

THE NEWSLETTER OF THE INVESTMENTS AND INNOVATIONS PROMOTION DEPARTMENT  
OF THE CHAMBER OF COMMERCE AND INDUSTRY OF THE RUSSIAN FEDERATION

The background of the cover features a 3D bar chart with several bars of varying heights, and a line graph with a grid overlay. The entire scene is rendered in shades of blue and purple, giving it a digital and financial appearance.

# **INVESTMENTS. FACTS AND COMMENTS**

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The newspaper comprises open source materials.

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As an addendum to this issue, we present you a joint research by the National business-angel association, RVC and Atom Partners on the development of business-angel investments in Russia.



# Annual research of the market of angel investments

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## Results, dynamics and new challenges



## 1. INTERNATIONAL RATINGS: RUSSIA'S MAINTAINED ITS INVESTMENT LEVEL.



**The introduction of sanctions against Russia has not impaired its solvency, regards Standard & Poor's. The country rating has remained at the investment level in the teeth of its possible reduction. Experts consider it to be logical taking into account the low public debt level and good state of Russia's balance of payment.** S&P calls the worsening of the

economy situation and growing dependence of the budget on oil and gas profits the main risk for the rating, not external limitations.

On the 24<sup>th</sup> of October, 2014 the rating agency Standard & Poor's publicized the results of a planned review of Russia's sovereign rating. It was maintained at a BBB- level with a negative forecast, which meant its possible reduction during one and a half years. Last April S&P already lowered Russia's rating by one grade due geopolitical risks. The reduction by another grade would mean Russia's loss of an investment credit evaluation and its transfer to a speculative grade, i.e. not guaranteeing debt repayment. Although other two agencies of the international three assess Russia's rating one grade higher (Baa2 according to Moody's, BBB – by Fitch evaluation), investors have not excluded negative S&P decision.

Nevertheless, the fears have not confirmed. S&P confirmed that even if the introduced sanctions against Russia remained, its public debt would maintain at a low level and most Russian companies and banks, rated by S&P, would have enough currency reserves to cover debt payments till the end of 2015 at the minimum. Moreover, the reduction of import volumes due to a ruble weakening will keep the surplus of the current account. This factor will allow a partial compensation for an oil price (S&P expects the Brent oil prices to be \$90 per barrel). However, taking into consideration a growing dependence of the budget on oil and gas prices, their reduction along with the worsening of the economy situation, is the main problem for public finance state, indicate the agency.

The preparedness of the Central Bank of Russia to maintain the liquidity of the banking sector has helped keep Russia's rating at the investment level. Agency saw all the main strong points of Russia as a borrower. If the rating had been lowered, it would have obviously been evidence of the "involvement" of the agency.

Experts also consider S&P's decision to be natural. Despite the fact that the sanctions were introduced before the rating review, fundamental factors, including the state of the budget and payment balance, do not give sufficient ground for its abrupt reduction. The current decrease in oil prices is also not sufficient for reviewing the rating. Moreover, by expert's evaluations, the actual access to foreign markets has been closed for Russian borrowers since March this year and rating review risks are put in the risk premium.

## 2. IMPORT SUBSTITUTION: FIRST BUSINESS EVALUATIONS.



More than half of Russian industrial companies won't be able or won't want to switch over to national machines and equipment, raw materials and therefore import substitution won't be implemented there, as follows from the poll survey of the Gaidar's Institute. The survey was carried out among top managers of 600 companies in September, 2014.

According to a forecast of the Ministry of economic development, processing manufactures will increase their share in GDP from 13.2% in 2014 to 13,6–13,7% in 2015–2017 because of the initiated process of import substitution and growth of fields of investment demand. As a result of the import substitution process, the import growth will succumb to the growth of internal demand and won't exceed 1.2–2.2% per year.

Heads of companies look at it more optimistic. Most companies will try to maintain purchase volumes at a previous pre-sanction level. 57% of the interrogated answered that way. Only third of industrial companies will be used for the import substitution. Not all producers depend on machinery and raw material, which could fall under sanctions, explained in the report.

### Issue of processing manufactures, fixed capital investments and retail turnover in the III quarter of 2014, growth, %

|                                      | July | August | September | III quarter |
|--------------------------------------|------|--------|-----------|-------------|
| Processing manufactures on the whole | 2,4  | -0,6   | 3,6       | 1,8         |
| Foodstuff                            | 4,7  | 4,1    | 5,1       | 4,6         |
| Light industry goods*                | -2,5 | -16,3  | -9,9      | -9,4        |
| Other goods**                        | -3,3 | -6,8   | -5,3      | -4,9        |
| Machine building production          | 7,7  | -2,5   | 3,3       | 3           |
| Raw material production ***          | 0,2  | 0,4    | 3,7       | 1,3         |
| Fixed capital investments            | -2   | -2,7   | -2,8      | -2,5        |
| Retail turnover                      | 1,1  | 1,4    | 1,7       | 1,4         |

\*textile and clothing manufacture, leather production and footwear production

\*\*wood treatment, wood article production, cellulose paper production, publishing and polygraphic

\*\*\*production of coke and oil products, chemical production, production of rubber and plastic articles, production of other non-metallic mineral products, metallurgical production and production of prepared metallic articles

The biggest growth of purchases of national equipment and raw material is expected in metallurgy. 50% of the interrogated consider such a scenario possible. The forecast as concerns other fields are more modest. The growth of purchases in the food industry by 35% is possible, by 33% in mechanical engineering, by 26% in wood production. The most modest results of import substitution will be in the field of light industry and building industry (below 10%).

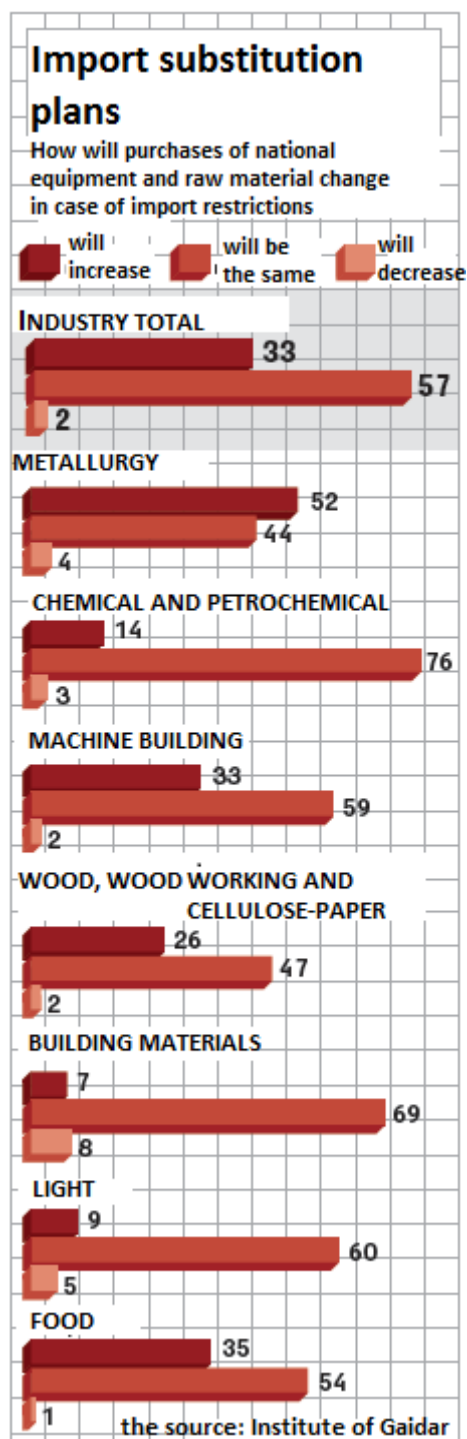
Interrogated heads of companies see risks in the development of import substitution. The quality will decrease and prices will go up. The change of purchase geography will have certain and, unfortunately, negative consequences for a production quality of new purveyors. Less than 1% (almost 0%) of Russian companies counts on the increase in the quality of new production and raw material. Russian industry hopes at best to maintain the level of quality at such a forced change of purveyors.

The increase in prices is feared almost by every third. The price growth is expected in the food industry, wood industry, light industry and machine building. The Russian industry, subsequently, will be forced not only to purchase inferior production than it buys

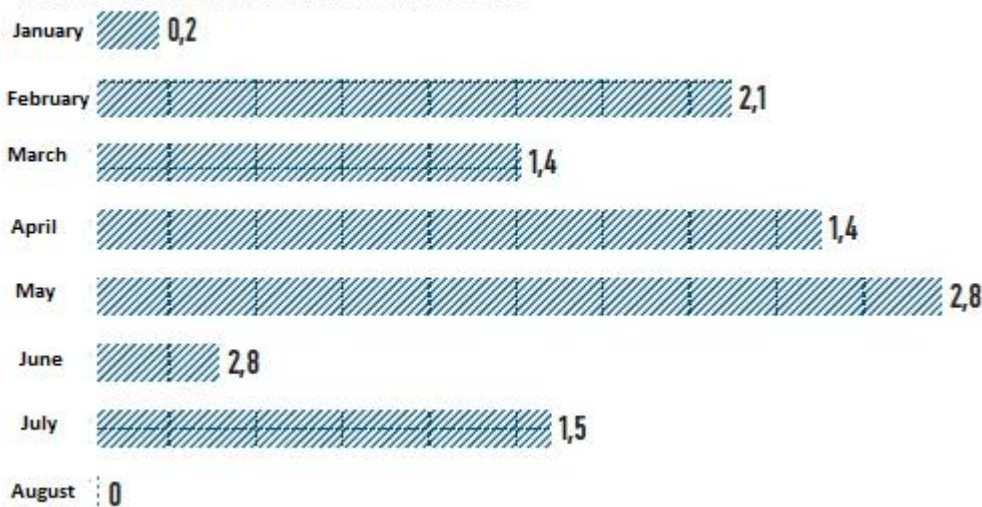
today, but overpay for it. The rise of purchasing prices will lead to the increase in prices for production of the Russian industry and add problems to the Central Bank.

According to the opinion of the president of the CCI RF, one should think not only about the import substitution, but also about the next step, which is a bigger export support. State programs have to be corrected taking into consideration the current state of affairs. Anton Danilov-Danilian, the head of the Committee for investment policy, supposes that around one third of the import can be substituted. That figure has not changed already for 10-15 years. Despite a slightly changed structure of the import, only one third of companies are ready to switch over to the national, but this readiness is determined by the fact that the price is not lower and the quality is not inferior. Enterprises are likely to put back some elements of the investing process than worsen the quality of goods. The loss of quality will occur, but will be temporary, for the period from 9 to 12 months.

Facilities for the import substitution development are restricted, experts warn. It's hard for companies to increase production. The high capacity load is the main stopper. The load was lower during previous (crisis) periods. There was more possibility to enhance it and show growth against the import reduction. As by Rosstat, an average level of production capacity level made up 61% in September, 2014, 60% in August. The average production capacity level amounted to 66% in July and companies were able to increase it by 14 points to 80%.



### How has the Russian industry been growing in 2014, % to the same period of the last year



Source: Rosstat

The other factor that restricts the import substitution is equipment wear. The shortage of investments has a negative impact on import substitution possibilities. Therefore, companies have to borrow funds for developing, but for a current activity. Governmental support is needed in this case.

### 3. TERRITORIES OF ADVANCED SOCIAL-ECONOMIC DEVELOPMENT: NEW INSTRUMENT OF THE FAR-EAST DEVELOPING.



The law draft of the Ministry for the Far-East developing “On territories of advanced social-economic development in the Far-East (further TASED) and separate territories of the Russian Federation” and associated law drafts, changing the

**Tax Code and a set of other laws, introduces a new term only for the Far-East “TASED” (earlier the government utilized a term “territory of advanced development”).**

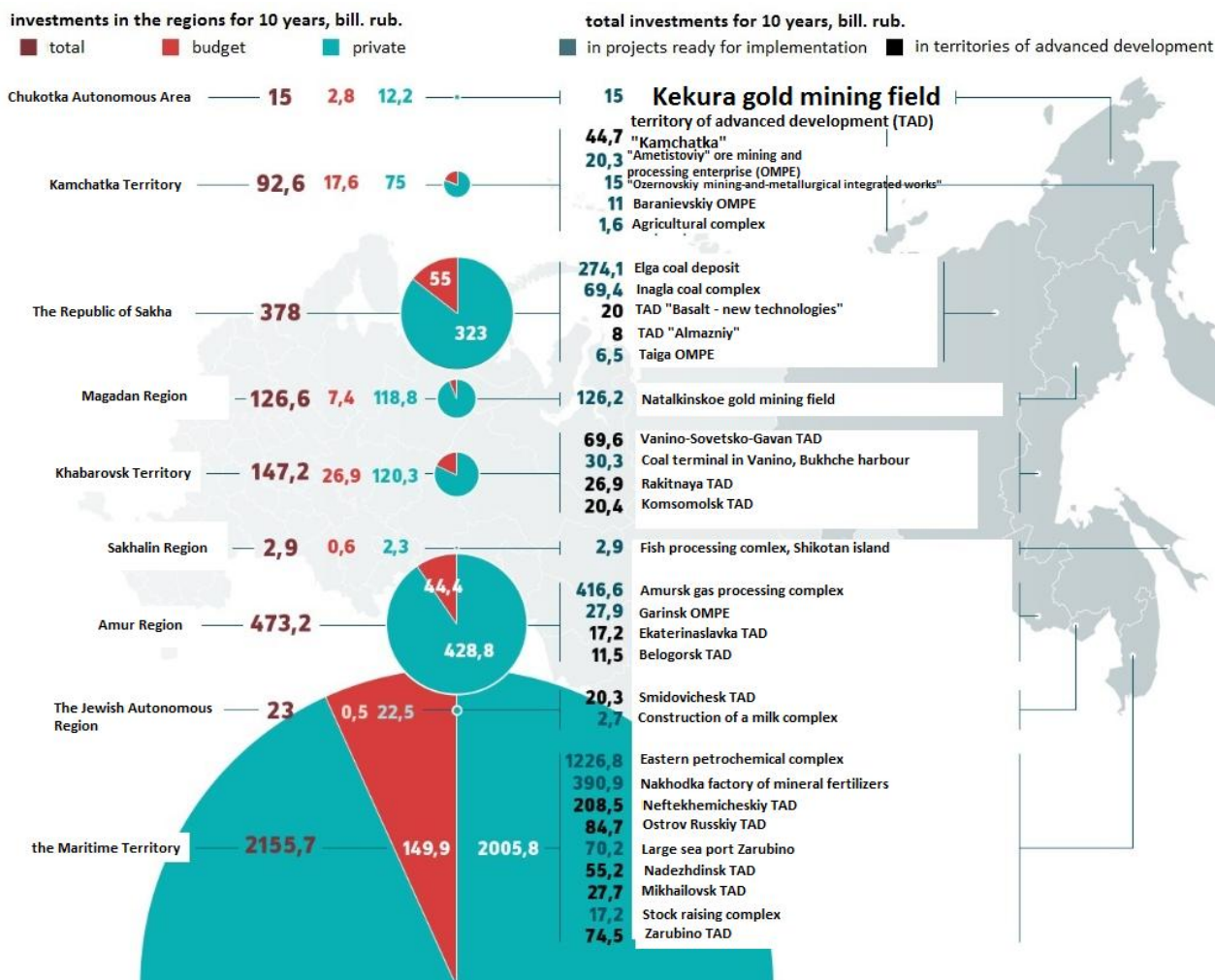
Already last summer such territories were supposed to be created across all Russia along with special economic zones. Prime-minister Dmitry Medvedev, the minister of economic development Alexey Ulukaev insisted on that. A commission to develop the law draft exceptionally for the Far East was given by President Vladimir Putin during its travel to this region on the 12<sup>th</sup> of September, 2014.

The Ministry for developing the Far East was initially trying to get such a decision; other ministries were unable to dispute it.

The variant approved by the government guarantees substantial tax preferences, which are applied in the other territory of Russia, for residents of the territories.

A zero profit tax rate is provided for the part assigned for the federal budget for the period of 10 years. It’s allowed to establish the regional part of the tax at the level of not

less than 5%. As follows from an explanatory note to the laws, such a measure ‘should not lead to the decrease in the taxable base in regions of the Far-East’. The other privilege at the expense of the federal budget is the reduction of insurance fees to 7.6% of the salary fund (the rate for the whole country is 30%). Falling revenues of extra-budgetary funds are supposed to be compensated from the federal budget.



Also the Far East business won't pay regional property and land taxes.

A managing company, controlled by the Ministry for the Far East developing, is going to manage TOSAD's. The ministry and the managing company will be able to influence not only residents of the territories, but also municipal units, which will enter the TOSAD zone. The managing company will keep an eye on the location of other units of executive bodies in TOSAD's. It's proposed to limit an excessive administrative doubling of their functions in the law in the form of a joint check, which is not to last over 15 days.

It's noted in the ministry that it's impossible to review the impact of the law draft on the federal budget, "taking into account a common nature of the document". But it's also noted that every budget ruble invested in TOSAD's will fetch 19 rubles of private investments.

After approving the law draft by the government, the ministry intends to start developing a documentation of "building a TOSAD network" and information support for attracting private investments". As follows from an explanatory note of the ministry as regards proposals to review state programs of social-economic developing of the Far East

till 2018, publicized by the organ on regulation.gov.ru, it's proposed to spend 238.7 million rubles in 2014 and 198.2 million rubles in 2015. The funds will be used at the expense of a premature cessation of the federal program "Development of sources of non-traditional energetics on the Kuril Islands"

### 3. ADVICE FOR A FOREIGN INVESTOR: HOW TO START A BUSINESS IN RUSSIA (continuation, beginning in the issues 34-37).

#### Taxation

##### **Description of the tax system.**

The Russian tax legislation comprises The Tax Code (further TC) and approved laws based on it.

Taxes and dues are raised at a federal, regional and local levels in the Russian Federation

Federal taxes and duties are defined in TC and Russian laws and paid across the whole Russian territory.

There are the following federal taxes and dues as of the 1<sup>st</sup> of January, 2013:

- Value added tax
- Excise taxes
- Personal income tax
- Profit tax
- Mineral production tax
- Water tax
- Dues for using fauna objects and objects of water biological resources
- State duty

Regional taxes and duties and defined in TC and laws of Russia's regions and paid in the territory of corresponding regions. Property tax, gambling tax and transport tax are regional ones.

Local taxes and duties are defined in TC and acts of municipal authorities. They are paid in the territory of corresponding cities and districts. Land tax and property tax on natural persons are local ones.

Local (or regional) legislative acts can introduce only those types of taxes and duties that are defined in the Tax Code. Local (or regional) authorities are entitled to establish the following elements:

- Tax benefits
- Tax rates within the limits established in TC
- Orders and terms of tax payments.

##### **Requirements for tax registration.**

VAT payers are not required to be registered separately. They are given a unified Individual Taxpayer Identification Number for all the taxes. But tax payers have to obtain an additional identification number by the place of their separate divisions.

A separate division is a unit situated separately from the head company (for instance in another city). The separate division can be formed while making permanent work places for the period of over a month. A foreign legal entity has to be registered at local tax organs within 30 calendar days from the beginning of their activity in the region.

## Taxation of legal entities

### Tax base

Taxable profit is calculated by deducting expenses from a total sum of profits according to the registers of tax records.

Profit is usually defined on an accrual basis. The utilization of a cash basis is allowable only if average earnings amount to less than 1 mill. rub. minus VAT for one quarter.

Expenses are subject to deduction from the taxable base if they were borne in order to get profit, are economically reasonable and documentarily recorded. Some categories of expenses are regarded as negligible by TC when defining a taxable base.

Since the 1<sup>st</sup> of January, 2012 the submission of a consolidated statements for profit tax is allowable assuming that a mother company owns not less than 90% of shares in subsidiaries and the total volume of VAT, excise taxes, profit tax and mineral production tax make up not less than 10 billion rub. Besides, the total earnings of the group must amount to not less than 100 billion rub., total assets must make up not less than 300 bill. rub. Therefore, only several largest Russian companies have a possibility of submitting consolidated statements for profit tax.

### Tax rates

The maximum profit tax rate makes up 20%, including 2% that is paid to the federal budget, and 18% to the regional budget. The rate of a regional profit tax can be lowered to 13.5% by the decision of regional authorities.

Certain types of profits are subject to tax retained from the source of a fixed rate established in TC.

### Tax benefits

Free receipt of assets from the mother company, subsidiary or natural person is not taxable:

- if the share of a getting or passing entity is more than 50% in the authorized stock of another party.
- The share of an entity passing a property of a natural person makes up more than 50% in the authorized stock of a receiving company.
- Received property (except for funds) won't be sold within one year from the date of its receipt.

Getting property and non-property rights from a shareholder (stakeholder) in order to increase a net value of assets and also to get a debt remission and reinvestment of dividends due to him/her, but not received by him/her do not lead to the establishment of a taxable profit regardless of the ownership interest.

Today the legislation does not provide for other benefits for profit tax. Losses for taxations reasons are spread over the next periods (years) during 10 years.

### Tax records

Tax records require the introduction of separate registers from tax payers for profit tax. The rules of tax records can vary from mandatory principles of the Russian accounting (for example as regards amortization, recognition of expenses for interest payment and so forth).

The methodology used in order to register profit tax should be clearly stated in the policy for tax records of the company-tax payer. After accepting the policy for tax records it can't be changed for a year except for cases of legislation changes.

### **Taxation of foreign legal entities (FLE)**

Foreign legal entities, the nature of activity in Russia of which leads to creating a permanent representative office (PRO), is subject to taxation with profit tax as regards profits received through PM less expenses referable to it.

According to the Russian legislation, an activity of a FLE leads to the establishment of a PRO in the following cases:

1. If a FLE has its activity in Russia (office, bureau or another independent division), where a FLE carries out its activity on a regular basis. For example, in certain cases a building area in the Russian Federation can be regarded as a PRO of a FLE implementing a building activity.

2. If a FLE implements an activity in Russia via its dependent agent. The Russian legislation, as well as double tax treaties (if they are acceptable), interprets the term "dependent agent" as a company or a natural person, which, based on agreement relations, obtain and regularly use a right to conclude agreements and negotiate as regards substantial conditions on behalf of a FLE, establishing legal consequences for it (bar an activity of an auxiliary and preparation nature).

On the whole, the method of calculating profit tax for a PRO of a FLE is similar to that utilized towards Russian legal entities with several exceptions. In particular, it refers to regulations of double tax treaties (for instance on allocating administrative expenses). For FLE's, not having a PRO in Russia, profit tax from sources in Russia is taken from payment source.

### **Submission of tax declarations and tax payment**

Tax payers (except for PRO's) can submit profit tax declaration monthly or quarterly. PRO's have to submit tax profit declarations quarterly. The annual declaration is submitted till the 28<sup>th</sup> of March of the year following the reporting one.

Tax payers (except for PRO's and several other categories) make monthly tax profit advance payments. PRO's make tax profit advance payments quarterly. The final calculation is taken on the 28<sup>th</sup> of March of the year following the reporting one.

### **Profit tax taken from a source**

If a FLE gets profit in Russia, which does not refer to a PRO (for instance, a rent, royalty, interest and dividends, freight profit and etc.), the tax for such profit is not taken from a source of payment.

Profit received by a FLE from carrying out an activity in Russia, which does not lead to the establishment of a PRO (for instance, from extending one-time consulting service), is not subject to taxation in Russia.

Profit received by a subsidiary or an office of a FLE in Russia, when being repatriated to the head office, is not subjected to tax taken from a source. Funds, fetched from selling property when being liquidated, is subjected to taxation from a source.

### **Tax rates**

Profit tax rates taken from a source can vary depending on the type of taxable profit.

The following tax rates applied for dividend profit:

– for dividends paid to a Russian legal entity if during 365 days this entity has owned not less than 50% of shares of the company paying the dividends on the condition that the company paying the dividends is not a resident of an offshore zone (for example, British Virgin Islands, Guernsey, Jersey or another country from a list compiled by the Ministry of finance of Russia);

– for dividends received by a Russian legal entity from a Russian or foreign legal entity;

– for dividends paid to FLE by a Russian legal entity.

FLE's not having PRO's in Russia are taxed for profit taken from a payment source, at a rate of 20% as regards almost any types of profits gained in Russia (such as interest profit, royalty, profit from lease operations etc.). Freight profit is taxed at a 10% rate.

Tax rates taken from a source can be decreased to 0% according to double tax treaties concluded between the Russian Federation and a country of an actual presence of a company-receiver.

In order to take advantage of beneficial tax rates taken from a source, a FLE has to confirm its tax residency in the country, which Russian Federation concluded a double tax treaty with. A certificate given by corresponding authorities of the country is recognized as a confirmation.

If such a certificate is absent, tax is taken from a source and enters the budget. If a tax deduction occurs and a tax payer has a privilege during a double tax treaty in effect, a foreign recipient of the profit is entitled to address a petition about compensating paid tax sums from the budget

#### **4. GUIDE FOR A BEGINNING ENTREPRENEUR: BUSINESS PLAN FOR CONSTRUCTING A MOTEL.**

**Dear colleagues!**

**Investments and Innovations promotion Department of the CCI RF regularly receives requests to help the preparation of a business plan for starting a business.**

**We continue introducing you to typical plans, which allows preparing your own document avoiding serious organizational mistakes at the level of the project preparation.**

**Example of a business plan of constructing a motel.**

The restaurant business has been of great popularity and demand from visitors at all times. For this reason the beginning of a commercial activity in this sphere is promising. We'd like to recommend our entrepreneurs that they should start a small business, for instance with opening a motel.

#### **Object description**

There should be detailed characteristics of an opening object in any business-plan. As a rule, a motel represents a hotel with a small number of rooms (fewer than 50) for a middle class, with an additionally equipped infrastructure.

In most cases such an infrastructure comprises public catering establishments (café and restaurants) and various sales outlets (selling both grocery and non-food products). A

motel is intended for a temporary stay and characterized by serious business seasonality. The working schedule in such establishments is normally round-the-clock.

Besides its main service, rendering a moderate, in terms of conformability, room for a temporary stay, various services, which allow gaining additional profit, can be organized and extended.

It can be:

Giving special cells for storing valuable things for the period of stay;

Repair of vehicles;

Extending communications service and communications (telephone communication, Internet and others).

### Market analysis

Prior to open your own motel, you should carry out a thorough analysis of an economic situation in this market segment. A level of demand for such service in a certain region and also a competitive environment should be analyzed. When assessing competitive establishments of a hotel type, one should define a method of their work, level of influencing their own business and figure out possible ways of decreasing the risks.



Besides, the market situation analysis allows determining potential customers of the business (average age of the target audience, level of their profit and frequency of utilizing motel services). Defining such features of the target audience allows developing an advertising marketing strategy for attracting such clients.

### Organizational legal issues

Opening a motel falls under the effect of the same norms that are commonly accepted for other objects of the hotel business. Before opening a motel, it should be registered as a legal entity. A certain organizational legal form for executing a commercial activity has to be taken. A limited liability company (LLC) is the most convenient form for it.

### Location and premises

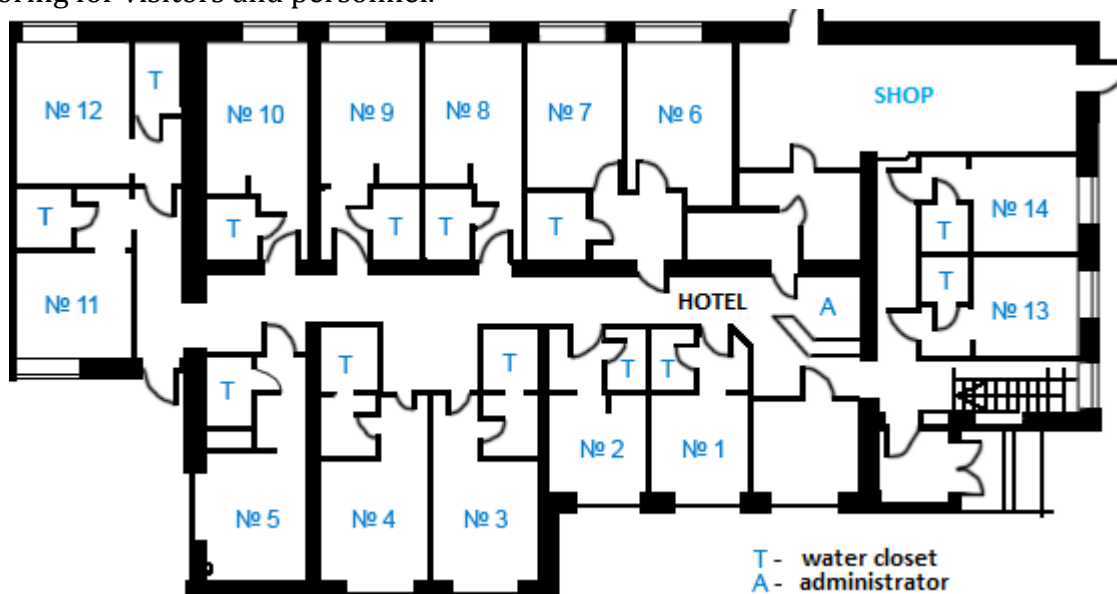
The description of a location of the opening business has to be listed in the business plan before opening a motel. One should be very serious about searching and selecting a convenient location, because it directly depends on the success and profitability of the business. That's why the place should be chosen in terms of passability. Settlements with a population of over 50 thousands inhabitants or busy lines are characterized by a large passability. It's advisable that there were a petrol station near a motel.

The size of a motel is selected based on financial capabilities of a business man. The motel building can be rented to cut expenses at the first stage, and then it can be redeemed.

Such a variant requires additional expenses for implementing maintenance works and giving unique appearance to the interior.

Another variant is to construct a new building. It requires hefty start capital, although it has its advantages. Besides, the provision of the necessary facilities of the motel infrastructure should be considered, which also requires additional investments. A

motel should be adjoined by a guarded parking lot with an equipped system of video monitoring for visitors and personnel.



### Equipment

All motel equipment issues must be reflected in the business plan.

The list should include:

1. Furniture in hotel rooms and the hall;
2. Equipment for a water closet and shower in the rooms;
3. Household appliances (washing machines, irons);
4. Linen and other accessories;
5. Implements for cleaning up the rooms.

### Staff

A thoroughly selected staff is, to a large extent, influences profitability of the motel. The calculation of the number of jobs of serving personnel depends on the number of rooms in the motel. The ideal variant is when a separate worker is attached to every room. However, in reality such a number of workers can lead to the increase in the work payment fund and losses. That's why 15-16 people should be hired for a motel with 50 rooms.

### Financing

The calculation of financial indicators of a project is one the most important stages of making a business plan. During that process not only the total volume of investments is calculated, but also the size of a planned profit is determined.

The volume of start investments is largely dependent on the region, where the business is being planned. Expenses will make on average 20 million rubles in the Central federal district (the cost



depends on the business class). The motel is paid back approximately in 4-10 years.

We draw your attention to the fact that the presented material is an example of a business plan. Therefore, all the numbers in it can be regarded as approximate, because the market and prices change constantly. But the business plan allows having an insight of steps to be taken for a successful launch of the described business and can serve as a good pattern for preparing your own business plan.

## 5. AWARA GROUP RESEARCH: UNIQUE CONCLUSIONS ON THE REAL GDP OF RUSSIA AND FOREIGN COUNTRIES.



In its pioneering research, Awara Group (September 2014) shows that during many years the real GDP growth, except for accumulated borrowings, has been negative in western countries. As the research shows, the real GDP in those countries hides substantial loss. If we deduct the accumulated debt from the indicator, the real GDP bar debt indicator will be revealed.

The goal of this research is to demonstrate that GDP growth indicators almost show nothing about economy dynamics if we do not simultaneously analyze the issue what part of this debt became available thanks to new borrowings.

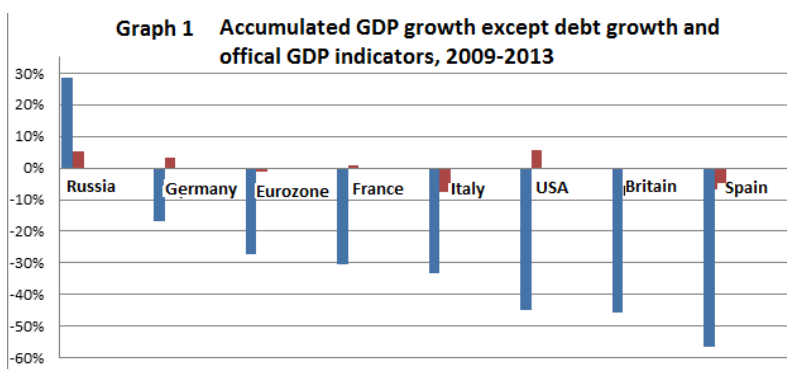
Today there is a well-established practice to correct GDP indicators according to inflation rates, as a result of which a so-called real GDP is determined. Taking into account that circumstance, it will be natural enough to use that method when correcting growth indicators of GDP refined from the influence of new borrowing growth, which should ultimately give real "GDP growth indicators except debt". The research can be called pioneering, because it's unknown whether economists have raised such an issue. It's also unknown whether that matter has ever been discussed among scientists and analytics. It's evident that a problem of state borrowings is being widely discussed, but the matter is about correcting GDP due to the deduction of state debt.

The research revealed that western countries lost their ability to secure growth of their economies. The only thing left is an ability to increase debt. At the expense of a massive accumulation of new debt, they can create a visibility of a languid growth hung around the zero mark.

If all those gigantic borrowings were directed at investments, then it would nothing wrong about it. However, it's not the case. The obtained borrowings are intended for covering loss of national economies, which those countries can't actually allow themselves. Over the last decade the situation has been sharper, but a grammatical turn to the worse took place in the beginning of the world financial crisis of 2008.

**On the graph 1** shocking indicators are reflected, characterizing the factual collapse of the economy of foreign countries in 2009 – 2013. It shows a real GDP growth except debt growth (after deducting an indicator of a public debt growth from the GDP indicator).

If we deduct debt, then we'll see the actual size of the economy collapse of Spain (-56.3%). It's a dreadful indicator.

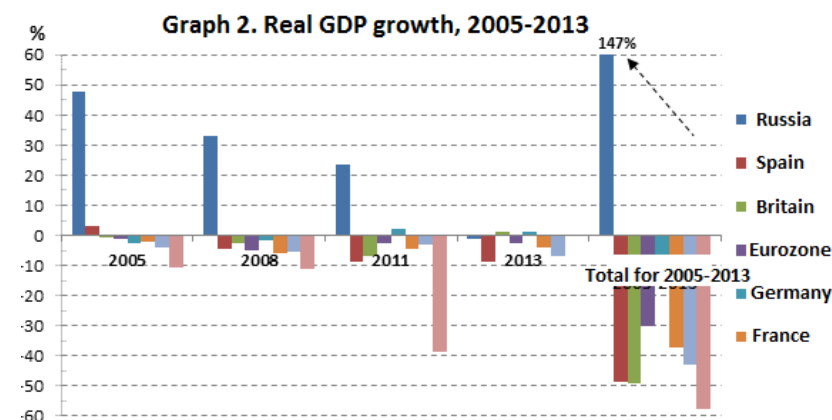


If we utilize a commonly accepted official method of calculating GDP growth indicators (bar debt growth), then we get only - 6.7%. The corresponding indicators for Eurozone countries on the whole make up -27.2% for GDP (corrected to debt) and only -0.2% according to the official method of calculating

GDP growth tempos. We can come to a conclusion that over the same period Russia has been able to increase real GDP growth tempos except for debt to the level 28.5% with an official indicator of GDP growth of 5.7%.

As a result of this research one can come to a conclusion that there is a disastrous situation even in Germany. The GDP growth tempos except for the debt make up -16.6% in comparison with the official indicator of GDP growth tempos -0.7%. There is a comparison of foreign countries burdened with debt to the same indicators for financially sensible Russia.

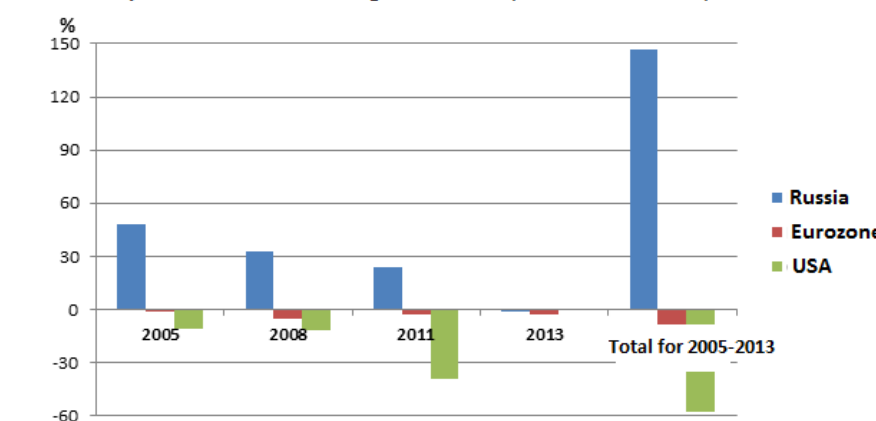
On the graph 2 the dynamics of a real GDP growth of various countries is reflected for the period of 2005-2013. As the graph shows, Russia was able to secure a real GDP growth, whereas western countries were plunging deeper into debt.



For the period of 2005 – 2013 an accumulated

growth of Russia's economy amounted to 147%, whereas accumulated loss of foreign countries augmented from 16.5% (Germany) to 58% (USA). In case with Russia, the real GDP growth indicator less borrowings is also being adjusted in order to correct for the

**Graph 3. Real GDP less debt growth: Russia, Eurozone and USA, 2005-2013**

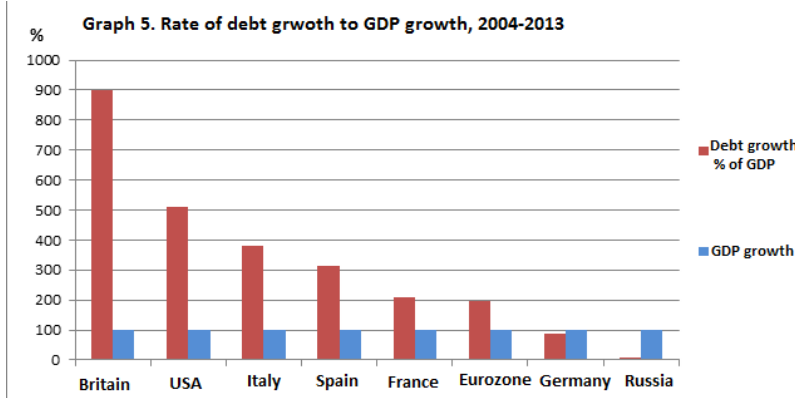
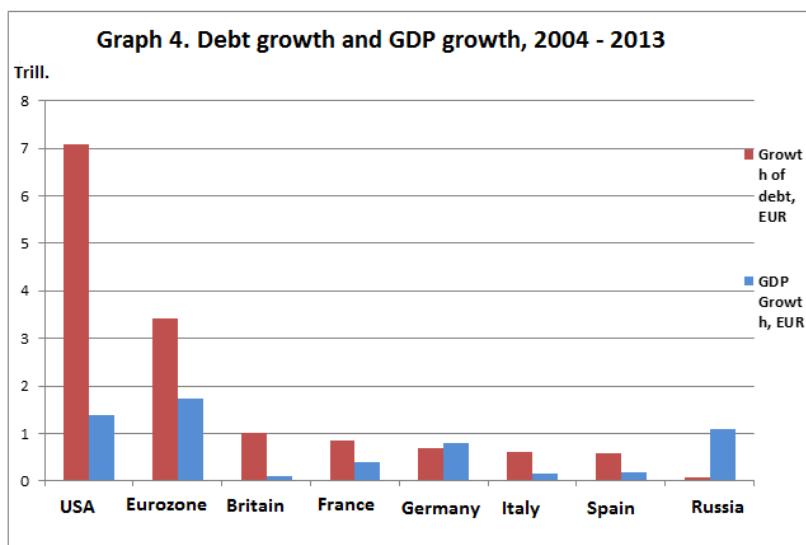


error in calculations, linked to a Rosstat's wrong utilization of a GDP deflator.

**Graph 3** clearly shows the difference in the dynamics of the development of Russia's economy development (real GDP less debt growth), USA's and eurozone's.

The graph 4 shows to what extent the debt accumulation in western countries exceeds the official indicator of GDP growth tempos. Over the period of 2004-2013 USA became the undisputed leader in terms of a debt burden growth (7 trillion euro as the graph shows). The growth of USA's public debt exceeded the GDP growth fivefold (500%).

The graph 5 shows it by comparing a ratio of debt growth tempos to GDP growth tempos.



It shows that the UK, having the largest new debt to the GDP growth, a ratio of the new debt to the GDP growth is 9 to 1. In other words the new debt size of the Great Britain makes up 900% of the GDP growth.

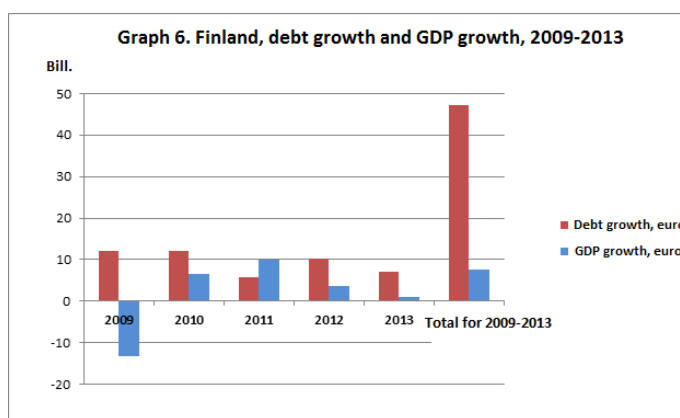
And other western countries, Germany to lesser extent, are in a bad situation. Russia's debt growth makes

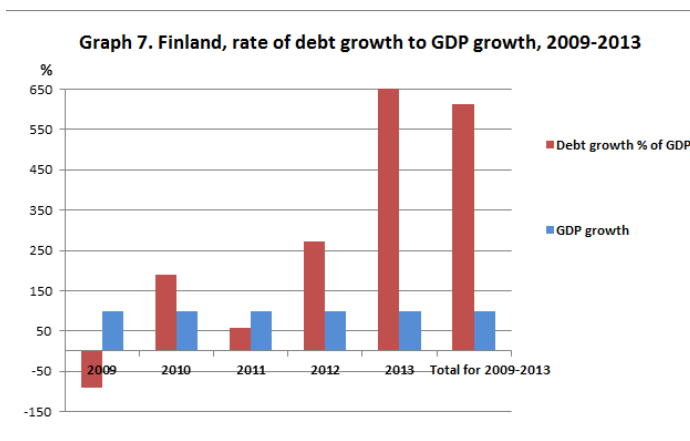
up a little share of the GDP growth. As the analysis indicates, unlike the economy of western countries, Russia's economy growth is healthy enough even by those indicators and is not caused by the debt growth. In reality Russia's demonstrating a substantially positive ratio of those indicators. The GDP growth tempos were as much as 14 times the debt growth tempos (1400%).

That indicator amazes even more if we compare it to the analogue indicator of western countries, plunged into debt.

The situation around small countries of EU, such as Finland, also looks appalling. However, Finland has a reputation for being more financially successful as opposed to most EU countries. In reality the situation around Finland is not the best. Such a reputation dates back to the period

before 2008 and after the financial crisis of 2008 expenditures of Finland's government went out of control.





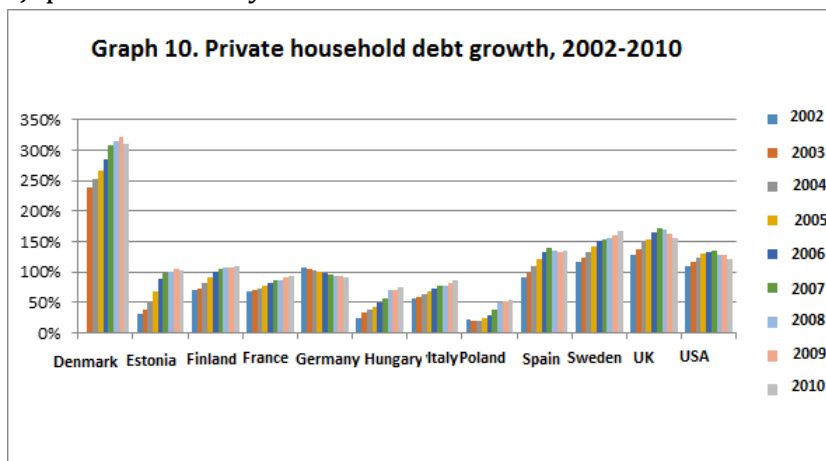
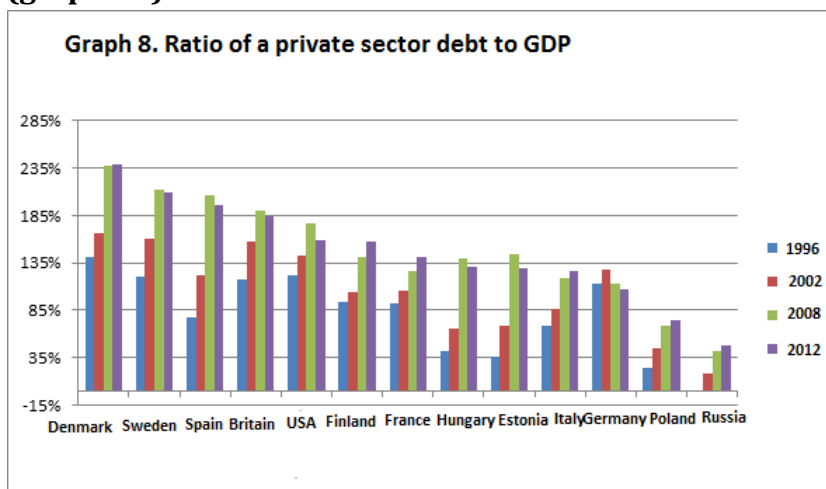
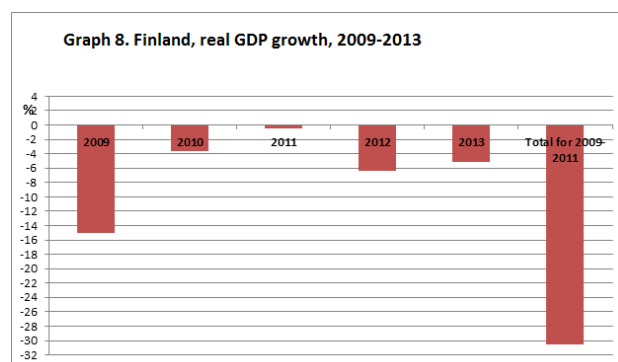
During 5 years since the crisis started, Finland added on average 10 billion euro per year, i.e. 50 billion euro in all (graph 6). The ratio of a debt growth to a GDP growth made up 600% during the same period (graph 7). It led to a negative accumulated GDP growth less the debt – 30.5% during the 2009-2013 period (graph 8).

The above-mentioned indicators are corrected taking into account the influence of the size of a public debt (total public debt), but the situation looks even more terrifying if we take into consideration the result of an impact of private borrowings on GDP indicators.

New debts of corporations and households, as a minimum, doubled public borrowings in most foreign countries, but apparently become equal in the recent years; because the debt level reached maximum possible limits (graph 10).

Researches did not include Japan and China because of difficulties tied to the searching of reliable statistical data. Experts faced a problem of partial information, which does not encompass all corresponding periods, problem of data incomparability and also a problem of inaccuracy when recalculating input data in euro.

Nevertheless, research authors make a conclusion that Japan is a country with the most



problematic GDP due the debt increase. The ratio of its public debt to GDP exceeds 200%. Japan has been living beyond its means since the beginning of 1990s. However, some of the most irrational foreign countries try to represent Japan as an object of imitation, affirming that since Japan has been able to increase its debt

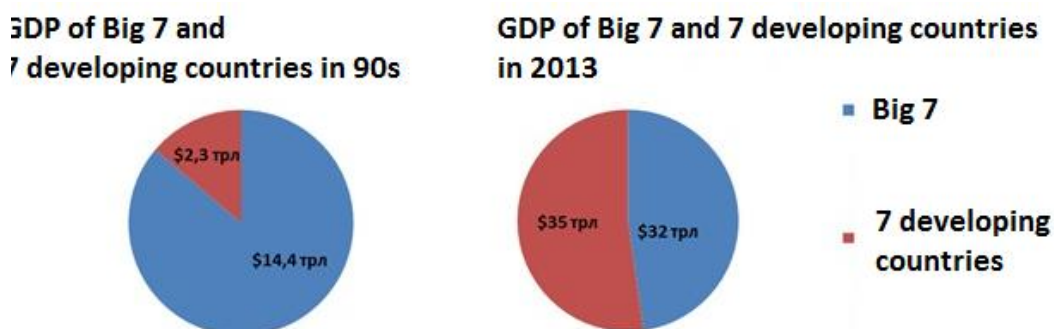
during 25 years, then all western countries can follow suit in the near future.

Another substantial consideration against the idea that western countries could continue to increase debt is that since the beginning of 1990s western countries have started to rapidly lose their economic hegemony. Its share in the total volume of the world commerce and global GDP started to decrease.

Analyzing those indicators, research authors came to a conclusion that in reality western countries have massively accumulated their debts. With such a level of the accumulated debt, the situation can't last long. There is a real risk that this debt bluff will be disclosed rather sooner than later and crumble the GDP level of western countries to the level which they won't be able to sustain without new borrowings. But in this case they won't be able to assure the coverage of old borrowings which will lead to catastrophic consequences.

The significance of the west to the rest of the world is reducing fast. It can be shown by comparing GDP indicators of western countries member of the Big 7 (USA, Japan, Germany, France, Great Britain, Italy and Canada) to those of developing countries. In 1990s the aggregate GDP of the countries members of the Big 7 considerably exceeded that of today's seven developing countries, China, India, Russia, Brazil, Indonesia, Mexico and South Korea (which not necessarily belong to the same political block).

In 1990s the aggregated GDP of the countries of the Big 7 (G7) made up 14.4 trillion doll. and the aggregate GDP of seven developing countries amounted to 2.3 trillion doll. However, by 2013 the situation changed drastically. The aggregate GDP of G7 made up 32 trillion doll. and the aggregate GDP of seven developing countries amounted to 35 trillion doll. (**graph. 11**).



**Graph 11. GDP share of Big 7 and 7 developing countries**

Because of a permanent growth of the share of developing countries in the world economy it becomes obvious that western countries won't be able to gain enough profit from the world commerce in order to serve the accumulated debt.

At present western countries gain avail from the fact that the rest of the world still trust their currencies and use them as reserves. As a matter of fact, US dollar and euro take advantage of their monopoly status. It allows western countries to have access to cheap obligations and stimulate their national economies due to the monetary policy carried out by central banks (the program of a quantitative easing or, in other words, launching of a printed press). However, there is a risk that at the intensifying debt situation and shrinking share of in the world economy, they won't be able to use all those advantages and most likely even in the near future. Then an abrupt rise in price of borrowings and inflation will take place turning eventually into hyperinflation.

## Food for thought

### Results of a blitz-survey of heads of foreign companies working in Russia, implemented by E&Y in September, 2014



**66%** of respondents won't reconsider investing in Russia's economy. One third of the interrogated are going to postpone their plans for the future, but might change them if the geopolitical situation will improve.



In the third quarter of 2014 **83%** of heads of companies are more pessimistic about the future of their business developing.



**48%** of investors suppose that they will succeed in achieving their planned financial indicators.



**80%** of companies won't dismiss their staff, but the salary growth won't exceed inflation ratios. Half of the respondents will offer their workers a salary without taking into consideration the inflation. On the other hand, Russia remains an important market of the region CEEMEA (Central and Eastern Europe, Middle East and Africa), where companies are planning to hire new workers.

The research on the condition of business in Russia was prepared by the company EY based on the research of CEEMEA Business Group, executed in September, 2014. The given results are based on an opinion poll among 128 heads of foreign companies and analysis of plans to wage a business in Russia.

## 6. FOR POTENTIAL INVESTORS: PASSPORTS OF INVESTMENT PROJECTS. KRASNODAR REGION.



### Agrotechnopark project development.

The technopark is being constructed based on the property complex LLC "Afipskiy EnergoPark", situated at the following address: Russian Federation, Krasnodar territory, Seversk region, urban type community Afipsk. The location is along the route A-146 "Krasnodar-Novorossiysk" 14 km. of Krasnodar.

The agricultural industrial park is a business community of production, scientific and education organizations and specialists, developing together in one area in a set of property units, engineering networks and services through a single managing company "AgroTechnoPark" (MC "ATP").

**Main AGP activities:**

- development of innovation and technological production, including deep processing of agricultural production;
- promotion innovation technologies in work of companies and expansion of scientific and applied knowledge about innovation technologies;
- development and preparation of a personnel potential of hi-tech companies;
- support of existing international and national cooperative liaisons and establishment of new ones in search for scientific and commercial contacts, exchange of experience for promoting and service of firms, help of propelling their goods and services to external markets;
- support of dynamically developing large, middle and small beginning companies and also talented specialists;
- organization of innovation-business environment for developments endeavors and introducing new technologies in the spheres of logistics, production, processing of ecologically friendly products.

Today out of three lines of development of the complex LLC "AGP" the first line of production-stock rooms of class A with an area of 5904 square meters, a 100 meter front with an additional area of parking lots (1.5 hectares) is built.

In future it's planned to locate a factory for deep processing of agricultural production (with an estimated cost of 200 mill. rub.) in the area of 3000 square meters (total area 6000



square meters) of the first line of LLC AGP. The project payback time is 2.5 years. The searching for investment projects for the further developing of the park is being carried out for the remaining 3000 square meters.

Today a variant for the further development of production, storage and trade area of the park on the additional adjoining area of 6 hectares is being worked out. The planned area of the buildings is 24000 square meters. The estimate cost of construction is 650 million

rub.

**If you're interested in implementing projects and also in additional information, please address  
Investments and Innovations promotion Department of the CCI of Russia  
(Contact person: leading expert Sergey Zvyagin. tel. (495) 620-0584, email: zsv@tpprf.ru)**