



## RUSSIAN ECONOMY NEWS

*By LegalLife LLC*

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This “Russian Economy News”, as the name suggests, is not intended to be a widely circulated newsletter but a concise digest of some of the most relevant news for LegalLife’s clients in the Russian Federation.

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## NEWS

✓ **U.S. poultry export to Russia.** Exports may be resumed earlier than in two months, U.S. ambassador to Russia John Beyrle said on June 28<sup>th</sup>. The United States accounted for some 20% of poultry Russia consumed in 2009. The two countries have been in talks on resuming poultry imports after new harsher sanitary requirements came into force from January 1, 2010, effectively banning imports of U.S. poultry.

✓ **Rencap Conference Paints Bright Picture for Russia.** Renaissance Capital's 14<sup>th</sup> Annual Investor Conference opened in Moscow with an optimistic survey of the Russian economy. Rencap CEO Stephen Jennings noted the 5-percent growth rate projected for Russian GDP in 2010, low interest rates, and inflation at a post-Soviet low. He further commented that more reform has taken place in the one year since the crisis than in the last ten years combined. When compared with Chinese and Indian shares at price/earnings (p/e) ratios of 16 and 20 times respectively, Russian shares remain cheap with a p/e ratio of around 7.

✓ **Rate Cuts No Longer Needed.** The economy no longer needs the stimulus of rate cuts, and rates may remain on hold for the next few months, while any rise in inflation could prompt hikes in reserve requirements, Central Bank First Deputy Chairman Alexye Ulukayev said on June 26<sup>th</sup>. The Central Bank has cut its benchmark refinancing rate by 525 basis points since April 2009 to a record low of 7.75 percent in a bid to help the economy recover from its worst recession in 15 years. But in May the Central Bank signaled a pause in the easing cycle and analysts now see rates on hold to year-end.

✓ **Cisco Announces Investment in Skolkovo.** Meeting with Russian President Dmitry Medvedev in San Francisco on June 23<sup>rd</sup>, Cisco Chairman and CEO John Chambers announced that his company plans to invest \$1 billion dollars in Russian innovation and entrepreneurship efforts over the next decade. Chambers and Viktor Vekselberg, head of Russia's Skolkovo "Technopolis" project, signed a memorandum of understanding in which Cisco underscored its commitment to Skolkovo as the platform for advancing the innovation initiative in Russia. Building partnerships to support Russia's innovation drive is a major goal of President Medvedev's visit to the U.S. this week.

✓ **Salaries Rise Above Pre-Crisis Levels.** A Bank of Moscow report suggests that real salaries surpassed September 2008 all-time high levels by 1.5 percent in May. Their average level in the first five months of 2010 was 3 percent higher than during the same period in 2008. Real salaries would appear to be the first main indicator to exceed pre-crisis levels, with the GDP 7.3 percent lower and industrial production down by 9.4 percent. The gains in real salaries are primarily due to lower inflation.

✓ **Medvedev approves a list of instructions.** Following a meeting of the Commission for Modernisation and Technological Development of Russia's Economy of June 19, the Economic Development Ministry has been instructed to finalise the list of countries that can be Russia's key technological partners in healthcare technologies, pharmaceuticals, energy efficiency, resource saving, nuclear technologies, computer technologies and technologies and software, space technologies, and telecommunications. The Ministry is also to plan measures aimed at developing cooperation in relevant sectors, attracting foreign professionals to work in Russia, and encouraging





foreign universities and high-tech companies to open R&D centres in Russia. Instructions have also been issued to the ministries of finance, energy, industry and trade, healthcare and social development, telecommunications and mass communications, as well as to Rosatom State Atomic Energy Corporation and Roscosmos Russian Federal Space Agency.

✓ **Russia's Economy Approaches Pre-Crisis Growth.** Alexander Surinov, Head of Rosstat, told Prime Minister Vladimir Putin that Russia's economy has reached 99 percent of the average level of growth in 2008 and that trends remain positive. He added that unemployment has fallen to 7.5 percent, down from 8.2 percent in April. Higher than expected oil prices have driven the recovery in Russia's economy, which has also lifted the consumer sector. Low levels of lending, high interest rates and low levels of investment continue to be concerns.

✓ **GDP Grew 5.8 Percent year on year in May.** The Ministry of Economic Development reported that Russia's GDP grew by 5.8 percent year-on-year in May, after rising 5.5 percent in April. This corresponded to a 0.4 percent month-on-month GDP growth. The outlook for the second half of 2010 remains clouded in view of the very high interest rates and the disappointing capital investment growth figures.

✓ **Medvedev Outlines Modernization Steps.** In his speech at the St. Petersburg International Economic Forum (SPIEF), Mr Medvedev looked at various aspects of Russian economic policy regarding anti-crisis measures, budget, investment activity, creating a good business climate, and foreign economic matters such as Russia's accession to the World Trade Organisation. The President said the country has been firmly set on an economic modernisation course now, with the Presidential Commission for Modernisation and Technological Development of Russia's Economy promoting actively the priority areas of energy efficiency, outer space, nuclear energy, and medical and information technology. Work is underway on creating Russia's new innovation centre in Skolkovo. President Dmitry Medvedev also outlined three steps that he believes will provide greater impetus for innovation in Russia: the creation of a Public-Private Investment Fund, the abolition of the capital gains tax on long-term investments and a reduction in the number of strategic enterprises from 208 to 41. Medvedev hopes that the investment fund will attract 3-4 rubles of private investment for every ruble of public money. He added that, "We understand that a modern economy cannot be built through decrees from the top. No matter how many state-owned enterprises we have, modernization will be conducted primarily by private businesses."



✓ **World Bank Sees Higher Growth Rate for Russia.** On June 10, the World Bank forecast that a rebound in Russia's economy would be among the main drivers of economic recovery in Europe and Central Asia in 2010. The Bank projected growth in Russia's GDP to reach 4.5 percent, 4.8 percent, and 4.7 percent in 2010, 2011, and 2012 respectively. The forecast saw a strong recovery during the first half of 2010, but the growth would taper off during the second half of the year due to weak consumer demand and low investment levels.

✓ **Automotive Sales Begin Recovery.** According to the Association of European Businesses, automobile sales fell 5 percent year-on-year (yoy) in January-May 2010, but rose 31 percent yoy in May after a 20 percent yoy rise in April.



Nearly 158,000 cars were sold in May, with the Lada Priora, Renault Logan and Ford Focus being the top three most popular, respectively. Much of the increase in sales is attributed to the Cash-for-Clunkers program, to which the government has recently pledged an additional 10 billion rubles (\$316 million).

✓ **Russia Consolidating Positions in Investor Rankings.** A report published today by the Eighth World Investment Conference held in La Baule states that Russia is consolidating its position in the international investor rankings and has entered the list of the world's top five countries in regard to the numbers of acquired new business projects. The report indicates that Western business quarters would like to see greater transparency and openness in Russia as well as assimilation of the European style of conducting business operations.

✓ **Work visas.** Finding a job in Russia will be easier for highly qualified foreign specialists than for ordinary guest workers. The special conditions will be stipulated in a special article of the Law "On the Legal Status of Foreign Citizens in Russia". Its draft was finalized and prepared for the second reading by a specialized State Duma committee. Deputies believe that the legislative innovation will help the government attract foreign experts to Skolkovo.



SOURCES include The Moscow Times, USRBC Daily Update, Bloomberg, Itar-Tass; Financial Times, Ria Novosti, Kremlin.ru, Alfa Bank Morning Brief, Vnesheconombank news, Russia Today, World Bank Country Office in Russia news.