

Focus on: **Russia**

International Business Report 2010 – Country focus series

The recovery

Russia officially left its deep recession in the third quarter of 2009, but the economy contracted by around 8.5 per cent across the year and the recovery over 2010 and 2011 is likely to be painfully slow. Credit conditions are expected to remain tough and the economy's trajectory remains precariously dependent on the Urals crude oil price. Though unlikely, a sustained oil price drop towards \$50/barrel would tip the economy back into recession in 2010.

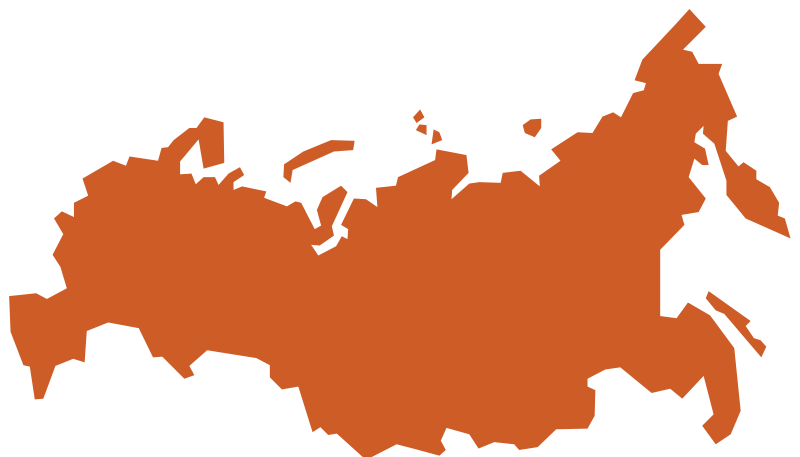
The key indicators¹ are highlighted below:

- GDP grew by 5.2 per cent in the three months to June 2010, up from 2.2 per cent in the previous quarter
- exports increased by 8.2 per cent on the previous quarter, up from 3.1 per cent in Q1
- imports climbed by seven per cent in the three months to June, up from 6.7 per cent in the previous quarter
- the unemployment rate dropped to 6.8 per cent in June 2010, down from 7.3 per cent in May.

Impact on businesses

The Grant Thornton International Business Report (IBR) 2010 surveyed the views of over 7,400 privately held businesses (PHBs) in 36 economies around the world. This report focuses on Russia, the experiences and attitudes of its businesses and how they have been affected by the economic crisis along with how they are dealing with the recovery, as illustrated in figure 1.

The IBR survey tells us that businesses in Russia are considerably more optimistic about the outlook for the economy over the next 12 months in 2010, than they were in 2009, and two-thirds expected to see an upturn in the global economy by the end of 2010. Expectations for revenue, profitability and employment growth are all markedly more positive this year.



¹ source: International Monetary Fund, The Economist and Experian.

Forecasts for the economy

Financial stimulus in the Russian economy will most likely be cut down significantly in 2010 while the decrease of tax revenues may delay full economic recovery until 2012. Under these circumstances, the Russian Ministry of Finance may look into foreign loans, within the limits set to the national budget.

With consumer spending slowing down and the anti-crisis package to be abandoned in 2010-2011, Russia's recovery will largely depend on the private sector's activity – on the exporters of energy as well as on the stability of the Urals brand oil prices, above \$70 a barrel in Q4 2009.

Optimistic economic expectations will depend on the growth of domestic investment, which suffered a sharp decrease by the end of 2008. There is also a concern regarding the small volume of public contracts as the public budget tightens. In addition, the government's intervention in the private sector, particularly through the Bank of Russia, may seriously concern investors.

As the economy still struggles, privately held businesses will be facing new challenges as well as new opportunities to achieve consolidated growth and find its way out of the crisis.

Figure 1: Key indicators for businesses

Russia compared to the global average	2008	2009	2010	2010
	Russia	Russia	Russia	Global
Outlook for the economy over the next 12 months				
Balance of optimists over pessimists	+58%	-2%	+10%	+24%
Change in employment levels				
Balance of businesses expecting an increase over those expecting a reduction	+49%	-18%	+14%	+20%
Constraints on expansion				
Shortage of orders/reduced demand	22%	34%	51%	39%
Regulations/red tape	38%	25%	40%	32%

Source: Grant Thornton IBR 2010

Talk to us to find out how we can help you deal with the challenges of a new world economic order.



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International Business Report results

The Grant Thornton IBR 2010 reveals that businesses in almost all countries are more optimistic about economic prospects for the year ahead. Businesses in Russia are more optimistic about prospects for 2010; their optimism/pessimism balance² has risen 12 percentage points from -2 per cent in 2009 to +10 per cent in 2010.

For the first time in six years, India has been overtaken as the most optimistic country by Chile. Chile now tops the league table with a net balance of +85 per cent (-24 per cent in 2009), India comes in a very close second with +84 per cent, whilst Japan remains at the bottom with a balance of -72 per cent.

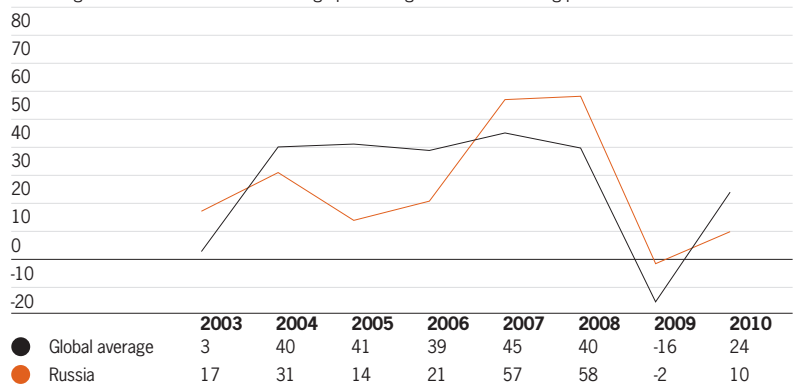
Overall, optimism amongst businesses globally has risen from 2009; +24 per cent of businesses across all countries are positive about their country's economy – compared to a balance of -16 per cent in 2009.

Optimism/pessimism

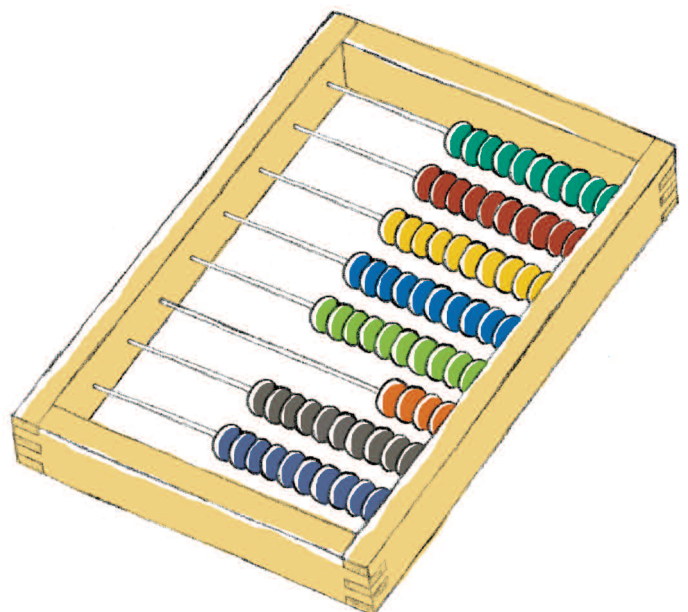
- businesses in Russia are more optimistic about their country's economic outlook (+10 per cent) compared with 2009 (-2 per cent)
- this is significantly lower than the global average of +24 per cent
- global optimism has also risen this year, but more significantly than Russia; by 40 percentage points to +24 per cent compared with -16 per cent in 2009.

Figure 2: Outlook for the economy over the next 12 months: 2003-2010

Percentage balance of businesses indicating optimism against those indicating pessimism



Source: Grant Thornton IBR 2010

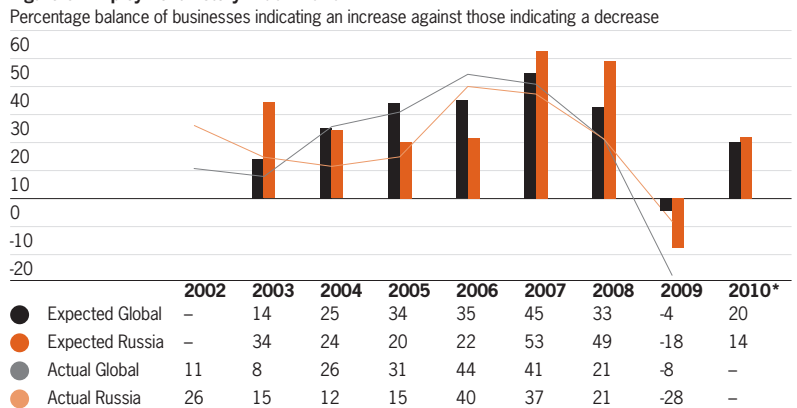


² the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic.

Employment

- a balance of +14 per cent of businesses in Russia expect employment to grow in 2010, lower than the global average of +20 per cent
- actual employment contraction reported by businesses in Russia in 2009 (-28 per cent) was more severe than expected 12 months previously (-18 per cent).

Figure 3: Employment history: 2002-2010

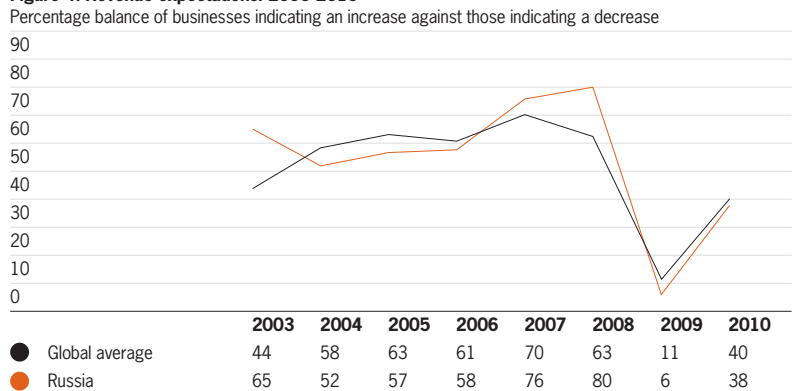


*actual 2010 data will be documented in IBR 2011
Source: Grant Thornton IBR 2010

Revenue expectations

- expectations for revenue prospects have risen by 32 percentage points; from just +6 per cent in 2009 to +38 per cent this year
- the global average has also risen, by 29 percentage points from +11 per cent in 2009 to +40 per cent.

Figure 4: Revenue expectations: 2003-2010

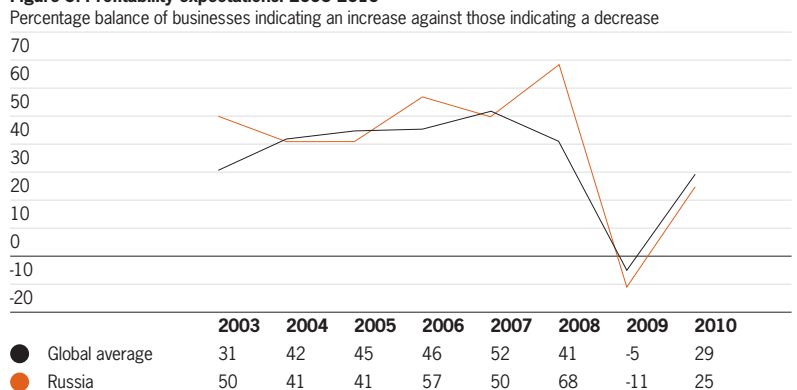


Source: Grant Thornton IBR 2010

Profitability expectations

- profitability expectations amongst businesses in Russia have risen by 36 percentage points this year
- the global average has seen a similar rise of 34 percentage points, from -5 per cent in 2009 to +29 per cent this year.

Figure 5: Profitability expectations: 2003-2010



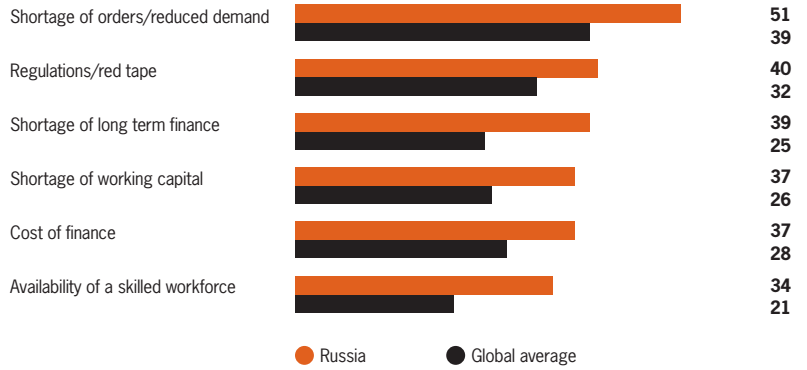
Source: Grant Thornton IBR 2010

Constraints

- as in 2009, the shortage of orders/reduced demand is viewed as the major constraint restricting expansion for businesses in Russia (51 per cent) and globally (39 per cent)
- all of the constraints are more of a concern for businesses in Russia, compared to the global average.

Figure 6: Constraints on expansion

Percentage of businesses rating constraint 4 or 5 on a scale of 1 to 5 where 1 is not a constraint and 5 is a major constraint



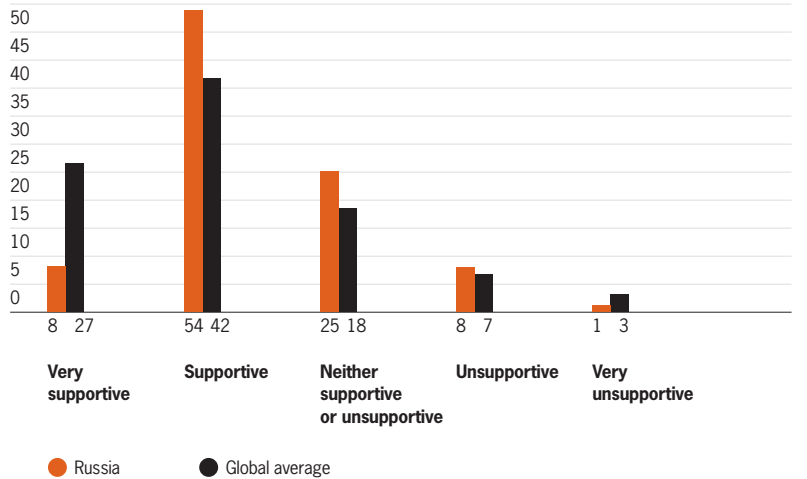
Source: Grant Thornton IBR 2010

Support of lender

- the majority of businesses in Russia are happy with the level of support provided by lenders; 62 per cent class lenders as supportive or very supportive towards their business
- this compares with 69 per cent globally
- one-tenth of businesses in Russia (nine per cent) and globally (ten per cent) believe that lenders are unsupportive or very unsupportive of their business.

Figure 7: Level of support provided by lenders

Percentage of businesses



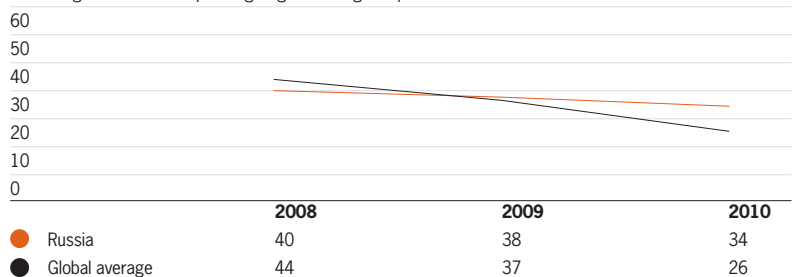
Source: Grant Thornton IBR 2010

Mergers & acquisitions

- the proportion of businesses in Russia planning to grow through acquisition this year has fallen by four percentage points to 34 per cent, compared to a global decrease of 11 percentage points
- 81 per cent of those planning to grow in this way expect to acquire domestic businesses, whilst just 13 per cent expect to acquire across borders
- for one-half of these businesses, the key driver is to build scale.

Figure 8: Plans to grow through acquisition in the next three years

Percentage of businesses planning to grow through acquisition



Source: Grant Thornton IBR 2010

Fiscal authorities

- the majority of businesses (58 per cent) cite that they have not felt an increase in pressure from fiscal authorities
- one-third (35 per cent) cite that they have felt an increase in pressure, whilst eight per cent are unsure.

Influence of government's actions

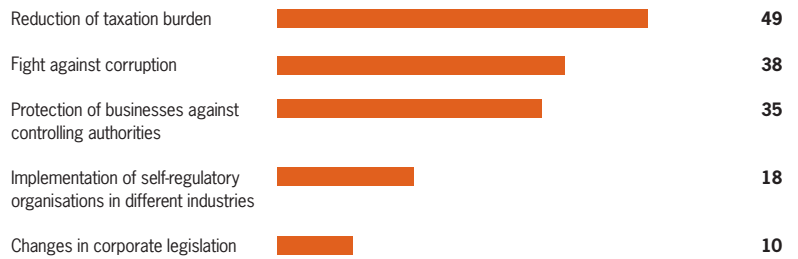
- the reduction of taxation burden is the most popular government action that has had a positive impact on businesses in Russia (49 per cent)
- around two-thirds cited the fight against corruption and the protection of business against controlling authorities
- and the least popular action was changes in corporate legislation (ten per cent).

Figure 9: Have you recently felt an increase in pressure from fiscal authorities in Russia?
Percentage of businesses



Source: Grant Thornton IBR 2010

Figure 10: Actions taken by the government that have had a positive influence on business
Percentage of businesses



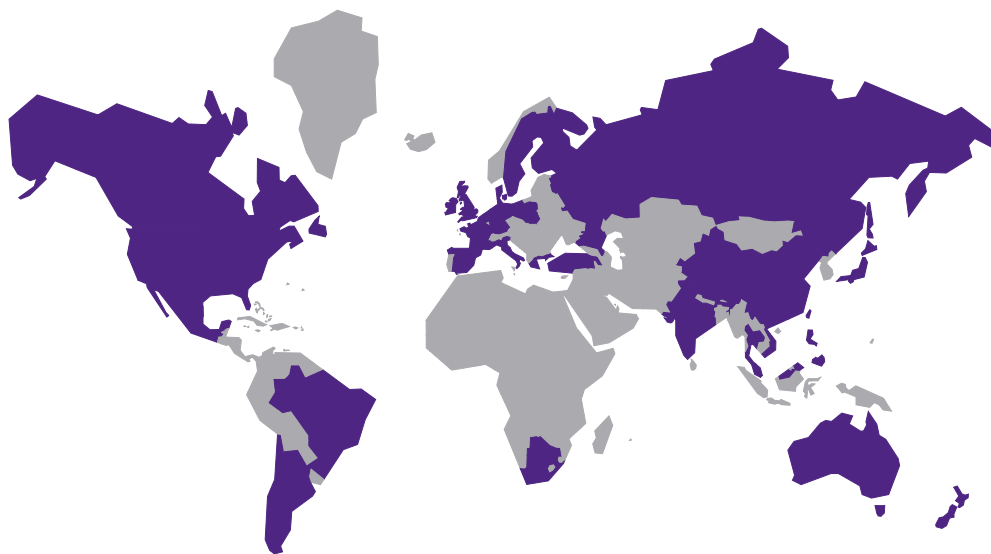
Source: Grant Thornton IBR 2010

The Grant Thornton International Business Report (IBR) is an annual survey of the views of senior executives in privately held businesses (PHBs) all over the world. Launched in 1992 in nine European countries the report now surveys over 7,400 businesses in 36 economies providing insights on the economic and commercial issues affecting a segment often described as the ‘engine’ of the world’s economy. In Russia 250 PHBs were surveyed across all industry sectors. These businesses ranged from medium to large in size with total employment of between 100 and 499.

To find out more about IBR and to obtain copies of reports and summaries visit: www.internationalbusinessreport.com. The site also allows users to complete the survey and benchmark their results against all other respondents by territory, industry type and size of business.

Participating economies

Argentina	Japan
Armenia	Malaysia
Australia	Mexico
Belgium	Netherlands
Botswana	New Zealand
Brazil	Philippines
Canada	Poland
Chile	Russia
Mainland China	Singapore
Denmark	South Africa
Finland	Spain
France	Sweden
Germany	Taiwan
Greece	Thailand
Hong Kong	Turkey
India	United Kingdom
Ireland	United States
Italy	Vietnam



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