



**State Policy Developments**

**The Government considers strengthening protectionism in the market for the road construction machinery**

On June 5, 2017 Kommersant newspaper reported that the Government considers increase in the rates of utilization fee for the road construction machinery.

The utilization fee was introduced in 2016 and is paid by all producers of the road construction machinery before obtaining the state registration documents required for operations in Russia. The introduction of the fee has been a de facto protectionist measure with consideration of WTO rules, as far as the fee is subsidized for the Russian producers. The fee depends on the weight, horsepower and age of the machines being defined in RUR per unit, and it presently starts from approximately 10% of the machinery price with restrictive fee applied to the second-hand imported equipment. The introduction of the fee and specifics of its implementation led to growing prices for the road construction machinery in the Russian market in 2016.

Dedicated article in Kommersant newspaper: [Original](#) (Rus) | [Google Translate](#)

**The state aims to introduce specialization of the Russian regions and to reduce differences among them in terms of economic development**

On June 5, 2017 Mr. Dmitry Medvedev, the Russian Prime Minister, approved the roadmap for the implementation of “Principles of the State Policy on the Regional Development until 2025” (adopted on January 16, 2017 by the decree of Mr. Vladimir Putin).

Referring to Mr. Dmitry Kozak, the Russian First Vice Prime Minister, the roadmap envisages elaboration of the strategy of territorial development of Russia until 2025. The strategy assumes analysis of allocation of industrial capacity and identification of prospective place of each region in the inter-regional division of labour with appropriate measures of the federal support (development of infrastructure by the federal state and facilitation of business development in sectors of a region’s specialization).

The roadmap provides for more than 30 activities aimed at balancing social and economic developments of areas within Russia, reducing differences in terms of the economic development among the Russian regions, as well as securing increase in the level of income of population. That is primarily supposed to be done by facilitating own economic potential of the regions with the federal state offering the following means of support:

1. Provision of [dotations](#) to the underperforming Russian regions for the budgetary balancing subject to obligations of regions on increase of own tax potential,

bringing in investment and creation of new working places;

2. Fine-tuning assessment of effectiveness of activities of the regional state power bodies and distribution of grants based on that assessment (from RUR 5 billion to RUR 20 billion);
3. Starting from 2018 the registered increase in collection of corporate tax in a region will be available in full for spending by that region (in 2017-2020 the tax is distributed in the proportion of 17%/3% between the regional and the federal budgets, while the regular distribution under the Russian Tax Code is 18%/2%).

The role of the natural monopolies in development of their regions of operation is supposed to increase, and they will be obliged to consider the regional development issues in their investment programs.

Principles of the State Policy on the Regional Development until 2025: [Original](#) (Rus) | [Google Translate](#)

Resolution on approval of the roadmap on implementation of Principles of the State Policy on the Regional Development until 2025 (Russian Government web site): [Original](#) (Rus) | [Google Translate](#)

Citing the meeting on the roadmap held by the Russian Government (TASS news agency): [Original](#) (Rus) | [Google Translate](#)

**Details on the planned investment benefit for companies investing in modernization have been disclosed**

On April 19, 2017 Mr. Dmitry Medvedev, the Russian Prime Minister, [announced](#) the idea of introduction of the corporate tax benefit for companies investing in modernization.

On June 6, 2017 Vedomosti newspaper revealed the details on implementation of the benefit that were provided by the Ministry of Finance to the Russian Government for approval.

The benefit will concern investment directed for purchase, modernization and reconstruction of production facilities and equipment. The appropriate sums will be deducted directly from the corporate tax to be paid (up to 50% of the tax payable). The benefit is supposed to be applied until 2027. The cost of benefit for the Russian budget is estimated at RUR 1.4 trillion per year, including RUR 1.2 trillion falling at the regional budgets.

The benefit will cover selected investment articles within 3-7 depreciation groups under the Russian classification, i.e. buildings, machinery, vehicles and equipment with the useful life varying from 3 to 20 years.

The state plans to introduce a number of limitations for the applicants:

1. The companies operating under special tax regimes (for instance, within special economic zones), will not be able to apply for the benefit;
2. The foreign companies will not be able to apply;

3. The investment in construction of the buildings and facilities with useful life exceeding 20 years (so-called "capital construction") will not be applicable for the benefit;
4. A company will have to choose between applying for the benefit and using depreciation (in opposite case there would be double reduction of the tax to be paid).

Dedicated article in Vedomosti newspaper: [Original](#) (Rus) | [Google Translate](#)

### **The Russian budget for 2017 is likely to lack RUR 205 billion of dividends from the state-owned companies**

On June 7, 2017 the budgetary committee of [the State Duma](#), the lower chamber of the Russian Parliament, approved amendments to the law on the federal budget for 2017-2019 that were [delivered by the government on May 26, 2017](#). The amendments still have to go through several readings in both chambers of the Parliament, but after the committee's approval, they are very likely to pass.

The Accounts Chamber of the Russian Federation prepared own assessment of amendments pointing at not so realistic macroeconomic projections (specifically, 2% GDP and fixed investment growth in 2017).

The Chamber also indicated the threat of insufficient collection of dividends from the state-owned companies (total sum of RUR 205 billion / USD 3.6 billion), as far as the Government's resolution on direction of 50% of their net income for dividends to the federal budget have not been issued yet (Mr. Dmitry Medvedev [announced](#) the decision on April 27, 2017).

The state-owned companies have to make decisions on dividends before June 30, 2017 (25% of the net income is presently directed to the federal budget), and the chances that the resolution will be finally signed are presently considered as low. The Ministry of Finance plans to use the [National Wealth Fund](#) for compensation of corresponding budgetary gap.

Report of Accounts Chamber on assessment of proposed amendments to the federal budget for 2017-2019: [Original](#) (Rus)

### **Industrial assembly agreements in the Russian automotive industry are to be replaced with another support scheme starting from 2019**

At present the major part of the motor vehicles manufacturers operate in Russia under the industrial assembly agreements that envisage benefits on imports duties for automotive components. The majority of those agreements expire in 2018-2020. However, starting from July 1, 2018 Russia will have to abolish the mentioned benefits under WTO rules, so that the existing agreements will not be prolonged.

On June 7, 2017 Vedomosti newspaper reported that the Ministry of Economic Development and the Ministry of Trade and Industry initiated elaboration of new scheme of support of automotive industry under [the Strategy of Development of the Automotive Industry by 2025](#). The Government plans to present it to the public by the end of August 2017.

According to available information, the scheme will retain existing measures of support of motor vehicles producers (except benefits on imports duties), including access to state purchases, privileges on loans and leasing, compensation of utilization fee, etc. Those privileges are supposed to be provided under the new type of agreements that will be concluded with a specific company for a specific model range (the agreements with investor pools will not be allowed any more). The starting level of production localization shall not be less than 60% with obligations to increase that level over time. Some target indicators on the share of exports are also likely to be introduced.

Dedicated article in Vedomosti newspaper: [Original](#) (Rus) | [Google Translate](#)

### **The state plans easing of the guarantee requirements in the course of the state purchases**

At present, in order to participate in the state purchases, a company shall provide guarantees to the state on the contract execution by means of (1) provision of the bank guarantee or (2) transfer of a portion of a contract price to a specified account. Under the federal law #44-FZ, the required amount of the guarantee varies from 5% to 30% of contract price, while for the contracts with the price above RUR 50 million that range is 10-30%.

On June 9, 2017 the Russian Government approved the draft amendments to the law #44-FZ that envisage the required sum of the guaranties to diminish gradually in accordance with the accomplished stages of the contract execution. The appropriate clause shall be introduced to all the contracts on state purchases that assume a number of stages in the course of their execution (most importantly, the construction contracts).

Referring to Kommersant newspaper, starting from June 2016 there were issued more than 500 thousand guarantees on the state contracts for the total sum of RUR 900 billion. The average fee on provision of guarantees by the banks is presently estimated at 3.5-4.0% of a guarantee's sum.

Proposed amendments at web-site of the Russian Government: [Original](#) (Rus) | [Google Translate](#)

Message on approval of amendments at web-site of the Russian Government: [Original](#) (Rus) | [Google Translate](#)

Dedicated article in Kommersant newspaper: [Original](#) (Rus) | [Google Translate](#)

## **Business Environment Developments**

### **The Russian Federal Anti-Monopoly Service indicated the key issues limiting the development of competition in Russia**

On June 2, 2017 the Russian Anti-Monopoly Service (FAS) released the draft Report on Status of the Competition in Russia (to be further delivered to the Russian Government), which features in-depth assessment of the domestic competitive environment. The following key issues limiting the development of competition in Russia have been identified:

1. **Increasing share of the state in the economy** that presently amounts to 60-70% under different estimates;
2. **Increase in number of cartels and other anti-competitive agreements**, especially in the sector of state purchases. In 2016, FAS initiated 692 cases on protection of competition, including 330 cartel cases (more than 80% of cartel cases concern the state purchases);
3. **Systematic problems in the course of execution of legislation on the state purchases.** FAS indicated a number of critical drawbacks of the key legislative acts on the state purchases (the federal laws #44-FZ dated April 5, 2013 and #223-FZ dated July 18, 2011);
4. **Unresolved issues in the course of execution of legislation on concessions** (including projects implemented in the form of public-private partnerships, PPPs). The procedures of making concession agreements often lack transparency and, in many cases, the tender requirements presume selection of a specific winner. In some cases, the bodies participating in PPPs on the side of the state cover 100% of the project costs;
5. **Systematic problems in the course of the state property sale and lease under auctions** (including lease rights for natural resources). Those problems primarily concern non-unified auction procedures and documents that differ dramatically from sector to sector, while the possibility of e-auctions is not provided by regulations governing the majority of sectors;
6. **Impacts of sanctions**, given the negative influence of the imports substitution policy on the competitive environment;
7. **Non-effective policy of tariff regulation for the natural monopolies.** Nowadays, the list of sectors subject to tariff regulation is probably too large in Russia, and identification of sectors to be regulated requires proper market studies. The regulation procedures and principles are not unified that leads to outstanding differences in approaches to tariff regulation from region to region.

Draft report at web site of FAS: [Original](#) (Rus, doc)

Comments on the draft report at web site of FAS: [Original](#) (Rus) | [Google Translate](#)

### **The Russian Central Bank is likely to lower the base rate by 25-50 bps on June 16, 2017**

On June 5, 2017 Ms. Elvira Nabiullina, the head of the Russian Central Bank, commented to the press that on June 16, 2017 the bank will be considering two options assuming decrease in the base rate by 0.25% and 0.5%, correspondingly. The base rate reduction will be possible owing to lowering registered inflation rates and inflation expectations. The Russian base rate is presently at 9.25%. The [last revision](#) was made on April 28, 2017 (decrease from 9.75% to 9.25%).

Citing Ms. Elvira Nabiullina (Interfax news agency): [Original](#) (Rus) | [Google Translate](#)

### **Russia joined OECD's multilateral convention to prevent base erosion and profit shifting (BEPS)**

On June 7, 2017 Russia joined Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (BEPS). The Convention, which covers 76 states and jurisdictions, is aimed at reduction of opportunities for tax avoidance by multinational enterprises.

Press release by the Russian Ministry of Finance: [Original](#) (Rus) | [Google Translate](#)

Press release by OECD: [Original](#) (Eng)

### **The Russian Parliament considers prohibition of access to LinkedIn and other black-listed web sites via VPNs, anonymizers and proxies**

On June 8, 2017 the draft amendments to the federal law #149-FZ "On Information, Information Technologies and Information Protection" were provided for consideration to the State Duma by its several delegates.

The amendments aim at prohibition of bypassing the black listed web sites blockage. The national black list is presently managed by [the Russian Federal Service for Supervision of Communications, Information Technologies and Mass Media](#) (RosKomNadzor), which sends the list of IP addresses to be blocked to the Russian Internet providers. The bypassing is typically done by means of VPNs, anonymizers and proxies. At present, the Russian black list contains 74 423 web sites, including LinkedIn.

The network and software owners, as well as providers of appropriate services and search engines are assumed to be responsible for restriction of access to the black listed web sites.

The amendments envisage penalties for the search engines in case of provision of links to the black listed web sites varying from RUR 5 thousand for private persons to RUR 500-700 thousand for legal entities. The penalties for VPN owners (or other tunnelling means, including proxies) are indicated at RUR 10-30 thousand for private persons and RUR 50-300 thousand for legal entities.

The proposed amendments followed [the bill on prohibition of anonymity in messengers](#), which was provided for consideration to the Duma on May 25, 2017.

Web page of the draft law at web site of the State Duma: [Original](#) (Rus)

The draft explanatory note at web site of the State Duma: [Original](#) (Rus)

### **Russian corporate Eurobond proceeds to double in 2017**

On June 8, 2017 PwC released the Russian Eurobond study for the period from January 1, 2015 to June 1, 2017. According to the presented statistical data, the total Eurobond proceeds for January-April 2017 nearly approached the results for the whole 2016 (USD 12,702 million vs. USD 13,001 million). The largest issue (USD 1 billion) was placed in April 2017 by Norilsk Nickel, the Russian nickel and palladium mining and smelting company. There have been totally 23 transactions registered starting from the beginning of the year (2016: 29



transactions) with the average deal size at USD 561 million (2016: USD 448 million).

The Russian Eurobond study by PwC: [Original](#) (Eng)

## National Statistics

### Russian CPI growth remained at 4.1% in May 2017

On June 6, 2017 the Russian State Statistics Service released data on CPI in May 2017. The CPI growth was estimated at +0.4% as compared to April 2017, +1.7% as compared to December 2016 and +4.1% as compared to May 2016. The inflation rates in May were similar to those demonstrated in April 2017 being close to 4.0% inflation target indicated by the Russian Central Bank for 2017.

Data on CPI released by the Russian State Statistics Service: [Original](#) (Rus) | [Google Translate](#)

## Reports and Forecasts on Russia Traced by Factsphere

Date	Publisher	Document name	URL
05.06.2017	<a href="#">The World Bank</a>	Global Economic Prospects. June 2017.	<a href="#">Original</a> (Eng)
05.06.2017	<a href="#">The Russian Ministry of Finance</a>	Interview of Mr. Vladimir Kolychev, the Deputy Minister of Finance, to TASS news agency	<a href="#">Original</a> (Rus)   <a href="#">Google Translate</a>
06.06.2017	<a href="#">ACRA rating agency</a>	New fiscal rule to lower Russia's budget's oil & gas dependence. Federal budget balance and stability study	<a href="#">Original</a> (Eng)
06.06.2017	<a href="#">The Russian Central Bank</a>	Talking Trends bulletin. May 2017	<a href="#">Original</a> (Eng)
06.06.2017	<a href="#">ROMIR</a>	Survey on consumer behaviour in Russia.	<a href="#">Original</a> (Rus)   <a href="#">Google Translate</a>
06.06.2017	<a href="#">The Accounts Chamber of the Russian Federation</a>	Conclusions of the Accounts Chamber on proposed amendments to the federal budget for 2017-2019.	<a href="#">Original</a> (Rus, doc)
07.06.2017	<a href="#">ACRA rating agency</a>	Stiffening Competition in the Mortgage Market to Push Down Bank Margins. Mortgage lending market 2020 forecast	<a href="#">Original</a> (Eng)
07.06.2017	<a href="#">OECD</a>	Global Economic outlook June 2017. Russian Federation	<a href="#">Original</a> (Eng)
07.06.2017	<a href="#">FocusEconomics</a>	Results of the poll on the Russian economy developments	<a href="#">Original</a> (Eng)
07.06.2017	<a href="#">The Ministry of Economic Development</a>	Monitoring of development of the Russian economy sectors in April 2017	<a href="#">Original</a> (Rus)
07.06.2017	<a href="#">The World Bank</a>	How important are spillovers from major emerging markets? Policy Research Working Paper (Huidrom, Raju; Kose, Ayhan; Ohnsorge, Franziska Lieselotte)	<a href="#">Original</a> (Eng)
08.06.2017	<a href="#">ROMIR</a>	Survey on the daily consumer expenses in May 2017.	<a href="#">Original</a> (Rus)   <a href="#">Google Translate</a>
08.06.2017	<a href="#">The Ministry of Economic Development</a>	Inflation picture in May 2017	<a href="#">Original</a> (Rus)   <a href="#">Google Translate</a>
08.06.2017	<a href="#">PwC</a>	Russian Eurobond from 1 January 2015 till 1 June 2017	<a href="#">Original</a> (Eng)
09.06.2017	<a href="#">BOFIT</a>	BOFIT Weekly	<a href="#">Original</a> (Eng)
09.06.2017	<a href="#">Commerzbank</a>	Week in Focus	<a href="#">Original</a> (Eng)
09.06.2017	<a href="#">The Russian Central Bank</a>	Comments on dynamics of consumer prices. June 2017	<a href="#">Original</a> (Rus)
09.06.2017	<a href="#">AEB</a>	AEB Monthly Newsletter June 2017	<a href="#">Original</a> (Eng)

## Statistical Publications Traced by Factsphere

Date	Publisher	Document name	URL
05.06.2017	<a href="#">The Russian Ministry of Finance</a>	On revenues from oil and gas sector and operations on foreign currency purchase and sale in the domestic market	<a href="#">Original</a> (Rus)   <a href="#">Google Translate</a>
05.06.2017	<a href="#">The Russian Ministry of Finance</a>	On mining and production of gold and silver in January-April 2017	<a href="#">Original</a> (Rus)   <a href="#">Google Translate</a>
05.06.2017	<a href="#">The Russian Ministry of Finance</a>	Volume of the Reserve Fund	<a href="#">Original</a> (Eng)
05.06.2017	<a href="#">The Russian Ministry of Finance</a>	Volume of the National Wealth Fund	<a href="#">Original</a> (Eng)
05.06.2017	<a href="#">The Russian Ministry of Finance</a>	Allocation of National Wealth Fund's assets to preferred equities of Russian banks as of June 1, 2017	<a href="#">Original</a> (Eng)
06.06.2017	<a href="#">The Russian Ministry of Finance</a>	Weekly data on budget funds in deposits, public budget loans and REPO	<a href="#">Original</a> (Eng)
06.06.2017	<a href="#">The Russian Central Bank</a>	Housing (mortgage) loan market statistics	<a href="#">Original</a> (Eng)
06.06.2017	<a href="#">The Russian Central Bank</a>	Granted funds and borrowings statistics	<a href="#">Original</a> (Eng)
06.06.2017	<a href="#">The Russian Central Bank</a>	Russian Federation: Inward Foreign Direct Investment in the Russian Regions, breakdown by instrument and economic activity (stock by instrument and economic activity as of January 1, 2017)	<a href="#">Original</a> (Rus)   <a href="#">Google Translate</a>
06.06.2017	<a href="#">The Russian Central Bank</a>	Russian Federation: Inward Foreign Direct Investment in the Russian Regions, breakdown by instrument and economic activity (stock by region as of January 1, 2017)	<a href="#">Original</a> (Rus)   <a href="#">Google Translate</a>



<b>Date</b>	<b>Publisher</b>	<b>Document name</b>	<b>URL</b>
06.06.2017	<a href="#">The Russian Customs Service</a>	Exports and imports of the key goods in January-April 2017	<a href="#">Original</a> (Rus)
06.06.2017	<a href="#">The Russian State Statistics Service</a>	On CPI in May 2017	<a href="#">Original</a> (Rus)  <a href="#">Google Translate</a>
07.06.2017	<a href="#">The Russian State Statistics Service</a>	On CPI estimate for May 30-June 5, 2017	<a href="#">Original</a> (Rus)  <a href="#">Google Translate</a>
07.06.2017	<a href="#">The Russian Central Bank</a>	International investment position on international reserves of the Russian Federation (January-May 2017)	<a href="#">Original</a> (Eng)
07.06.2017	<a href="#">The Russian Central Bank</a>	International reserves of the Russian Federation (monthly)	<a href="#">Original</a> (Eng)
08.06.2017	<a href="#">The Russian Central Bank</a>	Outward FDI stock from the Russian regions: breakdown by geographic and economic zones (01.01.2017)	<a href="#">Original</a> (Rus)
08.06.2017	<a href="#">The Russian Central Bank</a>	Inward FDI stock to the Russian regions: breakdown by geographic and economic zones (01.01.2017)	<a href="#">Original</a> (Rus)
08.06.2017	<a href="#">The Russian State Statistics Service</a>	On production volumes of oil products and dynamics of their retail prices for May 29-June 4, 2017	<a href="#">Original</a> (Rus)  <a href="#">Google Translate</a>
08.06.2017	<a href="#">The Russian Central Bank</a>	International reserves of the Russian Federation (weekly)	<a href="#">Original</a> (Eng)
09.06.2017	<a href="#">The Russian Customs Service</a>	Foreign trade statistics for January-April 2017 (multiple documents)	<a href="#">Original</a> (Rus)
09.06.2017	<a href="#">The Russian Central Bank</a>	Comments: Estimates of Key Aggregates of the Balance of Payments of the Russian Federation for January – May of 2017	<a href="#">Original</a> (Eng)
09.06.2017	<a href="#">The Russian Central Bank</a>	The Russian foreign trade in 1994-April 2017 (goods, BoP methodology)	<a href="#">Original</a> (Rus)
09.06.2017	<a href="#">The Russian Central Bank</a>	Assessment of key aggregates of the balance of payments of the Russian Federation in January-May 2017 (comments)	<a href="#">Original</a> (Rus)



## Contact Information

Mr. Dmitry Efremov, Director & Project Lead  
e-mail: [dmitry.efremov@factosphere.com](mailto:dmitry.efremov@factosphere.com)

Ms. Liudmila Novikova, Managing Director  
e-mail: [liudmila.novikova@factosphere.com](mailto:liudmila.novikova@factosphere.com)

Ms. Elizaveta Markovskaya, Head of Consulting  
e-mail: [elizaveta.markovskaya@factosphere.com](mailto:elizaveta.markovskaya@factosphere.com)

## Disclaimer

The information presented herein is distributed on "as is" basis. Whilst Factosphere Ltd. makes reasonable efforts to obtain, process and present up-to-date and reliable information from public and other sources, neither Factosphere Ltd. nor any third party makes any warranty, express or implied, as to the accuracy or completeness of the presented information.

The present newsletter is not fully appropriate for the purposes of making a decision to carry out a transaction, trade or any kind of agreement. Nor does it provide any form of advice (investment, tax, legal), or make any recommendations regarding particular investments, products, transactions and agreements.

Therefore, Factosphere Ltd. hereby disclaims all liability to the maximum extent permitted by law in relation to this newsletter and does not give any warranties (including any statutory ones) in relation to the presented information. Factosphere Ltd. disclaims all responsibility for any and all mistakes, inaccuracies and delays in the information. Further on, Factosphere Ltd. disclaims all liability for loss or damage, which may result from the use of information in this newsletter.

This newsletter may point to Internet sites that may be of interest to you. Factosphere Ltd. does not endorse or take responsibility for the content on such sites.

## Notes on the use of Google Translate

Google Translate is a service provided by Google Inc. and is subject to Terms of Service located at <http://www.google.com/intl/en/policies/terms/> and Privacy Policy located at <http://www.google.com/intl/en/policies/privacy/>.

Please, note that the Google Translate conversion for the pages and documents in Russian with hyperlinks presented herein do not always produce satisfactory results in terms of formatting and proper English language translation. The Google Translate conversion may take some time (typically up to 1 minute). There is a document size limit of 1 Mb for file conversions, so that not all of the referred documents may be converted (hyperlink to Google Translate is omitted in such cases).