

POLITICAL AND ECONOMIC RESULTS IN JUNE 2013

S.Zhavoronkov

In June 2013, the ruble was slightly devaluated with a view to increasing ruble budget revenues amid slow-down in economic growth. A.Ulyukayev was appointed a new Minister of Economic Development, replacing A. Belousov, which most probably means an attempt to observe moderation in government spending. President Putin admitted the need to limit growth in monopolized tariffs within inflation rate and carry over a part of military expenditures for better times. A new privatization program approved by the Russian Government was actual announcement to refuse to privatize large property (except for Rostelecom, Vnukovo and Sheremetyevo international airports, ROSNANO, Aeroflot) to the extent that privatization means gaining control over such property by a private owner. However, the previous program failed to be implemented, being just an attempt of political promotion, therefore no serious deterioration in a new reality can be observed. The arrest of Makhachkala mayor S. Amirov in Dagestan was an evidence of that the state is seriously determined to combat civil servants and ethnic tribes who have relations with terrorist underworld.

June 2013 saw lots of fundamental-nature but quite remarkable events. First of all, economy was in the spotlight: a Budget Message of the President of Russia was announced, the St. Petersburg International Economic Forum was held, a new Minister of Economic Development was appointed, ruble exchange rate dropped, a new version of the government program on privatization for 2014–2016 was adopted.

The new version of the government program on privatization for 2014–2016 specifies that no real privatization is planned, which is not a novelty, because top government officials' friends who manage state companies are not interested in such privatization, even though they could have, say, obtain loans and taken over the companies, they would have to assume business responsibility, risks, potential losses instead of enjoying comfortable circumstances, high- and rent-paid status. In addition, it is difficult to privatize many of the largest companies when money is held in Russia, and purchase of such companies by foreign buyers is more than unwanted. Things have been developing quite the opposite way, when expanding state companies taking over private businesses. In the years of 2008 thru 2012, Russia's government officials, namely Deputies prime minister I. Shuvalov and A. Dvorkovich repeatedly and persistently spoke about a fabulous privatization to be launched very soon to replace the apparent growth in the public sector. Though a government plan which promised that by 2016 the state would cease to have its interest in such companies as Rosneft, VTB, Russian Agricultural Bank, RusHydro, ALROSA, Zarubezhneft, Sovkomflot, etc. was adopted in the summer of 2011, it has failed to be implemented over the past two years, not counting the sale of a minority interest in state companies. The state retains

control interest or sells a state-held minority interest. Purchase and sale of a minor interest in Sberbank and VTB have become the largest transactions to date. In fact, sale of a control interest in a large company, like the Vanino Commercial Sea Port, was a most singular exception.

All illusions about privatization were shattered after Vladimir Putin took office as Russian President. Since stories about privatization no longer worked, government authorities decided to bring the actual situation in line with the real one. The new privatization plan rules out the possibility to sell control interest in all but a few largest companies, namely Rostelecom, Vnukovo and Sheremetyevo international airports, ROSNANO, and Aeroflot, in the next few years. However, a closer look can reveal some nuances: privatization of Rostelecom due its sophisticated structure with numerous subsidiaries with different interest was postponed on more than once occasion, and the government has postponed it from this year until 2014; privatization of Aeroflot was repeatedly postponed too. Furthermore, the latter is legally impeded by a story of charging royalty on foreign aircraft flights over Russia in favor of Aeroflot as state-run company; in May 2013 President Putin himself spoke against privatization of ROSNANO which, by the way, was scheduled for 2017. Perhaps, potential privatization of Vnukovo and Sheremetyevo international airports is the only case that should be considered realistic, because given the deficit of airport capacities in the Moscow Region, the airports will definitely attract private investors who would easily recover the investment. Therefore, the government authorities have nothing to do but select politically "loyal" buyers. It should be noted that Russia's Government began to revise the idea of selling minor inter-

est in largest companies to state-run Funds, namely the Pension Fund of the Russian Federation (PFR) and the National Wealth Fund (NWF). Therefore, the state will keep control over the management, and the Funds will have a permanent source of income as dividends. However, the level of state-run companies' dividends in Russia remains extremely low (to compare: in 2011, the last year before TNK-BP was acquired by Rosneft, the former paid 10 times as much per barrel of oil equivalent (BOE) produced), while some of them are as efficient as loss-makers such as InterRAO, a state-run monopolist in electric power exports. Therefore, a theoretically correct theory may turn out to make losses for the state-run Funds.

In June 2013, President Putin submitted a draft law on amnesty to the State Duma with a request to adopt it before summer vacations. In May, an ill-prepared attempt of Commissioner for Entrepreneurs' Rights B. Titov to propose amnesty for more than 100,000 persons was fraught with failure of amnesty as such. The amnesty was limited both in terms of articles of the Criminal Code of Russia and facts of amnesty application. It is only Articles 159.1 and 159.4 of the Criminal Code of Russia that remained in force (Swindling in business operations and lending remained the key business-related articles, whereas most sentences were awarded under most general Article 159 (Swindling) whose itemization was introduced not long ago in 2013). Amnesty lost other two articles of the Criminal Code, namely Article 160 (Misappropriation or Embezzlement) and Article 165 (Infliction of damage on property by deceit or breach of trust). In addition, amnesty is limited to those who was convicted for the first time, compensated or agreed to compensate for the damage, used no violence or threat of violence (it should be noted that this notion is quite reasonable, although being against early release of M. Khodorkovsky who was convicted twice). Therefore, approximately 5,000 persons will be subject to amnesty, which is better than none.

President Putin proposed to unite the Supreme Court and the Supreme Arbitration Court of the Russian Federation through amendments to the Constitution of the Russian Federation. He admitted that it would "require a thorough preparation". However, he didn't explain the reason for this measure. In Russia, the situation with the two supreme courts differs largely: the Supreme Arbitration Court of Russia, by the way, like inferior arbitration court instances, is distinguished by a quite competitive legal procedures under which government authorities may lose an action against economic agents. Though there are exceptions concerning a small number of cases initiated by the federal government, such as the YUKOS Case or the TV-6 Case, this system is not the

worst one. Moreover, the Supreme Arbitration Court itself is very meticulous about consideration of appeals, whereas the situation with courts of general jurisdiction in general and the Supreme Court in particular is quite opposite: 99% of judgments of conviction, while the Supreme Court hammers out ridiculous decisions even when it comes to low ranking civil servants¹ rather than top government officials. This is most likely to deteriorate the quality of justice, even though the arbitration court system retains independence.

President Putin took the leadership of a civil movement called the *National Front – For Russia* (the former *United National Front*) whose congress was prepared in great state and a few political analysts gave promising comments on that this entity would become a new ruling party. The congress, however, made an absolutely ridiculous impression. For example, President Putin was elected chairman without voting, tens of non-elite persons joined the management of the Front and none of those who belong to elite were enrolled. The program of the Front is simply a copy (a slightly tamed version) of the proposals made by Putin's opponents. For example, A. Navalny's initiative to set a limit of Rb 1,5m on government spending on the purchase of motor cars for government officials was modified "up to Rb 3m". The *Front* is likely to remain a political and PR decoration designed to launder *United Russia's* election results. With regard to the next parliamentary elections, *United Russia* is likely to be rebranded as *National Front*. However, it will make neither conceptual nor rating-boosting contribution to the party.

In June 2013, government officials admitted that the economic situation is not optimistic at all, as economic growth rapidly slowed down to approximate a level of statistical error (1.8% in the H1 against 4.5% in the preceding year), investment growth stopped, capital outflow increased and budget revenues decreased. In his Budget Message President Putin offered nothing new but two things, namely cutoff of military expenditures (to make it sound politically correct, he said that rearmament would be deferred until a later period) and growth in infrastructural expenditures, including at the expense of the NWF and PFR national funds. Drastic growth in the debt owed by constituent territories' budget was noted, which are designed, among other things, to finance President Putin's election pledges of wage raise for public-sector employees: one third of the regions had a debt being 1.5 times as much as their annual income at 2012 year-end. However, President Putin didn't offer any solution (later, Minister of

1 It should be recalled how the Supreme Court of Russia approved, for example, a decision to refuse registration of a parliamentary (State Duma) candidate on the ground of "104% invalid signatures".

Finance A. Siluanov spoke about reallocation of personal income tax, (at present, 60% of personal income tax is allocated to the constituent territories' budget, 40% to local budgets, and a proposal was made to allocate 70% to the regions, 30% to municipalities. Strategically, however, it fails to cope with the deficit issue in poor regions). The pension reform is still being in limbo, its parameters were promised to be defined in the upcoming 'fall'. Refusal to establish a standalone Russian Financial Agency for the management of state funds' assets was announced upon the formal legal pretext that such assets might become more vulnerable to malevolent legal actions abroad. According to certain data, the reason for that was a failed attempt to agree upon a person who would be able to chair such a powerful entity and maintain the balance of powers around the President.

Minister of Finance A. Siluanov admitted that budget revenues in 2014 may fall by Rb 650bn, and instantly proposed a solution by announcing that the ruble exchange rate could be slightly decreased, and promising to begin to buy foreign currency in the market "in the upcoming August". He also explained that the decrease would generate additional budget revenues of Rb 150bn: "...The exchange rate only can be effected through market tools, when, for example, the Ministry of Finance participates in the purchase of foreign currency in the market, said the Minister in his interview to Bloomberg. *The same operation may weaken the exchange rate by Rb 1–2 and take place as early as August*". The market responded instantly, the USD exchange rate jumped by Rb 2. First Deputy prime minister I. Shuvalov and then A. Siluanov himself had to deny "devaluation", whereas what we see is indeed an artificial devaluation of the national currency amid surplus of balance of payments. Such an operation is far from being painless: though core budget revenues are generated by exporters of raw materials, a very small number of employees are involved in this sector, whereas a majority of the Russia's population will suffer from the devaluation.

In June, Minister of Economic Development A. Belousov was removed from office and appointed an aid of the President of Russia. He was substituted by A. Ulyukayev, a Deputy Chairman of the Central Bank of Russia. This casting, which was indeed a downgrading for A. Belousov, seems to have resulted from a crisis of the policy he promoted – growth rates have been declining in spite of almost 2-fold growth in federal budget expenditures in the post-crisis period, to current parameters which are lower than in many EC countries whose crisis used to be referred to by Russia's government authorities. The newly appointed Minister will have to conduct audit of the national outlay and cut off expenses which are less obvious.

At the St. Petersburg International Economic Forum President Putin announced that monopolies' tariffs which previously outran the inflation rate, not to mention that they themselves generated inflation, would be limited: *"Inflation is still high, and we intend to further decline it. Current inflation has a big share of so-called non-monetary factors, simply said, the tariff component. Outstripping growth of tariffs has become a standalone and significant factor of unwinding inflation, actual factor of economic slowdown, growth in costs, and weakening competitive power of our manufactures. Indeed, tariffs should not grow at the same rates as before. Therefore, growth of regulated tariffs of infrastructural monopolies should be limited to the previous year's actual inflation rate. This procedure will stay in effect for a period of five years beginning with 2014"*. Though this measure is quite reasonable, it is hard to be implemented, because the monopolies are managed by Putin's friends.

In a special-operation manner and without any preliminary discussion Russia's Government announced at the end of the month that it would submit a draft law on the Russian Academy of Sciences (RAS) reform to the State Duma. Minister of Education D. Livanov stated caddishly that there was nothing to discuss, since he had long been discussing this topic. All things considered, this can be regarded as government's response to the election of V. Fortov as head of RAS and non-election of President Putin's friend M. Kovalchuk as director of the RAS-affiliated crystallography institute. The idea of the draft law is to expropriate RAS's property, eliminate academic self-administration of RAS-affiliated institutes, and degrade the academician rank by merging two ranks, namely Fellow and Corresponding Member, as well as the RAS with the academies of medicine and agriculture. RAS's assets (i.e., in fact, decision-making on all employment and financial issues – recruitment and staffing, wages, etc.) are expected to be managed by a special agency whose director must be appointed by the Prime Minister of Russia: in fact, it is referred to the establishment of a new science-related entity similar to JSCo Oboronserve. Academicians, who will have to apply for admission to the new entity (such an application means *de facto* the acceptance of the reform and will be granted automatically) were promised to be paid higher wages, raising from Rb 25,000 up to Rb 50,000, but from now on they will become a club which has nothing to manage. Indeed, such a reform would be supported by non-competitive persons for whom wage raise is more valuable than being independent. The announced plans of the RAS reform show pure self-revelation of Russia's Government: the Government is interested in RAS's property rather than scientific results which

have reasonably been a target for RAS criticism. However, given President Putin's silence about the reform, it could be considered predetermined, unless the academic community stands against it, thereby unavoidably causing a severe damage to the reputation of the government authorities.

Makhachkala mayor S. Amirov, one of the most powerful leaders of ethnic clans in the North Caucasus, who held mayor's office over 15 years and had wide connections (e.g., two of his nephews became State Duma Deputies) with the federal government authorities, was arrested on June 1, 2013. He was accused of organizing murders. The evidence looks strong enough according to the first evaluation. Another fact is more important though: the day before, the federal security service presented audio records of conversations between a great number of Daghestan politicians and businessmen with I. Gajidayev¹, a

¹ Though nominally, Gajidayev, who assumed responsibility for the murder of Minister of the Interior of Daghestan A. Magomedtagirov, wasn't at the top of the underground hierarchy, being just a leader of the district, his influence on the most unstable district could be comparable, if not overpowering, with that of R. Aselderov, the leader of Daghestan insurgency hierarchy.

key leader of Islamic terrorist group, who was killed during a special operation in March 2013 in the house owned by the head of the Municipal Assembly of the Unsukul'sky District, who, by the way, was killed fighting against police forces. The audio records leave no doubt about close relations between the foregoing persons, and the topic of discussion covers organization of mass riots which could have helped a locked group of terrorists break through set up barriers. The arrest of S. Amirov was followed by arrests of some of his relatives, heads of several districts in Daghestan, MPs, within a month. A few persons involved in "the Gajidayev audio records" case remain at large yet. The Daghestan incident resembles clearly the situation in the Ingush Republic three years ago, when it was revealed after the arrest of the leader of local Islamic underground groups that his immediate brother-in-arms was a brother of Deputy Minister of Construction of the Republic. One cannot but hope that liquidation of the political backing of terrorists and sending an explicit signal to local elites that they may not combine two – official and underground – businesses would help turn the tide in Daghestan which has long been facing a steadily severe terrorist environment. ●