

Focus on: Russia

International Business Report 2012 – Economy focus series

The economy

The Russian economy grew by 4.2% in 2011, showing a gradual recovery over the past two years from the crisis of 2008-2009. High oil prices following the Arab Spring have boosted revenues and the government budget has been redrawn based on a price of US\$93/barrel. At the same time the national economy remains heavily dependent on world prices for natural resources, the budget deficit without accounting oil and gas revenues increased to 11.7%, well up from the pre-crisis levels (4.7% of GDP).

The key indicators¹ are highlighted below:

- growth in the third quarter slowed slightly to 4.8% year-on-year
- industrial production rose by 4.8% from the previous 12 months
- the inflation rate eased to 6.1% from the previous 12 months, the best result for the last 20 years
- the labour market has now fully recovered after the crisis: the unemployment rate for 2011 stands at between 6.2% and 6.5%.

The business perspective

The Grant Thornton International Business Report (IBR) surveys more than 11,500 businesses in 40 economies around the world. This report focuses on businesses in Russia and their expectations for the next 12 months, as illustrated in figure 1.

The IBR survey tells us that businesses in Russia are slightly less optimistic about their economy over the next 12 months than they were in 2011. Business expectations for employment, profits and revenue have all improved since 2012, but bureaucracy remains a major constraint on growth.



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

The outlook

Russia's economy is recovering, but the upgrade process should be accelerated as it will reduce the dependence of the state budget from oil revenues. Also, the Russian government considers priorities for its work in 2012 – raising living standards, reducing the number of people living below the poverty line. For 2012, the economic growth forecast is at 4.2%, while consumer demand will grow, and fiscal policy will weaken ahead of parliamentary and presidential elections.

High oil prices allowed in 2011 to create a surplus in current account balance of Russia at 5.5%, but in 2012, surpluses will most likely reach only 3.9%, due primarily to a record capital outflow.

Having climbed by 8.9 per in 2011, consumer prices are forecast to fall back to 8.0 per cent in 2012 and 6.6 per cent in 2013. Public finances remain vulnerable to a sudden drop in oil prices because of the large non-oil fiscal deficit. Gross government debt is expected to climb from 8.5 per cent this year to 15.9 per cent in 2015.

The unemployment rate is forecast to fall to around 5.0 per cent by 2015 but unfavourable demographics pose a risk to the long-term health of the economy: the total population and the workforce are both expected to shrink over coming years.

Talk to us to find out how we can help you deal with the challenges your business is facing today.

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Figure 1: Key indicators for businesses

Russia compared with the Global average	2009 Rus	2010 Rus	2011 Rus	2011 Global
Outlook for the economy over the next 12 months				
Net optimism over pessimism	-2%	10%	-4%	0%
Change in employment levels				
Net hiring expectations	-18%	14%	22%	28%
Constraints on expansion				
Regulations/red tape	25%	40%	42%	32%
Shortage of orders/reduced demand	34%	51%	35%	31%

Source: Grant Thornton IBR 2012



International Business Report results

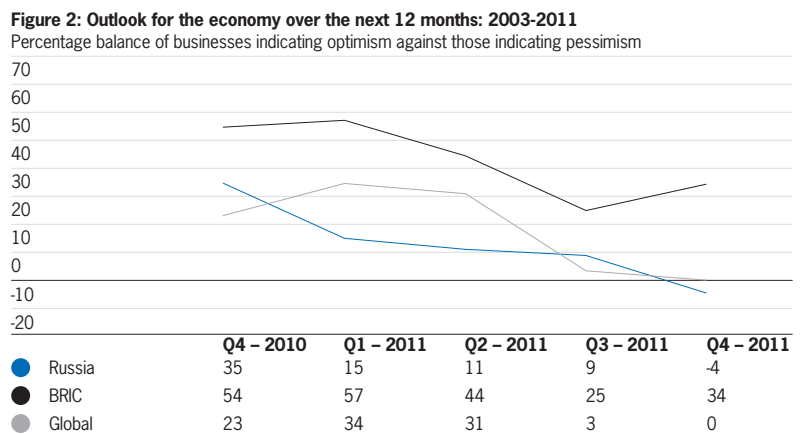
The results reveal that global business optimism dipped again in the fourth quarter of 2011. Businesses sentiment for the next 12 months in Russia stands at -4%, down from 9% three months ago.

The sovereign debt crisis is weighing heavily on businesses confidence in Europe; business optimism across the European Union dropped to -17% in Q4. However confidence in the BRIC economies ticked upwards to 34%, driven by China and Brazil.

Year-on-year optimism amongst businesses has declined slightly from net 22% in 2010, to net 16% across 2011.

Optimism/pessimism

- business optimism fell again in Russia in Q4-2011 to -4%, down from 9% in Q3-2011
- confidence across the BRIC² economies rose from 25% to 34% over the same period
- global business confidence dropped to 0%, down from 23% 12 months previously.



Source: Grant Thornton IBR 2012



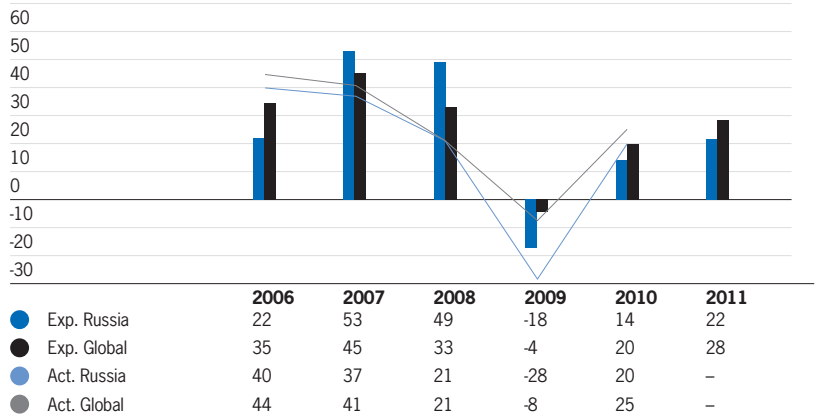
²the term 'BRIC' refers to these economies – Brazil, Russia, India and China.

Employment

- expectations for hiring staff in Russia increased in 2011 to 22%, up from 14% in 2010 and -18% in 2009
- globally, expectations picked up to 28% from 20% in 2010
- the proportion of businesses increasing reporting employment increases in Russia in 2010 (20%) was higher than expected at the start of the year.

Figure 3: Employment history: 2006-2011

Percentage balance of businesses indicating an increase against those indicating a decrease



Source: Grant Thornton IBR 2012

Revenue expectations

- the proportion of businesses expecting to increase revenues over the next 12 months in Russia climbed to 53% in 2011, up from 38% in 2010
- across the BRIC economies, expectations rose to 76% in 2011, up from 60% 12 months previously
- the global average is also up, rising from 40% to 50% over the past 12 months.

Figure 4: Revenue expectations: 2003-2011

Percentage balance of businesses indicating an increase against those indicating a decrease



Source: Grant Thornton IBR 2012

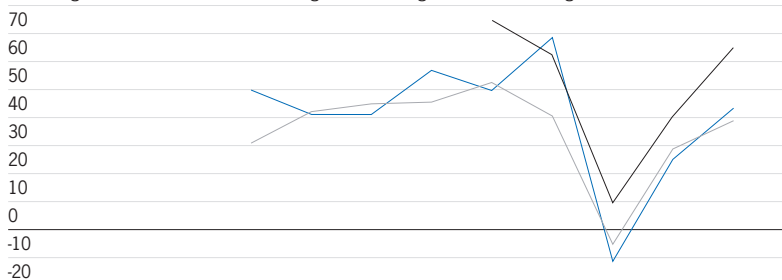


Profitability expectations

- net 43% of businesses in Russia expect their profits to rise over the next 12 months, up from net 25% in 2010
- across the BRIC economies profit expectations have risen from 40% to 64%
- similarly the global average has climbed from 29% to 39% over the past 12 months.

Figure 5: Profitability expectations: 2003-2011

Percentage balance of businesses indicating an increase against those indicating a decrease



	2003	2004	2005	2006	2007	2008	2009	2010	2011
● Russia	50	41	41	57	50	68	-11	25	43
● BRIC	-	-	-	-	74	63	10	40	65
● Global	31	42	45	46	52	41	-5	29	39

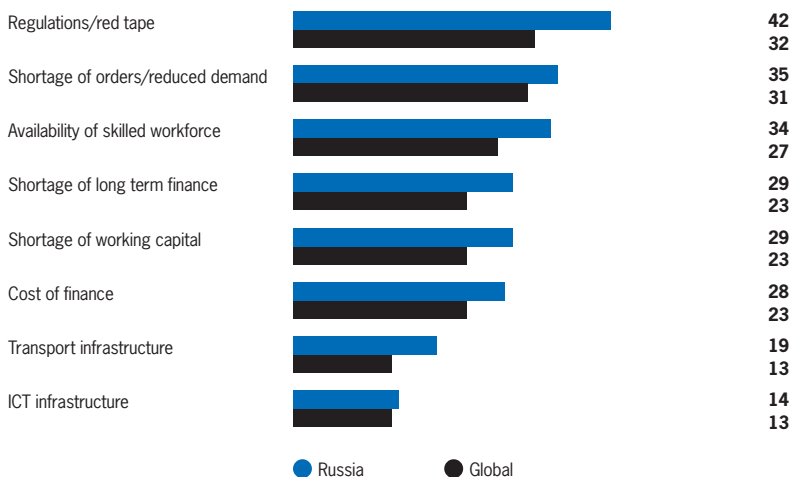
Source: Grant Thornton IBR 2012

Constraints

- regulations/red tape is the primary growth constraint for businesses in Russia – it is cited by 42% of businesses as opposed to 32% globally
- a shortage of orders/reduced demand is cited by 35% of businesses in Russia
- a further 34% cite a lack of skilled workers.

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

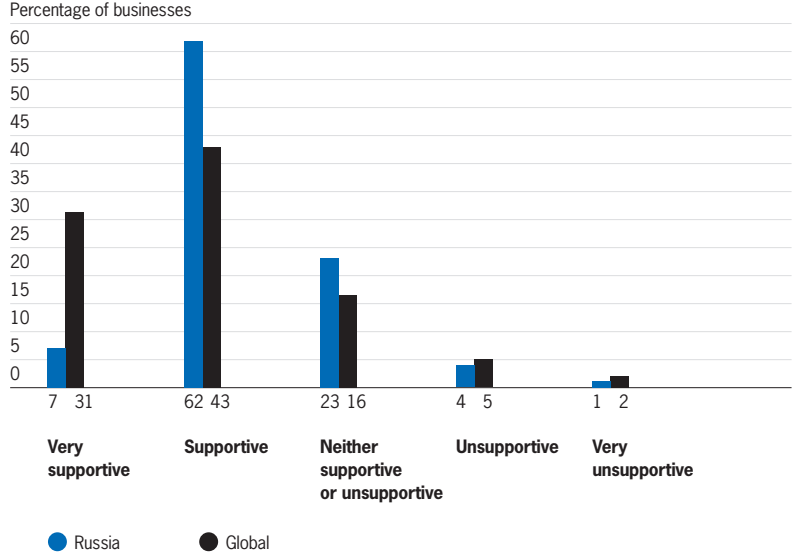


Source: Grant Thornton IBR 2012

Support of lender

- 69% of businesses in Russia believe lenders are supportive of their business
- this is slightly below the global average of 74%
- just 5% of businesses in Russia believe lenders are unsupportive.

Figure 7: Level of support provided by lenders

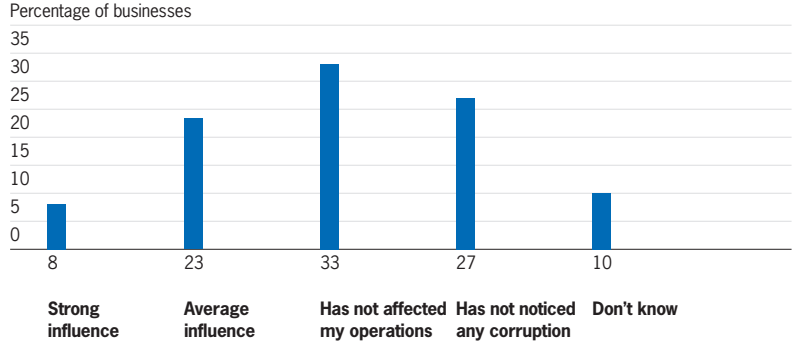


Source: Grant Thornton IBR 2012

Corruption

- corruption affects almost one-in-three businesses in Russia; it exerts a strong influence on 8 per cent of businesses and an average influence on a further 23 per cent
- however, a third businesses indicate that corruption has not affected their business operations, whilst 27 per cent have not noticed any corruption.

Figure 8: Influence of corruption on business operations



Source: Grant Thornton IBR 2012



The Grant Thornton International Business Report (IBR) is a quarterly survey of 2,800 senior executives in businesses all over the world. Launched in 1992 in nine European countries the report now surveys more than 11,500 business leaders in 40 economies on an annual basis providing insights on the economic and commercial issues affecting the global economy.

In Russia 400 businesses are surveyed every year across all industry sectors. These businesses range from medium to large in size with total employment of between 100 and 499. Data for this report were drawn from interviews conducted between January and December 2011.

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



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