

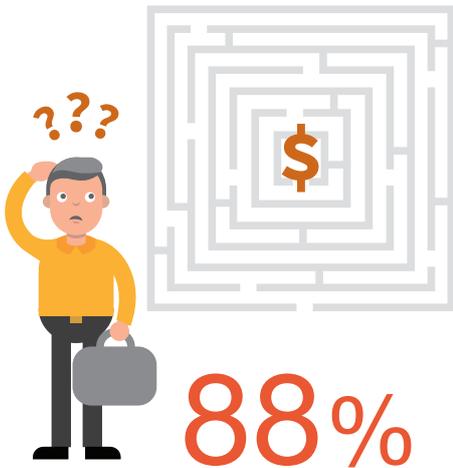


Through hardship...
to the stars?

The **1001** opinions
of Russian business leaders



Through hardship... to the stars?



88% of respondents believe it is “very difficult” or “rather difficult” to do business in Russia



70% of respondents assessed the level of corruption in Russia as “somewhat high” or “very high”



Less than 10% of respondents expect Russia’s GDP growth rate over the next 6 years to surpass the global average

“...The only way to tell the future with some accuracy is to look at it pessimistically.” We kept the words of Joseph Brodsky in mind while analysing the results of our large-scale survey of Russian CEOs and executives to assess the current economic environment in Russia and the prospects for it.

The survey, in which over 1,000 leaders from small, medium and large businesses took part, gave us interesting results to consider at the onset of the new six-year presidential term.

The overall mood is gloomy, but there are signs of cautious optimism. Let us take a look at the gloomy side first.

Eighty-eight percent of the Russian CEOs surveyed believe it is “very difficult” or “rather difficult” to do business in Russia. Almost one-third of executives were certain that “it is very difficult”

The biggest problems are the same year after year. They include complaints about excessive taxes, administrative barriers and bureaucracy, continuous legislative changes and corruption. Seventy percent of respondents assessed the level of corruption among government authorities as “somewhat high” or “very high”; and major businesses that deal with such authorities at higher levels tended to respond this way more often than small and medium-sized businesses did.

The majority of CEOs believe that Russian GDP growth rates will be lower than global rates in one year, three years and six years from now. On the bright side, the number of those sceptical about six years from now fell by a quarter — from 68% to 43% — and 37% of respondents believe that GDP growth rates in Russia will be in line with global GDP growth rates in six years. However, the percentage of respondents who expect Russia’s GDP growth rate to surpass the global average did not exceed 10%.

Scepticism was prevalent in the answers to the question about the success of reforms in the state management, education and healthcare sectors in Russia. It turns out that there are half as many optimists as pessimists among the Russian CEOs surveyed.

It is worth noting that 80% of business leaders are convinced that social inequality is either “a pressing issue” or “a rather pressing issue” in Russia. The majority of these business leaders believe that the problem is “a rather pressing issue”. Fifty-nine percent of respondents were certain that social inequality “has increased” or “has increased significantly” over the last six years in Russia.

Two-thirds of respondents (67%) were concerned that the public’s trust in business is “somewhat low” or “very low”, while 60% of respondents either “somewhat disagreed” or “strongly disagreed” with the statement that the Russian government considers business interests in its actions.

Fifty-eight percent of respondents said that there is no trust in relationships between businessmen.

It would be difficult to expect any improvements in the economy considering these circumstances. However, more than half of

the business leaders surveyed — 56% — believe that it is quite realistic that Russia’s GDP per capita could increase by 1.5 times over the next six years. At the same time, they stressed that this will depend on the fulfilment of various conditions, including – aside from combating corruption and bureaucracy – government support for businesses and creating ideal conditions for their operations.

The belief that this is possible is partly explained by the answers given by business leaders to questions about changes in the levels of corruption and economic crime in Russia. The number of those who believe that the level of corruption in Russia has fallen over the last six years is considerably higher than the number of those who think otherwise (even though the most common answer was “nothing has changed”). As for economic crime and the perceived levels of it, the numbers are even more optimistic. The share of respondents who said that the level of economic crime is “somewhat lower” or “considerably lower” was twice as high (35%) as for those who believe the opposite (17%).

At first glance, sanctions introduced against Russia and certain Russian companies are a concern. Fifty-nine percent of the business leaders surveyed said that sanctions have had a “somewhat negative” or “very negative” impact on Russian businesses. However, the number of those (15%) who believe that sanctions have had a “very negative” impact is less than the number of those (18%) who have seen a “somewhat positive” impact from sanctions. Another 2% of respondents have experienced a “very positive” impact from sanctions.

The answers to questions concerning the impact of these sanctions on the companies managed by our respondents were more optimistic. Only 8% of respondents said that the implications of sanctions have been “very negative” for them. Together with those responding that sanctions have had a “somewhat negative” impact on their operations, the total percentage of those affected is 39%. This is 20% lower than the share of respondents who said that sanctions have negatively affected Russian businesses overall. In addition, the business leaders surveyed do not expect any substantial changes in their work because of sanctions either three years or six years from now.

In conclusion, here is some more food for thought.

Two-thirds of respondents (66%) said that in three years, China would be Russia’s key economic partner. The EU and CIS countries were second among the responses (only 12% of respondents mentioned each them).

If we consider that at the end of last year, EU member states accounted for 43.8% of Russia’s turnover from foreign trade while China accounted for 15.5%, then the assumptions of Russian business leaders may seem erroneous. However, in the period since 2013, Russia’s trade with China has increased by almost 5% while decreasing by almost 6% with EU countries.

It will be interesting to look at the statistics three years from now.



59% of respondents said that sanctions have had a “somewhat negative” or “very negative” impact on Russian businesses



Only 8% of respondents said that the implications of sanctions have been “very negative” for their companies



66% of respondents said that in three years, China would be Russia’s key economic partner

www.pwc.ru

PwC Russia (www.pwc.ru) provides industry-focused assurance, tax, legal and advisory services. Over 2,700 professionals working in PwC offices in Moscow, St Petersburg, Ekaterinburg, Kazan, Novosibirsk, Rostov-on-Don, Krasnodar, Voronezh, Vladikavkaz and Ufa share their thinking, experience and solutions to develop fresh perspectives and practical advice for our clients. The global network of PwC firms brings together more than 250,000 people in 158 countries.

* PwC refers to PricewaterhouseCoopers Russia B.V. or, as the context requires, other member firms of PricewaterhouseCoopers International Limited, each of which is a separate legal entity.

© 2018 PricewaterhouseCoopers Russia B.V. All rights reserved.