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RUSSIAN ECONOMIC DEVELOPMENTS

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|--|----|
| RUSSIA'S ECONOMY IN APRIL 2013: PRELIMINARY DATA AND MAJOR TRENDS (K.Rogov) | 2 |
| THE POLITICAL AND ECONOMIC RESULTS OF APRIL 2013 (S.Zhavoronkov) | 5 |
| INFLATION AND MONETARY POLICY IN MARCH 2013 (A.Bozhechkova) | 9 |
| FINANCIAL MARKET IN APRIL 2013 (N.Andrievsky, E.Khudko) | 12 |
| REAL ECONOMY: TRENDS AND FACTORS IN Q1 2013 (O.Izryadnova) | 17 |
| RUSSIAN INDUSTRY IN MARCH 2013 (S.Tsukhlo) | 21 |
| FOREIGN TRADE (N.Volovik, K.Kharina) | 24 |
| STATE BUDGET IN Q1 2013 (T.Tishchenko) | 28 |
| RUSSIAN BANKING SECTOR IN Q1 2013 (M.Khromov) | 32 |
| MORTGAGE IN THE RUSSIAN FEDERATION IN Q1 2013 (G.Zadonsky) | 36 |
| THE DYNAMICS OF THE PRIVATIZATION AND THE STATE OF PROPERTY RELATIONS IN 2012 (A.Radygin, G.Malginov) | 40 |
| THE CONCEPT OF RURAL COOPERATION DEVELOPMENT FOR THE PERIOD TILL 2020 (R.Yanbykh) | 46 |
| THE 2012 RESULTS OF THE INTERNATIONAL TRADE IN GOODS AND SERVICES IN AND PROSPECTS OF ITS DEVELOPMENT (O.Biryukova, A.Pakhomov) | 50 |
| WHAT RUSSIA'S ECONOMY SHOULD EXPECT FROM THE ADOPTION OF THE FEDERAL LAW ON THE ADVANCED RESEARCH FOUNDATION? (V.Tsymbal) | 56 |
| OECD AND RUSSIA MUTUAL INTERNATIONAL RESPONSIBILITY (N.Efimova, A.Levashenko) | 61 |
| REVIEW OF THE MEETINGS OF THE GOVERNMENT OF THE RF IN 2013 (M.Goldin) | 64 |
| REVIEW OF ECONOMIC LEGISLATION IN APRIL 2013 (I.Tolmacheva, Yu.Grunina) | 66 |
| AN OVERVIEW OF NORMATIVE DOCUMENTS ON TAXATION ISSUES IN MARCH–APRIL 2013 (L.Anisimova) | 69 |
| CHANGES IN THE SPHERE OF BUDGET LEGISLATION IN APRIL 2013 (M.Goldin) | 76 |

RUSSIA'S ECONOMY IN APRIL 2013: PRELIMINARY DATA AND MAJOR TRENDS

K.Rogov

The Socio-Political Background of April: A Velvet Glove Witch Hunt

The socio-political background of April 2013 was determined by the ongoing attacks on the government launched by the RF President and the law enforcement agencies; by the continuing debate around the issue of how to find the most effective way of stimulating economic growth; and by the Kremlin's massive onslaught on civil society organizations.

In his speech at a government meeting in Elista, Vladimir Putin threatened to sack the entire cabinet. Although that outburst was reputedly 'not for the record', somebody leaked the relevant fragment of video footage to the central TV channels controlled by the Kremlin. The campaign launched by the law enforcement agencies against the Skolkovo Innovation Center at the same time indirectly targets the government, and so creates a negative information backdrop for its chairman, Dmitry Medvedev. Public opinion surveys indicate that corruption remains the Achilles' heel of the current Russian administration, because it seriously undermines public confidence in Russia's political system. According to a number of commentators, the activities of the law enforcement agencies aimed against Dmitry Medvedev's personal project, and the evidently orchestrated issue of 'the inefficient use of funds' at Anatoly Chubais' Rosnano, the questions about which were put to Putin at his recent major press-conference, must be viewed as an attempt to pin the blame for corruption on the 'modernizer wing' of the regime.

At the end of April, the RF President held a meeting, in Sochi, with the cabinet ministers in charge of economic matters and a number of high profile experts. They discussed the need to resort to extraordinary measures in order to 'consolidate' economic growth in the face of a sharp drop demonstrated by the economic indices in Q1 2013. Traditionally for such discussions, there was a clash of opinions between the proponents of a rigid dirigistic approach – which implies considerable monetary and fiscal expansion (Sergey Glaziev, State Duma representatives), the proponents of moderate monetary and fiscal expansion (RF Minister of Economic Development Andrei Belousov), and the advocates of structural and institutional changes that can be carried out within the framework of a conservative monetary and fiscal policy. Andrei Belousov and Elvira Nabiullina were asked to submit a comprehensive package of coordinated proposals on those matters by the middle of May.

In April, the punitive campaign against NGOs, including civil society and rights organizations, rose to a crescendo. This campaign had been launched as a result of Vladimir Putin's speech at a FSB collegium meeting in mid-February 2013. Between late March and late April, no less than 240 NGOs were 'checked' by public prosecutors and justice ministry officials accompanied by officers from regulatory bodies such as federal migration agencies, fire safety departments and tax services. In fact, some of these organizations were checked twice. The wave of spot inspections had two aims: to find evidence of the receipt of foreign funds and to impose heavy fines (sometimes under absurd pretexts) detrimental to their financial health.

Public opinion surveys indicate that the social situation has remained relatively calm, and that Putin's presidential approval rating has – at least temporarily – stopped its downward slide (according to Levada Center's latest surveys, 63% of respondents approved and 36% disapproved of his performance as president). At the same time, public confidence in Putin continues to decline (in April, when asked 'to please name 5–6 politicians whom you trust most', only 31% of respondents named Putin – vs. around 40% one year earlier). The approval ratings of United Russia are also on the decline: according to Levada Center, in April the percentage of respondents sharing the view that United Russia is 'the party of crooks and thieves' for the first time surpassed the 50% mark. It should be noted that the ongoing conflict between the Executive Office of the RF President and the Government also weakens Russia's executive branch as a whole.

The Macroeconomic Background of April: A Continuation of the Downward Trends in External Demand

The macroeconomic background of April 2013 was determined by a downward trend in the movement of oil prices during the first half of the month, and then by their partial recovery during the second. In mid-April, Brent crude oil traded below \$ 100 per barrel. In April, it averaged \$ 103.2 per barrel vs. \$ 109.2 in March. The drop in oil prices was accompanied by the continuing decline in the prices of other traditional Russian exports, including non-ferrous metals. Traditionally, the drop in oil prices had a negative effect on the exchange rate of the ruble, and it also pulled down Russia's stock market. In April, the lowest level of the MICEX Index was registered on 17 April, when it dropped to 6.53% below the level at the beginning of the month. However, by the end of April the MICEX Index had grown to 1,372.2 p.p. Initially, the ruble weakened against both the euro and the dollar, but later gained back some strength. The value of the bi-currency basket rose from 34.91 rubles in March to 35.58 rubles in April.

Having decelerated in March, inflation picked up again in April, rising to 05% vs. 03% in 2012. As a result, in April 2013, the annual rate of inflation returned to 7.2%. At the same time, the prices of food products, non-food products and services climbed by 8.8%, 5.1% and 8.0% respectively, in annual terms. Core inflation amounted to 5.7% (vs. 5.3% in April 2012). The upsurge in inflation was heavily contributed to by the rise in the prices for housing and public utilities services, which had grown by 9.9% since April 2012, and transportation tariffs (e.g. rail freight rates and passenger charges had grown by 9.9%). At the same time, there are reasons to believe that the next rise in tariffs scheduled for 1 July and expectations of a poor harvest will keep the current inflationary trend very much alive in the middle of the current year. It should be noted that the current upsurge in inflation is taking place against the background of a decline in the growth rate of money supply (the annual M2 growth rate dropped from 21.8% as of 1 March 2012 to 14.2% as of 1 March 2013). Such a situation restricts the ability of Russia's economic authorities to 'consolidate' growth by boosting lending to businesses.

In April, the debt incurred by banks under REPO transactions continued to grow, rising to over Rb 2 trillion. In response to the rising demand for liquidity caused by the exhaustion of the substantial financial resources received by the banking sector from the federal budget at the end of 2012, the weighted average interest rate at the interbank loan market rose from 5.4% in January to 5.7% in February, and then to 6% in March. From 1 through 25 April, it hovered around 6.2%.

Because of a significant decline in revenues from exports coupled with a shrinkage in the economic growth rate, Russia's budgetary situation had become rather tense by the end of Q1 2013. Federal budget revenues for Q1 2013 dropped by 2.1% of GDP on Q1 2012. Revenue from external economic activity dwindled by 1.2 p.p. of GDP on Q1 2012; mineral extraction tax revenue – by 0.5 p.p. of GDP; and domestic VAT revenue – by 0.3 p.p. of GDP. At the same time, in Q1 2013 federal budget expenditures were by 2 p.p. of GDP lower than in Q1 2012. As a result, the current budget deficit hit the deficit ceiling of 1% of GDP, set by the latest budget rule. It should be noted that the severity of spending cuts differed from one specific area to another. Thus, spending on public health care shrank to 65% of its volume in Q1 2012 (a drop by 0.5 p.p. of GDP), spending on education – to 75% (a drop by 0.4 p.p. of GDP), and that on social policy – to 83% (a drop by 1.3 p.p. of GDP). At the same time, spending on issues of nation-wide importance remained at the previous level, while defense spending grew by 4% (+0.2 p.p. of GDP), and spending on the national economy – by 16% (+0.3 p.p. of GDP).

The Real Sector of the Economy: Neither Recession Nor Growth

According to the RF Ministry of Economic Development's preliminary estimates, GDP over the course of Q1 2013 grew by 1.1% vs. by 4.8% over the course of the corresponding period of 2012. At the same time, fixed asset investment stabilized at last year's level, while the growth rate of retail trade turnover dropped almost twofold – to 3.9%. The growth rate of real wages also dropped – from 110.3% in January–March 2012 to 104.2% in Q1 2013. However, as a result of the latest indexation of labor pensions, the real available money incomes of the population rose by 8.5% (in annual terms) in March 2013, vs. by 2.4% in March 2012. On the other hand, the consumer activity of the population was considerably undermined by the ongoing decline in the growth rate of lending to individuals.

In March 2013, annual growth rates rebounded in mineral extraction and processing industries, rising by 0.6% and 3.4% respectively on March 2012. It should be noted that, while processing industries data for February–March 2013 definitely point to the resumption of growth after almost half a year of stagnation, the rise in mineral extraction should be seen in the light of that industry's poor performance in March 2012, which means that stagnation in mineral extraction has not yet ended. Moreover, external demand data do not suggest that the stagnation trend in mineral extraction will reverse any time soon.

Since December 2012, the productivity dynamics of processing industries has been negatively impacted by the ongoing drop in machinery manufacturing. In March 2013, the production indices for machinery and equipment manufacturing and electrical, electronic and optical equipment manufacturing dropped by 2.3% and 5.5% respectively on March 2012. Since Q4 2012, there has been a decline in transport vehicle and equipment manufacturing (in March, transport vehicle manufacturing shrank by 14.5% on March 2012).

The downward trend in investment activity resulted not only in a drop in the production of capital goods, but also in a reduction of the growth rate of demand for such imports as cars, transport equipment and transportation vehicles. In January–February 2013, the growth rate of demand for them rose by 1.9% vs. by 31.7% in the corresponding period of 2012.

Since the second half-year of 2012, there has been a decline in the growth rate of food products manufacturing. The index of production of manufactured food products rose by 0.5% on March 2012 and by 1.3% on January–March 2012, while in 2012 it had grown by 5.2% on March 2011 and by 6.2 on January–March 2011. It should be noted that the January–February period of 2013 saw an increase in the growth rate of imports of food products and agricultural raw materials for the food industry by 10.5% on the corresponding period of 2012. The share of these imports in the total volume of imports also increased.

Despite the sharp fall in the economic growth rate, the labor market did not experience any shrinkage in the demand for labor in comparison with March 2012. According to Rosstat [Russian State Statistics Service], in March 2013 the number of unemployed amounted to around 4.3m. Thus, in accordance with the International Labor Organization methodology, the unemployment rate stood at 5.7% of the economically active population. At the same time, the RF Ministry of Economic Development forecasts that over the course of 2013 real wages are set to rise by 4.5% (vs. by 3.7% in its previous forecast), while the real available money incomes of the population – by 3.0%. Besides, the Ministry forecasts that labor productivity over the course of 2013 will increase by around 2.5%, thus considerably lagging behind the growth in wages. As a result, the growth rate of profit in the Russian economy is expected to fall.

The latest business opinion surveys carried out by the Gaidar Institute for Economic Policy (IEP) do not inspire much optimism, either. Having climbed to zero level in February, the IEP's Industrial Optimism Index returned to the negative zone in March. Thus, for six months in a row, this index has been failing to enter the positive zone, standing on the average at -2.7 points. The Expectations Index has been on the decline for third month in a row. The unstable situation in industry is explicitly attested to by the dwindling proportion of enterprises believing their stocks of finished products to be within the norm, and also by the rising proportion of those believing their stocks of finished products to be below or, most importantly, above the norm. ●

THE POLITICAL AND ECONOMIC RESULTS OF APRIL 2013

S.Zhavoronkov

In April 2013, rumors of the RF Government's impending sacking suddenly became much more than simply rumors after Vladimir Putin had announced that this option was now on the table. He made that statement at a government meeting at Elista, and the corresponding footage of the event was then 'unofficially' displayed on the LifeNews information portal. It should be said that for some time the government had clearly been confused and dismayed by the ongoing decline in Russia's economic growth. Moreover, the government had repeatedly caused the ire of Igor Sechin, Putin's personal favorite and head of Rosneft, whose attempts to influence the solution of all personnel issues and to create for Rosneft some unprecedented benefits and uniquely favorable conditions had been rebuffed by a number of ministers. All those factors had apparently increased the government's vulnerability. In April, the Russian authorities received considerable diplomatic assistance from US President Barack Obama, who refrained from including in the Magnitsky List any more or less important Russian officials. Obama's 'moderation' was interpreted in Moscow as a green light to further onslaught on non-profit organizations and their across-the-board labeling as 'foreign agents'.

In April 2013, rumors of the RF Government's impending sacking suddenly became much more than simply rumors. Russia's state-owned and state-controlled TV channels displayed a lot of critical materials concerning the government in general, and Vice Prime Minister Arcady Dvorkovich in particular. It is especially noteworthy that, on the eve of Prime Minister Dmitry Medvedev's report to Parliament on 17 April, the FSB-affiliated *LifeNews* portal displayed a video footage of Vladimir Putin's speech at a government meeting in Elista. It should be added that this news portal had never before published any materials compromising the authorities: all its disclosures had been concerned with the Opposition only. In particular, Vladimir Putin said: «...*How are we working? The quality of work is negligible. All surfactants do. If we are going to work like that then we'll achieve nothing ... It must be done! If we do not, it will be necessary to admit that either I do not work effectively, or you are running bad and you need to go! I draw your attention to the fact that to date, I am leaning towards the second option! I think that's understandable. In order not to have any illusions*'. When asked about the authenticity of the video footage, Putin's press secretary Dmitry Peskov confirmed its veracity, but said that Putin's outburst had been addressed to a meeting of governors (formally devoted to the state of affairs in the housing and utilities sector). Yet another affront to Dmitry Medvedev came from Speaker of the State Duma Sergey Naryshkin, who insisted that Medvedev's protégé, RF Minister of Education Dmitry Livanov, should be dismissed.

The issue of the RF Government's future was also repeatedly raised in the course of Vladimir Putin's Q&A live TV session on 25 April. It should be said that his answers were far from reassuring for the government. When asked whether he was satisfied with the measures being taken by the government in order to fend off a possible crisis, the President remarked: '*But there have not yet been any special measures*'. Then the President was asked whether he thought that in its current composition the Cabinet was actually capable of fully performing its duties. The answer was rather oblique: '*... Dear friends and colleagues, I share your view that the expectations of all levels of authorities must be high. However, I would draw your attention to the fact that the Government has not yet been working for a year, no year has yet passed ... People have not yet worked for a year. Of course no small amount of grievances have accumulated during that time, but the Cabinet should be allowed enough time to produce results or come to understand that some of its members are unable to ensure such results. That is not something that can be seen in a year. The responsibilities and work of the Government are immense. Again, there may be many complaints, but I don't think that there should be hasty reshuffling since it will do more harm than good*'.

In fact, the criticism of the Government's performance can be divided into three sets of complaints. Set one (these complaints are wholeheartedly shared by the Government's opponents): the Government does not have any strictly defined concept of Russia's socio-economic development; it merely responds to emerging problems while trying to postpone any reforms – be it the pension issue, the situation in the military field, or anything equally important. The Prime Minister, who is capable of changing his opinion on crucial issues twice a week (for example, on the issue of replacing VAT by a sales tax) and calling for the creation of offshore zones in the Far East, does not produce an impression of being the main driving force of any change, either. Given the sharp drop in Russia's economic growth at the beginning of 2013, a government that goes with the flow can no longer be tolerated. For the sake of justice, however, it should be admitted that, quite frequently, the Government's evident indecision is merely an upshot of Putin's own indecision – for example, with regard to the pension-reform issue mentioned earlier.

The second (and probably the most important) set of complaints addressed to the Government has to do with the stable anti-Sechin coalition that has emerged within its ranks, to resolutely oppose the limitless ambitions of the head of *Rosneft* – Putin's favorite for many years. Although it is usually claimed that the anti-Sechin coalition is led by Vice Prime Minister Arcady Dvorkovich, others may affirm, with equal justification, that this group is headed by Minister of Finance Anton Siluanov, Minister of Energy Alexander Novak, or Vice Prime Minister Igor Shuvalov. The Government has every reason to be puzzled about Igor Sechin's perpetual ability to put forth candidates for all government positions and important posts in state-owned companies, and also about *Rosneft's* privilege to function outside of the market – through its being exempt from paying dividends to the State, its having been granted tax and custom duty benefits by the State, as well as numerous loans and credits from state-owned banks, and its having been granted the monopoly right to develop Russia's continental shelf – while still being unable to boast of any success worth mentioning.

The third (and rather weak) set of complaints is designed to provide a political substation for the second set. Dmitry Medvedev's Government is accused of supporting the Opposition – on the basis of some conspiracy theories coupled with an arbitrary interpretation of some non-important facts (such as, for example, the payment to opposition leader Ilya Ponomarev of a large fee at the Skolkovo Foundation; or the cooperation between the RF Ministry of Education and the well-known scholar-cum-opposition figure Mikhail Gelfand).

Be what it may, in April 2013 Dmitry Medvedev's Government was actually given the 'black spot'. Putin repeatedly and in various forms let it be understood that the Cabinet's dismissal was a distinct possibility.

As far as Dmitry Medvedev's report to Parliament is concerned, it can only be added that the report contained nothing of special interest. The Prime Minister did not declare his program, but simply tried to fend off numerous rebukes by resorting to such standard (self-) justifications as '*corruption is a state of mind*', and also by reminding that the situation in European countries is even worse than in Russia (it may be argued that this generalization is too wide – for example, the growth rates of GDP in Sweden and Estonia are higher than that in Russia; and, moreover, their base levels are incomparable with Russia's), and that Russia is a victim of the worldwide trends (which, by the way, do not prevent some other oil producers like Saudi Arabia or Iraq from having an annual growth rate of 7 to 9%).

In his Q&A live TV session on 25 April, RF President Vladimir Putin looked much more robust than his Prime Minister. Intended as a line of communication with ordinary citizens, the TV session also comprised a number of not-so-ordinary citizens, including former RF Minister of Finance Aleksey Kudrin and Russia's top TV presenter Mikhail Leontiev. Referring to the Sochi meeting on economic issues, Putin said that it had not been 'a meeting of despair': '*... We met to assess the situation once again, to listen to each other, to listen to different opinions, to understand our own share of responsibility in this recession. ... Some members of the Government believe that we have significantly contributed to it. Others do not believe this, and think that the downturn is solely a result of negative developments in the global economy. ... This dispute is not between the Presidential Executive Office and the Government, but rather within the entire community involved in governing our country. ... The dividing line concerns fundamental issues, particularly the issue of how to re-*

spond to current events'. A number of persons asked Putin whether or not it would be advisable to initiate criminal proceedings against Anatoly Chubais, Anatoly Serdiukov, and some other former and current officials for the embezzlements committed at the institutions and departments subordinate to them. To such questions, Putin gave a detailed and lengthy answer, saying that *'we do not need to go back to the dark period of 1937'*, that only a court had the right to determine whether or not a person was guilty, and that an administrative mistake was by no means synonymous with crime if the person guilty of that mistake had not actually derived any personal profit from it. When asked whether or not it was advisable to introduce a visa regime with 'backward' countries, Putin slightly reinterpreted the question and began to explain that very soon foreigners would be able to enter Russia only on foreign travel passports, which of course would not represent any barrier to the movement of people. When the editor-in-chief of the independent radio station *Echo of Moscow*, Aleksey Venediktov asked Putin about political repressions in Russia, the latter naturally denied their existence, including in the case of Aleksey Navalny, who had been charged with 'forcing' the director of a state unitary enterprise to conclude a transaction that was unprofitable for that enterprise (so far, the only proof of the charge being only the director's own deposition): *'... If you fight corruption, you have to be squeaky clean yourself, otherwise it can all turn into just self-promotion and political advertizing. Everyone has to be equal before the law – this is the point I want to stress. No one should be under any illusion that just because they spend their time shouting 'stop thief!' they can get away with theft themselves'*. As far as the Opposition is concerned, Putin mentioned the recent liberalization of Russia's legislation on political parties and noted that the Opposition was no longer prevented from taking part in elections. As regards the strange draft law banning US adoptions of Russian children (a matter of no concern to the US elite), Putin placed the responsibility for the introduction of that bill into the State Duma upon the MPs who had done this 'on their own initiative'.

In April, Alexander Kiselev was dismissed as Director General of the *Russian Post* federal state unitary enterprise. He was replaced by ex-businessman Dmitry Strashnov. *Russian Post's* performance had long been scandalously low, with mail delivery sometimes delayed for months – in spite of the fact that it had never been starved of resources. For example, this federal state unitary enterprise has a huge network of offices granted to it free of charge by the State. Therefore this personnel decision taken by the RF Ministry of Communications can only be applauded.

In April, the state-owned VTB Bank announced the purchase, for \$ 2.4bn, of *Tele2 Russia* telecommunications operator. This cheapest mobile telecommunications operator, long denied a license to function in Moscow Oblast, will most likely be resold to one of the 'Big Three' of mobile telecommunications operators – a deal that is expected to drastically reduce competition. This transaction can be regarded as the most definite proof that, despite all the talk about the sales of minority blocks of shares in state-owned companies, the actual policy of the authorities is aimed at increasing, and not reducing, the state sector.

On 12 April 2013, the United States published the so-called *Magnitsky List*. In accordance with the law passed in late 2012, this list had to include both the persons responsible for the death of the Hermitage Foundation's lawyer Sergei Magnitsky and the theft of Rb 5.4bn from Russia's budget, and the persons guilty of human rights violations in Russia. Many Russian opposition figures had been pinning much hope on that list, justly believing that confiscation of such persons' assets in US territory and a ban on their entry into the USA would be a serious warning to the Russian elite as a whole. However, their hopes have been dashed – Barack Obama's list includes only some rank-and-file officials involved in the 'Magnitsky case' and two Chechens accused of committing crimes outside of Russia in the interests of Chechen President Ramzan Kadyrov. Neither Alexander Basyrkin nor Ramzan Kadyrov, nor any of the other odious top-ranking officials – including former RF Deputy Minister of Internal Affairs Aleksey Anichin and Deputy Prosecutor General Viktor Grin, who had directly participated in the "Magnitsky case" – were included in the *Magnitsky List*. In fact, it looks like President Barack Obama has chosen to openly support Vladimir Putin (despite the fact that such a toothless list can certainly create some problems for himself, because both US political parties had been in favor of the adoption of the *Magnitsky List*).

Barack Obama's position immediately reflected on Russia's internal policy: shortly after the USA had published the far-too-short *Magnitsky List*, Russian prosecutors began an across-the

board investigation of the activities of non-governmental organizations, purportedly designed to establish whether or not they were functioning as 'foreign agents'. The law that made it mandatory for the organizations engaged in political activities (interpreted by the Law extremely widely – as any activities 'aimed at changing Russia's policies') and funded from foreign sources to register as 'foreign agents' had come into force on 20 November 2012, thus effectively having been dormant for nearly five months. In April, the 'Foreign Agent' Law finally targeted its first victims – the Association in Defense of Voters' Rights *Golos* [Voice], which had caused the ire of the authorities by its thorough monitoring of the recent elections, and numerous regional non-profit organizations -including even the social non-profit organization whose aim is to provide assistance to victims of mucoviscidosis, a grave hereditary disease otherwise known as cystic fibrosis. However, in technical terms, the recipients of foreign funding may still continue their activities – because, in fact, the fee for the registration of a new organization to replace the one that has been closed is reasonably low. ●

INFLATION AND MONETARY POLICY IN MARCH 2013

A.Bozhechkova

In March 2013 the consumer price index made 0.3% (0.6% in March 2012), which is less than in February of this year by 0.3 p.p. In April, inflation has also increased: within 15 days of the month CPI made 0.3%. As a result, inflation reached in annual terms has reached 7.0%. In Q1 2013, according to preliminary estimates of the Bank of Russia, the net outflow of capital from the country reached \$25.8bn, which is by \$7.8bn less than the relevant indicator of 2012.

In March inflation continued to slow down: the consumer price index for the month decreased from 0.6% in February to 0.3%, which is below the relevant indicator of the same period of 2012 (0.6%). As a result, the inflation rate in annual terms has decreased by 0.3 p.p. to 7.0% (Fig. 1). The core inflation index¹ in March 2013 made 0.4%, which is lower than in the last year by 0.1 p.p.

The CPI decline was contributed above all, by the continued to slow down in the rate of food prices growth (from 0.8% in February to 0.4% in April). The reasons for this decline are the lower growth rates of prices for fruit and vegetables (from 2.8% in February to 0.1%), cereals and beans (from 1.5% to 0.5%) and alcoholic beverages (from 2% to 1.4%). Prices for such types of foods as sugar, meat and poultry, as well as sunflower oil, compared with the previous month were lower, respectively by (-0.8%) and (-0.1%) . At the same time, the price of eggs after February downfall (-0.6%) in March has grown by 0.2%.

The growth rate of prices and tariffs for commercial services in March made 0.2%, which is lower than in February (0.4%). The leaders of price growth were telecommunication services, which prices increased by 1.5%. Passenger transport services became have decreased by 2%, the tariffs for travel in the compartment cars of various types of long-distance trains have been also decreased.

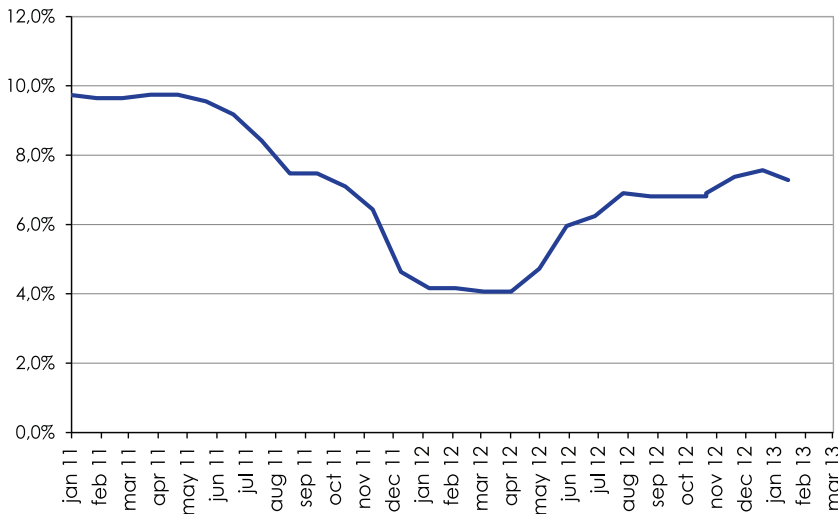
In March, the growth rate of non-food products remained unchanged as compared to February, amounting up to the month results to 0.4% (+0.5% in March 2012). Prices went up for tobacco products (+3.5%), pharmaceuticals (+0.8%), gasoline (+0.5%), and certain types of seasonal clothing (+0.5%). The only non-food items, which became cheaper in March, were audio and video devices (-0.5%).

As of the end of 15 days of April, the CPI made 0.3%. As a result, the cumulative inflation from the beginning of the year reached 2.2%, which is 1.2 higher than in the same period of 2012. On April 15 the inflation in annual terms has reached 7.0%.

Note that the acceleration of inflation at the beginning of the year seems to have a non-monetary nature and is a consequence of seasonal price growth for foodstuffs, increased tax on excisable goods and tariffs for transport services at the beginning of the year. Some role in the rising prices was also played by February indexation of pensions. A decline in consumer inflation began in February, continued in March and is expected in Q2 quarter of this year, but the pressure on prices in regard to growth will have increasing housing and public utilities tariffs from July 1 and the expectations of the poor harvest due to the difficult weather conditions in the spring. Restraining factors in inflation will be the decline in domestic demand, which has been noted throughout the year, and the continued slowdown in monetary supply (M2 growth rate in annual terms has slowed down from 21.8% as of March 1, 2012 to 14.2% as of March 1, 2013).

In March 2013 the monetary base in broad definition has been further expanded. As of the month results, it increased by 1.4% to Rb 8,628.1bn (Fig. 2). All components of the monetary base in broad definition have grown: the amount of cash in circulation with regard to balances of credit

¹ The core consumer price index is the indicator reflecting the level of inflation in the consumer market after adjustment for the seasonal (prices of vegetable and fruit products) and administrative (regulated tariffs for certain types of services, etc.) factors, which is also calculated by the RF Statistical Service (Rosstat).



Source: RF Statistical Service.
Fig. 1. The Growth Rate of CPI in 2011–2013 (% year to year)

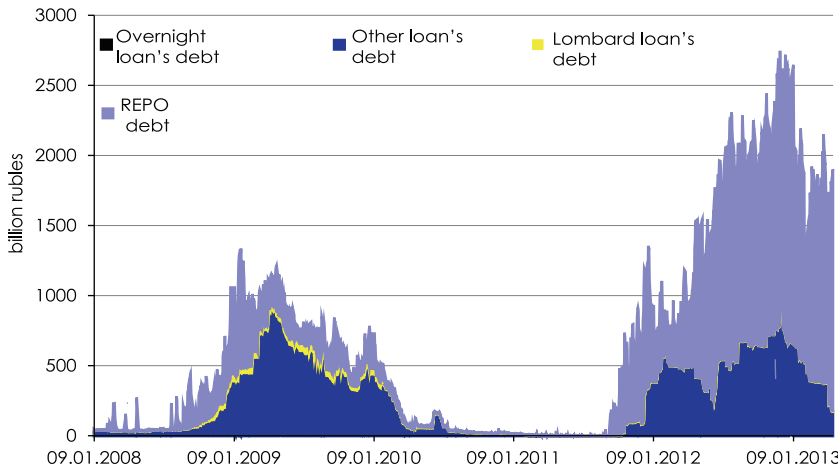


Fig.2. Arrears of commercial banks with the Bank of Russia in 2008–2013.

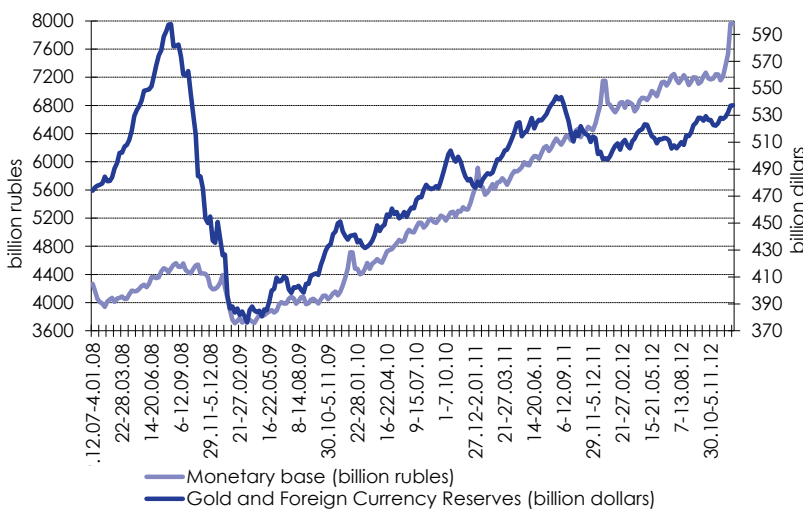


Fig. 3. Changes in the Monetary Base and in the Gold and Foreign Currency Reserves in 2007–2013

institutions increased by 0.5% to Rb 7,101.9bn, in correspondent accounts – by 4.9% to Rb 856.3bn, the banks’ deposits with the Central Bank – by 25.4% to Rb 220.4bn, mandatory reserves – by 0.6% to Rb 449.5 bn.

The simultaneous growth of cash in circulation and mandatory reserves in March resulted in the expansion of the monetary base in narrow definition (cash plus mandatory reserves) by 0.5% to Rb 7,551.4bn (Fig. 3).

In March excessive reserves of commercial banks¹ have increased by 8.5% to Rb 1076.7bn. In April the debt of banks under repo transactions has reached nearly Rb 1.8 trillion (Rb 1.5 trillion in March) (Fig. 2), and interbank rates were higher on average by 6% (indicative rate Mosprime in April amounted to 5.8–6.4%).

On April 1, 2013 the volume of international reserves of the RF Central Bank amounted to \$528bn, which is by 3.2% less from the beginning of the year. The reduction of the Russian foreign currency reserves in dollar terms is based on the strengthening of the dollar against the Euro due to problems in the economy of Cyprus.

There were no foreign currency interventions of the Bank of Russia Central Bank in March (Fig. 4).

Source: RF Central Bank, author’s estimates.

According to the tentative estimates of the Bank of Russia, the net outflow of capital in QI of 2013 amounted to \$25.8bn, which is by 23.2% less than in 2012, when the outflow reached \$33.6bn. The slowing down of capital outflow is due primarily to the decline of the surplus balance of the current account of payments: a stable ruble nomi-

1 Under the excessive reserves of commercial banks with the RF Central Bank is understood the sum of correspondent accounts of commercial banks, their deposits with the RF CB and the RF CB bonds of commercial banks.

nal exchange rate with minimal interventions of the RF Central Bank indicates the balance of supply and demand in the foreign exchange market, at which the surplus on the current account offsets the negative balance in the financial account of balance of payments.

In March the ruble real effective exchange rate has decreased by 0.3% (Fig. 4). At the same time, in Q1 the ruble real effective exchange rate has increased by 2.8%.

Due to the developments in Cyprus, Euro was downgrading in the world market: on April 18, it has fallen down to the level of Euro 1.32 per \$1. Within the first three weeks of April the U.S. currency has grown against the ruble by 1.1% to Rb 31.5; the European currency has grown by 3.3% to Rb 41.1. As a result, the value of the two-currency basket has increased, and made Rb 35.8 (+2.2%) as of April 20. The ruble decline was due to the lower oil prices, occurred because of the deterioration of the situation in Cyprus, as well as of the publication of negative macroeconomic data on the economies of China and the US. ●

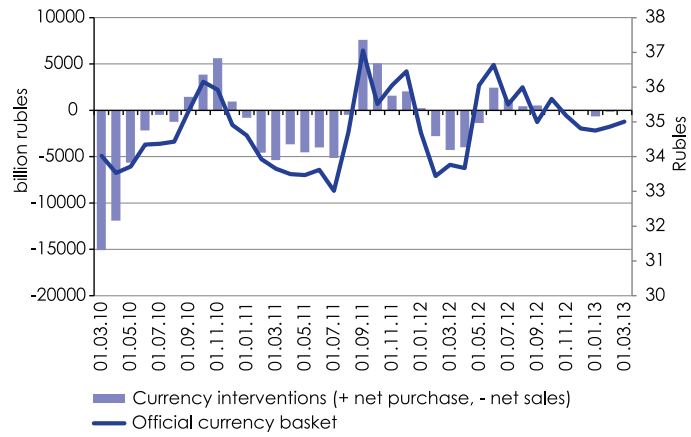
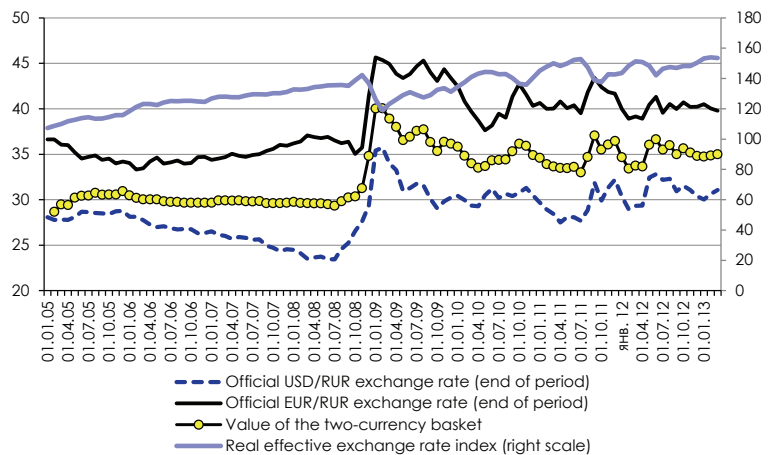


Fig. 4. Central Bank Currency Interventions and Dynamic of Rubles Exchange Rate in March 2010 – March 2013



Source: RF Central Bank, author's estimates.

Fig. 5. Indicators of Ruble Exchange Rate in January 2005 – March 2013

FINANCIAL MARKET IN APRIL 2013

N.Andrievsky, E.Khudko

The stock market's behavior was influenced in the main by the declining oil futures prices. The negative dynamics of stock indexes resulted in a drop of the stock market's capitalization over the month by 3.71%; however, Blue Chips demonstrated growth to 9.07% per month and to 13.81% per annum. The situation on Russia's domestic corporate bond market remained stable. On the whole, in April both the market volume and market index were on the rise; investor activity on the primary and secondary market segments continued to be high. The emitters were punctually fulfilling their obligations to their bond holders.

The Movement of the Russian Stock Market's Main Structural Indices

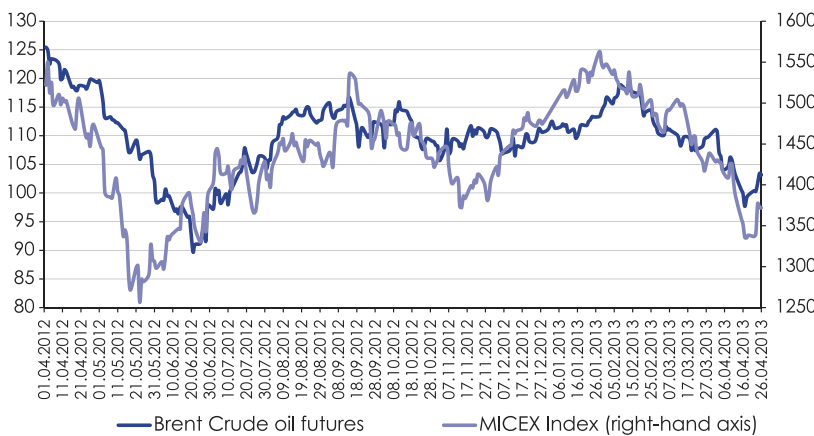
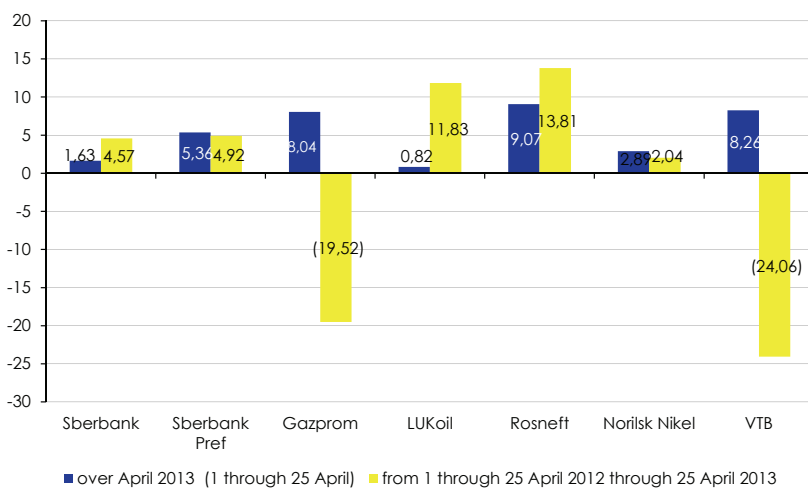


Fig. 1. The Dynamics of the MICEX Index and Brent Crude Oil Futures Prices in the Period from 1 April 2012 through 26 April 2013



Source: Quote.rbc.ru; the author's calculations.

Fig. 2. Growth Rate of the Quotations of Highly Liquid Stocks on the Moscow Exchange

The average futures prices of Brent crude by 17 April dropped to \$ 97.69 per barrel, which is 6.58% below its price as of the month's beginning. In these conditions, the MICEX Index continued its downward movement from its January peak value, thus amounting, over the period from 1 through 25 April, to 1,385 points on the average (Fig. 1). The Index's record low was observed on 18 April at the level of 1,335.21 points, which amounts to 93.47% of its value as of the month's beginning. However, the increasing oil prices over April's last work-week pushed the MICEX Index upwards to 1,372.2 points (96.0% of its value as of the month's beginning).

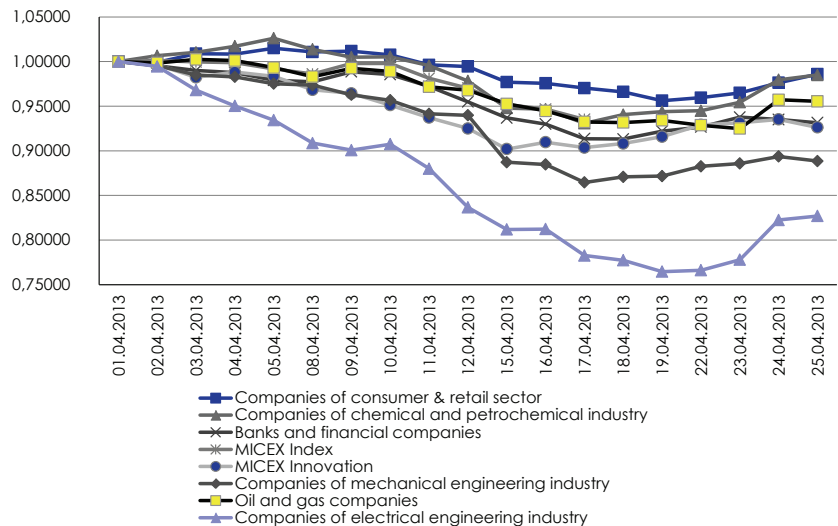
For investors, the movement of the main Blue Chip stocks in April generated positive returns. The leaders in growth were the shares in Rosneft (Fig. 2), which as of 25 April demonstrated the highest yield since the month's beginning – 9.07%. LUKoil shares displayed the slowest price growth rate in the period from 1 through 25 April (0.82%). For those who had invested in Blue Chips one year ago, the highest yield was generated by the shares in Rosneft – 13.81% by 25 April 2012. Positive per annum yields were

demonstrated by all shares, with the exception of shares in *Gazprom* and *VTB*, the loss on which amounted to 19.52% and 14.06% respectively.

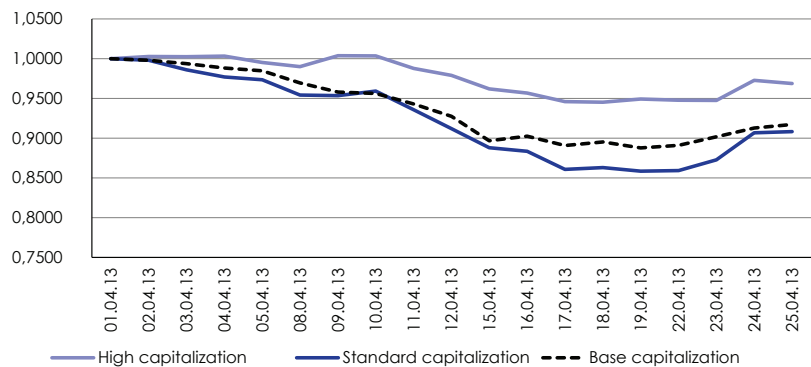
The dynamics of the quotations of sectoral indices corresponds to that of oil prices over April (Fig. 3). While early in the month the quotations were on the rise, towards mid-month all the sectoral indices dropped on the average by 7.8% (with the exception of the electrical engineering index), and their drop by the month's end amounted to 4.5%. Besides, throughout the course of April, the electrical engineering index continued its downward movement with a negative yield – to 23.53% as of 19 April.

Sectoral indices also declined (Fig. 4). MICEX MC (the MICEX Start Cap Index that includes shares of companies with base capitalization)¹ in the month's second half dropped by 10%. MICEX MC (the MICEX Mid Cap Index that includes shares of companies with standard capitalization) dropped by 11.8%, whilst MICEX MC (MICEX Large Cap Index) 'lost' 4.5% of its value.

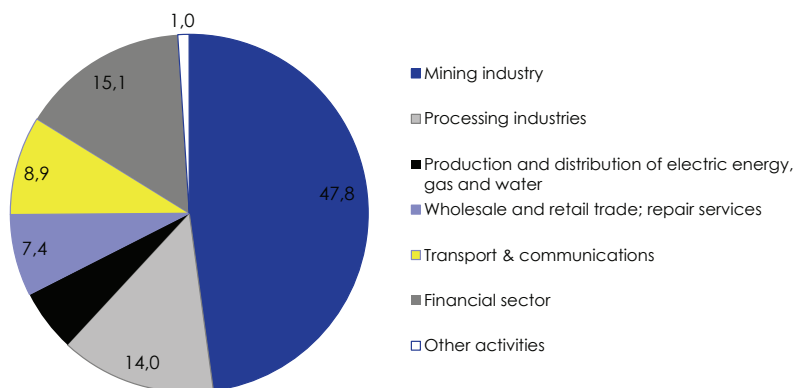
The situation in April was similar to March in that no companies placed any shares, while the stock exchange's capitalization in the period from 1 through 25 April dropped by 3.71%, or by Rb 911m. Russia's stock market total capitalization as of 25 April 2013 amounted to Rb 23.45 trillion, of 37.47% of GDP. Due to the similar movements of the stock quotes in nearly all sectors of the national economy, the stock market's capitalization structure by type of economic activity remained practically unchanged since the month's beginning (Fig. 5). The capitalization share of the companies of belonging to the consumer



Source: Quote.rbc.ru; the author's calculations.
Fig. 3. Growth Rates of Different Stock Indices on the Moscow Exchange



Source: Quote.rbc.ru; the authors' calculations.
Fig. 4. Changes in the Growth Rates of Capitalization on the Moscow Exchange



Source: the MICEX's official website; the authors' calculations.
Fig. 5. Structure of Capitalization of the MICEX Stock Market, by Type of Economic Activity

1 The Cap Indices are price indices with constituents weighed according to their market capitalization. The Indices consist of the most liquid stocks of Russian issuers admitted to trading in MICEX Stock Exchange. See <http://rts.micex.ru/s77>

& retail sector was 7.4%; that of transport and communications companies – 8.9%. The capitalization share of the companies operating in the extracting sector remained high – at the level of 47.8%. The capitalization share of the electrical engineering companies shrank by 0.75%, thus pushing up the extracting sector's capitalization share to 14%.

The Corporate Bond Market

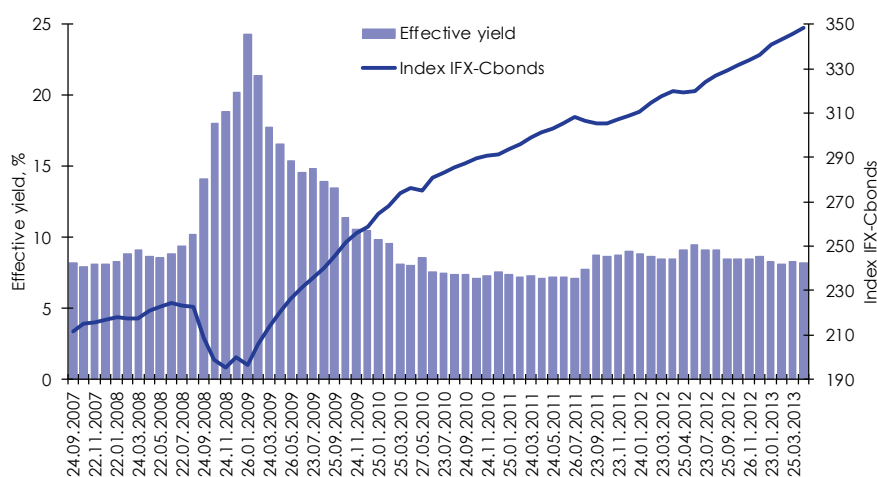
In April 2013, the volume of Russia's domestic corporate bond market (by the nominal value of ruble-denominated securities in circulation) continued to grow, although at a somewhat slower rate. So, this indicator rose to the level of Rb 4,455.0bn, which represents a 1.1% rise on the end of March 2013 (over the previous months its average growth rate had amounted to 1.5–2.0% per month)¹. The increase in the volume of the market was once again caused by growth in the number of issued bond loans (962 ruble-denominated corporate bond issues vs. 952 issues as of the end of the previous month). At the same time, the number of emitters represented in the debt segment had remained almost unchanged for several months in a row (346 in April vs. 343 in March). Thus, the sustainable growth displayed since the year's beginning growth by the corporate bond market volume has occurred in the main due to the activity of big market participants placing big bond issues. As before, several U.S. dollar-denominated bond issues and one yen-denominated bond issue placed by Russian emitters remained in circulation. The ruble-denominated bond issues in circulation were represented by two eurobond issues placed by the European Bank for Reconstruction and Development.

March 2013 saw a rise in the investment activity on the secondary corporate bond market. Thus, in the period from 26 March through 22 April, the combined volume of exchange transactions carried out on the Moscow Exchange amounted to Rb 172.0bn (for reference: in the period from 25 February through 25 March the trade turnover was Rb 160,5bn), while the number of transactions carried out over the period under consideration amounted to 27.6 thousand (vs. 26.1 thousand in the previous period)².

The IFX-Cbonds index of the Russian corporate bond market continued to rise at a stable rate. By the end of April 2013, it had climbed up by 3.1 points (or 0.9%) from the end of the previous month. After having unexpectedly increased in late March, the weighted average effective yield on corporate bonds once again fell – to its record low of the last year-and-a-half, from 8.32% to 8.16% (Fig. 6)³.

Although in late March – early April the international rating agencies downgraded their ratings of some of the emitters (for example, OJSC *AK Bars* and some other companies), while there were also

some fears that the ratings of *Sberbank of Russia*, *VTB Bank*, *VTB 24* and *Rossiiskii sel'skokhoziaistvennyi bank* [Russian Agricultural Bank] might also decline, Russia's long-term rating was, nevertheless, confirmed with a stable forecast, which boosted optimism on the financial market. In early April, the RF Central Bank announced that the rate of refinancing would remain unchanged; however, at the same time, it lowered by 0.25 pp. the rates for some of its more long-term refinancing operations.



Source: According to data released by the Cbonds company.

Fig. 6. Behavior of the IFX-Cbonds Index of the Russian Corporate Bond Market and the Dynamics of its Weighted Average Effective Yield

- 1 According to data released by the Rusbonds information agency.
- 2 According to data released by the Finam company.
- 3 According to data released by the Cbonds company.

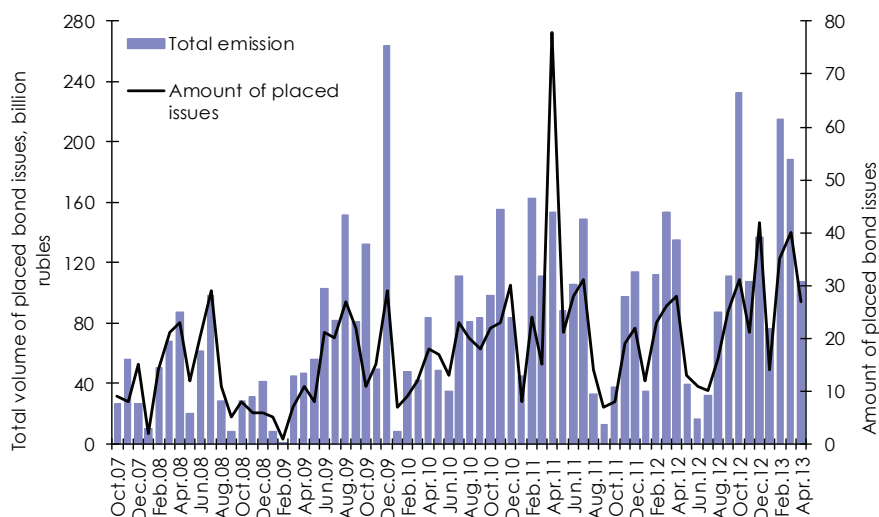
The corporate bond portfolio duration index resumed its downward trend. As of the end of April, this index amounted to 699 days, which represented a 21-day drop on the end of the previous month.

The most liquid bond issues experienced significant drops in their yields – similarly to the average market yield. The only exception were the following emitters: *Mechel*, the Moscow Credit Bank, and *AK Bars*. The most significant yield losses (by more than 1 pp.) were demonstrated by the securities issued in the financial sector – on the average by more than 0.5 pp. The rates on the most liquid securities issues of manufacturing, hi-tech and energy companies fell, on the average, by no more by 0.1–0.2 p.p.¹

Since the start of 2013, emitters displayed record-high activity whilst registering their new securities issues. Thus, in the period from 26 March through 22 April, 18 emitters registered 61 bond issues with a total face value of Rb 226.9bn (for reference: in the period from 23 February through 25 March, a total of 25 bond series were registered, with a total face value of Rb 118.8bn). Big issues were registered by OJSC *Gazprom Neft* (7 bond series with a total face value of Rb 55bn); *Rusfinance Bank LLC* (10 exchange-traded bond series with a total face value of Rb 40bn); *VTB Capital Finance LLC* (11 bond series with a total face value of Rb 22bn); and *X5 Finance LLC* (4 exchange-traded bond series with a total face value of 20bn)². More than half of the registered bond issues were exchange-traded bonds. Besides, among the newly registered bonds were four small inaugural issues.

However, the activity on the primary market was rather subdued by comparison with the scale on which the registration of new issues was carried on, although its indices were, nevertheless, higher than the average placement volume in the second half of last year. Thus, in the period from 26 March through 22 April, 23 emitters placed 27 bond loans with a total nominal value of Rb 107.1bn (for reference: in the period from 23 February through 25 March, a total of 40 bond loans with a total nominal value of Rb 188.3bn were placed) (*Fig. 7*). Exchange-traded bonds constituted half of all the placed issues. The largest bond loans were placed by OJSC *Russian Railways* (a bond series with a total face value of Rb 20bn); CJSC *Mortgage Agent Absolut 1* (two mortgage bond series with a total face value of Rb 12.3bn), OJSC *Magnit* (two bond series with a total face value of Rb 10bn), OJSC *Mobile TeleSystems* (one bond series with a total face value of Rb 10bn).³ In spite of the declining placement indices, two mortgage agents managed to attract finance in the form of 28-to-32-year loans; OJSC *Russian Railways* – a 15-year loan; and another four issuers – 10-year loans.

The indices of primary placements observed over the period under consideration could have been even higher, but in the interval between 26 March and 22 April the Federal Financial Markets Service annulled 10 bond issues due to failure to place even a single security; their State registration was also annulled. (Over several previous months, 10–15 issues on the average had also been annulled every month, but in March this indicator hit its record high of 21 issues)⁴. Such a huge number of an-



Source: According to data released by the Rusbonds company.
 Fig. 7. Dynamics of the Primary Placements of Issues of Ruble-Denominated Corporate Bonds

1 According to data released by the Finmarket information agency.

2 According to data released by the Rusbonds information agency.

3 According to data released by the Rusbonds information agency.

4 According to data released by the Federal Financial Markets Service of Russia.

nulled issues can be explained by changes in the plans of emitters concerning borrowing on the debt market, because here we speak of biggest market participants – for example, *Vneshekonombank*.

In the period from 26 March through 22 April, 13 emitters redeemed their 16 bond issues with a total face value of Rb 75bn in due time. Thus, for several months in a row, the debt market has witnessed no technical defaults. In May 2013, the redemption of 11 issues of corporate bonds with a total face value of Rb 30.1bn is expected¹.

The situation with regard to the fulfillment, by emitters, of their obligations to bond holders remains positive. Over the period under consideration, no real defaults were observed, and no emitters defaulted on the payment of the coupons, the redemption of the face value of their bond loans, or the buyback offers to the current holders of securities before their maturity in due time – or at least within the framework of a technical default (in the previous period, only one issuer declared a real default – that is, failed to pay the yield on securities to their holders in the next few days after the planned date for the payment of the coupons)². ●

1 According to data released by the Rusbonds information agency.

2 According to data released by the Rusbonds information agency.

REAL ECONOMY: TRENDS AND FACTORS IN Q1 2013

O.Izryadnova

In Q1 2013 the slowdown of the economic growth was determined both by the decrease in the external demand by 4.6% versus the corresponding period of the previous year and the sudden weakening of the internal demand dynamics. In Q1 2013 the indices of the industrial growth and the volumes of investments in fixed assets remained at the level of the previous year. The rates of retail trade turnover in Q1 2013 nearly halved as compared with the corresponding period of the previous year and made 3.9% while the growth rates of the real disposable incomes went up to 5.3% versus 1.6% a year ago.

The level of the unemployment in Q1 2013 remained below the indices of the corresponding period of the previous year but exceeded the indices of Q4 2012.

The Federal State Statistics Service made the second estimation of the GDP for 2012 and corrected the quarterly data of the previous year. The volume of the GDP in Russia made Rb 62599.1bn in the current prices. Besides, the data on the volumes and dynamics of the investments in fixed assets were specified. As a result of 2012 the volume of investments in fixed assets made Rb 12568.8bn, having increased by 6.6% as compared with the previous month. Taking into account the correction in question the data on the structure and dynamics of GDP use as broken by components were specified: the resources of gross national savings made 32.9% and the proportion of investments in fixed assets – 20.6% of the GDP. Throughout 2011–2012 the growth of the consumer demand remained one of the main factors supporting the economic growth. In 2012 the final consumption of the households went up by 6.8% versus the previous year, exceeding by 13.8% the pre-crisis level of 2008.

Throughout the last three years the situation at the internal market was defined by the anticipating growth of the import physical volumes as compared with export and domestic production. As a result of 2012 the physical volume of export (calculated according to system of national accounts methodology) will go up by 3.7%, import – by 15.3%, domestic production – by 3.6% as compared with the pre-crisis level of 2008.

Table 1

GDP CALCULATED BY THE METHOD OF USE OF INCOMES, IN 2011–2012

| | Rb bn | | As percentage to the total | | As percentage to the previous year | |
|---|---------|---------|----------------------------|------|------------------------------------|-------|
| | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 |
| Gross domestic product | 55799.6 | 62599.1 | 100 | 100 | 104.3 | 103.4 |
| including: | | | | | | |
| expenses for final consumption | 37439.3 | 42471.5 | 66.5 | 67.1 | 104.8 | 104.8 |
| by households | 27164.5 | 30543.4 | 48.2 | 48.1 | 106.4 | 106.8 |
| state management | 10040.7 | 11664.8 | 17.8 | 18.5 | 100.8 | 99.8 |
| non-commercial organizations, servicing households | 234.1 | 263.3 | 0.5 | 0.4 | 95.1 | 99.0 |
| gross accumulation | 14207.8 | 16264.5 | 25.1 | 25.7 | 122.6 | 106.6 |
| net export | 4776.5 | 4567.9 | 8.4 | 7.2 | - | - |
| export | - | - | - | - | 100.3 | 101.4 |
| import (-) | - | - | - | - | 120.3 | 109.5 |

Source: Federal State Statistics Service.

According to preliminary estimations the RF Ministry of Economic Development, in Q1 2013 GDP grew by 1.1% versus 4.8% in the corresponding period of the previous year. The slow-

down in economic growth was defined both by a drop in the external demand and a sudden weakening in the dynamics of domestic demand. In Q1 2013 investments in fixed assets were practically stabilized at the level of the previous year, and the growth rates of retail sales have almost halved reaching 3.9% versus the same period last year. As compared with the corresponding period of the previous year in March 2013 the index of consumer prices went up to 107.0% (103.7% a year ago). Real wages growth rates also slowed down from 110.3% in January–March 2012 to 104.2% in Q1 2013. As a result of pensions and other social payments indexation real disposable monetary incomes went by 8.5% in March 2013 (in annual terms) versus 2.4% a year ago. At the same time it was the decrease in the growth rates of credits issuing to the population that acted as a significant factor weakening the consumer activity of the population observed since August 2012.

Table 2

GROWTH RATES OF THE MAIN ECONOMIC INDICES IN Q1 2008–2013, AS PERCENTAGE
TO THE CORRESPONDING PERIOD OF THE PREVIOUS YEAR

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|-------|-------|-------|-------|-------|--------|
| GDP | 109.1 | 90.5 | 103.5 | 103.5 | 104.8 | 101.1* |
| Industry | 106.0 | 84.5 | 109.5 | 105.9 | 104.0 | 100.0 |
| Investments in fixed assets | 123.6 | 85.0 | 95.2 | 99.2 | 116.5 | 100.1 |
| Retail trade turnover | 117.2 | 101.3 | 102.2 | 105.0 | 107.9 | 103.9 |
| Real disposable incomes of the population | 107.8 | 101.9 | 108.1 | 100.0 | 101.6 | 105.3 |
| Real wages | 113.4 | 99.2 | 103.1 | 101.6 | 110.3 | 104.2 |
| Export | 153.6 | 52.0 | 161.1 | 122.8 | 116.3 | 95.4 |
| Import | 140.8 | 63.6 | 118.8 | 142.4 | 112.1 | 103.7 |
| Total number of the unemployed | 96.5 | 134.8 | 96.3 | 85.7 | 85.3 | 96.2 |

* preliminary data of the RF Ministry of Economic Development
Source: Federal State Statistics Service.

Starting with H2 2012 the Russian economy demonstrates low rates of economic growth by nearly all the types of economic activity. In January–February 2013 the situation was considerably complicated when the volume of industrial production in annual terms dropped by 1.8%. In March 2013 the industrial growth recovered by 2.6% as compared with March 2012 and by 12.1% versus February 2013. As a result of Q1 2013 the industrial output reached the level of the corresponding period of the previous year. The recovery of the growth rates in annual terms was registered by all consolidated types of industry: 100.6% in minerals extraction, 103.4% in manufacturing industries and 101.0% in electricity, gas and water production and distribution.

Whereas the dynamics of the extractive sector was considerably influenced by the reduction in the Russian hydrocarbons export by 5.0% as compared with Q1 2012, the functioning of the manufacturing sector was determined by the internal factors.

Starting with December 2012 the manufacturing sector has been negatively affected by the machine-building production output. As compared with the corresponding period of the previous year in March 2013 in the machine-building complex the machinery and equipment production index made 97.7%, electric, electronic and optic equipment production index – 94.5%. Starting with Q4 2012 the growth rates of transportation vehicles and equipment production has been observed to drop as compared with the previous year. In March 2013 the transportation vehicles production made 85.5% versus the figure of March 2012.

The trend towards the decrease in the investment activity determined not only the reduction in capital goods production but also the slowdown of the growth rates of the demand for imported machinery, equipment and transport vehicles in January–February to 101.9% versus 131.7% in the corresponding period of the previous year.

Taking into account the long-term trends of unsteady functioning of such types of activities, the dynamics of the consumer complex of the industry continues to demonstrate the acceleration of production recession. In March 2013 the textile and sewing industry production index made 93.4%, and leather, leather goods and footwear production index – 95.3% versus March 2012 figure.

Starting with H2 2012 the foodstuffs production growth rates have been observed to slow down. The foodstuffs production index made 100.5% versus March and 101.3% versus January–March 2012 as compared with 105.2% and 106.2% in corresponding period of the previous year. It should be noted that under the existing dynamics of the domestic foodstuffs production in January–February 2013 the import of foodstuffs and agriculture raw materials for their production growth rates were observed to accelerate to 110.5% versus the corresponding period of the previous year and expansion of their proportion in the total volume of the import.

In March 2013 the growth of the production in annual terms was maintained only in the segment of the intermediate goods. The increase in the output in chemistry, petrochemistry and metallurgy complex leveled out the drop of the production in the timber processing complex. The anticipating growth of chemistry production and rubber import as compared with the domestic production acted as a factor supporting the production of final goods for the internal market.

Table 3

PRODUCTION INDICES AS BROKEN BY MAIN TYPES OF MANUFACTURING INDUSTRIES IN Q1 2008–2013, AS PERCENTAGE TO THE CORRESPONDING PERIOD OF THE PREVIOUS YEAR

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|--|-------|-------|---------|-------|-------|-------|
| Industry | 106.2 | 84.5 | 109.5 | 105.9 | 104.0 | 100 |
| Minerals extraction | 100.7 | 96.2 | 106.7 | 103.3 | 101.9 | 99.1 |
| fossil fuels extraction | 102.7 | 100.4 | 106.4 | 100.3 | 102.3 | 99.5 |
| minerals extraction, excluding fossil fuels | 92.2 | 96.2 | 110.9 | 107.7 | 101.5 | 98.8 |
| Manufacturing industries | 108.7 | 79.2 | 112.1 | 110.6 | 104.4 | 101.2 |
| foodstuffs, tobacco and beverages production | 106.4 | 96.7 | 103.8 | 101.7 | 106.2 | 101.3 |
| textile and sewing industry | 102.6 | 78.8 | 110.2 | 107.7 | 93.2 | 102.3 |
| leather, leather goods and footwear production | 106.6 | 83.0 | 126.3 | 112.8 | 89.8 | 102.8 |
| timber processing and wooden goods production | 115.6 | 70.8 | 111.1 | 106.9 | 100.7 | 101.8 |
| pulp and paper production; printing and publishing | 107.8 | 82.0 | 106.7 | 99.5 | 107.3 | 91.0 |
| coke and oil products production | 105.0 | 96.3 | 104.7 | 104.6 | 102.3 | 100.4 |
| chemistry industry | 103.7 | 77.6 | 123.8 | 108.0 | 99.4 | 102.8 |
| rubber and plastic goods production | 130.4 | 82.7 | 122.8 | 120.6 | 102.8 | 109.4 |
| other non-plastic mineral goods production | 108.6 | 67.8 | 104.9 | 112.7 | 112.7 | 102.2 |
| metallurgy industry and production of finished metal goods | 108.6 | 72.3 | 118.8 | 109.1 | 104.8 | 102.6 |
| machinery and equipment production | 116.4 | 74.3 | 109.1 | 111.6 | 119.8 | 92.3 |
| electric, electronic and optic equipment production | 93.3 | 56.6 | 130.4.2 | 106.3 | 110.6 | 95.5 |
| transportation vehicles and equipment production | 114.4 | 64.5 | 113.3 | 159.6 | 122.7 | 95.3 |
| other industries | 118.6 | 79.3 | 130.7 | 105.0 | 102.0 | 101.7 |

Source: Federal State Statistics Service.

Despite a sudden slowdown of the economic growth the labor market did not register the reduction of the demand for work force as compared with March of the previous year. In March 2013, according to the preliminary data of the Federal State Statistics Service, the total number of the unemployed is estimated at the level of 4.3mn or 5.7% of the economically active population (in accordance with the International Labor Organization methodology). 1.1mn was registered in the state employment agencies, of which 0.9mn received the unemployment benefits. It should however be noted that March figures exceeded the average level of 2012 figures.

Give the situation in Q1 2013, the RF Ministry of Economic Development lowered the expected GDP growth rate in 2013 to 102.4% (101.7% according to the conservative of the forecast) versus 103.6% that had been accepted earlier, at the same time the estimation of the growth of the investments in fixed assets being lowered to 4.6%, estimation of industries growth – to 2.0%, of manufacturing industries – to 2.9%, the estimation of retail trade turnover – to 4.3%. According to the estimation of the RF Ministry of Economic Development the dynamics of the economic growth was negatively affected by the intensification of the trend towards the export contraction down to 95.6% versus 2012. At the same time import will continue to grow at the rates exceeding the internal demand. The RF Ministry of Economic Development forecasts the growth of the real wages by 104.5% (103.7% in the previous variant of the forecast) and real incomes of the population by 103.0%, the

unemployment rate being 5.6% of the economically active population. The increase in the estimation of the real wages is based on the hypothesis that the level of inflation decreases from 7.1% in Q1 2013 to 6.0–6.5% in H2 of 2013. The growth rates of the labor efficiency is forecast at the level of 102.5% and will remain considerably below the wages dynamics, which will result in the slowdown of profit growth rates in the economy.

The International Monetary Fund has also reconsidered the forecast for the Russian economy growth downward from 103.7% to 103.4% (it should be noted that the IMF estimations is more optimistic than those of Russian experts). According to the IMF data, in 2013 inflation in Russia will make 6.9% (5.6% as estimated by the RF Ministry of Economy Development), and the unemployment rate – 5.5%. At the same time the organization has not changed its expectations regarding the growth of the Russian economy in 2014 – the figure remaining at the level of 103.8%. ●

RUSSIAN INDUSTRY IN MARCH 2013

S.Tsukhlo

The business opinion surveys carried out by the Gaidar Institute in March 2013¹ pointed to a worsening situation for Russian industrial enterprises. As a result, industrial enterprises began to lose confidence in the correctness of their production and marketing policies, and so were trying to push their output to match demand more closely. Their sales forecasts and output plans gave no reasons to expect that Russian industry might experience a rebound in growth – even if enterprises refrained from rising prices for their products.

Industrial Optimism Index

Having climbed to zero level in February, the IEP's Industrial Optimism Index returned to the negative zone in March. Thus, for six months in a row, this index had been failing to enter the positive zone, standing on the average at -2.7 points (Fig. 1).

The Industry Expectations Index does not inspire much optimism, either (Fig. 2)

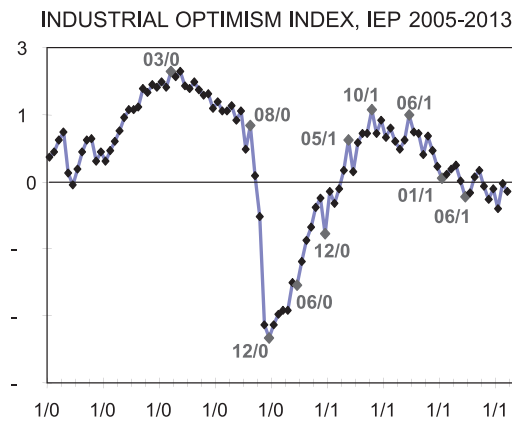


Fig. 1



Fig. 2

Demand for Industrial Products

Having climbed in February, the demand for industrial products then dropped in March, as implied by both the initial data and the data cleared of seasonality (Fig. 3). According to the data cleared of seasonality, the demand for industrial products began to dwindle once again, although at a lower rate than in late 2012. On the whole, Q1 2013 was characterized by a very unstable demand dynamics: having fallen at an extremely high rate in January, the demand for industrial products demonstrated negligible growth in February and a small deceleration in March. Enterprises highly appreciated the positive changes in the movement of sales in March – the

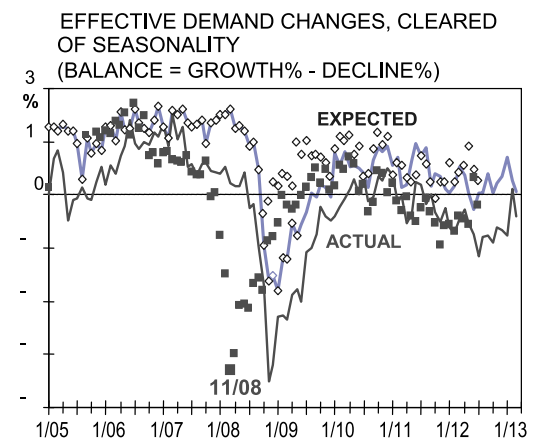


Fig. 3

1 Monthly business opinion surveys of directors of industrial enterprises have been conducted by the Gaidar Institute on the basis of European harmonized methodology since September 1992 across the entire territory of the Russian Federation. The panel consists of approximately 1,100 enterprises employing more than 15% of the total number of industrial employees. The panel is skewed towards big enterprises in each selected subsector. Of the questionnaires posted, 65 to 70% were returned.

balance of estimates immediately jumped up 15 points and remained impressively high in March, losing only 2 points over the course of that month.

Having been buoyed up by the traditional January wave of optimism, demand forecasts – quite untraditionally – began to worsen. By the beginning of March, they had dropped by 13 points with regard to initial data and by 10 points with regard to data cleared of seasonality. As a result, at present the latter indicator stands at zero, which means that no rise in sales can be expected in the next few months.

Stocks of Finished Products

In March, the balance of estimates of stocks of finished products remained at the highest (worst) level since June 2009. At first glance, this indicator underwent no major changes over the course of past month. However, the dynamics of estimates per se spoke of increasing pessimism on the part of enterprises (*Fig. 4*).

In March, the proportion of responses ‘above the norm’ continued to grow and reached 26% – its record high since May 2009. The proportion of responses ‘below the norm’ also increased, although remaining within its bounds observed since 2001. At the same time, the proportion of responses ‘within the norm’ dropped by 12 points, to its record low since May 2009.

Output

When cleared of seasonality, the IEP surveys’ data on the dynamics of production indicate that in March 2013 the growth rate of industrial production dropped to zero (*Fig. 5*). As a result, this indicator returned to its level observed in the second half of 2012 (after having surpassed it during the first two months of 2013) – in spite of Rosstat’s extremely pessimistic data). The latest reports of Russia’s Federal Statistics Agency pointed to an acceleration of the current slump in industrial production: having fallen in January 2013 by 0.8% on January 2012, in February 2013 it dropped by 2.1% on February 2012.

Having hit their seventeen-month high in December 2012, the output plans of enterprises were steadily declining throughout Q1 2013. It should be noted, however, that such a behavior of output plans displays, on the average, a 76% correspondence with producers’ forecasts of demand.

Producer Prices

In March, the growth rate of producer selling prices dropped by 10 points to a virtual standstill. A similar situation, in fact, had been observed in early 2012. However, at that time, a modest actual growth in producer prices had been accompanied by forecasts of their substantial growth in the nearest future. In 2013, the situation became different: already in March, the price forecasts of enterprises dropped by 18 points (thus losing more than they had done over the entire course of 2012), and so fell to their thirty-nine-month low (*Fig. 6*). It seems that enterprises are planning to be even more cautious in their pricing policies. According to the IEP’s

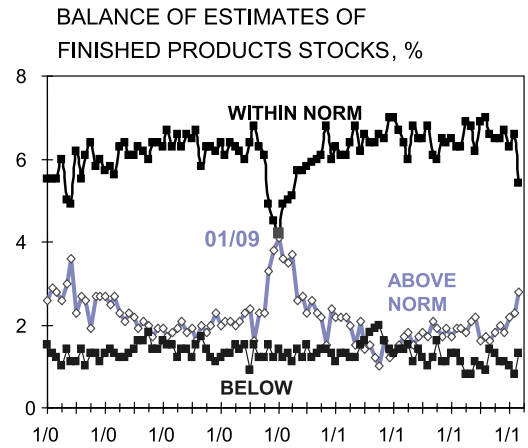


Fig. 4

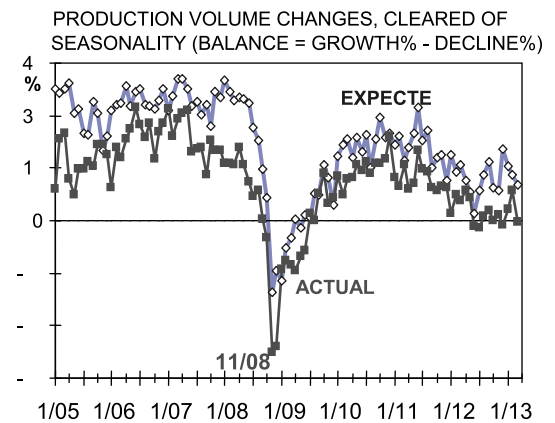


Fig. 5

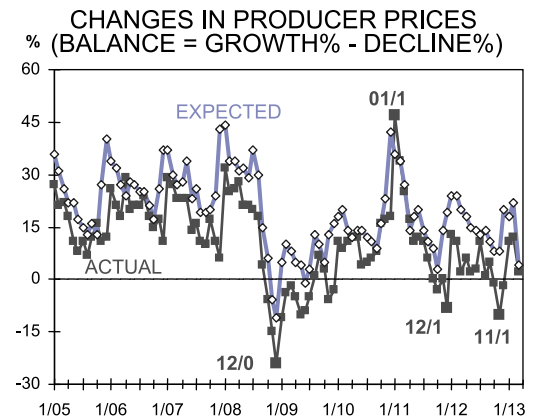


Fig. 6

January 2013 survey, a ‘cautious pricing policy’ ranks first in the rating of the anti-crisis measures being actually implemented by Russian industrial enterprises.

Actual and Planned Job Cuts

In March, industry saw a continuation of dismissals of workforce (*Fig. 7*). Having most drastically cut their workforce in January, enterprises failed (or rather did not dare) to switchover to hiring new workers. At the time, the intensity of dismissals considerably decreased. Having climbed to 26 points (its worse value since March 2009 when the first signs of departure from the current crisis appeared), the intensity (or balance) of dismissals dropped to only 4 points in February and March. That is very positive sign indeed – at least at first glance.

The same is true of the recruitment plans of enterprises. In Q1 2013, they stabilized at a zero level, when the proportion of respondents stating recruitment absolutely equaled the proportion of respondents stating dismissals of workforce, while an absolute majority of respondents wanted to introduce no changes in the number of their personnel. ●

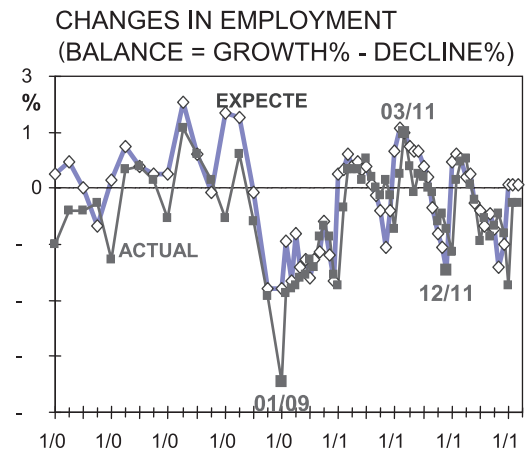


Fig. 7

FOREIGN TRADE IN APRIL 2013

N.Volovik, K.Kharina

A complicated global economic situation has a negative effect on development of the foreign economic sphere of the Russian Federation. Early in 2013, worsening of the trade balance of the Russian Federation was observed: with reduction of export supplies import has increased. The member-states of the Customs Union keep introducing antidumping duties against goods from China.

In the regular IMF Report – The World Trade Prospects¹ – published in April 2013, the 2013 GDP growth forecast was reduced for the fourth time. In the report published in July 2012, the IMF forecasted that index at the level of 3.9%, while in October 2012, at the level of 3.6%. In January 2013, the IMF revised the forecast downward to 3.5%. In the new version of the report, in 2013 global GDP growth is expected at the level of 3.3%. Higher global economic growth is prevented by the debt crisis in Europe. It is expected that the economy of the euro area will decrease by 0.3% (a 0.1% decrease in the previous forecast); in 2014 growth of 1.1% is forecasted.

In the short-term prospect, the IMF is concerned about the high level of the public debt of the developed countries, including the US and Japan. Growth estimate of the US economy has been reduced from 2.1% to 1.9% and from 3.1% to 3% in 2013 and 2014, respectively.

Credit for the positive dynamics of the global economy, is still owned to developing countries, particularly, China. However, the forecast of economic growth in China was revised downward from 8.1 % to 8% and from 8.5 % to 8.2% in 2013 and 2014, respectively.

The forecast of Russia's economic growth rates was adjusted from 3.7% to 3.4% though last autumn the IMF estimated Russia's GDP growth rates at the level of 3.8%. The downward revision of the forecast was justified by a halt in growth in oil prices and slowdown of the domestic demand due to the above factor.

It is to be noted that the Ministry of Economic Development of the Russian Federation revised downward Russian GDP growth rates forecast more radically from 3.6% to 2.4%. According to the Ministry of Economic Development of the Russian Federation, such an adjustment of the forecast was justified, in particular, by slowdown of growth rates of investments in capital assets and decrease in the retail trade turnover from 5.6% to 4.3%. It is to be noted that the forecast of the average annual price on Ural oil was revised upward from \$97 a barrel to \$105a barrel.

According to the data of the World Trade Organization², in 2012 the world trade in goods showed the most sluggish growth in the past 30 years having increased by the mere 2%. In September 2012, the WTO forecasted that the growth rates of the world trade would amount to 2.5% in 2012. Such a difference can be explained by the fact that in the second half of 2012 the indices of developed countries got worse: they managed to increase their export by the mere 1% with a 0.1% reduction of import. The forecast of global trade growth in 2013 was revised downward to 3.3% as compared to 4.5% expected last September.

In 2014, WTO experts expect growth of up to 5% in global trade provided that the developed countries increase export and import by 1.4%, while developing countries (including the CIS states), by 5.3% and 5.9%, respectively.

On the basis of the results of 2012, in the rating of the leading commodity exporters, including EU countries, the Russian Federation was rated the 8th. In 2011, Russia was one place down. In the rating of the leading importers, the Russian Federation moved upwards from the 17th place in 2011 to the 16th place in 2012.

In February 2013, the Russian foreign trade turnover calculated on the basis of the methods of the balance of payments amounted to \$67.9bn which is 3.1% lower than the index of 2012. A decrease took place due to reduction of export which amounted to \$41.9bn which is 7.2% lower

1 <http://www.imf.org/external/russian/pubs/ft/weo/2013/01/pdf/texttr.pdf>

2 http://www.wto.org/english/news_e/pres13_e/pr688_e.htm

than in February 2012. It is to be noted that import showed positive dynamics having increased by 4.3% to \$26bn as compared to February 2012. As a result, in February 2013 the export surplus amounted to \$15.9bn which is 21.3% lower than the index of the previous year.

In February 2013, global markets prices on all the commodities of the Russian export grew insignificantly as compared to January 2013, however, as compared to February 2012 a decrease in prices was registered.

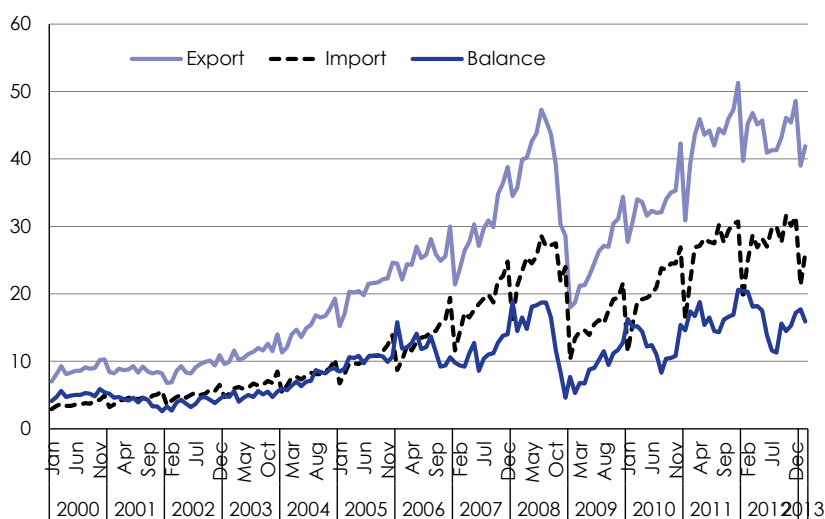
In February 2013, Brent oil prices increased by 3.1% as compared to January 2013, but as compared to February 2012 they fell by 2,7%.

It is to be noted that on February 9, 2013 the ten-month maximum – \$118.92 a barrel – was achieved and then a downtrend of prices took place.

In February 2013, Urals oil prices increased by 2.4% to amount to \$114.4 a barrel as compared to the previous month, but as compared to February 2012 the prices fell by 3.8%.

According to the monitoring of oil prices in the period of from March 15, 2013 till April 14, 2013, the average Urals price amounted to \$104.7 a barrel. In accordance with Resolution No.276 of March, 29, 2013 of the Government of the Russian Federation, from May 1, 2013 the export customs duty rate on crude oil will be reduced from \$401.5 a ton in April 2013 to \$378.4 a ton. From May 1, the reduced export duty for a number of deposits of Eastern Siberia and the Northern Caspian Sea will be reduced from \$197.1 a ton to \$179.8 a ton. The unified rate of the export duty on oil products will amount to \$249.7 a ton, against \$265 a ton in April 2013. The export duty on gasoline preserved at the level of 90% of the oil duty fell to \$340.6 a ton against \$361.4 a ton in April. In April, oil prices kept falling and on April 15, 2013 the Brent oil prices fell below \$100 a barrel for the first time since July 2012.

Early in 2013, the situation on the market of the main non-ferrous metals changed for the worse, too. In February 2013, prices on aluminum, copper and nickel fell by 4.5%, 7% and 13.3%, respectively as compared to February 2012.



Source: The Central Bank of the Russian Federation.

Fig. 1. The main indices of Russian foreign trade (billion USD)

Table 1

MONTHLY AVERAGE GLOBAL PRICES IN FEBRUARY OF THE RESPECTIVE YEAR

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---------------------------|---------|---------|-------|-------|---------|---------|--------|-------|--------|---------|--------|
| Oil (Brent), USD/a barrel | 32.1 | 30.9 | 44.8 | 59.7 | 58.26 | 92.66 | 43.87 | 73.8 | 104.1 | 119.7 | 116.5 |
| Natural gas*, USD/1m BTU | 3.67 | 3.89 | 5.49 | 7.95 | 8.56 | 10.84 | 11.04 | 8.8 | 9.36 | 11.12 | 11.77 |
| Gasoline, USD/a gallon | 1,045 | 1,045 | 1.37 | 1,734 | 1,662 | 2.48 | 1,262 | 2.16 | 2.70 | 3.14 | 2.79 |
| Copper, USD/a ton | 1705.9 | 2759.0 | 3254 | 4982 | 5671.1 | 7887.7 | 3314.7 | 6899 | 9867.6 | 8441.5 | 8060.9 |
| Aluminum, USD/a ton | 1428.04 | 1685.6 | 1883 | 2455 | 2759.14 | 2776.9 | 1330.2 | 2061 | 2508.2 | 2207.9 | 2053.6 |
| Nickel, USD/a ton | 8619.64 | 15178.3 | 15350 | 14979 | 41154.5 | 27955.5 | 10409 | 19141 | 28252 | 20393.7 | 17690 |

* The market of Europe, average contract price, Franco-border.

Source: calculated on the basis of the data of the London Metal Exchange (London, the UK) and the Intercontinental Oil Exchange (London).

According to the data of the UN Food and Agricultural organization (FAO), in February 2013 the average value of the FAO index of food prices amounted to 210 points and did not change much as compared to the value registered in January, however, it fell by five points as compared the respective period of last year. From November 2012, the average value of the Index has been fluctuating within a narrow band from 210 points to 212 points, as growth in prices on dairy products and vegetable oil and fats was largely compensated by a drop in prices on grain and sugar. Within the above period, prices on meat remained stable. In February, growth in prices on dairy products, as well as vegetable oil and fats was registered, while prices on grain and sugar kept falling.

In February 2013, the export-reduction trend consolidated. If in November 2012 Russian export decreased as compared to the respective month of the previous year by 1.7% and in December 2012 and January 2013, by 4.2% and 1.6%, respectively, in February 2013 it fell by 7.2%. It is to be noted that a decrease in export took place over the entire expanded nomenclature of goods. The largest reduction was observed in export supplies of precious stones and precious metals and goods made of them (a decrease of 23.7%), as well as metals and metal products (17.2%). The export of fuel and energy commodities fell by 7.8% due to a decrease in oil prices and physical volumes of export of oil. The monetary volume of export of natural gas decreased as well due to a reduction of physical volumes with insignificant growth in prices. The export of machines and equipment fell by 5.3%, while that of food products, by 7.5%.

Growth in export supplies was observed over the three groups of commodities whose share in the total volume of Russian export amounted to 8%. So, export of chemical produce and natural rubber increased by 3.6%; the export of raw skin, fur skins and products made of it grew by 69.6% and that of wood and pulp and paper products rose by 0.7%.

As regards the import, the trend of slow growth in import volumes continues. In February 2013, Russian import increased by 4.3% as compared to February 2012. Insignificant growth in import was observed virtually over the entire expanded nomenclature of goods, except for machines, equipment and means of transportation which import decreased by 2.7% as compared to February 2012.

Having become a full member of the World Trade Organization, the Russian Federation together with member-states of the Customs Union (CU) continues to adopt different instruments of the trade policy, particularly, the practice of application of antidumping duties to protect the domestic market.

Before April 2013, seven antidumping duties – introduced on the initiative of Russian companies – were in effect to protect enterprises of the Customs Union. The main goods in respect of which antidumping investigation in the Customs Union took place included metals and products made of them. In addition to the above, one antidumping measure was aimed against the Ukrainian export of synthetic fiber. The states against which antidumping measures were aimed at were China and Ukraine. In April 2013, another two antidumping duties were introduced against import of products from China.

By Resolution No.64 of April 9, 2013 of the Board of the Eurasian Economic Commission it was decided to introduce for the period till January 25, 2018 included an antidumping duty of 51.87% of the customs value of cast-iron enameled bath tubs imported from China. The decision will become effective on May 26, 2013. Prior to completion of the antidumping investigation, a preliminary antidumping duty was introduced in respect of Chinese cast-iron bath tubes on January 26, 2013. After the investigation was completed, the antidumping duty was introduced for the period of five years. The antidumping investigation showed that in 2011 in supplying of cast-iron enameled bath tubs from China and importing them to the Customs Union from other countries the dumping margin amounted to 51.87%. In the 2009-2011 period, the import of cast-iron enameled bath tubs from China to the countries of the Customs Union increased by 48.4%; it is to be noted that Chinese supplies accounted for 82% in the total volume of import of those goods. With preservation of the volume of consumption of cast-iron bath tubs in 2011 at the level of 2009, the output volume and sales volume of enterprises in the countries of the Customs Union fell by 16.8% and 26%, respectively, while commodity stocks increased by 50%. It is to be noted that the share of goods produced by enterprises of that industry in the Customs Union fell by 15.2% on the domestic market against growth in import from China at dumping prices.

By Resolution No. 65 of April 9, 2013 of the Board of the Eurasian Economic Commission it was decided to introduce an antidumping duty of 19.5% in respect of hard-wrought, seamless tubes made

of stainless steel brought to the territory of the Customs Union. The antidumping measure in question will be in effect for five years. The antidumping investigation was started by the Ministry of Industry and Trade of the Russian Federation on November 25, 2011 on the basis of application submitted by OAO Chelyabinsky Truboprokatny Zavod, OAO Pervouralsky Novotrubny Zavod, OAO Sinarsky Trubny Zavod and OOO TMK-INOKS. As member-states of the Customs Union delegated authorities related to carrying out of antidumping, special protection and compensation investigations to the supranational level, the above investigation was assigned to the Eurasian Economic Commission.

The investigation showed that in the 2008–2010 period the share of import from China in the total volume of import of seamless stainless steel tubes to the Customs union was growing steadily and amounted to 78.8 % in 2010. In the second half of 2010, that index rose to 81.3%, while in the first half of 2011 it amounted to 63.2%. In 2010, the weighted average price on such tubes from China fell by 15.2% as compared to 2008. The single dumping margin for all the exporters and/or manufacturers of seamless stainless steel tubes from China amounted to 19.15%. In the 2008–2010 period, with a 48.2% growth in consumption of stainless steel in the Customs Union output volumes at enterprises of the Customs Union fell by 9.1%. Due to dramatic growth in import of such tubes from China at dumping prices, the share of the CU produce on the domestic market fell by 12 p.p., while that of the Chinese import rose by 31.6 p.p.

In conditions of tough dumping price competition on the part of the increased dumping import from China, a decision was taken to introduce antidumping duties. ●

STATE BUDGET IN Q1 2013

T.Tishchenko

According to the Federal Treasury, within January–March 2013, the federal budget revenues decreased by 2.1 p.p. of GDP as compared with the same period of the last year due to a reduction of oil and gas revenues by 1.8 p.p. of GDP and non-oil revenues by 0.3 p.p. of GDP. Despite the reduction in federal spending for Q1 of this year by 2.0 p.p. of GDP against the corresponding period of 2012, the federal budget deficit has reached the limit preset by the budgetary rules in the amount of 1.0% of GDP. Significant impact on the stability of the budget system of the Russian Federation continues to provide the external market factors, while at the same time the importance of domestic macroeconomic factors is increasing.

Analysis of key indicators of the federal budget execution in Q1 2013

For Q1 2013 revenues amounted to Rb 3,100.8 trillion or 20.8% of GDP, which is by 2,1 p.p. of GDP lower than in the relevant period of the previous year (see Table 1). Revenue from oil and gas sector has decreased by 1.8 p.p. of GDP against the three months of 2012. Budget expenditures in January–March 2013 amounted to Rb 3,241.3 trillion (21.8% of GDP), which is by 2.0 p.p. of GDP below the level of expenditures for the same period of the previous year. As of three months of 2013 results, the federal budget deficit amounted to Rb 120.0bn (1.0% of GDP), which is by 0.1 p.p. of GDP above the Q1 of 2012. Herewith, the scope of the non-oil deficit increased by 1.9 p.p. of GDP to 11.0% of GDP.

Table 1
KEY INDICATORS OF THE RF FEDERAL BUDGET EXECUTION IN JANUARY–MARCH 2012–2013

| | January–March 2013 | | January–March 2012 | | Change, p.p. of GDP |
|--|--------------------|-------|--------------------|-------|------------------------|
| | Rb bn | GDP% | Rb bn | GDP% | |
| Revenue | 3 100.8 | 20.8 | 2 963.6 | 22,9 | -2,1 |
| including oil and gas revenue | 1503.6 | 10.1 | 1 544.8 | 11,9 | -1,8 |
| Expenditures | 3 241.3 | 21.8 | 3 084.7 | 23,8 | -2,0 |
| –including percentage expenditures | 120.5 | 0.8 | 111.3 | 0,8 | 0,0 |
| non-percentage expenditures | 3 120.8 | 21.0 | 2 973.4 | 23,0 | -2,0 |
| Deficit (–) /Surplus (+) | -132.5 | -1.0 | -121.1 | -0,9 | -0,1 |
| Non-oil and gas deficit (–) /Surplus (+) | -1 644.1 | -11.0 | -1 665.9 | -12,9 | -1,9 |
| GDP estimates for reference, Rb bn | 14 889 | | 12942 | | |

Source: Ministry of Finance of Russia, RF Federal Treasury, Gaidar Institute assessments.

In Q1 of this year, federal budget revenues for income tax remained at the level of January–March 2012 – 0.5% of GDP (Table 2). Revenues from domestic and import VAT have decreased by 0.3 p.p. of GDP on each tax, as compared with the same period of the last year. Domestic excise taxes to federal budget revenues for Q1 2013 decreased by 0.2 p.p. of GDP, and excise taxes on imported goods for the same period have remained at the level of Q1 2012. Revenue of the federal budget for MET and foreign trade in Q1 of this year has decreased by 0.5 p.p. of GDP and by 1.2 p.p. of GDP against January–March of 2012.

In the expenditure sector of the federal budget (Table 3) there can be noted reduction in GDP expenditures in Q1 of this year against January–March 2012 under sections 8 of 14, including: “National Security and Law Enforcement” by 0.1 p.p. of GDP, “Housing and Public Utilities” by 0.03 p.p. of GDP, “Environment Protection” by 0.02 p.p. of GDP, “Culture and cinematography” by 0.07 p.p. of GDP, “Healthcare” by 0.5 p.p. of GDP, “Social Policy” by 1.3 pp of GDP and the “Inter-governmental transfers” by 0.2 p.p. of GDP.

Table 2

FEDERAL BUDGET REVENUE IN JANUARY–MARCH 2012–2013

| | January–March 2013 | | January–March 2012 | | Change, p.p. of GDP |
|--|-----------------------|------|-----------------------|------|------------------------|
| | Rb bn | GDP% | Rb bn | GDP% | |
| 1. Revenue, including: | | | | | |
| corporate profit tax | 73.4 | 0.5 | 66.4 | 0.5 | 0.0 |
| VAT on goods sold in the RF territory | 495.1 | 3.3 | 464.7 | 3.6 | -0.3 |
| VAT on goods imported to the RF territory | 357.4 | 2.4 | 346.4 | 2.7 | -0.3 |
| Excise duties on goods manufactured in the RF territory | 100.7 | 0.7 | 70.5 | 0.5 | -0.2 |
| Excise duties on goods imported to the RF territory | 11.9 | 0.08 | 11.6 | 0.09 | -0.0 |
| MET | 623.4 | 4.2 | 605.0 | 4.7 | -0.5 |
| 2. Revenue from external economic activities | 1 108.5 | 7.4 | 1 120.7 | 8.6 | -1.2 |

Source: Ministry of Finance of Russia, RF Statistical Service, Gaidar Institute assessments.

Table 3

FEDERAL BUDGET EXPENDITURES IN JANUARY–MARCH 2012–2013

| | January–March 2013 | | January–March 2012 | | Change, p.p. of GDP |
|--------------------------------------|-----------------------|------|-----------------------|------|------------------------|
| | Rb bn | GDP% | Rb bn | GDP% | |
| Expenditures, total including | 3241.3 | 21.8 | 3084.7 | 23.8 | -2.0 |
| Federal issues | 178.6 | 1.2 | 151.4 | 1.2 | 0.0 |
| National defense | 732.3 | 4.9 | 607.5 | 4.7 | 0.2 |
| National defense and law enforcement | 394.8 | 2.6 | 350.6 | 2.7 | -0.1 |
| National Economy | 335.7 | 2.2 | 249.8 | 1.9 | 0.3 |
| Housing and public utilities | 8.4 | 0.06 | 11.6 | 0.09 | -0.03 |
| Environmental protection | 5.0 | 0.03 | 6.4 | 0.05 | -0.02 |
| Education | 179.1 | 1.2 | 206.7 | 1.6 | -0.4 |
| Culture and cinematography | 11.6 | 0.08 | 20.3 | 1.5 | -0.07 |
| Healthcare | 142.4 | 0.9 | 187.1 | 1.4 | -0.5 |
| Social policy | 936.5 | 6.3 | 986.6 | 7.6 | -1.3 |
| Physical training and sports | 12.6 | 0.08 | 10.6 | 0.08 | 0.0 |
| Mass media | 15.5 | 0.1 | 15.7 | 0.1 | 0.0 |
| Public and municipal debt servicing | 120.5 | 0.8 | 111.3 | 0.8 | 0.0 |
| Intergovernmental transfers | 168.1 | 1.1 | 168.8 | 1.3 | -0.2 |

Source: Ministry of Finance of Russia, RF Treasury, Gaidar Institute assessments.

Growth in expenses occurred under two budget lines: the “National Defense” – by 0.2 p.p. of GDP and the “National Economy” by 0.3 p.p. of GDP.

In the expenditure under the section “National Economy” the growth in absolute terms in Q1 of this year against January–March 2012 was observed by in the budget lines: “Exploration and Use of Outer Space” by 3.4 times, “Agriculture and Fishing” by 1.5 times, “Communications and Information” by 3.0 times, “Applied Research in the Field of National Economy” by 1.8 times, “Other Aspects of the National Economy” by 3.4 times. At the same time, expenditures under “Transport” line have decreased from Rb 67.4 bn to Rb 21.3 bn, i.e., by 3.2 times, while the cost of the “Road Sector (Road Funds)” have increased slightly – by 1.2 times from Rb 42.4 to Rb 50.9 bn.

Under the other sections of federal budget expenditures for Q1 2013 in terms of GDP share remained at the level of January–March 2012.

According to the Russian Ministry of Finance, the balances of the Reserve Fund and National Welfare Fund in March 2013 increased slightly due to changes in foreign exchange rates and amounted to Rb 2,608.69 bn (+ Rb 15.8bn) and Rb 2,696.7bn (+ Rb 14.2bn), respectively.

RF Subjects Consolidated Budget Execution in January–February 2013

According to the Federal Treasury, the first revenues of the consolidated budget of the Subjects of the Russian Federation for January–February 2013 made Rb 907.4bn or 9.5 p.p. of GDP, which is by 1.4 p.p. of GDP lower than in the relevant period of 2012 (*Table 4*).

Table 4

KEY INDICATORS OF THE RF SUBJECTS CONSOLIDATED BUDGET IN JANUARY–FEBRUARY 2012–2013

| | January–February 2013 | | January–February 2012 | | Change p.p. of GDP |
|---|-----------------------|------|-----------------------|------|--------------------|
| | Rb bn | GDP% | Rb bn | GDP% | |
| Revenues, including: | 907.4 | 9.5 | 874.8 | 10,9 | -1,4 |
| – Corporate profit tax | 475.4 | 5.0 | 432.1 | 5,4 | -0,4 |
| – Individual income tax | 313.5 | 3.3 | 281.6 | 3,5 | -0,2 |
| – Excise duties in the RF territory | 74.4 | 0.8 | 60.3 | 0,7 | 0,1 |
| – Aggregate income tax | 37.9 | 0.4 | 31.9 | 0,4 | 0,0 |
| – Property tax | 60.2 | 0.6 | 48.7 | 0,6 | 0,0 |
| – income from the use of property owned by the state and municipal property | 31.5 | 0.3 | 28.8 | 0,3 | 0,0 |
| – non-repayable proceeds from other budgets of the RF fiscal system | 240.2 | 2.5 | 283.3 | 3,5 | -1,0 |
| – return of the subsidies, subventions and other inter-budgetary targeted transfers of the past years from the budget of the Russian Federation | -74.4 | -0.8 | 0.9 | 0,01 | -0,8 |
| Expenditures, including: | 923.7 | 9.7 | 801.2 | 10,0 | -0,3 |
| Surplus/Deficit of the RF Subjects consolidated budget | -16.3 | -0.2 | 73.6 | 0,9 | -1,1 |
| GDP estimates | 9466 | | 8053 | | |

Source: Federal Treasury, Gaidar Institute assessments.

Expenditures of the consolidated budget of the Russian Federation Subjects for two months of this year decreased against the same period of the last year by 0.3 p.p. of GDP and accounted for 9.7% of GDP, or Rb 923.7 bn. As of January–February 2013, budgets of the RF Subjects are executed with a slight deficit of Rb 16.3 bn or 0.2% of GDP, which is by 1.1 p.p. of GDP below the level of the relevant period of the previous year.

The main decrease in revenues to the consolidated budgets of the RF Subjects over two months of 2013 as compared to the relevant period of 2012 was under income tax – by 0.4 p.p. of GDP, and under personal income tax – by 0.2 p.p. of GDP, and under the revenue from the grants of other budget system of the Russian Federation – by 1.0 p.p. of GDP. Under the Article “Return of the Subsidies, Subventions and other Inter-Budgetary Targeted Transfers of the Past Years from the RF Subjects’ Budgets” the amount of the revenue of the regional budgets has declined during January–February 2013 by Rb 74.4 bn, or by 0.8% of GDP, while in the two months of the last year there were received Rb 0.9 bn or 0.01% of GDP under this budget line.

For the rest of the tax and non-tax revenues of the consolidated budget of the Subjects of the Russian Federation for January–February 2013 the amount of revenues as a GDP percentage remained at the level of the relevant period of the previous year, except for the revenue from domestic excise taxes, which increased by 0.1 p.p. of GDP.

Expenditures of the consolidated budget of the Russian Federation Subjects (*Table 5*) as of the two months of the current year have reduced on the most sections against the same period in 2012, including the sections: “Federal Issues” by 0.1 p.p. of GDP, “National Economy” by 0.6 p.p. of GDP, “Housing and Public Utilities” by 0.1 p.p. of GDP, «Healthcare» by 0.2 p.p. of GDP, “Social Policy” by 0.3 p.p. of GDP, Mass Media by 0.02 p.p. of GDP, “Intergovernmental Transfers” by 0.028 p.p. of GDP. During January–February 2013 there were increased expenditures in terms of GDP share for two months of the preceding year for servicing of the public and municipal debt (by 0.03 p.p. of GDP). In the framework of the last section, the Subjects of the Russian Federation are funding the costs of the three articles: “National Defense” (0.001 p.p. of GDP), “Mobilization and Training Corps”, “Mobilization Preparation of Economy” and “Other Aspects of the National Defense”. In the

remaining sections of the budget expenditures of the RF Subjects on the basis of two months of this year in terms of GDP percentage, they remained at the level of the relevant period of 2012.

Table 5

RF SUBJECTS CONSOLIDATED BUDGET EXECUTION IN TERMS OF EXPENDITURES
IN JANUARY–FEBRUARY 2012–2013

| | January–February 2013 | | January–February 2012 | | Change, p.p. of GDP |
|--------------------------------------|--------------------------|-------|--------------------------|-------|------------------------|
| | Rb bn | GDP% | Rb bn | GDP% | |
| Expenditures, total | 923.7 | 9.7 | 801.2 | 1.0 | -0.3 |
| including: | | | | | |
| Federal issues | 58.5 | 0.6 | 53.6 | 0.7 | -0.1 |
| National defense | 0.3 | 0.003 | 0.2 | 0.002 | 0.001 |
| National defense and law enforcement | 8.2 | 0.09 | 7.7 | 0.09 | 0.0 |
| National Economy | 131.4 | 1.4 | 67.5 | 0.8 | -0.6 |
| Housing and public utilities | 63.3 | 0.7 | 63.9 | 0.8 | -0.1 |
| Environmental protection | 2.0 | 0.02 | 1.9 | 0.02 | 0.0 |
| Education | 283.0 | 3.0 | 245.9 | 3.0 | 0.0 |
| Culture and cinematography | 33.4 | 0.3 | 27.7 | 0.3 | 0.0 |
| Healthcare | 151.6 | 1.6 | 147.0 | 1.8 | -0.2 |
| Social policy | 163.2 | 1.7 | 158.7 | 2.0 | -0.3 |
| Physical training and sports | 16.1 | 0.2 | 14.1 | 0.2 | 0.0 |
| Mass media | 3.1 | 0.03 | 4.3 | 0.05 | -0.02 |
| Public and municipal debt servicing | 9.5 | 0.1 | 5.7 | 0.07 | 0.03 |
| Intergovernmental transfers | 0.2 | 0.002 | 3.0 | 0.03 | -0.028 |

Source: Federal Treasury, Gaidar Institute assessments.

The public debt of the Subjects as of 01.03.2013 amounted to Rb 1,281.1bn, which is nearly by Rb 8.3 bn lower than at the beginning of February this year. ●

RUSSIAN BANKING SECTOR IN Q1 2013

M.Khromov

In Q1 2013 the trend of slowing growth in the credit portfolio of banks was sustained. In the retail segment of credit market there was started deterioration of the Bank's loan portfolio quality. Profitability of the banking business is getting reduced for the second consecutive quarter, which is driven by the growing deductions to reserves and higher cost of the resource base.

In March 2013 the assets of the banking sector increased by 0.9%, having only slightly (by Rb 300bn) surpassed the level of the beginning of the year. Annual growth rates remain close to the indicator of 19% (18.7% as of Q1 2013).

The dynamics of the state-owned banks in March was slightly weaker than in the other banks, but nevertheless, the share of the largest state-owned banks in the total bank assets (54.8%) remains higher than at the beginning of the year (54.4%), as well as the indicator of a year ago (54.2%).

In March the banks' own funds have grown by 1.0% and in the first quarter – by 3.4%. The main source of growth in equity were the banks' dividends (including the capitalization of the last year profit), which have grown in Q1 by 6.2%. The total statutory and surplus capital of the banking sector in the first quarter of this year remained virtually unchanged.

In Q1 2013 the return on banking assets made Rb 239bn, including Rb 88bn in March (the maximum result since the beginning of the year). Here-with, Rb 124bn were addressed to the formation of reserves for possible losses on loans and other assets. This is more than within the entire last year (Rb 123bn). Earnings excluding the reserves in Q1 2013 also reached the record level (Rb 363bn over three months). However, the earnings with regard to the banking business scope in Q1 2013 was rather modest. Profitability of the banking

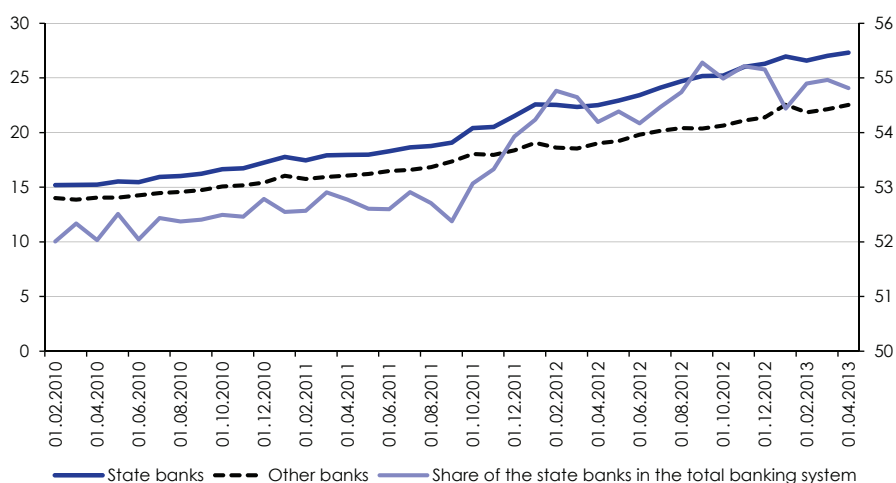


Fig. 1. Dynamics of the state-owned and other banks' equity (Rb trillion) and the share of the state-owned banks in the total assets (% , right scale)

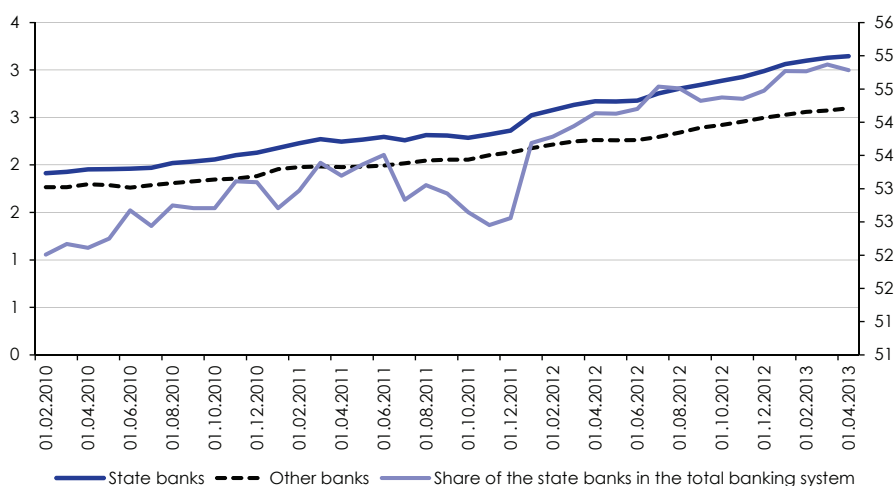


Fig. 2. Dynamics of the state-owned and other banks equity (Rb trillion) and the share of the state-owned banks in the total assets (% , right scale)

business is getting reduced. As of the end of Q1, the rate of returns made 1.9% , and that of the equity – 16.9% in annual terms.

Raised funds

Savings of households in the bank accounts of individuals have grown in March made according to the tentative estimates 4.1%, which is somewhat more than the last year level (3.7%). Moreover, the inflow of deposits at the beginning of 2013 has equaled the amount of the growth in the individuals' credit indebtedness, unlike the last year, when in Q1 the growth of the debt on bank loans to individuals was exceeding the inflow of deposits by one third. As of the end of one quarter, it is too early to talk about the turn in the savings behavior of the population, but there are preconditions for the trend change.

The average effective interest rate on deposits in banks in Q1 2013 reached 6.6%. This is significantly higher than the previous year indicator (5.9%) and the average for 2013 (6.1%). Growth rates offered by the banks, was aimed at increasing the attractiveness of bank deposits and the stabilization of the resource base. For the banks, this meant a significant increase in costs (interest paid to the depositors on deposits in Q1 2013 has exceeded the indicator of the last year by 34%).

The amount of funds in the accounts and deposits of corporate clients with the banks since the beginning of the year remains virtually unchanged. In March it has been decreased by 0.1%, and overall for the quarter increased by 0.2%. The annual growth rates have stabilized since the beginning of the year near the level of 10%.

Fixed-term deposits are prevailing in the structure of corporate funds. Although their share has declined in Q1 from 54.4% to 52.7%, but still they make more than a half of the total funds of corporate clients deposits in the banking system.

One of the reasons for the prevalence of fixed-term deposits, apparently, is the growing interest rate. Average actual value of the fixed-term deposits of corporate clients in the banking

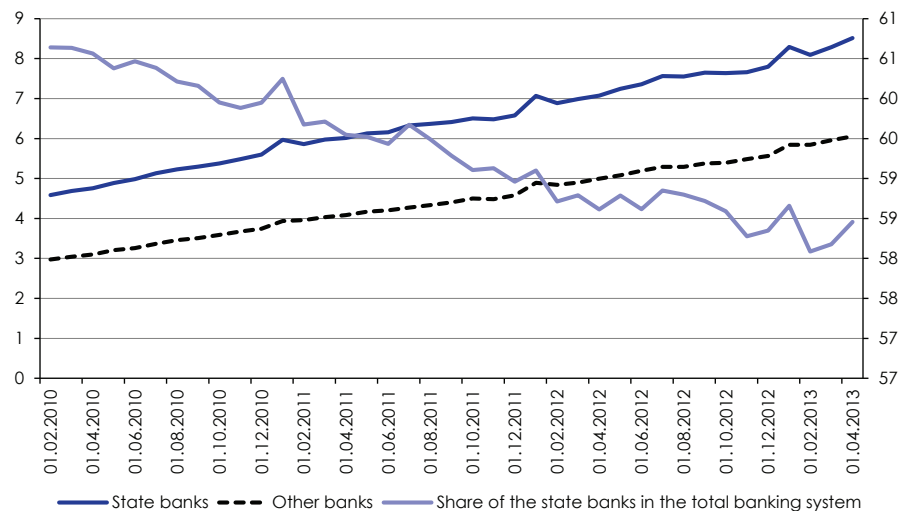


Fig. 3. Dynamics of individual deposits in the state-owned and other banks (Rb trillion) and the share of state-owned banks in the market of physical entities deposits (% , right scale)

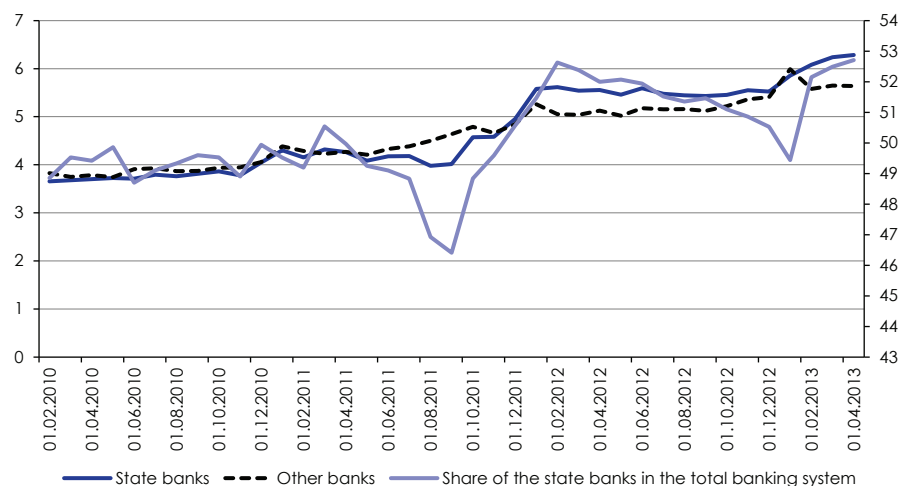


Fig. 4. The dynamics of corporate accounts in the state-owned and other banks (Rb trillion) and the share of the state-owned banks in the market of corporate accounts (% , right scale)

sector made at the end of Q1 2013 6.2% per annum, having increased by 0.6 p.p. (5.6% in Q1 2012).

There is no doubt that interest rates growth on the main types of the banks' raised funds has led to the decline in profitability of the banking business.

Table 1

STRUCTURE OF THE RUSSIAN BANKING SYSTEM LIABILITIES
(END OF MONTH), AS % OF TOTAL

| | 12.07 | 12.08 | 12.09 | 12.10 | 12.11 | 03.12 | 06.12 | 09.12 | 12.12 | 01.13 | 02.13 | 03.13 |
|---|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Liabilities, Rb bn | 20125 | 28022 | 29430 | 33805 | 41628 | 41533 | 44266 | 45861 | 49510 | 48429 | 49165 | 49839 |
| Own assets | 15.3 | 14.1 | 19.3 | 18.7 | 16.9 | 17.5 | 16.8 | 16.9 | 16.2 | 16.8 | 16.7 | 16.7 |
| Loans of the Bank of Russia | 0.2 | 12.0 | 4.8 | 1.0 | 2.9 | 3.5 | 5.1 | 5.1 | 5.4 | 4.5 | 4.5 | 4.5 |
| Interbank operations | 4.1 | 4.4 | 4.8 | 5.5 | 5.7 | 5.1 | 4.8 | 5.1 | 5.6 | 5.4 | 5.4 | 5.4 |
| Foreign liabilities | 18.1 | 16.4 | 12.1 | 11.8 | 11.1 | 10.2 | 11.3 | 11.0 | 10.8 | 10.5 | 10.6 | 10.4 |
| Individual deposits | 26.2 | 21.5 | 25.9 | 29.6 | 29.1 | 29.4 | 29.4 | 28.7 | 28.9 | 29.1 | 29.3 | 29.6 |
| Corporate deposits | 25.8 | 23.6 | 25.9 | 25.7 | 26.0 | 25.7 | 24.0 | 23.3 | 24 | 24.1 | 24.2 | 23.9 |
| Accounts and deposits of state agencies and local authorities | 1.5 | 1.0 | 1.0 | 1.5 | 2.3 | 1.4 | 1.5 | 2.5 | 1.6 | 1.1 | 1.0 | 1.4 |
| Securities issued | 5.8 | 4.1 | 4.1 | 4.0 | 3.7 | 4.8 | 4.5 | 4.8 | 4.9 | 5.2 | 5.3 | 5.2 |

Source: Central Bank of Russia, IEP estimates.

Investments

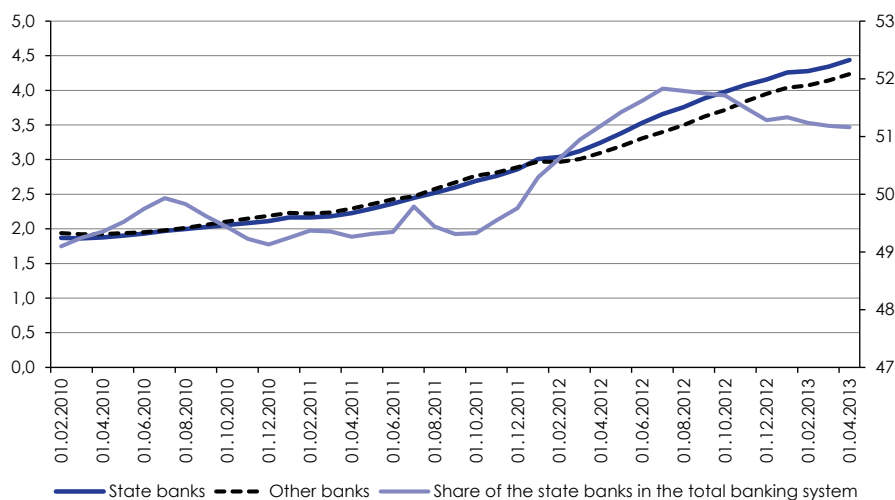


Fig. 5. Dynamics of loans to individuals in the state and other banks (Rb trillion) and the share of the state banks' loans to population (%; right scale)

The volume of public debt to the banks has increased since the beginning of the year by 4.5%, including, 2.2% in March. The annual growth rate fell down below the level of a year ago, amounting to 36.5% on April 1, 2013.

The main indicators of quality of retail loan portfolio have worsened as of Q1 2013 results. The volume of overdue debt increased from 4.1% to 4.3% within three months, while the share of overdue loans in the total debt portfolio increased from 6.1 to 6.5%.

The deterioration of the loan portfolio quality may further to provoke a limiting credit growth. Moreover, the increase of interest rates, designated to compensate the appreciation of the resource base, is shifting lending to riskier segments of the market in terms of the borrowers' quality: higher interest rates are accepted mostly by the compliant clients, who are not so responsibly for personal financial planning and therefore, there is a higher risk in their failure to repay their debt on time.

The average actual cost of retail loans in Q1 2013 was 17.7% per annum, which is more than by 1 p.p. exceeds the last year indicator (16.5%). In addition, the burden on servicing the banks' debt to disposable income continues to grow. As of the end of the last 4 quarters, the population was paying to the banks (for loans repayment schedule and interest) about 10% of the disposable income, and for Q1 2013, when there happens a seasonal decline in household income, that indicator reached 12%.

The volume of corporate clients' debt on loans to the banks have grown in March by 1.0%, and for the quarter – by 1.2%. Annual growth rates of corporate clients' debt have decreased to its lowest level of the past two years to 14.5%. For the last time such indicators were observed in spring of 2011, at the beginning of the post-crisis credit market recovery.

The quality of loans to corporate borrowers in Q1 2013 remained at the same level. The share of overdue debt as of April 1 made 4.6%, and the ratio of provisions for tentative losses to the total credit debt made 7.5%

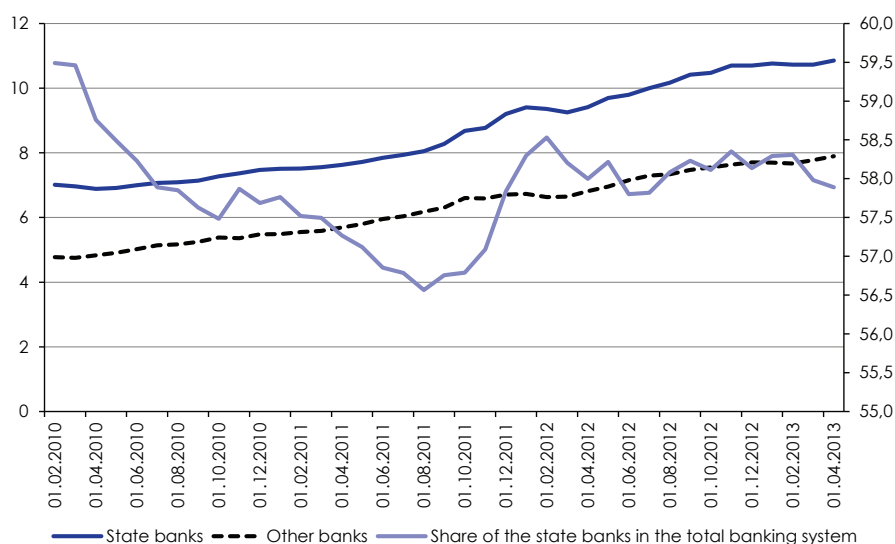


Fig. 6. Dynamics of loans to companies and organizations with the state-owned and other banks (Rb trillion), and the share of the state-owned banks in the market of corporate borrowers, (% , right scale)

Table 2

STRUCTURE OF THE RUSSIAN BANKING SYSTEM ASSETS
(END OF MONTH), AS% OF TOTAL

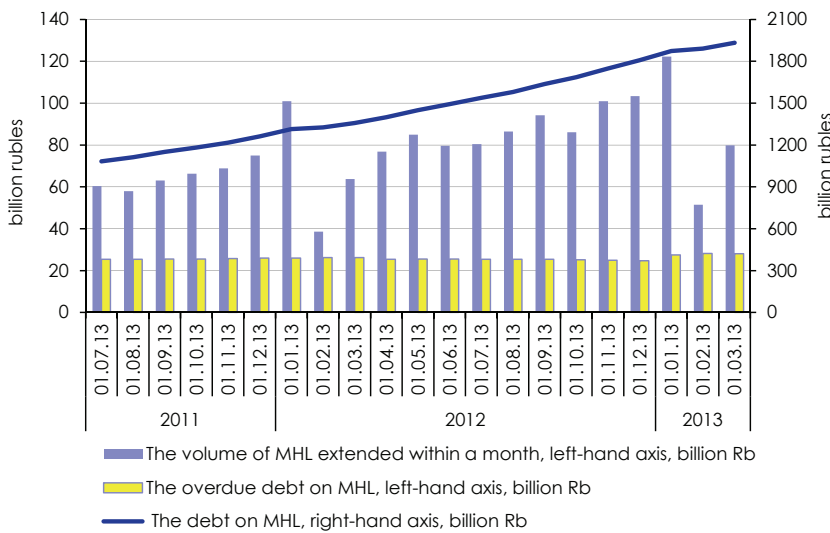
| | 12.07 | 12.08 | 12.09 | 12.10 | 12.11 | 03.12 | 06.12 | 09.12 | 10.12 | 01.13 | 02.13 | 03.13 |
|----------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Assets, Rb bn | 20125 | 28022 | 29430 | 33805 | 41628 | 41533 | 44266 | 45861 | 47096 | 48429 | 49165 | 49839 |
| Cash and precious metals | 2.5 | 3.0 | 2.7 | 2.7 | 2.9 | 2.4 | 2.5 | 2.6 | 2.6 | 2.6 | 2.5 | 2.5 |
| Deposits with the Bank of Russia | 6.9 | 7.5 | 6.9 | 7.1 | 4.2 | 3.2 | 3.0 | 2.8 | 2.7 | 2.9 | 3.1 | 3.3 |
| Interbank operations | 5.4 | 5.2 | 5.4 | 6.5 | 6.4 | 6.2 | 5.8 | 5.8 | 6.1 | 6.7 | 6.6 | 6.4 |
| Foreign assets | 9.8 | 13.8 | 14.1 | 13.4 | 14.3 | 14.2 | 14.2 | 13.9 | 14.3 | 14.0 | 14.6 | 14.5 |
| Individuals | 16.1 | 15.5 | 13.1 | 13.0 | 14.4 | 15.3 | 16.0 | 16.8 | 16.8 | 17.3 | 17.3 | 17.4 |
| Corporate sector | 47.2 | 44.5 | 44.5 | 43.6 | 44.0 | 44.4 | 43.6 | 43.4 | 42.9 | 42.3 | 42.1 | 41.9 |
| Government | 4.1 | 2.0 | 4.2 | 5.1 | 5.0 | 4.9 | 3.8 | 3.3 | 3.2 | 3.7 | 3.3 | 3.2 |
| Property | 2.2 | 1.9 | 2.7 | 2.6 | 2.3 | 2.4 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 | 2.2 |

Source: Central Bank of Russia, IEP estimates.

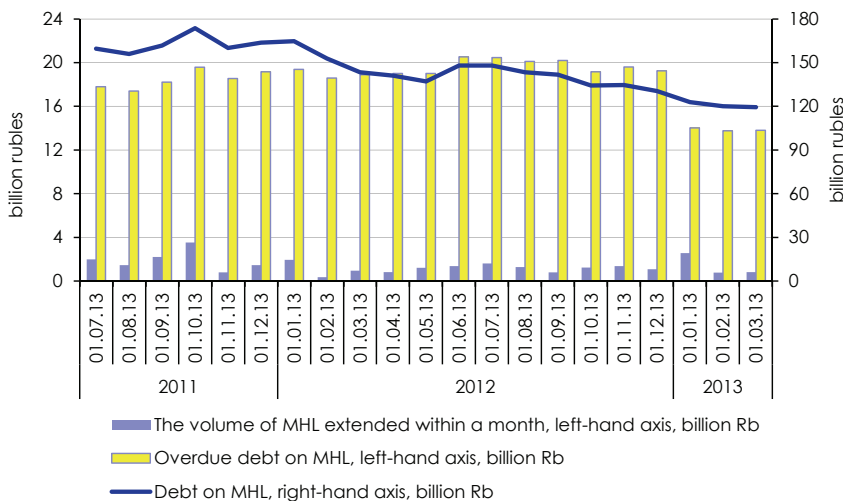
MORTGAGE IN THE RUSSIAN FEDERATION IN Q1 2013

G.Zadonsky

In January–February 2013, 83,925 MHL for the total amount of Rb132.94bn were extended which is 28.24% more in monetary terms than in January–February 2012. As of March 1, 2013, the outstanding debt on MHL amounted to Rb2.05 trillion having exceeded by 36.71% the respective debt as of March 1, 2012. In 2013, the overdue debt as compared to the outstanding debt on MHL in rubles kept decreasing and amounted to 1.45% as of March 1, while that on MHL in foreign currency was growing and amounted to 11.57% as of March 1, 2013. The debt on MHL with payment overdue for over 180 days was decreasing and as of March 1, 2013 amounted to 1.41% of the total debt. The weighted average monthly rate on MHL in rubles kept growing and amounted to 12.8% in February.



Source: the data of the Central Bank of the Russian Federation.
Fig. 1. Dynamics of MHL and debt on MHL in rubles



Source: the data of the Central Bank of the Russian Federation.
Fig. 2. Dynamics of MHL and debt on MHL in foreign currency

According to the data of the Central Bank of the Russian Federation, in February 2013 50,281 mortgage housing loans (MHL) for the total amount of Rb 80,726bn and 3,250 unsecured housing loans (UHL) for the amount of Rb 2,849bn were extended. 50,148 MHL in rubles for the amount of Rb 79,911bn and 133 MHL in foreign currency for the amount of Rb 0.815bn were extended (Fig. 1 and Fig. 2). In February 2013, the number of MHL extended in February 2013 exceeded the index of February 2012 by 11.45% (as regards the volume in monetary terms – by 24.76%). As of March 1, 2013, the outstanding debt on MHL amounted to Rb 2,052.46bn which is 36.71% higher than the respective debt as of March 1, 2012. As of March 1, 2013, the debt on MHL in rubles amounted to Rb 1,933,056bn having exceeded by 3.13% the value of the debt as of January 1, 2013. On the contrary, as of March 1, 2013 the debt on MHL in foreign currency decreased by 2.81% as compared to the debt on loans in foreign currency as of January 1, 2013 and amounted to Rb 119,404bn.

As of March 1, 2013, the overdue debt on MHL amounted to Rb 41,846bn, while that on UHL, to Rb 5,934bn. As of March 1, 2013, the overdue debt on MHL in rubles amounted to Rb 28,033bn (*Fig. 1*), which exceeded by 1.82% the data as of January 1, 2013 (Rb 27,533bn). As of March 1, 2013, the overdue debt on MHL in foreign currency decreased by 1.52% as compared to January 1, 2013 and amounted to Rb 13,813bn (*Fig. 2*), while as of March 1 its share in the outstanding debt on mortgage loans in foreign currency increased by 0.15 p.p. as compared to January 1 and amounted to 11.57%.

According to the data of the Central Bank of the Russian Federation, as of March 1, 2013 the volume of the debt on defaulted MHL (with payments overdue for over 180 days) fell to Rb 28.94bn which is 35.88% lower than that as of January 1, 2013; it is to be noted that the share of that debt in the total amount of the debt on MHL decreased to 1.41% (*Table 1*). As of March 1, 2013, the share of the debt without overdue payments fell by 0.2 p.p. as compared to January 1, 2013.

Table 1

GROUPING OF THE DEBT BY MORTGAGE HOUSING LOANS BY THE PERIOD OF DELAY IN PAYMENTS

| | Total amount of the debt on MHL | Including | | | | | | | |
|------------|---------------------------------|--------------------------|------------|------------------------------|------------|--------------------------|------------|----------|------|
| | | Without overdue payments | | With overdue payments (days) | | | | | |
| | | | | From 1 day to 90 days | | From 91 days to 180 days | | Over 180 | |
| Million Rb | Million Rb | % * | Million Rb | %* | Million Rb | %* | Million Rb | %* | |
| 2013 | | | | | | | | | |
| Jan. 01 | 1 997 204 | 1 915 917 | 95.93 | 30 957 | 1.55 | 5 193 | 0.26 | 45 137 | 2.26 |
| Feb. 01 | 2 010 552 | 1 928 321 | 95.91 | 47 047 | 2.34 | 5 227 | 0.26 | 29 957 | 1.49 |
| Mar. 01 | 2 052 460 | 1 964 819 | 95.73 | 53 159 | 2.59 | 5 542 | 0.27 | 28 940 | 1.41 |

* Percentage of the total amount of the debt.

Source: the data of the Central Bank of the Russian Federation.

Growth in the weighted average interest rate on MHL in rubles extended within a month – which took place in 2012 – continued in 2013, as well. According to the data of the Central Bank of the Russian Federation, in February 2013 the rate gained 0.1 p.p. and amounted to 12.8%. As of March 1, 2013, the weighted average rate on loans in foreign currency extended from the beginning of the year amounted to 9.8% as in 2012. In January–February 2013, the weighted average rate on loans in rubles refinanced by AHML amounted to 11.38%.

According to the data of the Central Bank of the Russian Federation, in February 2013 the weighted average period of lending as regards MHL in rubles extended within a month amounted to 15.0 years. As of March 1, 2013, the weighted average period of lending as regards loans in foreign currency extended from the beginning of the year increased by 0.94 years as compared to 2012.

In 2012, as regards the number of ruble MHL extended within a year per 1,000 persons the leaders were still the Yamalo-Nenetsk Autonomous Region, the Khanty-Mansiisk Autonomous Region and the Nenetsk Autonomous Region, the Tyumen Region and the Republic of Tatarstan (*Table 2*). The breakdown by the federal regions remained the same: the leader was still the Urals Federal District, while the North Caucasian Federal District was the last one. Leaders of mortgage lending as regards financial volumes such as St. Petersburg, the Moscow Region, the Central Federal District and Moscow were rated the 59th, the 64th, the 73rd and the 85th as regards the number of mortgage housing loans extended within a year per 1,000 persons, respectively (*Table 2*).

As in 2011, in 2012 the highest overdue debt as a percentage of the total debt was registered in Moscow (*Table 3*). In 2012 as compared to 2011, there was a trend of reduction of the overdue debt in the aggregate debt; the above trend was common to all the constituent entities of the Russian Federation. As regards the volume of the early repaid loans as a percentage of the received loans, Moscow was the leader both in 2011 and 2012. The lowest index as regards the volume of funds collected from borrowers as a result of sale of mortgaged property as a percentage of the overdue debt was registered with the North Caucasian Federal District, while the highest one, with the Far Eastern Federal District (*Table 3*).

Table 2

BREAKDOWN OF REGIONS BY THE NUMBER OF MORTGAGE HOUSING LOANS EXTENDED WITHIN A YEAR PER 1,000 PERSONS.

| Region | 2012 | | | 2011 | | |
|-----------------------------------|-----------------------------------|--------------------------------------|---------------------|-----------------------------------|--------------------------------------|---------------------|
| | Number of loans per 1,000 persons | Average amount of a loan, million Rb | Place in the rating | Number of loans per 1,000 persons | Average amount of a loan, million Rb | Place in the rating |
| Yamalo-Nenetsk Autonomous Region | 12,208 | 2,188 | 1 | 10,323 | 1,917 | 1 |
| Khanty-Mansiisk Autonomous Region | 10,721 | 2,097 | 2 | 10,271 | 1,869 | 2 |
| Tyumen Region | 10,384 | 1,917 | 3 | 8,886 | 1,768 | 3 |
| Nenetsk Autonomous Region | 9,068 | 2,052 | 4 | 7,517 | 1,865 | 4 |
| Republic of Tatarstan | 8,546 | 0.943 | 5 | 7,349 | 0.790 | 5 |
| Kirov Region | 8,322 | 0.794 | 6 | 4,836 | 0.843 | 20 |
| Republic of Udmurtia | 8,292 | 0.928 | 7 | 5,171 | 0.943 | 17 |
| Chelyabinsk Region | 7,635 | 1,052 | 8 | 5,811 | 0.936 | 8 |
| Republic of Komi | 7,591 | 1,390 | 9 | 6,101 | 1,073 | 6 |
| URALS FEDERAL DISTRICT | 7,571 | 1,512 | 10 | 5,930 | 1,398 | 7 |
| PROVOLZHISKY FEDERAL DISTRICT | 6,604 | 1,039 | 23 | 4,781 | 0.952 | 21 |
| SIBERIAN FEDERAL DISTRICT | 6,059 | 1,256 | 27 | 4,313 | 1,157 | 28 |
| FAR EASTERN FEDERAL DISTRICT | 5,316 | 1,676 | 38 | 3,958 | 1,474 | 34 |
| RUSSIAN FEDERATION | 5,171 | 1,447 | 41 | 3,660 | 1,369 | 42 |
| NORTH-WESTERN FEDERAL DISTRICT | 5,052 | 1,679 | 43 | 3,542 | 1,551 | 45 |
| St. Petersburg | 4,500 | 2,336 | 59 | 3,154 | 2,250 | 60 |
| CENTRAL FEDERAL DISTRICT | 4,026 | 2,039 | 73 | 2,786 | 2,002 | 67 |
| SOUTHERN FEDERAL DISTRICT | 3,576 | 1,329 | 79 | 2,534 | 1,292 | 73 |
| NORTH-CAUCASIAN FEDERAL DISTRICT | 2,873 | 0.957 | 84 | 1,080 | 1,213 | 87 |
| Moscow | 2,868 | 3,741 | 85 | 1,980 | 3,942 | 82 |

Source: on the basis of Central Bank data of the of the Russian Federation and Rosstat.

According to the data of the Central Bank of the Russian Federation, as of March 1, 2013, the share of the debt on MHL in foreign currency decreased by 0.15 p.p. as compared to February 1, 2013 and amounted to 5.82%, thus, continuing the trend of reduction of such a share; the above trend prevailed since 2009. The share of MHL in foreign currency in the volume of the extended loans fell by 0.29 p.p. as compared to February 1, 2013 and amounted to 1.20%.

In the 1st quarter of 2013, AHML refinanced 7,804 mortgages for the amount of Rb 11,163bn which is 10.45% and 1.9% lower than the result of the 1st quarter of 2012 as regards the number of loans and in monetary terms, respectively. The share of loans extended under the *Maternity Capital* program amounted to 9.42% of the total volume of refinancing in monetary terms with the average amount of a loan being equal to Rb 1.47bn, while that of loans extended under the *Military Mortgage* program, to 31.26% with the average amount of a loan being equal to Rb 2.06m. In March 2013, the AHML refinanced 2,437 mortgages for the amount of Rb 3.6bn which exceeds the result of February 2013 by 11.9% and 9.33% in monetary terms and as regards the number of loans, respectively. In February 2013, the share of loans refinanced by AHML in the total number of mortgage loans amounted to 4.4%, while in January, to 9.3%. In March 2013, the average price of housing purchased by means of loans refinanced by the AHML amounted to Rb 44,512 per sq. meter.

Table 3

DYNAMICS OF INDICES WHICH CHARACTERIZE BORROWERS OF THE RUSSIAN FEDERATION

| Region | The overdue debt as % of the total debt | | The volume of MHL which was early repaid within a year by means of borrower's funds as % of the volume of the received MHL | | The volume of funds collected from borrowers as a result of sale of mortgaged property as % of the overdue debt | |
|----------------------------------|---|------|--|-------|---|-------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Moscow | 5.11 | 6.42 | 36.09 | 37.68 | 9.24 | 6.91 |
| Moscow Region | 4.65 | 5.84 | 25.84 | 27.72 | 5.72 | 4.98 |
| CENTRAL FEDERAL DISTRICT | 3.71 | 4.93 | 25.62 | 29.76 | 7.82 | 6.36 |
| NORTH CAUCASIAN FEDERAL DISTRICT | 2.58 | 4.06 | 14.62 | 16.42 | 3.33 | 5.54 |
| St. Petersburg | 2.17 | 2.96 | 27.91 | 25.43 | 18.34 | 14.92 |
| RUSSIAN FEDERATION | 2.10 | 3.06 | 21.10 | 24.32 | 10.15 | 9.95 |
| SOUTHERN FEDERAL DISTRICT | 1.83 | 2.70 | 15.65 | 19.61 | 4.96 | 7.53 |
| NORTH-WESTERN FEDERAL DISTRICT | 1.68 | 2.51 | 21.84 | 19.80 | 15.89 | 12.07 |
| SIBERIAN FEDERAL DISTRICT | 1.62 | 2.63 | 20.28 | 23.40 | 11.40 | 12.21 |
| PRIVOLZHSKY FEDERAL DISTRICT | 1.41 | 2.28 | 16.92 | 20.64 | 14.74 | 19.72 |
| URALS FEDERAL DISTRICT | 1.04 | 1.53 | 21.89 | 27.43 | 14.81 | 12.94 |
| FAR EASTERN FEDERAL DISTRICT | 0.56 | 1.11 | 19.05 | 17.62 | 20.55 | 15.38 |

Source: on the basis of the data of the Central Bank of the Russian Federation.

In accordance with the AHML's program of October 2012 related to purchasing of senior tranches of mortgage-backed bonds, as of April 1, 2013 the AHML concluded contracts on repurchasing of Rb 45,675bn worth of such bonds. In 2013, the volume of repurchased mortgage securities amounted to Rb 0.83bn. Also, as of April 1, 2013, the Agency provided market participants with special-purpose loans for accumulation of mortgage backing and finalizing of a securitization deal for the amount of Rb 13.94bn; the current debt under the above deal amounts to Rb 10.04bn.

A draft law on amendment of the Law on Mortgage (Mortgage Security) was submitted to the State Duma. The above draft law provides for repurchasing in certain cases of mortgaged housing of an insolvent borrower and provision of that housing to the borrower on the terms of a social loan with the right of repurchasing it in future. ●

THE DYNAMICS OF THE PRIVATIZATION AND THE STATE OF PROPERTY RELATIONS IN 2012

A.Radygin, G.Malginov

The results of 2012 clearly pointed to the fact that the classical set of problems specific to the Russian privatization – justification of the fair price for assets to be privatized, real motivation of the participants, determination of the criteria of selection of the buyer, ensuring of transparency and claims of regulating authorities – remain topical. Also, there has been no analysis of the potential effects of the privatization with its expediency, alternative costs, possible risks and effects on individual markets, industries, regions and the country's economy as a whole taken into account.

Implementation of the three-year privatization program – which is the first one in the contemporary history – has entered its final stage. As the forecast plan of privatization for the 2011–2013 period adopted by the Government of the Russian Federation as early as November 2010 covered a three-year period at the time of approval, the above document was later only amended and supplemented; it is to be noted that in 2012 the rate at which amendments were made was much higher than before. From the time of approval – by Resolution No. 2102-r of November 27, 2010 of the Government of the Russian Federation – of the forecast plan (program) of privatization of the federal property and the main guidelines of privatization of the federal property in the 2011–2013 period, thirty-six respective statutory acts were passed with 24 of them approved in 2012, against 11 statutory acts in 2011.

As a result, the most important difference from the original version of the program consisted in a serious radicalization of privatization plans as regards large companies where the state permitted a reduction of its share in the capital, as well as expansion of the list of assets to be privatized.

It is to be reminded that the initial privatization program included ten companies, while in 2011 the format of reduction of the share of the state in the following open joint-stock companies – the Federal Hydro-Generating Company (RusGidro) and the United Grain Company (Obiedinennaya Zernovaya Kompania (OZK)) – with preservation of the controlling interest of 50% plus one share was specified.

Generally, the process of privatization of shares of large joint-stock companies in the 2012–2013 period was specified by Resolution No. 1035-r of June 20, 2012 of the Government of the Russian Federation.

Subject to privatization were such open joint-stock companies as OZK (the state ends up its participation in the charter capital), Sovremenny Kommerchesky Flot (50% minus one share), Rosagrolizing (49.9% minus one share), VTB Bank (25.5% minus one share), Rossiiskie Zheleznye Dorogi (25% minus one share), Sberbank of Russia (7.58% minus one share) with the prospect of termination of the state's participation in their capital till 2016 (except for OAO Sberbank of Russia and OAO RZhD). A similar measure was declared in respect of other open joint-stock companies, such as Zarubezhneft, RusHydro, INTER RAO UES, the Sheremetievo International Airport, Aeroflot, Rosselkhozbank and ALROSA. In a number of companies – Transneft, FSK UES and Uralvagonzavod – the share of the state is to be reduced to 75% plus one share, while in the Obiedinennye Sudostroitelnaya and Aviastroitel'naya Korporatsii (United Shipbuilding and Plane-Making Corporations) the share of the state is to be cut to 50% plus one share.

In addition to the above, it is expected to reduce the interest of the state in the capital of OAO ROSNANO to 90% by issuing and placement of additional shares, while starting from 2013 assignment of shares of OAO Rosneft with termination of the state participation in the capital of that company by 2016 and shares of OAO Rosneftegas (with OAO Rosneftegas permitted to act as an investor in privatization of companies of the fuel and energy sector prior to the beginning of 2015 provided that a program of funding of such deals is available; the above program has to provide for utilization of dividends from equities of the companies which are owned by the above joint-stock company) is planned.

It is to be noted that such a radical change in the privatization policy towards giving up by the state of control over a dozen large companies of nationwide importance was not accompanied by any compensating measures, except for a possibility to use a special right to participation by the Russian Federation in management of joint-stock companies (“a golden share”) in respect of less than a half of those companies (Obiedinnaya Zernovaya Kompania (United Grain Company), Zarubezhneft, RusHydro, Aeroflot and ALROSA).

In 2012, the largest privatization deal was a sale of a 7.58% package of shares – owned by the Central Bank of the Russian Federation – of OAO Sberbank of Russia for Rb 159.3bn. The specifics of the deal related to a special public and legal status of the seller which is different from the classical role of the authorities which are in charge of property management justified the need of approval of special amendments to the Federal Law on the Budget in 2012 and the 2013-2014 Planned Period in order to ensure proper replenishment of the budget from that source. Early in December 2012, it was established that a portion of funds received by the Central Bank of the Russian Federation from the sale of shares of OAO Sberbank of Russia in the amount which is determined as the difference between the amount of proceeds from the sale of the above shares and their balance-sheet value, less the amount of costs related to the sale of the above shares is subject to payment to the federal budget with respective reduction of the portion of profit – liable to payment to the federal budget – received by the Central Bank of the Russian Federation on the basis of the results of 2012.

In the past year as a year before, the specific aspect of the privatization was a sale of federal packages of shares through sellers (mainly investment banks) which were designated by the government; almost all the major deal were carried out through them:

- AO SG-Trabs (sale of 100% of shares for Rb 22.77bn; manager – OOO Renessans Broker; buyer – OAO AFK Sistema);
- Vanino Maritime Commercial Port (the Khabarovsk Territory) (sale of 73.33% of common shares or 55% of the charter capital for Rb 15.5bn; manager – VTB Capital; buyer – OOO Mechel-Trans);
- OAO Apatit (sale of 26.67% of shares or nearly 20% of the charter capital for Rb 11.1 bn); manager – ZAO BNP PARIBA Bank; buyer – OAO FosAgro);
- Murmansk Maritime Commercial Port (sale of 25.5% of shares for Rb 2.2bn; manager – OOO, Raiffeisen Investment, buyers – OAO SUEK and Alfa Capital Holdings (Cyprus) Limited).

Troika Dialog, a company controlled by OAO Sberbank of Russia acted as a manager of additional issuing of a share (50% minus one share) in OAO OZK for Rb 5,951bn.

The principal difference of the 2012 privatization process from that of the previous year was a negative background which emerged for the first time in the past few years. It was caused, in principle, by the developments which took place last autumn around OAO Oboronservis, however, the situation around the deals related to the sale of assets which were regarded attractive for investment contributed largely to aggravation of that background.

It concerns disputing in the Federal Antimonopoly Service of the Russian Federation of the results of the private offering of equities of OAO OZK on the part of the Bazovy Element, a business group whose interests were represented by the Kuban Agro-Holding and a court ruling as regards a claim of ZAO RN-Trans, a subsidiary of OAO Rosneft to OOO Renesans Broker, manager of the tender on sale of 100% of equities of OAO SG-Trans to ban further alienation of those equities from the federal property. Eventually, both the claims of the entities which expressed discontent with the results of privatization deals were not satisfied. In particular, in case of OAO SG-Trans the court lifted the injunctive measures, while OAO Rosneft waived its claims and withdrew an action. According to the unofficial information, the above took place after the new owner of OAO SG-Trans – AFK Sistema – guaranteed to OAO Rosneft a long-term contract on transportation of liquefied hydrocarbon gas.

In connection with the policy aimed at ensuring higher transparency and de-offshorization of the economy which policy was declared at the country’s highest political level, a resale of the state-owned package of shares of OAO Vanino Maritime Commercial Port to OAO Mechel – which deal became known in January 2013 after only a month and a half from the date of purchasing of that asset from the state – triggered a more dramatic public reaction.

On the one side, the management of OAO Mechel justified the above deal by the need to find a base for selling the coal produced at the Elginsk coal deposit in Yakutia. The state-owned package of shares with the initial price of Rb 1.5bn was sold for Rb 15.5bn though OAO Mechel experienced the highest debt load among all the Russian mining companies. On the other side, it was stressed in the statement of OOO Mechel-Trans, a subsidiary of the holding that new “investors had no interest in transshipment of cargo through the port of Vanino”. Neither the composition of the new owners of the port, nor the amount of the resale deal were specified. Soon after that, South Korean companies were named among new owners, however, later the information emerged that three Cyprian-based companies became the owners. However, judging by statements made by Russian officials that news is not regarded as the one which has caused much concern.

In mid-December, in consideration by the Collegium of the Auditing Chamber (AC) of the results of verification of development and implementation of privatization plans for the 2011–2014 period it was stated that there was no statutory and procedural documents determining the content of expenditure liabilities required for privatization. Auditors pointed out that the Ministry of Economic Development of the Russian Federation failed to ensure transparency of procedures for approval of decisions on the terms of privatization of some companies.

Despite declarations to make the privatization process more transparent, as of mid-April the authorities did not provide the aggregate data on the course of privatization process in 2012. Nor was that data mentioned in the statement of the head of the Ministry of Economic Development of the Russian Federation at the meeting of the government on February 7, 2013, except for the fact that in the past three years only 284 unitary enterprises were included in the privatization program in order to be transformed into joint-stock companies; it is to be noted that 70% of the above enterprises was already transformed into joint-stock companies.

In 2012, within the frameworks of privatization 273 packages of equities of joint-stock companies¹ were sold which figure is almost a quarter lower than the value of the year 2011 (359 joint-stock companies; in 2010 – 134 joint-stock companies). So, though the index in question exceeds the results of the 2008–2010 crisis period, however, it is below the 2006–2007 level.

As regards the public sector of the Russian economy, the most important developments in 2012 were the great efforts taken to upgrade transparency of state-owned companies' activities, while as regards the structural policy it was a decision on reformatting of the state presence in the electric power industry.

It is to be reminded after completion of a lengthy process of restructuring with liquidation of RAO UES of Russia in summer 2008 the state became the owner of controlling interests in two infrastructure companies: the Federal Network Company of the Unified Energy System (OAO FSK UES) and the Holding of Inter-Regional Network Companies (OAO Holding MRSK).

Decisions approved in the second half of November 2012 envisaged renaming of the latter into OAO Rossiiskie Seti (the Russian Networks) (the share of the state amounted to 54.52%) with contribution of almost the entire package of shares of OAO FSK UES (79.5%) to the charter capital of that company by way of payment for additional shares to be placed by OAO Rossiiskie Seti due to an increase in the charter capital with preservation of direct participation of the state in the capital of OAO FSK UES in the amount of no less than one share. Also, as regards OAO Federal Hydro-Generating Company (RusGidro) it is expected to increase the charter capital with determination of the minimum possible share of the state at 60.5%. As a contribution of the state it is planned to use packages of shares of four open joint-stock companies (two minority packages and two blocking packages) and funds in the amount of maximum Rb 50bn at the expense of the 2012 federal budget allocations.

Such a decision is to a certain extent in conflict not only with amendments approved last June to the privatization program for the 2011–2013 period, but also with a lower threshold of the state corporate control – 50% plus one share – established in respect of OAO RusGidro in 2011. At the same time, contribution of almost the entire federal package of shares of OAO FSK UES to the charter capital of OAO Rossiiskie Seti exceeds greatly the limits of the modest reduction of the

1 RIA RosBisnesKonsulting, 07.02.2013. The data was provided with reference to the information received from the press-service of Rosimuschestvo on January 16, 2013 though it is not available on the Web-site of the above agency.

share of the state to 75% plus one share; the above reduction was announced in the existing privatization program as amended.

Apart from the electric power industry, decisions which involve formation of integrated structures concern geodesy (OAO Roskartografia) and the agro-industrial complex (OAO Rosspsirtprom and OAO Rossiiskie Ippodromy).

It is envisaged to expand holdings which operate as joint-stock companies (Takticheskoe Raketnoe Vooruzhenie Corporation, Granit-Elektron Concern, Morskoe Podvodnoe Oruzhie – Gidropribor Concern, Tsentr Tekhnologii Sudostroenia i Sudoremonta (Center for Shipbuilding and Ship-Repairing Technology), Okeanpribor Concern and F.E. Dzerzhinsky Uralvagonzavod, a research and production corporation), as well as some state corporations (Rostekhnologii and Rosatom).

GK Vneshekonombank is included in the future scheme of indirect state corporate control over OAO Rostelekom. It is expected that the latter will be restructured in the form of a merger with OAO Investitsionnaya Kompania Svyazi (better known as OAO Svyazinvest), excluding the latter from the list of strategic entities on a condition that a joint control of the government and GK Vneshekonombank will be established over more than 50% of common shares of OAO Rostelekom. Meanwhile, restructuring of the state-owned segment of the telecommunications industry is at the stage of secondary offering of shares of OAO Svyazinvest; under the above offering the state will hand over to the holding the profile assets (including interests in OAO Tsentralny Telegraf, OAO Bashinformsvyaz and other companies). For preservation of its interest in OAO Svyazinvest (25% plus one share with the remaining capital owned by the state), OAO Rostelekom has to participate with cash funds in the secondary offering.

In March 2013, OAO Rosneft completed the deal on acquisition of TNK-BP which deal was the largest one in the Russian market of takeovers and mergers.

Evaluation of the budget effect of the government's property policy depends largely on the selected range of sources as regards privatization and utilization of state property. According to the data of the Federal Treasury, in 2012 the aggregate volume of revenues of the federal budget from privatization (sale) and utilization of state property rose by 30% as compared to 2011 (*Table 1*); it is to be noted that that value (about Rb 310bn) has become the absolute maximum since the beginning of the 2000s.

In 2012, the share of non-renewable sources in the structure of revenues from privatization (sale) and utilization of state property as compared to the previous year decreased by 54.6% (to 26.1%) and was equal to the level of 2006 though it exceeded the values of the 2007–2010 period. On the contrary, the unit weight of the revenues from utilization of state property rose from 43.3% in 2011 to nearly 74% in 2012. As regards the absolute value, the above result is the maximum one and exceeded by 120% the 2011 result, while the revenues from privatization (sale) of property turned out nearly 40% and 14% lower than in 2011 and 2003, respectively (the previous maximums).

The situation changes dramatically with taking into account the revenues from the sale of shares of OAO Sberbank of Russia through the Central Bank of the Russian Federation. In that case, the share of non-renewable sources in the structure of the aggregate revenues from the privatization (sale) and utilization of state property will be more than a half (around 51%), however, it is below the same index of 2011 (56.7%).

The law on the federal budget in 2013 and the 2014–2015 planned period does not include the information on the specific value of the revenues from privatization neither in the body, nor in the annexes which deal with the sources of financing of the deficit of the federal budget where only an aggregate item on other sources – without any breakdown – is listed among other things. However, it is necessary to point out the subordinate role of the revenues from the privatization in making up the deficit of the federal budget and the possibility of utilization of a portion of the extra oil and gas revenues for substitution of sources of financing by analogy with the maneuver provided for by amendments to the federal budgets of the previous two years.

The forecasts of privatization revenues voiced in the first few months of this year are within a broad range: from Rb 60bn according to the estimate of the Ministry of finance to Rb 100bn according to the estimate of the Ministry of Economic Development of the Russian Federation (instead of Rb 427bn as was announced in the explanatory note to the draft federal budget in 2013 and the 2014–2015 planned period submitted to the State Duma last autumn).

Table 1

THE STRUCTURE OF FEDERAL BUDGET REVENUES OF PROPERTY NATURE FROM DIFFERENT SOURCES
IN THE 2000–2012 PERIOD

| Year | Aggregate revenues from privatization (sale) and utilization of state property | | Revenues from privatization (non-renewable sources)* | | Revenues from utilization of state property (renewable sources)** | |
|------|--|-----------------|--|------------------|---|------------------|
| | Million Rb | % of the result | Million Rb | % of the result | Million Rb | % of the result |
| 2000 | 50412.3 | 100.0 | 27167.8 | 53.9 | 23244.5 | 46.1 |
| 2001 | 39549.8 | 100.0 | 10307.9 | 26.1 | 29241.9 | 73.9 |
| 2002 | 46811.3 | 100.0 | 10448.9 | 22.3 | 36362.4 | 77.7 |
| 2003 | 135338.7 | 100.0 | 94077.6 | 69.5 | 41261.1 | 30.5 |
| 2004 | 120798.0 | 100.0 | 70548.1 | 58.4 | 50249.9 | 41.6 |
| 2005 | 97357.4 | 100.0 | 41254.2 | 42.4 | 56103.2 | 57.6 |
| 2006 | 93899.8 | 100.0 | 24726.4 | 26.3 | 69173.4 | 73.7 |
| 2007 | 105761.25 | 100.0 | 25429.4 | 24.0 | 80331.85 | 76.0 |
| 2008 | 88661.7 | 100.0 | 12395.0 | 14.0 | 76266.7 | 86.0 |
| 2009 | 36393.7 | 100.0 | 4544.1 | 12.5 | 31849.6 | 87.5 |
| 2010 | 88406.4 | 100.0 | 18677.6 | 21.1 | 69728.8 | 78.9 |
| 2011 | 240964.1 | 100.0 | 136660.1 | 56.7 | 104304.0 | 43.3 |
| 2012 | 309875.8/ 469175.8*** | 100.0 | 80911.3/ 240211.3*** | 26.1/ 51.2*** | 228964.5 | 73.9/ 48.8*** |

* includes revenues from sale of shares, land plots and different property which is in federal ownership;

** includes the dividends and income from other forms of participation in the capital, lease payments for land and property which are in state ownership, transfers by FGUPs of a portion of their profit left after payment of taxes and other mandatory payments (from 2001) and revenues from business activities of JV Vietsovpetro (excluding the 2008–2010 period and 2012 when there were no revenues).

*** with taking into account the funds received from the Central Bank of the Russian Federation from the sale of shares of OAO Sberbank of Russia (Rb 159.3bn), which factor, probably, overstates to some extent both the absolute value and the estimate of the aggregate unit weight of non-renewable sources as the above funds were not credited to the budget in full, but less their balance-sheet value and the amount of expenditures related to the sale of the above shares. Consequently, the share of renewable sources is understated to some extent.

Source: laws on execution of the federal budget in the 2000–2011 period; the report on execution of the federal budget as of January 1, 2013, www.roskazna.ru and the authors' calculations.

Implementation of proposals prepared in mid-March by the Ministry of Economic Development of the Russian Federation as regards the expansion of the privatization plan may yield up to Rb 1 trillion in case of secondary offering of packages of shares of five large companies (Aeroflot, Sheremetievo, Rostelekom, OZK and Rosneft). Last autumn, among the entities which were expected to be privatized in 2013 were packages of shares of eight companies (Rosneft, VTB, Sovkomflot, ALROSA (in February a selection of agents for sale of 7% of the equities of the company took place), Archangelsky Tralovy Flot (Archangelsk Trawler Fleet), TGG-5, Mosenergostroi and the Sibir Airline) which could be sold for Rb 260bn to Rb 270bn.

So far, the draft order – approved by the Government of the Russian Federation on April 11, 2013 – on amendment of the existing privatization program provides for inclusion in it of 54 joint-stock companies, 14 FGUPs and 149 other state-owned entities. It is to be noted that no large assets were included in the above list of companies.

The general prospects of privatization have been determined the Federal Property Management State Program – approved by Resolution No.191-r of February 16, 2013 of the Government of the Russian Federation – which provides for carrying out on an annual basis of at least four deals on sale of large entities attractive for investment through public offering (from the number of entities envisaged for sale in the current year by resolutions of the President of the Russian Federation and/or the Government of the Russian Federation), while the total sum of funds to be received from privatization in the 2012–2016 period amounts to over Rb 3 trillion and exceeds the revenues from privatization in the past 18 years.

It is difficult to speak about the actual achievements of the declared targets having in view the concrete value of federal budget revenues from privatization as it depends both on the list of assets which are expected to be sold and their cost related to evaluation procedures and the stock market situation which closely correlates with the macroeconomic situation.

The 2012 results explicitly pointed to the fact that the set of problems which is classical to the entire Russian privatization – justification of the fair price on assets to be privatized, real motivation of participants, determination of the criteria of selection of a buy, ensuring of transparency and claims of regulating authorities – is still topical. Also, there has been no analysis of the potential effects of the privatization with its expediency, alternative costs, possible risks and effects on individual markets, industries, regions and the country's economy as a whole taken into account. ●

THE CONCEPT OF RURAL COOPERATION DEVELOPMENT FOR THE PERIOD TILL 2020

R.Yanbykh

The All-Russian Congress of rural cooperatives that took place on March 21, 2013 has brought to light the key problems faced by small business in agriculture – the limited access to input and credit markets and the lack of a consistent approach to the development of agricultural cooperation. Suggestions put forward by the Congress' delegates serve as a basis for the departmental target program being worked out by the RF Ministry of Agriculture.

On March 21, 2013 an event of national importance – the All-Russian Congress of rural cooperatives – passed actually unnoticed. The Congress had been prepared for nearly a year and was expected to be attended by the top public officials. Specially for this event a new Concept of rural cooperation development for the period till 2020 (hereinafter the Concept) had been elaborated by joint efforts of inspection unions of agricultural cooperatives, all regional departments of agriculture, the Central union of consumer societies (Centrosoyuz), wide cooperative community. However, it didn't attract nor could have attracted the expected attention. Why so?

To begin with, the modern Russian legislation fails to recognize the cooperative type of ownership¹. Due to that most citizens of Russia treat cooperation as one of the types of private ownership and do not comprehend its essence. Negative attitude towards cooperation is prompted by the dubious fame of first cooperatives established at the start of restructuring after the adoption of Law on cooperation of 1988. Meantime, cooperative sector plays quite an important role in the economy of developed countries especially in Scandinavia where agricultural cooperatives of different types affiliate 80% of farmers. Russia also has long-standing cooperative traditions – by 1917 there were about 50 thousand cooperatives with 14 million members.

One of the basic reasons of underdevelopment of the modern system of agricultural cooperation is almost an absolute miscomprehension of its prospects by state authorities. In the Concept prepared for the Congress the main goal of rural cooperation development is defined as “determining of the guidelines for organization and development of cooperative establishments in rural areas ensuring higher efficiency of agro-industrial production, better remuneration of farm labour and sustainable development of rural areas”. The smooth definition does not contain anything cooperation-specific – it can be applied to any measure of agricultural policies.

Some confusion is due to the fact that the Concept integrates in one system two different types of cooperation – consumer societies united in Centrosoyuz and agricultural cooperatives (*Fig. 1*).

The modern system of agricultural cooperation regulated by Law “On agricultural cooperation” No.193-FZ of December 8, 1995 incorporates:

1. All types of agricultural cooperatives of the first and following levels (production and consumer);
2. Specialized associations (unions) of agricultural cooperatives;
3. Inspection unions of agricultural cooperatives that all agricultural cooperatives and specialized associations should be members of;
4. Self-regulated organizations of inspection unions of agricultural cooperatives.

Production cooperatives (former kolkhozes) have only one thing in common with consumer cooperatives (a classical type of cooperation) – the word “agricultural” in their names. These are the rudiments of planned economy resembling other organizational and legal forms of economic entities (joint stock companies, partnerships, etc.). There are few cooperative features left – in most cases they are single-handedly managed by a director without personal participation of members,

¹ The cooperative type of ownership existed even in the Soviet times albeit in a distorted form. All rural residents remember local divisions of district consumer cooperation – the so called “sel'po” – the members of which they were. Collective farms (“kolkhozes”) were also considered to be cooperative establishments with share membership, general meetings, “one member – one vote” principle of voting, charter and other cooperative attributes.

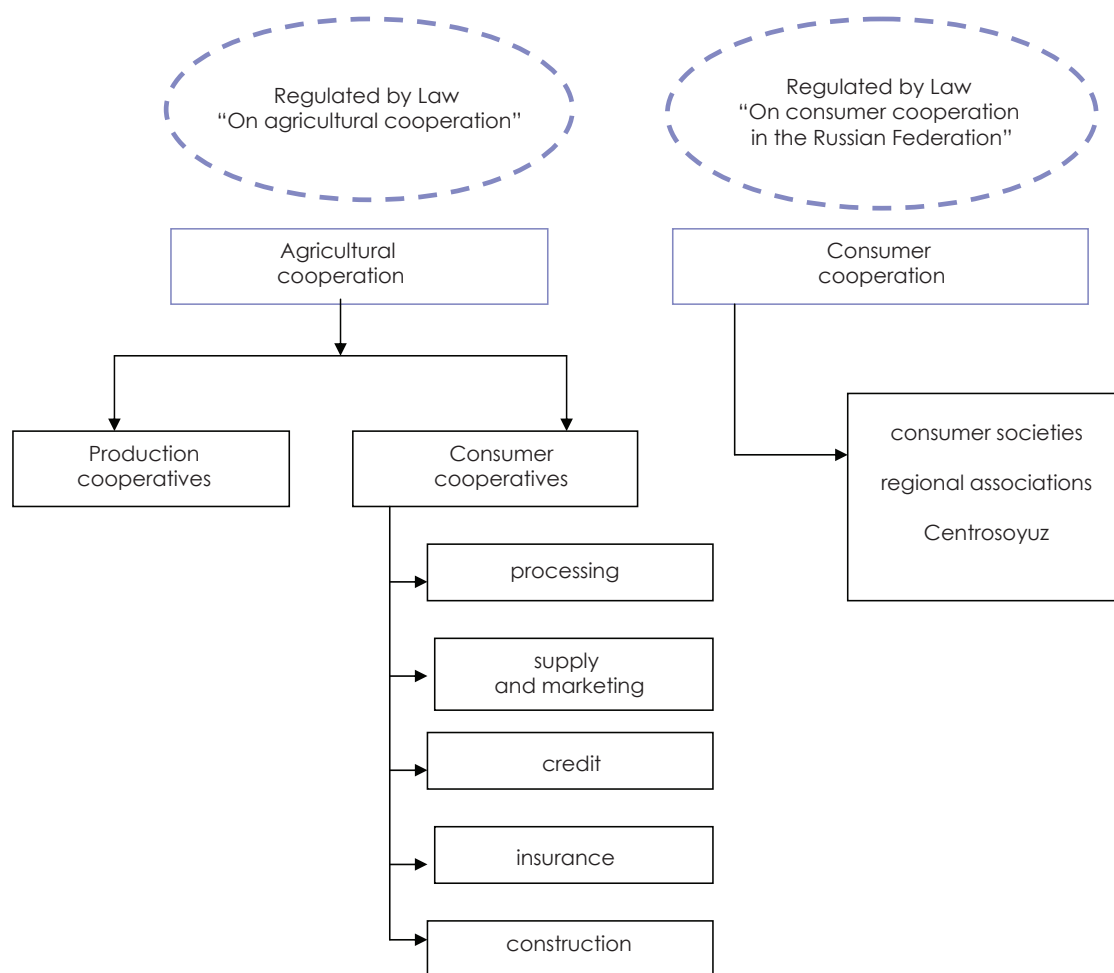


Fig. 1. The System of Rural Cooperation in Russia (according to the Concept)

shares are established conditionally, etc. As of January 1, 2013 12,190 production cooperatives were registered in Russia.

The Civil Code of the Russian Federation does not make a clear distinction between production cooperatives and commercial organizations and treats cooperatives as commercial entities along with business companies and partnerships. In the opinion of leading cooperative law experts “the Civil Code of the Russian Federation not only limits the choice of agricultural cooperation form to these two types of cooperatives (production and consumer) but also ascribes to production and consumer cooperatives the types of activities and principles of operation that are irrelevant to them and contravene the world practice”¹.

The production form of cooperation cannot be regulated by the same set of rules as that applicable to consumer (service) cooperatives that appeared in the mid-90s after a long break. A.Chayanov called service cooperatives “an outstretch of peasant farm”². Farmers all over the world cooperated just because it enabled them to attain the operation scale comparable to that of capitalist-type farms and to be of at least some interest to wholesalers and large trade networks. Agricultural consumer cooperatives include credit and non-credit cooperatives: supply and marketing, processing, construction, purchase and other service cooperatives. As of January 1, 2013 7,349 agricultural consumer cooperatives were registered in Russia, of them 1,875 credit cooperatives.

Consumer cooperation of the RF Centrosoyuz system regulated by Law “On consumer cooperation (consumer societies, their associations) in the Russian Federation” No.3095-1 FZ of June 19, 1992 operates primarily in rural areas and has the following structure: consumer societies, regional

1 Professor G.E.Bystrov, fragment from report at the Congress.

2 A.V.Chayanov. *Osnovnye idei i formy organizatsii krest'yanskoy kooperatsii*. [Basic ideas and forms of organization of peasant cooperation]. Moscow, Nauka [Science], 1991.

associations and the Central union of consumer societies of the Russian Federation (Centrosoyuz). The system also incorporates organizations the founders of which are consumer societies, regional associations and the Centrosoyuz of the Russian Federation.

Over 3 thousand offices of local consumer cooperation provide services in 89 thousand rural settlements including 54 thousand settlements with less than 100 residents. In 2012 the total income of institutions affiliated in the system of Centrosoyuz amounted to Rb 246bn¹. In remote districts consumer societies continue to play a very important role but one should understand that they are specific trade organizations operating in rural areas and *inter alia* performing social functions of providing residents of remote villages with essential commodities² rather than cooperatives. Owing to this fact beginning from 2008 consumer cooperation institutions are eligible for the budget compensation of interest rate on credits and loans taken for the purchase and procurement of farm products, berries, mushrooms, medicinal herbs, etc. from rural population and other agricultural producers.

At some point one studied the possibility of uniting two branches of rural cooperation into a single one via reregistering consumer societies into agricultural consumer cooperatives; however, the process has not gone beyond draft projects. First, Centrosoyuz – a rich organization with its own traditions – is not ready to divide all its assets between new shareholders. It's not clear who will be these shareholders: agricultural cooperatives? their regional/local associations? farmers? households? Are they ready to manage an established trade and purchase organization? Besides, Centrosoyuz is sustainably developing without uniting with the system of agricultural cooperation.

So, neither the Concept nor the effective cooperative legislation contains a consistent and comprehensive concept of developing cooperation as the third sector of the economy on the basis of common development criteria and common understanding of cooperation principles and values. They fail to facilitate the uniting of cooperation movement thus contravening the fundamental principle of cooperation – the principle of collaboration between cooperatives. As a result cooperative institutions are poorly linked in their practical work.

The most serious challenges faced by cooperation are non-regulated membership issues, the lack of clearly defined rules of credit cooperatives' operation due to an actual absence of the supervising body³, poor physical basis, issues of building multi-level cooperative system, collaboration between inter-regional cooperatives of the second and the third levels, development of apex system of agricultural credit cooperation, the lack of system of compulsory provisioning and insurance of deposits, etc.

An attempt to master the current situation was made when preparing the draft State program for agricultural development and regulation of agricultural, input and food markets for 2013–2020. Its initial version envisaged 3 measures:

Granting of subsidies to agricultural credit cooperatives for the replenishment of funds of mutual financial assistance;

Provision of grants for the strengthening of physical and financial basis of processing and supply and marketing cooperatives;

Compensation of expenditures on paying membership fees to consumer cooperatives – members of inspection unions.

Besides, it was suggested to include agricultural credit cooperatives in the list of entities eligible for subsidies on reimbursing of interest rate on credits and loans. However, at the final stage of discussion these proposals were rejected.

During the implementation of priority national project “Development of agro-industrial complex” (2006–2007) the share funds of credit cooperatives were replenished at the expense of an authorized government body – Rossel'khozbank being their associate member. Overall Rb 740m were invested in share funds of 79 cooperatives⁴. Although not faultless, this approach played a positive role for the system's capitalization. However, at present the policies have changed due to the commercialization of the bank and the funds are being withdrawn from cooperatives. Mean-

1 The concept of rural cooperation development till 2020.

2 The activity is frequently financed from regional budgets.

3 Formally this is the RF Ministry of Agriculture.

4 Data of the National reports on agricultural development in 2008-2012.

time, the state contribution to forming an indivisible share to be transferred to other cooperatives of the system in case of liquidation is not a bad idea that has proved its efficiency, in particular in the process of creating the US Farm Credit System.

At present a departmental target program for the development of agricultural cooperation is being worked out by the RF Ministry of Agriculture that to a greater or lesser extent incorporates the above mentioned measures. Besides, the possibility of supporting regional guarantee funds for farm cooperatives is being studied as well as that of creating a security reserve for insuring individual private and household farms – members of agricultural consumer credit cooperatives.

On their part, cooperatives of the Centrosoyuz system ask to support them by compensating consumer cooperatives' expenditures on providing trade services to population in hard-to-reach and sparsely populated areas.

We find that the providing of support to agricultural cooperatives is more rational than the issuing of grants to beginner farmers and family dairy farms¹ since the number of beneficiaries under the cooperative program will be much greater. For reference: in 2012 federal budget allocations to the support of beginner farms amounted to Rb 2bn, those for the development of family livestock farms – to Rb 1.5bn. Peasant (individual private) farms including individual entrepreneurs could also get a partial compensation of their expenditures on registering ownership titles to land plots out of lands of agricultural destination used by them. This type of state support constituted just “a drop in the ocean” – Rb 44.4m².

The provision of budget support to cooperatives rather than farmers is also preferable because in case of its proper definition the non-bound, non-price support is considered to belong to the WTO green box that does not distort the market and fosters development of market infrastructure.

In conclusion we would like to cite a participant of the first All-Russian Congress of rural cooperatives held in 1908 V.A.Pereleshin who wrote that “all the difficulties [in the process of discussion] come down to either the issues of cooperative legislation or the issues of cooperative administration or the issues of raising funds for cooperative business, i.e. to the establishment of cooperative bank”³.

It's amazing that the issues are still pending 100 years afterwards. Modern farm cooperatives continue to need state support in the organizational, financial and legislative spheres. Unless they get it we'll regrettably have to say farewell to the dream of “cooperative Russia”. ●

1 The effective form of support to small-scale farming envisaged in the State program.

2 Data of the RF Ministry of Agriculture.

3 Cited from: N.K. Figurovskaya. *Pervyy vserossiyskiy kooperativnyy s'ezd (k stoletiyu otkrytiya)*. [The first All-Russian cooperative congress (to the 100-year anniversary of opening)]. 2008. <http://selcoop.ru/cooperation/domestic/istoriya-105-let-nazad-sostoyalsya-pervyy-vserossi/>

THE 2012 RESULTS OF THE INTERNATIONAL TRADE IN GOODS AND SERVICES IN AND PROSPECTS OF ITS DEVELOPMENT

O.Biryukova, A.Pakhomov

In mid-April 2013, the Secretariat of the World Trade Organization (WTO) published an annual analytical review on the basis of the results of development of the international trade in 2012 and the prospects of its development in 2013. The above document includes as well the initial statistical data on the global trade in goods and services by the country in 2012¹.

According to the data of the WTO, in 2012 growth in the global trade in goods amounted in real terms to the mere 2%, which was the worst index since 1981. In addition to the above, that result turned out to be 0.5 lower than the WTO's experts expected in September 2012.

According to the WTO Secretariat, a sudden slowdown of trade in 2012 was a factor behind weak economic growth in developed countries and resulted in a greater scepticism about the future of the euro area. With global GDP growth of 2.1% in 2012, growth in global trade in real terms amounted to 2.1% and 1.9% as regards export and import, respectively (as compared to 5.2% and 5.1%, respectively in 2011)².

“Developments in 2012 should serve as a reminder of structural economic imbalances which were identified, but not eliminated during the economic crisis. Weakness of the global economy will support protectionist sentiments in the world and, as a result, the threat of protectionism to the global trade at present is higher than ever since the crisis began ...”, – said Pascal Lamy, the WTO General Director at presentation of the latest analytical review³. According to him, the efforts of developed countries to achieve a balance between a renewal of growth and strengthening of the fiscal policy lead to ambiguous results.

According to forecasts of the WTO analysts, in 2013 the world trade volumes will increase only by 3.3% (though earlier their forecast amounted to 4.5%), while in 2014, by around 5.0%. For comparison: in the past twenty years (1992–2012) average annual growth in global trade amounted to 5.3%. Recession in Europe will continue to have a negative effect on the global import as the EU is a large sales market for countries of Asia and America and accounts for 32% of the global trade. The crisis will affect export from China as well, but consumption in the world's second largest economy keeps growing at a high rate.

For the sake of comparison, it is important to mention the IMF estimate of international trade growth at 2.5% in 2012; it was published virtually simultaneously with that of the WTO Secretariat. According to the IMF, growth in global trade in 2013 and 2014 is expected to amount to 3.6% and 5.3%, respectively. Such a difference between the IMF forecast and the WTO data is probably justified by a more optimistic view of IMF experts on the prospects of development of the global economy. So, according to the IMF forecast in 2013 the global growth rates will amount to 3.4% against 3.3% in 2012. Generally, despite the fact that all the previous problems still prevailed the IMF assessed risks to the global economy as reduced ones in the short-term prospect⁴.

Experts of the United Nations Organization hold fairly optimistic views, too. According to their report – *The World Economic Situation and Prospects in 2013* – in the current year global trade growth will increase somewhat and get closer to the long-term trends of the 5% growth

1 World Trade 2012, Prospects for 2013, Trade to remain subdued in 2013 after sluggish growth in 2012 as European economies continue to struggle, WTO Secretariat Geneva, PRESS/688, 10 April 2013, 27 p.

2 Despite extremely slow rates of growth in the volume of trade, the ratio of the global export of goods and services to global GDP in current prices amounted to 32% (28% during the crisis), which value was close to the maximum value of 33% in 2008.

3 http://www.wto.org/english/news_e/pres13_e/pr688_e.htm

4 IMF World Economic Outlook (WEO), Hopes, Realities, and Risks, Wash., April 2013, 204 p.; <http://www.imf.org/external/pubs/ft/weo/2013/01/pdf/text.pdf>

by 2014¹. Developing countries turned out to be more resilient to a new recession and their importance in the world trade keeps growing together with progressive integration into global technological chains.

In 2012, in nominal terms the volumes of the international trade in goods increased by the mere 0.2% to \$18.2 trillion. It took place to a great extent due to a sudden drop in global prices on a number of traditional export commodities, such as coffee (-22%), cotton (-42%), coal (-21%) and iron ore (-23%). However, prices on energy carriers did not virtually change (+1%)².

Generally, in the past year the minimum changes took place in the list of the world' leading exporters and importers of commodities (*Table 1*). According to the WTO data, on the basis of the 2012 results China (with the volume of \$2,049bn and share of 11.2% in the global export) was again at the top of rating of the largest suppliers leaving behind the US (\$1,547bn and 8.4%) and Germany (\$1,407bn and 7.7%). The US remains at the top list of the largest importers (with the volume of \$2,335bn and share of 12.6% in the global import) to be followed by China (\$1,818bn and 9.8%) and Germany (\$1,167bn and 6.8%).

Table 1

THE LEADING EXPORTERS AND IMPORTERS IN THE GLOBAL TRADE IN COMMODITIES IN 2012

| Place | Exporter-country | Volume, billion USD | Share, % | Change as % to 2011 | Place | Importer-country | Volume, billion USD | Share, % | Change as % to 2011 |
|-------|--|---------------------|----------|---------------------|-------|--|---------------------|----------|---------------------|
| 1 | China | 2049 | 11,2 | 8 | 1 | USA | 2335 | 12,6 | 3 |
| 2 | USA | 1547 | 8,4 | 5 | 2 | China | 1818 | 9,8 | 4 |
| 3 | Germany | 1407 | 7,7 | -5 | 3 | Germany | 1167 | 6,3 | -7 |
| 4 | Japan | 799 | 4,4 | -3 | 4 | Japan | 886 | 4,8 | 4 |
| 5 | The Netherlands | 656 | 3,6 | -2 | 5 | The UK | 680 | 3,7 | 1 |
| 6 | France | 569 | 3,1 | -5 | 6 | France | 674 | 3,6 | -6 |
| 7 | Republic of Korea | 548 | 3 | -1 | 7 | The Netherlands | 591 | 3,2 | -1 |
| 8 | Russian Federation | 529 | 2,9 | 1 | 8 | Hong Kong, China | 554 | 3 | 8 |
| | | | | | | – import for domestic ⁴ consumption | 140 | 0,8 | 6 |
| 9 | Italy | 493 | 2,7 | -4 | 9 | Republic of Korea | 520 | 2,8 | -1 |
| 10 | Hong Kong, China | 22 | 2,7 | 8 | 10 | India | 489 | 2,6 | 5 |
| | – export of goods of domestic production | 471 | 0,1 | 33 | | | | | |
| | – re-export | 468 | 2,6 | 7 | | | | | |
| 11 | The UK | 455 | 2,6 | -7 | 11 | Italia | 486 | 2,6 | -13 |
| 12 | Canada | 455 | 2,5 | 1 | 12 | Canada ³ | 475 | 2,6 | 2 |
| 13 | Belgium | 446 | 2,4 | -6 | 13 | Belgium | 435 | 2,3 | -7 |
| 14 | Singapore | 408 | 2,2 | 0 | 14 | Mexico | 380 | 2 | 5 |
| | – export of goods of domestic production | 228 | 1,2 | 2 | | | | | |
| | – реэкспорт | 180 | 1 | -3 | | | | | |
| 15 | Saudi Arabia ⁵ | 386 | 2,1 | 6 | 15 | Singapore | 380 | 2 | 4 |
| | | | | | | – import for domestic consumption ⁴ | 199 | 1,1 | 11 |
| 16 | Mexico | 371 | 2 | 6 | 16 | Russian Federation ³ | 335 | 1,8 | 4 |
| 17 | Taiwan, China | 301 | 1,6 | -2 | 17 | Spain | 332 | 1,8 | -12 |
| 18 | UAE ⁵ | 300 | 1,6 | 5 | 18 | Taiwan, China | 270 | 1,5 | -4 |
| 19 | India | 293 | 1,6 | -3 | 19 | Australia | 261 | 1,4 | 7 |
| 20 | Spain | 292 | 1,6 | -5 | 20 | Thailand | 248 | 1,3 | 8 |
| 21 | Austria | 257 | 1,4 | -5 | 21 | Turkey | 237 | 1,3 | -2 |

1 World Economic Situation and Prospects 2013, United Nations, New York, 2013. The report is a joint product of the United Nations Department of Economic and Social Affairs (UN/DESA), the United Nations Conference on Trade and Development (UNCTAD) and the five United Nations regional commissions. 207 p.

2 World Trade 2012, Prospects for 2013, Trade to remain subdued in 2013 after sluggish growth in 2012 as European economies continue to struggle, WTO Secretariat Geneva, PRESS/688, 10 April 2013, p.10.

3 Import at FOB price.

4 Import for Singapore's domestic consumption is determined as the aggregate import less re-export.

5 Estimate of the WTO Secretariat.

Table 1, cont'd

| Place | Exporter-country | Volume, billion USD | Share, % | Change as % to 2011 | Place | Importer-country | Volume, billion USD | Share, % | Change as % to 2011 |
|--------------------------------------|------------------|---------------------|----------|---------------------|--------------------------------------|---------------------------|---------------------|----------|---------------------|
| 22 | Brazil | 243 | 1.3 | -5 | 22 | Brazil | 233 | 1.3 | -2 |
| 23 | Thailand | 230 | 1.3 | 3 | 23 | UAE ³ | 220 | 1.2 | 7 |
| 24 | Malaysia | 227 | 1.2 | 0 | 24 | Switzerland | 198 | 1.1 | -5 |
| 25 | Switzerland | 226 | 1.2 | -4 | 25 | Malaysia | 197 | 1.1 | 5 |
| 26 | Indonesia | 188 | 1 | -6 | 26 | Poland | 196 | 1.1 | -7 |
| 27 | Poland | 183 | 1 | -3 | 27 | Indonesia | 190 | 1 | 8 |
| 28 | Sweden | 172 | 0.9 | -8 | 28 | Austria | 178 | 1 | -7 |
| 29 | Austria | 166 | 0.9 | -6 | 29 | Sweden | 162 | 0.9 | -8 |
| 30 | Norway | 160 | 0.9 | 0 | 30 | Saudi Arabia ³ | 144 | 0.8 | 9 |
| Totally by 30 countries ⁴ | | 14870 | 81.2 | - | Totally by 30 countries ⁴ | | 152270 | 82.3 | - |
| The world as a whole ⁴ | | 18325 | 100 | 0 | The world as a whole ⁴ | | 18565 | 100 | 0 |

¹ Import at FOB price.

² Import for Singapore's domestic consumption is determined as the aggregate import less re-export.

³ Estimate of the WTO Secretariat.

⁴ Including considerable re-export or import for re-export purposes.

Source: WTO Secretariat, Press release, PRESS/688, Geneva, April 10, 2013, p.21 (Appendix Table 3 "Merchandise Trade: Leading Exporters and Importers, 2011").

A somewhat improvement of the position of the Russian Federation in the list of the largest exporter-countries (the 8th place as compared to the 9th in 2011) was justified mostly by a favorable prices on energy carriers and a number of primary products, as well as declining dynamics of import in some developed countries. It is to be noted that the share of the country in the global export remained unchanged (2.9%). As regards import, Russia moved one place upward to the 16th place, while its unit weight remained the same (1.8%).

In 2012, the global export of commercial services rose by 2% and amounted to \$4.3bn. In accordance with global trends, supplies of transport services grew by 2%, export of the group of other types of commercial services rose by the mere 1%, while the largest increase of 4% was registered as regards the "travelling" item (*Table 2*).

Table 2

DYNAMICS OF THE GLOBAL EXPORT OF GOODS AND SERVICES IN THE 2005–2012 PERIOD

| | Export, 2012, billion USD | Growth rates, % | | | |
|--|---------------------------|-----------------|------|------|-----------|
| | | 2010 | 2011 | 2012 | 2005–2012 |
| Goods | 18323 | 22 | 20 | 0 | 8 |
| Services | 4345 | 10 | 11 | 2 | 8 |
| Transport | 885 | 16 | 9 | 2 | 7 |
| Travelling | 1105 | 9 | 12 | 4 | 7 |
| Other commercial services, including: | 2350 | 8 | 12 | 1 | 10 |
| Communications | 100 | 3 | 10 | -3 | 8 |
| Building | 110 | -4 | 8 | 3 | 10 |
| Insurance | 100 | 1 | 0 | 2 | 11 |
| Finance | 300 | 7 | 12 | -4 | 8 |
| Computer and information services | 265 | 12 | 14 | 6 | 14 |
| Royalties and license fees | 285 | 8 | 14 | -2 | 9 |
| Other business services | 1145 | 9 | 13 | 2 | 9 |
| Services in the sphere of culture and recreation | 35 | 14 | 13 | 3 | 7 |

Source: World Trade 2012, Prospects for 2013, Trade to remain subdued in 2013 after sluggish growth in 2012 as European economies continue to struggle, WTO Secretariat Geneva, PRESS/688, 10 April 2013, p. 11.

Among other types of commercial services, the export of computer and information services was developing more dynamically (growth of 6%). Development of the segment of services in global in-

formation and communications technologies (ICT) forms a brain center of the information economy as it creates the intellectual base of goods and services, production technologies and business processes. As regards the volume of export of “intelligent” products, the leaders are still the US and the EU where the largest part of the global intellectual potential in that area is concentrated¹.

Along with computer and information technologies, the export of building and insurance services increased as well (3% and 2%, respectively); other types of business services covering legal advice, accounting services, consulting, advertizing, marketing and engineering services which segment is important to commercialization of innovation activities rose by 2%.

The leading positions on the global market of engineering services are occupied invariably by companies from the US, France, the UK, Japan, Germany, Italy, Canada and Sweden. The geographic pattern of the market of engineering services is characterized by prevalence of export to developing countries most of which are oil-producing states of the Middle East and Asia². In the past few years, engineering companies from developed countries face competition on the part of local companies and economic operators from Brazil, Mexico, India, China and other.

At the same time, in 2012 the export of financial services suffered a great deal (-4%). In 2012 in general, supply of financial services from developed countries decreased by 6% with a parallel increase of 3% in export from developing countries and CIS states. In addition to the above, there was a decrease in supplies of communication services, including mail, courier and telecommunication services (-3%), as well as royalties and license fees (-2%).

On the global level, in 2012 in the sphere of supply of commercial services the leaders remained unchanged (*Table 3*). The top positions were occupied again by the US (the global export volume of \$614bn and share of 14.1% in the global export), the UK (\$278bn and 6.4%) and Germany (\$255bn and 5.9%). Among consumers of services, the leaders were the US (the global import volume – \$406bn and the unit weight in global import – 9.9%), Germany (\$285bn and 6.9%) and China (\$281bn and 6.8%).

Table 3

LEADING EXPORTERS AND IMPORTERS IN GLOBAL TRADE IN COMMERCIAL SERVICES
* IN 2012

| Place | Exporter-country | Volume, billion USD | Share, % | Change as % to 2011, | Place | Importer-country | Volume, billion USD | Share, % | Change as % to 2011, |
|-------|-------------------|---------------------|----------|----------------------|-------|--------------------|---------------------|----------|----------------------|
| 1 | The USA | 614 | 14,1 | 4 | 1 | The USA | 406 | 9,9 | 3 |
| 2 | The UK | 278 | 6,4 | -4 | 2 | Germany | 285 | 6,9 | -3 |
| 3 | Germany | 255 | 5,9,1 | -2 | 3 | China | 281 | 6,8 | 19 |
| 4 | France | 208 | 4,8 | -7 | 4 | The UK | 176 | 4,3 | 1 |
| 5 | China | 190 | 4,4 | 4 | 5 | Japan | 174 | 4,2 | 5 |
| 6 | India | 148 | 3,4 | 8 | 6 | France | 171 | 4,2 | -10 |
| 7 | Japan | 140 | 3,2 | -2 | 7 | India | 125 | 3 | 1 |
| 8 | Spain | 140 | 3,2 | -1 | 8 | Singapore | 117 | 2,8 | 3 |
| 9 | Singapore | 133 | 3,1 | 3 | 9 | The Netherlands | 115 | 2,8 | -5 |
| 10 | The Netherlands | 126 | 2,9 | -7 | 10 | Ireland | 110 | 2,7 | -5 |
| 11 | Hong Kong, China | 126 | 2,9 | 7 | 11 | Canada | 105 | 2,6 | 1 |
| 12 | Ireland | 115 | 2,6 | 2 | 12 | Republic of Korea | 105 | 2,6 | 7 |
| 13 | Republic of Korea | 109 | 2,5 | 16 | 13 | Italy | 105 | 2,6 | -8 |
| 14 | Italy | 104 | 2,4 | -1 | 14 | Russian Federation | 102 | 2,5 | 16 |
| 15 | Belgium | 94 | 2,2 | 0 | 15 | Belgium | 90 | 2,2 | -1 |
| 16 | Switzerland | 88 | 2 | -7 | 16 | Spain | 90 | 2,2 | -5 |
| 17 | Canada | 78 | 1,8 | -1 | 17 | Brazil | 78 | 1,9 | 7 |
| 18 | Sweden | 76 | 1,7 | 2 | 18 | Australia | 65 | 1,6 | 10 |

1 Services in Modern Economy / responsible editors L.S. Demidova and V.G. Kondratiev – Moscow: IMEMO RAN, 2010. p. 238.

2 See: D.V. Rybets. Engineering (Engineering and Consulting Services) on the Global Market. Russian Foreign Economic Bulletin, No. 8, 2011. pp. C. 89, 91.

Table 3, cont'd

| Place | Exporter-country | Volume, billion USD | Share, % | Change as % to 2011, | Place | Importer-country | Volume, billion USD | Share, % | Change as % to 2011, |
|-------------------------|--------------------|---------------------|----------|----------------------|-------------------------|------------------|---------------------|----------|----------------------|
| 19 | Luxemburg | 70 | 1.6 | 0 | 19 | Denmark | 57 | 1.4 | -2 |
| 20 | Denmark | 65 | 1.5 | -2 | 20 | Hong Kong, China | 57 | 1.4 | 2 |
| 21 | Austria | 61 | 1.4 | 1 | 21 | Sweden | 55 | 1.3 | 0 |
| 22 | Russian Federation | 58 | 1.3 | 10 | 22 | Thailand | 53 | 1.3 | 1 |
| 23 | Australia | 53 | 1.2 | 4 | 23 | UAE** | 50 | 1.2 | ... |
| 24 | Norway | 50 | 1.2 | 3 | 24 | Saudi Arabia | 49 | 1.2 | -10 |
| 25 | Thailand | 49 | 1.1 | 18 | 25 | Norway | 49 | 1.2 | 6 |
| 26 | Taiwan, China | 49 | 1.1 | 7 | 26 | Switzerland | 44 | 1.1 | -2 |
| 27 | Macao, China | 45 | 1 | 14 | 27 | Austria | 43 | 1.1 | 3 |
| 28 | Turkey | 42 | 1 | 9 | 28 | Taiwan, China | 42 | 1 | 2 |
| 29 | Brazil | 38 | 0.9 | 5 | 29 | Malaysia | 42 | 1 | 10 |
| 30 | Poland | 38 | 0.9 | 1 | 30 | Luxemburg | 41 | 1 | 0 |
| Totally by 30 countries | | 3640 | 83.7 | - | Totally by 30 countries | | 3285 | 80 | - |
| The world as a whole | | 4345 | 100 | 2 | The world as a whole | | 4105 | 100 | 2 |

* Foreign trade in commercial services means fulfillment by one side of paid jobs (services) which are not directly related to creation of material valuables for the other side. Non-commercial services mainly include the so-called public services which are rendered inside the country and beyond the competitive environment.

** Preliminary estimates. The data on a number of countries and territories is based on the estimates of the WTO Secretariat.

Source: WTO and UNCTAD Secretariats, Press release, PRESS/688, Geneva, April 10, 2013, p.23 (Appendix Table 5 "Leading Exporters and Importers in world trade in commercial services, 2012").

According to the WTO data, in 2012 despite growth of 10% the Russian Federation retained the 22nd place among exporters of services. The share of the country in global supplies amounted to the mere 1.3% which figure is evidence of both the low involvement of Russian companies in the international exchange of services and insufficient development of that sector in the system of the country's foreign economic relations. As regards the import of commercial services (import volume – \$102bn and growth of 13%), the country moved one place upward and occupied the 14th place in the world, while its unit weight increased to 2.5% as compared to 2.3% in 2011¹.

On the basis of the results of 2012, Russia's positioning in the global trade in goods and services did not virtually change (Table 4).

Table 4
DYNAMICS OF RUSSIA'S POSITIONS IN THE WTO RATING AND ITS SHARE IN THE GLOBAL TRADE IN GOODS AND SERVICES IN THE 2000–2012 PERIOD*

| | 2000 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|--------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Export of goods | 17 / 1.7 | 13 / 2.4 | 13 / 2.5 | 12 / 2.5 | 9 / 2.9 | 13 / 2.4 | 12 / 2.6 | 9 / 2.9 | 8 / 2.9 |
| Import of goods | 29 / 0.7 | 19 / 1.2 | 18 / 1.3 | 16 / 1.6 | 16 / 1.8 | 17 / 1.5 | 18 / 1.6 | 17 / 1.8 | 16 / 1.8 |
| Export of services | 31 / 0.7 | 26 / 1.1 | 25 / 1.1 | 25 / 1.2 | 22 / 1.3 | 22 / 1.3 | 23 / 1.2 | 22 / 1.3 | 22 / 1.3 |
| Import of services | 22 / 1.2 | 17 / 1.6 | 18 / 1.7 | 16 / 1.9 | 16 / 2.2 | 16 / 1.9 | 16 / 2.0 | 15 / 2.3 | 14 / 2.5 |

* The first figure means the place in the rating; the second figure – the share, %.

Source: calculated on the basis of the WTO data in the respective years.

Unlike trade in commodities, the Russian Federation's trade balance of services is invariably negative: in 2012 the deficit of trade in services amounted to its historic maximum of \$46.2bn². It is

1 WTO Secretariat, Press release, PRESS/658, Geneva, April 12, 2012, p. 20.

2 The data of the Central Bank of the Russian Federation; Electronic access regime: <http://www.cbr.ru/statistics/?prtid=svs>

to be noted that the “traveling” item accounts for nearly 70% of the entire deficit of trade in services which fact can be explained by well-established orientation of foreign traveling and business trips to far abroad countries¹. In addition to the above, Russia had traditionally a negative balance as regards items related to provision of building, financial, insurance, telecommunications, technical and computer services, as well as most other types of business services².

The importance of the services sector for Russian economy is growing, however, the share of the export of services in the country’s aggregate export remains virtually unchanged, that is, 10–11% which is much below the worldwide average of 19%³. In years to come, with an adequate state support rendered growth in supply of services may become an important line of both diversification of the Russian export and reduction of the share of its primary product component; at present such support is virtually non-existent.

For realization of the potential, Russian exporters of services have to expand the range of services with making them oriented on new, science-intensive types of services, raise the competitive edge of traditional services, including transport and tourist services and actively enter the promising markets of services, particularly, by means of establishment of subsidiaries and branches (the so-called commercial presence).

At the current stage, the importance of growth in supply of services is justified by the fact that in the short-term prospect annual growth in physical volumes of export of goods will not exceed 2.8% with a lack of a considerable potential to build up export supplies of oil, oil products and metallurgical products. So, as before the dynamics of the Russian export will be determined by global prices on primary products. According to the forecast of the Ministry of Economic Development, in 2013 a decrease in the monetary volumes of export to \$526bn is expected (in the worst-case scenario it will amount to \$505bn)⁴.

It is to be noted that worsening of the index of export diversification due to constant growth in the unit weight of energy carriers and primary products is typical of Russia. In the total export of commodities, the share of export as regards the “machines, equipment and the means of transportation” item fell from 8.5% in 2000 to 4.9% in 2012; it is to be noted that the produce of the military and industrial complex accounted for over a half of the volume⁵.

Such state of things in the foreign trade has a negative effect on development of domestic trade and reflects the level of its competitiveness. To diminish that effect, large-scale restructuring at the macro and micro levels of the country’s economic mechanisms, including the system of state regulation of foreign trade is required. ●

1 In 2012, as regards tourists expenditures abroad Russia was rated the world’s fifth (\$43bn) which is by one-third more than in the previous year. The top four places were occupied by China (\$102bn), Germany and the US (\$84bn each). *Rossiiskaya Gazeta*, April 11, 2013.

2 O.V Biryukova. The Main Guidelines of Ensuring Economic Interests of Russian Exporters in the International Trade in Services // *The Russian Foreign Economic Bulletin*. 2012. No. 6. P. 89.

3 UNCTAD Handbook of Statistics, United Nations, New York and Geneva, 2012. P. 2, 278.

4 Explanatory note on the scenario conditions for formation of different versions of the forecast of social and economic development in the 2013–2015 period. The Ministry of Economic Development of the Russian Federation. April 2013, pp. 34–35.

5 *Russia in Figures. 2012: Short Statistical Bulletin*. M.: Rosstat, 2012. P. 544.

WHAT RUSSIA'S ECONOMY SHOULD EXPECT FROM THE ADOPTION OF THE FEDERAL LAW ON THE ADVANCED RESEARCH FOUNDATION?

V.Tsymbal

The recently created Advanced Research Foundation (ARF), advertized by some Russian officials as a long-awaited instrument for innovation and development of the Russian economy, is hoped to transform Russia's defense-industrial complex into the locomotive of innovation that will be capable of pulling forward all the other branches of the economy. However, some skeptics insist that such hopes are groundless.

The immense volume of legislation passed by the RF State Duma has recently been increased by yet another legislative act – the Federal Law ‘On the Advanced Research Foundation’¹. It should be noted that ‘The Advanced Research Foundation’ is the officially approved English name of the new establishment. Some RF officials called this foundation the Russian analogue of the famous US Defense Advanced Research Projects Agency (DARPA). Others objected and pointed out that it is not the United States but Russia where the government first began to apply the factor of government influence in boosting an accelerated development of the national economy, because the creation of the DARPA had been the US Government’s managerial response to the post-WW2 Soviet successes in the fields of nuclear weaponry, nuclear energetics (both military and civilian), missile construction, space technologies (also both military and civilian), and jet aviation, as well as in a number of other fields of scientific and technological progress.

In the USA, the DARPA quickly proved its worth by ensuring major technological breakthroughs and their rapid proliferation throughout the US economy. Regretfully, this cannot be said of the DARPA’s Soviet counterparts. While gradually becoming obsolete, especially in the epoch of USSR stagnation, those Soviet managerial structures became the major factor that determined the Soviet Union’s increasingly lagging behind the United States and a number of other countries. The truth about these facts was suppressed. The law efficiency of the Soviet system of managing the development of science and technology was not acknowledged. Many outstanding Soviet experts put forth analytical proposals designed to upgrade that system and to improve a number of its most important parameters, so as to make them comparable to those of the DARPA². All those proposals were rejected or simply ignored.

As a result, the Soviet advocates for better management of defense-related issues could boast, in fact, of few real achievements. However, owing to their insistence,

R&D activities aimed at creating the most important components of armaments and military and special equipment (AMSE) and ‘breakthrough’ technologies were ‘detached’ from concrete weapon patterns and included instead, as a whole, in the State Armaments;

one of the central research institutes of the USSR Ministry of Defense undertook a partial inter-departmental analysis of the results of fundamental and exploration research.

However, those would-be-reformers failed to extend the above-mentioned research and to disseminate its results beyond the framework of the Soviet defense-industrial complex (DIC), law enforcement agencies, special services and the military. Despite their insistence that fresh resources scientific resources should be involved in the newest projects, and budget funds be allocated for that purpose, this was not done. The USSR also failed to make ‘defense-oriented’ achievements available for use in civilian areas.

1 For the Advanced Research Foundation, see RF Federal Law of 16 October 2012, No 174-FZ, adopted by the State Duma of the RF Federal Assembly on 28 September 2012, approved by the Federation Council of the RF Federal Assembly on 26 December 2012 // *Rossiiskaia Gazeta* [The Russian Gazette]. 31 December 2012.

2 In particular, see *Predlozheniia po sovershenstvovaniuu poriadka ispol'zovaniia (vnedreniia) dostizhenii nauki i tehniki i sovershenstvovaniia informatsionnogo obespecheniia rabot: otchet o NIR* [Proposals on the Improvement of the Procedure for the Use (or Introduction) of Scientific and Technological Achievements and for Improving the Information Back Up of Research: A Report on Research Work] /C/ Part 11520. Manuscript. Tsymbal V.I. Moscow, 1984.

This state of affairs has not improved after the collapse of the Soviet Union. For example, there were also some more modest proposals¹ – to borrow at least some of the DARPA's best features, if it was impossible for the new Russia to create an analogue of that agency. These proposals were rejected. They were cold-shouldered by the Russian officialdom even after the establishment, in 2011, of the RF Commission for Modernization and Technological Development, later transformed into the Council for Economic Modernization and Innovative Development under the President of the Russian Federation. High profile officials are especially unenthusiastic about the fact that almost 90% of the financial resources placed at the disposal of the DARPA (more than \$ 2bn) is not allocated to either the traditional developers of AMSE, or to any analogue of the Russian defense-industrial complex, but to non-governmental and non-traditional organizations².

Even after the Draft Law on the Advanced Research Foundation had been passed by the State Duma in its first reading, the then Vice Prime Minister Sergey Ivanov unambiguously stated as follows: *'We will certainly not create any institution approximately analogous to the American DARPA. But money flows, including those from the budget, must be distributed and allocated to finance fundamental science in the form of so-called exploration research...'*³. So, Ivanov did not mince words on that point. He clearly explained that he and the people who shared his views wanted to distribute the available funds among the 'old guard', without any transparency or competition.

At the end of 2012, Russia finally adopted the Law on the Advanced Research Foundation. At the beginning of 2013, the Foundation gradually began to take shape along the lines. By that time the officialdom had reluctantly acknowledged that the Foundation's activities should resemble those of the DARPA. But even before the Advanced Research Foundation is to begin functioning, experts express a number of doubts about its effectiveness.

Thus, unlike the DARPA, Russia's Advanced Research Foundation is not a statutory authority, although the Law on the ARF has determined both its (rather exalted) status as a body under the Government of the Russian Federation, and the representational bodies to be responsible for its management – the Board of Trustees consisting of 15 persons (7 members representing the RF President and 7 members representing the RF Government, plus the General Director) and the Management Board of the Foundation. The Law also refers to the body designed to supervise the financial and economic activities of the Foundation – the Audit Commission. Moreover, the Law even mentions the existence of an advisory body – the Science and Technology Council. However, the Law has failed to stipulate any prerogatives for the academic and engineering communities, which can easily give rise to the risks of corruption and official arbitrariness.

After having focused our discussion on the individual provisions of the Law on the ARF, we will now turn our attention to its concept as a whole. First of all, it should be noted that the Russian ARF differs from the US DARPA by being a non-transparent entity isolated from society and standing aloof from all social interests. Thus, the Law on the ARF does not contain a provision introducing unlimited competition at all stages of searching for new scientific and technological ideas and their implementation.

Naturally, much will depend on the subordinate acts that should be adopted in the nearest future, on the particular persons who will become members of Advanced Research Foundation's Board of Trustees, and other bodies responsible for its management, and on the rights that will probably be granted to the experts. So far, all that we have at our disposal is tentative data on the number of specialists (50 at present – and eventually up to 150) and a number of colorful statements made by Dmitry Rogozin at the State Duma session on 4 July 2012, including the following one: "Today, there is no point for us to try to catch up with somebody and to keep to the beaten

1 Tsymbal V. I., Terekhov I. I. *SShA: opyt perekhoda na intensivnyi put' razvitiia vooruzhenii i voennoi tekhniki*. [The USA Experience of a Switchover to Intensive Development of Armaments and Military Equipment] // *Obozrevatel'* [The Observer]. 1991. No 28. Tsymbal V. I., Titarenko A. I., Terekhov I. I. *Problemy upravleniia razvitiem tekhnologii dvojnogo naznacheniiia v sovremennoi Rossii*. [Key Issues in Managing the Development of Dual-purpose Technologies in Contemporary Russia] // *Iadernyi kontrol'* [Nuclear Control]. 1998. No 4.

2 Barannik A. A. *DARPA rabotaet na perspektivu*. [The DARPA Works for the Future] // *Krasnaia Zvezda* [The Red Star]. 28 January 2011.

3 An observer of *Nezavisimoe Voennoe Obozrenie* [The Independent Military Review] has justly characterized this statement as 'anti-DARPA'. See *Miasnikov V. I. DARPA a la Russe is not DAPRA at all* // *Nezavisimoe Voennoe Obozrenie*. 3–9 August 2012.

track. We must abandon the traditional way of thinking and begin planning not for tomorrow but for the day after tomorrow. To do so we must exercise strict control over the coordination, planning and implementation of research projects, as well as over the use of their results. We are planning to considerably increase the independent scientific expert community's role in the merit-based selection of research projects to be financed from the budget¹.

Table 1

RESULTS OF AN ANALYSIS OF THE MOST IMPORTANT PROVISIONS OF THE LAW ON THE ARF

| The Most Important Provisions of the Law on the ARF | Comments |
|--|--|
| The aim (aims) of the ARF is (are) frequently mentioned in the Law thereon, sometimes as a singular concept and sometimes in the plural form, which disrupts the integrity of its structure. What is actually meant is the provision of assistance to high-risk R&D projects in the interests of national safety and state security. | Such a formulation of the ARF's aim fails to clarify as to who would act and not simply assist, who would manage the conduct of R&D, and, most importantly, who would be responsible for the results of R&D projects. Long ago, the same formulation adopted by the Applied Problems Section under the Presidium of the USSR Academy of Sciences, and then of the Russian Academy of Sciences, made it possible to shift the responsibility for poor results by resorting to a very simple justification: 'We assisted as best we could, but those who had to perform the task did things the wrong way'. |
| The first of the ARF's major functions referred to in the Law is the formation of a scientifically substantiated understanding of the possible critical threats to national defense and security, of the origins of those threats, and of the methods for their elimination. | It could have been possible to consider this ARF function to be a major or even the most important function, if only other RF official bodies were not assigned the same task. The bodies performing that same function are as follows: the RF Security Council and its Academic Council (the results are taken into account in the National Security Strategy); the General Staff of the Armed Forces of the Russian Federation (the results are taken into account in the Military Doctrine of the Russian Federation); and the Executive Office of the RF President (the results are reflected in the Commander-in-Chief's annual addresses and his specific orders (issued in the course of application of the 'manual control method'). Apparently, there is no need for yet another team of experts to compose yet another list of possible threats and to devise methods for fending off these threats. Such efforts will simply create disorder. |
| Determination of the main directions of research and development. | Like in the previous case, it could have been possible to accept the legitimacy of this ARF function if other RF official bodies, and first of all the Russian Academy of Sciences, were not assigned the same task, and if the lists of major research directions were not to be approved by Russia's most senior officials. In Russia, major domestic research directions have never been compared with foreign ones, including major research directions in the USA, and the extent of Russia's lag in these matters has not been properly analyzed. Nevertheless, the Law on the ARF totally ignores these issues. |
| Organization of a search for innovative scientific & technological ideas and advanced engineering & technological solutions, and the subsequent issuance of orders for their development, approbation and follow-up. | The Law on the ARF does not specify the search area. It does not mention the possibility and advisability of including in the list of potential performers of the advanced research ordered by the ARF those individuals and organizations that have not previously participated in any defense-oriented research carried out by the Russian Academy of Sciences, or by the other (non-governmental) organizations of engineers and scholars, which are not part of the Russian defense-industrial complex. |
| Turning ideas into projects, including RF Armed Forces modernization projects. | The Law on the ARF does not mention that it is necessary to ensure that innovative ideas should not be kept secret, and that non-traditional R&D performers should also be involved in implementing advanced research projects. |
| Financing of research-based events and research projects. | It is extremely important that data on the spending of budget funds should be absolutely transparent. Naturally, transparency should be limited to spending, and it should not be extended to the content of research projects and to their scientific and technological parameters. |
| Management, on behalf of the Russian Federation, of rights to the results of intellectual activity (RIA). | The Law on the ARF ignores the rule (adopted in many states) that the developers (or authors) of new knowledge products and technologies should be granted a patent right (unless otherwise established) to the civilian (economic) use of these innovations. |

1 <http://transcript.duma.gov.ru/node/3671>.

| The Most Important Provisions of the Law on the ARF | Comments |
|--|--|
| Development of a three-year program of the ARF's activities, and its annual adjustment. | The development of such a program should be coordinated with the development of the state budget and the state defense order. |
| Conduct of a search for and a selection of the projects to be included in the list (this task should be implemented by the ARF's Science and Technology Council), and the drafting of expert conclusions as to the selected projects, their deadlines, and the financial resources needed to implement these projects. | It seems advisable that the range of potential performers of the most important advanced research projects should be extended, and that each phase of such projects should be implemented under a separate contract granted on the basis of a previously conducted public tender. Frequently, expert conclusions on the research projects that have failed to be selected are also very important. The same is also true of the explanations of the reasons for their rejection. |
| Management of rights to the results of the RIA carried out by the ARF's order, and also to the results of the RIA acquired by the ARF. Transfer of such RIA to the federal bodies of executive authority (FBEA) and the Rosatom corporation or a legal entity designated by them, to be used by these organizations in the interests of national defense and state security. | The Law on the ARF totally ignores the issue of RIA accumulation, including the creation of the relevant databases that should be widely available to specialists, although this issue is extremely important and implies the need for fairly heavy funding. Moreover, the Law does not contain any norms regulating the transfer of RIA. It contains no provisions as to who should be responsible for such transfers, including the responsibility for the exclusion of some potential users of the RIA that can be used for multiple purposes, including civilian ones. |
| Transfer of such RIA to other organizations, whatever their form of organization and legal status may be, to be used by these organizations to promote the innovation development of the corresponding branches of the RF economy. | The Law does not address, and therefore does not solve the crucially important issue of potentially dual-purpose RIA. It is not clear which experts should make decisions as to whether the results of one or other type of intellectual activity should be deemed to be potentially dual-purpose. Whether or not this means that, if the results are deemed not to be associated with the interests of national defense and state security, they should be made available to the general public, remains unclear. |

However, bearing in mind the negative experience of many other Russian foundations frequently mentioned by MPs at the above-mentioned State Duma session, and the equally negative experience of the state corporations and companies created under the slogan 'Acceleration of Russia's Innovation-Based Scientific and Economic Development', we can hardly expect any miracle.

In particular, it is worrisome that the Law on the ARF ignores the issue of direct participation of military science experts in all of the Foundation's activities, including the determination of R&D themes and the assessment of R&D results. It should also be noted in this regard that it is precisely the military department that is traditionally interested in its forces being armed with the most advanced weapons. To attain these ends, the military department should prepare top-quality specialists and to equip its firing ranges, testing grounds and research laboratories with cutting-edge equipment.

In Soviet times, many representatives of defense industry were forced to take into account the expert opinion of military specialists from military higher educational establishments and research institutes fitted with laboratory equipment and sometimes even with pilot production facilities. Therefore, some defense industry bosses did their best to deprive their military competitors of access to the scientific specifics of R&D and defense engineering. Their motto was: 'We will produce not what the customer wants, but what he needs'. And they succeeded in doing so. Military research institutes and higher educational establishments were deprived of research laboratories on the pretext of cutting costs. Thus, military specialists participation in R&D projects was now limited to taking part in tests and to carrying out mathematical modeling on the basis of initial data provided by defense industry.

In contemporary Russia, the situation in the R&D field continued to steadily deteriorate. Most of the changes that took place in the field of military science and education, especially those initiated by former RF Minister of Defense Anatoly Serdiukov, have been frequently called – not without reason – the wrecking of applied research in military engineering.

For some time after Anatoly Serdiukov's dismissal, many people were under the impression that the situation had changed for the better. It was the statement made by the new RF Minister of Defense, Sergei Shoigu, at the expanded meeting of the Collegium of the RF Ministry of Defense on 27 February 2013 that sounded alarm bells. He said: 'We must determine the performance characteristics and the quality of weapons, as well as their delivery time, and not the designations and

the prices of titanium, aluminum, cable products and other components¹. Experts believe that the Ministry of Defense's participation in pricing is of principal importance.

Also, 2012 saw a very peculiar 'adjustment' of the actual volume of completed work to the state defense order: over the course of 2012, the latter was repeatedly amended – but all the alterations were aimed at reducing both the quantity and the quality of the ordered weapons and equipment. Many VIPs in Russia's defense-industrial complex (DIC) are of the opinion that the RF Ministry of Defense should order only such weapons that the DIC is capable to produce.

Bearing in mind all these circumstances, the author believes that it would be extremely dangerous if defense industry specialists and the DIC get the right not only to obtain scientific knowledge and participate in the development of the science base, but also to shape Russia's military economy as a whole, and even to determine pricing. It is necessary to hold a public 'ideas competition' and organize responsible non-departmental control over the results of the ARF's activities.

This is especially true of the R&D initially placed in the 'high-risk' category, because in this case, if the actually obtained results are unexpected and do not correspond to the initially planned ones, such an outcome should not be deemed to be a failure. And this is also true of weapons development. It is noteworthy that recently appointed General Director of the ARF, Andrei Grigoriev, sees the Foundation's first task as threat forecasting. In a recent interview with *The Military-Industrial Messenger*, Andrei Grigoriev said that '5 to 10-year forecasts will be prepared by the General Staff, while threats beyond the 15 to 20-year time horizon represent a field where we must cooperate and work together'².

But all perceivable threats to Russia's national security have already been stated in the corresponding Strategy and in the Military Doctrine! Perhaps it would be more advisable if the Advanced Research Foundation should embark on a search for fresh ideas in the field of natural sciences and breakthrough technologies?

Also, the Foundation should ignore neither the needs of the RF population and the Russian economy, nor the urgent need for innovation of numerous enterprises of various ownership types.

It would be regretful if the Russian DIC decides to follow the worst Soviet traditions rather than to set its sights on the systems that can ensure rapid advances in science and technology, as well as the subsequent successful introduction of these achievements into the military sphere and the national economy as a whole. One of the examples of such systems is the DARPA. Whether domestic or foreign, positive experiences must always be taken into account.

Dmitry Rogozin may be right in stating that Russia's defense-industrial complex is capable of pulling the Russian economy into the future: *'Today, the armaments program makes it possible for the State to kick its addiction to oil and natural gas. This can be achieved by restructuring the 'Oboronka' [the Russian slang for the Military Industrial Complex] along the lines of defense industry innovation. At the same time, the transfer of technologies, if organized cleverly and methodically, will make it possible for these lines to be extended to the civilian sector of the economy'*³.

Yes, such a possibility does exist. However, bearing in mind the Soviet epoch of huge commodity deficit, as well as the fact that Soviet consumer products lagged behind those of the West both in quantity and – most importantly – in quality, we can confidently say that to organize *'the transfer of technologies ... cleverly and methodically'* would by no means be enough for the cutting-edge scientific and technological achievements to spill over into the *'civilian sector of the economy'*. In order for these ends to be attained, it is crucial that both the ARF's managerial bodies and all subjects of its activity should be responsibly interested in attaining them. However, the Law on the ARF totally ignores this issue – a fact that can have dire consequences⁴.

However, it is still too early to make any final judgment on the matter before the issuance of all the subordinate acts necessary for the ARF to begin functioning. And we must wait for the first results of its activities. But it can be said that the materials of the military industrial conference that took place on 20 March 2013 inspire some cautious optimism in the expert reader. ●

1 http://function.mil.ru/news_page/country/more.htm?id=11650595@egNews

2 Grigoriev A. *Rabotat' na operezhenie*. [We Must Always Keep an Eye on the Future and an Eye on the Present] // *Voенно-Промышленный Кур'ер* [The Military-Industrial Messenger]. 10–16 April 2013.

3 *Lokomotiv rossiiskoi ekonomiki* [The Locomotive of Russia's Economy] // *Voенно-Промышленный Кур'ер* [The Military-Industrial Messenger]. 8–9 March 2013 (No 9).

4 Tsybmal V.I. *Lokomotiv' ili 'bronepoezd' – vybor za name*. [It's Up to Us to | Chose between the 'Locomotive' and the 'Armored Train'] // *Kompetentnost'* [Competence]. 2007. No 6.

OECD AND RUSSIA MUTUAL INTERNATIONAL RESPONSIBILITY

N.Efimova, A.Levashenko

Issues of mutual international responsibility in the OECD and its country-members are of debating and problematic character. Emerging international responsibility in the framework of a tentative Russian membership in the OECD should be considered when assessing the risks associated with the accession to this international organization, especially given the assumptions about future trends in the OECD development.

At present Russia is actively expanding international cooperation, including the integration into international organizations. Thus, Russia's accession to the WTO is already done, and now Russia is in progress of joining the Organization for Economic Cooperation and Development (hereinafter the OECD, the Organization). Russia's accession to the international organization entails the emergence of international liabilities. In this context it is of interest to consider the mutual international responsibilities of OECD and Russia within the framework of the planned interaction.

Responsibility of international organizations is one of the elements of its legal standing and can occur as a result of any breach of international law (violation of international legal act of an international organization).

For example, the UN International Court of Justice has found that the UN as an international organization is responsible for the behavior of its official bodies or agents¹. Therefore, in terms of international law, the international responsibility of an international organization is expressed in any breach of international law by the bodies or entities which represent the international organization within the international community.

Activity of an international organization is based on its constituent acts, that is, documents that define the legal standing in view of the goals and objectives of the international organization. In regard to the OECD, we would like to note, that the constituent documents, i.e., the Convention² and the Protocols³ thereto, contain no provisions governing the liability of OECD and its country-members. Therefore, to define international responsibility of the OECD, one should refer to the rules of international laws governing the international responsibility of international organizations.

Under the international legal framework, there are no universal international treaties that would regulate the responsibility of international organizations. Thus, on the basis of the analysis of the provisions on responsibility of international organizations, it can be concluded that to date, the rules governing the international responsibility of international organizations are secured and act effectively in the international activities of the two spheres – nuclear and space⁴. These areas are quite narrow and the international instruments governing them cannot be applied to all areas of legal framework of international relations, including those with the participation of the OECD.

The issue of the responsibility of international organizations has been repeatedly raised by the UN International Law Commission. The results of this work are the Draft Articles on responsibility of international organizations, adopted by the International Law Commission on June 3, 2011⁵. This project is now a major international legal act setting out the principles of the international responsibility of international organizations. It is assumed that on the basis of this project an inter-

1 ICJ. Reports, 1999. P. 88–89.

2 The Convention of the Organization for Economic Cooperation and Development // <http://www.oecd.org/general/conventionontheorganisationforeconomicco-operationanddevelopment.htm>

3 Additional Protocol No.1 to the Convention of the OECD; Additional Protocol No.2 to the Convention of the OECD; Additional Protocol No.1 to the OECD Convention on legal capacity, privileges and immunities of the Organization.

4 Declaration of Basic Principles of States in the Exploration and Use of the Outer Space of December 13, 1963, the Outer Space Treaty of January 27, 1967, the Convention on International Liability for Damage Caused by Space Objects of March 29, 1972 and others in the designated areas and the Vienna Convention on Civil Liability for Nuclear Damage of April 21, 1964, the Brussels Convention on the Liability of Operators of Nuclear Ships of April 25, 1962, etc.

5 <http://untreaty.un.org/ilc/reports/2011/russian/chp5.pdf>

national convention¹ can be developed. It should be noted, that the basic provisions of the Project Article V “Responsibility of International Organizations” already exist in the form of international legal standards².

Based on the foregoing, we can assert that the issue of international responsibility of international organizations is regulated either by constituent acts of these organizations (which actually occurs in practice, including those of the OECD constituent documents), or by the specific international treaties, or by general international law. As noted above, there is a certain lack of universal treaty rules governing the general provisions of the international organizations responsibilities. The available to date UN Articles Draft is the international act, the adoption of which would resolve legal uncertainty in the framework of international responsibility of international organizations, but will not be able to remove this problem completely.

Thus, the issues of responsibility of international organizations in some aspects are uncertain, which raises concerns in the context of the potential accession of Russia to the OECD, since there are no real mechanisms for regulating the international responsibility of the OECD as an international organization to the country-members and entails certain risks for the country-members in terms of participation in it, because the nature of the OECD activities implies a direct impact on virtually all areas of the member-country. Analysis of the Road Map of the Russian Federation in regard to the Convention of the OECD suggests that Russia as a country guided by the aim of accession to the OECD should demonstrate a commitment to the OECD guidelines included in more than 70 decisions and acts of the OECD with a legally binding and or recommended in respect of various areas, from the investment to environmental aspects. That is, the OECD activity is universal. Adherence to the norms and principles of the OECD is expressed through transforming them into national legislation of Russia, which inevitably puts the country in a more vulnerable, dependent status on the international organization: the country should actively change its national legislation in accordance with rules and regulations of the OECD as one of the main conditions of accession to the OECD and further effective cooperation.

In this regard, the question arises: is the international member-country bears any responsibility to the international organization in terms of their obligations, for example, in case of non-performance or poor performance of its obligations? The constituent acts of the OECD do not include provisions on the responsibility of member-countries of the OECD in the event of failure to comply with the adopted acts. However, one can note the presence in the OECD acts of the so-called “soft law”³ at the sectoral level. Thus, there can be noted not only the absence of the direct mechanism of responsibility of the member-country to the OECD, but also of the specific legal consequences of such a responsibility for the failure to comply with the OECD acts.

In the context of the above, it is relevant to pay attention to the popular opinion in regard to the fact that international law is weak due to its failure to be binding enough⁴. However, F.F. Martens believed that the basis of legal norms governing international relations is a unified understanding of the civilized states of the need for international legal framework and the consequent voluntary consent to recognize its obligations⁵. Thus, necessary compliance with international rules is determined, basing on the voluntary recognition of such rules as binding by the subjects of the international law. In the context of the OECD, the voluntary consent of the acceding country to adopt the rules and regulations of the Organization is expressed by adoption of an international treaty on accession to the OECD, for example, in relation to Russia such an agreement will be signed between the OECD and the Russian Federation and in case of a positive decision of the OECD Council in regard to Russia’s readiness to become a member of the Organization. Thus, the failure of its international obligations, the international organization entails the international responsi-

1 Same source, P. 85.

2 I.I.Lukashuk. International law: a special part. Ed. 3, revised. And add. – Moscow: Wolters Kluwer, 2005. P. 517 sec.

3 For example, in the OECD Code of Liberalization of Current Invisible Operations there is included the member’s right to apply to the Organization in the event of suffering damage from another member-country by a breach of liberalization measures in the application of domestic measures restricting implementation of current invisible operations. If the Organization finds that the internal measures taken by the member-state led to the disruption of OECD liberalization measures, the Organization may make proposals for the removal or amendment of such internal measures (Article 16).

4 See: Jellinek G. Die rechtliche Natur der Staatenfertrage. Berlin, 1880. P. 16, 38–39.

5 F.F. Martens. The modern International Law of Civilized Nations. T 1. St’P., 1898. P. 189–190.

bility in accordance with international law. Thus, the failure of the international organization to perform its international obligations entails the international responsibility in accordance with the international law.

Based on the foregoing, we see that the international responsibility of international organizations in regard to its members, as well as the responsibility of country-members to the Organization is mainly governed by the common international law. In this regard, the following question arises: in the context of cooperation between Russia and the OECD, what authority will decide the dispute giving rise to the international responsibility of either the Organization or its members? Currently there is no such an authority. However, the relevance of this issue is based on the policy of the OECD in recent years, which is associated with an active increase in the number of country-members of the Organization, which will enable the OECD to strengthen and expand its expertise and global impact on the policies of the country-members, enhance its credibility as an international organization in the world. Since its inception in 1961, the OECD was “closed organization” with a permanent, virtually unchanged membership of the small group of countries – the original members of this organization. Over thirty-plus years, the new members of the OECD became only four countries (Finland, New Zealand, Japan, Australia). However, since the early nineties of the XX century, the OECD has implied the policy of enlargement. Thus, as part of the “first wave” of expansion in the OECD between 1994 and 1996 the Organization was joined by: Mexico, Czech Republic, Hungary, Poland and Korea. During the “second wave” from 2000 to 2010 the OECD was joined by five other countries: Slovakia, Chile, Slovenia, Israel and Estonia. OECD always was actively cooperating with the non-member-countries, which is in line with its tasks under the OECD Convention on the establishment in 1961, but did not invite them to accession. In addition, since 2007, cooperation was intensified with such countries as Brazil, China, India, Indonesia and South Africa through enhanced cooperation, with a view to possible membership of these countries in the OECD, as well as adoption of a number of documents that define the policy of expansion (Report “Strategy to Ensure Coverage and Expansion» [C (2004) 60]; Resolution of the OECD for the expansion and intensification of contacts, adopted by the Council at the level of Ministers on May 16, 2007; General Procedure for Future Accession, adopted by the Council at its 1155th session of May 10-13, 2007). Member-states that joined the OECD in the first and second wave of expansion are the countries in transition or developing economies, while the original OECD members were only developed countries (USA, Canada, France, Germany, Austria, etc.).

Thus, to date, the OECD includes and interacts with various countries of economic and legal development, which inevitably leads to an objective need for effective mechanisms for the resolution of disputes through an authorized body, which is now missing in the OECD. Administrative Tribunal of the OECD has the power of decision-making on labor disputes between employees within the Organization and the OECD Secretary-General¹. Thus, it cannot position itself as an authority having jurisdiction in the area of disputes resolution between the OECD and its members.

It appears that these trends in the OECD development, based on the experience of other international economic organizations like the OECD have a universal character (WTO, the UN ECOSOC, etc.), having the authorities to resolve disputes and the laying an international responsibility, indicate the advisability of forming an OECD similar body with the authority to resolve disputes between the OECD and its member countries that are non-members. In connection with the designated prospects may change the nature of international responsibility in the membership of the OECD, which should be considered when evaluating Russia risks associated with the accession to this international organization. In connection with the designated prospects, the nature of international responsibility in the membership of the OECD may be changed, which should be considered when evaluating Russia’s risks associated with the accession to this international organization.

Summing up the mutual responsibility of the OECD and its members, including Russia, in the case of a successful accession to the Organization, it should be noted that the current issues of international responsibility are controversial and largely transitional in nature and should be resolved in each particular situation, taking into account provisions of the basic instruments of international organizations, the rules of general international law, as well as the current enforcement practices of the countries. ●

1 <http://www.oecd.org/administrativetribunal/abouttheoecdadministrativetribunal.htm>

REVIEW OF THE MEETINGS OF THE GOVERNMENT OF THE RF IN 2013

M. Goldin

In April 2013, at the meetings of the Presidium of the Government of the Russian Federation the following issues were discussed: the draft law which excludes from registers approved by the Government of the Russian Federation the information on federal movable property assigned to state academies of sciences; the draft law which sets a differentiated approach to determination of the methods of calculation and the maximum amount of fare for passage of means of transportation on paid motorways built on the basis of concession agreements and other motorways; the draft law which exempts from imposition of the individual income tax on pensions paid after January 1, 2005 on the basis of agreements of nongovernment pension insurance.

On **April 4**, at the meeting of the Government of the Russian Federation, the draft federal law on Amendment of Article 6 of the Federal Law on Science and State Research and Development Policy was discussed.

The draft law provides for exclusion from registers approved by the Government of the Russian Federation of the information on federal movable property assigned to state academies of sciences.

It is to be reminded that at present Article 6 of the Federal Law on Science and State Research and Development Policy provides for the procedure for approval by the government of registers of federal property which is assigned to state academies of sciences. The above registers include the information both on real property and movable property.

Disposition of the movable property by state academies of sciences in accordance with the right they were granted requires a constant update of the information in registers which procedure is done in its turn by means of statutory acts of the Government of the Russian Federation.

At the same time, the information on the assigned units of movable property is also entered in the federal property register which is maintained by Rosimuschestvo on the basis of Resolution No. 447 of July 16, 2007 of the Government of the Russian Federation on Upgrading of Record Keeping of the Federal Property. In particular, entered in the above register is the information on the movable property whose initial value is equal or exceeds Rb 500,000 and particularly valuable movable property.

It is obvious that the procedure for approval of registers of federal property assigned to state academies of science is superfluous is the system of recording of the federal property.

For reasons stated above, it was decided to exclude the above information from the registers approved by the Government of the Russian Federation.

Also discussed at the meetings of the Government of the Russian Federation was the federal draft law on Amendment of Article 22 of the Federal Law on Concession Agreements and the Federal Law on Motor Roads and Road Activities in the Russian federation and Amendment of Individual Statutory Acts of the Russian Federation. The draft law sets a differentiated approach to determination of methods of calculation and the maximum amount of the fare for passage of the means of transportation on paid motorways built on the basis of concession agreements and other paid motorways.

As the costs related to road building in accordance with concession agreements depend on the specifics of each project, the existing approach to formation of the fare for use of motorways does not suit well determination of the fare for use of motorways built in the course of implementation of concession agreements. So, in the methods used at the federal level the fare for passage is differentiated only depending on the type and carrying capacity of transportation vehicles.

Due to the above, amendments were developed to the Federal Law on Motorways and Road Activities in the Russian Federation and Amendment of Individual Statutory Acts of the Russian Federation under which the methods of calculation of the fare for passage of means of transportation on paid motorways of general use and federal, regional, inter-municipal and local importance

built on the basis of concession agreements will be approved as before by the Government of the Russian Federation, supreme state executive authority of the constituent entity of the Russian Federation and local governments.

The maximum amount of the fare for passage of means of transportation on paid motorways and paid sections of motorways built on the basis of concession agreements will be determined in a decision on conclusion of a concessionary agreement by the executive authority of the relevant level of government.

The draft law was approved and submitted to the State Duma of the Russian Federation.

On **April 18**, at the meeting of the Government of the Russian Federation the draft federal law on Amendment of Federal Law on Amendment of Part Two of the Tax Code of the Russian Federation.

The draft law provides for exemption from imposition of the individual income tax on pensions paid after January 1, 2005 under agreements of nongovernment pension insurance in accordance with which agreements pension contributions were made in full in the interests of individuals before January 1, 2005 with deduction and payment of the individual income tax in conformity with the tax assessment method which was in effect until January 1, 2005. It is to be noted that the amounts of the individual income tax earlier deducted from the income in the form of a pension under the specified agreements will be returned.

The draft law was approved and submitted to the State Duma of the Russian Federation. ●

REVIEW OF ECONOMIC LEGISLATION IN APRIL 2013¹

I.Tolmacheva, Yu.Grunina

In April, the following amendments were introduced into the legislation: the procedure for realization of the pre-emptive right to buying equities and issue-grade securities convertible into shares was specified; the specifics of regulation of the work of employees who operate beyond the premises of the employer (distant workers) was determined; it was established that from January 1, 2014 the Ministry of Education and Science of the Russian Federation would carry out formation and maintenance of the single state information system of recording of civil purpose R&D and technological work.

I. Federal Laws of the Russian Federation**Federal Law No.47-FZ of April 5, 2013 on AMENDMENT OF ARTICLE 41 OF THE FEDERAL LAW ON JOINT-STOCK COMPANIES**

The procedure for realization of the pre-emptive right to buy equities and issue-grade securities convertible into shares was specified.

So, if the price of placement or the procedure for determination of the price are set by the decision which constitutes the basis for placement by a joint-stock company (in case it is a credit institution) – in which over 50% of common shares is owned by the Russian Federation – by means of public offering of additional equities or issue-grade securities convertible into shares with payment for them in cash and the information in the notification is made public in compliance with the requirements of the legislation of the Russian Federation on securities the term of the pre-emptive right cannot be less than eight business days from the day such information was made public.

Federal Law No.60-FZ of April 5, 2013 on AMENDMENT OF INDIVIDUAL STATUTORY ACTS OF THE RUSSIAN FEDERATION

In particular, the Labor Code of the Russian Federation was supplemented with new Chapter 49.1 which regulates the specifics of work of employees who operate beyond the premises of the employer (distant workers).

A definition of distant work was provided. Distant work is fulfillment of a work function – determined by a labor agreement – beyond the premises of the employer, its branch, representative office or other special structural unit (including those located in other areas) provided that in carrying out of that labor function and networking between the employer and the worker on the issues related to fulfillment of the above function general purpose information and telecommunications networks, including the Internet are utilized. The labor legislation and other acts including the norms of the labor law with the certain specifics taken into account are applied to distant workers.

In networking of a distant worker with the employer by means of exchange of electronic documents, enhanced qualified electronic signatures are used.

The federal law sets the specifics of:

- Conclusion and amendment of the terms of the labor agreement on distant work;
- Organization and protection of labor of a distant worker;
- Labor hours and leisure time regimes of a distant worker;
- Termination of a labor agreement on distant work.

So, as the place of conclusion of a labor agreement on distant work and agreements on amendment of provisions of the labor agreement on distant work the location of the premises of the employer is specified.

In entering into a labor agreement on distant work by means of exchange of electronic documents, the documents which are specified in the Labor Code of the Russian Federation as necessary for submission may be provided to the employer by the person applying for distant work in the

¹ The review was prepared with assistance of the KonsultantPlus legal system.

form of an electronic document. It is to be noted that on request of the employer the above person has to send notary certified hard copies of those documents by registered mail with notification of delivery.

It is established that a distant worker has to hand over to the employer the labor book personally or by registered mail with notification of delivery. At the same time, by agreement between the parties to the labor agreement on distant work the information on distant work may not be entered into the labor book of the distant worker, while in case the labor agreement is concluded for the first time the labor book may not be executed to the distant worker. In such a case, the main document certifying labor activities and the work record of a distant worker is a copy of a labor agreement on distant work. If labor agreement on distant work is concluded by means of exchange of electronic documents by a person who enters into a labor agreement for the first time, the above person receives individually the insurance certificate of state pension insurance.

The person who enters into a labor agreement on distant work may get familiar with the documents provided for by the Labor Code of the Russian Federation by means of exchange of electronic documents.

Unless otherwise is provided for by the labor legislation on distant work, the working hours and leisure time regimes of a distant worker are set at his/her discretion. The procedure for provision of a paid leave and other types of holidays is determined by the labor agreement on distant work in accordance with the existing Code and other statutory acts which include the norms of labor law.

Termination of the labor agreement on distant work on the initiative of the employer is carried out on the grounds provided for by the labor agreement. If a distant worker gets familiar with the order (instructions) of the employer on termination of the labor agreement on distant work in the form of an electronic document, on the day of termination of the labor agreement on distant work the employer has to send a duly executed hard copy of the above order (instructions) to the distant worker by registered mail with notification of delivery.

II. Resolutions of the Government of the Russian Federation

1. Resolution No. 327 of April 12, 2013 on SINGLE STATE INFORMATION SYSTEM OF RECORDING OF CIVIL PURPOSE R&D AND TECHNOLOGICAL WORK

From January 1, 2014, the Ministry of Education and Science of the Russian Federation will carry out formation and maintenance of a new single state information system of recording of civil purpose R&D and technological work.

The Statute on the Single State Information System of Recording of Civil Purpose R&D and Technological Work was approved by the above document.

As before, accounting entities in the information system are the following types of the data on civil purpose R&D carried out at the expenses of federal budget funds by companies regardless of their form of incorporation and form of ownership:

the data on the work to be started;

the data on the outputs of work which is to be provided in accordance with the Federal Law on a Mandatory Copy of Documents in the form of mandatory copies of unpublished documents (reports on R&D, defended thesis for seeking of an academic degree, algorithms and programs) and their abstractive and bibliographic description;

the data on possessors of rights and titles to such outputs of intellectual activities created in the processes of fulfillment of work as are good for legal protection as an innovation, utility model and industrial sample or have a legal protection as a data base, lay-out geometry of integrated circuit or a program for electronic computers, as well as the data on change in the legal protection status and practical application (implementation) of the outputs of intellectual activities.

The information system is formed on the basis of the data submitted to the Ministry of Education and Science of the Russian Federation in the form of an electronic document signed by means of an electronic signature or a hard copy document as per form of provision of the data and within the deadlines set by the Ministry of Education and Science of the Russian Federation. Access to the data included in the information system is carried out on a free of charge basis via the official site of the Ministry of Education and Science of the Russian Federation.

Within a three-month period, the Ministry of Education and Science of the Russian Federation has to develop and approve the following:

forms of provision of the data on civil purpose R&D and technological work in order to keep record of it in the information system and requirements to filling in the above forms;

procedure for confirmation by main budgetary funds disponents – which carry out financing of civil purpose R&D and technological work and performing functions of a customer of such work – of compliance of the data on the above work entered into the information system with the terms of state contracts on fulfillment of civil purpose R&D and technological work.

Resolution No.284 of May 4, 2005 of the Government of the Russian Federation on State Recording of Civil Purpose R&D and Technological Work becomes null and void from January 1, 2014. ●

AN OVERVIEW OF NORMATIVE DOCUMENTS ON TAXATION ISSUES IN MARCH–APRIL 2013

L.Anisimova

Economy of Russia in April 2013 was more clearly demonstrating stagnation. In this regard, the lack of funds was aggravated and as a result, federal agencies are again searching for resources, which is gradually shifting from the proposals on the use of public reserves for investment purposes (the position of Ministry of Economic Development of Russia) to the search of new sources of budget replenishment (Russian Ministry of Finance position). Last month, the economic situation was discussed at many representative meetings of the government.

On April 18, 2013 at a meeting of the State Duma, Dmitry Medvedev, Prime Minister of the Government of the Russian Federation¹ has made a report on the work of the RF Government in the past year. According to the report, in 2012, the Russian GDP has grown, although starting from H2 of the year the growth rate began to decline sharply, but real wages in the past year have increased, unemployment was low (just over 5%), inflation was at an acceptable level (about 7%), the budget was managed to be restrained from deficit, and the national debt was kept within 10% of GDP. Medvedev confirmed the commitment to preserve the fiscal rules in the further activities of the RF Government, as it provides a macro-economic stability and allows firmly to resist inflationary pressures. As the means of economy support, the Prime Minister has outlined plans to invest Rb 40bn of pension savings in the purchase of infrastructure bonds of OAO “Russian Railways”, OAO “FGC UES”, OOO “Agency for Housing Mortgage Lending”, OPK “Oboronprom” and OAO “ROSNANO” under the state guarantees of the Russian Federation.

The reasons for the sharp slowdown of growth rate in Q I 2013 and possible ways to overcome the negative trends in the economy were discussed at a meeting with the Russian President Vladimir Putin on April 22, 2013 with the participation of the economic bloc of the government and representatives of the expert community². As an incentive of economic growth there was considered a gradual decrease in lending rates by the banks with government participation, which should, according to the participants’ opinion, to create competition in the financial market, as well as a decrease in inflation rate to 6%, which would reduce the refinancing rate of the RF Central Bank and revive lending to manufacturing sectors. Since the agreed position on measures to stimulate the economy at this meeting could not be reached, the President of the Russian Federation requested the preparation of proposals by May 15, 2013³.

At an international conference with the participation of the “Big Twenty” countries’ representatives, the Sberbank of Russia held on April 18-19 2013, the impact of the sovereign debts on the growth rate of the world economy. A large amount of sovereign and corporate debts, on the one hand, and accumulated as a result of mitigation policy in regard to exchange rates cheap liquidity, on the other hand, provide a volatile impact on the economic situation. Liquidity is somehow available at the market, but investors are reluctant to invest it in stocks and corporate obligations of the debtor states or to spend it on the purchase of sovereign debts of the states with unstable financial standing (it is worth to remember, that the cause of Cyprus crisis were among other things, investments the national banks in Greek securities). Investors are looking for opportunities to invest in real assets with good returns or at least able to maintain the market value even in case of the forced innovations of accumulated debt in the economies. Investors took a wait-and-see approach; the market is working at minimal volumes. Hence, the decline in demand for commodities, the number of which suppliers include Russia, the slowdown of manufacturing in China due

1 Prime Minister’s summarizing. Dmitry Medvedev told about all that he could do // Kommersant No. 68 (5099), of 18.04.2013.

2 A. Kolesnikov. Margin is annihilated. At a meeting with Vladimir Putin, for the sake of GDP growth, it is agreed to reduce its costs and expenses of the state-owned corporations // Kommersant No. 71 (5102), 23.04.2013.

3 D. Smirnov. Prescription for accelerating of economy will be provided by May 15 // KP.ru, 24.04.2013.

to the lower export opportunities. In fact, the following happened: the states have accumulated large debts, including corporate risks (distribution of liquidity by buying corporate bonds to support producers), and now they are forced to restructure (reduce) their liabilities in the first place in the social and government spending spheres.

The decline in demand for hydrocarbons in the foreign market has not led the development of the domestic market in Russia. This is due to the fact that in Russia the problem of growth of corporate debt has several other reasons – the lack of resources available to corporations in the country. There has been rapid growth of the Russian corporations' foreign debt along with the non-decreasing capital outflow. The danger of this phenomenon is that if capital outflow is converted in the growth of the external corporate debt (the funds are raised for repayment of previous obligations with interest), which can lead to the formation of the bond bubble in the Russian economy. Outside claims on bankruptcy in this case can by “domino effect” bring down the interrelated production at any time. The current situation in view of the high social risk will inevitably lead to an unexpected increase in government spending to fight unemployment, so the task of the state is the preemption of undesirable developments. Proposal, expressed at the meeting with the Russian President by O. Vyugin, Chairman of the Board of Directors of MDM Bank to reduce the state-owned banks lending rates are unlikely to solve the problem; rather, it would undermine the financial stability of such banks, since a forced decrease of the rates will be provided by non-market methods.

However, the solution of the Russian economy problems is now really dependent on its ability to attract domestic commercial banks to lend to the national business or not. Surveillance on the part of a competent lender-resident over the activities of the debtor-resident in order to secure the repayment of funds granted is the most effective way to develop a competitive domestic market. Apparently, the Russian government now needs to have a discussion on how the development of the domestic economy with the banking community in the first place.

To solve the problems of economic development by means of only government financial policy is unlikely. Contradictions in the goals of economic blocs in the Russian government often result in inconsistent decisions, which reduces confidence in the investment environment. Here is an example.

Although oil prices exceed the price estimated for the budget formation, nevertheless, estimates of the budget deficit since the beginning of 2013 are steadily growing. Privatization program was adjusted literally on the fly: instead of selling the shares of privatized enterprises in the market and addressing the revenue to the budget, the issue of privatization by issuing additional shares is actively discussed. This will lead to the result, that the money from privatization will be addressed to the capital of privatized companies, rather than to the budget. As a result, a share of planned income will be lost. The question arises: if during the budget planning for these sources (Rb 500bn) government expenditures were foreseen, why in March 2013, i.e., in 2 months after the Budget Law came into force, the question of a fundamental change in the scheme of privatization is raised¹? Apparently, the situation with the refund of the value added tax (VAT) on the projects, associated with completed the construction objects of large infrastructure projects, related to preparation for the APEC Summit (held in 2012 in Vladivostok) and the Sochi Olympics (to be held in 2014) was unexpected for financial planners. Massive refund of VAT will reduce budgetary resources. A. Siluanov, the RF Minister of Finance commented on the situation, that the plan for the mobilization of the lost revenues for Rb 500bn will be ready by summer. According to him, most likely, the authorities will have to increase the national debt. Recall that the national debts are deferred taxes. The total amount of the mentioned gaps in the budget revenues estimates (Rb 1 trillion) is comparable to the VAT revenues to the RF federal budget for six months². And this is not the only problem.

Due to the fact that the Russian oil industry has been able to move to production of gasoline “Euro-5” standard, the budget has lost excise taxes (about Rb 100bn) targeted for the formation of road funds, which are awarded for the production of low-level gasoline³. This gap in revenue the Rus-

1 K. Sugrobov. Hole of the ruble. Russia's budget is predicted a trillion deficit // Lenta.ru, 26.03.2013.

2 analytic/nalog.ru/portal/index.ru-ru.htm

3 S. Kulikov. The Ministry of Finance came up with additional taxes on gasoline. Excise taxes on environmentally friendly fuels may be increased // ng.ru, 10.04.2013; F. Sterkin, I. Kezik. The Ministry of Finance will not touch oil. The

sian Ministry of Finance also proposes to cover at the expense of compliant taxpayers by increasing the excise tax on high-quality gasoline and increasing the rate of tax on mineral extraction (MET).

In our view, the situation is rather tricky. If there was a really lack of the estimated budget or it could not be obtained, it is improper now to force taxpayers to pay for expenses that have been taken under the virtual income. Such solutions unreasonably increase the tax burden on market participants and undermine their confidence in the current economic policy. The more so, because the Russian government officially stated that it will not increase the tax burden till 2018. A valid source of financing in such a situation, in our opinion, should be considered the sale of state property.

Among technical issues on mandatory payments, published in the normative acts and documents of the Russian Ministry of Finance and the Federal Tax Service of Russia, it is worth noting the following.

1. By the Federal Constitutional Law from 05.04.2013 No. 1-FCL changes were made to Art. 89 of the Federal Constitutional Law “On the Constitutional Court of the Russian Federation”. This law provides the right of the President of the Russian Federation, the Federation Council, the members of the Federation Council, deputies of the State Duma, the legislative bodies of Subjects of the Russian Federation and the Supreme Court of the Russian Federation and the Supreme Arbitration Court of the Russian Federation to carry out necessary preparation of new laws relating to their conduct and submit them to the State Duma. The new law is necessary for the legislative position of the Constitutional Court. The term for submission of the new law draft to the State Duma of the Russian government is extended from 3 to 6 months, commenced from the date of publication of the decision of the Constitutional Court of the Russian Federation. We can only welcome the judiciary power joining to the development of bills correcting existing laws in case of the Constitutional Court internal conflict. This solution is aimed at improving the quality, efficiency and level of professional legislation development, given the complexity of the Russian legislation.

One example, when there is a need for a thorough professional documentary verification by judiciary authorities can be the developed at the initiative of the Accounts Chamber Bill, which implies criminal responsibility for the non-payers of insurance premiums up to 2 years imprisonment. According to the Accounting Chamber, the Bill is designed to eliminate the imbalance in the level of accountability for violations of tax laws and legislation on insurance premiums. It is proposed to equalize the rights of the Federal Tax Service of Russia and state non-budgetary funds, giving the right to the Pension Fund of Russia (PFR) bring to trial the non-payers of insurance premiums to the funds. Recall that the said conflict of rights between the FTS of Russia and state social extra-budgetary funds arose solely as a result of replacement of the unified social tax (UST) with insurance contributions and withdrawal thereof from the Tax Code to a separate area of the law. The consequence of this was the solution to authorize several supervising bodies (in particular, the UST) instead of one (FTS of Russia). A simple equalization of rights of controlling authorities in respect of enforcement to incompliant payers in the absence of legislation regulating relations in the sphere of compulsory payments (taxes and insurance premiums) may in fact lead to increased pressure on the producers by simple formal reasons, which is unacceptable. We believe the introduction of separate measures of criminal liability for non-payment of insurance premiums inappropriate. In fact, that the gap between revenue and expenditures of non-budgetary funds is covered by the budget funds, i.e., by taxes. For payers insurance premiums are recorded in expenses deductible from the tax base for profits tax and the tax on personal income (PIT). Thus, there cannot and should not be duplication in the responsibility and in a manner of its enforcement for taxes and insurance payments¹. If criminal liability for failure to pay taxes is regulated by Art. 198 and 199 of the RF Criminal Cod (RFCC), the responsibility for non-payment of insurance premiums should be also introduced in these Articles. In addition, the rules must be set adding liability for violation tax legislation and legislation on insurance

threat of increasing MET can cause oil producers to agree to an accelerated indexation of excise and export duties on oil // *vedomosti.ru*, 22.04.2013; I. Kezik. Oil producers are threatened to be subject to increased tax burden by \$6bn // *vedomosti.ru*, 11.04.2013.

1 M. Soltys, P. Chuvilyaev. The Ministry of Labor went wrong. Violators of fiscal discipline are at the threat of imprisonment // *MK.ru*, 16.04.2013.

premiums, otherwise one and the same person will be punished repeatedly, as the non-payment of taxes and insurance premiums will be qualified as violations of different violations. Adoption of the proposals of the Accounting Chamber without regard to the above-mentioned facts will actually lead to economically unjustified direct growth of criminal liability limits as compared with the limits agreed by the legislator at the time of enactment of the Tax Code of the Russian Federation and in the period of unified social tax application.

2. Decree of the Government of the Russian Federation of 04.03.2013, No. 511-p has approved the Strategy for development of the RF power supply network. The strategy is committed to the creation of OAO "Russian network", which will control about 70% and 90% of the distribution of backbone networks in Russia, as well as other independent network organizations. The Strategy highlights the fact that the tariff for power supply network in Russia has almost exhausted its growth potential. The cost of electricity produced by the network for many industrial consumers is approaching the cost of electricity from its own generating capacities (including the cost of their construction), which leads to the development of distributed generation and withdrawal of consumers from the centralized power supply. Thus actually reflects one of the most important developments in the Russian economy – electricity tariffs do not play a monopoly role component (ersatz-tax) in the prices of domestic producers. In this regard, prices of commodity producers are now starting to be compliant with the laws of the free market. Of course, this is not applicable to all regions of Russia, but a possibility for the distributed generation accession will be quite possible to provide an impact on the rates of centralized power supply. Now the global networks will be forced to keep their prices at the level comparable with those of the distributed regeneration, and learn to perform effectively in those cost limits, which it provides.

This is not accidental, that the Strategy implies the electrical energy accounting in the retail market from 2017 to transfer to the procedure, under which all the responsibility for the installation, operation and implementation of electricity services will be transferred from the consumer to the power network organizations. This will inspire optimization of the network configurations to ensure the alignment of capacity utilization, especially since according to the Strategy, the price for electricity for the Russian industries is brought actually in line with the European level. The share of the cost of electric network complex in the final price of electricity makes about 40% (34% in 2012 with no loss), which is also similar to the relevant indicator of the industry share in the major developed countries.

Another positive result of changes in the order of power supply service in connection with the development of competitive market relations will be the rejection of cross-subsidization in the network complex, which in 2012 has exceeded Rb 220bn. Cross-subsidizing led to an overestimation of additional enforced costs of individual industrial sectors and affected the competitiveness of their products. Now the regional budgets will have to take on subsidizing the poor social class, which hopefully will lead to a reduction of the tax benefits of the regions and lead eventually to increased interest of regional administrations to improve the profitability of operating in their territory enterprises that will contribute to the development of regional markets for goods (works, services).

It should be added that from 2014 there will be introduced social norm of energy consumption (i.e., standardized rate of this public utility); consumption in excess of the standard rate will be paid at an increased rate.

3. Federal Law of 05.04.2013, No. 60-FZ of the RF Labor Code (RF LC) implies the introduction of a new form of employment, i.e., remote operation. This innovation will inevitably lead to the question of the application of Art. 131 of the RF Labor Code to the calculation of wages to an employee working outside the RF and the order of payment of personal income tax.

Article 131 of the RF Labor Code specifies that the payment of wages is made in cash in RF currency (RUR). However, according to the same Article, in accordance with a labor agreement or the employment contract upon written request of the employee, wages may be made in other currency, unless it does not contradict the legislation of the Russian Federation and the international treaties of the Russian Federation.

According to the Experts¹, on the basis of Art. 6.9 of the Federal Law of 10.12.2003 No. 173-FZ “On Currency Regulation and Currency Control”, payments in foreign currency between residents are not allowed, and between resident and non-residents, in contrast, are made without restrictions². Hence, the experts concluded that the payment of the resident organization (even a standalone subdivision of the Russian foreign organization) wages in foreign currency to its resident-employees are not allowed. However, if the employee is a foreign citizen, the Russian legislation seems to allow him to be paid salary in foreign currency.

The problem arises in case of application of personal income tax rate, under which the payroll tax is paid by a citizen of another country, employed by the Russian company and paid in foreign currency to the foreign account. It should be remembered that in accordance with the Tax Code of the Russian Federation, the citizen who resides more than 180 days a year abroad is recognized as tax non-resident. On the contrary, a citizen of a foreign country, staying in the territory of the Russian Federation for 180 days is considered to be tax resident. Tax resident shall pay personal income tax at the rate of 13%, a non-resident – at the rate of 30%.

4. The letter of the Russian Ministry Finance of April 5, 2013 No. 03-11-10/11254 explained in detail the issues related to the order and conditions of the transition to the imposed on 1.01.2013 patent system of taxation, in view of its conversion into an independent diverse form of special tax regime. The Ministry of Finance of Russia explained that the recommended application form for a patent was approved by the Order of the Federal Tax Service of Russia as of December 14, 2012 No. MMV-7-3/957@. The application can be made by an individual entrepreneur through electronic communication channels. The application must specify a start date and end date of the patent. Herewith, the date of signing of the application should be provided at least 10 days before the commencement date of the patent.

5. The Letter of the Russian Ministry of Finance and the Federal Tax Service of Russia of April 1, 2013 No. BS-4-11/5665@ is forwarded thorough the information system that as of 04.01.2013 there is no legal basis for the actions of tax authorities for receiving, processing and use for the purposes of assessment the tax on personal property of individuals the data on inventory of the value of real estate, presented by any authorities (organizations) as of 01.01.2013. The fact is that from January 1, 2013 the Technical Inventory Bureau does not perform real estate recording in the territory of the Russian Federation. The functions of property registration and cadastre registration of passports are transferred to the Federal Service for State Registration, Cadastre and Cartography under the Ministry of Economic Development of the Russian Federation. Meanwhile, the procedure for calculating the indicated service inventory value of real estate has not been established. The effective legislation also has not yet established bodies (organizations), which should immediately implement the state technical accounting and inventory to determine the value of real estate.

According to the Federal Tax Service of Russia, the assessment of the tax on personal property should be suspended before the legal basis thereof is created.

6. The letters of the Russian Federal Tax Service as of March 26, 2013 No. ED-4-3/5200@ and the Ministry of Finance of Russia as of 01.03.2013, No.03-04-07/6189 has clarified the issue of personal income tax of an employee on daily business trips.

The Ministry of Finance of Russia explains that in accordance with Para. 1, Art. 217 and Para. 12, Section 3, Article 217 of the RF Tax Code, the per diem compensations are excluded from payments related to the of job duties of the taxpayer, that is, they are subject to personal income tax. Accordingly, per diems shall not require documentary evidence of expenses.

If the funds paid to the employee for the purpose of a one-day business trip are not diems, but are other costs associated with business trips of the employee with the permission or knowledge of the employer (Article 168 of the RF Labor Code), they are exempt from tax in full in the presence

1 A. Borisov. Opportunities of (non) resident // Consultant, “EJ-Lawyer” No. 49, 2004.

2 It is necessary to distinguish between the concept of “resident” and “non-resident” in the currency and tax laws. Uniform Specifics of these terms interpretation in the framework of the Tax Code will be commented on in the text of the Review.

of documentary evidence for the expenditures. In the absence of such documentary evidence, monetary funds paid to employees in return for one-day trips may, in accordance with the Decree of the Presidium of the Russian Federation of 11.09.2012, No.4357/12 be exempt from taxation in the amount of Rb 700 rubles for business trips within the RF territory and Rb 2,500 rubles for travel abroad. Funds exceeding these daily amounts are subject to personal income tax.

7. By Federal Law of 05.04.2013, No.39-FZ changes were made to the Tax Code of the Russian Federation in connection with the refinement of the principles of price assessment for the purposes of VAT.

Premium of the seller (free or beneficial transfer of goods, works, services) paid to the buyer, is non-deductible from the tax base, except in cases when the reduction in the cost of shipping on the amount of such premiums (payments) is provided directly by the contract.

The growth of the tax base for VAT purposes (as a result of rising prices or volumes of shipped products) is accounted for the tax period in which the documents were drawn up, which serve as a basis for issuing adjustment invoices. Herewith, the taxpayers are allowed to compile a single adjustment invoice for the changes in the value of goods shipped from under two or more invoices drawn up earlier by this taxpayer for the same recipient.

The timelines of audits by tax authorities for control of transactions made in 2012 are refined (shifted).

8. Application of VAT on received forfeits was explained by the letters of the Federal Tax Service of Russia of April 3, 2013 No.ED-4-3/5875@ and the Ministry of Finance of Russia of 04.03.2013 No.03-07-15/6333 on the issue of VAT payment on the amounts received by the sellers from the buyers for breach of the supply contracts. Referring to the decision of the Presidium of the Russian Federation of February 5, 2008 No.11144/07, the Ministry of Finance of Russia noted that the a forfeit is a form of liability for delay in the performance of obligations under the contract and is not directly connected with the payment for the products in the framework of business, so the amount of the forfeit is not subject to VAT.

However, if the sellers received from customers amounts stipulated by the terms of contracts, referred to as the forfeit (fine, penalty) they are not regarded as those in the sense of Art. 330 of the Civil Code of the Russian Federation, but in fact constitute an element of pricing, such amounts are included in the tax base for VAT on general grounds.

9. The letters of the Federal Tax Service of Russia of March 25, 2013 No.ED-4-3/5036@ and the Ministry of Finance of Russia of January 21, 2013 No. 03-11-09 / 6 addressed the issue of taxation of repo transactions by taxpayers applying the simplified taxation system (STS).

Each part of the REPO transaction should be subject to taxation as an independent commodity transaction and to be deductible from the proceeds of the cost for purchasing goods. Under such approach, according to the Ministry of Finance of Russia and the Federal Tax Service of Russia, the rights of STS taxpayers in repo transactions with the securities will not be harmed.

10. The letter of the Russian Ministry of Finance and the Federal Tax Service of Russia of April 4, 2013 No. ED-4-3/6073@ clarifies the procedure for payment of personal income tax in the preparation of an individual gains lottery tickets' distributor, acting on the basis of the agency contract in the name and on behalf of the lottery organizer. Distributor of lottery tickets is not a tax agent and does not have to report to the tax authorities on those who won the lottery. Physical entity receiving a prize, on the contrary, must declare its income, assess and pay personal income tax on winnings for the lottery ticket. Thus (with the exception of beneficial lotteries that do not involve charging for participation therein), income on the lottery proceeds, including the winning lottery ticket at the usual lottery ticket, turns to citizens into a serious legal problem (which is not even realized by the majority of lotteries participants). Let us explain the situation.

A winning under lottery ticket is a second source of income for the common person apart from wages. If there is a second source of income from which tax has not been withheld by the tax agent, a citizen, by law, is obliged to apply to the tax office, declare total revenues, assess and pay tax

(including on the lottery ticket at the rate of 35% instead of the general rate of 13%). And those who do not formally become violators of tax laws, and will be subject to tax penalties. This situation exists since January 1, 2002, and no one has yet taken steps to change it. Foreign citizens who will come to the Olympic Games, who buy a lottery ticket and win, will be formally tax offenders as well. To avoid misunderstandings, we believe it is appropriate for the Russian Ministry of Finance and the Federal Tax Service of Russia before the Olympics (where surely will be presented all sorts of charitable lotteries) to make changes to the current taxation of income on lottery tickets' gains. Namely, for example, introduce the imputed tax on each winning lottery ticket below a certain value and eventually liberate citizens and other individuals from the obligation to declare a small amount of winnings on lottery tickets

Recall that the order of the lottery in the Russian Federation is regulated by the Federal Law of 11.11.2003, No. 138-FZ. The amount of the prize fund of a lottery against the revenue of its arrangement must be at least 50%, and the amount of the targeted allocations, provided by the terms of the lottery (for sports, education, health, etc.) should make not less than 10% of the proceeds from the lottery. Lottery is subject to registration. The lottery terms, its location, the procedure for obtaining a gain are to be specified in the ticket. ●

CHANGES IN THE SPHERE OF BUDGET LEGISLATION IN APRIL 2013 M. Goldin

In April 2013, Federal Law on the Contract System in the Sphere of Procurement of Goods, Jobs and Services for State and Municipal Needs was approved.

On April 5, the President of the Russian Federation signed Federal Law No. 44-FZ of April 5, 2013 on the Contract System in the Sphere of Procurement of Goods, Jobs and Services for State and Municipal Needs (hereinafter referred to as the Law on FKS); most provisions of the above Law will become effect from January 1, 2014. The Law will finally come into force on January 1, 2017.

The Law is meant to replace existing Federal Law No. 94-FZ of July 21, 2005 on Placement of Orders on Supplies of Goods, Fulfillment of Jobs and Rendering of Services for State and Municipal Needs (hereinafter referred to as Law No. 94-FZ).

The Law on FKS transforms to a great extent the rules of regulation in the sphere of state procurement and considerably expands the scope of regulation as compared to existing Law No. 94-FZ. So, the Law on FKS introduces the system of planning of purchases, including development of three-year plans of purchases and schedule-plans of purchases for each year. The Law on FKS establishes the general requirements to purchase-planning: the scope of schedule-plans of purchases, rules on the deadlines of approval of schedule-plans of purchases and other. At the same time, a number of procedural questions at the stage of planning of purchases will be regulated by statutory acts of the Government of the Russian Federation.

Also, the Law on FKS introduces the practice of rationing in the sphere of procurement. A requirement will be established to rationing of purchases aimed at complete securing of state and municipal needs and exclusion of purchases – made at the expense of budgetary funds – of goods with excessive consumer properties. Rationing of purchases suggests determination of some pricing thresholds, that is, ultimate prices for goods, jobs and services and (or) standard costs of activities by the authorities. In addition to ultimate prices, requirements will be set to goods, jobs and services purchased by the customer. The general rules of rationing in the sphere of procurements will be approved by statutory acts of the Government of the Russian Federation.

The Law on FKS expands the choice of methods of determination of the supplier by means of introduction of such new methods as a tender with limited participation, a two-stage tender and a request of bids. An open auction will be held in the form of an electronic auction.

Existing Law No. 94-FZ is often criticized as regards preferential pricing approach to determination of the best bid or quotation. Due to the above, the Law on FKS provides for antidumping measures aimed at prevention of unjustified reduction of prices in holding of tenders and auctions and carrying out of monitoring of purchases and audit in the sphere of procurements. So, in particular, if in carrying out of a tender or auction the initial (maximum) price amounted to over Rb 15m and the participant in procurement whom the contract was concluded with offered a contractual price which was 25% or more blow the initial (maximum) price of the contract, the contract is concluded only after the above participant provided a contract performance bond in the amount which exceeds by 50% the amount of the contract performance bond specified in the tender (auction) documentation, but no less than the amount of the advance payment (if the contract provides for the advance payment to be made).

The Law on FKS envisages a more in-depth regulation of the system of supervision in the sphere of state procurement. It is believed that supervision will be carried out at several levels:

public (municipal) control;

- in-house control;
- control carried out by the customer in the sphere of procurement;
- public scrutiny. ●