



Country outlook
Russia





Russia



Form of Government: Semi-parliamentary federal republic

Capital: Moscow

Official language: Russian

Population: 145 million inhabitants (2019)

Currency: Russian rouble (RUB)

Exchange rate: 1 EUR = 78.58 RUB (31/05/2020)
1 USD = 70.64 RUB (31/05/2020)

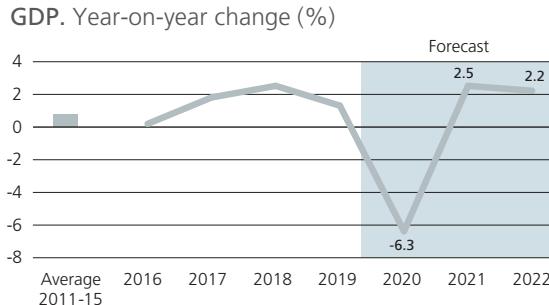
GDP: \$1,637 billion (3.0% of world GDP)

GDP per capita: \$11,163 (\$29,642 purchasing power parity)

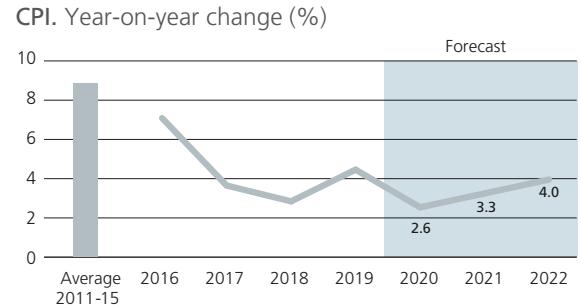
Ease of doing business: 28th in the world out of 190 according to the World Bank (Doing Business)

Religion: Orthodox Christianity: 41%

Economic forecast



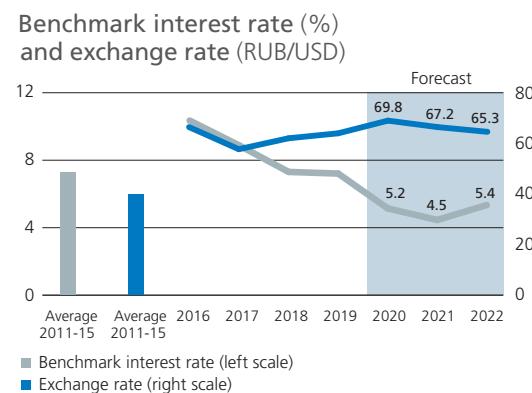
- The Russian economy will experience a major recession in 2020 as the coronavirus shock will have a noticeable impact on Russia's relevant markets and on hydrocarbon prices. The sharp decline of the European and US economies and the noticeable slowdown in China will adversely affect Russian exports (Russian sales in these three countries exceed 15% of Russian GDP). As regards the energy price channel, considerable dependence on oil and gas exports (equivalent to 15% of GDP) will be a major additional burden. Furthermore, domestic demand will suffer a significant contraction in investment and consumption. For these reasons, we expect



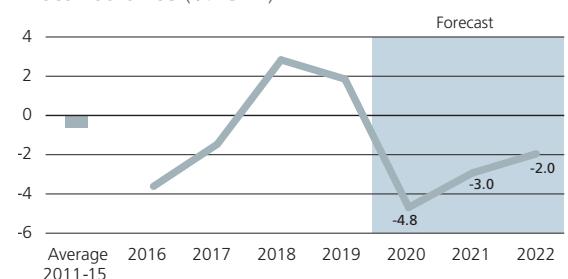
GDP in 2020 to contract more than 6%. However, given the current uncertainty, it cannot be ruled out that GDP could drop by as much as 10%.

- With regard to inflation, there are two contrasting dynamics. Firstly, the marked depreciation of the rouble will impact domestic prices by increasing the prices of imported goods. Secondly, the fall in domestic demand will have deflationary effects. The net effect of these two pass-through channels will be a fall in inflation in 2020, followed by a certain rise in prices in 2021 (without exceeding the Russian central bank's inflation target).

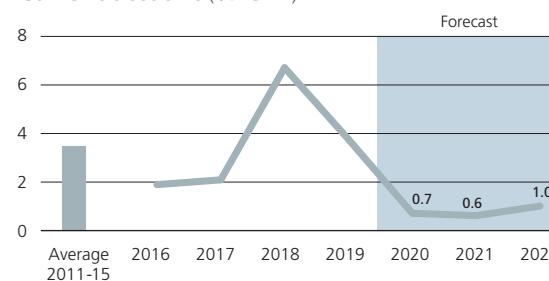
Economic policy



Fiscal balance (% GDP)



Current account (% GDP)



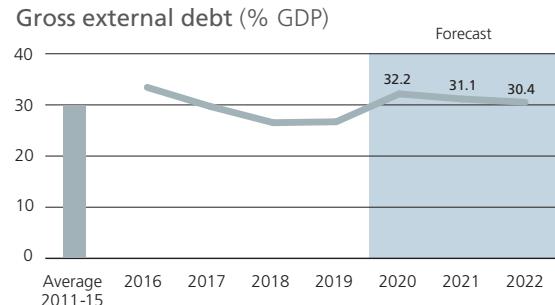
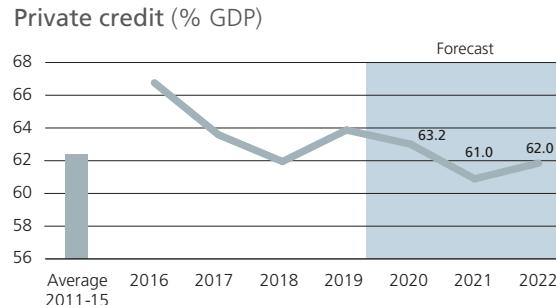
Public debt (% GDP)



- The macroeconomic outlook with which Russia is facing the COVID-19 shock is reasonably balanced (low inflation, sufficiently sound fiscal position and current account surplus). Therefore, as long as the coronavirus impact is mainly limited to 2020-2021, the available buffers should be sufficient to come through this phase of economic weakness without affecting macro-fundamental balances. Given this situation, the country opted for quite a tough lockdown approach, but a strategy of limited fiscal support. All this has been accompanied by a reduction in interest rates, which will continue throughout 2020, and the application of various complementary monetary measures.

- Against this backdrop, the rouble has perhaps been excessively punished. We believe that, after a phase in which uncertainty has marked the anticipated trajectory of oil (very affected both by expectations of the collapse in global demand and by the "war between producers", one of which is Russia), as greater stability returns to this area, the rouble will begin to capitalise on Russia's best fundamentals (compared to other emerging economies).

Financial conditions



- Before the impact of the coronavirus, the Russian banking situation was one of gradual consolidation after the effects of the severe recession of 2016. This had been reflected in a progressive improvement in profitability and in a certain recovery in capitalisation levels. Full normalisation of NPLs, still relatively high, lays ahead. Now the shock introduces elements of risk, insofar as progress made can be undone. The crisis could also put pressure on another flaw of the Russian banking system, that of the divide between large banks (generally stronger) and small financial institutions (less creditworthy).
- Russia's level of external debt is low and it has decreased in recent years. That being said, the risk resulting from a relatively large part of corporate debt being denominated in a foreign currency has not yet been resolved. Nevertheless, it is worth noting that the country holds a high level of international reserves and a significant proportion of the companies' foreign currency positions are apparently covered.

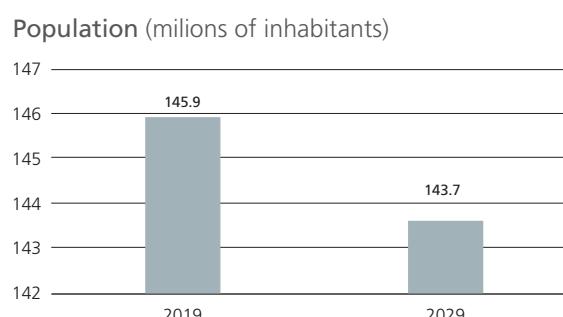
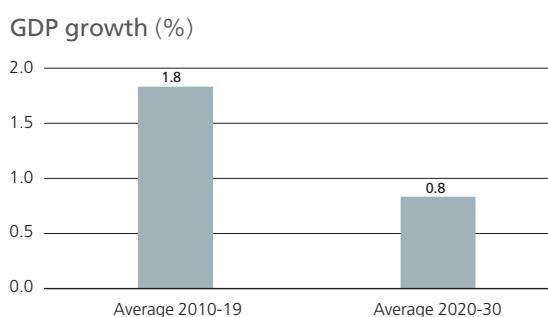
Political situation

- We believe that the key guidelines on which Russian policy has been based in recent times will not be noticeably modified by the COVID-19 crisis. Therefore, and despite a certain decrease in popularity of President Vladimir Putin, the constitutional changes that are underway (which will strengthen presidential powers and widen the channels for consecutive presidencies) are expected to be approved without undue response. Likewise, it looks as though prioritising international political considerations (consolidation of the status as a major world power) over purely economic concerns and the

continuation of the shift towards non-Western powers will be maintained.

- However, the approval of the reform of the pension system (increase in the legal retirement age), the VAT reform and the launch of several large infrastructure projects show a greater reformist ambition than in the past. It is also positive the recent easing of tensions with Ukraine, a necessary path that could eventually lead to normal relations being restored and the international sanctions being lifted.

Long-term outlook



- The long-term outlook is somewhat negative. Russia needs to change its productive model (it is still too dependent on commodities), in order to find new sources of growth. It must also tackle modernisation, so as to further increase productivity, given the country's negative demographic outlook.

- Russia needs to implement several structural reforms (institutional changes and a reduction of public interventionism in economic affairs) to modernise the economy and improve the country's international appeal. So far, the government has announced an ambitious economic programme that seeks to accelerate the potential growth, increase life expectancy and reduce poverty. The bulk of the programme is focused on 13 projects ("the national projects"), which will cover areas such as infrastructures, health and the environment.

Country risk

	Rating	Last changed	Outlook	CDS* 5 years (basis points)
STANDARD & POOR'S	BBB-	23/02/18	Stable	151.7
Moody's	Baa3	08/02/19	Stable	109.1
FitchRatings	BBB	09/08/19	Stable	Average 2016-19 31/05/2020

■ Indicates that the country has "investment grade".
 □ Indicates that the country does not have "investment grade".

*Credit default swap: measurement of country risk that reflects the cost of ensuring the non-payment of the sovereign bond.

OECD credit risk rating
(from 0 to 7, with 0 being the best)



Risks

SHORT-TERM

- Greater than expected global impact of the pandemic
- Price of commodities lower than forecast
- Public accounts



LONG-TERM

- Geopolitical uncertainty
- Failure of push for modernisation
- Sustainability of the productive model



Business environment

STRENGTHS

- Market size.
- Infrastructure.
- Labour market efficiency.

WEAKNESSES

- Institutions (corruption and weak rule of law).
- Demographic decline.
- Low degree of innovation.
- Efficiency of the goods market.

Main sectors

EXPORTERS

- Mineral fuels, commodities, steel and aluminium, metals and precious stones and machinery.

IMPORTERS

- Machinery, electronics, vehicles, pharmaceutical products and plastics.

CIBI / CaixaBank Index for Business Internationalisation

POSITION IN COUNTRY RANKING



PILLARS

1. Accessibility
2. Ease of operating
3. Commercial attractiveness
4. Financial environment and innovation
5. Stability



SUBPILLARS

Top

Infrastructures
Similar tastes to Spain
Easiness of operating a business

Bottom

Macroeconomic stability
Institutional stability
Innovation capability

— Eastern Europe and Central and Western Asia — Russia
(Min. 0 - Max. 100)

Taxation

Personal income tax in Russia is levied at a rate of 13% for residents in the country. There are special rates: 35% for income from games, lotteries, low-interest loans (except for acquiring or building residential property); 30% applicable to non-resident income. There is a reduced rate of 13% on income for recognised foreign specialist professionals (with a minimum salary of RUB 2 million a year) who have not become residents in Russia.

Corporate tax in Russia can reach a maximum rate of 20%, 3% of which is allocated to the federal budget and 17% to the regional budget. Federal governments in Russia can establish reduced rates down to a minimum of 13.5%, meaning that corporate tax can vary between 13.5% and 20%. There are low rates for a certain period and even exemptions for companies taking part in investment projects in certain zones of Russia, such as eastern Siberia and the regions in the Far East. The recent reform in 2015 modified the tax on dividends: the tax rate on dividends from Russian and Far Eastern companies with Russian shareholders rose from 9% to 13%. In 2015, a new exemption was also established for paying tax on dividends for "strategic investments",

namely those companies with 50% of shareholders owning their shares for 365 days or more. As from January 2015 the earnings on capital from the sale of company shares (Russian or foreign company), where more than 50% of the company's assets are directly or indirectly concentrated in property located in Russian territory, are subject to corporate tax in Russia. General VAT is 20% on the sales of products and services. There is a lower rate of 10% for some product categories: pharmaceuticals, medical equipment, certain food products and newspapers. Exports of products are exempt from VAT. There are also several categories of products and services exempt from VAT, such as:

- Land, residential properties, rental of offices and goods, and medical services.
- Sales of shares and derivatives.
- Financial services offered by: registrars, depositories, merchants, brokers, asset management firms, pension fund management firms, settlement organisations and trade organisers, among others.
- Assignment of exclusive intellectual copyright (patents) with the exception of trademarks and intellectual copyright based on licences.

Establishment**LOCAL COMPANY**

The most common forms of legal entities, recognised by Russian law, are as follows:

- Commercial companies and producers' cooperatives.
- Limited liability companies.
- Joint stock companies.

All Russian companies are divided into two categories: public and private. Public companies are defined as joint stock companies whose shares or other convertibles are traded via a public bid or on a stock market. The rest of the joint stock and limited liability companies are considered to be private.

Limited liability and joint stock companies are the most widespread forms. To set up a limited liability company, the minimum capital is RUB 10,000, which must be entirely paid-up within four months following the date the company is registered. To set up a joint stock company, the minimum capital cannot be lower than 100 minimum wages. 50% of the capital must be paid up within three months as from registration and the remaining 50% during the first year of operation.

BRANCH

A branch established in Russia can carry out any of the activities of its parent company, its main advantage providing it complies with the conditions of corporate contracts and Russian regulations. The branch must be certified by the Federal Tax Department in accordance with the Federal Foreign Investment Act. For certification, all the documents presented by a

foreign legal entity before Russian authorities must be certified by a notary and apostilled or legalised in the country of execution. Documents must be translated into Russian, certified by a notary. It is then necessary to register the company with the State Statistics Committee and with company contribution funds.

REPRESENTATIVE OFFICE

A representative office in Russia promotes the foreign firm it represents and only carries out auxiliary activities. Commercial activities (sale of goods or provision of services) are prohibited by law. Most companies are not subject to corporate tax unless the representative office has earnings via commercial activities.

A representative office must be certified by the Federal Tax Department in accordance with the Federal Foreign Investment Act. In some industries there is a special body for this certification, such as the Central Bank of Russia, a special body for foreign banks in Russia.

**Alliances
strategic****FREE TRADE ZONE**

There are 24 special economic zones (SEZ) in Russia:

- 1.** Industrial and production zones: Tatarstan, Lipetsk, Samara, Sverdlovsk, Pskov and Kaluga.
- 2.** Technology and innovation zones: Moscow, Saint Petersburg, Tomsk, Dubna (Moscow region) and Tatarstan.
- 3.** Tourist and recreational zones: Altai Territory, Republic of Buryatia, Stavropol Territory,

Primorsky Territory, Irkutsk region, cluster in the Krasnodar Territory, Republic of Ingushetia, Republic of Dagestan, Republic of North Ossetia-Alania, Republic of Adygeya, Kabardino-Balkar Republic, Karachay-Cherkess Republic and Chechen Republic.

- 4.** Port zones: Ulyanovsk, Murmansk and Khabarovsk.

JOINT VENTURE

In Russia, foreign companies can become strategic partners for Russian companies by setting up a joint venture. Establishing a joint venture requires planning and great commitment from both parties. In joint ventures where the foreign partners have minority shareholdings, there may be difficulties in protecting their interests in any legal proceedings in Russia. A

joint venture in Russia has several advantages: in addition to sharing risk, the company may end up obtaining a Russian identity as there is some mistrust of foreign firms. Joint ventures in Russia are mainly used in sectors where companies depend substantially on foreign suppliers, such as the oil industry.

**Customs
conditions****FREE TRADE AGREEMENTS**

Russia has been a member of the Customs Union with Belarus and Kazakhstan since 2010. Russia has also signed bilateral investment agreements (BIA) with 70 countries, 54 of which are in force. Since 2012, Russia has been a member of the World Trade Organization. With regard to relations between Russia and the EU, there is a

Partnership and Cooperation Agreement (1997) governing political and economic relations to promote trade and investment. Since August 2014, Russia has established sanctions on the importation of several categories of products from the EU.

FREE TRADE ZONE

Russia has 24 special economic zones (SEZ) divided into four categories:

- 1.** Industrial and production zones.
- 2.** Technology and innovation zones.
- 3.** Tourist and recreational zones.
- 4.** Port zones.

Companies operating in the special economic zones enjoy a series of advantages established by the Ministry of Economic Development in order to offer investors up to 30% savings on

the cost of doing business in Russia. Investors can take advantage of simplified administrative requirements and procedures, a more favourable customs regime (exemption from import duties and VAT rebates), lower taxes on earnings, property, land and transport. Investors operating in the SEZs also benefit from discounts on infrastructure and installation costs. These benefits apply for an agreed period of time. The common duration is five years.

GENERALISED SYSTEM OF PREFERENCES (GSP)

Russia is one of the countries that grants tariff preferences by applying zero duty or reduced tariffs to beneficiary countries (less developed

countries). Russia also benefits from Turkey's GSP (UNCTAD 2015).

Negotiations and protocol

BUSINESS CULTURE

The language used most in business is Russian and businesspeople are usually accompanied by interpreters. It is important to have business cards in English and carry information such as catalogues, brochures, etc. It is customary for businesspeople to exchange traditional gifts and to invite each other out to lunch or dinner.

Punctuality is respected. Before attending a meeting, it is advisable to be familiar with the company, products, managers. Formal treatment is used to address people. Normal working hours are Monday to Friday, 8 am to 5 pm, with reduced hours on Friday.

Top fairs

- Interplastica.
- Expocoating.
- Aqua-Therm.

- Agrofarm.
- Automechanika.
- MIMS.

Websites of interest

- Investing in Russia: <http://www.investinrussia.ru/>
- Russian customs: <http://www.customs.ru/>
- Customs Union: <http://www.tsouz.ru/>
- Federal department in charge of protecting consumer rights: <http://www.rosпотребнадзор.ru/>

Payment and charging methods

MEANS OF COLLECTION

The means of collection in Russia vary depending on the relationship between the partners and the industry. Advance payment is one of the typical forms for foreign firms during initial relations with Russian clients. Once a stronger relationship has been established with the client, transactions can be completed using letters of credit or by extending short-term credit, or with a bank guarantee or surety insurance policies with sufficient coverage.

Leasing is very attractive in Russia due to its flexibility and economic effectiveness, especially in the following sectors: air transport, energy, mining, construction, transportation, pharmaceuticals, forestry and fishing. In leasing contracts, it is advisable to insist on an initial payment 3-4 months after delivery to minimise risk.

MEANS OF PAYMENT

Both documentary payment methods (credits and guarantees) and transfers are common in Russia. Documentary remittances do not bring added

certainty in commercial transactions with Russia and they are rarely used.

EXCHANGE RATE INSURANCE

Legislation controlling currencies has been considerably liberalised in the last few years in Russia. There are no significant restrictions on payments related to importing goods. The bank of the importer in Russia must guarantee

compliance of payments with monetary regulations.
It is advisable to take out exchange rate insurance as the rouble is not stable.

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