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The review provides a detailed analysis of main trends in Russia's economy in 2013. The paper contains 6 big sections that highlight single aspects of Russia's economic development: the socio-political context; the monetary and credit spheres; financial sphere; the real sector; social sphere; institutional challenges. The paper employs a huge mass of statistical data that forms the basis of original computation and numerous charts.

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The Land Plots Market in Russia in 2013

According to data released by the Federal Service for State Registration, Cadastre and Cartography (*Rosreestr*), the total land area in the ownership of RF individuals continues to be on the decline, amounting as of 1 January 2013 to 118.3 million hectares (m ha), or 6.9% of the total land surface in the Russian Federation, vs. 119.5m ha (7.0%) in 2012 (*Table 16*). By contrast, the land area in the ownership of legal entities has been on the rise, increasing over the course of last year by 1.2m ha to 14.7m ha, or 0.9% of the total land surface in the RF. Of these lands, 755.7 thousand ha is represented by participatory shares, formerly in the right of common ownership, purchased by legal entities from individuals. The total area of land plots in state or municipal ownership increased only slightly – by 0.7m ha (*Table 16*).

Table 16

The Structure of the Russian Federation's Land Area, by Form of Ownership

Form of ownership	01.01.2010		01.01.2011		01.01.2012		01.01.2013	
	m ha	%	m ha	%	m ha	%	m ha	%
In state and municipal ownership	1,576.3	92.2	1,576.4	92.2	1,576.7	92.2	1,576.8	92.2
In the ownership of individuals, including:	123.2	7.2	121.4	7.1	119.6	7.0	118.3	6.9
Land shares of individuals	104.3	6.1	100.8	5.9	97.6	5.7	94.9	5.6
In the ownership of legal entities	10.3	0.6	12.1	0.7	13.5	0.8	14.7	0.9
In private ownership, total	133.5	7.8	133.4	7.8	133.1	7.8	133.0	7.8

Source: The State (National) Report On the State and Use of Lands in the Russian Federation in 2012.

As of 1 January 2013, the bulk of Russia's privatized land remained in common share ownership, including unclaimed land shares. In 15 RF subjects, the share of privatized land as of 1 January 2013 amounted to 40% or more of their total land fund. These are situated, in the main, in the south or southwest of Russia. In 11 RF subjects, the share of privatized land was less than 1%. Only the Southern Federal District managed to climb above the 40% privatization threshold (*Table 17*).

Table 17

The Rate of Land Privatization, by RF Federal District, as of 1 January 2013

RF federal districts	Total land area, m ha	Land owned by individuals, m ha	Land owned by legal entities, m ha	Privatization of land by individuals, as % of total	Privatization of land by legal entities, as % of total	Place with regard to amount of land owned by individuals
Russian Federation	1,709.8	118.3	14,720.2	6.9	0.9	
Southern Federal District	42.1	18.2	1.4	43.2	3.4	I
Central Federal District	65.0	19.8	4.9	30.4	7.5	II
Volga Federal District	103.7	31.2	4.6	30.1	4.4	III
North Caucasian Federal District	17.0	4.2	0.4	24.9	2.6	IV
Siberian Federal District	514.5	29.5	1.7	5.7	0.3	V
Urals Federal District	181.8	9.0	0.8	4.9	0.4	VI
North Western Federal District	168.7	4.2	0.6	2.5	0.4	VII
Far Eastern Federal District	616.9	2.1	0.3	0.3	0.1	VIII

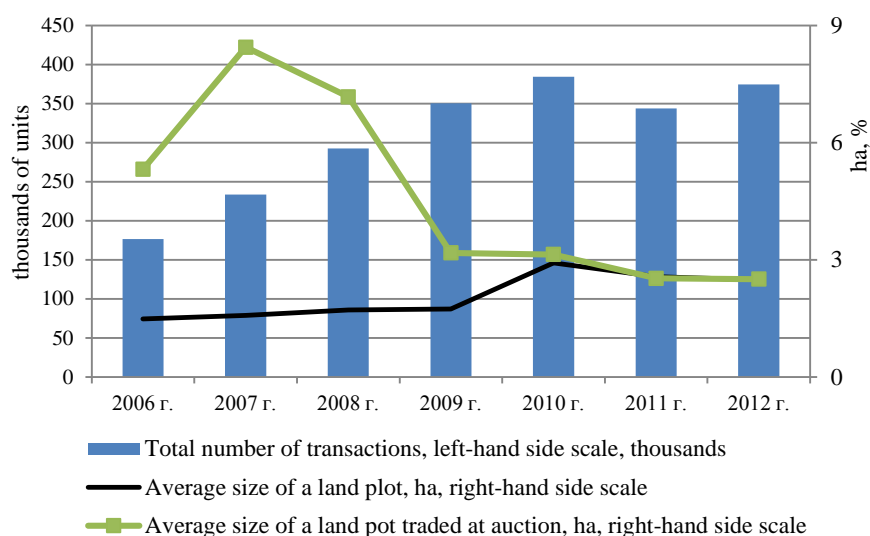
Source: The State (National) Report On the State and Use of Lands in the Russian Federation in 2012.

In the Russian Federation, the bulk of land involved in market turnover is represented by land plots in state and municipal ownership, which are offered for lease. As of 1 January 2013, the deals of lease amounted to 59.1% of the total number of land transactions, and to 77.2% in terms of land area. The number of lease agreements increased on 2011 from 3.3m (159.4m ha) to 3.4m (156.9m ha). The total number of land plots brought into turnover as of 1 January 2013, including leased land plots in state and municipal ownership, was 5.8m, their total area - 203.4m ha.

Specifically, over the course of 2012 a total of 2.8m transactions with land plots were concluded (their total land area amounting to 60.9m ha); of these, 39.3m ha was taken up by private land, in respect of which individuals and legal entities closed 2.0m deals, which represents a rise on 2011 by 48.6% in terms of land area, and by 21.1% in terms of number of transactions. The share of transactions with private land plots in 2012 exceeded that of transactions involving state and municipal land, and amounted to 64.6% in terms of land area and to 70.5% in terms of number of transactions. This type of land takes up 29.6% of the entire amount of land in private ownership. The share of private land plots brought into turnover varies from 2.7% (0.1m ha) in the North Caucasian Federal District to 49.1% (15.3m ha) in the Siberian Federal District.

In 2012, the number of sales of state and municipal lands increased on 2011 by 9.0% to 0.4m, while the land area sold increased by 5.5% – to 0.9m ha, and the average size of a sold land plot shrank by 3.2% – to 2.5 ha (*Fig. 5*). The number of transactions involving state and municipal land sales at auctions increased on 2011 by 18.3% (from 29.3 thousand to 34.7 thousand plots), while the amount of sold land increased by 17.3% (from 74.2m ha to 87.0m ha), and the average area of a land plot sold at an auction shrank by 0.85% – to 2.51 ha (*Fig. 5*).

In 2012, the share of state and municipal land sales at auctions amounted to 9.3% of the total volume of sales of land in state and municipal ownership, both in terms of the number of transactions and the land area sold. Individuals and legal entities purchased at auctions a total of 34.7 thousand state and municipal land plots. The bulk of land plots sold at auctions are situated in inhabited localities, and the majority of these plots will be used by the buyers for individual housing and *dacha* construction (17,171 land plots with the total area of 5,419.0 ha), as well as for gardening, vegetable gardening and animal husbandry, or for conducting personal subsidiary economy (6,509 land plots with the total area of 1,732.7 ha) (*Table 18*). In most cases, the price of land sold at auctions is higher than the buyout price for land in state and municipal ownership based on the established land price norms.



Source: The State (National) Report On the State and Use of Lands in the Russian Federation in 2012.

Fig. 5. The Dynamics of Sales of State and Municipal Lands, 2006-2012

Table 18

Total Sales at Auctions, in 2012, of State and Municipal Land in the Russian Federation,

	inside inhabited localities			outside of inhabited localities		
	number of transactions, units	total area, ha	price per m ² , Rb	number of transactions, units	total area, ha	price per m ² , Rb
To individuals, for the purposes of:						
individual housing or dacha construction	17,171	5,419.0	347.2	1,542	1,138.4	82.7
conducting personal subsidiary economy, gardening, vegetable gardening, and animal husbandry	6,509	1,732.7	52.6	610	278.5	52.4
other purposes	4,411	1,700.3	560.7	362	2,622.4	39.0
To legal entities (except agricultural organizations):						
to be used for industrial or other special purposes	558	588.1	222.3	167	1,355.9	53.3
for other purposes	1,342	5,356.3	493.8	113	822.3	18.5
To peasant (or farmer) households, agricultural companies and other organizations for the purposes of agricultural production	146	1,679.5	33.7	1775	64,288.0	7.7
Total	30,137	16,475.9	X	4,569	70,505.4	X

Source: The State (National) Report On the State and Use of Lands in the Russian Federation in 2012.

The average price of land plots situated in inhabited localities and designated for individual housing or *dacha* construction in 2012 increased 2.5 times on 2011 across the Russian Federation, while that of land plots situated outside of inhabited localities went up 4.6 times. The price of land plots designated for conducting personal subsidiary economy, gardening, vegetable gardening, and animal husbandry inside inhabited localities rose 2.3 times, and that of land plots situated outside of inhabited localities increased by 58.1% (Table 19).

Table 19

The Average Per Square Meter Prices, in Rubles, of State and Municipal Land Plots Sold to Individuals and Legal Entities in the Russian Federation in 2012, and Their Change on 2011, %

RF federal districts	To individuals and their associations, for the purposes of:				To legal entities, in order to be used for industrial or other special purposes		To peasant (or farmer) households and agricultural organizations	
	individual housing or dacha construction		conducting personal subsidiary economy, gardening, vegetable gardening, and animal husbandry					
	inside inhabited localities	outside of inhabited localities	inside inhabited localities	outside of inhabited localities	inside inhabited localities	outside of inhabited localities	inside inhabited localities	outside of inhabited localities
Russian Federation	136.1	19.8	28.3	12.9	131.5	35.1	4.0	17.8
<i>percent change</i>	<i>147.7</i>	<i>360.3</i>	<i>132.8</i>	<i>58.1</i>	<i>4.3</i>	<i>-46.1</i>	<i>-79.1</i>	<i>376.7</i>
Central Federal District	58.7	74.1	38.3	10.9	186.1	21.2	7.0	3.4
<i>percent change</i>	<i>-28.4</i>	<i>3,412.3</i>	<i>83.1</i>	<i>-30.2</i>	<i>-3.5</i>	<i>-87.7</i>	<i>-90.4</i>	<i>33.2</i>
North Western Federal District	539.0	29.5	72.0	16.1	77.7	47.9	8.9	4.6
<i>percent change</i>	<i>705.3</i>	<i>210.8</i>	<i>334.5</i>	<i>25.5</i>	<i>-21.8</i>	<i>53.1</i>	<i>218.7</i>	<i>645.9</i>
Southern Federal District	159.1	3.6	52.9	21.5	309.4	150.3	5.3	122.5
<i>percent change</i>	<i>1,376.8</i>	<i>-</i>	<i>783.8</i>	<i>2,287.8</i>	<i>273.6</i>	<i>121.8</i>	<i>75.7</i>	<i>11,564.8</i>
North Caucasian Federal District	133.9	-	3.0	4.5	209.4	6.8	1.8	2.8
<i>percent change</i>	<i>42.9</i>	<i>-</i>	<i>19.8</i>	<i>1465.5</i>	<i>188.5</i>	<i>-73.1</i>	<i>0.0</i>	<i>164.2</i>
Volga Federal District	48.9	24.7	19.6	25.0	101.6	21.9	3.0	2.8
<i>percent change</i>	<i>5.7</i>	<i>30.4</i>	<i>61.2</i>	<i>183.5</i>	<i>-40.8</i>	<i>-71.6</i>	<i>11.0</i>	<i>44.9</i>
Urals Federal District	28.3	0.2	13.0	1.9	49.5	13.5	2.6	5.4
<i>percent change</i>	<i>18.1</i>	<i>-92.4</i>	<i>-14.0</i>	<i>-56.3</i>	<i>-74.1</i>	<i>-82.0</i>	<i>413.7</i>	<i>790.2</i>
Siberian Federal District	54.0	3.0	8.2	10.6	71.2	14.7	1.6	0.4
<i>percent change</i>	<i>11.6</i>	<i>116.9</i>	<i>4.7</i>	<i>3.2</i>	<i>-49.9</i>	<i>-64.7</i>	<i>-96.4</i>	<i>-98.3</i>
Far Eastern Federal District	67.0	3.9	19.3	12.8	47.0	4.5	1.9	0.8
<i>percent change</i>	<i>-0.7</i>	<i>38,500.0</i>	<i>19.6</i>	<i>4.1</i>	<i>-14.8</i>	<i>-85.2</i>	<i>-91.9</i>	<i>23.4</i>

Source: The State (National) Report On the State and Use of Lands in the Russian Federation in 2012 and the State (National) Report On the State and Use of Lands in the Russian Federation in 2012.

As of 1 January 2013, the average lease payment for land plots used for housing and *dacha* construction, situated in inhabited localities, rose 2.5 times on 2011 – to Rb 3.3 per square meter, and that for land plots used for conducting personal subsidiary economy rose 6.4 times - to Rb 14.5 per square meter. Over the same period of time, the average lease payment for land plots used for housing and *dacha* construction and situated outside of inhabited localities increased 2.4 times, and that for land plots used for conducting personal subsidiary economy and vegetable gardening dropped by 69% (*Table 20*).

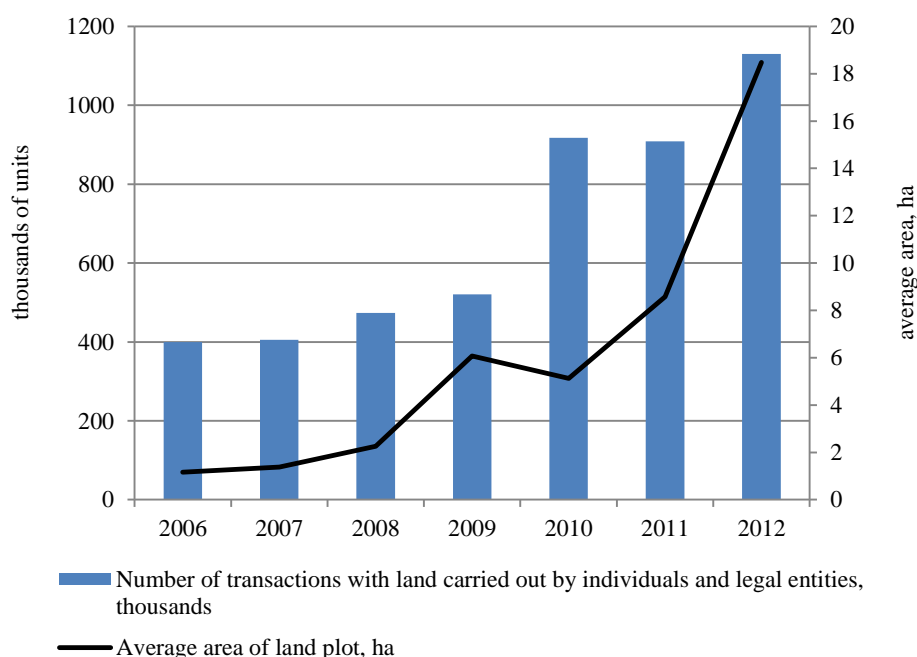
In 2012, the number of transactions involving purchase and sale of land plots in private ownership was 1.1m (*Fig. 6*), while the total area of land subject to those transactions was 20.9m ha. By comparison with 2011, the number of transactions increased by 24.4%, while the total area of land subject to those transactions rose by 168.2%. The average area of a land plot grew by 115.6% to 18.5 ha.

Table 20

The Average Per Square Meter Lease Payments, in Rubles, for the Use of State and Municipal Lands in the Russian Federation

Individual leasers and their associations using leased land plots for the purposes of:	2009		2010		2011		2012	
	inside inhabited localities	outside of inhabited localities	inside inhabited localities	outside of inhabited localities	inside inhabited localities	outside of inhabited localities	inside inhabited localities	outside of inhabited localities
housing and <i>dacha</i> construction	13.4	1.3	17.3	0.9	13.4	0.8	33.3	1.8
conducting personal subsidiary economy, gardening, and vegetable gardening	1.5	0.2	2.0	1.1	2.3	7.0	14.5	2.2

Source: The State (National) Report On the State and Use of Lands in the Russian Federation in 2012.



Source: The State (National) Report On the State and Use of Lands in the Russian Federation in 2012.

Fig. 6. The Dynamics of Sale and Purchase Transactions with Privately Owned Land Plots Concluded by Individuals and Legal Entities, 2006-2012

Land mortgages accounted for 7.6% of a total of nearly two millions of transactions with privately owned land plots concluded in 2012, which represented a 0.86 pp. rise on 2011 (Table 21). In 2012, the highest share of land mortgages in the structure of land transactions was observed in the North Caucasian Federal District (11.8%), the lowest share (similarly to 2011) – in the Urals Federal District (4.8%). The leader in the number of land mortgages concluded in 2012 was the Central Federal District.

Table 21

The Number of Transactions with Privately Owned Land Plots Concluded in the Russian Federation in 2012

RF federal districts	Land sale	Gift	Inheritance	Pledge	Total number of transactions	Pledge transactions, as a percentage of the total number of transactions, %

	2012						2011
Russian Federation	1,130,449	218,811	460,247	148,932	1,958,439	7.6	6.7
Central Federal District	324,752	69,487	152,859	38,881	585,979	6.6	5.0
North Western Federal District	72,876	19,314	33,276	6,359	131,825	4.8	5.5
Southern Federal District	186,645	23,181	64,414	30,130	304,370	9.9	6.1
North Caucasian Federal District	49,173	8,664	15,361	9,809	83,007	11.8	10.9
Volga Federal District	228,178	55,775	113,523	31,930	429,406	7.4	8.2
Urals Federal District	106,604	9,599	26,445	7,181	149,829	4.8	2.6
Siberian Federal District	137,849	26,946	41,176	21,750	227,721	9.6	12.6
Far Eastern Federal District	24,372	5,845	13,193	2,892	46,302	6.3	4.8

Source: The State (National) Report On the State and Use of Lands in the Russian Federation in 2012.

In 2012, the ratio between the total area of pledged land plots and the total area of land in the ownership of individuals and organizations fluctuated from 0.3% in the North Caucasian Federal District to 4.1% in the Central Federal District. This index, in 2012, for the Russian Federation as a whole amounted to 1.8%, which represents a drop by 0.83 pp. on 2011. Most of the pledged land plots were land plots designated for agricultural use. In 2011, the proportion of mortgaged land designated for agricultural use to the total area of pledged land decreased by 3.26 pp. - to 82.8% (Table 22).

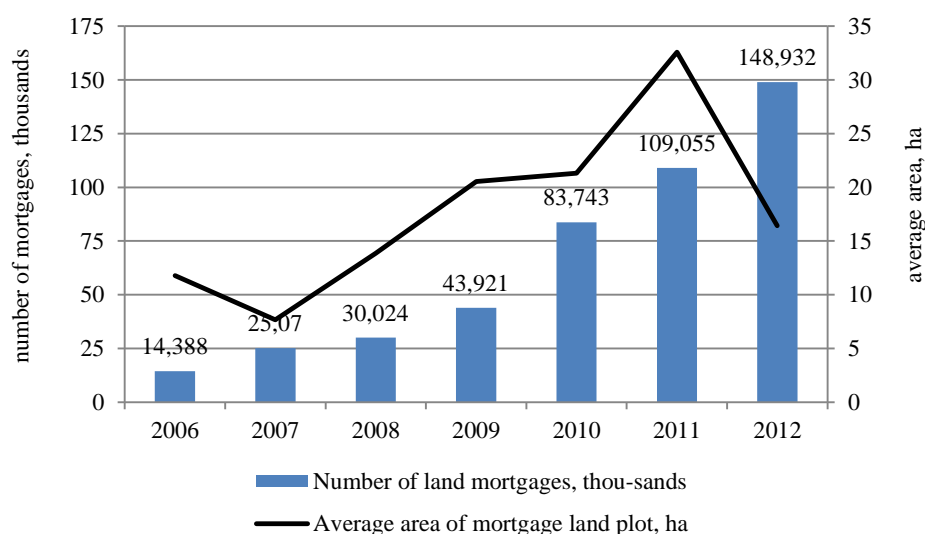
Table 22

A General Characteristic of Pledges of Land in the Russian Federation, As of 1 January 2013

RF federal districts	Land owned by individuals and legal entities	Of which in the state of being pledged		Including mortgages of land designated for agricultural use	
	2012	2012	2011	2012	2011
	m ha	%	%	%	%
Russian Federation	133.0	1.8	2.7	82.8	79.5
Central Federal District	24.7	4.1	10.0	89.7	96.4
North Western Federal District	4.9	0.9	0.8	71.9	53.4
Southern Federal District	19.6	1.2	0.4	82.1	59.8
North Caucasian Federal District	4.7	0.3	0.3	63.8	88.1
Volga Federal District	35.8	1.9	1.7	95.4	95.9
Urals Federal District	9.8	0.9	0.8	60.6	18.4
Siberian Federal District	31.2	1.1	0.8	45.3	64.3
Far Eastern Federal District	2.4	0.6	0.8	65.1	61.1

Source: The State (National) Report On the State and Use of Lands in the Russian Federation in 2012.

The year 2012 saw a total of 148,932 pledge transactions with land plots (or mortgages), which represents a 36.6% rise on 2011 (Fig. 7). At the same time, the total area of pledged land amounted to 2.4m ha, which is by 31.1% less than in 2011. In 2012, the average area of a pledged land plot amounted to 16.4 ha, which represents a decline by half on 2011.



Source: The State (National) Report On the State and Use of Lands in the Russian Federation in 2012.

Fig. 7. The Dynamics of Pledges of Land Plots by Individuals and Legal Entities

According to *Rosreestr*, in early 2013, a total of 7.8m families held land plots designated for individual housing construction, their total area amounting to approximately 1m ha. Of these land plots, 31% were held by right of inheritable possession for life (already null and void), by right of permanent (or infinite) use, or by right of temporary use of land in state ownership (Table 23).

Table 23

The Structure of the Ownership of Lands Granted for Individual Housing Construction

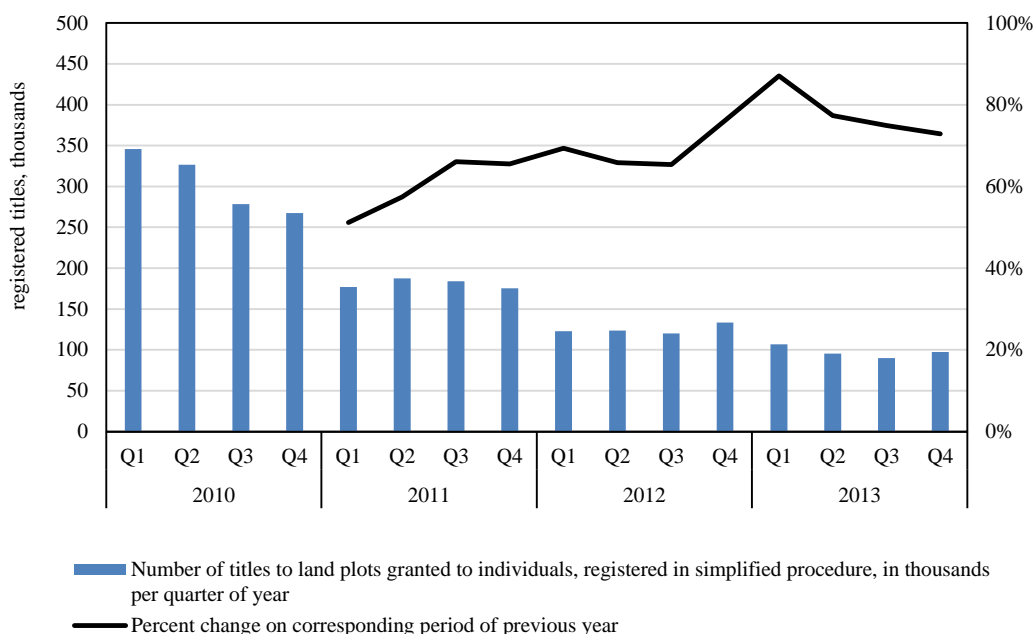
	2011		2012	
	thousands of ha	%	thousands of ha	%
in private ownership	514.3	55.3	546.2	56.7
in state and municipal ownership including:				
in permanent (or infinite) use	206.2	22.2	202.7	21
under lease	110.8	11.9	119.1	12.3
in free-of-charge temporary use (or temporary use)	2.2	0.2	3.5	0.4
in inheritable possession for life	56.2	6	54.8	5.7
without right to land being formalized	41.1	4.4	37.5	3.9
Total	930.8	100	963.8	100

Source: The State (National) Report On the State and Use of Lands in the Russian Federation in 2012.

According to data released by *Rosreestr*, the positive effect of the ‘*dacha amnesty*’ – the simplified procedure for individuals to register their titles to land plots granted to them prior to the enactment of the RF Land Code for conducting personal subsidiary economy, *dacha* construction, gardening, vegetable gardening, individual garage construction or housing construction – has become less visible (Fig. 8). Over 2013, a total of 389.8 thousand land acts were registered in the framework of the ‘*dacha amnesty*’, which represents a drop by 22.0% on 2012.

At the same time, according to *Rosreestr*, quite often it happens so that the liquidation or reorganization of an organization holding a land plot is not followed by a proper registration of

the altered right to land. As of 1 January 2013, the holders of rights to a total of 16.9m ha of agricultural land, which is still kept on state cadastre records, have been stricken off the corresponding registers of legal entities and individual rights holders. In other words, the rights still exist, while the holders of those rights have disappeared – thus giving rise to all sorts of related legal and tax collisions. The total area of this type of land shrank on 2011 by 34.2 thousand ha.



Source: data released by Rosreestr.

Fig. 8. The Dynamics of Registration, in the Simplified Procedure, of Titles to Land Plots Granted to Individuals

The highest numbers of individuals holding land plots designated for housing construction as of 1 January 2013 were recorded in Krasnodar Krai (448.1 thousand), in Moscow Oblast (412.0 thousand), in Kemerovo Oblast (313.2 thousand), in Sverdlovsk Oblast (283.8 thousand), in Irkutsk Oblast (255.6 thousand), and Voronezh Oblast (200.6 thousand), in Stavropol Krai (209.9 thousand), in the Republic of Bashkortostan (201.1 thousand), in Volgograd Oblast (182.8 thousand), the Chechen Republic (178.8 thousand), the Republic of Tatarstan (176.7 thousand), and Saratov Oblast (175.2 thousand).

According to data released by Rosreestr, the number of registrations of individual right of ownership to a land plots as of 1 January 2014 amounted to almost 6 million, which represented a 4.1% increase on 1 January 2013. The same index for the registered rights of legal entities to land plots, on the contrary, declined by 8.7%, amounting as of the same date to 277.4 thousand. The rate of lease of land plots by individuals (85.6 thousand acts) over the same period of time increased by 2.1%, and the same index for the lease of land by legal entities rose 2.1 times, to 67.5 thousand.

By comparison with 2012, over the four quarters of 2013 the number of registered mortgages of land plots by individuals increased by 29.6%, to 550.8 thousand, while the same index for legal entities increased by 17.21%, to 163.7 thousand.

The results of State cadastre land valuation, represented as the cadastre value of a land plot in accordance with the norms stipulated in the Tax Code of the Russian Federation (the RF TC), are applied as tax base for levying land tax. The actual amount of land tax is determined by the land tax rate, estimated as a percentage of a land plot's tax base (its cadastre value) in accordance with legal acts issued by the representative bodies of municipal formations. According to *Rosreestr*, the majority of representative bodies of municipal formations have decided that the rates of land tax in the territories under their jurisdiction should be set at their ceiling stipulated in the RF TC (as a percentage of a land plot's cadastre value).

As evident from data released by the Federal Tax Service of Russia (RF FTS), in 2012 the amount of collected land tax, as estimated on the basis of the cadastre value of land plots, was Rb 141.0bn, which represents a rise of 15.4% on the corresponding period of 2011 (Rb 122.2bn).

According to *Rosreestr*'s experts, the data on land transactions indeed reflect the main trends in the development of Russia's land market; however, errors in the estimated values of some of the relevant indices may be as high as 20%. The principal cause of such errors, in the opinion of experts, is the lack of proper legal and normative regulation of information exchange in the field of registration of rights to land plots and land transactions at the level of municipal formations.

However, to adequately promote the development of market land turnover mechanisms, it is not sufficient to simply organize an exchange of information at the administrative level. It is also necessary to ensure transparency of information on land transactions for all market participants. The key role in that field has been played, over the past 25 years, by the system of State registration of rights to real estate (currently represented by *Rosreestr*), whose records have accumulated detailed information on real estate deals resulting in alteration or transfer of titles to land. However, while *Rosstat* releases timely updates of housing market prices at frequent intervals (in fact, independently of *Rosreestr*), the averaged statistics of transactions with land plots, including information on land prices, can be found only in the Government (National) Report 'On the State and Use of Land in the Russian Federation', which is prepared and released on an annual basis. *Rosreestr*'s quarterly reports contain only data on the number of completed registration acts, with no mention of transaction prices or any description of the objects of completed transactions. Meanwhile, the number of registration acts does not always reflect the actual number of completed transaction and objects of those transactions.

The price component of land turnover is strongly influenced by two factors. Firstly, as follows from data published in the Government (National) Report, only 10% of state and municipal land is sold at auctions; the rest, including the huge area of leased land, is handled in accordance with the established government norms. The other factor is the introduction of the cadastre value index, whose purpose essentially is to reflect the realities of the as yet non-existent land market.

Besides, there is a methodological gap between the pricing procedures applied to residential housing units (or buildings) and to land plots. It results in a distortion (primarily in an urban setting) of the existing housing market pricing mechanism, when the value of a housing unit is determined not so much by the construction costs involved in its creation, as its location. If the sale of housing units is subject to market mechanisms, while the relevant land plots designated for housing construction are obtained via barter deals or granted in accordance with government norms, the land rent that could have been part of state or municipal budget revenue will instead be seized by construction companies.

In spite of all these difficulties, in 2012 the turnover of one-third (or 29.6%) of private land was higher than that of state and municipal land; its share in the total land turnover for that year amounted to 64.6% in terms of area of land, and to 70.5% in terms of number of transactions.