the governmental program of Belarus and then Russia may participate in the support efforts. We are coordinating this work with the IMF. We are ready to be the first round of support, and we hope that after this the conditions will appear to involve greater, the International Monetary Fund.

I know that gold and currency reserves of Belarus are going down, but at the same time, I know that the government of Belarus is ready to take decisive measures on reforms. We’ll see how decisive they are. After all, I’m not sure about that.

C. Fred Bergsten: Okay, floor is open

Toby: My name is Toby [inaudible] I have a question for you, Mr. Kudrin. You made one short reference in your remarks about the impetus for change and where it comes from, saying that sometimes it comes from within your government. But in your country, you’ve made some comments about the need for political change that have been broader than that. Can you talk about the kind of change that you alluded to in your comments in Russia, the kinds of changes that were needed, and what your role was? People have talked about creating a separate political party; different kinds of changes. And do you think there is a need for political change in order to achieve your economic goals?

Alexei Kudrin: Well, I believe that in Russia there is an understanding that along the path of modernization, we need an absolutely comfortable environment for the people and their work and it should be a very democratic environment. And in this environment atmosphere, we will better succeed in realizing the advantages that Russia has, therefore the political realization is needed. I think that in general, it is supported by both the President and the Prime Minister.
And today, there is some discussion related to the involvement of new parties in the parliamentary elections, whether or not those would gain some weight in the political system. I personally believe that there is a need of balance of the forces that are already in the parliament. And those forces there strive for liberalization and greater political competition. So, I think this is a common feeling in Russia today, including on the level of the country’s leadership.

Thank you.

C. Fred Bergsten: I’d like to ask a follow-up question to that. As I mentioned, we’re going to have a panel this afternoon to discuss business participation in Russian economy, the investment climate, corporate governance; that range of issues.

You are chairman of the supervisory boards of two of the big state companies—the VTB Bank and the big diamond company—President Medvedev has recently ordered ministers to leave corporate boards. So, what does that mean for you, and what does it mean for Russian economic policy and the whole structure of corporate governance that will now evolve from that order?

Alexei Kudrin: Well, I support these measures that were suggested by President Medvedev, but I understand that a more important part- a more fundamental part of this suggestion is the need to privatize a big share of state assets or state-owned shares of these companies. And I think it’s more important than just the change of the boards of directors. And one year ago, Prime Minister Putin was the one who initiated this. He’s made a list of these packages, and it included Transneft, Aeroflot, Sberbank, VTB and other companies. This package was determined a year ago for privatization, and in this sense, we are going along this way.

Well, our plan is to decrease the share of the government in all major companies down to 50% plus one share. And maybe we’ll go even further—after three years, we’ll definitely go further and will be privatizing some packages [Inaudible 00:42:33]. But last year and this year we already had some significant privatization programs. For instance, the government left one of the leading insurance companies of Russia, Rosgosstrakh, we had a blocking stake there—I mean the government—then we decreased it, and now there is no longer any state-owned package.

This year we also privatized 10% of the VTB Bank. And this year we plan to privatize also the packages in some major companies, and I think that this is the right way to go; we see it. It cannot be done just immediately and all together. We are waiting for a better situation on the market and we’re heating up the demand for this privatization. And I think that after elections it will be even more attractive, because now the course
for the future is being determined, and probably there are still many questions that need to be answered.

And after the elections, I believe the investors will be convinced, no matter who is the president, or who is the prime minister, that our course for the further democratization and modernization of the country will be continued. So in this sense, the changes in the supervision boards are secondary. For me, those were just some common duties, nothing special.

A few times a year, I headed the board of directors meetings of these two companies that you mentioned. And even in the past, I was saying I was against ministers heading the board of directors. But the state will still have its representatives in the boards, and the chair of the board of directors in the companies where the state will have a control stake, will be representing the interest of the state anyway. In any case, the interest of the government will be reflected. And it will be a manager who will be in charge of it-some manager who will be working there on behalf of the state, and he will have a special contract subject to certain rules. So in this case, these changes are rather symbolical, I mean in terms of the people. But the privatization of these stakes-these packages and the consequences are more important for the policy overall.

Thank you.

William R. Cline: Mr. Minister, you may be surprised to see on page 10, a chart on the world economic outlook of chapter 1 that says that Russia has imposed capital controls in response to the crisis. I’m glad to hear that’s a mistake. In general, there is this debate in the G-20 about the US pursuing lax monetary policy causing currency wars, and Brazil of course has a domestic interest rate of 12% and it’s hard to keep money out.

But I guess my question is: In this debate, do you find yourself siding with Brazil and criticizing the United States for a monetary policy which in some sense helps keep the US economy growing and therefore the world economy moving ahead, and calling with the IMF for new capital controls in some sense? Or do you find that the capital control emphasis is not so appropriate, and why have you not adopted capital controls under these circumstances?

Alexei Kudrin: Thank you.

I think that the actions of the US in the short-term prospect are quite justified in order to increase the economic growth in the US; it is one of the locomotives of the world economy-one of the leading economies along with some other major countries. But naturally, we have some concerns and worries, to which extent the actions of the Fed and the high deficit in the US, while solving the short-term tasks will be able to help the world
economy to meet them in the long term. So, we are mainly here guided by the near future when we are deliberating these mechanisms but we won’t really want to find ourselves in the situation as before.

We don’t really want new bubbles to be created, but in the current situation of today, we need to look for compromises between the policies carried out by the key issues of reserved currencies and emerging markets. So, I understand the actions of the IMF that is saying that today, the one who is drowning should be saving himself and not expect any help.

So, these countries who feel their excess of liquidity, like Brazil, should be inventing something including introduction of capital controls. But I must say that the IMF is very cautious in its policies, they are suggesting first all the flexibility measures for the exchange rate should be applied, cutting the deficit. And only after that as the extreme measure, a nation should get these administrative measures of capital controls.

So, I’d rather adhere to the policy that we are discussing today with Brazilian Minister, Montega, about a certain compromise for the next two or three years here. We cannot be introducing rigid restrictions against the actions of the Fed. That would be too tough for the current situation. But nevertheless, I said already, in the longer-term period I believe that the issuing countries should have some well-formulated responsibility. There should be some rules we need to adhere to [inaudible].

Speaker 1: Mr. Minister, there was recently an exchange between President Medvedev and Prime Minister Putin this week, about the advisability of presidential candidates becoming known sooner rather than later. President Medvedev announced to the Chinese press that he would announce his plans quite soon. And I think in principle thinks it’s a good idea if there is greater clarity sooner about who will be the presidential candidates in March 2012 to provide a little bit more predictability.

Mr. Putin responded later in the week that he thought it not a good idea for the candidates to announce themselves, because this would lead half the government probably to quit their jobs and stop working. I was wondering what your perspective on—and some have also suggested that the relatively high levels of capital flight right now are to some degree due to the high degree of political unpredictability about the coming elections. What’s your perspective on this?

Alexei Kudrin: Well, I don’t really want to comment the remarks by President Medvedev and Prime Minister Putin. But—well standing a bit aside—I would say that both Putin and Medvedev during the previous elections where President Medvedev won, were basing themselves on the electorates of the United Russia Party. And the future elections will most probably see United Russia as the main power; either of them will be [inaudible]. So, I
think first within the party, they need to have an internal discussion and they need to accept some decision about two leaders to support once it’s resolved.

But I think it’s a rather democratic issue that is to be solved within this political structure—within this party. I know that in the US, before presidential candidates are nominated the parties have internal discussions and internal elections. And a few days ago also, I heard a statement by the Deputy Chair of the United Russia Party, Mr. Morozov, [ph] that they will support Mr. Putin, but should he decline, they would support Medvedev. [Laughter] He said that three days ago. So, I think this issue will be solved. But from the viewpoint of the government and ministers—I have worked with both Medvedev and Putin—so to a great extent my work will not change, no matter who makes the decision to run the candidacy.

Speaker 1: Thank you.

Alexei Kudrin: In general, the Russian tax burden is not higher than that in the United States, if we exclude two taxes that are imposed on oil and gas business; the sub-soil tax and export duties on oil and gas. If we exempt those then the burden in Russia will be 27-28 % of the GDP. It’s approximately the level of the United States. So, today we have one of the most optimal levels of taxation. But the responsibilities of the government are growing. Russia is to maintain its nuclear armaments, we are feeling demographic problems and naturally, we will have the problem of the balancing.

At the moment, I’m not ready to answer your question fully because for the next three years, we’ll not be introducing the government so we’ll not be able to give the final answer for this question. I hope we’ll give this answer two or three years from now. But I think that the burdened households will be growing more. It will be an evolutionary process but it’s probably inevitable.

Holly Baltzer: I’m Holly Baltzer from Georgetown University. My question is a follow-up to the first question. Recently in Moscow, there is a feeling that at the end of the 1980s when Gorbachev approved that economic change required political changes and this is included in this report. You have a very interesting article in the political magazine here.

There is a feeling that a new elite is ready to carry out political reforms, maybe they’re not quite in agreement which kind of reforms. But do you see any danger that the situation in the world, the instability in the Middle East, the nuclear crisis in Japan, growing oil price, as somehow softens the urgency of these political changes? Maybe there is a need for a crisis to launch the changes, and it seems to me that there was the feeling of this in the beginning of the year, but not anymore.
Alexei Kudrin: Well, thank you very much.

I am discussing it within the government, which reforms are ripe already for implementation, what are the immediate tasks we possess and the confirmation that exists related to the assessment of the climate in Russia and the problems related to it. I’m discussing this directly with the President and the Prime Minister, and I must say that the need of reform-liberalization and democratization of the economy is shared in general by both the President and the Prime Minister.

So I expect that after elections, we will be carrying out these reforms, including those related to certain political liberalization. And I should say that it will be happening during the elections as well and after the election. This is a much-needed path for Russia to follow and naturally, it will be an evolutionary process- a step-by-step process. But I repeat, I see no alternative to this path.

Quite often, even in Russian press, they’re saying that now is the threshold, so to say, that it depends on one or the other leader; I don’t think it’s a right statement. Both Putin and Medvedev will be promoting this path, no matter who wins the elections or who becomes the president. So I repeat, this is what I know. And now, we’re preparing new steps to carry out new reforms for the post election period.

C. Fred Bergsten: A final question from a former Russian official.

Speaker 2: Thank you, Fred. Mr. Kudrin I have one very specific question. After the death of Sergei Magnitsky in autumn 2009, the Hermitage Capital’s lawyer [inaudible], the head of this company, William Browder, made repeated statements that one of the reasons of the death of Sergei Magnitsky is that over a record period of time, 24 hours, [Inaudible 00:59:04] his statement and illegal payments were made—that is the return of the VAT on the transactions that never took place. My question—two questions actually—from your viewpoint, this information by Mr. Browder, is it true or not? And the second question: If it is true, then do you think there is a chance to return this amount—approximately $230 million—back to the Russian State budget?

Alexei Kudrin: I can neither confirm nor deny your information. The thing is that you said that they were talking about the refund or non-existent transactions. I don’t have this information so I cannot comment on it or confirm it. But I know that there is a lot of attention paid to this so-called transaction and there is an investigation underway. But since I don’t have any detailed information on the investigation, I cannot answer your question.

C. Fred Bergsten: Mr. Minister, let me thank you very, very, much for taking time from your incredibly busy schedule here to join us.