



**NORTH-WEST RUSSIAN BUSINESS EXECUTIVES'
ECONOMIC EXPECTATIONS HIGH**

BUSINESS BAROMETER 2008 FOR NORTH-WEST RUSSIA





North-West Russian business executives' economic expectations high

Nearly every third North-West Russian business executive considers closer cooperation between the EU and Russia beneficial to their enterprises. Half of Russian business executives believe that Russian membership of the WTO would not impact on their companies' business activities.

North-West Russian business executives predict that the general business conditions will improve considerably in 2008. The respondents believe that their enterprises' turnover will grow rapidly in the coming year. Investment growth is expected to accelerate modestly compared with 2007. The growth in labour force size is forecast to continue at the same rate, although the increase in labour force growth is expected to decelerate considerably in Saint Petersburg. The respondents believe that their personal financial positions will improve significantly following several years of steady gains. They also expect the Russian economy to surge ahead in 2008. In 2007 North-West Russian business executives believe that President Putin's administration has moderately improved the general business conditions for their enterprises. Furthermore, President Putin's policies have significantly improved investment opportunities for foreign enterprises in Russia.

The general business conditions in North-West Russia improved considerably in 2007. The turnover and investments of Russian enterprises grew slightly more than in the previous year. The personal financial positions of business executives showed significant improvement, while Russian economic growth exceeded expectations. Increase in labour force size growth continued apace in 2007.

Russian economy in great shape

In 2007, Russian economic growth reached a record high for the second successive year. The balance figure rose

by 17 points from the previous year and is the highest in the barometer's history. The development of the Russian economy exceeded all expectations, with record balance figures reached in all areas and sectors of the barometer. In Saint Petersburg, the balance figure was 22 points up on last year, 20 points in other areas of North-West Russia and 14 points in Moscow. The rate of increase in the balance figures for commerce (25 points) and industry (19 points) was considerable.

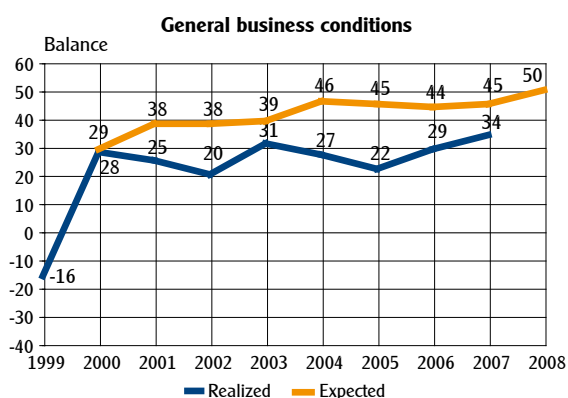
In 2008, Russian enterprises predict an even greater improvement in the Russian economy (+ 39). The balance figure as a whole was 10 points up on last year and is the highest in the barometer's history. In other areas of North-West Russia, the balance figure rose by 15 points and in Saint Petersburg by 12 points. The balance figure jumped considerably in industry (14 points) and in commerce (13 points), but rose only modestly in the service sector (3 points). In the main business sectors expectations were the highest in the barometer's history.

Slight downturn predicted for labour force size

In 2007, labour force size growth in Russian enterprises remained unchanged (+15). Labour force size increased more in other areas of North-West Russia (+20) than in Moscow (+15) and Saint Petersburg (+10), where the balance figure was 3 points down on last year.

In 2008, the respondents believe that the labour force size will continue to grow at roughly the same rate, the balance figure being a mere two points down on 2007. In Saint Petersburg, labour force size growth is forecast to slow down significantly, with the balance figure falling seven points. In Moscow, the labour force size is expected to grow at the same rate as in 2007, whereas a slight deceleration is forecast for other areas of North-West Russia.

Labour force size is expected to grow slightly more in the service sector (+33) than in commerce (+28) and industry (+26), although a more significant downturn in labour force size is predicted for the industrial sector (down from +31 to +26).



Personal financial position expected to improve considerably

After several years of steady gains, Russian business executives foresee a considerable improvement in their personal financial positions in 2008, with expectations especially high in Moscow. In the service sector (+44), Russian business executives expect their personal financial positions to be slightly better than in industry (+42) and commerce (+39). Conversely, expectations have risen most in industry (up 10 points to + 42).

Significantly improved investment opportunities for foreign enterprises

President Putin's administration is believed to have improved the business environment for Russian enterprises slightly more than last year. Confidence in President Putin's actions was stronger in other areas of North-West Russia (+27) than in Saint Petersburg (+22) and Moscow (+21). In Saint Petersburg, the balance figure is a notable nine points up.

The business executives believe that President Putin's policies have considerably improved investment opportunities for foreign companies in Russia. The balance figure is the highest in the barometer's history, rising seven points from 2006. Confidence in the actions of President Putin's administration is clearly stronger in other areas of North-West Russia (+58) than in Saint Petersburg (+50) and Moscow (+49).

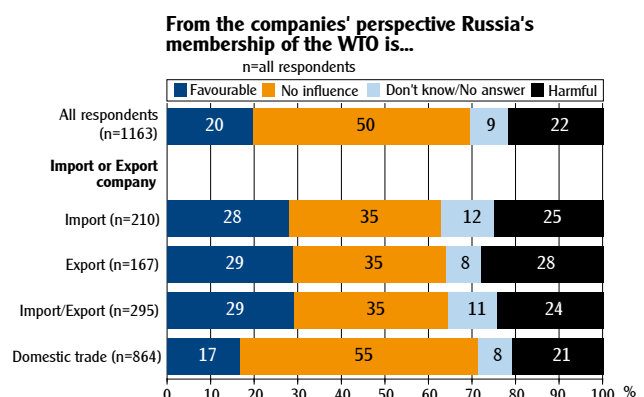
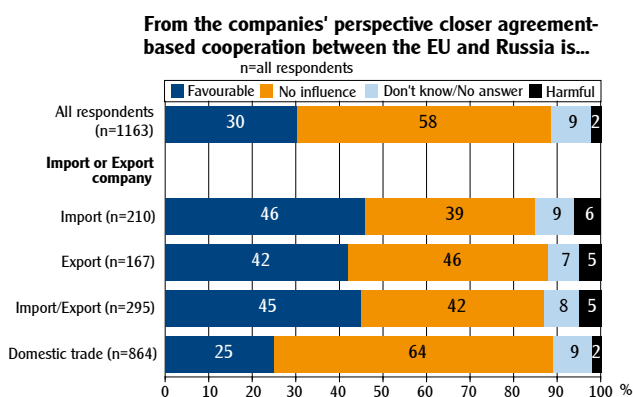
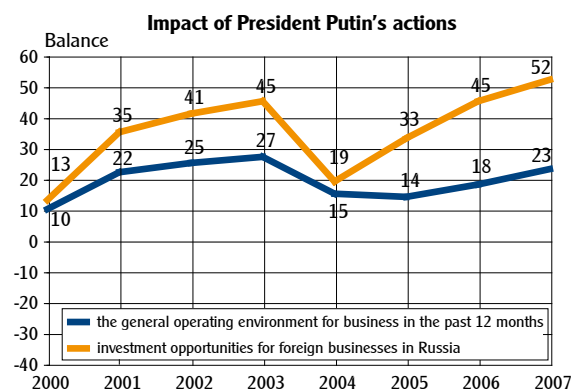
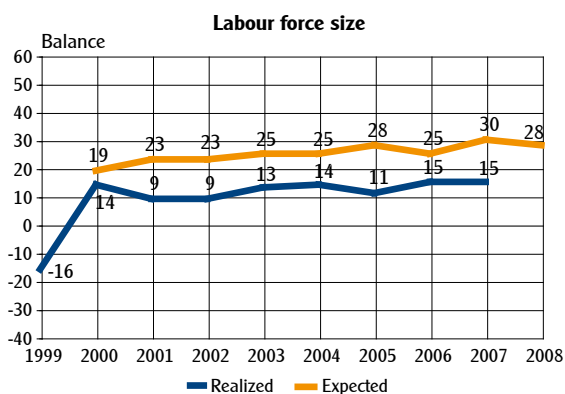
Twenty-eight percent of respondents were unable or unwilling to evaluate that impact of President Putin's administration on the business environment for foreign companies in Russia (in 2006 it was 23%).

North-West Russian enterprises to benefit from closer agreement-based cooperation between the EU and Russia

Thirty percent of business executives consider closer cooperation between the EU and the Russian Federation beneficial to their enterprises. More than half of the respondents (58%) believe that closer cooperation would have no impact on their enterprises, whereas only two percent of respondents consider closer cooperation to be harmful. The proportion of "No answer / Don't know" responses was nine percent.

Russian membership of the WTO divides opinions

Half (50%) of Russian business executives believe that Russian membership of the WTO would not impact on their enterprises' business activities. 20 percent of respondents think that WTO membership would benefit their enterprises, while a similar number (22%) of respondents believe that membership would be harmful. The proportion of "No answer / Don't know" responses was also nine percent.



Source: The Central Chamber of Commerce of Finland/Taloustutkimus Oy - TOY Research

Uncertainty over future development

In general, uncertainty about the direction of future development has remained unchanged from previous years. However, respondents were unable or unwilling to evaluate either the increase in labour force size or the impact of President Putin's administration on the business environment with as much certainty as before. Uncertainty was measured from the proportion of "No answer / Don't know" responses among interviewees.

Description of the barometer

The Central Chamber of Commerce of Finland has conducted Business Barometer surveys for North-West Russia using the same criteria since 1999. For the most recent barometer, a total of 1,163 Russian business executives were interviewed. Of the interviewees, 501 were from Moscow, 304 from Saint Petersburg and 358 from other areas of North-West Russia. The business enterprises comprised the commercial sector (44%), the service sector (41%) and the industrial sector (37%). Some of the enterprises interviewed represent more than one sector. The interviewees hold senior management positions.

The executives were asked to compare development in the current year with that of the previous one and to predict the outlook for the year ahead. The survey was qualitative. For each variable, the respondents were asked whether the situation had improved, remained the same or deteriorated. The results are given as balance figures, calculated by subtracting the proportion of answers

indicating a deterioration from the proportion that saw an improvement.

The executives were asked to assess the following variables: general business conditions, the enterprise's turnover, its investments, the size of its labour force, the respondent's own financial position, the Russian national economy, and the impact of President Putin's actions on the business environment. The business executives were also asked how Russian membership of the World Trade Organisation (WTO) would affect their enterprises and how closer agreement-based cooperation between the EU and the Russian Federation would affect their companies.

The interviews were conducted for the Central Chamber of Commerce of Finland by TOY-Opinion, the Saint Petersburg subsidiary of Finnish market researcher Taloustutkimus Oy, in June and July 2007.



The Central Chamber of Commerce of Finland is the central organisation of 19 Chambers of Commerce, which have about 16,000 members. Membership is voluntary. The Chambers of Commerce promote free competition, market economy and free world trade. For more information, visit www.chamber.fi and enter the homepage of the Central Chamber of Commerce of Finland.

Aleksanterinkatu 17, P.O. Box 1000
00101 Helsinki, Finland
Tel. +358 9 696 969,
fax +358 9 650 303
www.chamber.fi

Dr **Kari Jalas**, Director General
Tel. +358 9 6969 6618,
fax +358 9 6969 6652
kari.jalas@chamber.fi

Ms **Anne Hatanpää**, Deputy Director
Tel. +358 9 6969 6661,
fax +358 9 650 303
anne.hatanpaa@chamber.fi