

Good morning!

Russian economy is experiencing a significant downturn. Decline of investment growth rate, which began in 2012, was the first sign of the approaching crisis, and in 2013 this indicator showed negative dynamics for the first time. According to the base scenario of the Russian Ministry of Economic Development a further 1.6 percent fall is expected in 2016, which will mark the fourth consecutive year of investment decline.

Business is also concerned about instability of exchange rates. Even the companies that have benefited from the devaluation of the rouble purchase equipment, raw materials and components abroad, and have to service debts nominated in foreign currencies.

Peak inflation rates were registered in January 2015, when it amounted to 3.9 percent against the previous month. The total annual inflation rate in 2015 will exceed 12 percent (Russian Ministry of Economic Development – 12.2 percent).

The monthly RSPP Index of Business Environment provides a different perspective. After the peak of the crisis in December 2014 – January 2015 business started to adapt to high loan interest rates, sanctions, ruble devaluation, as well as to declining demand.

It does not mean, however, that business does not have problems – there are plenty of them. But overall, the Russian business proved its ability to work under the pressure of crisis.

The RSPP surveys identify a specific group of companies, focused on development, rather than survival. They maintain or even expand investment programs (even under the current interest rates), implement energy efficiency plans, increase output, maintain skilled personnel. It is such companies that will enjoy the most opportunities in the post-crisis surge.

The key government's responsibility is to support those who are ready to improve, increase competitiveness, produce higher value added goods and services, integrate into global value chains (GVC) and build GVC themselves.

What can be a driver of growth in the crisis situation aggravated by sanctions and tough international environment? First of all it is the improvement of business environment and implementation of measures stimulating investment.

A number of reforms allowed to significantly improve Russia's standing in the Doing Business rating- up to the 51st place. The most tangible progress is observed on the "getting electricity" (from 143rd to 29th place) and "dealing with construction permits" (from 156th to 119th place) categories.

These results go in line with the National investment climate rating for the regions of the Russian Federation, conducted by the four leading business associations and the Strategic Initiatives Agency. The average time to get access to electricity services is 106.7 days (160 days according to the Doing Business rating), to get construction permit – 148.8 days (263 days according to Doing Business rating).

Russia's standing in the "getting credit" category, where it holds the 42nd place, is also not quite bad. However the standing could have been much lower if the borrowing costs were factored in.

At the same time, Russia's foreign trade indicators have deteriorated – from the low 155th place Russia dropped to the 170th. It is necessary to adopt business logic: if the country faces the task of export diversification, the reduction of time and cost of formalities will increase the budget revenue incentivizing small and medium sized enterprises to enter foreign markets.

Effective import substitution is not about overprotecting the domestic companies, but about creating a competitive environment comparable to foreign markets, and introducing stringent quality requirements – so that the products are competitive not only in Russia, but on external markets as well.

Establishing new and improving effectiveness of existing development institutions is one of the responses to the current macroeconomic challenges.

This includes a program of project financing and the Industry Development Fund, where investors are able to attract credit on the most favourable conditions (the rate of the Bank of Russia used to refinance loans to commercial banks is plus

2.5% per annum in the framework of project financing, and plus 5% in the Industry Development Fund).

Federal Corporation for the Development of Small and Medium Enterprises is now established and delegated a wide range of functions: from organizing information, marketing, financial and legal support of investment projects carried out by SMEs to supporting increase of the share of goods, works and services purchased from them.

A legal basis for special investment contracts is established. Such contracts fix obligations between an investor (to launch a new production or introduce the best available technologies) and the Russian Federation or its subjects (to ensure stability of the regulatory environment, and provide incentives and support). However, the RSPP proposed to expand the list of incentives – so far they are obviously insufficient.

This is not a full list of available benefits and incentives. Many of these tools can be used by foreign companies operating in Russia. Russia remains an open country.

As usual Business is optimistic. The period of the economic crisis is an opportunity for the most active companies to make a breakthrough in their development, and for the state – to take up structural reforms and finally change the ineffective structure of the economy.