

Session 1 “The economies of Russia and the EU are performing slightly better than before. However, sustainable economic growth requires deep structural reforms”

1. Though the recent growth projections for the EU and Russia indicate a positive momentum, they are still below the expected global growth of 3.6 in 2017 and 3.6 in 2018.

Russia is expected to return to positive growth at 1.1 for 2017 and 1.2 for 2018. The EU will slow down from 2.0 in 2016 to 1.8 in both 2017 and 2018.¹

Note: In 2016 Russia’s GDP decline was -0.2% which is lower than the forecasts of both Russian Ministry of Economic Development (-0.7%) and the World Bank (-1.9%). Annual inflation was lowered to 5.4%. However, the key rate reduction is not as fast as business would prefer. At the same time capital investments continued to fall for the third consecutive year decreasing by 0.9% in 2016. The business-community surveys conducted by RSPP show that the problems of low demand and the lack of loan funds for investment projects implementation became acute during the crisis. At the same time chronic systemic “constraints”, including lack of skilled labour, excessive control and surveillance pressure on business and high administrative barriers, etc., are still relevant.

2. Growth friendly monetary and fiscal policies have been vital for economic stabilization. However, structural reforms remain a priority for our shared growth objectives. Back in the 2014 together with the other G20 members we set an ambitious goal to lift the G20’s GDP by at least an additional two per cent by 2018. Both Russia and the EU committed to undertake a wide range of structural reforms in their Comprehensive Structural Reforms Strategies adopted in Brisbane in 2014. A lot has been done and more needs to be done to avoid the risk of being caught in a low-growth trap with rising inequality.

3. Many of the structural bottlenecks are common²:

Russia has to reduce state control over economic activity and reduce barriers to competition, enhance effectiveness of support for innovation, raise the quality of public administration, improve the quality of public finances, as well as enhance labor mobility.

The EU should enhance support for innovation, increase competition in services sector and network industries, reduce support to agriculture and remove barriers to labor mobility.

4. I will not speak about the priorities for the EU, but would like to elaborate on the structural reforms in Russia.

Two key strategic documents are being developed. The first is the Action Plan of the Government for 2017-2025. The other one is the National Development Strategy for the period until 2024.

I would like to emphasize three key policy areas included in the proposals of the business community to these strategic documents.

The first block is **fiscal policy** which can be divided into several issues important for business:

¹ Group of Twenty IMF Note — Finance Ministers and Central Bank Governors' Meetings. IMF Note on Global Prospects and Policy Challenges, p. 13. URL: <https://www.imf.org/external/np/g20/031417.htm>.

² OECD Economic Policy Reforms: Going for Growth. URL: <http://www.oecd.org/eco/growth/goingforgrowth.htm>.

- ensuring predictability and stability of the fiscal burden, including its calculation according to a special methodology proposed by RSPP. We would like to see at least stabilization of the level of fiscal burden;
- increasing the stimulating role of the fiscal system, in particular for the startup projects. It should include correction of the depreciation policy, introduction of full-fledged investment incentives and transition to a more universal and simply administered approach to tax incentives implementation;
- handling the non-tax payments problem, which is part of the fiscal burden for business. There is no clear regulation of non-tax payments introduction, collection and other key parameters. A unified register of these non-tax payment does not exist, there are several different lists of these payments which are obligatory for the business. We advocate for the legislative regulation of all issues related to non-tax payments and creation of a unified register;
- improving the tax administration, including transfer pricing in the transactions made within Russia;
- handling a problem of stimulating registration of holding companies in the Russian jurisdiction. Russia has made efforts to implement the Plan on Base Erosion and Profit Shifting (BEPS) but to win the competition with other jurisdictions we need to provide incentives not only introduce restrictions.

The Ministry of Finance has recently announced its position on tax reform with 22% for social insurance payments and 22% for VAT. I think that this proposal is radical and risky, in particular for new hi-tech companies.

The second block is **regulatory environment**, which is far from the ideal according to the business community assessments.

The business is waiting for the adoption of the federal law “On State and Municipal Control (Surveillance) in the Russian Federation”.

The draft law on regulatory approval system in Russia should be finalized by the end of this year. This draft law will introduce a unified regulation of all forms of approvals from the state bodies.

At the same time the legislation should be changed to increase responsibility of civil servants of control and surveillance bodies for violations during inspections.

The third block of issues relates to **increasing availability of financing and stimulating investment and in particular innovative projects implementation**. Several priorities should be highlighted:

- Optimization of the development institutions system and priorities for their work after 2019 and for long-term period taking into account different medium-term scenarios, including lowering of the key rate set by the Russian Central Bank. Introduction of the best practices into all development institutions’ procedures, including business community engagement in the assessment of projects’ support;

- Tuning of the support instruments highly demanded by business, including special investment contracts and regional investment projects to lift groundless restrictions for business;
- Ensuring access to the stock exchange of SMEs bonds, widening access of bond issuers from the SME sector to non-state pension funds and some other measures.

This is not a complete list of structural reforms, which are being discussed right now. **Other measures include:** raising effectiveness of natural monopolies regulation and tariff setting, development of the social insurance system and the efforts on lowering the deficit of qualified labour in certain industries, improvement of environmental regulation (especially given the Year of Environment in Russia in 2017).

5. Hopefully the structural reforms will ensure a sustained growth in Russia and the EU. However, much more could be achieved if we tap on the integration potential in our region.

Given the current geopolitical context the concept of a single economic space from Lissabon to Vladivostok has vanished from the political narrative. However, it contains important benefits for our economies. We think that the potential of the EU and Eurasian Economic Union integration should be harnessed: complementary trade in services and goods, direct investments between the unions' members, building value added chains, developing modern infrastructure. We should be moving towards a free trade area, which would create incentives for enhancing productivity, technologies transfer and labour mobility.

Talks between the EU and the EAEU at a regional level could help overcome the current difficulties and frustration of bilateral talks with the Russian Federation.

Together we can make our economic growth strong and resilient. What we need is a structural reform in the EU and Russia relations.