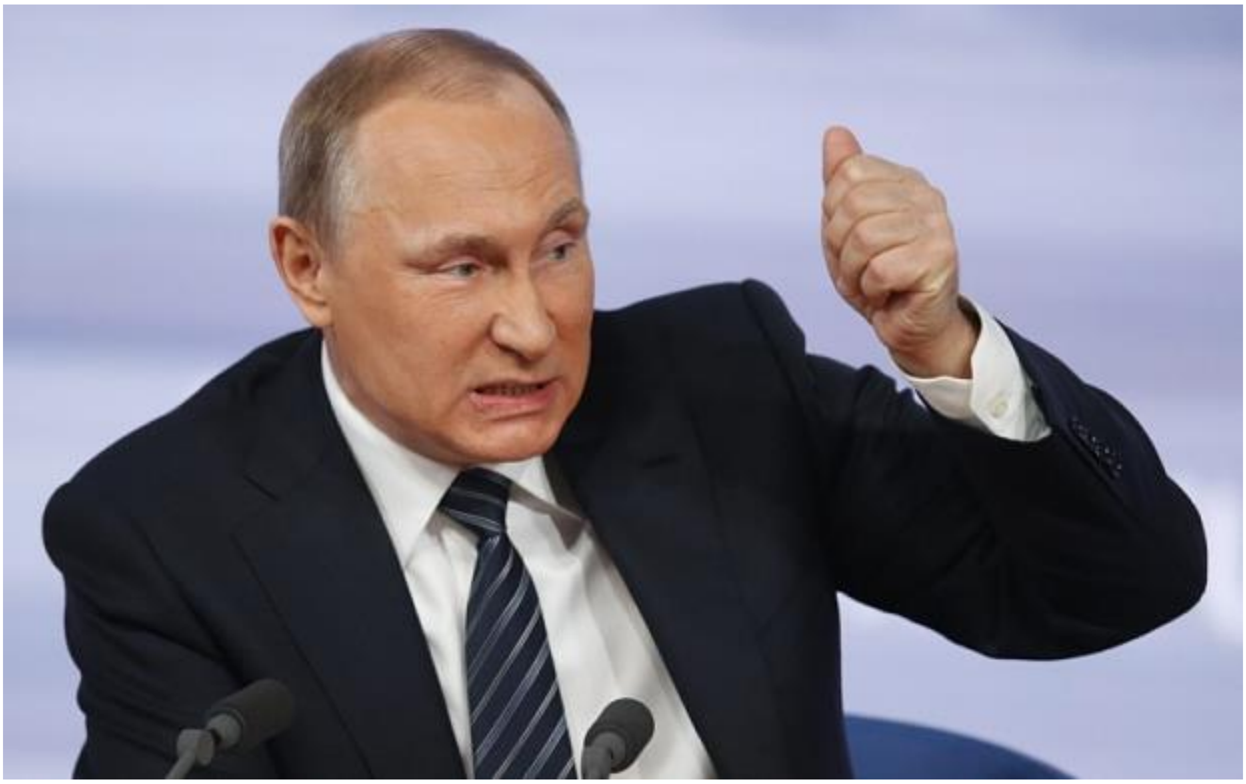
The Telegraph

Privatisations? Who do you think you are kidding Mr Putin?

Governments have become "forced sellers" who are flogging the family silver right at the bottom of the market



Vladimir Putin has summoned the heads of a number of Russian state-owned assets to discuss privatisation plans Photo: EPA

By Ben Wright

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When investment bankers aren't twiddling their thumbs they're tearing their hair out. There have been plenty of fallow periods since the credit crunch, but the start of this year must rank among the most barren of them all.

The **huge price swings in a range of asset classes around the world**have made it next to impossible to float companies on stock markets, price debt issuance or complete mergers and acquisitions.

There wasn't a single initial public offering in the US in the whole of January. The last time that happened was in September 2011 at the height of the European sovereign debt crisis. Sure, there have been a couple of headline grabbing deals (like ChemChina's $43bn purchase of Swiss agribusiness company Syngenta). But these are very much the exceptions to the rule.
Bankers rely on a busy January to start their years off with a bang. But last month was horrifically bad in virtually every market, product and geography, according to one senior capital markets banker. Why? You need flat - of flat*ish* - markets to get deals away. If prices are plunging, buyers start worrying that they're going to get stiffed; if they're soaring, sellers get cold feet.

Bankers need flat markets Photo: Reuters

But constructive equanimity has been conspicuous by its absence so far this year. Markets have either been falling aggressively or rallying hard.

It is against this backdrop that **Vladimir Putin** has summoned the heads of a number of Russian state-owned assets to discuss privatisation plans. Good luck with that, Mr President.

It is understandable that desperate times might cause Putin to consider desperate measures. The plunging oil price is really beginning to bite; Russia is far from alone in tightening its belt. Saudi Arabia is considering huge cuts to government largesse. Last month, the kingdom's deputy crown prince, Muhammad bin Salman, said that he was **considering an IPO of Saudi Aramco**, the world's biggest (and most secretive) oil company.

Prince Muhammad said such a listing (which *The Economist* dubbed "the sale of the century") would bolster the Saudi stock market, bring transparency to the company and drive out corruption. All of which might well be true. But the privatisation of the company, which owns eight of its own jets (including four Boeing 737s), would also raise a huge amount of much-needed cash. This fact cannot be incidental.

The plunging oil price is really beginning to bite Photo: Gamma-Rapho

Other Gulf countries are raiding their sovereign wealth funds to prop up ailing economies. Malaysia’s state development fund, which is in the grips of a financial scandal, is attempting to sell off property developments. Drip-drip disposals have depleted the assets of Kazakhstan’s sovereign fund by more than a sixth since August 2014.

There is a worrying feedback loop at work here. The slowdown in the Chinese economy has put big dents in the finances of many developing nations, especially those that produce commodities. Their governments are now desperately trying to raise cash by selling assets, which, almost by definition, have been badly hit by the slowdown in China and consequent market rout.

Just look at the companies Putin is thinking of privatising: Rosneft, Bashneft, Alrosa, VTB, Sovcomflot, Aeroflot and the Russian Railways. What do those companies do? Rosneft and Bashneft are both oil companies; Alrosa is a diamond miner; VTB is a bank; Sovocomflot is a shipping company; Aeroflot is an airline; and the Russian Railways does what it says on the tin. These are not the hottest sectors in the world right now.

Rosneft could be privatised

There might, in theory, be buyers for those transport assets (although, having flown on Aeroflot, I'm personally sceptical). But the others operate in exactly the areas that are most at risk from the potential slowdown in the global economy. Emerging market governments and sovereign wealth funds have become "forced sellers" looking at selling off the family silver right at the bottom of the market.

This has very real implications for investors of all stripes. For years now, global sovereign wealth funds have been using their vast stashes of petrodollars to buy assets – from US bonds to London property – around the world. Sovereign wealth funds owned 9pc of all global equities and bonds in 2015, according to Capital Economics. Now they've switched from buying to selling. JP Morgan has predicted that sovereign wealth funds could try to offload up to $80bn (£56bn) of equities this year alone. Gulp.

But, while many commodity-producing economies are feeling the pain, some are in a worse position than others. Putin may want to sell Russian state-owned companies to raise money. But who, pray, will buy them? There are, broadly speaking, four possible routes to market. These companies could be sold to a small number of rich Russians, a large number of not so rich Russians, international investors or international companies.

The Kremlin Photo: Alamy

Memories of the botched privatisations of the early 1990s, where Russian assets were sold on the cheap to a small number of soon-to-be oligarchs, still linger. But the country doesn’t have the large pools of funds – in the form of pension schemes and insurance companies – either. Foreign investors will naturally be put off by European Union and US sanctions against Russia and the notorious disdain with which minority shareholders can be treated there.

As one senior investment banker says, if a large Russian company came to him and said it wanted to raise billions of dollars from the international markets this year, he would have to say it couldn’t be done. There just aren’t many willing buyers of Russian assets in the world right now. And with the markets in their current tizz? Forget it, Mr Putin.

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