

# Russia

High Growth Markets country profile

Russia is the largest country in the world in terms of area and the tenth most populous, with the seventh largest economy. Having shifted its post-Soviet democratic ambitions in favor of a centralized semi-authoritarian state, the leadership seeks to legitimize its rule through managed national elections. After a drop in 2009, the annual rate of increase in gross domestic product (GDP) is projected at 3 percent from 2014–2018.

## Country overview

### Geography and climate

- **Location:** largest nation in the world in physical size but unfavorably located for major sea lanes; much of the country lacks proper soil and climate for agriculture
- **Climate:** varies enormously from arid southern steppes to continental European climate in the western regions, and from subarctic Siberia to tundra in the polar north
- **Regions:** two federal cities, four autonomous regions, 21 republic districts and 46 provinces
- **Major cities:** Moscow (10.5 million), Saint Petersburg (4.6 million), Novosibirsk (1.4 million), Yekaterinburg (1.3 million) and Nizhny Novgorod (1.3 million)

### Political system

- **Type of government:** federation
- **Capital:** Moscow

### Population, language and religion

- **Population:** 142.5 million
- **Urban population:** 73.8%
- **Immigration:** a net recipient of migrants, consisting of ethnic Russians returning to the Russian Federation from other Commonwealth of Independent States (CIS) countries
- **Demographics:** 0–14 years: 16.4%; 15–64 years: 69.8%; 65 years and over: 13.1%
- **Median annual household income:** 15,286 US dollars (US\$)
- **Official language:** Russian
- **Prominent religions:** Russian Orthodox and Muslim

### Currency and central banking

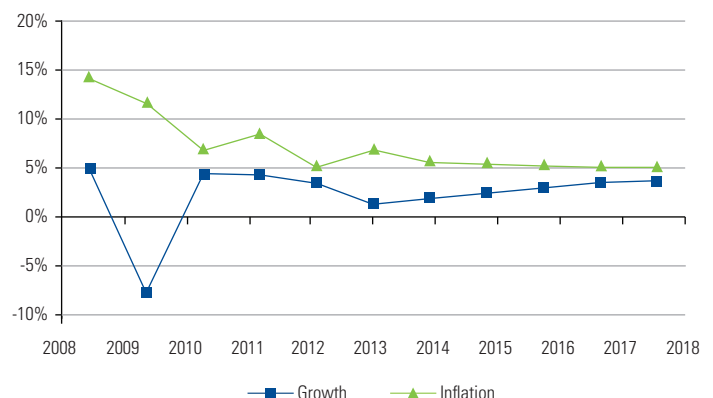
- **Local currency:** Russian ruble (RUB)
- **Exchange rate:** RUB1 = US\$0.0283 (1 April 2014)
- **Interest rate (average annual rate):** 7% (as of March 2014); 7.3% (2013); 7.3% (2012); 5.3% (2011); 5.6% (2010); 15.3% (2009)
- **Foreign exchange reserves:** US\$515.6 billion
- **Total debt:** external US\$714.2 billion; internal public debt: 7.9% of GDP (2013 estimate)

## Business environment

### Economic environment

- **GDP in 2013 was US\$2.4 trillion and is expected to grow by 3 percent annually** from 2014–2018; with dependence on natural resources and weak institutions acting as impediments to faster medium-term growth.
- **Foreign direct investment (FDI) (billions):** inbound: US\$74.8 (2008); US\$85.0 (2013); US\$78.0 (2018 forecast); outbound: US\$55.7 (2008); US\$52.0 (2013); US\$60.0 (2018 forecast)
- **Exports free on board (FOB) (billions):** US\$528.0 (2012); US\$523.0 (2013); US\$651.4 (2018 forecast)
- **Imports FOB (billions):** US\$335.7 (2012); US\$344.3 (2013); US\$510.8 (2018 forecast)
- **Sector breakdown:** service sector: 58%; industrial sector: 38%; agriculture sector: 4%
- **Trade balance (billions):** surplus of US\$192.3 (2012); US\$178.7 (2013); US\$140.6 (2018 forecast)
- **Stock exchanges:** MICEX-RTS (716), SPBEX (33), SPCEX

### GDP growth and inflation (average consumer price index (CPI))



Source: Economist Intelligence Unit, 2014

### Key considerations

- **Fiscal and monetary policy:** The basis of monetary policy is gradually shifting to controlling inflation, with set targets. The appointment of a new central bank governor in June 2013 is unlikely to change this approach. Liberalization in some areas — such as extensive reforms of the electricity sector — coexists with tight government control elsewhere. The main near-term policy challenge is to continue to address the after-effects of the 2009 economic crisis. One crucial policy goal is to diversify the economy away from its dependence upon commodities.
- **Competition policy:** Russian authorities tend to have an inconsistent approach to competition, often favoring large monopolies. Consequently, the selective application of laws often restricts competition. New antitrust regulations implemented in October 2006 (the Federal Law on the Defense of Competition) was modeled on the European Union's competition legislation, allowing competition authorities to ban merger and acquisition transactions whenever they find anticompetitive elements, restrictions on free competition or unfair advantages enjoyed by market players. A company is automatically considered dominant if its market share exceeds 50 percent (the threshold was 65 percent prior to October 2006). The Federal Law on the Defense of Competition restricts mergers between companies where there is the likelihood of a monopoly being created.
- **FDI policy:** Since Russia's 2014 takeover of Crimea there has been a high risk of a sell-off on Russian financial markets, especially in equities, where foreigners account for an estimated 70 percent of the market. During 2014–2015, some restrictions on foreign investment in strategic sectors are expected to be eased. FDI inflows are forecast to rise during 2014–2018. By 2018, the stock of inward FDI would still amount to about 30 percent of GDP.
- **Foreign trade and exchange controls:** During 2014–2015, Russia is likely to focus on fulfilling its requirements of membership of the World Trade Organisation (WTO), which it joined in August 2012. Another priority is integration with the Commonwealth of Independent States (CIS). During 2016–2018, the average tariff rate should fall further, in line with WTO entry commitments. A persistent weakness is the difficulty of trading across borders, due to limited customs reform.
- **Financing policy:** During 2014–2015, the authorities are likely to try to bring regulations into line with Basel II and Basel III requirements on capital adequacy and liquidity, and to improve transparency. During 2016–2018, the minimum capital requirement is expected to be raised further, promoting consolidation of the banking sector. The quality and range of financial services should improve and competition should increase, from both domestic and foreign players.
- **Taxes:** The effective tax rate on corporate income is 34 percent. This figure comprises two parts: the federal rate — which has been 6.5 percent — and the regional rate of 17.5 percent, both in place since 1 January 2005. A 24 percent tax applies to capital gains. Local authorities can set the tax rate at 2.2 percent. Property tax is deductible for profits tax purposes. During 2014–2015, some tax rate rises are predicted, notably the resources tax on gas, as well as alcohol and tobacco excises. During 2016–2018, tax inspectors are expected to be more rigorous towards businesses, in a bid to reduce the time it takes to pay taxes, which remains above international norms.

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Sources: Economist Intelligence Unit, 2014; Central Intelligence Agency, 2014; Moscow Exchange, 2014; World Bank, 2014; St. Petersburg Currency Exchange, 2014

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