



Moscow City
Government

MOSCOW INVESTMENT DIGEST

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Dear Colleagues,

The Department of Economic Policy and Development of Moscow, in cooperation with the Moscow City Investment Agency, would like to present the latest issue of the Moscow Investment Digest, outlining the city's key investment events.

The targeted investment programme for 2017 is estimated at RUB 484.1 billion, which is RUB 32 billion more than the city's infrastructure investment in 2016

[The City of Moscow's draft budget for 2017](#) and the planning period of 2018–2019, providing infrastructure development investment, estimates at RUB 714.7 billion for the coming year. The Moscow City Duma has adopted the first reading of the draft budget. The Targeted Investment Programme, which accounts for a significant portion of the development budget, will be worth RUB 484.1 billion and it will ensure greater investment in the Moscow economy. The priorities of the Targeted Investment Programme are the same: to develop the transport system and the social and utilities infrastructure.



Over the next few years, the Targeted Investment Programme will finance the construction of over 100 kilometres of Metro lines, about 500 kilometres of new roads, around 50 health-care facilities, 100 education institutions, 60 sports complexes and a host of other facilities, including Zaryadye Technology Park and Luzhniki Stadium.

According to Moscow Mayor Sergei Sobyenin, one rouble of public investment in infrastructure development attracts three roubles of private investment into the city's economy and social sphere.

Russia among the top 40 on the Doing Business list



Russia placed 40th in the [World Bank's Doing Business 2017](#) for 2016, its best result since the annual report was launched, and up 80 points from 2011.

The World Bank report marks a significant improvement for Russia in terms of starting a business, moving up 15 places from last year (from 41st in 2015 to 26th in 2016). The total time required to register a company has been reduced to no more than three working days (as of 29 December 2015). It is now possible to open a bank account remotely when registering a company.

There has also been progress in terms of obtaining construction permits (up from 119th in 2015 to 115th in 2016). The procedures for convening an approval commission and carrying out the final inspection of the state architectural and construction supervision have been optimised.

Russia enjoys high positions in the categories "Registering Property" and "Getting Electricity" (9th and 30th, respectively).

The ranking is based on 10 indicators that reflect the business climate in the country, based on the aggregate indicator for Moscow and St. Petersburg with an influence ratio of 70 to 30.

In 2012, the Business Protection Headquarters was set up in Moscow. One of its key objectives was to improve the conditions for doing business in Moscow and ensure that Russia moves up in the World Bank Annual Report. Through the Business Protection Headquarters, the Moscow City Government ensures efficient cooperation between business and the city with regard to company and property registration procedures, [obtaining construction permits and getting connected to power networks](#).

According to Natalya Sergunina, Deputy Mayor for Economic Policy and Property and Land Relations, Moscow is continuing its systemic work to improve the investment climate, including by simplifying the procedures for [setting up](#) and running a business. As a result, Russia has been moving up in the ranking with each passing year.

Moscow tops tax policy ranking among the constituent entities of the Russian Federation

[The study](#) covered several parameters, with the final ranking depending on the number of points scored. Moscow took first place, followed by the Khanty-Mansi Autonomous District in second and the Moscow Region in third.

The consultancy group that carried out the study selected the main elements of tax policy that the constituent entities of the Russian Federation could take advantage of in 2015. These include introducing tax benefits, setting patent costs for labour migrants, and transferring to a system whereby individual property tax is calculated on the basis of the cadastral value of the property in question.

The ranking also took into account higher transport tax rates on cars with a capacity of over 250 horsepower and the introduction of corporate property tax based on the cadastral value of real estate for trade, offices, public catering and consumer services.



Moscow companies increase production capacity



A new manufacturing building was opened at the [Otradnoye Technology Park](#), along with a multi-level car park for employees. The new building has a total area of 33,500 square metres, while the 21,100-square metre car park can accommodate 602 cars.

The commissioning of the new building has allowed a common use infrastructure to be set up at the technology park, including a server room, congress hall and gym. The building can accommodate several new corporate tenants.

The technology park occupies 3.5 hectares in the northeast of Moscow. Its residents include ABBYY, OOO Lighting Technologies and others.

Currently, there are [26 technology parks operating](#) in Moscow. Measures implemented by the city to support technology parks include exemptions on profit, land and property tax, as well as lower land lease rates.

Moscow extends tax benefits for the Zelenograd Special Economic Zone

The Moscow City Duma has passed the first reading of amendments to the city's legislation extending tax benefits for the Special Economic Zone for Innovations in Zelenograd.

The draft law extends the profit tax relief for residents of the Zelenograd Special Economic Zone, which covers almost 160 hectares of production area and is home to 37 resident companies that employ around 3,000 people.



As before (from 2006 to 2016), Zelenograd residents will enjoy a reduced profit tax of 13.5%. Maxim Reshetnikov, Moscow City Government Minister and Head of the Department of Economic Policy and Development of Moscow, noted that the city was thus supporting investment activity in the areas of priority for Moscow, encouraging growth of hi-tech industries and innovative businesses, while also creating new jobs in the city.

Over the past few years, Moscow has seen the biggest increase in the number of entrepreneurs compared to other Russian cities



Over the past six-and-a-half years, Moscow has seen a greater increase in the number of individual entrepreneurs than any other Russian city. Since the start of 2010, the number of entrepreneurs in Moscow has risen by more than 50% (from 162,000 to 244,000). The average period of entrepreneurial activity has also risen by 10%, which suggests that stable rules of the game

have formed in Moscow. This is also confirmed by survey results: termination of individual entrepreneurial activities was, in most cases, due to economic conditions (falling demand and rising competition), while factors relating to tax were practically a non-issue.

As of the beginning of 2016, the large majority of entrepreneurs (over 60%) were engaged in the services sector – transportation, consulting and IT services. Another 27% work in the retail sector. The percentage of individual entrepreneurs operating in industrial production has increased by 13% over the last three years.

The study of individual entrepreneurship development in Moscow in 2010–2016 was carried out by PwC using Federal Tax Service data and a poll conducted by the Levada Center.

List of commercial facilities subject to cadastral taxes for 2017

A Preliminary List of real estate facilities subject to tax based on cadastral value for 2017 has been published on the website of the Department of Economic Policy and Development of Moscow.

The document covers commercial facilities, offices and buildings where public catering and consumer services are offered. The Preliminary List of facilities for 2017 is for information purposes only. The final version will be approved by the Moscow City Government before 1 December 2016.

Further details on the facilities included on the Preliminary List, as well as the criteria for inclusion thereon and measures that can be taken by owners who disagree with their facilities being on the List, can be found on the website of the Department of Economic Policy and Development of Moscow in the section “Interdepartmental Commission for Problems of Taxation in Moscow”.

Moscow in figures: macroeconomic tendencies

Industrial production in Moscow climbed 6.4% last month

Production in Moscow continues to [increase](#). Over the first three quarters of 2016, full cycle industrial production edged up 1.8% compared to the same period last year.

In the last month of the third quarter, manufacturing growth accelerated in the city: in September, production increased 6.4% for full-cycle production and 3.2% for manufacturing companies. Although these figures do not fully reflect the dynamics of Moscow industrial production, the positive trend is confirmed by other indicators, including rising profits in most industries.



According to Maxim Reshetnikov, Moscow City Government Minister and Head of the Department of Economic Policy and Development of Moscow, an important reason for this growth is the comprehensive system of [support for the industrial sector](#) launched by the Moscow City Government at the end of 2015, which has started to pay off.

A lower key interest rate can help the economy create new points of growth



The Analytical Centre for the Government of the Russian Federation has issued its latest monthly survey of the Russian financial market (as of 1 October 2016).

In the middle of September, the Central Bank lowered its key interest rate to 10%, while continuing its policy of keeping real interest rates for bank loans above the average level of inflation.

The Central Bank of Russia said in a statement that it would not reduce the key interest rate any further before the beginning of 2017.

The demand for funds on the part of market players is practically non-existent: at a Federal Treasury auction held on 13 September, only RUB 25 billion of the RUB 100 billion on offer was allocated. There continues to be excess liquidity within the banking system, so the Central Bank plans to increase the number of weekly deposit auctions and resort to sales from its own portfolio on the federal loan bond market. In addition, the Board of Directors of the Central Bank of Russia has announced its readiness to issue short-term bonds of the Bank of Russia (for 3, 6 and 12 months).

In September, the banking system (90% of which is concentrated in Moscow) continued to

replace expensive Central Bank loans with cheaper money from individual clients and companies. Amidst growing corporate and retail deposits (Moscow accounts for approximately 30% of all retail deposits in Russia), the amount owed by credit institutions to the regulator has halved since the beginning of the year (from RUB 5.4 trillion to RUB 2.7 trillion).

At present, the market has the potential to cut the key interest rate further, which will allow the economy to create new points of growth, including with a Moscow registration.

Unemployment in Moscow is half the Russian average

Moscow remains the largest and the most attractive labour market in Russia and it strengthened its positions over the first eight months of 2016. As of 1 September, registered unemployment in Moscow stood at 0.56%, down 0.04 percentage points from the start of the year. For reference: the unemployment rate for the country as a whole stood at 1.16% on 1 September.



The number of unemployed registered in the Moscow employment service dropped by more than 4,000 from January to September 2016, while the number of available vacancies reached 112,000.

Moscow auctions:

Lyublino, Khoroshevskaya and Timiryazevskaya transport interchange hubs to be auctioned off



The transfer hubs Lyublino, Khoroshevskaya and Timiryazevskaya will be put up for auction before the end of the year.

As we reported earlier, open tenders to build another eight transport interchange hubs in Moscow began in October. The hubs in question are Dmitrovskaya, Paveletskaya, Pyatnitskoye

Shosse, Khovrino, Fonvizinskaya, Tekhnopark, Park Pobedy, and Troparevo. The total amount of investment required for the construction of the hubs is estimated at around RUB 62.4 billion.

According to preliminary estimates, the city is set receive between RUB 7.1 billion and RUB 12.8 billion in lease payments for the land plots during the construction periods of these eight transport interchange hubs alone.

There are plans to build a total of 271 transport interchange hubs in Moscow before 2020. More than 100 of these will be flat (in the form of park-and-ride facilities, where passengers can leave their car and transfer to the Metro) and 169 will be capital transport interchange hubs.

The latter involve the construction of multifunctional centres, hotels, sports complexes, etc. The types of facilities that will be built as part of the capital transport interchange hubs will be determined taking the views of the people into account.

Cultural heritage site up for auction under the reduced lease rate programme of RUB 1 per square metre a year

The Moscow authorities are offering investors the opportunity to restore and lease at a reduced rate the “Residential House of the Naumovy-Volkonskye” (built in second half of the 19th century), located at: Prechistenka St., 36, Bld. 2.



The tenant will be determined by an auction organised by the Department for Competition Policy.

Bids will be accepted until 18 November and the auction is scheduled for 24 November 2016.

The investor will have to carry out an engineering and technical inspection, repair and restoration work, and adapt the building for contemporary use. All this should be done in no more than five years.

The starting (minimal) annual rate is set at RUB 8.7 million. After the facility is put into operation, the investor will be allowed to switch to [a reduced lease rate of](#) "RUB 1 per square metre" for a period of 49 years.

According to Gennady Dyogtev, Head of the Department for Competition Policy, since the reduced lease rate programme for cultural heritage sites was launched in 2013, this proposal continues to garner the interest of investors, with three to ten people typically competing for one lot and an excess of between 180 and 900 per cent. All the facilities are conveniently located and are of historical and cultural value. At the same time, they are flexible in terms of the purpose for which they can be used. In practice, however, such cultural heritage sites are mostly used for company offices and representative offices.

Currently, about 2,000 land and property auction facilities are listed on the Moscow Investment Portal www.investmoscow.ru. A full list of lots is available in the section "[Auctions](#)".

Thank you for listening.

Best regards and I look forward to working with you.



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