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Russia Moves to Sell Shares in State Companies

By ANDREW E. KRAMER

MOSCOW — The Russian government, which just a few years ago was salting away billions of dollars in oil revenue, is now confronting such a gaping budget deficit that ministers approved a wide-ranging plan on Wednesday to sell off state property, senior officials said.

It would be, by some estimates, the largest privatization program in Russia since the post-Communist sell-off of the 1990s. Still, the government plans to sell only minority stakes in the companies, retaining control while letting private investors share a larger part of the risks and profits.

Privatizations of some type had been expected since the onset of the financial crisis, but the scale of the plan suggested that the crisis in public finance elsewhere in Europe was catching up with Russia, too. Until recently, the Russian government under the former president and now prime minister, Vladimir V. Putin, had been bulking up its share in the economy through nationalizations.

The program approved Wednesday involves 11 companies, including the national oil company, the national railroad, a fleet of merchant marine vessels, two state banks and a company managing hydroelectric dams, said Aleksei Uvarov, the director of the property department in the ministry of economy.

Some of the companies, in fact, grew or were created out of the nationalizations. But officials, and independent economists, say now is a good a time to let the pendulum swing the other way, and sell to private investors.

“Commodity prices are high, so asset prices are high, and at the same time Russia needs cash,” Sergei M. Guriyev, the rector of New Economic School in Moscow and a member of the board of Sberbank, said in a telephone interview. “So this is the right time to sell.”

There will be marked differences compared with the privatizations of the 1990s, he said. The prices will be higher because Russia now has an infrastructure of investment banks and stock exchanges to manage sales on market terms.

“It’s a big, big move in the right direction,” Mr. Guriyev said.

The plan was considered at a meeting on Wednesday in Moscow, led by Mr. Putin, who afterward remarked that Russia would work to eliminate budget deficits by 2015. But he did not delve into the details of the privatization program that would include the state oil company, Rosneft.

After years of oil-driven surpluses, the Russian government squeaked by over the last two years by borrowing and by drawing down its savings. The deficit this year, for example, is expected to reach 5.9 percent of gross domestic product, according to the International Monetary Fund.

While manageable by the standards of other governments during the recession, it is a woeful reversal for Russia and apparently led to the decision to sell the stakes. Oil money transformed Russia over the last decade, creating a boom town out of Moscow, lifting millions from poverty and establishing what had looked like rock-solid public finances.

Russia still holds $467 billion in gold and foreign currency reserves, saved during the oil boom. Spending this money on the budget, however, could cause the ruble to appreciate, hurting local industry — and would leave the cupboards bare for Russia if oil prices dip again.

A main culprit for the deficit is rising military spending, according to the Russian business newspaper, Vedomosti. Military outlays are expected to rise 13 percent in 2011, suggesting Russian officials had to chose between two sacred cows, the military and the government's petroleum and industrial assets.

Education and debt service are also expanding items in the Russian budget.

Russia's finance minister, Aleksei L. Kudrin, told reporters on Wednesday that the sale of shares in state companies would raise $29 billion over three years. While it may be the largest plan for privatizations since the 1990s, a far smaller portion of the industrial base will be handed over this time, and at far higher prices.

Many of the valuable oil fields in Rosneft have already been privatized and nationalized once before. That alone might seem a good reason to give investors pause.

But the companies are profitable enough to generate interest all the same. Also, Mr. Putin's successor, Dmitri A. Medvedev, has said he would like to see a lesser role for the government in the economy.

"I think there is a change of heart about state ownership," Peter Westin, chief equity strategist at Aton, an investment bank in Moscow, said. Whether investors buy will come down to price, he said.

In recent years, a practice of raising the price on Russian initial public offerings has meant that half of newly issued shares in Russia lose value after they are floated, Mr. Westin said, another consideration for potential buyers.

About 10 percent of Rosneft is now traded on the London Stock Exchange. The company's core assets belonged to Yukos until that company was bankrupted in a contentious tax dispute.

Another 24.1 percent of Rosneft could be made available to investors in the new round of privatizations, according to Russian media reports.

The shares in the state companies might be sold in initial or secondary offerings or to strategic investors.

From about 2003 until the onset of the economic crisis in 2008, more and more of the economy fell under state control. First oil and gas companies, then arms factories, airplane manufacturing plants, cars companies and other enterprises were seized by the state, under various pretexts.

State control is particularly prevalent among the larger companies that tend to be traded on stock exchanges. For example, about 60 percent of the market capitalization, or total value of the stocks, of companies traded in Moscow are controlled by the state.