



**Interview with  
Ms. Sandra M. Schaufler, CFA**

**Chief Investment Officer of the  
Central Europe & Russia Fund, Inc. (CEE)**



**Question:**

**Russia recently reached an agreement with the EU to repay a portion of its Paris Club debt early. What is the significance of this?**

**Answer:**

Russia's landmark agreement to repay \$15 billion of its \$40 billion Paris Club debt—the largest ever early repayment of Paris Club debt—is significant for a number of reasons. First, the Russian government will save \$6 billion in interest payments between now and 2020. Second, early repayment sends a signal to the markets that the government is exercising fiscal responsibility.

Rather than squander the windfall it has received from high oil prices, the government is using monies from its Oil Stabilization Fund to strengthen its fiscal position. The improved credit ratios resulting from Russia's pay-down of external debt could ultimately lead to upgrades in sovereign credit ratings and lower borrowing costs.

**Question:**

**In his State of the Nation address, President Putin outlined a proposal for legislation that would limit foreign ownership in certain sectors of the economy deemed to be important to national**

**security. Is this a pendulum swing in the wrong direction?**

**Answer:**

This legislation is not necessarily bad for foreign investors. One of the greatest risks in investing in Russia is the significant leeway the government has in its interpretation of current laws.

It might be important to watch how the legislation develops to see the extent to which foreign investment is restricted and whether the legislation outlines clear rules. Well-defined property rights ultimately mitigate risk to foreign investors and could help reduce the possibility of another Yukos-style affair.

**Question:**

**The CE-3 countries—Poland, Hungary, and the Czech Republic—have been members of the European Union for a year now. Are there any tangible benefits to their EU membership yet?**

**Answer:**

Since gaining EU membership last year, the CE-3 countries have performed well, and the governments have continued to move forward on macroeconomic goals. In particular, all three countries have achieved progress on inflation targets. In terms of specific benefits of EU membership, the impact on trade, foreign investment and infrastructure development is already tangible.

Farmers have reaped the rewards of EU trade in Poland, for example, where agricultural exports are up 39% and average income for agricultural workers increased 73% last year (FT/Eurostat, 5/9/05). Opening borders with Western Europe has also led to increased foreign direct investment (FDI), as global companies increasingly build manufacturing and distribution centers in the lower-cost countries of Central and Eastern Europe.

Meanwhile, commercial real estate developers are flocking to the region to capitalize on growing consumer demand. The region has also seen improved infrastructure, as CE-3 countries now have access to EU funds to upgrade highways and ports.

The success of the CE-3 countries is ultimately contingent on the continued commitment of their governments to implement reforms, but the benefits of EU membership are already evident.

**Question:**

**The Turkish market has responded favorably to the possibility of EU membership. However, there is a**

**lot of debate among current member countries as to whether Turkey should be included in the EU. If membership talks fail, are the fundamentals strong enough to support current market valuations?**

***Answer:***

EU membership certainly carries with it a certain value for the markets, but it is important to realize that Turkey earned a start date for EU membership talks by making progress on economic and political reforms.

Over the past six months, the government has demonstrated further commitment to those reforms, and the international community has recognized those efforts, as shown by the dramatic increase in foreign investment in Turkey in the past few months.

We believe this inflow of funds, coupled with expected M&A activity in the banking and telecommunications sectors, is changing the structure of the Turkish market. Even if talks ultimately fail, the fiscal and

economic strength that Turkey is building now could limit the impact of any potential political derailment of membership talks.

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Sandra M. Schaufler, Chief Investment Officer of the  
Central Europe and Russia Fund

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