COMPREHENSIVE GROWTH STRATEGY:

RUSSIA

RUSSIA'S GROWTH STRATEGY[1]

A. ECONOMIC OUTLOOK AND CHALLENGES TO GROWTH

Economic Objective

Russia's comprehensive growth strategy is designed to contribute to achieving the G20's collective target of a 2 % increase in GDP growth above currently projected path over the next 5 years. The Government confirms its commitments made in the St. Petersburg and previous G20 Action plans, and considers the current work on growth strategies as a continuation of the efforts done before. We expect that the existing national policy agenda will allow to achieve the GDP growth rates of 3,0 – 4,0 percent in the medium term, with simultaneous enhancement of its quality. This will be supported by enhancing investment activity both in the private and public sectors, and improving labour market performance.

Proposed reforms are supported by the measures aimed to maintain macroeconomic stability, including maintenance of steady and low inflation and flexible exchange rate regime, and responsible budget and debt policies. In the budgetary policy domain, Russia will follow its St. Petersburg fiscal commitments to maintain medium and long-term debt sustainability.

Key Commitments

Priorities of Russia's Growth Strategy are structural reforms which are in the core of sustainable growth.

1. **Creation of high-productive quality jobs and increase in labor productivity.**

2. **Increasing investments, particularly in infrastructure.** Public investments will be primarily focused on expansion of the transport infrastructure. To encourage investments in the Far East region of Russia measures on creating territories of accelerated development and special economic zones will be combined with introducing incentives and preferential regulation aimed at encouraging investment and enhancing social and economic development of the region.

Another area of reform at the cross-section of the investment and competition domains pertains to private-public partnership.

Additional policy actions will be implemented to ensure the efficiency of the public investments and to improve the quality of the budget management.

3. Increasing share in GDP of high-technology and science intensive sectors.

4. **Improving investment climate.** This includes measures that enhance antimonopoly legislation, taxation procedures (through the newly adopted (February, 2014) Action plan "Modernizing tax administration"), eliminating administrative barriers for business.

5. **Ensuring macroeconomic sustainability.** Maintenance of steady and low inflation, flexible exchange rate regime, and responsible budget and debt policies.

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[1] The strategy assumes the existence of strong economic cooperation between the G20 countries and Russia's intensifying involvement in the global integration processes, without considering possible negative scenarios that may be caused by the geopolitical risks.

Current and Future Growth Prospects

	Key Indicators					
	2012	2013	2014	2015	2016	2017
Real GDP (% yoy)	103,4	101,3	100,5	103,3	103,3	104,3
Nominal GDP (% yoy)	111,2	107,3	108,8	108,5	108,3	109,7
Output Gap (% of GDP)	0,7	-0,3	-1,4	-1,0	-0,4	0,1
Inflation (%, yoy, average)	105,1	106,8	107,4	106,7	104,4	104,3
Fiscal Balance (% of GDP)	-0,1	-0,5	0,4	-0,6	-0,6	-0,6
Unemployment (%)	5,7	5,7	5,8	5,9	5,7	5,6
Savings (% of GDP)	27,2	27,3	24,4	24,0	23,8	24,0
Investment (% of GDP)	21,7	21,5	20,5	21,5	21,8	22,1
Current Account Balance (% of GDP)	3,6	1,6	3,0	1,3	0,1	-0,4

The projections take into account the expected effect of the measures envisaged by the growth strategy in case of their full implementation and favorable global conjuncture. The scenario assumes some decrease in oil prices ($104 per barrel of Urals in 2014, and $100 in 2015 to 2017).

Key Drivers

During the post-crisis period services sectors have been the main growth driving forces accounting for about two-thirds of the overall GDP growth. Economic activity has been mainly driven by the financial services, trade (largely, retail trade) and real estate sector. Manufacturing used to provide significant support for the post-crisis GDP recovery, but recently its positive effect has been seriously weakened turning into the main drag on growth. By contrast, the agriculture sector demonstrated strong acceleration of growth last year due to the good harvest and favorable statistical base effect. Since 2014 manufacturing is expected to resume supporting positive GDP dynamic. Nevertheless, services sectors will remain the primary supply-side driver in the medium term, due to its prevailing share in the GDP.

From the expenditure side, household consumption has been the main contributor to the GDP growth (more than half of the GDP volume). In 2012-2013 the contribution of household consumption to the GDP growth exceeded overall GDP dynamic. In 2012 net exports negatively contributed to the economic growth, as well as fixed capital formation - in 2013. Fixed capital investment dynamic has been the main factor that caused the overall GDP growth slowdown. Its contribution to the GDP growth turned from 2,0 p.p. in 2011 to the negative in 2013. The impact of net exports became positive in 2013 due to a decline in merchandise imports and strengthening of exports growth.

Over the next three years the investment growth is projected to overpass the growth of the other demand components, amounting to 2,4-4,7% per annum. Household consumption is expected to grow by 2,0-3,5% per annum, remaining the main factor of the GDP growth.

Macroeconomic Policy Settings

Maintaining macroeconomic stability and protecting the economy from external volatility remain the major priority of Russia's both fiscal and monetary policies.

Prudent fiscal policy stance is ensured by the fiscal rule that sets maximum limit for the federal budget spendings in accordance with estimated revenues under the long-term average oil price, regardless of the actual oil price.

The Central Bank is in gradual transition to the inflation targeting and floating exchange rate regime. Increased monetary policy transparency is regarded by the Central Bank as a necessary precondition for this.

During 2013-2014 the Central Bank consistently implemented measures to increase flexibility of exchange rate regime. However, gradual transition to floating exchange rate was complicated by more intense ruble depreciation to main reserve currencies that was caused by global economic and geopolitical factors in the beginning of 2014. As soon as domestic risks for financial stability were decreased (2Q2014) the Bank of Russia continued transition to free floating rate. In June and August, 2014 parameters of exchange rate policy were consequently adjusted. So, the floating operational band was symmetrically widened from 7 to 9 rubles; at the same time currency interventions within this operational interval (aimed at smoothing volatility of exchange rate) were abolished. The cumulative volume of interventions that leads to change of operational band by 5 kopeeks was lowered from 1.5 billion US dollars to 1 billion US dollars on June 17, 2014 and further to 350 mln US dollars since August 18, 2014. All these actions clearly indicate the increase of exchange rate flexibility.

To increase the effectiveness of the interest rate channel of the monetary policy transmission mechanism, in 2013 the Bank of Russia implemented a set of measures aimed at developing the system of the monetary policy instruments. These measures included:

- Introduction of the Bank of Russia key rate (unification of the interest rates on one-week liquidity provision and absorption open market operations);
- Establishing the interest rate corridor and optimization of the instruments for managing the banking sector liquidity;
- Change of the refinancing rate role in the range of the Bank of Russia instruments.

Assessment of Obstacles and Challenges to Growth

In 2013 Russia's real GDP growth dropped to 1,3%, down from 3,4% in 2012 and 4,3% in 2011.The slowdown was mainly attributed to weak investment demand and stagnation of industrial production. Investment growth fell from solid double-digit numbers in the first half of 2012 to negative numbers in 2013, when the situation was exacerbated by low external demand from the main trade partners. In 2014 high level of the private capital outflow continues to have a significant destabilizing impact on the financial market.

The major challenge for the Russian Government is to ensure sustainable economic development. Extension of its base and enhancement of the quality of growth require particular attention. Addressing these general challenges necessitates the transition to a new growth model instead of the previous one that worked in the period of booming oil prices. Concrete problems to be addressed to make this transition happen include the following.

Monetary policy:

- High level of inflation (6,8% in 2013). Due to ruble depreciation and the pass-through effect the annual inflation rate accelerated to 8 % in September, 2014 In 1Q2014 pro-inflationary effect from rouble depreciation was complemented by prices' rise for a number of foods as a result of specific factors like import bans, rise in prices at global food markets;
- Thin financial market (underdeveloped securitization market, lack of institutional investors, very low (less than 5%) share of pension funds and insurance companies in the financial system). Total assets of the non-governmental pension funds amounted to approximately 55 mln. US dollars (2.8% of the annual GDP). Absence of the local institutional investor base contributes to higher volatility in the financial market and lacking long-term finance;

Labour and employment policy:

- Lack of quality jobs with high productivity, leading to excessive employment in the low productivity sectors.
- Demographic projections predict a gradual decrease in the working-age population, and hence a declining labour supply. Shortage of the labour

resources and aging of workers may cause structural distortions at the labour market, and become a major limitation to the long-term economic growth.

- There is a substantial mismatch between the labour market requirements and the qualifications acquired in the educational institutions. As a result, almost half of the employed have jobs that are not matching their professional education profile. The imbalance of the labour market leads to the structural unemployment, which is aggravated by the deficit of the highly qualified personnel (especially, in the engineering and technology sectors).

Other areas

In the macroeconomic settings outlined above, facilitating investment, especially in infrastructure, remains our key objective. Following the challenges identified in the previous action plans, transport bottlenecks and insufficient private investment in the economy remain high on the policy agenda, along with the need to raise labour mobility and improve the business environment. New (since Saint-Petersburg) policy actions are being introduced as well, such as increasing the efficiency and effectiveness of the public investment through obligatory audit, widening the scope of the public-private partnership and additional measures on improving the business climate and providing support for SMEs.

There is also a risk that Russia's share in the international trade will decline due to low growth of goods exports. This will happen if stagnation in the energy and metal exports (due to higher competition in the world markets and less commodity-intensive demand in the emerging economies) is not compensated by a strong growth in the manufactured goods exports. Our goal in this area is therefore three-fold: 1) to reduce administrative trade barriers; 2) to ensure that the Russian businesses fully benefit from the WTO membership; 3) to augment the system of the government support for the high-technology exports to further stimulate exports diversification.

B. POLICY RESPONSES TO LIFT GROWTH

New Macroeconomic Policy Responses (including Reforms to Frameworks)

Fiscal policy will continue to play a significant role in supporting sustainable economic growth, prioritizing the targets in the education, science and infrastructure spheres, as well as enhancement of the quality of social safety nets. These objectives have been set forth in the Budget message of the President of the Russian Federation to the Federal Assembly for 2014-2016.

Basing on the G20 Action plan on BEPS, complex changes in the Russian tax legislation will be adopted to counter tax base erosion and profits shifting to the offshore jurisdictions.

The privatization program remains relevant and is aimed at creating better conditions for investment and competition, as well as optimization of the government’s presence in the economy. Changes to the privatization plans are made following the decisions of the President and Government and taking into account the current market conjuncture and advice from the leading investment consultants.

The primary goal of the Bank of Russia's monetary policy in the next three years will be to ensure price stability as an important condition for balanced and sustainable economic development.

By 2015, the Bank of Russia is planning to complete the transition to the inflation targeting regime. The new regime's essential characteristics include setting quantitative inflation targets, making decisions primarily on the basis of the forecast of economic development and inflation dynamics, as well as the Bank's active external communication and accountability.

The Bank of Russia will seek to achieve the inflation targets by adjusting interest rates on its operations, taking into account the specificity of the monetary policy transmission mechanism. The Bank of Russia will pay close attention to macroeconomic forecasts and the assessment of the risks of inflation deviation from the target, taking into account that the impact of the monetary policy measures is spread over time.

In the course of the transition to the inflation targeting regime, the Bank of Russia will continue to increase the effectiveness of the interest rate channel of the monetary policy transmission mechanism, which is the primary channel the Bank of Russia uses to affect the economy. Price stability will create favourable conditions for developing long-term business strategies and higher economic activity, helping to reduce the interest rates and strengthen the incentives for savings and investments.

In 2014 the Bank of Russia is planning to complete all preparatory work that is needed to move to floating exchange rate regime. Free floating exchange rate allows the Bank of Russia to focus on management of market interest rates to meet inflation targets. The Bank of Russia will continue to make foreign currency transactions in the domestic market related with replenishment and disbursement of the sovereign wealth funds in favour of the Russian Federal Treasury demands. The Bank of Russia also reserves the right to make currency interventions that facilitate liquidity management in banking sector. At the same time, this regime allows discretionary interventions in domestic currency market in order to maintain financial stability in case of major external shocks.

New Structural Policy Responses

Investment and Infrastructure

The Russian Government is facing the challenge to increase the share of investment as percentage of the GDP, which will require marked increase in both the private and public investment.

The key to boosting the private investment is improving the investment climate. Russia has moved in the World Bank's "Doing Business" ranking from the 112th place in 2013 to the 92nd place in 2014. Following the St. Petersburg commitments, the authorities take further actions to improve the business environment framework through eliminating excessive administrative burden and simplifying business procedures, including implementation of "roadmaps" for National Business initiative among the most problematic fields of public regulation: customs and tax administration, grid connection, property rights and business registration etc.

Public investment will be primarily focused on expansion of the transport infrastructure via implementation of the federal program "Development of the Transport System". It implies increase in the overall road construction rate (total length of federal highways is to reach 44,1 thousand km by 2018), reduction of the transportation costs in the economy (transportation expenses' share in the GDP is projected to fall by 7,7 % by 2020 comparing with the 2011 level), enhanced accessibility of the transport services for the population (a two-fold increase in the population's mobility is projected by 2020), higher external competitiveness of the national transport system (increase in the transportation services' export by 80% in 2018), while ensuring proper safety and sustainability of the transport system.

The recent decisions by the Government envisage use of the public funds to support investment in the large-scale infrastructure projects. The projects already approved or being under consideration are primarily aimed at development of the transportation facilities (reconstruction of the Baikal-Amur and Trans-Siberian Mainline Railways, development of the Moscow Air Transportation Cluster, construction of the Central Circular Road in the Moscow region, construction of the railway 'Elegest – Kyzyl – Kuragino' in the Tuva Republic et al.), and extension of the energy supplies capacities. Total cost of the approved projects is estimated at 1998 bln. rubles from which 935 bln. rubles will be funded through the Sovereign Wealth Fund, with the share of the public funding by project varying from 30% to 100%.

One of the biggest public infrastructure projects to be launched in Russia is linked with the 30-year, 400 bln. US dollars worth, 1-trilliion cubic meters gas exports agreement signed by Russia and China in May 2014. The contract stipulates that 38 bln. cubic meters of the Russian gas will be annually supplied to China through the Power of Siberia gas pipeline (construction to be launched in August 2014). The pipeline will form a unified gas transmission system for the Irkutsk and Yakutia gas production centers connecting them with the consumers in the Russian Far East and China. The Yakutsk – Khabarovsk – Vladivostok gas trunkline (with an offshoot to China) will be constructed at the first stage (3200 kilometers, onstream by end-2017), and at the second stage the Irkutsk center will be connected to the Yakutsk center (800 kilometers).The total investment required by the project (including into the Power of Siberia gas pipeline construction, infrastructure facilities and enterprises) is estimated at 2 trln. rubles (equivalent of over 57 bln. US dollars). The project is expected to have a powerful multiplier effect on the adjacent industries, such as metallurgy, pipe and machine construction, mining, etc. The project also requires modernization of the overall regional transportation and energy infrastructure.

Another area of reform at the cross-section of the investment and competition domains pertains to private-public partnership. Building on successful implementation of the Pulkovo airport reconstruction PPP project, consultations over the design of the new PPP legislation and plans to widen the scope of these mechanisms are currently being held.

Russia also recognizes the need to take additional policy actions (see Annex) to ensure the efficiency of the public investments and to improve the quality of the budget management for the oil and gas revenues accumulated in the Reserve Fund and National Wealth Fund. Our goal is to further strengthen the legal framework for the public investment reporting and audit. Issues in this area are addressed through the new legislation covering project selection for the public investment, which was passed in November 2013, and through obligatory public audit.

To foster investments in SMEs, in May 2014 a special joint-stock company Agency for Credit Guarantees was established in Russia. Establishment of the Agency with paid-in capital of 50 billion rubles (1,4 billion US dollars) will help in attaining of the following financial and economic performance indicators:

- The aggregate amount of the guarantees issued by the Agency - 350 billion. rubles (equivalent of approximately 10 billion. US dollars);

-The Aggregate amount of guarantees issued by the Agency and regional guarantee institutions – 500 billion rubles (equivalent of approximately 14 billion. US dollars)

- The aggregate amount of loans to SMEs that are secured by the Agency's guarantees - 700 billion. rubles (equivalent of approximately 20 billion. US dollars);

-The aggregate amount of loans secured by the Agency and regional guarantee institutions – 1 trillion rubles (equivalent of approximately 29 billion. US dollars)

- The total amount of the guarantees issued - 7300 contracts.

The formation of the national system of guarantee institutions with the Agency at its core will significantly contribute to expanding the SMEs' access to credit, allowing them to undertake the investment projects in the non-trade sector, mitigating the risks of long-term lending to the medium-sized business and creating a comprehensive system of warranty support for SMEs.

To develop Russia's Far East region it is planned to combine measures on creating territories of accelerated development and special economic zones with introducing incentives and preferential regulation aimed at encouraging investment and enhancing social and economic development of the region.

Employment

Implementation of the Russian Employment strategy will be ensured by quality job creation, boosting labour participation, and supporting the structural economic change. The set of actions to achieve objectives of the strategy is developed and listed in the Action plan (adopted by decree of the Russian Government № 1250-р dated

9.07.2014) to raise labor productivity, creation and modernization of highly-productive jobs.

The implementation of the Employment strategy will be also ensured by: the growth of the of newly-created and modernized existing quality jobs is the key element of the employment strategy, which will substantially contribute to boosting labour productivity; and supported through creating the business climate that enables modernization, innovation and private investment, reduction of the regulatory burden on business, and investing in human and physical capital. Investment in skills development and infrastructure, in particular, is increasingly important for Russia's ability to harness technology and boost labour productivity. Development of the public-private partnerships for investment in skills and infrastructure is essential to orient the education and training system to deliver skills that meet the labour market and social needs.

Demographic forecasts suggest Russia will face a noticeable decline in the working-age population in the forthcoming 5 years. Therefore, it will be important to mobilize all existing reserves, which can alleviate shortages and tensions due to negative demographic trends.

Increased labour participation of women, youth and persons with disabilities is an important reserve to address the demographic challenges. A set of measures to return women with young children to the labour market after a 3-year maternity leave includes development of childcare services provided to families with children and appropriate infrastructure, and re-training schemes for mothers, who would like to return to employment or join the labour market as new entrants. Actions to facilitate youth labour participation envisage measures aimed at incentivizing the employers to hire new entrants to the labour market, developing internships and apprenticeships for the vocational institutions graduate students, shortening the education-to-work transition period for the graduates of the vocational education institutions, etc. Finally, actions aimed to support people with disabilities, who would like to work but for some reasons cannot to find a job, include creation of accessible infrastructure and provision of access to vocational education and better employment services, with a focus of such a support on individual needs of a person with a disability.

Providing support for the structural economic changes through facilitation of labour mobility, in combination with effective training and retraining programs, forms the second element of the Russian Employment strategy. Labour mobility facilitation requires easy access to the information on vacancies all over the country, affordable housing, opportunities to get training or retraining and support programs for moving to different regions. Employment services play a key role in facilitating labour mobility, providing guidance and information for job-seekers.

Development of training and re-training programs reflecting the modern technologies and needs of enterprises and industries becomes the key to the success of the Employment strategy. Investment in education and skills development is critical for creating better quality jobs, boosting labour productivity, increasing labour participation and tackling the labour market exclusion and informality. However, employers are not always effective in utilizing employees' skills, and this can be particularly the case within certain sectors and regions. This means that investment in the supply of skills alone will not be sufficient to improve the jobs quality and resilience of the economic growth. It is also needed to pay attention to the demand side, namely identifying how firms could best utilize skills.

Competition

An additional source of boosting growth is expected to be found in enhancing the competitiveness of the economy. Our top priority is to create incentives for diversification of the economy, which would allow to increase the share of the high-technology and science-intensive industries in the GDP by 1,3 times by 2018 compared to the 2011 level. Increase in competitiveness will also contribute to achieving the goal of raising labour productivity by 1,5 times by 2018 compared to 2011.

Moreover, the authorities are working on improving the competition environment. For example, competition is fostered by improving the antimonopoly legislation and, where appropriate, spreading the "best practice" procedures. For this purpose a special Action plan (roadmap) "Development of the competition environment and improvement of the antimonopoly policy" was approved by the Government in December 2012. These actions will be complemented by provision of the government support for SMEs through a different federal program, envisaging subsides for SMEs and measures for developing infrastructure to support entrepreneurial activity in all regions of Russia. In 2014 that program received financing of 21,5 billion. rubles (equivalent of 539 mln. US dollars).

Further measures are being taken to modernize taxation procedures through the newly adopted (February, 2014) Action plan "Modernizing tax administration". The plan is targeted to reduce average time costs of paying taxes, and "Doing Business" sub-rankings can be used directly to track progress. Other actions in this area include facilitation of the processes of registering a firm (reduction of the stages from 9 to 5 (2015) and then to 3 (2018), reduction of the time required from 30 to 5 days (2015) and ultimately to 3 days (2018), reduction of the cost from 6,1 to 3 thousand rubles by 2015) and obtaining construction permits (reduction of the number of procedures from 51 to 15 (2015) and ultimately to 11 (2018), reduction of the time required from 423 days to 130 (2015) and to 56 (2018), expenses from 184% of GDP per capita[2] in 2012 (equivalent of 26 thousand US dollars) to 104% in 2015 (equivalent of 17 thousand US dollars) and to 101% in 2018), and simplification of the licensing procedures that include expanding the list of business activities that do not require obtaining permission from 36 to 50 by 2018.

Reducing the barriers to competition has been continuously identified as a priority for Russia by international organisations, and is a widely present goal in the range of national long-term programs. The key policy actions above are aimed at expanding

[2] Estimated in accordance with the World Bank's methodology.

the scope of electronic procedures, eliminating excessive bureaucratic requirements, normalizing tax accounting and financial accounting treatment. These measures will strongly contribute to the overall objective of reaching a more sustainable and balanced growth through transition to the new growth model.

Another area of reform at the cross-section of the competition and energy efficiency domains came into effect with the adoption in July 2014 of the Federal law concerning environment protection standardization and provision of economic incentives for the implementation of the best available technologies (BAT). The law is a huge step towards increasing the competitiveness of the national production sector and overall eco-friendly modernization of the Russian economy. It is aimed to ensure deployment of the production objects in compliance with the highest energy efficiency and consumption standards and mitigation of the negative impact on the environment, while fostering R&D and introduction of the modern national technologies and equipment. The law provides for:

(1) Introduction of the principles of the BAT, including the definition of the criteria for the projects that will be selected for the BAT-oriented standards implementation and the procedures of definition of the BAT by the technical working groups.

(2) Replacement of the currently effective 3 types of permissions (emissions, unloads, waste) by a single complex eco permission, that will be granted to companies taking into account the programs for higher eco efficiency undertaken by them.

(3) Division of the economic entities into 4 categories for differential application of regulatory measures, which will allow to strengthen the monitoring and oversight over the heavy and heaviest polluters and limit the excessive regulation of the least environmentally dangerous objects.

(4) Introduction of the catalogue of the harmful substances and emissions in order to facilitate the process of rating, production control and fees calculation.

(5) Provision of economic incentives for stimulating the ecological modernization, including: (a) payments for emissions within the standard would be included into the production costs, while payments for excessive emissions would be fined; (b) compensation of the expenses on minimization of negative impact on the environment and introduction of the Best Available Technologies; (c) a 5-fold raise of fines for excessive emissions coefficient; (d) compensation of the interest paid on the investment credits; (e) introduction of the additional amortization coefficients for the BAT equipment; (f) definition of the catalogue of the eco-friendly activities that will be subject to allowances.

Transition to the new scheme of the ecological regulation must be completed by 2022.

Trade

Since the St. Petersburg summit Russia has taken a number of measures to stimulate trade. The overarching framework is provided by the state program “Development of the external economic activities”, covering 2014-2018 (revised version was adopted in April 2014). The program provisions for improving border and customs procedures, developing a national system to support exporters, optimizing regulation of external sector, promoting international cooperation and creating the Eurasian Economic Union. The first two elements are further supported by separate detailed action plans (roadmaps):

- “The Roadmap for enhancing customs administration” (revised version was adopted in September 2013) outlines new measures to streamline customs payments and veterinary regulations, setting ambitious aims, such as more than a 3-fold reduction in time required for preparation of documents and more than a 30-fold reduction in time costs of actual customs formalities by 2018. The implementation of the roadmap would help to propel Russia into the top-20 of World Bank’s Doing Business *Trading across borders* index. Since both export and import formalities are to be liberalized, Russia’s trade partners will also see significant benefits through larger external demand. It should be noted that implementation of the Roadmap is fully in line with the Bali WTO Trade Facilitation Agreement.

In line with the trade facilitation efforts Russia, along with its Customs Union partners, is working on the “single window” mechanism at the borders of the Customs Union. This mechanism is aimed to streamline the administrative procedures at the borders of the Customs Union, enhance their transparency and decrease the transactional costs. An action plan for introducing the “single window” mechanism is to be developed by December, 2014.

- “The Roadmap for enhancing access to the overseas markets and supporting exports” (revised version was adopted in July 2014) includes clauses on simplifying VAT refunds for exporters, reducing formalities for processing in the customs territory, and strengthening information systems. This will help create a level-playing field for the Russian businesses in the context of higher competition that they face after the WTO accession. The new version of the Roadmap envisions a substantial increase in financial support for the high-technology exports, both in terms of the range of measures (guarantees, subsidies) and in terms of the volume of financing. All these measures will help: 1) to narrow the gap between Russia and other countries in terms of volumes of export financing (thereby creating more equal conditions for Russian exporters), 2) to reveal export potential of Russian companies (especially for SME) by the means of cutting transactional costs and, consequently 3) to ensure higher and more stable rates of economic growth. The expected effect on manufacturing exports of goods with high value added is estimated at additional growth by 82% or 30,8 bln. US dollars in 2019 compared to the baseline. The Roadmap will produce substantial positive spillovers for our trading partners through increased engagement of the high-technology sector companies in multinational cooperation.

Russia will further proceed with the measures under its WTO accession commitments, including lowering tariffs for agricultural and manufactured goods to 11.3 % and 6.4 % respectively and liberalization of the international investors participation in the Russian insurance companies’ shareholding. This is in line with the G20 focus on reducing trade distortions, and in the medium term it will help to foster external competitiveness of the Russian businesses (mainly through incentives for cost optimization in a more competitive environment, but also by lowering the prices of intermediate inputs). Russia will further develop its relations within the WTO, as illustrated by Russia's joining the Information Technology Agreement in September 2013 and by its push for making the Transparency Mechanism for Regional Trade Agreements permanent. We underline the importance of early implementation of the WTO Trade Facilitation Agreement, having taken for our part a number of important steps in that direction.

We will as well continue our efforts in the sphere of preferential regional and bilateral cooperation (the Eurasian Economic Union will be launched in 2015; FTAs are being negotiated with Vietnam, negotiations are to be continued with New Zealand and European Free Trade Association countries and examined with Israel and India).

Other measures

Financial Markets Regulation, Control and Oversight System reform

In March 2014, the Bank of Russia's Financial Market Service (CBFMS), which was in place since September 2013 and acted as interim successor of the Federal Financial Market Service, ceased to exist. This marked the completion of the integration of the financial market regulation functions into the Bank of Russia's activities. The mega regulator performs three key functions for the financial sector, namely, regulation and oversight, financial market development, customer rights protection (the two latter were not covered by the regulator previously).

The Bank of Russia's priorities in the sphere of financial market regulation and development include conducting consolidated oversight and passing a universal bankruptcy law.

As for consolidated oversight, the synergy is already in place. For instance, when bank licenses were being revoked earlier, CBFMS was analyzing the implications for the companies linked with the banks. With a centralized database in place, this task is performed automatically.

At present the base rules for the bankruptcy procedure are framed by the Insolvency Law that covers bankruptcy procedures for all companies, while there is also a separate Bank Insolvency Act.

The new draft of the Federal Law, aimed at the improvement of regulation of financial recovery and liquidation procedures for credit institutions, stipulates consolidation of the Russian Federation legislation on bankruptcy. The draft Law also includes provisions of the current Federal Law «On the insolvency (bankruptcy) of credit institutions» as well as additional provisions of the Federal Law «On the measures for strengthening banking system stability till December 31, 2014».

The approach is consistent with the G20 and the Financial Stability Board recommendations on recovery and resolution of financial institutions. It will help to preserve measures of financial recovery of systemically important banks which proved to be effective in the 2008 crisis. The Bank of Russia and the Deposit Insurance Agency will have new tools for banks bankruptcy prevention or their liquidation with minimal losses for depositors.

Moreover, at present we are also drafting the new Federal law which will improve the insolvency (bankruptcy) procedures for non-credit financial institutions, including financial market infrastructures (trade organizers, central depository, central counterparties, trade repositories). Particular attention will be paid to the mechanisms of continuity of systemically important functions of financial market infrastructures.

Financial Markets Tax System and Tax Administration reform

In December 2013, the State Duma of the Russian Federation adopted the Federal Law that “On Amendments to Article 27.5-3 of the Federal Law “On the Securities Market” and to parts one and two of the Tax Code of the Russian Federation” which introduced two types of tax incentives for retail investments in securities.

First, the amended Tax Code provides for, as with other forms of property, no capital gains tax if a security is sold after three years of ownership. The exemption will apply to income from sale of securities purchased after 1 January 2014.

Second, a new type of the account was introduced - Individual Investment Account, under certain conditions deposits on this account are exempt from taxation upon the validity period. The new Individual Investment Account is a broker or portfolio manager account that must be opened for a minimum of three years and can be topped up by deposits up to 400,000 rubles (equivalent of 11,5 thousand US dollars). There is no tax incurred during the life cycle of the account. Retail customers will be able to choose one of the two distinct tax benefit schemes: tax-deductible contributions or zero capital gains tax when they close the account (upon the expiration of the minimum period of three years). If the account is closed earlier, deposits will be subject to the regular 13% flat tax used for personal income in the Russian Federation, and any deductions will be reassessed.

Another Tax Code amendment, in force since 1 January 2014, cuts the costs for the participants of the standardized OTC Derivatives Market. Clearing participants are VAT exempt on their premium for clearing the collateral use. From that date, the market price is the actual price of traded financial instruments of futures contracts, and it is used for tax purposes.

ANNEX 1: ST. PETERSBURG FISCAL TEMPLATE (RUSSIA)

1. Medium-term fiscal strategies:

a. Overall strategy for debt sustainability

Russia's overall strategy for debt sustainability is multi-pronged encompassing the following:

- Maintaining a low overall debt burden. Currently the debt-to-GDP base is at around 10% of GDP for federal government debt and 31% of GDP for all external debt (both public and private sector). Russian Federation has one of the lowest government debt-to-GDP ratios amongst the G-20 countries;
- Maintenance of tight fiscal policy and moderate budget deficits projected for the medium-term run (0,4-0,6% of GDP in 2014-2017);
- Implementation of new fiscal rule limiting budget revenue vulnerability to volatile oil prices and other economic shocks;
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- Targeting increased size of fiscal buffers (Reserve Fund and National Wealth Fund are expected to increase cumulatively from current 8,5% of GDP to 9,1% of GDP in 2015);
- Enhanced monitoring of contingent liabilities including direct (e.g. guarantees) and indirect (state-owned enterprises borrowing);

In addition to the above measures, the Russian Federation takes the following actions aimed at creating a stable source of financing the federal budget deficit, minimization of public debt risks and development of the domestic capital market:

1. Modernization of the Russian debt market so it will have all the attributes of a developed market:
    - implementation of the over-the-counter trading of public bonds;
    - regular issuance of benchmark Federal Bonds (OFZ) with a fixed rate coupon at standard maturities (3-15 years) and amounts;
    - initial offering and secondary trading of public bonds in a unified with corporate bonds market place at Moscow Exchange;
    - provision of direct access to the OFZ market to the non-residents through accounts in the international depositary clearing systems Euroclear and Clearstream;
    - OFZs secondary trading in both “T+0” and “T+2” regimes;
    - launch of a tripartite REPO on public bonds basket;

- disclosure of all information about the public bonds market on the official website of the Ministry of Finance of the Russian Federation.

2. The priority of domestic borrowings for the federal budget deficit funding.
3. Increasing the duration of the liabilities portfolio by issuing bonds with longer maturity period aiming to keep the refinancing risk low. In 2013 the OFZ portfolio increased from 4,1 years to 4,3 years while the target duration is 5 years.
4. Intensification of the interaction with rating agencies aimed at maintaining Russia's sovereign credit ratings at the investment grade level.
5. Implementation of a more pro-active liability management policy to affect the public debt size and structure, including the exchange of the old non-liquid non-standard government bonds onto the new on-the-run benchmark bonds.
6. Increasing the amount of the OFZ issuances to increase the liquidity of the domestic debt market.
7. Broadening the investor base through offering new debt instruments.
8. Further infrastructural modernization aimed at creating more comfortable market conditions.

b. Debt-to-GDP ratio objective

While the Russian Federation does not have firm legally-obliged limit on debt-to-GDP ratio, the medium term debt policy envisages an indicative sovereign debt-to-GDP "threshold" considered at the level of 20-25%. At the same time in order to limit the risks related to country's dependence on oil and gas revenues the projected level of this ratio for 2014-2016 is not expected to exceed 15%.

The rising level of the Russian corporate debt burden suggests that the financial authorities should pay close attention to corporate borrowings. Enhancing the system of monitoring the corporate and bank borrowings will be continued with focus on the borrowing policy of the enterprises with significant government stake.

2. **Medium-term projections:**

Russia's medium-term projections for the debt-to-GDP ratio and the federal budget deficit for the period, till 2017 are the following:

	Estimate		*Projections*			
	2012	**2013**	**2014**	**2015**	**2016**	**2017**
Debt	10,5	11,3	12,9	14,1	14,3	14,3
Deficit	-0,1	-0,5	0,4	-0,6	-0,6	-0,6
CAPB	n/a	n/a	n/a	n/a	n/a	n/a

3. **Economic Assumptions:**

The debt-to-GDP ratio and the federal budget deficit projections are contingent on the following assumptions for interest rates, inflation and growth:

	Estimate		Projections			
	2012	**2013**	**2014**	**2015**	**2016**	**2017**
real GDP growth	3,4	1,3	0,5	3,3	3,3	4,3
nominal GDP growth	11,2	7,3	8,8	8,5	8,3	9,7
ST RUB interest rate*	5,9	5,5	7,3	7,3	7,3	7,3
LT interest rate	n/a	n/a	n/a	n/a	n/a	n/a

*Average for the OFZ short-term rates as reported on the CBR's website for the years 2012-2014. For the purpose of the Strategy the average 2014 rate is assumed to be constant for years 2015-2017.

ANNEX 2: NEW POLICY COMMITMENTS

1. Macroeconomic Policy Responses (including Reforms to Frameworks)

New policy action	Completing the transition to the floating exchange rate regime
Implementation path and expected date of implementation	By the end of 2014, the Bank of Russia will abandon its exchange rate-based operational indicators.
What indicator(s) will be used to measure progress?	Starting from 2015 no regular FX interventions will be made by the Bank of Russia. Interventions will be limited to those connected with SWF operations; the Bank of Russia also reserves the right to use them for regulating the banking sector liquidity, and also for preserving the financial stability in the event of major external shocks.
Explanation of additionality (where relevant)	The commitment was updated in the "Guidelines for the Single State Monetary Policy in 2014 and for 2015 - 2016" adopted in November 2013.
New policy action	**Completing the transition to inflation targeting**
Implementation path and expected date of implementation	Starting 2015.
What indicator(s) will be used to measure progress?	The Central Bank inflation targets for the baseline scenario: for 2015- 4,5%, for 2016 – 4%.
Explanation of additionality (where relevant)	The commitment will create preconditions for long-term investments and financial market development that will contribute to economic growth. The commitment was updated in the "Guidelines for the Single State Monetary Policy in 2014 and for 2015 - 2016" adopted in November 2013.

2. Investment and Infrastructure

New policy action	Enhancing the efficiency of the public investment, including the investment of the natural monopolies, through obligatory public technical and price audit of all large-scale projects even partially financed by the state.
Implementation path and expected date of implementation	In 2014 public audit will be obligatory for the projects financed in the amount of 8 bln. rubles or higher. In 2015 and further – for the projects financed in the amount of 1,5 bln. rubles or higher.
What indicator(s) will be used to measure progress?	Share of the large projects with a completed audit report.

New policy action	**Implementation of large public investment projects partially financed through the Sovereign Wealth Fund**
Implementation path and expected date of implementation	7 projects are due to be completed by 2018, the other 3 will be finalized between 2020 and 2025.
What indicator(s) will be used to measure progress?	Number of projects completed according to the schedule.
New policy action	**Improvement of the PPP mechanism**
Implementation path and expected date of implementation	Growth of the number of projects negotiated within the PPP law, including concessions, by 10% by 2016 and by 30% by 2018.
What indicator(s) will be used to measure progress?	Number of projects negotiated within the PPP law, including concessions.
New policy action	**Agency for Credit Guarantees**
Implementation path and expected date of implementation	The Agency is engaged in providing counter-guarantees to regional credit guarantee organizations and direct guarantees to medium enterprises. The Agency will coordinate activity of all regional credit guarantee organizations created under the state support for SMEs and collaborate with international organizations.
What indicator(s) will be used to measure progress?	A five-year business plan of this Agency with authorized capital of 50 billion rubles Total amount of provided loans and secured by the Agency with credit guarantees will reach 700 billion rubles, and the total amount of guarantees issued – 7300 contracts.
Explanation of additionality (where relevant)	The Agency was established in May 2014.

3. Employment

New policy action:	**Quality job creation, modernization of the existing jobs and boosting labour productivity**
Implementation path Expected date of implementation	The action plan for increased labour productivity and quality job creation has been prepared for the adoption by the Government (with a period of implementation up to 2018).
What indicator(s) will be used to measure progress?	Number of jobs modernized and the number of jobs created; Labour productivity growth.
New policy action	**Increasing labour participation of the vulnerable groups:** **1.** Organizing vocational training for women on a maternity leave (up to the three years of age of a child); 2. Providing internships and apprenticeships for youth; 3. Fostering employment of the unemployed people with disabilities at the specially equipped workplaces.

Implementation path and expected date of implementation	Program was adopted by the Government on April 15, 2014, and its implementation plan was approved on June 13, 2014 (with a period of implementation up to 2016).
What indicator(s) will be used to measure progress?	1. Number of women on a maternity leave (up to the three years of age of a child), who have attended vocational training courses. 2. Number of vocational education graduates, who found the job within a year after graduation 3. Number of specially equipped workplaces for people with disabilities; the number of people with disabilities employed at the specially equipped workplaces.
New policy action	**Elimination of Structural and regional imbalances through increased labour mobility and education programs**
Implementation path and expected date of implementation	The program was adopted by the Government on April 15, 2014, and its implementation plan was approved on June 13, 2014 (with a period of implementation up to 2020).
What indicator(s) will be used to measure progress?	Number of people who received assistance in finding employment outside their place of living and moved to a new place, the number of recipients of training and re-training.

4. Competition

New policy action	**SME support: subsidies to SMEs, development of infrastructure for the entrepreneurship support in the regions of the Russian Federation**
Implementation path and expected date of implementation	No less than 3% of SMEs are planned to be supported through the government measures annually in 2014-2018.
What indicator(s) will be used to measure progress?	Share of SMEs reached by the government support measures.
New policy action	**SME support: SMEs access to the procurement of infrastructure monopolies and state-owned companies**
Implementation path and expected date of implementation	Share of SME's in the procurement items provision for the infrastructure monopolies and state-owned companies – no less than 25% by 2018.
What indicator(s) will be used to measure progress?	Share of SMEs in the procurement items provision for the infrastructure monopolies and state-owned companies.

5. Trade

New policy action	**State Program "Development of external economic activities"**
Implementation path and expected date of implementation	Covers the period 2014-2018 with interim quantitative checkpoints each year. Each sub-measure (24 in total) correlates to at least one quantitative indicator (36 in total). Main points: fostering bi-, multilateral and global trade cooperation; financial and informational

	support for exporters; improving the customs and border formalities.
What indicator(s) will be used to measure progress?	Main indicators (other than those included in the Roadmaps below): Capacity of border crossings, (index: 2013=30,3: 2014=30,9; 2015=35; 2016=36,1, 2017=37,2, 2018=38,4). Rates of growth of non-resource goods (index, 2011=100): 2014=108,5; 2015=114,0; 2016=117,1; 2017=119,0; 2018=120,5. Top-20 in the World Bank's Doing Business Trading across borders index: 2015 = 79 rank, 2018 = 17 rank.
Explanation of additionality (where relevant)	The Program was amended in April 2014, having become more focused on providing support for exporters; extra target indicators have been added.
New policy action	**The Roadmap for enhancing customs administration**
Implementation path and expected date of implementation	Covers the period of 2014-2018 with interim quantitative checkpoints for 2014 and 2015. Each sub-measure (72 in total) has a concrete deadline (month/year). Main points: widening the use of electronic document interchange, enhancing the physical infrastructure of the border crossings, adopting the principles of automatic customs risk management, improving the mechanisms for payment of the customs payments.
What indicator(s) will be used to measure progress?	Position in the World Bank's Doing Business Trading Across Borders index (current: 157; targets: 2014: 130, 2015: 79, 2018: 17); Number of the documents for export (current: 9, 2014: 6, 2015: 6; 2018: 4); Number of the documents for import (current: 10, 2014: 8; 2015: 6; 2018: 4); Number of days needed for documents' preparation for import or export permission (2014 – 20; 2016 – 15; 2018 - 7) Number of hours needed to complete the customs formalities (for goods with low risk profiles) for exports/imports (current: 60/72, 2014:45/48; 2015: 24/24; 2018: 2/2).
Explanation of additionality (where relevant)	The Roadmap was revised in September 2013. New short-term goalposts for 2014 were included; for each measure a corresponding new document/necessary changes in existing documents were added. New measures were added (incl. electronic veterinary certificates, electronic payment of the customs fees).
New policy action	**Roadmap for enhancing access to the overseas markets and supporting exports**
Implementation path and expected date of implementation	Covers the period of 2014-2018 with interim quantitative checkpoints for each year. Each sub-measure (40 in total) has a concrete deadline (month/year). Main points: financial, information and technical support for exports of the highly processed goods, simplification of the VAT refund for exporters, simplification of the goods processing on the customs territory.
What indicator(s) will be used to measure progress?	Number of exporters (index, 2011=100); currently: 125; targets: 2014: 131, 2015: 137, 2016:142, 2017: 150, 2018: 160); Value of exports of the highly processed goods (index, 2011=100); currently: 110,1; 2014: 120,6; 2015: 136,1; 2016: 155,8; 2017:

	180,1; 2018: 205,5; Credits from the Vnesheconombank [state institution for development] and affiliated entities aimed at export support (bln. US dollars): currently: 0,4; 2014: 1,0; 2015: 4,3; 2016: 8,4; 2017: 13,9; 2018: 18,2.
Explanation of additionality (where relevant)	The Roadmap was revised in February 2014. New indicators (credit, exports of the highly-processed goods) were added, and the old ones were updated. New measures were included, with the focus on both financial (guarantees, use of export credits as collateral) and non-financial (e.g. certification) support for the high-technology exports.
New policy action	**The "single window" mechanism at the Customs Union borders.**
Implementation path and expected date of implementation	The "single window" mechanism will be introduced within the Customs Union for the international trade facilitation by streamlining the customs and other administrative procedures at the borders of the Union and enhancing their transparency. The mechanism will allow agents to submit documents to a single authority instead of several state institutions.
What indicator(s) will be used to measure progress?	Action plan for introducing the "single window" mechanism to be formulated by December, 25, 2014.
Explanation of additionality (where relevant)	On May 29, 2014 the Eurasian Economic Council endorsed the guidelines for developing the "single window" mechanism as part of the external economic activities regulation.
New policy action	**Establishments of centre for credit-insurance support of export**
Implementation path and expected date of implementation	November 2014 – launch of the Center, January 2015 – development of the strategy
What indicator(s) will be used to measure progress?	Volume of export credits issued 2015 – 1 billion US dollars 2016 – 3,36 billion US dollars 2017 – 6,95 billion US dollars 2018 – 9,1 billion US dollars
Explanation of additionality (where relevant)	New measure