



© GAIDAR INSTITUTE FOR ECONOMIC POLICY

3–5, Gazetny pereulok, Moscow, 125 993, Russian Federation

Phone (495)629–67–36, fax (495)697–88–16, Email: lopatina@iep.ru

www.iep.ru

RUSSIAN ECONOMIC DEVELOPMENTS

No.8 2013

| | |
|---|----|
| RUSSIA'S ECONOMY IN JULY 2013: PRELIMINARY DATA AND PRINCIPAL TRENDS (K.Rogov) | 2 |
| POLITICAL AND ECONOMIC RESULTS IN JULY 2013 (S.Zhavoronkov) | 5 |
| INFLATION AND MONETARY POLICY IN JUNE 2013 (A.Bozhechkova) | 8 |
| RUSSIA'S FINANCIAL MARKETS IN JULY 2013 (N.Andrievsky, E.Khudko) | 11 |
| RUSSIA'S REAL SECTOR OF THE ECONOMY: FACTORS AND TRENDS IN H1 2013 (O.Izryadnova) | 15 |
| RUSSIAN INDUSTRIAL SECTOR IN JUNE 2013 (S.Tsukhlo) | 18 |
| RUSSIA'S FOREIGN TRADE IN JULY 2013 (N.Volovik) | 21 |
| RUSSIA'S NATIONAL BUDGET IN H1 2013 (T.Tischenko) | 24 |
| RUSSIAN BANKING SECTOR IN H1 2013 (M.Khromov) | 28 |
| MORTGAGE IN THE RUSSIAN FEDERATION IN JUNE 2013 (G.Zadonsky) | 32 |
| A NEW TURN IN THE PRIVATIZATION POLICY (G.Malginov, A.Radygin) | 35 |
| FACTORS CONTRIBUTING TO THE DECREASE OF PRICES FOR PORK AND THE DECLINE OF PIG PRODUCTION PROFITABILITY (N.Karlova) | 39 |
| APPROPRIATE ADJUSTMENT TO THE MILITARY CONSTRUCTION (V.Tsymbal) | 43 |
| INNOVATIVE EXPORTS PROMOTION IN RUSSIA: ROLE OF INTELLECTUAL PROPERTY RIGHTS PROTECTION (A.Makarov, A.Pakhomov) | 46 |
| OECD'S CONTROL INSTRUMENTS IN THE CONTEXT OF RUSSIA'S ACCESSION TO THIS ORGANISATION (N.Efimova, M.Samarina) | 51 |
| THE REVIEW OF RUSSIAN ECONOMIC LEGISLATION (I.Tolmacheva, Yu.Grunina) | 54 |
| REVIEW OF THE MEETINGS OF THE GOVERNMENT OF THE RF IN JULY 2013 (M.Goldin) | 56 |
| REVIEW OF THE REGULATORY DOCUMENTS ON TAXATION ISSUES IN JUNE–JULY 2013 (L.Anisimova) | 58 |
| CHANGES IN RUSSIA'S REGULATORY BASE OF THE BUDGETARY PROCESS IN JULY 2013 (M.Goldin) | 66 |

RUSSIA'S ECONOMY IN JULY 2013: PRELIMINARY DATA AND PRINCIPAL TRENDS

K.Rogov

Socio-political background: neither prohibit nor permit

Escalation of socio-political tensions in July 2013 was caused by upcoming elections in various regions on September 8, 2013. The tension, in its turn, reflects general uptrend in political activity, which has been of cellular nature so far, of both common citizens and elite groups. Main collisions in July have been developing around the upcoming mayoral elections in Moscow and St. Petersburg, as well as municipal elections in Yaroslavl.

In Yaroslavl, confrontation was boosted after opposition incumbent mayor Yevgeny Urlashov announced his intention to run as leading candidate for Mikhail Prokhorov's *Grazhdanskaya Platforma* (Civil Platform) instead of *Edinaya Rossiya* (United Russia) in the upcoming municipal elections. Such a development would guarantee a major defeat for United Russia and total loss of control in the city by the same. The Yaroslavl Municipal Duma (City Council) made attempts to ouster the popular mayor, who eventually was arrested in the night of July 3, 2013 on the charge of attempting to solicit a bribe and bribetaking. In spite of its initial representations, the Investigative Committee of the Russian Federation has failed to provide a convincing evidence of the charge within a month and its witnesses began to alter their evidence. The foregoing totally contradicts the common practice, when bribe extortion and bribery charges are regarded as having real prospects in court subject to physical evidence, typically, when the accused has been caught with the mainour. Furthermore, the case in hand deals with a legally elected mayor. This is why Urlashov's arrest and detention can be regarded as politically motivated action. In fact, any other mayor might be arrested through such a scheme (on unsatisfactory extortion charges). Anyway, at the end of July the Yaroslavl municipal electoral commission refused under a far-fetched pretext to register Civil Platform for the upcoming municipal election.

Contrariwise, main opposition candidate Aleksei Navalny was registered as Moscow mayoral election candidate with the aid of municipal authorities in Moscow. On the following day, however, he was charged with defrauding Kirovles, a state-owned timber company, by Kirov Court. The prosecution used the same scheme which was initially tested in the second YUKOS case: the difference between two transactions was

regarded as evidence of damage caused to the first seller, then the total transaction amount was regarded as the amount of damage based on an absurd ruling of the Supreme Court, whereby any business transaction might be regarded as severe criminal offence, depriving a person of the right to stand for elections *ad vitam* under another provision (in direct contradiction to the Constitution of the Russian Federation). Aleksei Navalny was arrested in the courtroom, but unexpectedly released – contrary to the common practice – on the following day. He may therefore participate in the Moscow mayoral election campaign. The biggest ever unauthorized action in support of Navalny was held downtown and attended by at least 10,000 persons prior to Navalny's release.

Analysts have explained such an unusual behavior of Moscow municipal authorities towards Navalny by the fact that certain political groups are seeking to lend more legitimacy to Sergei Sobyenin's election as Moscow mayor, thereby strengthening his political weight. Some assume that it may be indicative of Sobyenin being considered a candidate for successor-backup of President Putin who is losing ground.

One way or the other, these collisions show that government authorities in politically active regions are facing two tasks which contradict one another, namely lend more legitimacy to elections and prevent opposition forces from getting stronger. Attempting to solve these tasks, government authorities have to use more risky combinations which act as destabilization factor. Quiet and smooth elections are passing.

Macroeconomics: quiet summer and military and political budget

The July macroeconomic conditions were governed by insignificant increase in oil prices and stabilization of the ruble exchange rate and inflation. A growth in oil prices to \$108 per barrel by July 10 (106.2% of the price at June end) encouraged an increase of 4.9% (from 1330 points as of June 28 to 1400 points as of July 12) in the MICEX index. The monthly ceiling of the index was reached on July 17, 1431.8 points. A growth 20.3% in Gazprom shares in the interval between July 1 and 17 against long-term downtrend in company's capitalization (the price per stock halved against post-crisis peaks in April 2011) was the most dramatic event in the stock market. However, the growth reflected the

impact of a market factor: Gazprom received from the Russian Government a few oil fields located in the Barents Sea and the Kara Sea. In general, the stock market was growing in July through state-owned companies, namely oil and gas, energy and metallurgical companies, whereas consumer, financial, and innovation sectors were stagnating.

Though in July the ruble exchange rate downtrend remained unchanged, it slowed down drastically: average price of the bi-currency basket amounted to Rb 37,30 in July against Rb 36,98 in June. In general, the basket has gained 7.3% since February 2013. Currency exchange dynamics in July were smoothed by Bank of Russia's interventions.

In July, the consumer price index grew up 0.8% against the previous month. Therefore, inflation was reduced to 6.5% on a year-on-year basis against 6.9% in June and 7.4% in May. However, it would be premature to speak about steady downtrend for inflation: high values of monthly growth in consumer prices in the summer of 2012 (0.9% in June and 1.2% in July) were driven by lower annual values. As expected, inflation rate in July was basically governed by increased tariffs of communal services. On the one hand, prices may further raise in response to a bad crop due to adverse weather conditions in several regions; on the other hand, inflation may be mitigated by domestic demand and slower growth rates in money supply against the previous year (growth rates in M2 slowed down on a year-on-year basis from 20.9% as of June 1, 2012 to 15.3% as of June 1, 2013).

In June, excess reserves of commercial banks increased by 12.6% to Rb 1145,9bn, whereas banks' debt under repo transactions increased by 7.8% to reach Rb 2,19 trillion; according to the data on July 25, banks' debt under repo transactions amounted to Rb 2,26 trillion. Interbank lending market rates saw a downtrend in June thru July: in June, the average monthly MIACR on overnight interbank ruble loans stood at 6.3% (against 6.37% in May 2013) while the average rate in the period of July 1 thru 24 stood at 6.01%.

According to Bank of Russia's preliminary estimate, capital outflow from the country reached \$10bn in Q2 2013 and totaled \$38,4bn in H1 2013, being just \$1,7bn less than in H1 2012. Moreover, capital outflow in Q2 2013 exceeded by \$5bn that in 2012, being undoubtedly a downright unpleasant news for Russia's economic authorities. Net capital outflow amounted to \$19,4bn in the banking sector and \$18,9bn in other sectors over the period of January thru June 2013.

In spite of reduction (by 2.1 p.p. of GDP) in budget revenues due to deteriorated foreign trade conditions (oil and gas revenues dropped by 1.6 p.p. of GDP) and slower Russia's economic growth rates, Russia mana-

ged to run a federal budget surplus of 0.9% of GDP in H1 2013. A positive moment is that budget oil-and-gas deficit fell from 10.6% to 8.9% of GDP. However, budget balance was attained through respective reduction of expenditures under such budget items as 'Social Policy' (-0.6% p.p. of GDP), 'National Economy' (-0.4%), 'Education' (-0.4%), 'Healthcare' (-0.4%). In particular, it suggests that healthcare expenditures has seen a reduction of more than one third as percentage of GDP against H1 2012, whereas expenditures under such items as 'National Defense' and 'National Security' increased by 0.2 p.p. in aggregate. As a result, Russia's budget resembles more the budget of a military-police state in terms of spending: the share of military and security expenditures has been increased from 28.8% to 33% in total budget expenditures, whereas the share of educational and medical expenditures has seen a reduction from 11.3% to 9.4%.

Real sector: from slowdown to stagnation

The Q2 results show that the situation in the real sector keeps deteriorating, beginning with slowdown in economic growth and moving towards stagnation. This is supported by negative dynamics of investments (against Q2 2012) and reduction in production in the manufacturing industry.

Further deterioration of financial performance results of enterprises and organizations (in January thru May 2013 profit and loss account balance stood at 78.3% year on year) interferes with their ability to finance investments with their own resources. Capital investments were basically based on public funding, whereas direct foreign investments were insignificant. All in all, in H1 2013 capital investments stood at 98.6% and scope of works in the construction industry 98.1% year on year.

In addition, deterioration of financial performance results of enterprises reflects not only shortage of funds, but, above all, earnings dilution. It is weak demand against high costs that serves as the key constraint factor for enterprises. As is evident from weak investment activity. The fact that weak investment activity is connected with the foregoing factors rather than shortage of funds is supported by prevalence of term bank deposits in the total amount of funds which corporate bank clients hold in banks: they account for 54.6% of total corporate deposits in banks, or around Rb 6,5 trillion. However, the June growth in corporate bank funds was observed in settlement and current accounts, whereas the volume of term bank deposits dropped by Rb 14bn during the month.

For the first time since 2009 industrial production in H1 2013 remained at the previous year level. However, the situation changed in the second quarter against

the first one: while in Q1 2013, reduction in the manufacturing industries amid weak growth in processing (1.2% against Q1 2012) had an adverse effect on industrial performance figures, in Q2 2013 mining was growing (+2.7%), whereas manufacturing industries saw negative growth rates on a year-on-year basis (-1.3%). Production growth in manufacturing industries was observed in chemical and petrochemical industries, rubber and plastics industry, whereas metallurgic industry and machine building sector showed market cutback in production. For instance, production of machinery and equipment stood at 93.5% and electrical equipment, electronic and optical equipment at 94.7% against Q2 2012.

Consumer demand has becoming less supporting to the economy. Growth rates in retail trade turnover (+3.7% against H1 2012) and paid services to households (+2.0%) have almost halved against the previous year due to both reduction in growth rates of real disposable income and real wages and slowdown in growth rates in retail lending (issued retail loans have grown 33.3% over 12 months against 39.1% as of the beginning of 2013, and 42.5% in the preceding year), which, in its turn, reflects a heavy debt load (household expenses on payment of interests and principal redemption accounted for 11.5% of disposable income in the period of January thru May 2013). In addition, household consumer behavior has been changing in 2013: thrift propensity has been growing, whereas the share of costs on purchase of products has been reducing. Retail bank deposits increased by 2.1% in June 2013 and 20.0% during 12 months. The foregoing has triggered growth in relative investment potential of bank deposits (actual value of retail term deposits in

banks reached 6.7% p.a. in H1 2013) and resulted in more moderate households' forecast of economy prospects and their own financial standing.

Further development of adverse trends in the industrial sector had an adverse effect on growth (for the first time since the beginning of the year) in unemployment in June against May 2013 (104.7%) and June 2012 (102.7%). Stock balance growth in H1 2013 is indicative of that no changes are to be expected in the foregoing trends in a short-term period.

The data obtained by Gaidar Institute's business surveys also show that anticipations concerning consumer growth in May, which encouraged enterprises to increase their output, were not borne out, and the increase become a problem for the industrial sector, having triggered drastic growth in the level of dissatisfaction with sales and made enterprises to revise demand forecasts, output and employment plans in favor of a negative scenario in June–August. In addition, according to business surveys, the industrial sector shifted in June towards absolute price cutting against scheduled growth in tariffs in summer. As a result, 2013 year-end financial performance results might be found to be even more frustrating for enterprises than those in H1 2013.

Data on Q3 2013 may be found to be more encouraging due to the base effect: the economy began to slow down in Q2 2012. However, it will happen, provided that adverse trends of H1 2013 stop developing, otherwise growth cessation might become an official statistical factor, and, indeed, transition to a recession doesn't seem to be an unthinkable scenario in the context of the Q2 data. ●

POLITICAL AND ECONOMIC RESULTS IN JULY 2013

S.Zhavoronkov

In July 2013, Russian opposition leader Aleksei Navalny was sentenced to five years in prison. It appears, however, that he would be allowed – on procedural grounds, since no appeal hearing has been held yet – to run for mayor in mayoral elections in Moscow on September 8, 2013. A combination of Kremlin’s decision to allow Navalny to run for mayor in the election and demonstration of the likelihood of his real imprisonment has made the upcoming Moscow mayoral elections highly politicized, boosted social activity, and may well result in problems for S. Sobyenin. With regard to the Navalny case itself, putting aside ethic ambiguity of the story about a timber trading company controlled by a friendly governor, it is technically another notorious confirmation of the fact that any business in Russia might just as well be criminalized through subjective evaluation of the ‘fair value’ by law enforcement authorities and courts. RAS (Russian Academy of Science) reform has been delayed as expected: the academic society has managed to come to President Putin’s attention and gain certain concessions from him.

July 2013 has been overheated by political developments featuring two events, namely all-Russia single voting day scheduled on September 8 (registration of candidates and party lists has been completed in July, and a distribution of political forces has been developed) and the development of the Navalny case – a guilty verdict by the Kirov court against the opposition leader himself and his all-in-all circumstantial companion in adversity, businessman P. Ofitserov. Moreover, the events have turned out to be interconnected, because A. Navalny announced he would run for mayor in the mayoral elections in Moscow.

Early mayoral elections in Moscow, which were unexpectedly announced in June 2013, have turned out to be a serious political event. Prior to that, there were rumors about such elections, but governors are normally elected in Russia under nondemocratic rules which allow unwanted persons to be tossed out at the stage of candidate registration, when they have to pass through a so-called municipal filter by collecting signatures in their support from 5 to 10% of municipal (city council) members, in which case each municipal member may sign in favor of one candidate, and municipal members must represent 3/4 of municipalities. Though being seemingly easy to pass through (6%), the Moscow filter has turned out to be very tough, because new territories having small elective body and lacking independent municipal members were annexed to Moscow. In fact, apart from the official candidate, only the Communist Party candidate (communists named one of their leaders a candidate, I. Melnikov, a professor at Moscow State University) had a chance (not 100% though) to pass through the filter. Originally, the elections seemed to have been designed to be held with low voting turnout and lack of intrigue, but a high-percentage-of-votes report.

Furthermore, businessman M. Prokhorov – who was ranked 2nd in Moscow during the presidential elections held in March 2012 – withdrew from elections under a flimsy pretext of having not enough time to restructure his overseas assets. Eventually, however, S. Sobyenin made a gentleman decision to share municipal members’ signatures with a few candidates, namely N. Levichev from Spravedlivaya Rossiya (Just Russia), M. Degtyarev from LDPR (Liberal Democratic Party of Russia), and S. Mitrokhin from Yabloko, as well as opposition member A. Navalny¹. However, the intrigue seemed to be incomplete yet, because pursuant to the recent Russian legislation novels, persons convicted (charged with imprisonment or suspended sentence) under grave offences must forfeit the right to be elected *ad vitam*. Consequently, if Navalny’s sentence took legal effect after appeal prior to September 8, he would be withdrawn from election². The verdict was already delivered – A. Navalny was sentenced to 5 years in prison, whereas his partner in crime P. Ofitserov to 4 years in prison, however, they were unexpectedly released in the courtroom under the pretext that an appeal had been filed and the verdict hadn’t taken legal effect yet (an extremely rare but formally possible legal case). Given that Navalny announced that he would withdraw from election if he was restrained of liberty, the Kremlin has made it clear that Navalny will be allowed to run for mayor in the upcoming mayoral elections in Moscow.

1 There is another large businessman who has been withdrawn from election, billionaire G. Fetisov who by himself collected more than 50% of the required signatures, but was denied Sobyenin’s support. The federal government seems to be afraid of competing with politicians with sufficient resources.

2 There is another casus, when a candidate may be removed from the voting paper not later than five days prior to the election day, in which case, it is not clear which of the laws should prevail.

Though being more or less good enough in view of democratic principles and standards, the mayoral campaign in Moscow may pose an extremely major threat to both the Russian political regime in general and S. Sobyenin in particular. Having been prompted to run fair elections, the Kremlin is running the risk of having obtained an extremely bad result – at least a second runoff – instead of a convincing victory. Heavy politicization and polarization of the society sympathizing with Navalny as victim of lawlessness facing real imprisonment can offer nothing good to S. Sobyenin. United Russia and President Putin failed to win even 50% of votes in Moscow at the latest parliamentary and presidential elections. With regard to S. Sobyenin, although there are no gross failures his performance record, he hasn't been very successful over the past three years: the transport issue in the city has been deteriorating, Moscow citizens resent the rush of illegal migrants (Moscow citizens don't mind that the issue is formally out of mayor's competence), there is high crime rate, and lots of corruption scandals ranging from the barbarian "municipal street improvement" with paving slabs and endless lawn mowing on out to a pointless war with kiosks which already were removed for more than three times. Finally, the Moscow subway, where successful construction of new stations is supposed to demonstrate one of the 'highlights' of the electoral campaign supported by the Kremlin, has recently begun to suffer major accidents every week. Therefore, the Kremlin might end up facing unpleasant surprises instead of a triumph win at fair elections. With regard to the opposition, above all, A. Navalny himself, they would gain in any case: their advocates would forgive them any defeat by a slender minority, whereas the very likely second option would actually legitimize Navalny as the key political competitor of the Kremlin, not a pilferer and political loser, as they would like him to become.

Concerning other candidates, all candidates from parliamentary parties (who used to follow the logics of voting in favor of any party but United Russia) are expected to obtain worse results, except for communists who wouldn't suffer heavy defeat, because they always win around 10% of votes. The elections might become an electoral catastrophe for Just Russia and LDPR. It is very hard to make forecast for S. Mitrokhin, because his result is very unpredictable: he might either win some votes of liberals for whom A. Navalny is not a good option, or get nowhere.

In other regions, M. Prokhorov's Civil Platform's potential result in the upcoming governor elections is being in the spotlight. The party participates for the first time in regional party-list elections (in Yaroslavl, the party-list is headed by recently arrested mayor

E. Urlashov who has gradually been transforming into a 'regional Navalny'. In Yekaterinburg, drugbuster and former city council member E. Roizman has good changes to win mayoral elections). Other parties' candidates should be thankful, at the very least, for having an opportunity to be elected as members of legislative bodies in several regions, with Fetisov's Alyans Zelyonykh (Green Alliance) having good chances. Traditional left-wing parties such as KPRF (communists) and Just Russia have good chances to challenge United Russia in such regions as Arkhangelsk, Smolensk, Irkutsk, as well as at Voronezh mayoral elections.

Returning to the Navalny case which is being of concern in Russia and abroad as the one similar to the YUKOS case, a wide-scale precedent which allows one to look at the law and order in Russia, let's try to give most fair and square picture free from any political creed and hysteria. In fact, Navalny and P. Ofitserov were accused of having set up a purchase-and-sale deal between a Vyatskaya Lesnaya Kompaniya (Vyatka Wood Company) and SUE (State Unitary Enterprise) Kirovles when A. Navalny worked as governors' advisor on a voluntary basis. The prosecution believes that such a transaction was hard bargain for SUE Kirovles, having criminalized Navalny's and Ofitserov's activity under Article 160 (Misappropriation and Embezzlement) of the Criminal Code of Russia and accused them of misappropriation of at least the buy-sell spread of the timber they sold. On top of that, it appeared that a Plenum of the Supreme Court of Russia issued absurd resolutions which suggest that in such cases the amount of damage is to be equal to the total amount of a transaction, which is Rb 16m in the Navalny case. Therefore, the Navalny case is just one of the numerous similar cases initiated against businessmen and based on arbitrary explanation of transactions' fair value by investigators and courts (which may appear to have no economic education at all). Furthermore, such a "fair value" can further be used to calculate the value of stolen assets, unpaid taxes, etc. The same scheme was used in other notorious case, i.e. the YUKOS case. Indeed, such a practice must be completely eliminated in a country with freedom of collective bargaining, and real economic control must be based on comparing market prices, values of economic agent's similar transactions, according to the procedure provided for by Article 40 of the Tax Code of Russia¹. A bad news for Navalny is that though he might have committed no criminal offence, organization of commercial transactions by governor's advisor between a SUE within

¹ The legal practice under this article is quite controversial too. Furthermore, though provisions of the article are ill-defined, at least it allows assessments to be made.

governor powers jurisdiction and a friendly entity is a perfect illustration of conflict of interests and the common practice of state-owned companies which Navalny himself repeatedly criticized. And if Navalny wasn't under the threat of unjust imprisonment, his advocates would have nothing to say about a parallel between, for instance, Navalny and Gunvor's owner Timchenko, except for the scale of their business.

In July, the list of political prisoners was complemented with Yaroslavl mayor E. Urlashov who was elected by winning 70% of votes in March 2012 and has recently announced that he will run for governor in the upcoming governor elections. The technique of the Urlashov case is much more simple: having spared themselves any economic investigations, law enforcement officers simply found a few persons who then testified against Urlashov on bribetaking. Having failed to fine any bribe money, the prosecution demonstrated some blurred video and audio records which revealed neither money itself nor any mentioning thereof (the phrase "meet your obligations", which may be interpreted *ad libitum*, was incriminated on a record). It is therefore clear that there was no money at all: if a person was under surveillance, he/she could be caught red-handed. This case, which resembles the case of D. Dovgoi, the former Head of Investigation Department of the Investigative Committee of the Russian Federation, has pointed to another risk which the Russians may be exposed to: conviction with no physical evidence at all, but rather on the ground of allegations of some provocateurs being under the threat of facing a similar case for non-obedience. Such cases are especially dangerous, as laymen often fail to consider them as political and economic cases, because it may be a common criminal offence with a slovenly fabricated investigation.

In July the struggle around the RAS (Russian Academy of Science) reform has been continuing since its onset in the previous month, when the Russian Government submitted a respective draft law to the State Duma as if it was a special operation. The essence of the draft law was to put an end to academic autonomy of the institutes within the RAS framework and make them report to government officials. As expected, the outcome still remains to be seen. New head of RAS V. Fortov did his best to meet with and extract important promises from President Putin. In particular, Fortov himself will be managing RAS assets in the transition period. In addition, the third and final reading of the draft law was postponed until the upcoming fall, thereby allowing it to be amended and updated. More than 70 academicians – most of them represent technical and natural sciences and have the credit of high citation ratio, rather than justly criticized retired humanists – signed an application announcing their refusal to join a new academy of science. Even many of those public figures and scientists who previously supported the Ministry of Education and Science of Russia, have turned their back on it, because the reform appears to be too scandalous both in essence and form. Later, a wide front is expected to appear in opposition to the Ministry and its politicization: Russia's most famous and independent scientists are expected to make radical demands, while the RAS managers extract concessions. All the more so, because the Ministry itself keeps producing public problems: Head of Rosobrnadzor (Federal Education and Science Supervision Agency) I. Muravyov has been dismissed in July, having fallen victim to the summer scandal around public leakage of options of the answers to USE (Unified State Exams) questions. Therefore, the RAS is very likely to outlive the incumbent Minister. ●

INFLATION AND MONETARY POLICY IN JUNE 2013

A.Bozhechkova

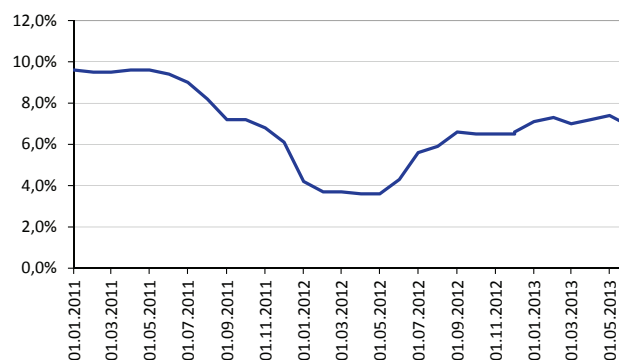
In June 2013, the consumer price index stood at 0.4% (against 0.9% in June 2012), being 0.3 p.p. less than in May 2013. The consumer price index reached 0.8% within the first 20 days in July 2013. Therefore, inflation exceeded 6.9% on a year-on-year basis. According to Bank of Russia's preliminary estimates, net capital outflow from the country reached \$10bn in Q2 2013, and totaled \$38,4bn in H1 2013, being \$1,7bn less year-on-year.

Consumer-price inflation slowed down in June 2013: consumer price index stood at 0.4% late in the month (in May 2013 0.7%), having dropped below 0.9% against 2012. As a result, inflation reached 6.9% on a year-on-year basis (Fig. 1). Core inflation¹ stood at 0.3% in June 2013, having lost 0.1 p.p. against the previous year.

In June 2013, inflation was mitigated by slower growth in prices of food products (from 1.0% in May to 0.5% in June on a year-on-year basis) due to slower growth rate in prices of fruits and vegetables (from 6.5% in May to 3% in June on a year-on-year basis), sugar and granulated sugar (from 2.0% in May to 1% in June on a year-on-year basis), fish and seafood (from 0.6% in May to 0.4% in June on a year-on-year basis). In June, prices of food products such as sun flower oil, meat and poultry, eggs dropped by 0.1%, 0.2%, and 10.5% respectively, whereas there was an increase of growth rates in prices of bread and flour products (from 0.4% in May to 0.5% in June on a year-on-year basis) and butter (from 0.4% in May to 0.7% in June on a year-on-year basis).

Growth rate in prices and tariffs of paid services to the public increased by 0.6% in June, having declined by 0.8% below the May value. Prices of passenger transport services increased 1.9% due to a vacation season: carfare in long-distance trains increased. Prices of sanitary and health-improvement services and foreign travel services kept growing, by 4.9% and 2.4% respectively. Prices of consumer services increased by 0.5% and medical services by 0.6%.

Growth rate of prices of non-food products slowed down in June against May 2013 (0.2% in June (+0.3 in May)). Prices of the following products increased most in this product family: tobacco products by 1.6% (against 3.2 in May 2013) and medications by 0.6% (against 0.9 in May 2013). Prices of audio-video prod-



Source: Rosstat.

Fig. 1. CPI growth rate in 2011–2013 (% year over year)

ucts and gasoline kept falling in June, by 0.1% and 0.2% respectively, in the non-food product family.

Within the first 20 days in July consumer price index (CPI) stood at 0.8% basically in response to indexation of public utility rates early in the month. As a result, the accumulated since the beginning of the year inflation reached 4.3%, (against 4.4% in the same period of 2012). As of June 20, 2013, inflation exceeded 6.9% on a year-on-year basis.

Prices might further be pushed up by anticipated crop decline due to adverse weather conditions in certain regions (a drought in some of the south regions, in the northern part of the Volga Region, and a rainy weather in the Central Federal District). Poor domestic demand which has been weakening over a year, and continued slowdown in growth rates in money supply (M2 increased at a rate of 20.9% year-on-year as of June 1, 2012 to 15.3% as of June 1, 2013) will be inflation constraining factors.

In June 2013, broad money increased by 3.2%, Rb 9063,2bn, on a year-on-year basis (Fig. 2). All broad money components saw growth. Cash in circulation, including cash balances in credit institutions, increased by 1.9% (Rb 7419,6bn) on a year-on-year basis. Correspondent accounts increased by 12.2% (Rb 1002,4bn) on a year-on-year basis, mandatory reserves by 2.2% (Rb 497,7bn) on a year-on-year basis, banks' deposits

¹ Reference consumer price index is an indicator which describes the level of inflation in the consumer market, net of seasonal (prices of fruit and vegetable products) and administrative (tariffs of regulated types of service, etc.) factors which is also calculated by the Federal State Statistic Service of Russia (Rosstat).

with the Central Bank of Russia by 15.4% (Rb 143,5bn) on a year-on-year basis.

In June 2013, narrow money (cash plus) gained 2% (Rb 7917,3bn) on a year-on-year basis (Fig. 3).

In June 2013, commercial banks' excess reserves¹ increased in volume by 12.6% (Rb 1145,9bn) on a year-on-year basis, and banks' debt on repo transactions increased 7.8% to reach Rb 2,19 trillion. According to the data on July 25, banks owed Rb 2,26 trillion on repo transactions (Fig. 2). The interbank lending market interest rate² stood at an average of 6.3% in June (6.37% in May 2013). The interest rate stood 6.01% on average between July 1 and 24.

As of July 1, 2013, the Central Bank international reserves amounted to \$513,8bn, having declined by 4.4% since the beginning of the year (Fig. 3). In Q1 2013, Russia's USD international reserves contracted basically in response to USD strengthening vs. EUR. Further contraction of the international reserves in May with insignificant foreign currency net sale by the Bank of Russia was governed by EUR strengthening vs. USD due to uncertainty about FRS's policy tightening and anticipated European economic recovery. The contraction of the international reserves in June was caused by a negative revaluation of gold and euro, as well as Central Bank's currency interventions.

In June 2013, Central Bank's currency interventions amounted to \$2707,6m and 245,7m euro and were aimed at smoothing ruble exchange rate volatility in periods of its rapid weakening (Fig. 4).

Bank of Russia's preliminary estimates show that net capital outflow from Russia reached \$10bn in Q2 2013 and totaled \$38,4bn in H1 2013, having shown a contraction of \$1,7bn against H1 2012. In the period between January and June 2013, net capital outflow in banks amounted to \$19,4bn, in other sectors – \$18,9bn.

In June 2013, the real effective ruble exchange rate increased by 3.3% vs. foreign currencies (+1.1% in May 2013) (Fig. 5). In Q2 2013, the real effective ruble exchange weakened by 1.7%.

The USD/RUB exchange rate in June increased by 2.87% (Rb 32,7) on a year-on-year basis in response to capital outflow from emerging markets due to continued uncertainty about discontinuance of the FRS quantitative easing program. The EUR/RUB exchange rate grew up 3.06% in June 2013 (Rb 42,7). In June, the EUR/USD exchange rate stood at 1.32 on ave-

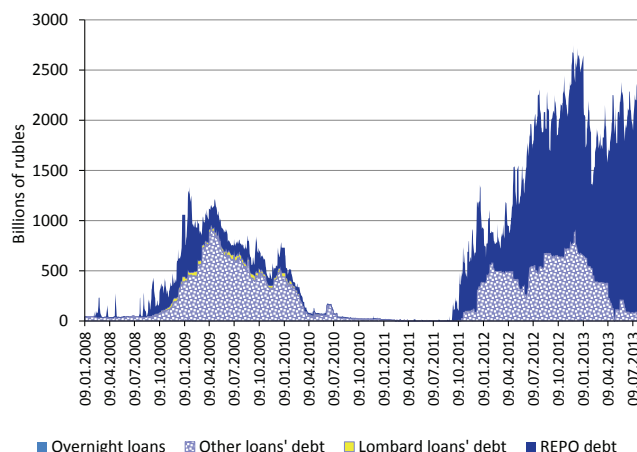


Fig. 2. Commercial banks' debt owed to the Bank of Russia in 2008–2013

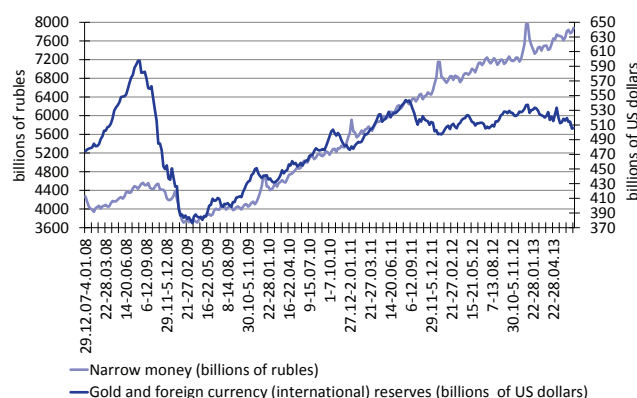
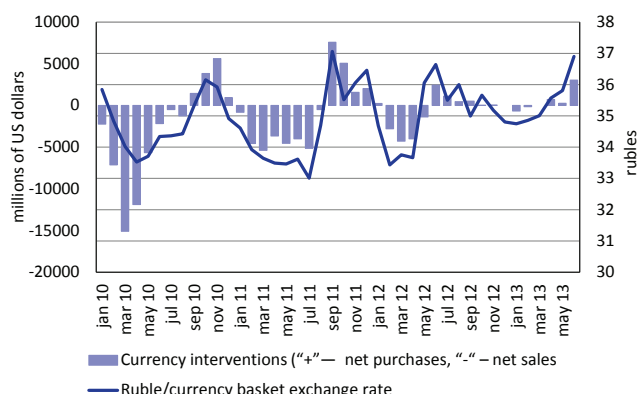


Fig. 3. Dynamics of narrow money and gold and foreign currency (international) reserves of the Russian Federation in 2007–2013



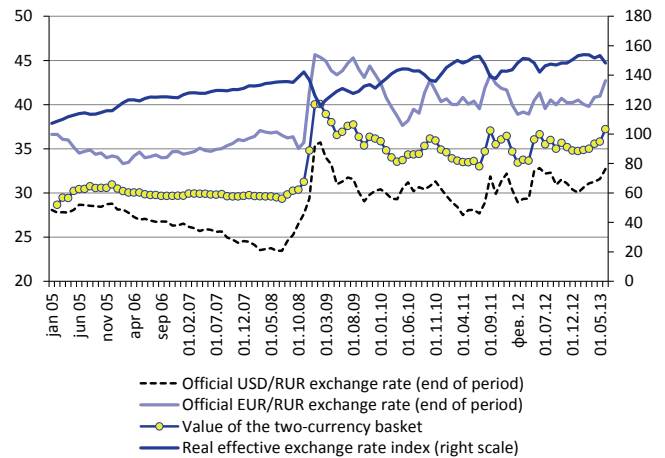
Source: the Central Bank of Russia, author's estimates.
Fig. 4. Bank of Russia's currency interventions and ruble/currency basket exchange rate in March 2010 – June 2013

1 Commercial banks' excess reserves with the Central Bank refer to the amount of commercial banks' correspondent accounts, their deposits with the Central Bank, as well as Central Bank bonds held by commercial banks.

2 Interbank interest rate is the monthly average MIACR, an interest rate on ruble overnight interbank loans.

rage. In June, the cost of the dual currency basket increased by 2.97% (Rb 37,2) on a year-on-year basis. Within 25 days in July 2013, the USD/RUB exchange rate dropped by 1.5% to reach Rb 32,3 while the EUR/RUB exchange rate dropped by 0.2% to reach Rb 42,7, thereby having reduced the cost the dual currency basket by 0.8% (Rb 37,0) on a year-on-year basis. Within 25 days in June 2013, the EUR/USD exchange rate stood at 1.3 on average. The Bank of Russia Board of Directors held its regular meeting on July 12, 2013, at which Central Bank's basic interest rates were left unchanged. However, the Bank of Russia announced a new refinancing instrument for the banking system – auctions on loans secured by non-market assets or guarantees with a term of 12 months. It should be noted that the Central Bank for the first time held a press conference after its Board of Directors regular meeting, at which it was announced a limit Rb 500bn for the initial auction scheduled for July 29, 2013. Furthermore, according to the Central Bank, the new instrument is designed to reallocate refinancing volume in favor of longer-term instruments rather than promote its growth. Therefore, limits on overnight repo auctions may be reduced by a comparable value. A minimum interest rate on the new refinancing instrument will be 5.75% p.a., i.e. it will be 0.25 p.p. above the minimum rate on overnight repo auctions. In addition, the Central Bank of Russia promised to promptly evaluate collaterals.

It should be noted that it basically is collateral evaluation procedures and discounts that should make



Source: the Central Bank of Russia, author's estimates.

Fig. 5. Ruble exchange rate indicators in January 2005 thru June 2013

the new instrument attractive for banks. Indeed, in general it is possible to change refinancing structure in favor of long-term instruments, but we believe that given the current macroeconomic situation with high rate of employment and inflation, monetary policy easing would not produce substantially positive results. Furthermore, it is not the central bank but the financial system that is supposed to create long money in the economy. In other words, most efficient options for economic activity stimulation will include mitigation of inflation risks, development of institutional environment, and enhancement of the financial sector depth. ●

RUSSIA'S FINANCIAL MARKETS IN JULY 2013

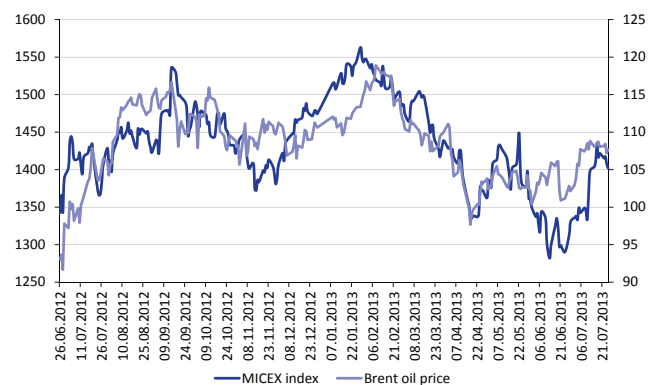
N.Andrievsky, E.Khudko

The MICEX index grew up by 4.9% in the period between July 1 thru 25 basically in response to Gazprom stock price rise by 20.37%. Stock market capitalization in that period increased by 4% or Rb 941bn to account for 37.6% of GDP as of July 25. In July 2013, the domestic corporate bond market was also governed by optimistic expectations. Almost all key market indicators saw an uptrend: market volume, corporate bond market index, average weighted yield (especially in the industrial segment), issuers' activity. The situation with issuers' obligations to bondholders remains stable.

Dynamics of Russian stock market basic structural indices

In July 2013, unlike June 2013, when the Russian stock market was basically governed by a downtrend faced by international stock markets, the MICEX index was governed by an upward trend in crude oil prices. An increase in crude oil prices of up to \$108 per barrel by July 10 (106.2% of the price at the end of June) encouraged a growth of 4.9% in the MICEX index from 1330 points as of June 28 to 1400 points as of July 12. The MICEX index reached its ceiling up to 1431.8 points on July 17 (Fig. 1).

Apart from crude oil prices, the MICEX index was also pushed up by an uptrend for blue chips. For instance, Gazprom stock price increased by 20.3% in the period of July 1 thru 17 after the Russian Government announced in July that a few of the oil fields located in the Barents Sea and the Kara Sea would be handed over to Gazprom, whereas VTB and Norilsk Nickel stock prices saw a downtrend in response to a news about increased debt owed by these companies and their profit reduction forecasts for this year. VTB and Norilsk Nickel stock prices dropped by 1.6% and 2.9% respectively in the year to July 25. Other blue

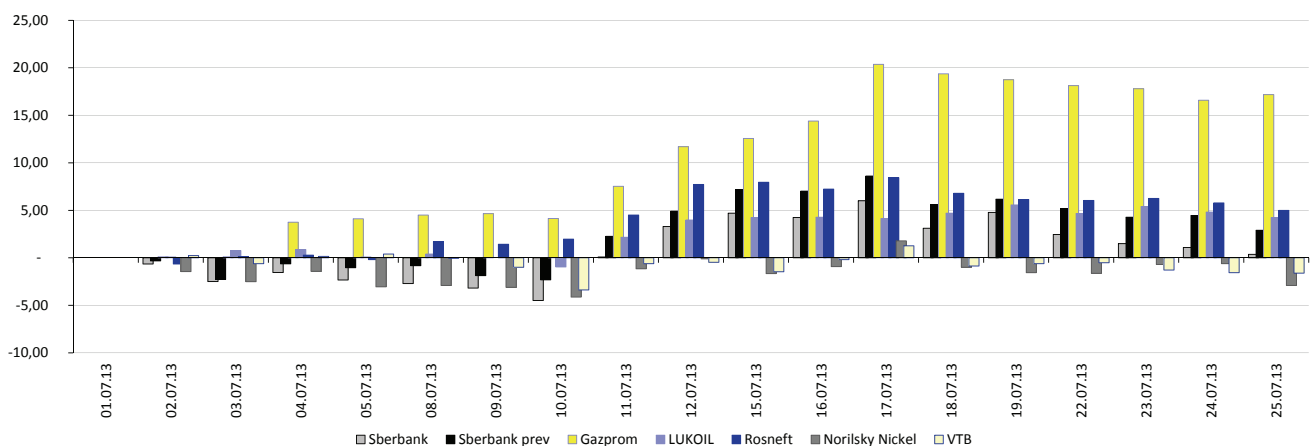


Source: RBC Quote.

Fig. 1. Dynamics of the MICEX index and futures Brent oil prices in the period of May 28, 2012 thru June 26, 2013

chips went up by an average of 3% in the month to July 25 (Fig. 2).

The July uptrend in Gazprom stock price had no any drastic effect on company's annual yield: Gazprom investors lost 13.9% in the calendar year beginning with July 26, 2012. Norilsk Nickel and VTB stocks yielded losses too: 7.3% and 10.2% respectively in the calendar year. Unlike the foregoing companies, Rosneft



Source: RBC Quote, author's estimates.

Fig. 2. Blue chips growth rates in the Moscow Stock Exchange in July 2013 (month to date)

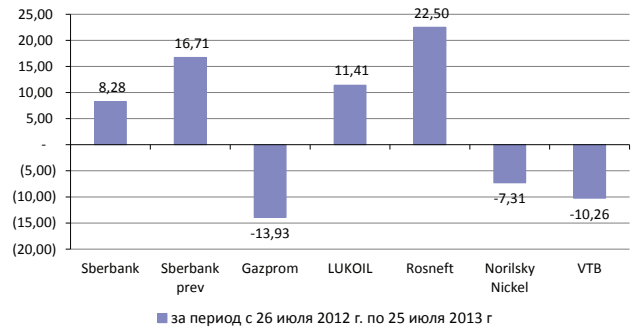
stock showed the highest yield among blue chips at 22.5% p.a. in the period beginning with July 26, 2012. Sberbank and LUKOIL privileged stocks gained 16.7% and 11.4% respectively in the period beginning with July 26, 2012.

A growth of 9.3% in the power industry index in the period of July 1 thru 23 was the most marked event concerning industrial indices. The growth was triggered by RusHydro stock price rise in response to information on higher dividends payout, and FGC UES (Federal Grid Company of Unified Energy System) stock price rise after it was announced that pension accruals accumulated in Vnesheconombank (VEB) would be invested in company's bonds. Therefore, the growth in the electric power industry index in the second half of July allowed it to regain a part of the losses incurred early in the year (it is to be recalled that the electric power industry index reached 1850 points on January 28, 2013, then it dropped to 1120 points by April 19). The metallurgic sector saw the same trend, i.e. a growth of 4.7% in the period between July 1 and July 25. The oil and gas industry index was governed by the same trend as Gazprom stock price, i.e. it gained up to 9.1% in the month to July 17. Indices in the consumer, innovation, and financial & banking sectors ranged around the values of the beginning of the month.

According to the Emerging Portfolio Fund Research (EPFR), a capital inflow of \$167m, or around Rb 5,5bn, to funds oriented toward the Russian market was registered in the period between July 1 and 24, of which 61% fell within the period between July 11 and 17. According to the same fund, capital outflow from such funds totaled \$660m in June. The Russian stock market (MICEX) capitalization totaled Rb 23,97 trillion or 37.6% of GDP as of July 25, 2013, having gained 4% or Rb 941bn against July 1. Furthermore, capitalization structure changed in response to different trends in industrial sector indices. In particular, the share of companies operating in the mineral extraction sector increased by 1.33% from the beginning of the month to 48% as of July 25. The share of companies operating in the transport and communications sectors increased by 0.37% in the same period. The share of companies operating in the mineral extraction and transport industries grew up in response to a decrease in the share of companies in the manufacturing and financial sectors from 13.4% to 12.6% and from 15.4% to 14.8% respectively in the period of July 1 thru 25.

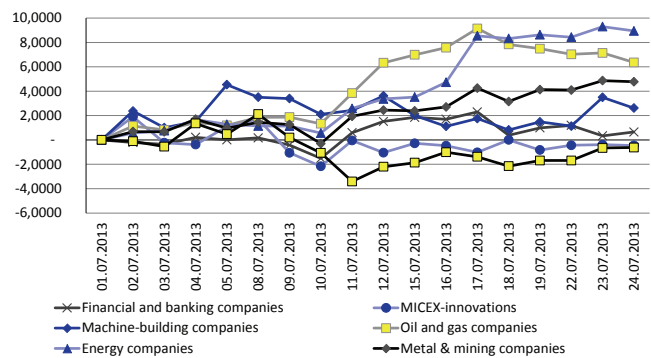
Corporate bond market

In July 2013, the domestic corporate bond market grew up to a much bigger size (measured by the par value of outstanding securities denominated in



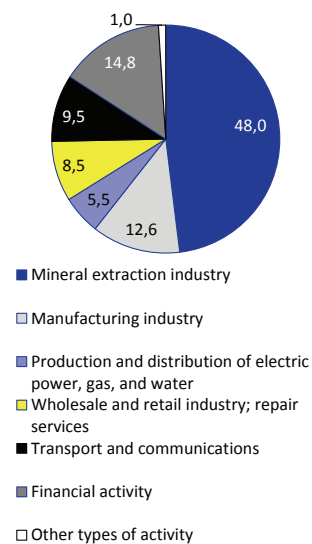
Source: RBC Quote, author's estimates.

Fig. 3. Blue chips growth rates in the Moscow Stock Exchange in the period of June 27, 2012 thru June 26, 2013



Source: RBC Quote, author's estimates.

Fig. 4. Different stock indices growth rates in the Moscow Stock Exchange (month to date)



Source: The Moscow Stock Exchange's official website, authors' estimates.

Fig. 5. Stock market capitalization structure by type of economic activity

the national currency, including those issued by non-residents), having exceeded the monthly average of H1 2013. By the end of July, this indicator reached Rb 4,621,0bn, having exceeded 2.4% the value registered late in May¹. Market capacity grew up with increase in the quantity of bond issues (983 corporate bond issues registered in the national currency against 971 issues by the end of the preceding month), whereas the quantity of bond issuers remained the same (348 issuers) by the end of the month. There are 12 USD-denominated bond issues and a JPY-denominated bond issue of Russian issuers outstanding.

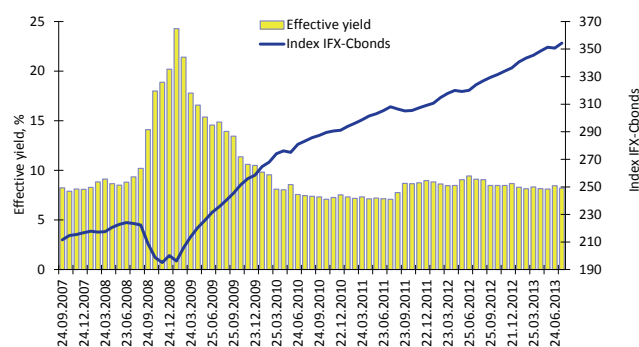
Investment activity in the secondary corporate bond market weakened in July against June, but maintained at the average level of the last few months. For example, the amount of contracts (transactions) in the Moscow stock exchange totaled Rb 115,5bn in the period between June 25 and July 19 (to compare, trading volume was Rb 128,9bn in the period between May 25 and June 24), and the quantity of transactions almost remained unchanged over the period under review, 23,800 (against 23,100 in the previous period)².

The Russia corporate bond market index (IFX-Cbonds) started to grow after a short decline. Its value increased by 3.6 points (or 1%) by the end of July against the preceding month. The corporate bond average weighted yield also saw a positive trend and dropped from 8.45% late in June to 8.20% by the end of July (Fig. 6)³.

Corporate bond portfolio duration decreased insignificantly. The duration was 740 days as of July end, being 23 days less than as of the previous month end. Relative stability of the duration value reflects insignificant duration of outstanding corporate bonds due to a decline in market interest rates.

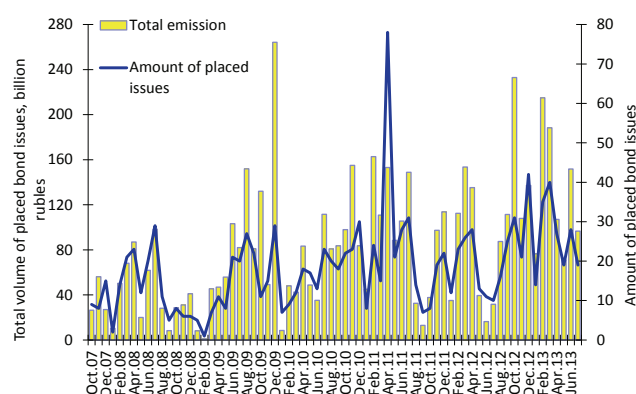
Most liquid segment of the corporate bond market saw a moderate decrease in issues' yield. Production and energy companies' bond yield saw most strongly pronounced downtrend by an average of 0.3 p.p., though investment activity in the energy segment was weak in July. Credit institutions' and telecom companies' most liquid bond yield saw a decrease of a bit more than 0.2 p.p.⁴. The general downtrend had no effect on OJSC VTB Bank whose 06-series bond yield increased more than 1 p.p.

Russian bonds issuers were highly active in terms of bond issues, having approached most nearly towards the record of the past two months. For instance, 17 issuers registered 55 bond issues at an aggregate par value of Rb 466,2bn in the period of June 25 thru July 19 (to compare, 79 bond issues at a total of Rb 590,7bn



Source: According to Cbonds Information Agency.

Fig. 6. Dynamics of the Russian corporate bond market index and average weighted yield



Source: According to Rusbonds information agency.

Fig. 7. Dynamics of initial public offerings of corporate bonds denominated in foreign currencies

were registered in the period between May 25 and June 24). More than a half of the registered bond issues included listed bonds.

However, irrespective of positive market dynamics and high issuers' activity, there were much less IPOs against the previous period and figures concerning registration of bond issues. For instance, 19 issuers placed 24 bond issues at an aggregate par value of Rb 96,6bn (to compare, 28 bond issues were placed at Rb 151,8bn in the period between May 25 and June 24) in the period of June 25 thru July 19 (Fig. 7). Major bond issues were placed by OJSC Russian Railways (Rb 25bn) and, Bank of Development and Foreign Economic Affairs (Vnesheconombank) state-owned company (Rb 20bn)⁵. It should be noted that all of the above issues included listed bonds, whereby suggesting that investors gave preference to reliable issuers which have long been present in the market. However, the placed bond issues included four debut issues of mortgage bonds with a maturity of 27 to 32 years. The maturity of the rest of bond issues was 10 years or less.

1 According to Rusbonds information agency.

2 According to Finam Information Company.

3 According to Cbonds Information Agency.

4 According to Finmarket Information Agency.

5 According to Rusbonds information agency.

In June, as little as one debut bond issue was declared void by the Federal Commission for Securities Market of Russia (FCSM) for non-placement of a single bond, whereas none of the corporate bond issues was cancelled for the same reason in the period between May 25 and June 24 (although 10–15 issues were cancelled monthly in the first quarter). It is quite a positive signal indicative of the demand for corporate debt securities¹.

Thirteen issuers were to redeem their debt at an aggregate par value of Rb 59,9bn in the period of June 25 thru July 19. However, three of the issues failed to redeem their debt on the date of maturity (a single issuer declared a technical default in the preceding period), being an adverse event in the market. Twelve corporate bond issues at a total of Rb 33,9bn² are expected to take place in August 2013.

Though there were a few cases of technical default on debt redemption, the situation with issuers' obligations to bondholders still remains stable. In the period between June 25 and July 19, like in the previous period, (i.e. a situation when the issuer is unable to pay to security holders even shortly after a scheduled due date) concerning coupon yield payment, redemption

at par value of bond issues and early redemption of securities through offer³.

Quite a number of regulatory and administrative market innovations have been proposed over the last few weeks. First, early in July, the State Duma of Russia adopted a federal law on financial mega-regulator which empowers the Bank of Russia to conduct prudential regulation and supervision over financial market participants and macroeconomic policy. Second, the Russian Government stated about the need to balance taxation on personal interest income generated from bank deposits and stocks and bonds. In particular, the same concept is set forth in a road map on the "Creation of International Financial Center and Enhancement of Investment Climate in the Russian Federation". Finally, the Moscow Stock Exchange announced that by the end of the year it would be possible to trade in outstanding classic bonds on the date of placement (such a possibility already appeared for listed bonds early in the year). It became possible, because of replacement of the securities placement report with a placement notice filing for classic bonds⁴.

1 According to the Federal Financial Markets Service of Russia (FFMS).

2 According to Rusbonds company.

3 According to Rusbonds company.

4 According to the materials of Rusbonds Information Agency.

RUSSIA'S REAL SECTOR OF THE ECONOMY: FACTORS AND TRENDS IN H1 2013

O.Izryadnova

In the 1st half of 2013, business activity in the Russian economy was determined by weakening of the external demand on goods of the Russian export and moderate growth in domestic demand. A decrease in investments in capital assets and stagnation of manufacturing industries had a negative effect on the domestic market. Growth rates of consumer demand amount to less than 50% of the indices of the 1st half of 2012. According to evaluations of the Ministry of Economic Development of the Russian Federation, in the 1st half of 2013 GDP growth rates amounted to 1.7% year-on-year.

In the past six quarters, slow-down of economic growth rates resulted in stagnation of industrial production and a drop in volumes of building and investment activities. In the 1st half of 2013, the volume of investments in capital assets and the volume of work in building amounted to 98.6% and 98.1%, respectively, as compared to the respective period of the previous year. As in the past five months financial results of enterprises and entities decreased (in January–May 2013 the balance of profits and losses amounted to 78.3% on the 2012 figure), opportunities to finance investment programs of economic agents by means of own funds shrank. Investments in capital assets largely rely on state financing; the inflow of direct foreign investments is insignificant. The situation is complicated due to prevalence of the trend of capital flight: in January–June 2013 the outflow of capital amounted to \$38.4bn (the Ministry of Economic Development of the Russian Federation forecasts the outflow of capital in 2013 at the level of \$30bn).

In the 1st half of 2013, a negative effect on economic growth was caused by a drop in the net export; according to preliminary data of the Central Bank of the Russian Federation it fell by 15.6% as compared to the respective period of 2012. A drop in rates of the export volume in monetary terms was registered in the past three quarters. The import growth rates decrease, as well: from 105.2% in the 1st quarter to 102.3% in the 2nd quarter of 2013 as compared to the respective periods of the previous year. Despite a drop in growth rates, the importance of the import in formation of the resources of the economy with low growth rates of domestic production did not diminish. It is to be noted that in the pattern of import some changes started to emerge -- the volumes of import of engineering produce grew at a slower rate than those of the general import, while the import of consumer goods grew at advanced rates.

According to the data of Rosstat, the pattern of utilization of GDP changed towards growth in expendi-

tures on ultimate consumption with a decrease in the share of gross savings and net export.

Weak growth in domestic market is underpinned by growth of 3.7% and 2.0% in retail trade sales and paid services to households, respectively, as compared to the 1st half of 2012. At the same time, growth rates of consumer demand amount to less than 50% of the indices of the previous year.

In January–June 2013, the consumer inflation rate amounted to 103.5% against 103.2% in 2012 (in June 2013 the inflation rate amounted to 106.9% year on year against 104.3% in the respective period of 2012); it is to be noted that prices on food products appreciated at an advanced rate. In the 2nd half of 2013, indexation of regulated tariffs on housing and public utility services will result as in the previous year in further slow-down of retail trade sales.

It is to be noted that in 2013 changes in consumer behavior of households have taken place: households tend to save more with a drop in the share of expenditures on purchases of goods. Also, in June 2013 a trend of weakening of growth in real disposable cash income and real wages and salaries to 102.2% year-on-year against 106.6% in 2012 and to 106.0% against 110.2%, respectively, had a significant effect on the dynamics of consumer demand. In addition to the above, households' credit activities have slowed down, as well.

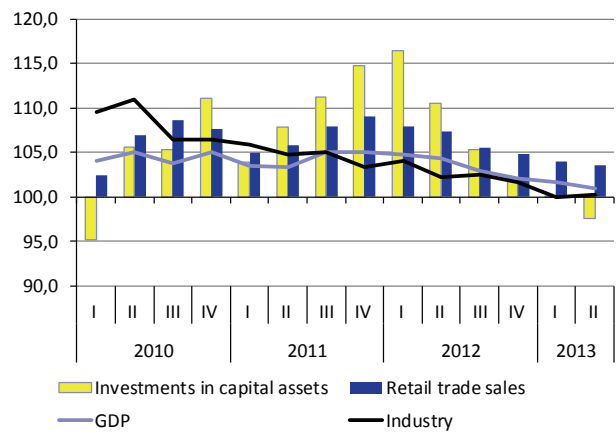
In the 1st half of 2013, slow growth rates of the Russian economy point to the diminishing growth potential of the economy. The evidence of the above is the fact that production capacities are loaded at the pre-crisis maximum level, there are no large-scale investments, production and export of oil have decreased and the level of the unemployment rate is record-low. In the 1st half of 2013, the gap between the dynamics of the indices of production and demand became larger which situation resulted in growth in warehousing stocks and justified a 0.9% reduction in transport cargo turnover, including a railway one by 3% on the respective period of 2012.

For the first time since 2009, in the 1st half of 2013 industrial production remained at the level of the respective period of the previous year. In the 1st quarter of 2013, stabilization of industrial output was ensured by weak growth of 1.2% in manufacturing as compared to the respective period of 2012. In the 2nd quarter of 2013, a change in leaders took place – a 2.7% growth in production of primary products reversed a 1.3% drop in manufacturing output.

In manufacturing industry, structural factors had a significant effect on the dynamics of development. In January–June 2013, growth in production remained in low-tech and medium-tech types of economic activities. In production of consumer goods, growth in production of food products, as well as produce of textile and sewing industries was registered. In the segment of goods of intermediary demand, the leaders are production of chemical produce, rubber goods and oil products.

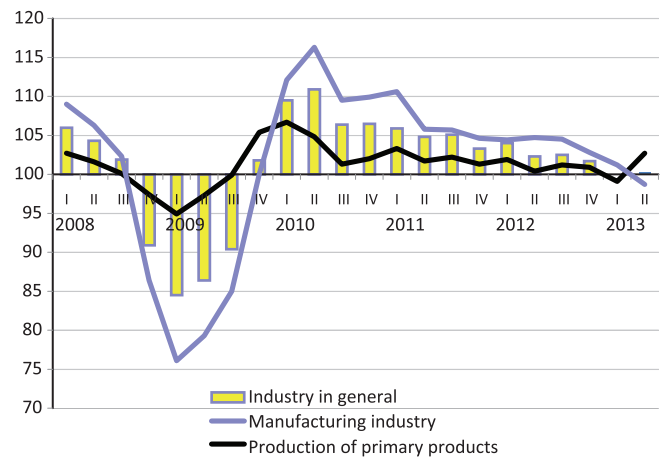
Limitation of the demand has had a considerable effect on the specifics of the dynamics of the high-tech complex of the engineering industry. In the 1st half of 2013, a 6.5% drop in production of machines and equipment as compared to the 1st half of 2012 determined weak growth in production of power equipment and electronic and optical equipment that supplies parts for engineering industries of ultimate demand. In the 1st half of 2013, the index of production of the means of transportation and equipment amounted to 99.3%, including cars (97.3%), trucks (95.2%) and buses (97.1%) of the respective period of the previous year.

For the purpose of support of the domestic auto industry, from July 1, 2013 the Ministry of Industry and Trade of the Russian Federation started the program of state support of car loans on easy terms which measure is to increase the share of purchases on credit from 23% of the total volume of sales on the basis of the results of the 1st quarter of 2013 to 44–45% on the basis of the results of the year. The new program of car loans on easy terms suggests subsidizing by the state of the rate in the amount of two-thirds of the rate of refinancing of the Bank of Russia in purchasing by the buyer of a car manufactured by Russian companies or within the frameworks of the agreement on industrial assembly. The minimum amount of pre-payment for a car amounts to 15% of its cost, while the maximum price of a car, to Rb 750,000 (earlier the maximum price under the program amounted to Rb 600,000); the period of repayment of the loan should not exceed 36 months. However, in case of a weak consumer activity even with the above program carried out the sales volumes of new cars and light commercial vehicles may fall by 2–4% on the basis of the results of 2013 on the 2012 figure.



Source: Rosstat.

Fig. 1. Dynamics of the main macroeconomic indices in the 2010–2013 period as % of the respective quarter of the previous year



Source: Rosstat.

Fig. 2. Dynamics of industrial production by the type of economic activities in the 2008–2013 period as % of the respective quarter of the previous year

In the 1st half year of 2013, on the labor market in general the total number of the unemployed amounted to 96%, while the number of officially registered unemployed, to 83.9% of the respective indices of 2012. It is to be noted that the specifics of the past four years is the positive dynamics of growth in employment in the economy despite a steady trend of slow-down of economic growth rates. The above is evidence of low efficiency of labor utilization. The situation is complicated by growing unmet demand in high-skilled labor and structural imbalances. It is to be noted that with advanced growth in labor remuneration in the services sector the process of displacement of labor resources from the commodity producing sector to more profitable types of business activities has intensified.

For the first time since the beginning of 2013, in June the total number of the unemployed rose by 104.7% and 102.7% as compared to May 2013 and June 2012,

Table 1

**PRODUCTION INDICES BY THE TYPE OF ECONOMIC ACTIVITIES IN THE 1ST HALF OF 2009–2011
AS % OF THE RESPECTIVE PERIOD OF THE PREVIOUS YEAR**

| | 2011, 1 st half year | Quarters | | 2012, 1 st half year | Quarters | | 2013, 1 st half year | Quarters | |
|--|---------------------------------------|----------|-------|---------------------------------------|----------|-------|---------------------------------------|----------|-------|
| | | Q1 | Q2 | | 1 | 2 | | 1 | 2 |
| <i>Industries</i> | 105.3 | 105.9 | 104.8 | 103.1 | 104.0 | 102.3 | 100.1 | 100.0 | 100.3 |
| <i>Production of primary products</i> | 102.5 | 103.3 | 101.7 | 100.9 | 101.9 | 100.4 | 101.0 | 99.1 | 102.7 |
| Production of fuel and energy primary products | 100.8 | 100.3 | 101.4 | 101.5 | 102.3 | 100.4 | 100.8 | 99.5 | 102.1 |
| Production of primary products, except for fuel and energy ones | 106.2 | 107.7 | 104.3 | 99.9 | 101.5 | 98.3 | 102.1 | 98.8 | 105.0 |
| <i>Manufacturing industries</i> | 108.0 | 110.6 | 105.8 | 104.5 | 104.4 | 104.7 | 100.0 | 101.2 | 98.7 |
| Production of food products, including drinks and tobacco | 101.2 | 101.7 | 100.5 | 106.4 | 106.2 | 106.0 | 100.7 | 101.3 | 100.1 |
| Textile and sewing industries | 105.3 | 107.7 | 102.8 | 94.6 | 93.2 | 95.9 | 101.8 | 102.3 | 101.3 |
| Production of leather, leather articles and footwear | 110.3 | 112.8 | 107.8 | 87.8 | 89.8 | 85.8 | 96.4 | 102.8 | 89.9 |
| Woodworking and production of wood articles | 106.6 | 106.9 | 106.2 | 102.5 | 100.7 | 103.3 | 97.7 | 101.8 | 93.6 |
| Pulp and paper production; publishing and polygraphic activities | 100.0 | 99.5 | 100.5 | 106.0 | 107.3 | 103.9 | 92.1 | 91.0 | 93.2 |
| Production of charred coal and oil products | 103.9 | 104.6 | 104.8 | 102.2 | 102.3 | 103.8 | 101.6 | 100.4 | 102.8 |
| Chemical industry | 106.9 | 108.0 | 105.8 | 101.1 | 99.4 | 102.0 | 103.3 | 102.8 | 103.7 |
| Production of rubber and plastic articles | 118.0 | 120.6 | 115.4 | 103.2 | 102.8 | 104.4 | 107.8 | 109.4 | 106.1 |
| Production of other non-metallic mineral products | 111.0 | 112.7 | 109.3 | 108.5 | 112.7 | 106.6 | 102.2 | 102.2 | 102.2 |
| Metallurgical production and production of finished metal articles | 103.0 | 109.1 | 96.5 | 106.0 | 104.8 | 107.2 | 99.1 | 102.6 | 95.7 |
| Production of machines and equipment | 111.8 | 111.6 | 113.2 | 104.4 | 119.8 | 88.1 | 93.5 | 92.3 | 94.8 |
| Production of power, electronic and optical equipment | 106.5 | 106.3 | 107.8 | 106.1 | 110.6 | 101.2 | 94.7 | 95.5 | 94.8 |
| Production of transport means and equipment | 134.9 | 159.6 | 115.1 | 121.0 | 122.7 | 129.5 | 99.3 | 95.3 | 103.3 |
| <i>Production and distribution of power, gas and water</i> | 100.2 | 99.0 | 101.9 | 101.8 | 102.6 | 100.8 | 99.3 | 99.0 | 100.8 |

Source: Rosstat.

respectively, and amounted to 5.4% of gainfully occupied population (4.1m people). The positive aspect is a decrease in the number of the unemployed registered with the employment services: their number amounted to 86.1% on the June 2012 figure. As of the end of June, the need of employers in workers – declared at the state employment service – amounted to 1.98m jobs and increased from the beginning of the year by 555,000 job vacancies. In June 2013, the rate of tension on the labor market – the number of the unemployed per 100 job vacancies declared at the

employment service amounted to 57 persons against 72 persons a year earlier.

According to evaluations of the Ministry of Economic Development of the Russian Federation, in the 1st half year of 2013 the GDP growth rates amounted to 1.7% year-on-year, including 101.6% year-on-year in the 1st quarter and 101.9% year-on-year in the 2nd quarter. Thus, economic growth remains below the official forecast for 2013 at the level of 102.4%. ●

RUSSIA'S FOREIGN TRADE IN JULY 2013

S.Tsukhlo

The data obtained by Gaidar Institute's business surveys show that anticipations concerning consumer growth in May, which encouraged enterprises to increase their output, were not borne out, and the June growth in output against weakening demand became a problem for the Russian industrial sector, having triggered drastic growth in the level of dissatisfaction with sales and excess stocks of finished goods and made enterprises to revise demand forecasts, output and employment plans in favor of a negative scenario in June–August. Actual reduction in factory gate prices and intention to cut off investments give a finishing touch to the unpleasant picture of the situation in the industrial sector.

Industrial products demand

Very optimistic May demand forecasts failed in June. Neither on source nor deseasoned data did sales dynamics manage to overcome an adverse trend which has been prevailing over the last few months. Therefore, the demand slowed down within a range of -13..-11 points throughout the entire Q2 2013 (Fig. 1). This fact and, most importantly, a negative shock from the failed May forecasts governed dynamics and evaluation of other major indicators.

First, actual dynamics of the demand in June was disappointing for enterprises. Disappointment with sales of manufactured products increased by 8 points and almost reached the post-crisis anti-record which was registered in January 2013.

Second, the May optimism declined. Though demand forecasts for July-August 2013 dropped 8 points on source data and 3 points on deseasoned data, they remained positive, i.e. the industrial sector has higher hopes for growth rather than fall in sales.

Third, in June, the balance of evaluations of finished goods stock deteriorated by 10 points at once.

Finished goods stock

The balance of evaluations of finished goods stock deteriorated in response to a growth of 33% in 'above normal' answers and a decline of 6% in 'below normal' answers (Fig. 2). Therefore, the balance increased to +27 points and reached the level registered on December 2008 and January 2009, i.e. at the height of the recent crisis. Today the situation is being far from crisis in terms of how we viewed it at that time. However, there are certain developments which inspire concern. For instance, the share of 'below normal' answers dropped to 6% in stock evaluation, having reached its historical maximum value (for the entire period of 1993 thru 2013!). Even late in 2008 – early in 2009 the share of such evaluations stood at 12%. In other words, it was inadequate finished goods stock that

Changes in effective demand, net of seasonal factor
(Balance=%growth-%decline)

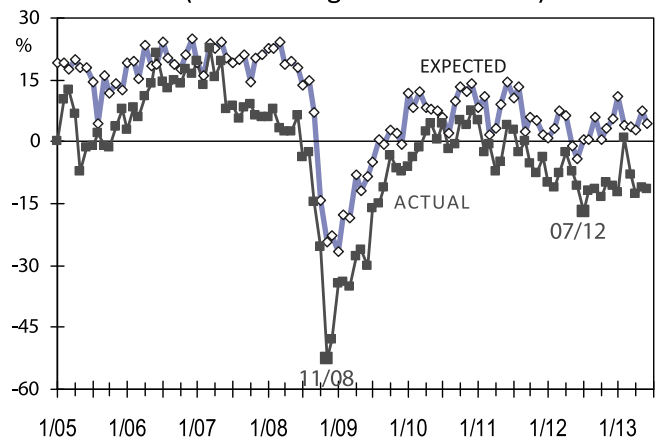


Fig. 1

Balance of evaluation of finished goods stock
(Balance=%above normal - %below normal)

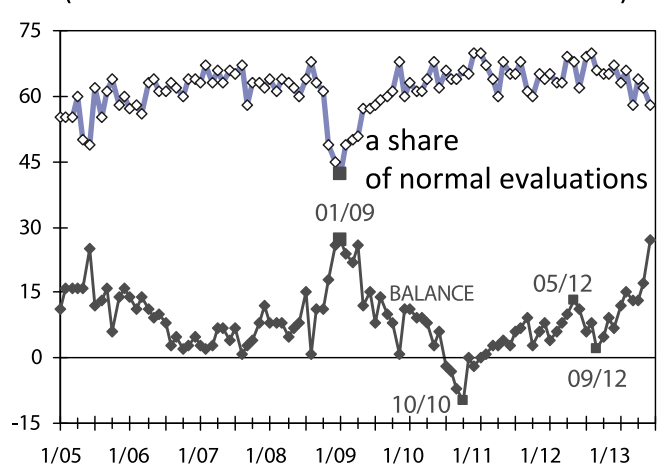


Fig. 2

served as additional stimulus for 12% of enterprises to increase their output at that time. Today, this stimulus is very low in the Russian industrial production sector. Furthermore, one third of industrial enterprises are likely to be ready to slow down their output due to excess stock. Economic authorities seem to realize (better say, they feel, because, official inventory statistics is useful) that, as they don't mention, like they did before, finished goods stock as potential economic growth driver.

Output

In June 2013, the industrial production sector demonstrated growth in production according to source and deseasoned data. The growth was caused due to enterprises' May plans. This is why the official industrial production statistics in June may make Rosstat (Federal State Statistics Service of Russia) data users happy, as it would report at least a small growth in output. Furthermore, in June industrial enterprises were facing a problem of increased production against weakening demand. Given the situation, industrial enterprises made negative adjustment to their output plans for July-August in order to avoid risks. Plans balance decreased by 18 points according to source data and 10 points by deseasoned data (Fig. 3). The industrial production sector hasn't seen such a drastic revision of such plans over the last 21 months. Changes in production plans became the fourth consequence of substantial disagreement between demand and output actual dynamics in June 2013.

Prices at enterprises

An unprecedented (for June) fall of wholesale factory prices became another consequence of the disagreement between demand and output actual dynamics in June as well as growth in excess stock. The balance lost 8 points and dropped to -11 points, i.e. in June the industrial production sector saw an absolute fall its prices (Fig. 4). Such an intensive (massive) price fall was recorded only twice in December in the period between 2010 and 2013. In June, prices are expected to grow only in forest, food, and consumer goods industries, as well as construction industry.

Plans to change prices, which saw a rise of 5 points in May in anticipation of July growth in tariffs, lost 2 points in June. Today, they are close to the 2010–2013 maximum values which were registered in March-April 2013 and October 2011. Attempts to promote demand for products seem to fail to allow enterprises to “recover” in 2013 their planned mid-year growth in tariffs. Therefore, financial performance results of the year may be found more dismal than in Q1 2013.

Changes in output volumes, net of seasonal factor
(Balance=%growth - %decline)

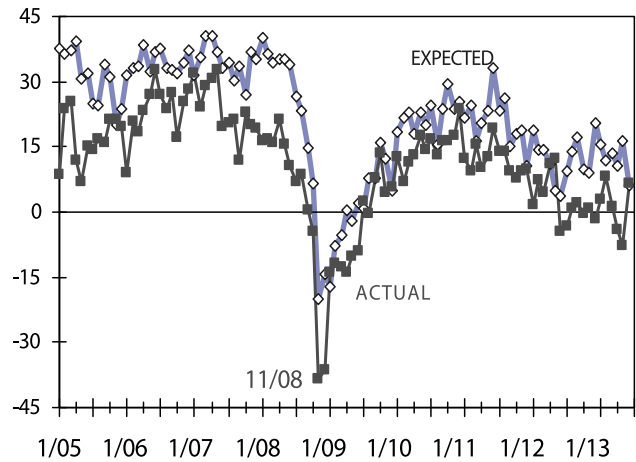


Fig. 3

Changes in wholesale factory prices
(Balance=%growth - %decline)

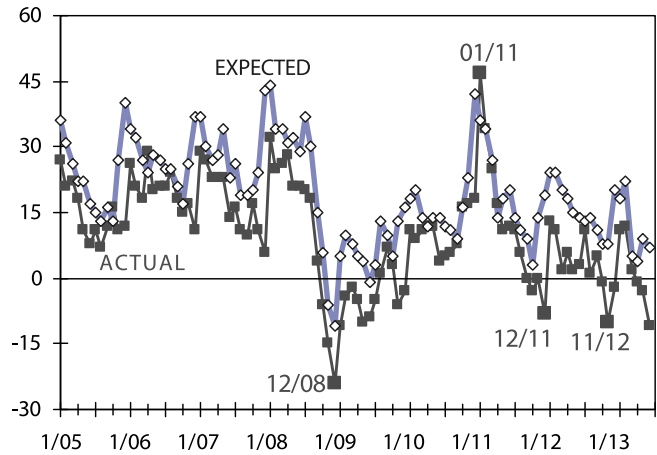


Fig. 4

Changes in employment
(Balance=%growth-%decline)

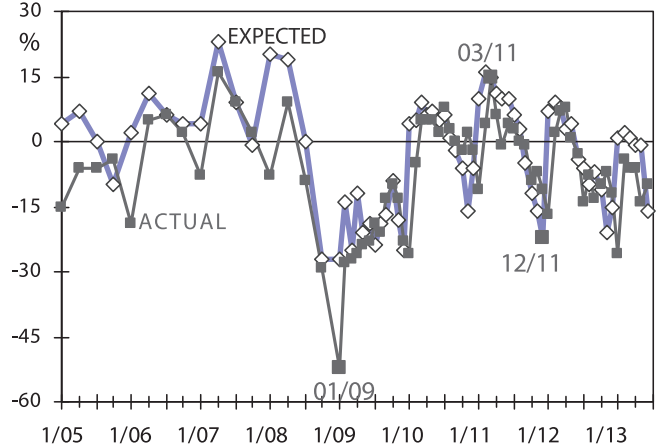


Fig. 5

Layoff actual dynamics and plans

In June 2013, business surveys didn't register serious changes in industrial employment dynamics. Enterprises have been reporting that layoffs continue to outnumber hiring (*Fig. 5*). As a result, the industrial production sector was losing (firing?) employees throughout the entire first half of 2013. In May-June, employment increased only in non-ferrous metal industry (balance +7 points) and food industry

(+9 points). Most massive layoffs took place in consumer goods industry (-20 points) and forest industry (-18 points). Layoffs prevailed in all enterprises, irrespective of their form of ownership and size.

Employment forecasts look don't look if anything promising. Forecast balance dropped 15 points at once in June from a zero level of January-May. It is for the first time in 2010-2013 that such a drastic slash in this indicator has been registered. ●

FOREIGN TRADE

N.Volovik

In May 2013, a trend of reduction of the Russian trade surplus which started in June 2012 continued. The US, Turkey and Japan joined the claim against Russia filed by the European Union on July 2013 to the Court of the World Trade Organization. The Russian side intends to take every effort to reach an amicable settlement by means of consultations to avoid sanctions. In its turn, the Customs Union of Russia, Belarus and Kazakhstan has advised the WTO that it intends to introduce economic sanctions in respect of Ukrainian goods. From July 15, 2013, temporary restrictions have been imposed on import to Russia of finished meat and dairy products from Greece and some enterprises from Lithuania.

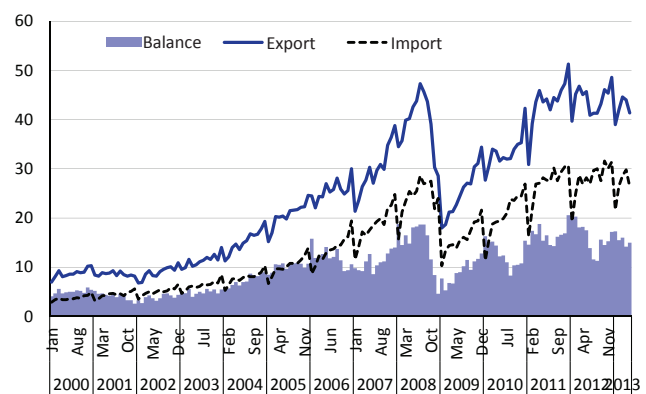
In May 2013, the Russian foreign trade turnover calculated on the basis of the methods of the balance of payments amounted to \$67.8bn which is 8.1% lower than the index of May 2012. The export fell by 8.9% to \$41.4bn, while the import, by 6.2% to \$26.4bn. From June 2012, the trend of reduction of the trade balance surplus as compared to the same period of the previous year prevailed: in May 2013 it decreased by 14% to \$15bn as compared to May 2012.

In May 2013, a decrease in export was a result of both a drop in prices on the main commodities of the Russian export and reduction of physical volumes of export supplies: in May 2013 the index of the physical volume of goods exported by Russia amounted to 97.7% on May 2012, while the index of average export prices, to 95.5%.

Import purchases decreased dramatically in physical terms: in May 2013 the index of the physical volume of import amounted to 85.3% on May 2012. It is to be noted that import prices turned out to be higher than in May 2012: the index of average prices of imported goods amounted to 100.8%.

As compared to May 2012, in May 2013 the conditions of foreign trade worsened dramatically: the index of "trade conditions" of Russia with foreign states amounted to 94.7% (in May 2012 it was 108.3%), which situation is justified to a great extent by growth in prices on imported goods and a drop in export prices.

After a dramatic drop in prices on primary goods in April, prices stabilized in May. Having hit their minimum price level by the end of April, prices on oil and non-ferrous metals started to grow early in May. A growth factor was caused by worsening of the situation in the Middle East. The above developments had an effect, particularly, on the Brent oil price which appreciated to \$105.32 a barrel on May 5 (on May 1 it cost \$99.82 a barrel). However, the main factor behind growth was continued monetary stimulation. Early in May, several central banks declared that they were easing the mon-



Source: The Central Bank of the Russian Federation.

Fig. 1. The main indices of the Russian foreign trade (billion \$)

etary policy: the Reserve Bank of Australia reduced the interest rate by 0.25 p.p. to the national record low level of 2.75%, while the Central Bank of India, by 0.25 p.p. to 7.25%. In addition to the above, the European Central Bank cut the interest rate from 0.75% to 0.5%.

The International Energy Agency's report on good prospects of development of US shale oil deposits and preservation by OPEC states of quotas at the same level had a negative effect on the global oil market.

In June, Brent oil price fluctuated in the range of \$100.5 to \$106.02 a barrel. Early in July 2013, prices on Brent oil appreciated due to geopolitical instability caused by the situation in Egypt.

In May 2013, the price on Urals oil rose by 1.2% on the previous month and amounted to \$102.3 a barrel; as compared to May 2012 it fell by 6.1%. In January–May 2013, the price on oil amounted to \$107.2 a barrel or 92.9% of the respective period of the previous year.

The average price of monitoring of oil prices in the period from June 15 to July 14, 2013 amounted to \$105.05 a barrel or \$766.9 a ton. So, from August 1, 2013 the export duty on oil rose to \$379.8 a ton.

In July, it amounted to \$369.2 a ton. From August 1, 2013, the privileged rate on oil of Eastern Siberia, Caspian Sea deposits and the Prirazlomnoe deposit will amount to \$180.8 a ton against \$172.9 a ton in July. From August 1, the duty on light and dark oil products will amount to \$250.6 a ton. From July 1, it was set at the level of \$ 243.6 a ton. On the basis of the ratio of 0.9, from August 1 the duty on export of petrol will be raised to \$341.8 a ton from \$332.2 a ton in July. In August, the duty on condensed gas will be reduced to \$40.5 a ton; in July it was at the level of \$45.2 a ton.

In May 2013, global prices on nonferrous metals kept falling which situation was largely justified by weak macroeconomic indices in Western Europe, the US and China. According to the data of the London Metals Exchange, in May as compared to May 2012 prices on aluminum, copper and nickel fell by 8.5%, 8.7% and 12.2%, respectively. As compared to April 2013, prices on aluminum and nickel fell by 1.4% and 4.4%, respectively, while prices on copper rose by 0.2%. In January–May 2013, as compared to the respective period of the previous year aluminum, copper and nickel depreciated by 8.4%, 7.0% and 12.1%, respectively.

Prices on gas showed positive dynamics as compared to the previous year. According to the data of the World Bank, in May 2013 prices on natural gas in Europe increased by 5.6% and decreased by 4.6% as compared to May 2012 and April 2013, respectively.

In May 2013, the FAO food price index exceeded by 10 points the index of May 2012, but fell slightly as compared to the index of April 2013: from 215.8 points to 215.2 points. A decrease in May took place due to a drop in prices on dairy products and sugar; the above drop was virtually compensated completely by growth in prices on crops. Prices on butter and meat remained virtually unchanged.

According to the data of the Bank of Russia, in January–May 2013 the Russian foreign trade turno-

ver amounted to \$343.9bn which is 1.9% lower than the respective index of 2012. The export fell by 5.2% to \$210.9bn, while import rose by 3.8% to \$133bn. In January–May 2013, the positive surplus of the trade balance of the Russian Federation amounted to \$77.9bn which is 17.3% lower than the respective index of 2012.

Export supplies decreased over the entire expanded nomenclature of goods, except for wood and pulp and paper products whose export rose by 0.1% due to expansion of physical volumes, as well as machines, equipment and means of transportation whose export increased by 5%.

In January–May 2013, the most dramatic drop in export took place as regards the *food products and agricultural primary products* item (-19.3%) and the *metals and products made of metals* item (-14.3%). The export of oil, oil products and fertilizers was 9%, 4.9% and 14.4% lower, respectively, than within 5 months of 2013.

As regards the import of goods to Russia, slight growth was registered over the entire nomenclature of goods. So, import of food products and agricultural primary products rose by 5.9%, while that of chemical produce, by 8.2%. The import of metals and products made of metals and textile, textile products and footwear increased by 5.2% and 8.8%, respectively.

Import supplies of leather footwear and knitted and textile clothes increased by 5.3% and 103.8% (in monetary terms), respectively, while those of cotton cloth, by 108.5% (in physical terms). It is to be noted that within five months of 2013 production of footwear decreased by 2.1% on the same period of 2012, while that of knitted goods and cotton cloth, by 5.7% and 2.2%, respectively. As a result, the share of import goods on the domestic market has increased.

On July 9, 2013, the European Union filed a claim against Russia to the WTO Court as regards a utilization duty on cars. The European Union expected

Table 1

MONTHLY AVERAGE GLOBAL PRICES IN MAY OF THE RESPECTIVE YEAR

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|------------------------------|--------|--------|--------|---------|--------|---------|--------|--------|---------|---------|---------|---------|
| Oil (Brent), USD/a barrel | 25.21 | 25.34 | 37.9 | 47.8 | 68.68 | 67.64 | 119.4 | 58.63 | 76.99 | 114.5 | 110.5 | 103,03 |
| Natural gas*, USD/1m BTU | 2.83 | 4.04 | 3.95 | 5.89 | 8.28 | 7.98 | 12.38 | 8.09 | 7.27 | 10.3 | 11.64 | 12,29 |
| Copper, USD/a ton | 1596.2 | 1667.5 | 2720.0 | 3254.0 | 8022.0 | 7682.2 | 83825 | 4568.6 | 6837.7 | 8927.05 | 7955.64 | 7249,4 |
| Aluminum, USD/a ton | 1344.3 | 1397.6 | 1615.7 | 1746.0 | 2852.0 | 2797.4 | 2902.9 | 1460.5 | 2040.53 | 2592.18 | 2007.63 | 1832,02 |
| Nickel, USD/a ton | 6764.0 | 8351.9 | 11068 | 16930.0 | 21038 | 52179.1 | 25735 | 12635 | 22008.2 | 24210 | 17068.2 | 14948 |

* Market of Europe, average contractual price, Franco-border.

Source: The World Bank.

that the conflict situation around the utilization duty would be resolved before July 1 2013 with adoption of such amendments to the Law on Industrial and Consumer Waste as make equal the conditions of charging the duty from domestic and foreign manufacturers, however, the above amendments failed to be approved by that time as the State Duma went on summer holidays. Now, the dispute between the EU and Russia will continue within the frameworks of the WTO procedures.

On July 18, 2013, it became known that the US joined the dispute around the Russian utilization duty. On July 22, the delegation of Turkey to the WTO advised Russia and the European Union of its intention to join the above consultations. Turkey justified its intention by the fact that the utilization duty had an adverse effect on the Turkish export to Russia. On July 24, Japan informed the WTO Secretariat of its request to hold consultations with the Russian Federation as regards measures related to the utilization duty on cars.

According to the WTO rules, participants in the dispute are granted 60 days for reaching a so-called amicable settlement, that is, to solve the problem in the course of consultations. Upon the expiry of the above period, the plaintiff has the right to demand that an arbitral group is formed. Vladimir Chizhov, Permanent Representative of the Russian Federation at the WTO said that Russia would take every effort to reach an amicable agreement with the EU as regards the EU's claim by means of consultations in order to avoid sanctions.

In its turn, the Customs Union of Russia, Belarus and Kazakhstan advised the World Trade Organization that it intended to introduce economic sanctions in respect of Ukrainian goods.

From April 13, 2013, in order to protect domestic manufacturers in Ukraine a three-year special duty was introduced on import of cars with the engine volume of 1–1.5l (6.46%) and 1.5–2.2l (12.95%) with the base duty rate of 10%. The above measure caused protests of a number of countries, particularly, the

EU, the US and Japan. It is to be noted that Turkey has already decided to apply retaliatory sanctions: from July 12, 2013 it was granted the right to introduce an additional duty in the amount of 23% on the import of walnuts from Ukraine which measure was justified by Turkey's intention to make up for the loss of \$6.11bn caused by worsening of opportunities for the Turkish export to Ukraine.

Representatives of the Customs Union said that the loss incurred by Russia from introduction of the Ukrainian duties amounts to \$36.1m a year. To compensate the damage, Russia is going to suspend a number of concessions for Ukraine on which it agreed within the frameworks of accession to the WTO. As a result, customs duties on the import of Ukrainian sugar, cacao, chocolate, coal and thermo polished glass will be increased.

The decision of the Russian authorities is to be confirmed by the Eurasian Economic Commission -- the main executive body of the Customs Union. The date of the planned introduction of higher duties is not yet known.

In the course of inspection by experts of Rosselkhozadzor of enterprises producing finished meat and dairy products in Greece, violations of veterinary and sanitary requirements and norms of the Customs Union and Russia were found. In particular, instances of utilization of primary products – produced by enterprises which had no right to export its produce to the member-states of the Customs Union – for production of finished meat and dairy products were detected. Due to the above, from July 15, 2013 temporary limitations on import to Russia of finished meat and dairy products from Greece were introduced.

Also, from July 15, 2013, on the basis of the results of the inspection of enterprises and the veterinary system in Lithuania that was carried out in May Rosselkhozadzor introduced a ban on supplies of meat and finished food products from three Lithuanian enterprises to the Russian Federation. The ban is applied to pork, beef and finished meat products. ●

RUSSIA'S NATIONAL BUDGET IN H1 2013

T.Tischenko

The results of federal budget implementation in H1 2013 show that federal budget revenues dropped 2.1 p.p. of GDP year-on-year, while consolidated budget revenues of the constituent territories of the Russian Federation declined 1.7 p.p. of GDP in January–May 2013 against the first five months of 2012. The reduction of the foregoing budget revenues was basically governed by economic contraction. Furthermore, according to “The Budget Policy Guidelines for 2014 and the 2015–2016 Planning Period” which was posted on the Ministry of Finance’s official website on July 18, 2013, economic growth may slow down for a long period. To date, adverse trends in the Russian economy have had no serious effect on sustainability of the Russia’s budget system. The results of H1 2013 show that the federal budget ran a surplus of 0.9% of GDP, while consolidated budget of the constituent territories of the Russian Federation ran a surplus of 1.0% of GDP in the first five months of 2013.

Analysis of federal budget implementation basic parameters in H1 2013

After the first six months of 2013, federal budget revenues amounted to Rb 6256,5bn or 20.0% of GDP, having shown a decline of 2.1 p.p. of GDP year-on-year (Table 1). Federal budget oil and gas revenues contracted by 1.6 p.p. of GDP against the first six months of 2012.

Budget expenditures in H1 2013 totaled Rb 5949,6bn (19.1% of GDP), having shown a decline by 2.1 p.p. of GDP year-on-year. After the first six months of 2013, the federal budget ran a surplus of 0.9% of GDP (Rb 306,9bn), thereby corresponding to the federal budget surplus as percentage of GDP in January–June of the previous year. Oil and gas deficit in absolute values contracted by 1.7 p.p. of GDP (8.9% of GDP) year-on-year.

In H1 2013, federal budget tax and non-tax revenues contracted year-on-year, including: revenues from profit tax by 0.1 p.p. of GDP, from domestic VAT by 0.4 p.p. of GDP, from VAT on imports by 0.2 p.p. of

GDP, from mineral extraction tax by 0.6 p.p. of GDP, and from foreign trade by 1.2 p.p. of GDP (Table 2). Revenues from domestic excises increased in January–June 2013 by 0.2 p.p. of GDP year-on-year; within six months of 2013, federal budget revenues from excises on imports remained at the level of January–June 2012, 0.09 p.p. of GDP.

It should be noted that budget risks may arise not only in response to lower prices of hydrocarbons, but also stagnation. Analysis of the budget system parameters for 2014–2016 forecasts contraction of the key socio-economic development indicators – GDP growth from 3.7 to 2.4% in 2013, from 4.3 to 3.7% in 2014, and from 4.5 to 4.1% in 2015 – vs. the forecasts made when the Federal Law No. 216 “On the Federal Budget for 2013–2015” was approved. Economic growth of 4.2% or less is forecasted in 2016. Therefore, enlarged government’s budget revenues, net of inter-budget transfers, are forecasted to contract from 36.9% of GDP in 2013 to 34.4% of GDP in 2016. Federal budget revenues are forecasted to stay at 18.2% of GDP in 2014,

Table 1

RUSSIA'S FEDERAL BUDGET BASIC PARAMETERS IN H1 2012–2013

| | January–June 2013 | | January–June 2012 | | Deviations, p.p. of GDP |
|----------------------------------|--------------------|----------|--------------------|----------|-------------------------|
| | billions of rubles | % of GDP | billions of rubles | % of GDP | |
| Revenues, including: | 6256,5 | 20.0 | 6199,9 | 22.1 | –2.1 |
| Oil and gas revenues | 3099,1 | 9.9 | 3226,1 | 11.5 | –1.6 |
| Expenditures, including: | 5949,6 | 19.1 | 5951,4 | 21.2 | –2.1 |
| interest expense | 175,9 | 0.6 | 155,3 | 0.6 | 0.0 |
| non-interest expense | 5773,7 | 18.5 | 5796,1 | 20.6 | –2.1 |
| Federal budget surplus (deficit) | 306,9 | 0.9 | 248,5 | 0.9 | 0.0 |
| Oil and gas deficit | –2792,2 | –8.9 | –2977,6 | –10.6 | 1.7 |
| GDP evaluation | 31215 | | 28062 | | |

Source: Ministry of Finance of Russia, Federal Treasury of the Russian Federation, Gaidar Institute’s estimates.

Table 2

DYNAMICS OF BASIC TAX REVENUES TO THE RUSSIA'S FEDERAL BUDGET IN H1 2012–2013, IN ABSOLUTE VALUES AND AS P.P. OF GDP

| | January–June 2013 | | January–June 2012 | | Deviation as p.p. of GDP |
|--|--------------------|----------|--------------------|----------|--------------------------|
| | billions of rubles | % of GDP | billions of rubles | % of GDP | |
| 1. Tax revenues, including: | | | | | |
| corporate profit tax | 160,6 | 0.5 | 177,8 | 0.6 | –0.1 |
| VAT on goods sold on the territory of the Russian Federation | 978,7 | 3.1 | 978,4 | 3.5 | –0.4 |
| VAT on goods imported to the Russian Federation | 769,0 | 2.5 | 756,7 | 2.7 | –0.2 |
| excises on goods manufactured on the territory of the Russian Federation | 210,6 | 0.7 | 152,0 | 0.5 | 0.2 |
| excises on goods imported to the Russian Federation | 27,1 | 0.09 | 24,4 | 0.09 | 0.0 |
| Mineral extraction tax | 1234,0 | 3.9 | 1231,3 | 4.5 | –0.6 |
| 2. Revenues from foreign trade | 2320,1 | 7.4 | 2426,1 | 8.6 | –1.2 |

Source: Federal Treasury of the Russian Federation, Gaidar Institute's estimates.

being 1.1 p.p. of GDP less against the previous year; 17.4% of GDP in 2015 and 16.6% in 2016. Moreover, oil and gas revenues are forecasted to decline but at lower rates than budget system revenues: by 1.0 p.p. of GDP in 2014, 0.8 p.p. in 2015, and 0.3 p.p. in 2016, against the previous year.

With regard to federal budget expenditures (*Table 3*), one may note contraction in expenditures as percentage of GDP in H1 2013 against January–June 2012 with regard to the following budget accounts: 'Nationwide Issues' and 'Inter-budget Transfers' by 0.1 p.p. of GDP each, 'Education' by 0.2 p.p. of GDP, 'National

Economy' and 'Healthcare' by 0.4 p.p. of GDP, 'Social Policy' by 0.6 p.p. of GDP.

Federal budget expenditures saw growth as percentage of GDP in H1 2013 against January–June 2012 with regard to the following accounts: 'National Defense' by 0.1 p.p. of GDP, 'National Security and Law Enforcement', 'Sovereign and Municipal Debt Servicing', and 'Public Utilities Sector' by 0.1 p.p. of GDP each, 'Environmental Protection' by 0.01 p.p. of GDP, 'Physical Culture and Sports' by 0.02 p.p. of GDP. Within the first six months of 2013, the other federal budget expenditures remained at the previous period level of GDP.

Table 3

FEDERAL BUDGET IMPLEMENTATION BY EXPENDITURE IN JANUARY–JUNE, 2012–2013

| | January–June 2013 | | January–June 2012 | | Deviation as p.p. of GDP |
|--|--------------------|----------------------|--------------------|----------------------|--------------------------|
| | billions of rubles | in percentage of GDP | billions of rubles | in percentage of GDP | |
| Total expenditures, including: | 5949,6 | 19.1 | 5951,4 | 21.2 | –2.1 |
| Nationwide Issues | 361,4 | 1.1 | 346,3 | 1.2 | –0.1 |
| National Defense | 1126,5 | 3.6 | 989,4 | 3.5 | 0.1 |
| National Security and Law Enforcement | 856,1 | 2.7 | 739,4 | 2.6 | 0.1 |
| National Economy | 633,3 | 2.0 | 685,5 | 2.4 | –0.4 |
| Public Utilities Sector | 62,3 | 0.2 | 34,0 | 0.1 | 0.1 |
| Environmental Protection | 12,8 | 0.04 | 9,7 | 0.03 | 0.01 |
| Education | 341,7 | 1.1 | 355,5 | 1.3 | –0.2 |
| Culture and Cinematography | 32,3 | 0.1 | 39,6 | 0.1 | 0.0 |
| Healthcare | 225,2 | 0.7 | 302,6 | 1.1 | –0.4 |
| Social Policy | 1750,1 | 5.6 | 1934,3 | 6.2 | –0.6 |
| Physical Culture and Sports | 29,9 | 0.09 | 19,5 | 0.07 | 0.02 |
| Mass Media | 37,9 | 0.1 | 37,6 | 0.1 | 0.0 |
| Sovereign and Municipal Debt Servicing | 175,9 | 0.6 | 155,3 | 0.5 | 0.1 |
| Inter-budget Transfers | 304,3 | 1.0 | 302,6 | 1.1 | –0.1 |

Source: Federal Treasury of the Russian Federation, Gaidar Institute's estimates.

**CONSOLIDATED BUDGET BASIC PARAMETERS OF CONSTITUENT TERRITORIES OF THE RUSSIAN FEDERATION IN
JANUARY–MAY, 2012– 2013**

| | January–May 2013 | | January–May 2012 | | Deviation as p.p. of GDP |
|--|-----------------------|-------------|-----------------------|----------|-----------------------------|
| | billions of rubles | % of GDP | billions of rubles | % of GDP | |
| Revenues, including: | 3219,0 | 12.6 | 3278,9 | 14.3 | –1.7 |
| – corporate profit tax | 775,6 | 3.0 | 989,4 | 4.3 | –1.3 |
| – Personal income tax | 914,1 | 3.6 | 814,7 | 3.5 | 0.1 |
| – domestic excises | 191,0 | 0.7 | 168,2 | 0.7 | 0.0 |
| – aggregate income tax | 150,9 | 0.6 | 134,7 | 0.6 | 0.0 |
| – property tax | 390,0 | 1.5 | 335,1 | 1.5 | 0.0 |
| – non-repayable revenues from other budg- ets of the budgetary system of Russia | 587,7 | 2.3 | 625,3 | 2.7 | –0.4 |
| Expenditures, including: | 2956,3 | 11.5 | 2794,4 | 12.2 | –0.7 |
| Consolidated budget surplus (defi- cit) of constituent territories | 262,7 | 1.0 | 484,5 | 2.1 | –0.9 |
| GDP evaluation | 25590 | | 22 932 | | |

Source: Federal Treasury of the Russian Federation, Gaidar Institute's estimates.

In H1 2013, the Federal Reserve Fund grew up Rb 171,8bn in volume through a currency exchange difference, and reached Rb 2770,9bn as of July 1, 2013. In H1 2013, the currency exchange difference resulting from revaluation of the National Wealth Fund's (NWF) assets amounted to Rb 128,70bn, and the NWF reached Rb 2828,2bn in volume as of July 1, 2013.

In June 2013, the national internal debt increased by Rb 2,0bn до Rb 4951,3bn, whereas the national foreign debt contracted by \$77,4m to \$49,57bn.

- Late in July 2013, the Ministry of Economic Development and Trade of Russia presented a plan designed to enhance economic growth rates, which provides for measures aimed at reducing direct and transaction costs for Russia's businesses, strengthening their competitive potential, and providing a better access to development resources, including;
- Improve access of small-sized businesses to lending; develop a system of guarantees through the establishment of a federal fund; extend premium rebates, design mechanisms for enhancing access of SM business entities to the procurement of companies with public ownership, infrastructural monopolies;
- Strengthen investment potential, including with the help of public-private partnership and National Wealth Fund's resources, as well as pension accruals managed by the state asset manager;
- Reduce costs for credit institutions through differentiation of premiums in the deposit insur-

ance fund by the degree of deposit policy risk; increase the role of collateral;

- Enhance general business climate pursuant to road maps of the National Business Initiative;
- Settle certain sectoral issues concerning the WTO.

One may admit that economic growth promotion measures are basically focused on fiscal instruments, whereas the plan has no measures aimed at settling the issues of low quality of institutions in the Russian economy, and corruption.

**Consolidated budget implementation
in the constituent territories
of the Russian Federation in January–May 2013**

According to the Federal Treasury, in January–May 2013 *consolidated budget revenues in the constituent territories of the Russian Federation* amounted to Rb 3219,0bn or 12.6% of GDP, having contracted by 1.7 p.p. of GDP year-on-year (*Table 4*).

Consolidated budget revenues in constituent territories of the Russian Federation saw contraction within the first five months of 2013 on a year-on-year basis: revenues from profit tax by 1.3 p.p. of GDP, and from non-repayable revenues from other budgets of the budgetary system of Russia by 0.4 p.p. of GDP. In January–May 2013, consolidated budget revenues from personal income tax increased by 0.1 p.p. of GDP against the first five months of the previous year. At the end of the first five months of 2013, consolidated budget revenues from domestic excises, aggregate income tax, and property tax in the constituent territories of the Russian Federation

**CONSOLIDATED BUDGET IMPLEMENTATION IN THE CONSTITUENT TERRITORIES OF THE RUSSIAN FEDERATION
BY EXPENDITURE IN JANUARY–MAY, 2012–2013**

| | January–May 2013 | | January–May 2012 | | Deviation as p.p. of GDP |
|--|-----------------------|---------------------------|-----------------------|---------------------------|-----------------------------|
| | billions of rubles | in percen- tage of GDP | billions of rubles | in percen- tage of GDP | |
| Total Expenditures, | 2956,3 | 11.5 | 2794,4 | 12.2 | –0.7 |
| including: | | | | | |
| Nationwide Issues | 189,7 | 0.7 | 176,4 | 0.8 | –0.1 |
| National Defense | 1,2 | 0.005 | 1,2 | 0.005 | 0.0 |
| National Security and Law Enforcement | 29,1 | 0.1 | 28,4 | 0.1 | 0.0 |
| National Economy | 458,9 | 1.8 | 447,2 | 1.9 | –0.1 |
| Public Utilities Sector | 230,3 | 0.9 | 243,4 | 1.1 | –0.2 |
| Environmental Protection | 6,9 | 0.03 | 5,9 | 0.02 | 0.01 |
| Education | 887,9 | 3.5 | 770,8 | 3.4 | 0.1 |
| Culture and Cinematography | 101,6 | 0.4 | 93,3 | 0.4 | 0.0 |
| Healthcare | 455,0 | 1.8 | 456,9 | 2.0 | –0.2 |
| Social Policy | 496,8 | 1.9 | 481,8 | 2.1 | –0.2 |
| Physical Culture and Sports | 52,2 | 0.2 | 47,5 | 0.2 | 0.0 |
| Mass Media | 14,8 | 0.05 | 13,1 | 0.05 | 0.0 |
| Sovereign and Municipal Debt Servicing | 28,0 | 0.1 | 21,3 | 0.09 | 0.02 |
| Inter-budget Transfers | 3,7 | 0.01 | 7,0 | 0.03 | –0.02 |

Source: Federal Treasury of the Russian Federation, Gaidar Institute's estimates.

remained at the level of January–May 2012, as percentage of GDP.

Within the first five months of 2013, consolidated budget expenditures in the constituent territories of the Russian Federation contracted by 0.7 p.p. of GDP year-on-year and amounted to 11.5% of GDP, or Rb 2956,3bn (see Table 5).

At the end of the first five months of 2013, consolidated budget expenditures in the constituent territories of the Russian Federation increased year-on-year for the following accounts: 'Environmental Protection' by 0.01 p.p. of GDP, 'Education' by 0.1 p.p. of GDP, 'Sovereign and Municipal Debt Servicing' by 0.02 p.p. of GDP. In January–May 2013, consolidated budget expendi-

tures in the constituent territories of the Russian Federation declined year-on-year for the following accounts: 'Nationwide Issues' by 0.1 p.p. of GDP, 'National Economy' by 0.1 p.p. of GDP, 'Public Utilities Sector' by 0.2 p.p. of GDP, 'Healthcare' by 0.2 p.p. of GDP, 'Social Policy' by 0.2 p.p. of GDP, 'Inter-budget Transfers' by 0.02 p.p. of GDP. Other accounts of budget expenditures in the constituent territories of the Russian Federation remained at the level of 2012 within the first five months of 2013.

In January–May 2013, the budget of the constituent territories of the Russian Federation ran a surplus of Rb 262,7bn or 1.0% of GDP, having shown a contraction of 0.9 p.p. of GDP year-on-year. ●

RUSSIAN BANKING SECTOR IN H1 2013

M.Khromov

In H1 2013, the Russian banking sector focused basically on the retail sector. Household bank deposits accounted for almost 40% of increased liabilities, whereas for 33% of increased assets. Corporate loans accounted for as little as 25% of increased assets. Furthermore, retail loan yield hit the record of 18% p.a.

Russian banking sector's assets increased 1.6%¹ in June 2013. The assets grew up at a rate of 19.0% over 12 months following the results in June 2013. This value has been remaining stable within a range between 19 and 21% since the fall of 2012.

Russian private banks showed most intensive growth rates in June 2013: 3.1% – large private banks, and 1.8% – small- and medium-sized private banks. State banks, including Sberbank, retained moderate growth rate dynamics (1.2%), whereas large subsidiary foreign banks even saw a contraction of 0.7% in their asset volume.

Banking sector's² regulatory capital increased by 2.9% during the month. Banks' capital saw growth basically in response to an additional issue by VTB, the second largest bank, with was recognized in its reports for June. VTB accounted for Rb 134bn of Rb 182bn total banks' capital increase. It should be noted that VTB managed to increase added capital included into the calculation of own funds.

Banking sector's capital adequacy (H1 regulation) remained unchanged, 13.5%. A substantial growth in VTB's capital adequacy (from 12.3 to 15.2%) was compensated by lowering Sberbank's capital adequacy (from 13.6 to 13.2%) and other banks (from 13.6 to 13.2%) due to outrunning growth in the volume of risk-bearing assets.

Banking sector's profit amounted to Rb 100bn in June 2013, having shown the maximum volume of monthly profit in 2013 (Rb 78bn on average within the first five months). This record was driven by the two factors. First, June 2013 saw a minimum increase in provisions for losses (Rb 30bn, against Rb 46bn on average within the first five months). Second, as we forecasted in the previous month, banks managed to generate extra revenues from their active foreign currency position when the ruble was devaluated. Net income

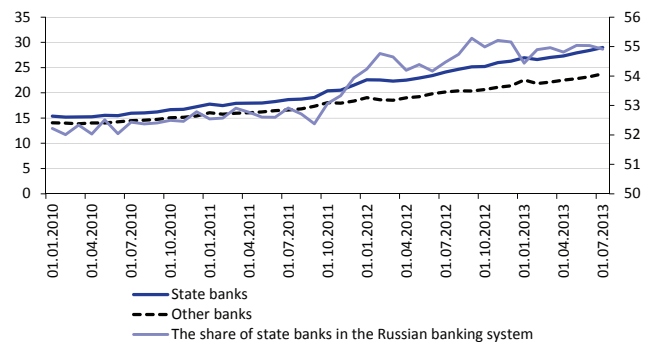


Fig. 1. Dynamics of state and other banks' assets (trillions of rubles), and the share of state banks in the assets (% , right-hand scale)

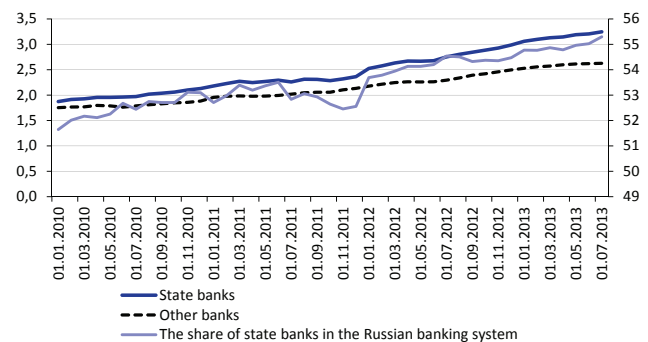


Fig. 2. Dynamics of state and other banks' equity capital³ (trillions of rubles), and the share of state banks in capital (% , right-hand scale)

from revaluation of foreign currency accounts in June was Rb 36bn, having shown an increase of Rb 30bn over the average value of such income generated in the period between January and May.

However, banking operation profitability saw an insignificant increase. In June 2013, ROA stood at 2.3% p.a. (2.0% in H1 2013), ROE at 20.6% (17.1% p.a. in H1 2013).

Fundraising

Household bank deposits increased by 2.1% in June 2013 and 20.0% during 12 months. According to preliminary estimates, savings ratio of household bank deposits accounted for 6.3% of total cash income in

1 Hereinafter, unless otherwise indicated, growth rates in balance sheet figures are presented with allowance for revaluation of the foreign currency component.

2 Calculated according to the credit institution reporting form No. 134.

3 Calculated according to balance-sheet accounts (form No. 101)

H1 2013, having increased 1 p.p. year-on-year. The increase was triggered by growth in relatively investment potential of bank deposits. In H1 2013, actual value of term retail bank deposits reached 6.7% p.a., having increased 0.7 p.p. year-on-year. Given the circumstances, individuals preferred to allocate most of their savings in bank deposits, thereby reducing the demand for cash. The national currency in cash increased by Rb 20bn for the first time within six months of 2013 (against Rb 65bn within the six months of 2012), whereas foreign currencies in cash contracted by \$4,3bn (in H1 2013, foreign currencies in cash saw a growth of \$1,2bn). Therefore, in January–June 2013, total savings ratio in bank deposits and cash stood at 5.7% against 6.0% in January–June 2012.

In spite of a negative trend in the ruble exchange rate in May–June, individuals kept favoring ruble accounts and deposits in building up their savings portfolio. For instance, ruble bank accounts and deposits increased 2.4% during the month, whereas foreign exchanged bank accounts and deposits increased as little as 0.9%.

Corporate bank accounts increased by 1.5% in June and 3.0% in H1 2013, having shown a much better trend vs. the previous year when corporate funds on accounts and deposits contracted 2.3% during the first six months of 2012. Therefore, annual growth rates reached 16.5% in June 2013 against 10.5% as of beginning of the year.

Throughout the entire June, corporate settlement and current accounts with banks saw growth, having

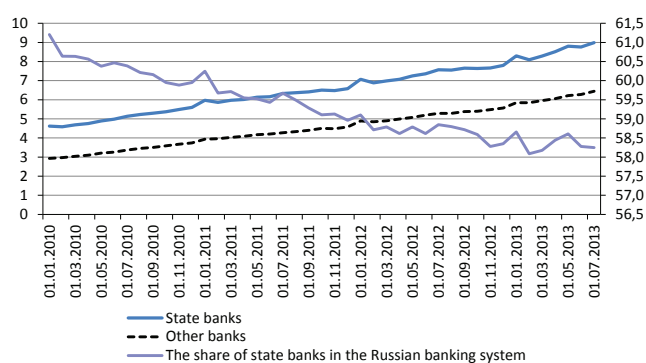


Fig. 3. Dynamics of state and other banks' retail deposits (trillions of rubles), and the share of state banks in the retail deposit market (% , right-hand scale)

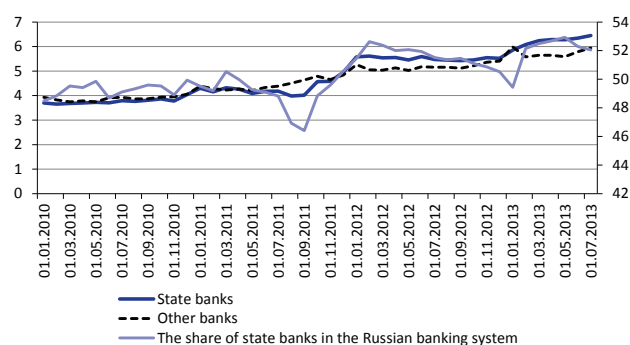


Fig. 4. Dynamics of corporate accounts with state and other banks (trillions of rubles), and the share of state banks in the corporate account market (% , right-hand scale)

increased by Rb 206bn in nominal volume, whereas term deposits contracted by Rb 14bn during the month. Nevertheless, term deposits has kept prevail-

RUSSIAN BANKING SYSTEM'S STRUCTURE OF LIABILITIES (AT MONTH END),
AS PERCENTAGE OF TOTAL

| | 12.08 | 12.09 | 12.10 | 12.11 | 06.12 | 09.12 | 12.12 | 01.13 | 02.13 | 03.13 | 04.13 | 05.13 | 06.13 |
|---|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Liabilities, billions of rubles | 28022 | 29430 | 33805 | 41628 | 44266 | 45861 | 49510 | 48429 | 49165 | 49839 | 50693 | 51587 | 52744 |
| Equity | 14.1 | 19.3 | 18.7 | 16.9 | 16.8 | 16.9 | 16.2 | 16.8 | 16.7 | 16.7 | 16.6 | 16.5 | 16.3 |
| Loans from the Bank of Russia | 12.0 | 4.8 | 1.0 | 2.9 | 5.1 | 5.1 | 5.4 | 4.5 | 4.5 | 4.5 | 4.4 | 4.8 | 4.4 |
| Interbank operations | 4.4 | 4.8 | 5.5 | 5.7 | 4.8 | 5.1 | 5.6 | 5.4 | 5.4 | 5.4 | 5.0 | 4.9 | 5.2 |
| Foreign liabilities | 16.4 | 12.1 | 11.8 | 11.1 | 11.3 | 11.0 | 10.8 | 10.5 | 10.6 | 10.4 | 10.8 | 10.7 | 10.8 |
| Retail accounts and deposits | 21.5 | 25.9 | 29.6 | 29.1 | 29.4 | 28.7 | 28.9 | 29.1 | 29.3 | 29.6 | 30.0 | 29.5 | 29.6 |
| Corporate accounts and deposits | 23.6 | 25.9 | 25.7 | 26.0 | 24.0 | 23.3 | 24 | 24.1 | 24.2 | 23.9 | 23.4 | 23.5 | 23.5 |
| Accounts and deposits of government agencies and local government authorities | 1.0 | 1.0 | 1.5 | 2.3 | 1.5 | 2.5 | 1.6 | 1.1 | 1.0 | 1.4 | 1.9 | 2.0 | 2.4 |
| Outstanding securities | 4.1 | 4.1 | 4.0 | 3.7 | 4.5 | 4.8 | 4.9 | 5.2 | 5.3 | 5.2 | 5.2 | 5.1 | 5.1 |

Source: Central Bank of Russia, IEP's estimates.

ing among total corporate customers' funds in banks: they account for 54.6% of total corporate funds held in banks, or around Rb 6,5 trillion.

Loans issued

The retail segment of the loan market increased by 2.4% in June 2013. Over the last 12 months retail loans were growing at a rate of 33.3% against 39.1% as of the beginning of 2013, and 42.5% in the previous year. It should be noted that the post-crisis ceiling of growth rate in household debt to banks was reached by the end of H1 2012. Thereafter, household debt growth gradually slowed down.

The quality of banks' retail credit portfolio remained unchanged in June 2013, which an insignificant declined in overdue debt, perhaps, after banks sold a part of bad loans to collectors. The share of overdue debt stood at 4.3% as of 1.07.2013, the ratio of provisions for losses to outstanding debt on loans was 6.8%.

In spite of slowdown in growth rates of household debt on bank loans, their role in the household income-spending balance has been increasing. For instance, in H1 2013, household loans totaled Rb 4,0 trillion, having shown an increase of 22% year-on-year, whereas nominal value of cash income and consumer spending increased as little as 12% in the same period. For instance, in H1 2013 the ratio of new loans to consumer spending was 25.0% against 27.5% in the same period of 2012. Furthermore, the ratio reached as much as 29.6% in Q2 2013.

Loan debt servicing burden upon household disposable income has been increasing in the same manner. Households' costs on interest payment and principal redemption (according to schedule, net of early repayments) accounted for 11.5% of disposable income in the period of January thru May 2013 against 9.7% in the previous year.

Household debt on loans has been growing along with their actual cost. For instance, in Q2 2013, weighted average yield on household loans was 18.1% p.a. on the bank balance-sheet, having shown annual growth of 1 p.p. and reached a new ceiling for average cost of retail lending in the Russian Federation. To compare, in 2006–2008 this value was 16% p.a. or less. Moreover, weighted average cost of new ruble loans has exceeded 20% p.a. year-to-date for both loans issued for a year or less, and traditionally more expensive loans issued for a year of more whose cost never reached this value before. Average actual loan life is 13–14 months (three years for housing loans and 10–11 months for other types of loans). This suggests that at least in the next year retail loans may cost more than 20% p.a. and loan servicing burden upon disposable income may reach 13–14%, while retaining the existing credit portfolio term.

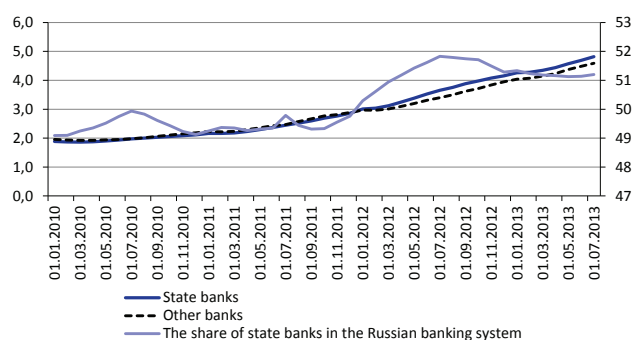


Fig. 5. Dynamics of state and other banks' retail loans, (trillions of rubles), and the share of state banks in the retail loan market (% , right-hand scale)

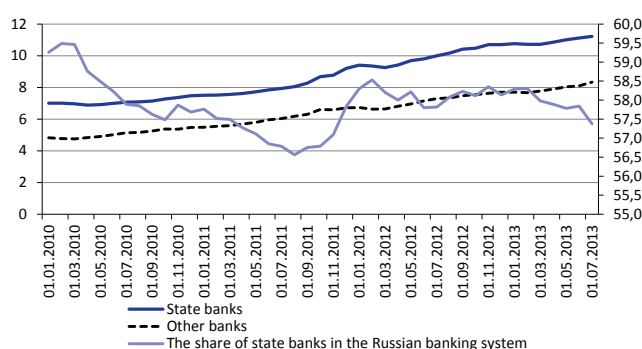


Fig. 6. Dynamics of state and other banks' corporate loans (trillions of rubles), and the share of state banks in the corporate loan market (% , right-hand scale)

Corporate customers' debt on bank loans increased in volume by 1.3% in June 2013, whereas annual growth rate contracted to 13.1% as of July 1, 2013. Furthermore, in H1 2013, growth in corporate debt on loans has consistently been falling behind growth in household debt. For instance, the volume of loans to corporate borrowers increased by Rb 852bn and household debt by Rb 1091bn within the first 6 months. Therefore, banks have been shifting towards higher-yield retail lending. In Q2 2013, average cost of loans to non-financial business organizations was half as much as that in the retail segment (9.8% p.a.). Moreover, the volume of interest income from corporate loans to residents (save for banks) was as little as 17% higher than that from retail loans: Rb 906bn against Rb 773bn in H1 2013.

The quality of corporate loans deteriorated in June 2013. The share of overdue debt contracted to 4.4% and the ratio of provisions for losses to loan volume to 7.3%, having resumed the level recorded in the summer of 2009, but more often exceeding the pre-crisis level recorded in the summer of 2008 (1.0% and 3.3% respectively).

Table 2

RUSSIAN BANKING SYSTEM'S STRUCTURE OF ASSETS (AT MONTH END), AS PERCENTAGE OF TOTAL

| | 12.08 | 12.09 | 12.10 | 12.11 | 06.12 | 09.12 | 12.12 | 01.13 | 02.13 | 03.13 | 04.13 | 05.13 | 06.13 |
|--------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|-------|-------|
| Assets, billions of rubles | 28022 | 29430 | 33805 | 41628 | 44266 | 45861 | 49510 | 48429 | 49165 | 49839 | 50 693 | 51587 | 52744 |
| Cash and precious metals | 3.0 | 2.7 | 2.7 | 2.9 | 2.5 | 2.6 | 3.1 | 2.6 | 2.5 | 2.5 | 2.7 | 2.4 | 2.4 |
| Deposits in the Bank of Russia | 7.5 | 6.9 | 7.1 | 4.2 | 3.0 | 2.8 | 4.4 | 2.9 | 3.1 | 3.3 | 3.0 | 3.1 | 3.3 |
| Interbank operations | 5.2 | 5.4 | 6.5 | 6.4 | 5.8 | 5.8 | 6.8 | 6.7 | 6.6 | 6.4 | 6.1 | 6.0 | 6.0 |
| Foreign assets | 13.8 | 14.1 | 13.4 | 14.3 | 14.2 | 13.9 | 13.0 | 14.0 | 14.6 | 14.5 | 15.0 | 15.6 | 15.1 |
| Retail sector | 15.5 | 13.1 | 13.0 | 14.4 | 16.0 | 16.8 | 16.8 | 17.3 | 17.3 | 17.4 | 17.7 | 17.8 | 17.9 |
| Corporate sector | 44.5 | 44.5 | 43.6 | 44.0 | 43.6 | 43.4 | 41.3 | 42.3 | 42.1 | 41.9 | 41.5 | 40.9 | 40.9 |
| State | 2.0 | 4.2 | 5.1 | 5.0 | 3.8 | 3.3 | 3.2 | 3.7 | 3.3 | 3.2 | 2.9 | 2.8 | 3.2 |
| Property | 1.9 | 2.7 | 2.6 | 2.3 | 2.3 | 2.3 | 2.2 | 2.3 | 2.3 | 2.2 | 2.2 | 2.2 | 2.2 |

Source: Central Bank of Russia, IEP's estimates.

MORTGAGE IN THE RUSSIAN FEDERATION IN JUNE 2013

G.Zadonsky

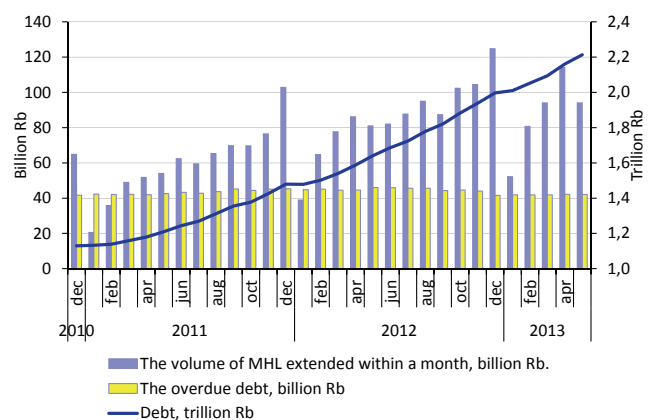
In the first five months of 2013, 270108 mortgage housing loans (MHL) for the amount of Rb 435,071bn were granted which is 12.41% and 24.86% higher than in 2012 as regards the number of the loans and their value in monetary terms, respectively. As of June 1, 2013, the outstanding debt on MHL rose by 34.91% as compared to June 1, 2012 and amounted to Rb 2,214trillion. In 2013, the share of overdue debt in the outstanding debt on MHL in rubles decreased and amounted to 1.32% as of June 1, 2013, while that on loans in foreign currency increased within the same period to 12.15%. In May 2013, interest rates on MHL rose by 0.1 p.p. as compared to April; it is to be noted that the monthly average rate on loans in rubles amounted to 12.7%, while that on loans in foreign currency extended from the beginning of the year, to 10.1%.

According to the data of the Central Bank of the Russian Federation, in January–May 2013 Rb 435,071bn worth of 270,108 mortgage housing loans (MHL) was extended which is 12.41% and 24.86% higher than in 2012 as regards the number of the loans and their value in monetary terms, respectively. In May 2013, Rb 94,063bn worth of 58,622 MHL was extended (Fig. 1). As of June 1, 2013, the outstanding debt on MHL rose by 34.91% as compared to June 1, 2012 and amounted to Rb 2,214 trillion (Fig. 1).

In the first five months of 2013, the volume of the extended unsecured housing loans (UHL as a difference between the volume of housing loans (HL) and the volume of MHL) amounted to 3.08% and 5.88% of the volume of HL extended within that period in monetary terms (Fig. 2) and in quantitative terms, respectively. As compared to the respective period of 2012, the above values are 0.95 p.p. and 1.24 p.p. lower in monetary terms and quantitative terms, respectively. As of June 1, 2012, the outstanding debt on MHL amounted to Rb 111,932bn or 4.81% of the debt on HL which is 2.88 p.p. lower as compared to the data as of June 1, 2012 (Fig. 2).

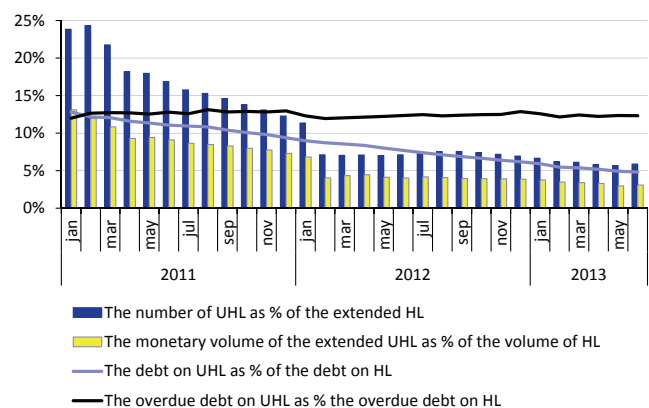
In 2013, excess of the overdue debt on UHL as a percentage of the overdue debt on HL in general over the respective share of the outstanding debt on UHL in the debt on HL in general keeps growing (Fig. 2). The above is evidence of the continued drop in the quality of UHL as compared to that of secured and mortgaged housing loans. Due to the above, the share of the volume of UHL in the volume of the extended HL decreased (Fig. 2).

As of June 2013, the overdue debt (Rb 42,029bn) on MHL (Fig. 1) was Rb 3,996bn or 8.68% lower than that as of June 1, 2012, while as compared to May 1, 2012 it was Rb 0.13bn or 0.31% lower. As of June 1, 2013, the share of the overdue debt in the outstanding debt on MHL amounted to 1.90%, which is 0.91 p.p. lower



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

Fig. 1. Dynamics of mortgage housing lending



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

Fig. 2. Dynamics of unsecured housing lending as compared to housing lending in general

than that as of June 1, 2012. In 2013, the share of the overdue debt on MHL in rubles keeps decreasing and amounted to 1.32% as of June 1, 2013, while that on

GROUPING OF DEBT ON MHL BY THE PERIOD OF DELAY IN PAYMENTS IN 2013

| 2013 | Total amount of debt on MHL | Including | | | | | | | |
|--------|-----------------------------|--------------------------|-------|-----------------------|------|--------------------------|------|---------------|------|
| | | Without overdue payments | | With payments overdue | | | | | |
| | | | | from 1 day to 90 days | | from 91 days to 180 days | | Over 180 days | |
| | | Million Rb | %* | Million Rb | %* | Million Rb | %* | Million Rb | %* |
| Jan 01 | 1 997 204 | 1 915 917 | 95.93 | 30 957 | 1.55 | 5 193 | 0.26 | 45 137 | 2.26 |
| Feb 01 | 2 010 608 | 1 928 374 | 95.91 | 47 048 | 2.34 | 5 228 | 0.26 | 29 958 | 1.49 |
| Mar 01 | 2 052 696 | 1 965 046 | 95.73 | 53 165 | 2.59 | 5 542 | 0.27 | 28 943 | 1.41 |
| Apr 01 | 2 094 420 | 2 014 622 | 96.19 | 43 983 | 2.10 | 5 655 | 0.27 | 30 160 | 1.44 |
| May 01 | 2 160 883 | 2 073 583 | 95.96 | 55 103 | 2.55 | 6 050 | 0.28 | 26 147 | 1.21 |
| Jun 01 | 2 213 574 | 2 124 366 | 95.97 | 55 340 | 2.50 | 7 748 | 0.35 | 26 120 | 1.18 |

* % of the total amount of the debt.

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

loans in foreign currency keeps growing and amounted to 12.15% as of the same date.

According to the data of the Central Bank of the Russian Federation, in May 2013 as compared to April the share of the debt without overdue payments in the total debt on MHL did not virtually change and amounted to 95.97%; it is to be noted that the share of the debt on MHL with payments overdue for over 180 days (default loans) in the total debt kept decreasing to 1.18% (Table 1).

As regards the number of MHL extended per 1,000 persons, as in the 1st quarter of 2012 the leader among federal districts was still the Urals Federal District (Table 2). The leading positions were also retained by the Nenets Autonomous District, the Tyumen Region, the Khanty-Mansiisk Autonomous Region and the Republic of Tatarstan, but it was the Yamal-Nenets Region which took the first place. With a higher number of mortgage loans extended per 1,000 persons, the leaders have a lower share of the overdue debt in the outstanding debt. On the contrary, with a lower number of loans per 1,000 persons regions with high monetary volumes of MHL, such as Moscow, the Moscow Region and St. Petersburg have a higher share of the overdue debt in the outstanding debt (Table 2).

As of April 1, 2013, as regards the share of the overdue debt in the total debt the leader was the Chechen Republic (9.72% against 11.97% as of April 1, 2012) followed by North Ossetia (6.53% against 13.75%), Moscow (4.92% against 6.04%), the Moscow Region (4.38% against 5.88%) and the Central Federal District (3.57% against 4.72%).

According to the data of the Central Bank of the Russian Federation, in May 2013 the volume of MHL in foreign currency extended from the beginning of the year (Rb 5.96bn) as a percentage of the total volume of MHL decreased by 0.07 p.p. to 1.37% as compared to April 2013, while the share of the debt on MHL in

foreign currency (Rb 117,831bn) in the total debt decreased by 0.18 p.p. to 5.32% as of June 1, 2013. In January–May 2013, the volume of MHL in foreign currency increased on the same period of 2012 by 18.28% and 25.89% as regards the number of loans and their value in monetary terms, respectively.

In May 2013, the weighted average period of lending as regards MHL in rubles extended within a month amounted to 14.63 years which is 1.9% lower than in April. As regards MHL in foreign currency extended from the beginning of the year, as of June 1, 2013 the weighted average period of lending amounted to 12.38 years having decreased by 0.73% as compared to May 1, 2013.

In May 2013, the weighted average rate on MHL in rubles extended within a month rose by 0.1 p.p. as compared to April and amounted to 12.7%. The weighted average rate on MHL extended in foreign currency from the beginning of the year also rose by 0.1 p.p. and amounted to 10.1%.

In January–May 2013, OAO AHML refinanced Rb 18,286bn worth of 12,667 mortgages which is 20.69% and 11.61% lower as regards the number of mortgages and their value in monetary terms, respectively, as compared to the respective period of 2012. The volume of *Military Mortgage* amounted to Rb 6,108bn, while that of *Maternity Capital*, to Rb 1,599bn. In May 2013, AHML refinanced Rb 3,309bn worth of 2,263 mortgages which is 42.78% and 36.25% lower as regards the number of mortgages and their value in monetary terms, respectively, than in May 2012.

In the 1st quarter of 2013, the share of mortgage on the housing market amounted to 22.7%, which is 3.9 p.p. more than in the 1st quarter of 2012.

Amendments approved in the third reading to Article 220 of Part Two of the Tax Code of the Russian Federation limited a tax rebate as regards bank interests by the

Table 2

DISTRIBUTION OF REGIONS BY THE NUMBER OF MHL EXTENDED PER 1,000 PERSONS

| Region | The place of the region in 2013; in 2012 | 1 st quarter of 2013 | | | | | 1 st quarter of 2012 |
|-----------------------------------|--|---------------------------------|---|-------------------------|--------------------------|---|---------------------------------|
| | | The number of MHL, units | The volume of the extended MHL, million Rb. | Debt on MHL, million Rb | Overdue debt, million Rb | Overdue debt as % of the outstanding debt | Number of MHL, units |
| Yamal-Nenets Autonomous Region | 1;3 | 1,927 | 4,495 | 51,090 | 0,098 | 0.19 | 1,895 |
| Nenets Autonomous Region | 2;1 | 1,901 | 4,177 | 57,260 | 0,070 | 0.12 | 2,176 |
| Tyumen Region | 3;4 | 1,826 | 3,906 | 46,247 | 0,194 | 0.42 | 1,804 |
| Khanty-Mansiisk Autonomous Region | 4;2 | 1,757 | 4,340 | 59,053 | 0,144 | 0.24 | 1,980 |
| Republic of Tatarstan | 5;5 | 1,683 | 1,728 | 12,470 | 0,071 | 0.57 | 1,524 |
| Udmurt Republic | 6;6 | 1,601 | 1,610 | 13,373 | 0,159 | 1.19 | 1,465 |
| Magadan Region | 7;23 | 1,597 | 2,887 | 19,052 | 0,007 | 0.03 | 1,119 |
| Republic of Komi | 8;20 | 1,556 | 2,377 | 18,315 | 0,038 | 0.21 | 1,138 |
| Ulyanovsk Region | 9;11 | 1,533 | 1,634 | 12,823 | 0,070 | 0.54 | 1,318 |
| Novosibirsk Region | 10;13 | 1,459 | 2,140 | 20,511 | 0,330 | 1.61 | 1,281 |
| Republic of Chuvashia | 11;17 | 1,448 | 1,768 | 14,529 | 0,125 | 0.86 | 1,197 |
| Chelyabinsk Region | 12;10 | 1,440 | 1,660 | 15,332 | 0,356 | 2.32 | 1,328 |
| Tomsk Region | 13;7 | 1,411 | 1,939 | 20,131 | 0,189 | 0.94 | 1,400 |
| Urals Federal District | 14;9 | 1,396 | 2,306 | 24,645 | 0,246 | 1.00 | 1,350 |
| Privolzhsky Federal District | 22;21 | 1,237 | 1,455 | 12,117 | 0,162 | 1.34 | 1,131 |
| Siberian Federal District | 27;29 | 1,126 | 1,549 | 15,855 | 0,232 | 1.46 | 1,042 |
| North-Western Federal District | 31;45 | 1,093 | 1,930 | 16,733 | 0,253 | 1.51 | 0,887 |
| St. Petersburg | 39;51 | 1,032 | 2,331 | 21,572 | 0,437 | 2.03 | 0,829 |
| Russian Federation | 43;44 | 0,994 | 1,585 | 14,626 | 0,293 | 2.00 | 0,889 |
| Moscow Region | 48;55 | 0,967 | 2,450 | 23,660 | 1,036 | 4.38 | 0,792 |
| Far Eastern Federal District | 56;39 | 0,915 | 1,656 | 16,261 | 0,086 | 0.53 | 0,928 |
| Central Federal District | 64;61 | 0,853 | 1,807 | 16,324 | 0,583 | 3.57 | 0,740 |
| Southern Federal District | 78;76 | 0,714 | 1,036 | 9,188 | 0,162 | 1.76 | 0,547 |
| Moscow | 81;75 | 0,647 | 2,373 | 22,302 | 1,097 | 4.92 | 0,573 |
| North-Caucasian Federal District | 88;85 | 0,349 | 0,506 | 4,120 | 0,090 | 2.18 | 0,309 |

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

amount of Rb 3m. The above tax rebate can be granted only in respect of one unit of property which situation permits the borrower to return maximum Rb 390,000 from the paid interests. In case of purchasing real property, the amendments preserve the maximum tax rebate in the amount of Rb 2m, however, they permit to use it in further deals until the rebate has been utilized completely, that is, the buyer is repaid Rb 260,000.

According to the data of the Federal Tax Service, in 2012 Rb 576.55bn worth of rights were claimed in respect of property tax rebates, including mortgage; the sum of the repayment under the above rights amounts to Rb 75bn.

Standard&Poor's Ratings Services and Moody's assigned simultaneously international ratings at the level of the sovereign rating of the Russian Federation to A1-class and A2-class bond issue of ZAO Ipotechny Agent AHML 2011-2.

In formation of the budget of Russia for 2014–2016 period, the maternity capital is allocated to the Nominally Approved Expenditures section, that is, expenditures which are expected, but can be abandoned in case of a dire need. In the budget, it is planned to increase expenditures on the maternity capital by Rb 140bn a year. ●

A NEW TURN IN THE PRIVATIZATION POLICY

G.Malginov, A.Radygin

The Forecast Plan (Program) for the Privatization of Federal Property and the Main Guidelines for the Privatization of Federal Property in 2014–2016 were approved by the Russian Government's Executive Order dated July 1, 2013, No. 1111-r. This is already a second 3-year privatization program developed with consideration for the planning period of the Forecast Plan (Program) for the Privatization of Federal Property (from one year to three years) based on the amendments which were made to the applicable law on privatization in the spring of 2010.

The structurally approved privatization program contains two sections, as before. The first one contains main government's directives, forecasts of the effect which privatization might have on structural changes in the economy, including plans of privatization of the largest companies leading in respective industries and volumes of federal budget revenues generated from sale of federal property. The second one contains a list of property items to be privatized under a normal procedure (514 SUEs (state unitary enterprises), 436 JSCs, 4 CJSCs and 94 other Russian Federation Treasury's property items) similar to the procedure which have been employed over the past few years.

However, the new privatization program differs largely from the previous program for 2011–2013 which was adopted in November 2010.

First, unlike all the privatization programs which have been released since 2002¹, the new program contains no explicitly formulated objectives of the national privatization policy.

As a substitute for such objectives there is a reference to basically the Presidential Decree dated May 7, 2012, No. 596 "On the Long-Term National Economic Policy" rather than the objectives and goals provided for by the "Federal Property Management" National Program of the Russian Federation approved by the Russian Government Executive Order dated February 16, 2013, No. 191-r (without any specification). It is envisaged in the Decree that until 2016 the state is to cease to held interest in companies involved in the non-mineral sector which are not regarded as entities of natural monopolies and defense industry, and also there is a reference in the context of the document to

Subparagraph "c", Paragraph 1 in which the government is commissioned to take measures aimed at increasing by 1.3 times against 2011 (among other indicators) the share of products of high-tech and knowledge intensive industries in the gross domestic product by 2018.

Such reference has caused raised eyebrows, because the instructions on the enhancement of privatization and management of state-owned property for the government are set forth in subparagraph "c", Clause 2 (not Clause 1) of the Presidential Decree dated May 7, 2012, No. 596. Unless it's just a simple inaccuracy, the new privatization program fails to show any relations between sale of different state-owned assets and growth in the output of high-tech and knowledge intensive products.

With regard to the content of the document, it should be noted that it contains additional exclusions: (1) joint-stock companies and enterprises which are included into the list of strategically important organizations, (2) minority state-held interest in JSCs which are subsidiaries of the parent companies of vertically-integrated entities for the purpose of their further contribution to the charter capital of parent companies of respective integrated entities, as well as (3) a federally-held 'single' interest in JSCs on which budget expenditures on the preparation of privatization exceed the amount of potential federal budget revenues.

Second, in the forecast of the effect of property privatization on structural changes in the economy quantitative breakdown of economic agents which pertain to state property and are subject to privatization was presented for the first time in terms of type of economic activity rather than industries. In this context one may say that about belated harmonization of the contents of privatization programs with the classification employed in statistic reports as early as since 2005, which was repeatedly pointed out by the Accounts Chamber of the Russian Federation. A negative aspect of such a change is that it is impossible to make a correct comparison of the structure of economic agents which are regarded as federal property. One only may assert that their

¹ It is to recall that the previous program for privatization in 2011–2013 provided for the following objectives. Create conditions enabling one to encourage extra budgetary investments for the development of joint-stock companies based on new technologies; shrink the public sector of the economy with a view to enhancing and encouraging private investors' initiatives; enhance corporate governance; provide incentives for the development of the stock market; establish integrated entities in strategically important industries; generate federal budget revenues.

quantity has just been reduced over the three years between January 1, 2010 and January 1, 2013: FSUEs (federal state unitary enterprises) were almost halved (from 3517 to 1795), while federally-owned JSCs were reduced by more than 1/5 times (from 2950 to 2337).

However, like in the previous privatization program, the forecast of the effect of privatization on structural changes in the economy has been performed as a mere formality, because it fails to even provide a general assessment of anticipated changes in the share held by the public sector, let alone the effect of privatization on the dynamics of output, employment, investments and innovations, budget load size relating to state-owned property, tax compliance status, etc.

Third, plans for privatization of major companies have undergone serious changes against the way this process was specified by the Russian Government Executive Order dated June 20, 2012, No. 1035-r in the current privatization program for 2011–2013.

With regard to the list of assets suggested for privatization, it has remained unchanged in general, with Rosagroleasing, Russian Agricultural Bank (it was previously stated that the state would cease to hold its interest in these entities until 2016) and FGC UES (Federal Grid Company of Unified Energy System) (a state-held interest in this entity was envisaged to shrink down to 75% plus one share) having been removed from the list, whereas ROSNANO (a state-held interest was expected to shrink down to 90% through fresh issue and placement of shares), Rosspirtprom, Rostelecom and the State Transport Leasing Company having been added to the list.

However, unlike the privatization program for 2011–2013 in its version dated June 2012, the interest held by the Russian Federation in many largest companies is supposed to retain corporate control or at least makes it possible to influence the corporate governance procedure by holding a blocking interest (25% plus one share).

The latter option is envisaged for ALROSA joint-stock company (with coordination of sale of the interest held by the Republic of Sakha Yakutia and municipalities), Aeroflot Russian Airlines, Sovcomflot. What is meant here is a state-held interest of 50% plus one share when it comes to Federal Hydrogeneration Company (RusHydro) and VTB Bank, whereas the state-held interest in JSC Zarubezhneft also might shrink down to the same value, but until 2020 (with an intermediate threshold of 90% until 2016). The previous privatization program envisaged that until 2016 the state would cease to hold its interest in all of the above listed companies subject to the execution of a special right for the Russian Federation in the management of joint-stock companies (golden

share) with regard to JSC Zarubezhneft, RusHydro, Aeroflot and ALROSA.

The other group included such companies as Russian Railways, Oil Transporting Joint Stock Company “Transneft”, UralVagonZavod Scientific Industrial Corporation in which the previous minimal possible state-held interest (75% plus one share) has been retained. The State Transport Leasing Company has been added to these companies.

Shrinkage of the interest held by the Russian Federation in the United Aircraft Corporation (UAC) and United Shipbuilding Corporation (USC) is to be extended to 2024, with the previous value of state-held interest in the UAC (50% plus one share) being retained, whereas the state-held interest in the USC being increased (up to 75% plus one share against previous 50% plus one share). In this context the idea of retaining a state-held interest of 0% plus 9 shares in INTER RAO UES is not quite clear, because it was previously stated that the state would cease to hold its interest until 2016 (the company is presently included into the list of strategic organizations).

A shrinkage down to 50% plus one share (previously it was stated that the state would cease to hold its interest before a specified period) of the interest held by OJSC ROSNEFTEGAZ in Rosneft oil company until 2016 stands apart from the key distinctions from the previous privatization program. Until 2015 OJSC ROSNEFTEGAZ still may act as investor in fuel and energy companies planned for privatization, provided that there is a program of financing of such transactions which provides for the use of dividends from companies’ shares held by the foregoing joint-stock company.

With regard to a potential shrinkage (down to less than 50% plus one share) of the state-held interest in OJSC Bank VTB, the program specifies that it will be done with coordination of measures aimed at shrinking the state-held interest in OJSC Sberbank of Russia¹, though the Chairwoman of the Central Bank of Russia asked to exclude from the text of the forecast privatization plan the items which concern potential changes in the state-held interest in banks after 2016, having said that the Central Bank has no plans to shrink the interest held by the Russian Federation in Sberbank.

It has been stated that in the years of 2014 thru 2016 the state would cease to hold its interest in seven companies, namely Rosspirtprom, Unified Grain Company (UGC), ROSNANO, Rostelecom, Sheremetyevo International Airport (SHIA), Vnukovo Airport, Vnukovo Inter-

¹ According to the Ministry of Economic Development and Trade of Russia and the Federal Agency for State Property Management, VTB will be losing its competitive advantages if its state-held interest keeps shrinking and the state-held interest in Sberbank remains unchanged.

national Airport, of which only the UGC and the SHIA were facing such a perspective until 2016 in the previous privatization program. Furthermore, Presidential and Russian Government's decisions on strategic development of the Moscow Air Transportation Cluster must be taken into account with regard to the three metropolitan airports. These and some other companies (UGC, ALROSA, Rostelecom) may exercise the special right of the Russian Federation to participate in the management of joint-stock companies (golden share).

It should be noted, however, that the cessation of a state-held interest in actually each of these companies is very likely to raise certain questions.

Basically, it refers to OJSC Rostelecom whose reorganization was approved, by a Presidential Decree in the spring of 2012, through acquisition of OJSC Investitsionnaya Kompaniya Svyazi (better known as Svyazinvest) and its removal from the list of strategic entities, provided that the state jointly with Vnesheconombank take control over more than 50% Rostelecom common shares. However, by the beginning of the current year reorganization of the public segment of the telecommunication industry was only at the stage of Svyazinvest additional issue under which the state will transfer core assets (including the interest in Central Telegraph, Bashinformsvyaz and other companies) to the holding company. To retain its interest in Svyazinvest (25% plus one share, the rest is held by the state), it is Rostelecom who must participate in financing of additional issue.

In this respect, it should be noted that sale of the federally-held interest in Svyazinvest used to be repeatedly rescheduled for various reasons, of which a set of social and regional issues (tariff reform, social load on its subsidiary and affiliated regional communication operators) prevailed along with reorganization and optimization of holding's corporate structure as early as the 2000s, as well as restrictions relating to national security (provision of communication services to power departments, protection of interests of special consumers of communication services). No practical mechanisms of solution of these problems with a new format of acquisition of Svyazinvest by Rostelecom have been disclosed to date.

With regard to ROSNANO, the issue of compensation for the previous budget expenditures spent on the asset contribution from this former state-owned corporation and the effectiveness of development institutions in general will logically come into focus; with regard to the UGC, the focus will be placed on the use of monies raised through a private subscription in 2012, as well as the storage of national grain reserves and participation in commodity and purchasing interventions; with regard to OJSC Rosspirtprom, the focus will be placed on ensuring control of the alcohol market amid a marked

fall of legal sales of alcoholic beverages in response to raise in excises, and how budget generates revenues in general from this historically traditional source of revenues in Russia; with regard to the metropolitan airports, the focus will be placed on further budget financing for the purpose of their reconstruction and transparency of a new capital structure in view of the numerous problems which have been faced by the Domodedovo Airport since the mid-2000s¹.

With regard to budget revenues from privatization, one may see a substantial reduction in volumes, net of the value of shares of largest companies leading in respective industries. In 2014–2016 such revenues are expected to amount to Rb 3bn annually against Rb 6bn in 2011, and Rb 5bn in 2012 and 2013 which were forecasted in the previous privatization program.

There is no forecast of principal revenues from privatization of the interest in largest companies which have very good investments prospects, in case the Russian Government takes certain decisions, whereas the previous privatization program specified an amount of Rb 1 trillion for a period of 2011–2013.

Furthermore, it has been mentioned that the President and the Russian Government might take decisions on privatization by shrinking the state-held interest in a company through additional issue and allocation of raised monies to recapitalize joint-stock companies with due regard to the aspects of long-term development and their investment needs required for implementing corporate development strategies, as well as capital adequacy requirements (with regard to banks).

If based on the information obtained from official sources following the results of the discussion of the Draft Forecast Plan for Privatization in 2014–2016 at Russia's Government meeting on June 27, 2013, one may talk about around Rb 630bn as direct budget revenues mainly from sale of shares of JSCs which are leading in specific industries over three years (Rb 180bn in 2014, Rb 140bn in 2015, and Rb 300bn in 2016), as well as, presumably, with due regard to Rb 9bn from other sales. Another Rb 380bn are supposed to be generated as dividends OJSC ROSNEFTEGAZ² following the results of sale of Rosneft shares. A total of around Rb 1 trillion and 20bn³ of federal budget revenues are expected to be generated.

1 A long-lasting lawsuit with the Federal Agency for State Property Management which concerns the ownership of a few buildings and structures, ill-defined ownership structure leaked out in connection with the provision of transport security.

2 The head of the Ministry of Finance of Russia said at the aforementioned meeting of the Russian Government that he was not sure if it would be possible to generate this amount from the company.

3 However, the addition of revenues from the specified channels makes up an amount which is Rb 10bn less. The difference

Furthermore, the materials of the meeting also refer to a sum of Rb 1,7 trillion as the amount generated from sale of JSCs' shares in 2013–2016. Therefore, it is not quite clear how this amount corresponds to the previous amount of revenues.

Assuming that the sum simply contains privatization revenues of the current year, they should amount to around Rb 680bn, thereby exceeding direct budget revenues from privatization over the next three years. This is very doubtful, the more so, because Rb 1,7 trillion are linked to a 3-year time horizon in other context. It may, therefore, be suggested that the difference between the values is a part of the monies generated from sale of largest companies which are supposed to be spent to develop these companies and increase their capital, but the program lacks respective numerical benchmarks.

Possible allocation of revenues from privatization of ALROSA shares (subject to coordination of sale of the interest held by the regions and municipalities) for the development of infrastructure in the Republic of Sakha Yakutia, without specifying scales and proportions which would rather promote smaller budget revenues, should be considered in the same context.

It is very difficult to speak about whether or not the declared goals can be achieved, bearing in mind the amount of federal budget revenues from privatization, because it depends both on the list and value of assets proposed for sale and stock market conditions which depend largely on the current macroeconomic situation.

With regard to the place and role of revenues from privatization within the frameworks of budget process in drafting a new 3-year budget, the Ministry of Finance of Russia took account of a total of Rb 925,9bn (Rb 230,8bn in 2014, Rb 445,1bn in 2015, Rb 250bn in 2016) of revenues from sale of the federally-held interest in joint-stock companies over three years in basic parameters of the federal budget for 2014–2016.

According to the Russian finance department, shortfall in revenues from privatization may be replaced with oil and gas revenues with possible reduction in contributions to the Reserve Fund in the current year. A similar procedure, with a different wording though, was allowed through amendments to the two previous federal budgets for 2011 and the planning period of 2012 and 2013, and for 2012 and the planning period of 2013 and 2014, when oil and gas revenues generated beyond a specific value might be used for the replacement of state borrowings and/or revenues from sale of state-held interest and other types of stakeholding, or for other purposes established by the law.

exceeds the single value of revenues from privatization (Rb 3bn annually within the period of 2014 thru 2016) which is officially declared in the new privatization program.

In this respect, it is to be recalled that neither the main part nor the annexes relating to sources of financing of federal budget deficit, where inter alia there is only a general item on other sources without any specifics, of the applicable Federal Law dated December 3, 2012, No. 216-FZ "On the Federal Budget in 2013 and the Planning Period of 2014 and 2015" contain any information on a particular value of revenues from privatization¹. Nothing new was contributed in this context by the recent amendments to the 3-year budget by the Federal Law dated June 7, 2012, No. 133-FZ.

According to the Report on the Implementation of the Federal Budget as of June 1, 2013 (according to sources of internal financing of deficit), posted on Federal Treasury's official website, revenues from sale of a federally-held interest and other types of stakeholding amounted to Rb 17227,3m (no target value for the year was specified).

The recently established budget process mechanism, when the text of a newly adopted budget law contains no indications on privatization in the context of budget revenues, leaves a wide and unlimited scope for any decisions that can be made on the list of privatized assets, including terms and sale format of such assets. All the more so, as the existing privatization program clearly shows that many amendments and updates with regard to a newly adopted similar document are very likely to be made.

A total of 45 respective legal acts and regulations, of which 9 were released in 2013, 24 in 2012, 11 in 2011 (one was published as early as the very end of 2010), have been adopted under the Russian Government Executive Order dated November 27, 2010, No. 2102-r as of the mid-July 2013 since the adoption of the Privatization of Federal Property and the Main Guidelines for the Privatization of Federal Property in 2011–2013.

In general, the new privatization program looks more moderate and substantiated, given retained public corporate control of a series of companies regarded as natural monopoly and infrastructure entities involved in capital-intensive types of activity with long payback periods, playing a major role in realization of the structural and industrial policy, who acted as public agents in taking crisis response measures during the acute phase of the crisis of 2008–2009. ●

1 However, the explanatory note to the Draft Law "On the Federal Budget in 2013 and the Planning Period of 2014 and 2015" pointed out to a possibility of using a part of extra oil and gas revenues to replace sources of financing of federal budget deficit by the decision of the Russian Government in building up the Reserve Funds and the National Wealth Fund.

FACTORS CONTRIBUTING TO THE DECREASE OF PRICES FOR PORK AND THE DECLINE OF PIG PRODUCTION PROFITABILITY

N.Karlova

The lowering of import duties on pork from August 2012 following Russia's accession to the WTO resulted in the decrease of prices for this product and the decline of profitability of domestic pig production. Combined with a whole set of other factors this dragged the problems of the sector forth into 2013.

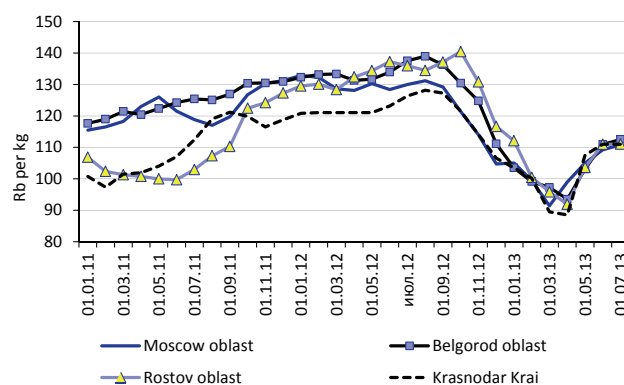
A short rise of prices for pork in summer 2012 (due to the seasonal growth of demand and the imposition of embargo on the import of commercial livestock from the EU in order to prevent the spread of "Schmallenberg" virus) was superseded by their sharp drop from the end of August 2012 (Fig. 1). In 2013 the decrease of prices continued. As a result, from September 2012 to March 2013 prices received by domestic producers for pork (slaughter weight, VAT included) fell by an average 30%: from Rb 136 to Rb 97 per kg in Belgorod oblast, from Rb 127 to 89 Rb per kg in Krasnodar Krai and from Rb 129 to Rb 91 in Moscow oblast. Beginning from April 2013 prices for pork started to grow but so far have failed to reach the respective 2012 level. The drop of prices conditioned the decline of pig production profitability.

The increase of pork imports due to lower rates of import duties (that came into effect following Russia's accession to the WTO in August 2012) was not the only reason of negative price dynamics in the sector. Other factors contributed to the situation as well:

- a remarkable increase of domestic pork production in corporate farms at the end of 2012;
- the drought and higher prices for feeds in the past year;
- low competitiveness of the sector;
- annual seasonal reduction of demand for meat in March-April 2013.

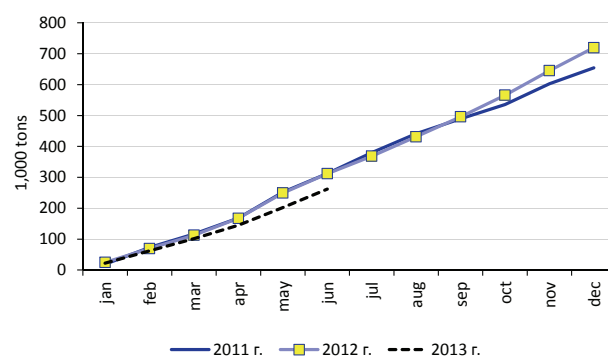
After joining the WTO Russia lowered the duty on import of pork within the quota from 15% (but not less than 0.25 euro per kg) down to 0%, on import of pork out of the quota – from 75% (but not less than 1.5 euro per kg) to 65%, on import of live pigs – from 40% (but not less than 0.5 euro per kg) down to 5%. Import of pedigree breeder animals continues to be eligible for zero duty.

The introduction of new rates of import duties fostered the growth of pork imports. Imports of fresh and chilled pork in the IV quarter of 2012 exceeded the respective 2011 indicators by 9.8%. As a result imports of pork (not including sub-products and fat) in 2012 were almost record high – about 750,000 tons (Fig. 2).



Source: IKAR.

Fig. 1. Dynamics of domestic producer prices for pork (slaughter weight, VAT included) in selected regions of the Russian Federation

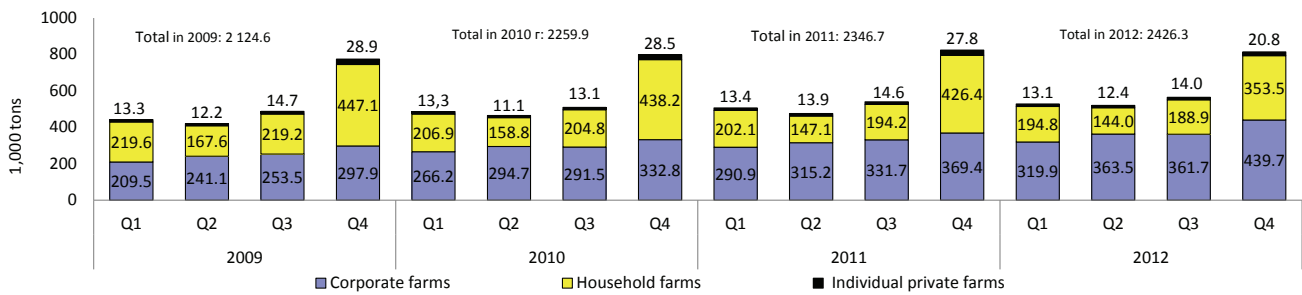


Note. Less trade with the Republics of Belarus and Kazakhstan.

Source: Federal Customs Service of the Russian Federation.

Fig. 2. Imports of pork (cumulative total from the beginning of each year)

However, from the beginning of 2013 imports notably shrank. In the conditions of more liberal customs and tariff regime the supply of live commercial pigs to Russia was constrained by the ban of "Rosпотребнадзор" [the Russian Service for Consumer Rights Protection]. Due to the ad-hoc restrictions on supplies from selected countries imports of pork in January–March 2013 were 11% below indicators of the respective period of 2012 and by early July r. they lagged behind by



Source: Rosstat.

Fig. 3. Output of pork (slaughter weight) by types of farms

already 17%. Still, the inflow of cheaper imported products has lowered the price ceiling for pork in Russia.

In 2012 the production of pork in Russia grew by 3.4% up to 2,426,300 tons with the industrial sector accounting for the major part of this increase – its output was up by more than 13.5% (Fig. 3). So, additional volumes were supplied to the market aggravating the price situation. A noticeable growth of domestic production was observed from July to December 2012 and was most remarkable in the Central Federal District where it reached about 40% following the putting in operation of some new pig complexes.

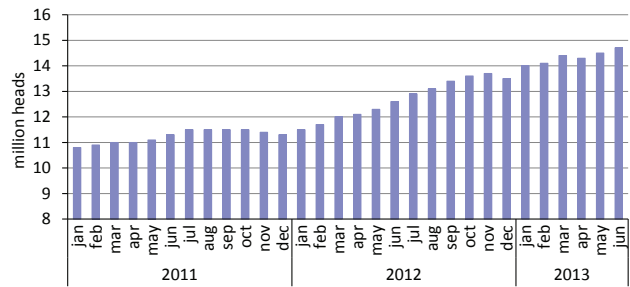
Due to the inertia of pig raising sector, in 2013 the population of animals therein continued growing as investment projects launched in the previous years came to the completion (Fig. 4). The number of pigs in corporate farms as of July 1, 2013 totaled 14.7m heads versus 12.6m heads as of the same date the year before. In the first half of 2013 the live weight of pigs slaughtered in corporate farms reached 1,184,900 tons while the respective indicator for 2012 was 27.8% lower – only 927,500 tons.

High growth rates of 2013 indicators against the level of the previous year are registered in almost all the federal districts except the Southern one where as of July 1, 2013 the number of pigs was 24.7% below that of July 2012 (230,700 heads). The highest growth rates of pig population are observed in the Central Federal District (+27.2% as compared with 2012).

High prices for feeds constituted another factor of profitability decline in pig raising. They grew due to the 2012 drought and the resulting rise of prices for grain (Fig. 5) and affected the cost of production in the pig sector.

The situation for Russian pig producers was aggravated by the fact that negative price dynamics coincided with the seasonal decrease of consumer and processor demand for pork in the Lenten period that lasted till the beginning of May.

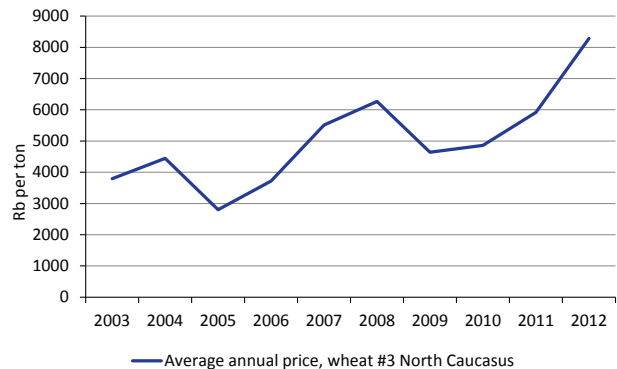
In these conditions some investors in the sector started to abandon their projects. In March 2013 the leading producer of pork – agribusiness holding Mi-



Note: as of the beginning of each month.

Source: Rosstat.

Fig. 4. Number of pigs in corporate farms



Source: Sovecon.

Fig. 5. Dynamics of grain prices

ratorg – declared the suspension of its investment projects under which 10 pig raising complexes were to be built in Kursk oblast. At present Miratorg has already put in operation 4 such complexes in the region that have reached their full production capacity – 50,000 tons of pork (live weight) per year.

Protective actions against import and other tools of state support to pig breeders drove the development of pig raising in Russia. Owing to the active state support of the sector (subsidies to producers, customs and tariff regulation of import) prices for pork on the domestic market were kept at a high level as compared with the world prices (Fig. 6). In August 2012 wholesale prices for pork (slaughter weight) in the US averaged \$1.6 per

Table 1

RATING OF THE LARGEST PORK PRODUCERS IN THE RUSSIAN FEDERATION BASED ON 2012 PERFORMANCE*

| Rating | Producer | Output of pork (live weight) in 2012, 1,000 tons | Share in the total industrial pork production in the Russian Federation (live weight) in 2012 |
|--|-----------------------|--|---|
| 1 | GC MIRATORG | 241.1 | 11.4% |
| 2 | LLC GC AGRO-BELOGOR'E | 117.5 | 5.6% |
| 3 | GC CHERKIZOVO | 115.0 | 5.5% |
| 4 | GC Rusagro | 68.5 | 3.2% |
| 5 | LLC CoPITANIYA | 64.0 | 3.0% |
| 6 | LLC PRODO management | 55.4 | 2.6% |
| 7 | CJSC Agrarnaya Gruppa | 53.1 | 2.5% |
| 8 | GC COSMOS GROUP | 39.7 | 1.9% |
| 9 | CJSC Eksima | 39.6 | 1.9% |
| 10 | LLC Kamskiy Bacon | 35.3 | 1.7% |
| Total for the TOP 10 enterprises | | 829.2 | 39.3% |
| Total for the TOP 20 enterprises | | 1 111.7 | 52.7% |
| Total industrial pork production in the Russian Federation | | 2 107.8 | 100.0% |

* Industrial pork production in the Russian Federation includes output of corporate and individual private farms.

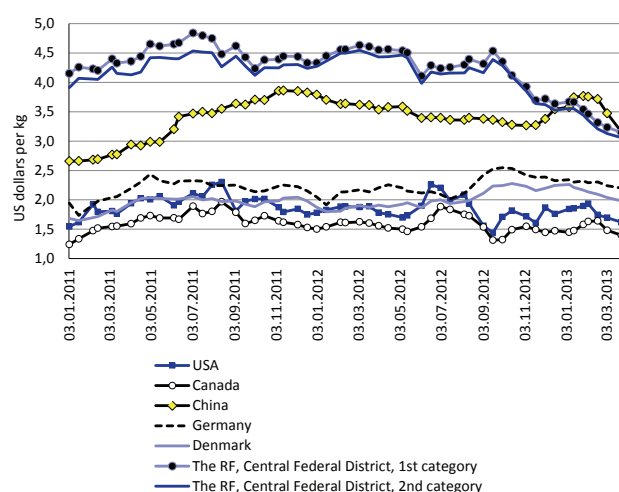
Source: National Union of Pig Producers.

kg, in Canada – \$1.5 per kg, in China – \$3.4 per kg, in Germany – \$2.4 per kg, in Denmark – \$2.1 per kg, in Russia (the Central Federal District, 1st category pork) – \$4.3 per kg.

Following the accession to WTO the period of high prices for pork in Russia came to an end. Protective measures in the sector are no longer sufficient for fighting off possible import; instead, the improvement of competitiveness is essential. It will be accompanied by the withdrawal of non-modernized and household farms from the market and their replacement by companies with high performance indicators. Pig raising complexes with their own feed and processing capacities and retail network will gain an advantage.

The signs of consolidation in the pig raising sector can already be detected. While in 2010 the three biggest producers of pork (Group of Companies (hereinafter GC) Miratorg, LLC GC Agro-Belogor'e, GC Cherkizovo) accounted for 17.6% of the industrial pork production in the Russian Federation (includes output of corporate and individual private farms, live weight), in 2012 their share grew up to 22.5%, first of all owing to the increase of Miratorg's output from 130,630 tons (7.2%) up to 241,100 tons (11.4%)¹. In 2010 TOP 20 Russian pig raising farms produced 47.7% of pork, in 2012 – 52.7% (Table 1). Their contribution grew in spite of the fact that the output of some producers included in this rating fell and they respectively lost their market share.

The situation on the market can change following the decision taken by the RF Government in response to the spread of African swine fever (ASF). According



Source: Information and Analytical Agency "EMEAT".

Fig. 6. Dynamics of prices for pork (slaughter weight)

to the data of Rosselkhoznadzor [the Federal Service for Veterinary and Phytosanitary Surveillance] beginning from 2007 ASF was registered in 31 regions – constituent members of the Federation, over 909,000 pigs were condemned and liquidated. The compensation for condemnation of animals exceeded Rb 2.3bn. The situation deteriorated in June 2013 when cases of concealing ASF infection were revealed in Tver, Volgograd and other regions. It's obvious that the infection is scattering from ASF-endemic areas (the Southern Federal District and Tver oblast) and gradually seizing new regions. This can result in the contamination of the whole European part of the Russian Federation.

Due to the aggravation of ASF situation the solution of this problem has mounted to the level of the govern-

1 Data of the National Union of Pig Producers.

ment that proposes to prohibit the keeping of pigs in farms failing to comply with biological safety requirements. This primarily concerns household farms and small farms unable to provide the adequate level of disease protection. According to estimates of the National Meat Association about 30% of pig population in the country is kept in household farms and 15% – in old farms with insufficient level of biological security. The major pig production region of Russia – Belgorod oblast that accounts for 17% of the total national pig inventories – has already declared the launching of the program for buying out pigs from households at the price of Rb 60 per kg of live weight. For reference – as of July 2013 the average purchase price for pigs in Belgorod oblast amounted to Rb 69 per kg of live weight (VAT not included)¹.

This measure will foster the offsetting of pig population drop in household and old farms by its increase in industrial enterprises and large agribusiness holdings. In order to support domestic pig producers the gov-

ernment has announced the allocation of direct subsidies to pig raising complexes in the amount of Rb 9 per kg of pork.

The situation on the pork market improved already in the II quarter of 2013. For instance, in the period from January to June prices for wheat (class 3, EXW North Caucasus) fell from Rb 11,200 per ton down to Rb 9,600 per ton². In July the price for pork was 15–20% higher than in March³. Still, the accession to WTO has brought to light the problems faced by the sector and determined the guidelines for its further development: the improvement of domestic output competitiveness as compared with the imported products, the withdrawal of non-efficient producers from the market and further consolidation of the sector by industrial enterprises and agribusiness holdings having their own capacities for feed supply and meat processing as well as a developed distribution network. ●

1 Data of IKAR.

2 Data of Sovecon.

3 Data of IKAR.

APPROPRIATE ADJUSTMENT TO THE MILITARY CONSTRUCTION

V.Tsymbal

The end of H1 2013 has been marked by frustrated military construction designs contrary to expectations of many members of the Russian Government and Presidential Executive Office. It appears that the problem has been caused not only by economic factors which are out of the scope of the Russian military organization. Other causes have come to the forefront – systemic mistakes in the national planning and management of the military construction itself.

On the anniversary of signing the Presidential Decrees dated May 7, 2012, including those which were intended to implement military construction plans and programs in the Russian Federation and plans on modernization of the military-industrial complex (MIC), President Putin requested the Russian Government to report on *how his instructions had been executed*. The President promised strict control and severe individual performance measurement of the execution of his instructions. Not only vague generalities about anticipated success, but also concrete military and economic parameters came in sight of the President. It is to be recalled in particular that at a ceremony of officers promotion and awarding of top military grades President Putin once again said about¹ misperceptions of “optimal structure of military expenditures” which is to be attained in a short-term period: “The maintenance of the Armed Forces must account for 30 percent or less of the expenditures, whereas their equipment and development must account for 70 percent”. President Putin said that this is “a challenging task, but it must be fulfilled”.

It should be noted that Russia’s federal budget has no clear division of expenditures on maintenance, equipment and development of the Armed Forces, though the UN reporting standard for national military expenditures provides for such division. Therefore, reporting annually to the United Nations, Russia meets the standard. Regrettably, no such military expenditures classification is used domestically in the Russian Federation.

The foregoing leads to a concrete proposal whose implementation must precede optimization of military expenditures. The package of federal budget documents should be complemented with a *compulsory annex* which explicitly specifies the paragraphs, subparagraphs, and special expenditure items which are classified as “maintenance”, “equipment and development”. While leaving intact the existing budget expenditure classification which is familiar for financiers, it would allow one to know the ratio between these groups of ex-

penditures, monitor the dynamics in the years to come and the observance of the Presidential instructions. It is highly important that this proposal requires no changes in the budget process legal framework.

At the same time, the Ministry of Defense and the MIC should be request to provide materials which would prove optimality of certain items of the structure and parameters of military expenditures, as well as their comparison with similar characteristics for modern nations, especially G8 and G20 countries.

Such a request is quite reasonable, because preliminary analysis of the range of potential values of the foregoing ratio of military expenditures (on maintenance / development) shows that the recently submitted substantiation with a reference to the experience in other countries was incorrect. Regrettably, disinformation was provided instead of reliable data. It is not so important whether the disinformation was deliberate or not. Y. Baluyevsky, Chief of the General Staff of the Armed Forces of the Russian Federation, was the first to pronounce the disinformation in the fall of 2005, as follows: “The entire world has been developing under the following scheme: around 60 percent is spent on arms purchase, research and development, and around 30–40 percent on monetary allowances and logistics and troops training”². Later, the same was repeated by S. Ivanov when he held the Minister of Defense office. He was followed by other public officials, including President Putin, who expressed their regret about spending most “on consumption” rather than “on development”.

However, the real facts about “the entire world” were as follows. According to the United Nations, in 2004 (i.e. on the eve of Y. Baluyevsky’s report) expenditures on equipment and development of the armed forces accounted for 36.2% of total military expenditures in the United States; 30.4% in Great Britain; 36.2% in France³. In this context, Russia’s expenditures

1 Красная звезда // 29 декабря 2012. (Krasnaya Zvezda // December 29, 2012)

2 Российская газета // 1 ноября 2005. (Rossyiskaya Gazeta // November 1, 2005)

3 United Nations Reports on Military Expenditures in 2004 No. A/59/192; A/60/159.

Table 1

THE SHARE OF U.S. MILITARY BUDGET EXPENDITURES IN THE DEVELOPMENT OF THE ARMED FORCES, %

| Budget items \ year | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|-------------------------------------|------|------|------|------|------|------|
| WMSE procurement | 24.5 | 20.3 | 19.5 | 19.1 | 18.5 | 17.5 |
| R&D | 11.8 | 12.0 | 11.5 | 11.1 | 18.5 | 17.5 |
| Construction of military facilities | 3.3 | 4.0 | 3.2 | 2.3 | 1.8 | 1.5 |
| Housing provision | 0.4 | 0.5 | 0.3 | 0.2 | 0.2 | 0.2 |
| Total, inclusive of 'others' | 41.4 | 36.9 | 35.2 | 33.0 | 31.8 | 30.7 |

Source: М. Тканова. Проект военного бюджета США на 2013 финансовый год // Зарубежное военное обозрение, №10, 2012. С.15–20 (M. Tkanova. U.S. Draft Military Budget for 2013 Fiscal Year // Zarubezhnoye Voennoye Obozreniye. No. 10, 2012. pp. 15-20)

on equipment and development, which accounted for 29.7% in 2004, was a bit below the values which are typical of developed nations.

Indeed, there was a need to raise expenditures on equipment and development of the Russian Armed Forces, but they shouldn't have exceeded 60–70%.

Discrepancies concerning a rational ratio of expenditures (on maintenance / development) have become strained. Many nations had to reduce their military output in response to the economic crisis. Instead, Russia is going and, most importantly, intends to go in the opposite direction.

The recently published UN data about military expenditures¹ refer to 2011. According to the data, world's leading powers' spending on the equipment and development of their armed forces accounted for the following percentage of their total military expenditures: 32.4% in the United States; 30.1% in Great Britain; 33.1% in Germany; 21.1% in Canada. The European Union, being considered as totality of all EU member countries, showed 22%². Though China and India failed to provide their correct data to the United Nations, SIPRI³ experts say that these states also spend around one third on the equipment and development of their military establishment.

According to the Russia's report to the United Nations, Rb 411,545 of Rb 1,241,804, i.e. 33.1%, were spent on the equipment and development of the Russia's Armed Forces in 2011, whereas Rb 475,521 of Rb 1,423,342, or 33.4%, were spent on the equipment and development of the entire state military establishment, including so called other forces. Therefore, in 2011 we caught up with the world's leading powers with regard to this indicator. However, some of our top-rank government officials still have paralogical inference of falling behind giving priority to the "development".

It should be noted that statements of our military officials contradict not only the UN data, but also the

publications of their own competent specialists. For instance, a journal of the General Staff of the Armed Forces' Main Intelligence Directorate published the following data collation on the percentage of expenditures on the development of the U.S. Armed Forces by year (Table 1).

In general, analysis of the world's leading powers' expenditures shows that other countries have been made no harsh attempts towards quantitative increase in weaponry, military and special equipment (WMSE). Furthermore, there is a visible trend towards making changes in allocation of military expenditures in other countries, with decreasing expenditures on the development.

The disinformation provided by some of top-rank government officials had such an effect on the substantiation of the State Armament Program (SAP) for a period of 2011–2020, that it resulted in drastic increase in planned expenditures on military R&D and arms procurement. However, the military-industrial complex, as the locomotive of the economy at large, has no effect whatsoever on growth in civil products.

IEP's specialists have made regular attempts to reveal the illusion. They published their articles in IEP's reviews, made reports at different events attended by specialists from the Ministry of Defense of Russia. Since the illusion has acquired the status of Presidential instructions, nobody dares to dispel it. Perhaps, some government officials are afraid to do that, others have other reasons for doing nothing. Many would like to spend Rb 20 trillion in the next decade. It is characteristic that now government officials don't say that they have substantiated a share of 70%, whereas the President has regularly been repeating the requirement to bring the share of expenditures on equipment and development of the armed forces to this value.

What are the consequences in real life? The planning which is built on lies has been revealing its ridiculousness. Finally, according to the information published by RIA NOVOSTI on June 14, Russian military experts began to discuss aspects of deferring the implementation of plans and part of SAP expenditures to a later period. Some explain it through complexity of works on new military equipment models, others believe that the de-

1 United Nations Reports on Military Expenditures in 2011 No. A/67/128; A/67/128Add.1.

2 Maria Leonor Pires. Europe and United States Defence Expenditure in 2010 // European Defence Agency, 2012.

3 SIPRI Yearbook: Armament, Disarmament, and International Security. Translated into Russian/ IMEMO RAS. – M.: – 2012.

cision is expectable, because the military industry is not ready to perform the required works, and it is not for the first time that the SAP is going to fail.

Recently, the Minister of Finance of Russia has allegedly agreed with the Ministry of Defense of Russia on the reduction of SAP expenditures in years to come. According to mass media with reference to the State Duma¹, it would mean that a part of the federal budget expenditures would be “deferred” from 2014–2016 to 2017–2018. Therefore, in years to come, military expenditures might be cut off by Rb 70,3bn in 2014, Rb 87bn in 2015 and Rb 95,5bn in 2016 against the previously expected values. However, the amounts to be reduced are being disputed. It would be pointless to go deep into analysis unless the federal budget is adopted. It should be noted that the program period (until 2020) and total expenditures of around Rb 20 trillion are supposed to remain intact in all of the proposals. In other words, advocates of huge expenditures on the State Armament Program (SAP) keep adhering to their strategy.

What are the potential consequences? Even a simple calculation shows that such an increase (given the deferral) in army equipment expenditures is impossible. Given around Rb 500bn spent on Air Forces and other branches during the initial year of SAP implementation, an average of Rb 2170bn should be annually spent on the SAP in the remaining period. No economy can show such growth rates, at least in times of peace. In other words, the SAP is doomed to fail.

It is the behavior of government administrators that aggrieves rather than expected SAP failure. Indeed, government officials are familiar with knots and bolts of arithmetic. Furthermore, many of them have academic titles in economics. However, they seem to have no guts to say to the President that he has been misinformed about the military-economic policy.

In the meantime, a new failure is impending in military staffing policy. They have failed to draft the required number of army conscripts. The contract enlistment program has been facing many difficulties. A basic monthly service pay of around Rb 20,000 against a countrywide monthly average of around Rb 28,000 is insufficient to find a sufficient number of young, healthy and smart nationals, even in economically depressed regions. Furthermore, having obtained a first-hand experience with service conditions and military pay, many contract enlisted servicemen are reluctant to extend their contracts².

Government administrators-economists keep providing the same explanation, saying that there is no way to increase military pay and improve the service conditions. A different story is their plan to increase (by 2.4 times) civil servant wages by 2018, whose current average monthly wage is Rb 72,100³.

However, a simple administrative solution would seem to be self-evident:

1) increase the service pay for contract enlisted servicemen and keep it above the countrywide monthly average level at the cost of “surplus funds” which are currently provided for the SAP;

2) and further maintain the costs of Armed Forces development at a level which should not be much higher than the level typical of the majority of modern states.

In other words, military expenditures should not be only reduced but also harmonized, or even increased per serviceman to ensure a minimal strength in Russia’s Armed Forces.

The Government keeps silent about a potentially approved administrative solution of the issues relating to military-economic and staffing policy. Instead, the Government has initiated other initiatives: conscribe young females, attract higher school graduates to 1-year military service with an opportunity to obtain a free second university degree afterwards, etc. However, these initiatives lack solid substantiation.

There is another significant factor. Our military expenditures shouldn’t have skyrocketed so ridiculously above a level which is typical of the majority of civilized states. This is how other countries might interpret what President Putin said about expected values this year at Security Council’s meeting on July 5, 2013: “...we have actually reached a 50x50 formula, i.e. budget funds are allocated in equal shares to maintain and equip the Armed Forces and their long-term development”⁴.

Therefore, government administrators are reluctant either to admit inaccuracy of basic assumptions to be able to substantiate all items and types of military expenditures without resorting to disinformation, or make them clear for all nationals. It would have helped attract a baseline minimum of ‘elite’ volunteers against the guarantee of high status and decent military service conditions. ●

1 Сморщков П. Бюджет разоружили на 253 миллиарда // Газета.ру, 2 июля 2013 (Smorschkov P. The budget has been disarmed by 254 billions // Gazeta.ru, July 2, 2013).

2 Ю. Букреев. Система разбалансирована полностью // Военно-промышленный курьер № 26, 10–16 июля 2013 (Bukreev Y.

The system is totally misbalanced // *Voenno-promyshlenny kuryer* No.26, June 10–16, 2013).

3 Ф. Стёркин. На себя денег не жалко // *Ведомости*, 10 июля 2013 (Styorkin F. They are ready to spare as much as possible on themselves // *Vedomosti*, July 10, 2013).

4 <http://kremlin.ru/news/18529>.

INNOVATIVE EXPORTS PROMOTION IN RUSSIA: ROLE OF INTELLECTUAL PROPERTY RIGHTS PROTECTION

A.Makarov, A.Pakhomov

Diversification of innovation-based foreign economic relations has become significant with global economic transition to the sixth technological mode. At the current stage, expansion of export of high-technology products (goods, services, technologies) is a key element to socio-economic development and a factor of international competitiveness of the state.

Following globalization trends, world's leading powers have been involved in rapid development of national foreign economic complexes on the high-technology basis, focusing on science-intensive export promotion, as well as security and protection for intellectual property (IP) as backbone element of an innovative economy.

However, there is visible dissonance between declared goals for the development of Russia's innovative potential and actual situation with stimulation of high-technology exports, as well as the use of instruments required to achieve the set goals.

The practice over the past few years shows that the existing export support mechanism in Russia, including innovative products, is far from perfect. Problems begin with inefficient support of inventions, develop into difficulties as heavily bureaucratic and costly patenting procedures and commercialization of results of intellectual activity, and run into immaturity of property rights public institutions, including intellectual property, large scale of piracy¹, rule skepticism, etc.

The situation has been aggravated by the issues relating to security and protection of Russian intellectual property in other countries – production and distribution of counterfeit products in the field of copyright and associated rights, counterfeit in industrial property (including military-industrial complex), thereby causing annual multibillion losses for and stagnation of innovative development in Russia in general, technological inferiority².

1 For example, according to the 2013 Special 301 Report, in 2013 Russia remains on the Priority Watch List due to continued "inadequate and ineffective protection for IP" of foreign right-holders, which may impose economic sanctions to a rogue country. 2013 Special 301 Report, Acting United States Trade Representative Demetrios Marantis, Office of the United States Trade Representative, May, 1, 2013, 50 p., <http://www.ustr.gov>

2 For example, according to the Russian Authors' Society and the Russian Union of Right-holders, domestic intellectual right-holders lose more than Rb 1bn annually from piracy in social networks. According to the Business Software Alliance, потери Russian right-holders are expected to lose \$835m from distribution of infringing software and database in 2013. Competitive Advantage:

Practically, a combination of the aforementioned issues suggests to Russian innovative companies that there is no demand for intellectual potential both within the country and *de facto* in other countries, because it is impossible to create, register and export a patented and protected IP item. As a result, the number of commercialized intellectual property items in Russia is insignificant against other countries, as little as 22,600 for all types of results of intellectual activity (IDs)³.

However, it is very important for the country to expand export of innovative products (goods, services, technologies). First, this process has already been creating modern and competitive segments of the Russian economy and becoming an accelerator of its new development trend. Second, with limited domestic demand for high-technology products, their export is a real option to support for expanded reproduction of the innovative sector in the country. However, it can't be achieved unless adequate public support to innovative exports is in place.

In general, the aforementioned systemic issues of security and protection of IP items have an adverse effect on the development of Russian high-technology export, where a critical situation has been developing. At the current stage, high-technology products account for less than 5% of the structure of exports in Russia against 27% in the United States, 29% in China⁴. Russia has been accounting for 0.3–0.4%⁵ or less of the

The Economic Impact of Properly Licensed Software, DC, May 2013, 20 p.

3 Most of IDs account for crude oil and natural gas production and provision of services in these areas (971 IP items); food production (368); production of coke, oil products and nuclear materials (514); metallurgical production (1061); production of machinery and equipment (2086); shipbuilding, aircraft and spacecraft building, and production of other means of transport (1161); in education, R&D (7403). Rospatent's (Russian Agency for Patents and Trademarks) Report "On the Use of Intellectual Deliverables by Type of Economic Activity in 2012", <http://www.rupto.ru>

4 Database UN Comtrade's official website: <http://www.comtrade.un.org>

5 For example, the share of domestic manufacturers accounts for 0.1% of the world biotechnology market, whereas these pro-

global market of science-intensive products over the last decade, which fails to meet the goals of the national innovative development¹.

Patent statistics of the World Intellectual Property Organization (WIPO) make it possible to analyze the situation with the national economy in the international market of innovative products, as well as the effectiveness of the available scientific potential, including high-technology exports.

According to the WIPO, 194,400 patent applications were submitted worldwide under the procedure of Patent Cooperation Treaty (PCT) in 2012. The foregoing figure increased 6.6% against the previous year. The biggest number, 51207 (a growth of 4.4%), of applications for registration of intellectual property rights was submitted from the United States, 43660 (+12.3%) from Japan, 18855 (0%) from Germany, 18627 (+13.6%) from China and 11848 (+13.4%) from South Korea. In the context of industries, the biggest number of applications was submitted for inventions in electronic industry (15293), digital communications (12616), computer-aided technologies and medical technologies (12391 and 11368 respectively) and pharmaceuticals industry (7792).

In general, the number of patent applications reduced by 4% to a total of 956 in the Russian Federation in 2012, and the gap between world's leading technological powers keeps widening. According to the country rating, the figure is less than in Belgium (1231) and Israel (1377). For instance, Fujifilm (Japan) alone submitted 891 applications in 2012².

Analysis of the situation in the past five years shows that as little as 15–20% of federally financed R&Ds have ended up with protectable IP results. Moreover, there is a steady trend with the number of applications for trademark registration exceeding 1.8–2.1 times the number of applications for patents, except for software and database registration with 15–20% of annual growth in the number of applications.

The issue is more complicated with regard to protection of Russian intellectual property holders in other countries: acquisition of a foreign patent is a labor-consuming and costly procedure, which also involves

highly-skilled professionals³. Systemic public support of patenting in other countries is critical under the circumstances.

The Strategy for Innovative Development in Russia for a period until 2020⁴ sets the objective to support to patenting in other countries, providing for the creation of a system of support to export activities of Russian high-technology companies (by simplifying customs procedures, developing trade and political diplomacy, removing restrictions on access to external markets, etc.).

According to a currently developed draft Strategy for the Intellectual Property Development, its main goal is to ensure systemic changes aimed at creating a competitive knowledge and high-technology economy. The result is that Russian Federation's position in the markets of high-technology products and intellectual services is to be enhanced to 5–10% in 5–7 and more sectors by 2020.

A draft document on the establishment of a Foundation for Patent Protection of Russian Rights Holders Abroad⁵ is another initiative of the Russian Government. The budget of the Foundation is supposed to be Rb 300m, while the program for protection of intellectual property rights of Russian innovative companies abroad will be implemented for a period of 10 years. According to experts, implementation of the program is expected to facilitate registration of more than 10,000 Russian patents, with a potential economic effect being expected to amount to Rb 300bn or less. Public support will be focused on subsidizing rights holders' costs on translation of documents into a foreign language, adaptation and selection of inventions by novelty criterion, as well as support for registration of applications.

At the same time, many countries have long been systemically developing and applying special programs of support and protection, patenting and licensing of high-technology products in external markets. For example, in Germany, the United States, China, Canada

ducts are not manufactured at all in some segments. The Draft Roadmap on "The Development of Biotechnologies and Gene Technology" by the Ministry of Economic Development and Trade of Russia, <http://www.economy.gov.ru>

1 Exports of high-technology products should be enhanced by 15–20% annually to reach \$ 60–100bn (1% of the world market) by 2020. The concept of long-term socio-economic development of the Russian Federation until 2020, pp.90–92. Official website of the Ministry of Economic Development and Trade of Russia <http://www.economy.gov.ru>

2 WIPO Economics & Statistics Series, 2013 PCT Yearly Review, The International Patent System, Geneva, 2013, 100 p.

3 The cost of patent attorney services is comparable with similar costs of services of a professional attorney, \$450 per hour. The cost of an invention patent in Russia through a patent attorney begins with 60,000 against \$7,000 to \$10,000 in other countries, for each country. In Germany, for instance, the cost of such services ranges between 5,000 and 7,000 euro. Given sophistication of an invented technology as well as attorney's (specializing in patent law) fees, one should expect patenting costs in the United States to range between \$7,000 and \$10,000. It takes 18 to 30 months on average for a patent to be executed and issued. According to Wise Advice consulting company, <http://www.wiseadvice.ru>

4 Approved by the Russian Government Executive Order dated December 8, 2011, No. 2227-r.

5 Shorthand notes of a meeting of the Presidential Council for Economic Modernization and Innovative Development. December 24, 2012. The official website of the President of the Russian Federation <http://www.kremlin.ru>

| | | |
|-----------------|--|--|
| United States | The U.S.-Russia Bilateral Presidential Commission | - Developing innovation centers and regional innovation clusters - Developing a commercialization chain - Enhancing legal frameworks for innovations |
| Austria | The working group for the development of business relations in the field of infrastructural technologies, innovations and production | Cooperation in the field of transport, energy, information and communication technologies, healthcare |
| The Netherlands | Russian-Dutch Joint Commission for Economic Cooperation (innovation working group) | The working group is focused on the following aspects: - biotechnologies and biomedicine - Information technologies (IT) |
| France | Russian-French Economic, Financial, Industrial and Commercial Council | Basic scope of cooperation: - energy efficiency and renewable power generation - Information technologies (IT) |
| Italy | Russian-Italian Council for Economic, Industrial and Monetary and Financial Cooperation | Basic scope of cooperation: - Aviation industry - Customs control |
| BRICS | Project platforms | Pilot Project Platform |
| OECD | Participation in OECD working bodies | - Committee for industrial production, innovations and entrepreneurship - Committee for scientific and technological policy and its working groups |
| APEC | Political partnership in the field of science, technologies and innovations | New format: Innovation technology dialogues (ITD) |

Source: The Presentation "On the Implementation of Measures as part of the Strategy for Innovative Development of the Russian Federation until 2020" by the Ministry of Economic Development and Trade of Russia.

Fig. 1. Existing formats of intergovernmental cooperation in the field of innovations

and Norway, the state subsidizes national high-technology companies so that can pay for procedures for patenting of intellectual property items abroad, as well as implements sectoral strategies for support of exports in innovative sectors.

Since Russia has no high-technology exports institutes, innovative products have been promoted mostly through a traditional set of tools which are generally ineffective in the modern context. It is referred to various forms of international cooperation both at the governmental and business levels: intergovernmental commissions, working groups on cooperation in the areas of science, technology and modernization, activity of Russia's trade representatives in other countries, including support to foreign economic projects and implementation of business missions, work of bilateral business councils, etc. (see Fig. 1 for details).

In general, given the measures which have been taken to date, it may be concluded that at the federal level they clearly understand the significance of systemic problems in the field of intellectual property, including procedures for patenting, commercialization, as well as promotion of innovative products in other countries. However, no actual results have been achieved in this field to date. Adequate security and protection and promotion of export of copyright items

to other countries may have a significant effect on economic development of the country.

As a rule, however, innovative products are only referred to as industrial property items in Russia, thereby ignoring a second important component of results of intellectual activity – copyright¹. At the same time, copyright commercialization outcomes have constantly been gaining in importance over the last few years, e.g. in the US economy: 11% of GDP, 8% of employment, and the share of national exports is comparable with export of machinery and equipment and agricultural products collectively².

Based on the results of a survey conducted by the WIPO, copyright made the following contribution to the Russian economy by key indicator in 2012: turnover – 8.66%, employment – 7.3%, GDP – 6.06%, foreign

1 In accordance with Article 1225, Part IV, the Civil Code of the Russian Federation, the following results of intellectual activity and means of individualization are subject to protection. Copyright – works of science, literature and art; computer software, databases; associated rights – performances, phonograms, broadcasting or diffusion of radio- or television transmissions via cable; industrial property – inventions; utility models, industrial designs, selection attainments, topographies of integrated circuits, secrets of production (know-how), trade names, trademarks and service marks, appellations of origin, commercial names.

2 Copyright Industries in the US Economy, 2011 Report, by Stephen I. Siwek, prepared for the Intellectual Property Alliance, Economists Incorporated, DC, pp.11–12.

Table 1

PRINCIPAL INDICATORS OF IT DEVELOPMENT FORECAST, BILLIONS OF RUBLES

| | 2011 report | 2020 | | 2030 | | 2020 to 2011, % | | 2030 to 2011, % | |
|-----------------|----------------|----------|----------|----------|----------|-----------------|----------|-----------------|----------|
| | | 1 option | 2 option | 1 option | 2 option | 1 option | 2 option | 1 option | 2 option |
| IT market size, | 648,6 | 1748,4 | 2082,9 | 4102,6 | 5640,4 | 164,1 | 195,3 | 269,6 | 374,8 |
| including: | | | | | | | | | |
| hardware market | 332,5 | 770 | 862,3 | 1440,9 | 1753,1 | 134,4 | 150,5 | 175,8 | 213,9 |
| software market | 132,1 | 462,1 | 582,5 | 1375 | 2073,3 | 223,6 | 281,3 | 467 | 719,9 |
| services market | 184,1 | 516,3 | 638,1 | 1286,6 | 1814 | 178,7 | 221,1 | 312,5 | 451,9 |

Source: Forecast of long-term socio-economic development of the country for a period until 2030.

trade – 7.21%¹. In addition, realization of copyright items is connected with the development of many essential industries, namely mineral extraction industry, food production, production of electric power, gas and water, construction industry.

Software and databases which together with hardware (equipment) and respective services constitute a part of the advancing IT market in Russia, are one of the copyright items which have rapidly been developing in global economic relations.

Annual growth rates in IT goods and services produced and provided by Russian companies have been more than 15% over the recent seven years. Under a conservative scenario of economic development, the Russian IT market is expected to grow in size by 2.7 times against 2011 and reach Rb 4,1 trillion by 2030, whereas under a innovative scenario, it would grow 3.7 times to Rb 5,6 trillion (see *Table 1* for details).

In 2012, Russian IT companies' export volumes reached \$4,4bn, of which software accounted for \$1,6bn and services for more than \$2,4bn. In addition, domestically manufactured products accounted for around 0.6% of the global IT market. Export of Russian IT products is planned to increase up to \$5,7bn in 2015 and \$9bn by 2018²

Reduction of the share of hardware in the total IT market structure in Russia and transition to the creation of software and services markets is going to be the main trend during this period.

However, the most successful innovative industry in the country has been facing persistent problems: most of the added value has been creating through outsourcing or contracts executed under offshore jurisdictions. It should therefore be acknowledged that more than 95% of intellectual property created in the Russian IT industry have been registered outside the scope of the Russia's jurisdiction.

1 WIPO studies on the economic contribution of the copyright industries "Copyright+Creativity = Jobs and Economic Growth", WIPO, Geneva, 2012, 39 p.

2 "The Development of Information Technology Industry" road map approved by the Russian Government Order dated July 20, 2013, No. 1268-r (official website of the Ministry for Communications of Russia <http://www.minsvyaz.ru>)

Anti-piracy campaign is a reserve for the development of this industry. A survey conducted by Business Software Alliance and INSEAD (the Business School for the World) led to a conclusion that if the Russian software market grew by 1% through sales of licensed software, Russia's GDP would grow by \$1,1bn³.

Therefore, these surveys are a good illustration of having a direct economic effect (including export potential enhancement) of systemic public measures aimed at securing and protecting just a single type of intellectual property items – copyright. Furthermore, modern Russia does have cases concerning competitive national software whose intellectual property protection and promotion to external markets may become an accelerator of socio-economic development.

For example, Kaspersky Laboratory, a successful international company which provides the leading antivirus and spyware software in the internet security marketplace and has production offices in 12 countries and annual earnings of more than \$600m, of which 70% are accounted for by developed countries' markets. Some other Russian developers of professional software and PC games (ABBY, IBS, 1C, etc.) show a comparable scale of foreign economic activity.

In view of the above said, it may therefore be concluded that adequate security and protection of Russian intellectual property rights holders both within the country and abroad is an underestimated factor which can really promote innovative exports, become a driver of economic growth. It refers to both traditional industrial property items and rapidly growing IT market as software and associated products.

Given complexity of the issues relating to support of innovative exports and protection of intellectual property rights, as well as existing systemic problems

3 In general, production would grow worldwide if the software market grew by 1% through legal software \$73bn against \$20bn through pirate software. Competitive Advantage: The Economic Impact of Properly Licensed Software, DC, May 2013, 20 p.

and constraints in this field, it would be reasonable to identify and selectively promote export of most internationally competitive domestic high-technology products (both in the field of copyright and industrial property) at the current stage.

However, no real economic effect of accelerated export activity of high-technology economic agents

(including enhanced competitiveness of domestic products, creation of more highly-skilled jobs, transition to an economy based on innovative type of development) can be achieved unless systemic reforms are conducted in the field under the question. ●

OECD'S CONTROL INSTRUMENTS IN THE CONTEXT OF RUSSIA'S ACCESSION TO THIS ORGANISATION

N.Efimova, M.Samarina

Russia's accession to the OECD will definitely have a positive effect on Russia's image worldwide. However, Russia's OECD membership may have an adverse effect though the use of certain OECD's instruments. Russia should take account of potential pressure which it may be subject to both by most powerful OECD members and international organizations equipped with formally defined instruments of pressure which cooperate closely with the OECD. Therefore, it may not only prevent Russia from pursuing to the full extent its interests as OECD member, but also create preconditions for situations under which Russia's stand may not be supported by other OECD members.

Russia is currently in the process of accession to the OECD, a most reputable international economic organization embracing the most developed nations and actively cooperating with international organizations, associations such as WTO, IBRD, G20, G8, etc. If a country wants to access to any international organization, it must observe the rules and provisions of such organization. Russia has membership in most of international organizations with a strongly pronounced control function (WTO, UN, IMF, etc.), but the OECD seems to have no such function at the first glance. OECD's control instruments' features slightly differ from the methods of pressure used by the foregoing organizations. The OECD is distinguished by the fact that its acts are basically advisory in nature, i.e. they are not legally binding. In this context, it is hard to forecast the consequences of non-observance of OECD's rules and provisions, because no consequences are formally defined. However, a comprehensive analysis of OECD's activities shows that such consequences may be drastic and serve as a tool to impose OECD's will on its members and non-members so that they do their best to strictly observe its acts.

Unlike many other economic organizations with Russia's membership, the OECD has no any special body authorized to enforce its acts.

Analysis of a huge package of OECD's acts has led to a conclusion that there is no liability for non-performance of OECD's acts. A report on the effectiveness of OECD economic surveillance has shown that 24 randomly selected OECD member countries have implemented as little as 52% of OECD's economic recommendations¹.

OECD's official instruments are acts adopted by the OECD Council: decisions and recommendations. On top of that, the OECD has more instruments enabling it to influence its members and conduct its activities. These are peer assessment (reviews), peer pressure,

dialogue, economic reviews, economic forecasts, procedure for the adoption of acts in the OECD, cooperation with non-member countries, close interaction and cooperation with international organizations and associations.

The OECD employs all of the foregoing instruments collectively. For instance, peer assessment involves studies of each country's policy in a particular area in comparison with other countries through discussion between them, i.e. peer OECD member countries. This approach offers a flexible instrument designed to settle disputes between OECD members through an open dialogue aimed at clarifying the stand of parties in dispute². Collective discussions allow OECD member countries to share their experience, which is currently very important for Russia in the context of its moving towards international standards for national policies.

Furthermore, joint discussions of issues as part of dialogues unavoidably trigger the 'peer pressure' mechanism which has actively been implemented by the OECD. For instance, a dialogue can be conducted as sharing of experience between representatives of states with a view to solving a problem in a particular country and serve as guidance to best international practices, and a proposed practice, if successful, can't be denied, as it may be regarded as lack of ability or will to solve the detected issue. This may produce a mixed response of both other peer OECD members and the OECD itself towards a member country. Publication of peer review results builds up pressure on the part of society and mass media, thereby influencing adoption of an OECD's act by the state. In addition to the foregoing soft-promotion approaches, there is so-called 'name and shame' method which is used as part of peer pressure³. The method is designed to publicly detect states which have fail to or inappropriately execute OECD's acts.

1 <http://oecdproject.wordpress.com/>

2 OECD's methods analysis. Document OECD SG/LEG(2002)1.

3 OECD's methods analysis. Document SG/LEG(2002)1

Such OECD's instrument as dialogue is designed basically to give a recommendation or make a decision mostly on a consensus basis¹. Though the OECD's act adoption practice is basically governed by consensus, a practice of decision-making by qualified majority voting has been in place since 2004. This approach allows OECD's acts to be adopted and decisions made where there are objectors, provided there is support on the part of 60% of member countries and no objections on the part of three and more members making 25% of total contributions to the OECD Budget. Based on the foregoing, the OECD recognizes priority of the interests of economically powerful nations (USA, Japan, Germany), whereas peer pressure is actively used in consensus, and qualified majority voting is designed so that major contributors to the OECD Budget may comparatively easily prevent any decisions which are not within the scope of their interests.

Detecting a problem through a peer review intends to define and discuss the problem as part of joint discussion, dialogue. OECD's peer assessment can be regarded as OECD's instrument designed to monitor, manage and make member countries implement OECD's acts and enhance the effectiveness of the government of particular states. Apart from peer assessment, the OECD conducts regular economic surveys and makes economic forecasts with regard to both member and non-member countries. The OECD conducts at least 18 surveys annually². Economic forecasting is designed to assess economic situation in countries. This monitoring may become the basis for peer assessments.

Another OECD's instrument is cooperation with non-member countries through forms of cooperation approved by the OECD, thus allowing it to maintain heavy weight worldwide while retaining tight and partially privileged membership (34 member countries for the time being).

Apart from the foregoing control instruments, the OECD acts in close cooperation with other international organizations and associations (FATF, WTO, UN, G8, G20, EC, MBP, etc.) under existing joint action projects. For instance, the IMF and the OECD are cooperating in such areas as financial provisions, international investments, financial and taxation issues. The OECD virtually performs the functions of G20 secretariat, prepares relevant documents and materials for reports other organizations, namely ILO, WTO, IBRD, IMF, etc. Very many international organizations and their structural

entities are involved in different OECD's bodies: 107 international organizations enjoy associate membership, 23 international organizations enjoy full membership. The foregoing interaction allows the OECD to have an indirect effect on economic and political reforms worldwide. For instance, on February 12, 2013 the OECD published a report on base erosion and profit shifting, including analysis of factors which lead to tax base erosion, as well as proposals on how to resolve the problems highlighted in the report³. The report is focused on certain Cyprian indicators which have given rise to OECD's concern (e.g., percentage ratio of revenues from foreign corporations and national GDP), wherefore the OECD has urged the world community to take measures to combat tax avoidance, without suggesting any particular measures against Cyprus. Furthermore, regarding the Cyprian crisis, the Eurogroup made a statement on March 16, 2013 on that the European Union intended to provide 10bn euro as financial assistance to Cyprus, as well as fully supported introduction of tax measures, including capital yield tax and corporate tax rate increase⁴. Later, the Cyprian government and the Trinity⁵ signed a memorandum on financial assistance to Cyprus subject to the introduction of the foregoing tax measures, as well as reforms in its financial and banking sectors. Not only do the foregoing demonstrate sizable reputation of the OECD as international organization, but also its instruments' indirect impact on decision-making of other organizations which have supranational authorities and formally defined rules vs. the OECD.

Finally, it should be noted that it is not only the quality of information and recommendations for its members that is of importance for the performance measurement of an international organization, but also the degree of implementation of these provisions by member countries in their practice. Without being exposed to a certain pressure, OECD member countries fail to adequately implement OECD's recommendations, thereby making it impossible to measure their quality and, consequently, total performance effectiveness of the OECD as international organization.

Russia is therefore exposed to certain risks in the context of its accession to the OECD. On the one hand, Russia's accession to the OECD will definitely have a

1 Consensus is an alternative to voting, unanimous decision-making with the consent from all members of an international organization.

2 <http://www.oecd.org/about/publishing/oecdeconomiccountry-surveys.htm>

3 OECD (2013), Addressing Base Erosion and Profit Shifting, OECD Publications http://www.oecd-ilibrary.org/taxation/addressing-base-erosion-and-profit-shifting_9789264192744-en

4 Eurogroup Statement on Cyprus (16.03.2013) http://eurozone.europa.eu/media/402209/Eurogroup%20statement%20CY_final_16%203%202013%20_2_.pdf

5 The Trinity is a committee comprising European Commission (EC), European Central Bank (ECB) and International Monetary Fund (IMF), which was established to organize financial aid to European countries hit by the European debt crisis.

positive effect on Russia's image worldwide. On the other hand, Russia's OECD membership may have an adverse effect through the use of certain OECD instruments (e.g., through peer pressure which may be regarded the name-and-shame method). In addition, Russia should take account of potential pressure which it may be subject to both by most powerful OECD members and international organizations equipped with formally defined instruments of pressure which

cooperate closely with the OECD. It may not only prevent Russia from pursuing in full its interests as OECD member, but also create preconditions for situations under which Russia's stand may not be supported by other OECD members, given 3–4% of Russia's contribution to OECD (to compare, the leading OECD members contribute from 22% by the United States, 13% by Japan, to 8%, 6%, and 5% by Germany, France, and Great Britain respectively). ●

THE REVIEW OF RUSSIAN ECONOMIC LEGISLATION¹

I.Tolmacheva, Yu.Grunina

In July 2013, amendments were introduced into Part Four of the Civil Code as regards state regulation of relations in the sphere of intellectual property; procedure was specified for intestate succession of escheat property into ownership of a municipal entity and constituent entity of the Russian Federation; the age of a foreign national at which he/she has the right to work in the territory of the Russian Federation has been established; it is established that when a foreign national stays in the Russian Federation under an ordinary work visa he/she can study at an educational establishment in the Russian Federation without securing a change in the purpose of the visit to the Russian Federation; from September 1, 2013 the procedure for acknowledging of the documents on education and qualification issued by Russian educational establishments, as well as those of RSFSR and the USSR will be renewed.

I Federal Laws of the Russian Federation

1. Federal Law No.222-FZ of July 23, 2013 on AMENDMENT OF PART FOUR OF THE CIVIL CODE OF THE RUSSIAN FEDERATION

Amendments introduced in Article 1246 of the Civil Code of the Russian Federation concern state regulation in the sphere of intellectual property.

Issuing of regulatory and statutory acts for the purpose of regulation of such relations in the sphere of intellectual property as are related to entities of the copyright and related rights is carried out by authorized federal executive authority which effects normative and legal regulation in the sphere of copyright and related rights.

Issuing of regulatory and statutory acts for the purpose of regulation of such relations in the sphere of intellectual property as are related to inventions, useful models, industrial samples, computer software programs, data bases, layouts of integrated electronic chips, trademarks and service marks and names of places of origin of goods is carried by the authorized federal executive authority which effects normative and legal regulation in the sphere of intellectual property.

Legally important actions as regards state registration of inventions, useful models, industrial samples, computer software programs, data bases, layouts of integrated electronic chips, trademarks and service marks and names of places of origin of goods, including acceptance and due diligence of relevant applications for issuing of patents and licenses which certify the exclusive right of their holders to the specified outputs of intellectual activity and means of individualization, while in cases provided for by the law to other activities related to legal protection of outputs of intel-

lectual property are carried out by a federal executive authority which is in charge of intellectual property.

As regards selective achievements, the above function is carried out by authorized federal executive authority which effects regulatory and legal regulation in the sphere of agriculture and the federal executive authority on selective achievements.

It has been established that the Government of the Russian Federation has the right to set the minimum rates, procedure and deadlines for payment of royalties for service inventions, service useful models, service industrial samples, while for individual types of utilization of entities of copyright and related rights it is in a position to set the minimum rates and the procedure for collection, distribution and payment of remuneration.

2. Federal Law No.223-FZ of July 23, 2013 on AMENDMENT OF ARTICLE 1151 OF PART III OF THE CIVIL CODE OF THE RUSSIAN FEDERATION

Amendments were introduced into Article 1151 (2) of the Civil Code of the Russian Federation. The above amendments deal with the procedure for intestate succession of escheat property into ownership of a municipal entity and constituent entity of the Russian Federation.

If there are no legal heirs or heirs by devise, nor does any heir have the right to inherit, or all the heirs are barred from succession or no heir accepted succession or all the heirs refused to accept succession with none of them specifying that he/she has waived succession in favor of another heir, the estate of the deceased person is deemed an escheat property.

In accordance with the procedure for intestate succession, assigned in ownership of an urban or rural settlement and municipal district (as regards inter-settlement territories) is the following escheat property situated in the respective territory:

¹ The review was prepared with assistance of the Konsultant-Plus legal system.

- housing;
- a land plot, as well as buildings, constructions and other real property units situated in it;
- a share in the title to common property to specified real property units.

If the above units are situated in the constituent entities of the Russian Federation – cities of federal importance Moscow and St. Petersburg – they are assigned into ownership of that constituent entity of the Russian Federation.

Amendments become effective from the day of their official publication.

Federal Law No.204-FZ of July 23, 2013 on AMENDMENT OF FEDERAL LAW ON LEGAL STATUS OF FOREIGN NATIONALS IN THE RUSSIAN FEDERATION AND LABOR CODE OF THE RUSSIAN FEDERATION

Foreign national has the right to work in the Russian Federation if he/she reached the age of 18.

An exception from that rule is applied to motion picture entities, theatres, drama and concert entities, circuses and athletes under the age of 18.

Also, the Labor Code of the Russian Federation is supplemented with norm which introduces exemption from the general procedure conclusion of labor agreements as regards labor agreements which are entered into with foreign nationals..

Federal Law No. 203-FZ of July 23, 2013 ON AMENDMENT OF THE FEDERAL LAW ON THE LEGAL STATUS OF FOREIGN NATIONALS IN THE RUSSIAN FEDERATION AND INDIVIDUAL STATUTORY ACTS OF THE RUSSIAN FEDERATION FOR THE PURPOSE OF CREATION OF ADDITIONAL FAVORABLE CONDITIONS FOR EDUCATION IN THE RUSSIAN FEDERATION OF FOREIGN NATIONALS AND STATELESS PERSONS

In staying in the Russian Federation under an ordinary work visa a foreign national is allowed to take training at an educational establishment in the Russian Federation without changing the purpose of the visit to the Russian Federation.

It has been envisaged that the employer and customer of jobs (services) have the right to attract and use foreign workers without a permit to attract and use foreign workers in case foreign nationals are full

time students in the main vocational program at vocational training institutions or educational establishments of higher learning with state accreditation.

The specifics of labor activities by individual categories of foreign nationals which are full time students in the Russian Federation have been established.

Also, it is specified that the federal law or international agreements of the Russian Federation may set the specifics of entry to the Russian Federation, stay in the territory of the Russian Federation and departure from the Russian Federation by foreign nationals or stateless persons who enter (were enrolled in) educational establishments of the Russian Federation in accordance with international agreements of the Russian Federation which provide for engaging of respective categories of foreign nationals and stateless persons in education in the Russian Federation.

II Resolutions of the Government of the Russian Federation

Resolution No.611 of July 20 ON APPROVEMENT OF RULES OF ACKNOWLEDGEMENT OF DOCUMENTS ON EDUCATION AND (OR) QUALIFICATION

The result of acknowledgement of documents on education and qualification is apostil on those documents.

Acknowledgement of documents is carried out by authorized regional authorities which deal with applications submitted by persons in writing or e-mail via Web-site: gosuslugi.ru.

Both the structure of the application and the list of documents enclosed thereto are specified.

It is determined that the authorized regional authority receives applications and documents irrespective of the place of residence of the applicant and the location of the entity which issued the document on education or qualification.

The period within which the issue of acknowledgement of the documents is considered is 45 days from the day of receipt of application and documents enclosed thereto.

The resolution will become effective from September 1, 2013. ●

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

M.Goldin

At the meetings of the Government of the Russian Federation in July 2013, the following issues among other things were discussed: the draft law which upgrades protection of workers' right to receive a pay in case of a bankruptcy of the employer; the draft law aimed at unification of procedures for collection of insignificant amounts of arrears on insurance contributions, penalties and fines.

On July 10, at the meeting of the Government of the Russian Federation draft federal law on Amendment of Article 4,5 of the Code of the Russian Federation on Administrative Violations and Federal Law on Insolvency (Bankruptcy) (as regards the issue of upgrading responsibility for violation of payment of wages and salaries) was discussed. The draft law is aimed at upgrading protection of workers' rights to receive a pay.

For the purpose of realization of the above goal, a number of amendments were introduced in Federal Law No.127-FZ of October 26, 2002 on Insolvency (Bankruptcy):

1. The list of bankruptcy signs includes arrears on wages and salaries and payment of loss-of-employment compensation; also due to the above the terms used in that Federal Law on Insolvency (Bankruptcy) were specified, in particular, the term – “bankruptcy” – which means in the draft law a failure by the debtor to meet in full the demands, including those of creditors, as regards payment of loss-of-employment compensations and wages and salaries of workers (former workers);
2. In Article 9 (The Debtor's Responsibility to Submit an Application to the Court of Arbitration), one more reason for the manager of the debtor or individual entrepreneur to apply to the court of arbitration has been introduced, that is, the debt on labor remuneration which has been outstanding for over three months, loss-of-employment compensation and other payments due to workers;
3. In its turn, workers (former workers) are granted the right to initiate bankruptcy proceedings;
4. Claims regarding remuneration of workers (former workers) as regards current payments, that is, those which arise after the day the court of arbitration took a decision on recognition of the debtor as bankrupt will constitute the second order of current claims; all the claims included in the second order as regards payment of remuneration to persons whose involvement into

bankruptcy proceedings is not obligatory will be included into the new third order;

5. The order of fulfillment of claims as regards payment of labor remuneration and other allowances to individuals which are not related to current payments specified in Article 134 (4) of Federal Law on Insolvency (Bankruptcy) has been properly arranged.

Under the draft law, claims of compensation of moral damage are excluded from the first order of claims. By default, the above claims will be attributed to the claims of the third order.

Claims of the second order will be arranged in such a way so that they form their own internal hierarchy. At present, the claims of the second order include the following: payment of loss-of-employment compensations, labor remuneration of persons who work or worked under a labor contract and payment of royalties to authors of outputs of intellectual activities. The above payments are carried out by the debtor in arbitrary order. As regards the second order of claims, the draft law sets the following three sub-orders:

- Payment of labor remuneration in the amount of maximum Rb 30,000 per month per worker;
- Outstanding claims on labor remuneration;
- Payment of royalties to individuals – authors of outputs of intellectual activities).

The draft law is expected to introduce an amendment into Article 4.5 of the Code of the Russian Federation on Administrative Violations; under the above amendment a resolution on an administrative violation can be made within a year from the day such an administrative violation took place (instead two months provided for at present).

The draft of amendments into the Code of Administrative Violations of the Russian Federation and the Federal Law on Insolvency (Bankruptcy) was approved and submitted to the State Duma of the Russian Federation.

On July 25, at the meeting of the Government of the Russian Federation the draft law on Amendment of Some Statutory Acts of the Russian Federation as

Regards Upgrading of the Procedure for Collection of Payments to State Extra-Budgetary Funds was considered. The draft law introduces amendments into Federal Law No.212-FZ of July 24, 2009 on Insurance Contributions to the Pension Fund of the Russian Federation and the RF Federal Fund of Mandatory Medical Insurance for the purpose of making simpler the collection of insignificant amounts of arrears on insurance contributions, penalties and fines.

The draft law increases the period of collection of debts at the expense of funds in accounts of payers of insurance contributions from two months to one year and two months after the expiry of the period of fulfillment of the earliest claim in case the unpaid amount of the debt specified in the claims as regards payments administered by the Pension Fund does not exceed Rb 1,500, while as regards those administered by the Social Insurance Fund, Rb 500. Also, the draft law provides for the opportunity to supervising authorities to pass one decision on collection in respect of several unfulfilled claims as regards payment of insurance contributions.

In addition to the above, it is proposed to increase the deadlines for taking by authorities supervising payment of insurance contributions of resolutions on collection of insurance contributions at the expense of the property of the payer of insurance contributions, but not later than two years after the expiry of the period of fulfillment of the earliest claim as regards payment of the debt in case the unpaid amount of the debt specified in the claim as regards payments administered by the Pension Fund does not exceed Rb 1,500, while those administered by the Social Insurance Fund, Rb 500. It is to be noted that the authority supervising payment of insurance contributions will be granted powers to pass a resolution on collection of insurance contributions in respect of one or several claims simultaneously.

The draft law sets the limit as regards the minimum amount of collection of the debt by judicial means from individuals-payers of insurance contributions in the amount of Rb 500.

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

REVIEW OF THE REGULATORY DOCUMENTS ON TAXATION ISSUES IN JUNE–JULY 2013 L. Anisimova

In the period under review, the Government of the Russian Federation has confirmed its position which consists in the fact that in the next few years it will not change the existing rules of taxation. At the same time, the business has become more active in promotion of proposals to reduce a tax load: the platform of the All-Russia People's Front, a new political alliance is actively used for putting forward initiatives as regards tax holidays, privileges are proposed to financial market participants within the frameworks of realization of the RF Government's idea to create the MFC in the territory of the Russian Federation and initiatives on adjustment of the existing scheme of taxation in the oil industry are voiced¹. In our opinion, at present it is important to be cautious in promotion and realization of any financial initiatives as the economy of the Russian Federation has to go through an inevitable stage of market adaptation and losses of budget revenues are as undesirable as an increase in the tax burden.

Unfortunately, it is to be stated that as the Government of the Russian Federation and the business have failed so far to develop a concerted vision of the current situation, the optimal scheme of mandatory payments and correlation between budget revenues and expenditures in case of approval of one or other proposals made by either the business or officials possibilities of fluctuations in the budget revenue base and losses may turn out to be too high. Underestimation in planning of revenues for 2013 and expenses on compensation of VAT as regards large commissioned projects related to Russia's participation in the APEC and holding of the Olympic Games in Sochi in combination with fundamental decisions of late in the sphere of taxation, such as payment of the profit tax by a consolidated group of payers (which measure permits to "close" profit of some entities by losses of other) has sped up a drop in the budget revenue base justified by a stagnation in the economy. In its turn, the prevailing threat of growth in the rates of insurance contributions and tariffs of housing and public utilities increase financial risks of investors, which situation slows down the influx of capital to industry. The threat of shortfalls of oil funds to the budget due to tax initiatives of producers of hydrocarbons aggravates social tensions because for the purpose of preserving the social stability the Government of the Russian Federation has to increase all the time the labor remuneration in the budget sphere which situation is a key factor behind the growing inflation rate (a classical spiral: wages and salaries – prices). It is to be noted that credit resources of state-owned banks happened to be involved in non-

repayable lending to entities which are characterized as backbone state corporations, while efforts to attract funds on the bond market may turn out to become bubbles² due to a drop in returns on investments in Russian bonds.

At present, the Government of the Russian Federation relates the revival of the market to emergence of new real tradable market assets (one of such assets is agricultural produce) and looks forward to the first performance results of former budget-funded entities in the new economic conditions within the frameworks of the legislation on non-profit organizations or in the form of joint-stock companies. It is to be reminded that in 2012 the Government of the Russian Federation carried out a key economic reform by granting former budget-funded entities an opportunity to decide in conditions of real competitive environment their future faith for themselves, that is, either go bankrupt or start producing competitive goods (jobs and services) – in other words, compete properly for consumers. The first year of adaptation to market conditions is coming to an end. The more so, it is important to approach carefully any initiatives in the sphere of finance and business as they may deeply destabilize the general economic situation.

It seems that the initiative of OAO Rosneft as regards reduction of federal budget revenues is caused

¹ What is meant here is an appeal by the management of OAO Rosneft to the Government of the RF to reduce a tax burden on oil production from 55% to 45% in the period till 2020; proposal by the Delovaya Rossia on provision of two-year tax holidays to individuals who engage for the first time in business activities and other.

² It seems that in July 2013 the approval of such amendments to the Tax Code of the RF as cancel the tax on interests on Eurobonds for nonresidents registered as taxpayers in the territory of states which the Russian Federation concluded double taxation agreements with was made primarily to support the Russian stock market which in May-June 2013 demonstrated a dramatic drop in prices on bonds (see Website of Gazeta.Ru of July 24, 2013, "Putin Signed the Law on Taxation of Eurobonds" ; M. Overchenko, "No Russian Companies in the World's Top 50", vedomosti.ru, July 24, 2013; D. Borisyak: "Cheap Bonds Cost Bankers \$430m", vedomosti.ru, July 24, 2013).

by the fact that at that stage the country's leadership included in the list of priority investment projects funded out of the National Welfare Fund the development of railway transport service and building of motorways in the Moscow Region. Though OAO Rosneft has managed to attract credit resources of Chinese consumers of hydrocarbons by striking a large deal at the St. Petersburg Economic Forum in June 2013, but unlike railway men it does not receive the money for free (that is, out of the budget or sovereign funds), but on a returnable and payable basis, so, OAO Rosneft probably decided to receive an economic support from the government in the form of tax privileges. It is to be noted that OAO Rosneft keeps pursuing the policy of buying titles to oil deposits.

In its turn, in 2014 a fee for heavy-duty trucks' transit on roads of federal importance – the above duty was introduced into Federal law No.68-FZ of April 6, 2011 – starts to be paid to the budget. The amount and procedure for payment of the fee as regards federal roads is set by resolution No.504 of June 14, 2013 of the Government of the Russian Federation. Starting from November 1, 2014, the fee will be paid by advance payments proceeding from the planned route of the vehicle and is calculated on the basis of Rb 3.5 per 1 km of transit by a vehicle weighing over 12 tons on roads of federal importance (as regards transit on roads of regional importance the rules and amount of the payment are likely to be determined by regional authorities). The purpose of collection of the duty is compensation of the damage caused to general-purpose motorways by heavy-tonnage trucks. It is to be reminded that container carriers may have the weight of 20 tons, 40 tons and 60 tons. According to the Rules, differentiation of the fee depending on the excess of the actual weight of the transport vehicle over the permitted one is not provided for, that is, transport vehicles of any weight over 12 tons will pay a standard fee of Rb 3.5 per 1 km. Let's calculate an approximate load on entrepreneurs' expenses due to introduction of that fee and on the basis of the given parameters.

As of January 1, 2013, in Russia the fleet of auto vehicles amounted to 47.9m units¹. Cargo vehicles (5.7m units) accounted for nearly 12% of the national fleet².

1 See: Website: [autostat.ru /catalog/product/146/#](http://autostat.ru/catalog/product/146/#)

2 See: A. Grammatichikov: "We Have To Be in Russia", *Expert Avto Magazine*, No. 4 (135) of June 17, 2013, published on the Website of Expert.ru/magazine_auto/2013/04/v-rossii-myi-obyazanyi-byit/media/198309/. In 2012, sales of heavy-duty trucks (with weight over 16 tons) amounted to 100,000 units a year (against 80,000 a year before 2008). So, number of heavy-duty trucks in Russia can be estimated at 80,000 * 10 years = 800,000 units, while that with taking into account intermediate-tonnage trucks with weight from 12 tons to 16 tons, at over a million units.

Let's make a simple calculation on the basis of the number of heavy-duty vehicles on Russian roads – 1m units (subscript calculation) -- and a mean path of 80,000 km (50 km per hr * 8 hrs * 200 days). As a result, the expenses will amount to about Rb 300,000 per heavy-duty truck, which value is equal to mobilization of additional Rb 300,000 to the budget. Such expenses (calculated on the most favorable basis) are comparable to costs related to employment of one additional driver a year per truck. It is believed that in reality entities will have to pay more, it is to be noted that those costs will be shifted on consumers and included in transportation costs. It is likely that payments will amount to Rb 1 trillion (the fleet of trucks which have to make such payments is likely to exceed the level of 1m units and working parameters of trucks will evidently be much more than 200 days and 8 hours a day). The problem may become more complicated taking into account the need of an advance payment for the transit.

In addition to Russian trucks, there are heavy-duty trucks of foreign suppliers on Russian roads and according to the concept of the authors of the payment they will have to pay as well to the Russian budget system. However, for the purpose of ensuring equal competition some EU countries take counter measures to adjust cargo transportation terms: for example, Finland has introduced "mirror" rules for Russian carriers. It means that in case of a necessary transfer by Russian importers to ex-factory terms of collection of goods (for example, in case Finnish suppliers give up the scheme of Franco-station destination as exceedingly expensive as compared to relations with other trade partners) Russian buyers will have to pay yet similar transportation costs to the budget of Finland. Generally, in WTO conditions it is necessary to abandon exotic payments and fees as they are easily blocked by counter (mirror) decisions and, as a result, the market of the originator of such fees becomes less attractive and competitive as compared to other markets, while residents working in that market usually incur additional costs on other markets due to mirror rules being applied to them. As a result, competitive edge of domestic producers of goods will be artificially lowered.

In such conditions, with risks of costs fluctuations (up to 7–8% of federal budget revenues) introduction of tax holidays for newly-started businesses³ is unlikely

3 I. Grigorieva: "Business Will be Exempted from Taxes". On July 11, 2013, D. Medvedev, Chairman of the Government of the Russian Federation instructed the Ministry of Finance, the Ministry of Economic Development and the Ministry of Labor together with Delovaya Rossia (which is the author of the proposal) to exempt newly-registered individual entrepreneurs (IE) from all the taxes

to contribute to considerable growth in their number as representatives of the *Delovaya Rossia* believe. The more so, the Ministry of Finance of the Russian Federation is unlikely to introduce tax holidays without limitation of the volumes of merchandise turnover per newly registered entrepreneur – otherwise “knowledgeable” businessmen will manage to withdraw through the balance of a newly registered business any profit amounts without paying taxes.

To sum it up, it is necessary to underline that both the Government and the business should impose a temporary moratorium on financial initiatives at least for the period of adaptation of the former budget-funded economy to the market. As regards payment for transit of heavy-duty and medium-duty trucks, there is little time left for evaluation of the consequences of introduction of that fee for the Russian economy – from November 1, 2014 the above payment will become a real income of both federal and regional budgets. It can be canceled only in case regional budgets are compensated losses on that payment at the expense of the federal budget.

In our view, it is important to give up mandatory payments attributed to costs – those payments will always result in a decrease in competitiveness of domestic producers of goods, as well as any tax privileges granted to individual groups of taxpayers will actually be used as channels for tax evasion¹.

Another factor with consequences which are difficult to forecast is growth in a penalty load on the business. Federal Law No.134-FZ of June 28, 2013 was adopted in order to establish a detailed scheme of real-time and technical measures to prevent terrorism and illegal flight of capital from Russia by means of amendment of the tax legislation, customs legislation and the legislation in the sphere of social contributions to state extra-budgetary funds, financial monitoring and toughening of criminal and administrative punishment for committed violations. However, questions arise due to adoption of the above law. In our view, real consequences of the above law can be ambiguity of punishment for similar violations: the specific of the approved amendments consists in the fact that a judge at his/her discretion may choose either the minimum punishment or the maximum terms of imprisonment and ruinous penalties. The above may increase risks when working on the Russian market.

and contributions for the period of two years. See: Website of MK No. 26278 of July 12, 2013.

1 Actually, who will prohibit an individual from the near or far abroad residing for 180 days in the territory of the Russian Federation and having the status of a tax resident of the RF to become that “newly” registered entrepreneur claiming a two-year tax holiday?

By Federal Law No. 134-FZ, the entire complex of amendments was introduced into the Criminal Code of the Russian Federation providing for new types of economic violations and penalties (Article 8), including those for commercial graft (bribery), legalization (laundering) of especially large amounts of incomes, evasion from fulfillment of obligations as regards repatriation of funds in foreign currency or national currency of the Russian Federation, smuggling of currency and other. As was stated above, the magnitude of punishments for similar violations is too big.

For commercial graft (bribery), a punishment in the form of imprisonment, fine and ban on holding of certain offices may be applied. A fine is set in the range from Rb 5,000 to Rb 5m, but the actual magnitude of punishment may vary from Rb 25,000 to Rb 500m in case the fine is calculated on the basis of the value multiple of the sum of a commercial graft (bribery) in an especially large amount (up to 100-multiple of the sum of the commercial graft). The mechanism of qualification of violations and setting of the concrete amount of the penalty is likely to be evident in the process of actual application of the set norms as the existing wording does not include special explanations on that issue.

The same comments concern other violations, as well: for example, punishment for legalization (laundering) of especially large amounts of cash funds or other property acquired by other persons by criminal means provides for compulsory labor with or without imprisonment for the term of up to five years or a ban on holding of office with a liability to pay a fine in the amount of up to Rb 500,000 or in the amount of earnings or other income of the convict in the period of up to 5 years.

Another newly introduced form of violation is dodging from fulfillment of obligations as regards repatriation of cash funds in foreign currency or national currency of the Russian Federation. If a return of funds to the resident’s account with an authorized bank did not take place, other residents who accepted the proceeds of that resident to their accounts will be punished depending on severity of the committed violation. The heaviest punishment provides for imprisonment for the period of five years with a fine in the amount of up to Rb 1m or in the amount of a salary or other income of the convict in the period of five years or without such. Deeds are deemed committed in especially large amounts if such a sum of funds in foreign currency or the national currency of the Russian Federation as failed to be credited to the account or returned within a year exceeds Rb 6m and that in especially large amount, Rb 30m.

As can be seen, qualification of violations by the grade of severity (for example, as regards commercial

graft – an especially large violation is not determined; as regards legalization, an especially large violation amounts to Rb 6m; as regards evasion of repatriation it amounts to \$30m and as regards evasion of payment of customs duties in transportation of goods through the customs border of the Customs Union within the frameworks of the Eurasian Economic Union it amounts to Rb 3m) and the measure of punishment lacks a clear economic explanation.

Rather controversial norms were introduced in Part 1 of the Tax Code of the Russian Federation (Article 10). In particular, amendments provide for the fact that in case of “identification” by tax authorities in the course of examination that proceeds from sales of goods (jobs and services) of the resident entity were credited to accounts of subsidiaries the tax authorities are granted the right to collect the outstanding tax amount from accounts of those subsidiaries. Controversy of the provisions introduced into the Tax Code of the Russian Federation consists in the fact that subsidiaries are independent legal entities and according to the banking legislation the funds credited to their bank accounts are their own property no matter where they came from. Provision of the right to collect funds from accounts of third persons on the basis of a simple “identification” of the fact of origin of such funds by tax authorities is a violation of property rights. For example, in order to freeze and partially collect depositors’ funds from accounts opened with banks in Cyprus, a law was passed to introduce a tax on deposits, that is, to transfer deposits into budget revenues and, consequently, in ownership of the state. In our case, tax authorities are granted the right to dispose of the property of other owners on the basis of facts “established” by tax authorities without investigation and a court decision. It is even more unclear why that norm was required to be introduced into the Tax Code of the Russian Federation. Proceeds in the form of funds credited to accounts of subsidiaries free of charge and not on the basis of business agreements are recognized as income which is subject to taxation, while such expenses of a parent company as are not based on business activities should not diminish the tax base. In other words, under the classical scheme of taxation the budget incurs no losses should any scheming related to transfer of funds take place. Probably, introduction of the above norm took place due to the fact that the notion of a consolidated group of taxpayers, that is, an artificially nominal taxpayer representing a community of formally independent legal entities which calculate and pay a profit tax on the consolidated balance was recently incorporated

into the Tax Code of the Russian Federation and it has become much more difficult to identify the proceeds and costs of each participant.

By Federal Law No.134-FZ, provisions were specified as regards the procedure for suspension by the manager (deputy manager) of the tax authority of movement of funds in accounts of taxpayer-entity (a tax agent, persons engaging in private practice and individual entrepreneurs) with banks and electronic funds transfers. It is to be noted that banks have to submit to tax authorities the information on any accounts opened by legal entities, individuals-entrepreneurs and individuals at the request of tax authorities in case of tax audits or discovery of documents in other cases provided for by the Tax Code of the Russian Federation.

The number of persons which are obligated for the VAT purpose to prepare invoices and keep logs of the received and issued invoices and submit tax reporting includes those who are not taxpayers, but act on the basis of agency contracts on behalf and in the interest of a taxpayer (Article 12).

Substantial adjustments have been introduced into Federal Law No.115-FZ of August 7, 2001 on Prevention of Legalization (Laundering) of Incomes Received by Criminal Means and Financing of Terrorism. In principle, amendments to the above law are base ones for respective amendments introduced into other laws under review (Article 13).

The notion of a beneficiary owner- individual which ultimately directly or indirectly (through third persons) owns a customer-legal entity (has a prevailing interest of over 25% in its capital) or has an opportunity to control its activities has been introduced.

For the purpose of stepping up fight against terrorism, the notions of “blocking (freezing) of non-cash funds and uncertified securities” and “blocking of property by financial institutions” were introduced. In the first case, the authorities which carry out cash transactions are prohibited to carry out financial operations with customers’ accounts (except for crediting of funds to those accounts), while in the latter one the owner of the property is prohibited to dispose of its own property. In case of blocking of funds and property, it is allowed to allocate Rb 10,000 for maintenance of the customer’s family if the latter has no means of subsistence.

Blocking is carried out in respect of an entity or individual (customers of financial institutions) included in the list of entities and individuals in respect of which there is information on their involvement in extremist activities or terrorism or in case there are enough grounds to suspect them of being involved in terrorist activities (including financing of terrorism) if there are no grounds to include them in the above list.

Entities which carry out operations with funds and property (they include banks, insurance companies, investment funds and other financial institutions which carry out professional activities on the stock market, as well as individual entrepreneurs which are insurance brokers, individual entrepreneurs which carry out buying and purchase and sale of precious metals and precious stones, jewelry made of precious metals and precious stones and scrap of such articles, individual entrepreneurs which render intermediary services in carrying out transactions on purchase and sale of real property and other) are obligated to take measures immediately to freeze the customer's funds or property not later than one business day from the day of placement on the official Internet site of the authorized body of the information on inclusion of the customer (a legal entity or individual) in the list of persons involved or suspected of being involved in extremist activities or terrorism. One should promptly inform the authorized body of measures which were taken in accordance with the procedure established by the Government of the Russian Federation. If there is no reply from the authorized body within two days, blocking can be lifted.

The consequences of seemingly simple decisions, for example, those on suspension of operations on bank accounts for 2-3 days -- it is to be noted that decisions on "de-freezing" will be taken by the bank itself if the authorized body does not write anything, nor issues any instructions -- may actually turn out to be rather serious. If the bank receives official instructions on freezing of the customer's funds or property, customers will have to make claims of ownership in accordance with the passed law to the state treasury by judicial means in the form of appeal against the decision of an interdepartmental coordination authority -- which carries out functions of prevention of financing of terrorism -- on freezing (blocking) of funds or other property of the legal entity or individual. But who will pay on claims for a two-day delay in financial operations if the bank froze the funds, but no official order from the authorized authority was provided? The law does not regulate that issue. Probably, the bank will have to incur losses because it cannot prove legitimacy of such a delay.

Also, it is unclear why banks and other financial institutions are assigned the function of day-to-day on-line checking of customers. According to the law, banks and other financial institutions have to check customers once in three months, but, in reality, it turns out that they have to do it on a daily basis as the website of the authorized body can be updated, while under the above law banks and financial institutions are given one day only to block an account or property

of the customer from the day its name appeared in the list on the website of the authorized body. Suppose, that issue can be solved by mean of purchasing of an automatic control system, but who pays for expenses related to that purchase? It seems that costs related to development, installation and maintenance of the above system in an operation mode will be allocated to expenses of Russian entities. In addition to the above, in accordance with the law under review a bank (or other financial institution) has to prepare a certificate on the next day after it refused to enter into an agreement or canceled an agreement with a suspicious customer explaining for what reasons and whom it refused to and what suspicious accounts were closed. The volume of correspondence is likely to be too big.

No less controversial are provisions of the law to the effect that submission at the request by the authorized body of the information and documents is not a violation of official, banking, tax and commercial secret and secret of communications (as regards the information on postal bank transfers) and the legislation of the Russian Federation in the sphere of personal data. As international agreements prevail over the domestic legislation of the Russian Federation, probably, it is expedient to wait for the findings of international experts as regards compliance of the regime that was introduced with rules of operation in the WTO conditions because the above regime does not exclude the responsibility to submit to the Russian authorized body the information on deals, including those transacted by foreign customers.

Among other amendments made to Federal Law No.134-FZ of June 28, 2013, it is worth mentioning amendments to the Law on Banks and Banking Activities. It is established that on the basis of decisions of judicial authorities with absence of the sufficient data for initiation of a criminal case banks have to provide the information on their customers and their accounts at the request of officials of the agency which is authorized to carry out investigative activities (Article 1). It seems the legislator tried to resolve the conflict that way between the investigative committee and the prosecutor's office. Lacking sufficient grounds for initiation of a criminal case, investigators may turn to a court and not to the prosecutor's office to obtain access to the required information. A question arises on what basis courts have the right to permit investigators to obtain the information without a criminal case being initiated? It seems a radical demolition of the system of investigation, that is, direct access to the judge with bypassing of the prosecutor's office increases considerably the potential and rights of the Investigative Committee.

The volume of information provided by banks to tax authorities – it also concerns the information on accounts, deposits and transactions of individuals which carry out activities without establishing a legal entity and other individuals – has increased.

Amendments were introduced into the tax legislation. Tax authorities are obligated to submit to state agencies specified by orders of the President of the Russian Federation and documents of the Government of the Russian Federation the information on incomes and expenditures of employees of entities with state participation and members of their families.

Amendments were introduced into the Law on Organization of Insurance Business, the Law on the Stock Market and the legislation on share investment funds, nongovernment pension funds and micro-financial activities and micro-financial entities to the effect that persons in the period they used to be sole founders of such insurance and financial institutions licenses were withdrawn from those companies and a period of less than three years have passed since that time, as well as persons with an outstanding conviction (Article 3, Article 7, Article 9, Article 11 and Article 19) are prohibited to hold executive offices in the above entities and management companies. For the purpose of keeping record of persons in respect of which there are effective resolutions on disqualification, formation of the register of disqualified persons has been envisaged. Keeping of the register of disqualified persons is carried out by the federal executive authority authorized by the Government of the Russian Federation.

In case of an outstanding conviction in the sphere of economic activities, an individual is not in a position to dispose directly or indirectly of the capital of the insurance company or an entity which is a stock market professional participant or management company of the investment fund or a micro-financial entity in the volume exceeding 10%. All the equities – owned by such a person – in excess of the above limit do not take part in the voting.

Persons with an outstanding conviction for crimes in the sphere of economic activities or crimes against state government cannot be managers, members of the board of directors (supervisory council), chief accountants of leasing companies, either.

The Civil Code of the Russian Federation includes norms which protect bona fide use of the data of the state register (Article 4). A legal entity is obligated to compensate damage caused to other participants in civil transactions in case of untimely provision of the data or provision of invalid data to the unified state register of legal entities (USRLE). In its turn, the damage caused by an illegal refusal in state registration of a legal entity, infringement of state registration and

inclusion in the USRLE of invalid data are subject to indemnification at the expense of the state¹.

By amendments introduced into the Civil Code of the Russian Federation, banks are permitted to cancel unilaterally a bank account agreement after 60 days from the day of notification of the customer in writing (an agreement is subject to termination in cases established by the legislation). Account balances unclaimed by the customer are transferred to a special account with the Bank of Russia (Article 6).

By relevant technical amendments introduced into the Code of Criminal Procedure of the Russian Federation (Article 16) and the Administrative Offences Code of the Russian Federation (17), penalties have been set for non-compliance with the legislation on blocking of customers' funds and property, in particular:

1) non-compliance with the legislation as regards blocking of funds or other property or suspension of operations with funds or other property implies an administrative penalty for officials and entities in the amount of Rb 30,000-Rb40,000 and Rb 300,000–500,000, respectively, or administrative suspension of the entity's activities for the term of 60 days;

2) a failure to submit to the authorized authority at its request the information on operations of customers and beneficiary-owners of customers or the information on movement of funds on the customers' account (accounts) which information is available to the entity which carries out operations with funds and property implies charging of an administrative penalty in the amount of Rb 300,000–500,000 from the legal entity;

3) a failure to declare or unfair declaration by individuals of funds and (or) cash instruments which are transferred through the customs border of the Customs Union implies an administrative penalty for an individual in the size of single to double sum of the undeclared amount of cash funds and (or) the value of money instruments or confiscation of the item of an administrative violation.

In addition to the above, due to the position of the Constitution Court in respect of limitations in application of provisions as regards subsidiary responsibility of persons who control the business and let it go bankrupt amendments were introduced into the Federal Law on Insolvency (Bankruptcy) which is under review. In particular, a provision was introduced into the text of the law to the effect that the size of the property responsibility of the person who controls the debtor can be reduced if the former proves that the extent of the

¹ It is to be noted, however, that it remains unclear what is considered a loss for the purpose of application of the above norm? And how can the party which was caused damage prove the size of the damage which is subject to indemnification at the expense of the state?

damage caused to the property rights of the creditors due to the fault of that person is considerably lower than the amount of the claims which are to be met at the expense of that person.

Among other regulatory documents, it is important to single out the following:

1. By *Resolution No.16-P of July 2, 2013 of the Constitution Court of the Russian Federation* a decision was passed as regards legitimacy to change directly in the course of the court hearings accusations so that the position of the person on trial is made worse. According to the view of the Constitution Court of the Russian Federation, a lack of such legitimacy in the existing legislation precludes "independent and free choice by the court of criminal law norms which are subject to be applied in cases when the court comes to the conclusion that the actual circumstances stated in the indictment, bill of particulars and accusatory resolution point to the fact that in the deeds of the accused there is evidence of a worse crime or when in the course of preliminary hearings or court proceedings the court established actual circumstances which constitute grounds to qualify deeds as a worse crime". It is believed that the decision is of a general nature and can be applied in arbitration practice.

2. By *Federal Law No.152-FZ of July 2, 2013*, amendments were introduced into Chapter 23 and Chapter 26 of the Tax Code of the Russian Federation (the individual income tax and the severance tax, respectively).

It is specified by the law that the composition of income liable to the individual income tax includes income received in the Russian Federation from copyright and related rights and income from utilization of copyright and related rights outside the Russian Federation.

The income in kind (official uniform and equipment other than principal items) received by volunteers within the frameworks of agreements on fulfillment free of charge of jobs and rendering of services in accordance with the legislation on charitable activities and legislation of physical culture and sport in the Russian Federation is exempted from taxation.

Amendments were introduced into the rules of payment of the severance tax. A reduced ratio of 0.1 on subsoil plots where reserves of ferrous metal ores produced by means of underground mining methods amount to over 90% of reserves of ore of that plot is applied to the tax rate applicable in production of amenable iron of nonferrous metals (4.8%).

3. By *Federal Law No.153-FZ of July 2, 2013*, amendments were introduced into the procedure – set by the Tax Code of the Russian Federation – for appealing of

acts by tax authorities on bringing taxpayers to responsibility.

In particular, it is established by the law that non-regulatory acts of tax authorities and actions and inaction by tax authorities' officials can be appealed against in court only after they were appealed against at a higher tax authority. Acts of tax authorities and actions and inaction by their officials can be appealed against in court only if a decision on the appeal (petition of appeal) was not taken by a higher tax authority within the deadlines set by Article 140 (6) of the Tax Code of the Russian Federation.

An appeal is submitted to a higher tax authority through a tax authority whose non-regulatory acts and actions and inaction by officials are appealed against. Within three days from the day of submission of such an appeal, the tax authority has to direct it with all the materials enclosed to a higher tax authority for consideration and decision-taking. An appeal to the federal executive authority (the Federal Tax Service of the Russian Federation) which is in charge to carry out control and supervision in the sphere of taxes and duties can be submitted within three months after the day the senior management of the relevant territory tax authority has passed a decision on the appeal if the taxpayer is not satisfied with that decision. Should the taxpayer fail to submit for good reason an appeal within the above period, that period can be renewed.

4. By *Federal Law No. 212-FZ of July 23, 2013*, the wording of the provision as regards the property tax rebate granted to individuals within the frameworks of the individual income tax was specified.

The above law has resolved the two important issues. *Firstly*, it extended the right to receive the unutilized portion of the property tax rebate in purchasing of the housing for the first time to all the subsequent instances of buying of housing up to complete utilization of the property tax rebate (Rb 2m). *Secondly*, it eliminated inequality in the rights of people to receive a fair rebate in buying of real property on the secondary market and by means of mortgage. Due to amendments to the law, the amount of the rebate as regards payment of interests under the loan (credit) agreement was increased to Rb 3m (against Rb 2m in case of a standard rebate) which is fair considering the size of the interests on mortgage lending.

The wording of the law on taxation of the income in the form of payments to individuals due to their exit from the number of the company's participants, liquidation of the company and reduction of the par value of shares (interests) was specified. The former wording determined the income as the total sum of the returned deposit (contribution) to the authorized capital (fund) which situation resulted in an ambigu-

ous interpretation of the taxable income which in general understanding should be determined with deduction of expenses related to its receipt. Now, the situation is cleared up and Article 220 of the Tax Code of the Russian Federation is supplemented with a norm providing for deduction of the funds which were earlier contributed by the taxpayer to the authorized capital (in payment of the acquired share or interest).

5. By *Federal Law No.215-FZ of July 23, 2013*, the range of tax privileges for entities of culture and art has been expanded and the procedure for accrual of depreciation on capital assets specified. Services related to exhibition of museum articles and collections, organization of exhibitions and showing of plays, concerts and other performances outside the place of location of the entity are exempted from payment of VAT. If such entities are budget-funded institutions, the procedure for advance payment of the profit tax is canceled for them. The above entities are granted the right to write down expenses in full volume on modernization, completion and overhaul of capital assets incurred as a result of entrepreneurial activities to costs as of the day of commissioning, that is, not to apply the general procedure for depreciation of such expenses.

6. By *Federal Law No.248-FZ of July 23, 2013*, amendments were introduced into the Tax Code of the Russian Federation in order to upgrade tax administration.

Application of digital technologies in carrying out by tax authorities of their functions (as regards submission of queries in an electronic format) has been expanded.

The deadlines for reconciliation of the tax debt have been specified. The certificate on arrears is to be submitted within five days from the day of the query, while that on penalties, fines and interests, within 10 days from the day of a query from the taxpayer (tax agent).

The text of the Tax Code of the Russian Federation is supplemented with a mechanism of suspension and withdrawal of documents on collecting of funds from accounts of taxpayers in case liabilities have been partially paid by the taxpayer, as well as in other cases established by the law with a subsequent adjustment of the size of recovery claims made by tax authorities to accounts of taxpayers.

The procedure for tax calculation in case of insufficiency of funds in the account of the taxpayer or correspondent account of the bank was introduced into the text of the Tax Code of the Russian Federation.

In case of change in the deadlines for fulfillment of obligations as regards payment of taxes and in other cases provided for by the Code, a tax liability can be ensured by a bank guarantee. A bank guarantee should be an irrevocable and nonnegotiable one; it is to be issued by a bank which is included in the list of banks whose guarantees are accepted by the Ministry of Finance of the Russian Federation; the bank's capital should amount to minimum Rb 1bn; the term of the bank guarantee should expire not earlier than in six months from the day of expiry of the established period of fulfillment by the taxpayer of its tax liabilities; the bank guarantee should cover the amount of arrears and penalties; obligation as regards the banking guarantee is subject to fulfillment by the guarantor within 5 days from the day of receipt of a claim to pay the funds.

In the text of the law, the mechanism of attachment on the taxpayer's property is specified. A norm permitting a tax authority at the request of a taxpayer – legal entity in respect of which a decision on attachment was taken to replace attachment on its property by a pledge has been introduced.

The procedure has been specified for registration and de-registration with a tax authority of a liable partner of a consolidated group, management companies of closed unit investment funds, entity-participant in agreement on partnership, individual-taxpayer, an entity at the place of registration of a separate structural unit and other.

The list of conditions where the arrears are recognized as bad ones has been expanded. Deemed as such is resolution of a marshal to stop a court enforcement action due to infeasibility to recover the arrears. It is to be noted that two more conditions are to be observed: five years should pass from the day the arrears arose and its sum together with penalties and fines should not exceed the amount of claims – set by the legislation of the Russian Federation on insolvency (bankruptcy) – to the debtor in order to initiate bankruptcy proceedings. It is to be reminded that as regards legal entities the sum of such claims amounts to Rb 100,000, while as regards entrepreneurs, to Rb 10,000.

In the text of the Tax Code of the Russian Federation, a procedure for registration for taxation purposes or execution of a patent for migrants in case of their employment was introduced. ●

CHANGES IN RUSSIA'S REGULATORY BASE OF THE BUDGETARY PROCESS IN JULY 2013

M.Goldin

In July 2013, in the regulatory base of the budgetary process the following developments took place: amendments providing for grants in the form of subsidies to legal entities have been introduced into the Budget Code of the Russian Federation; conditions of buying-out of state property by entities of small and mid-sized business have been liberalized by amendments to a number of federal laws.

By **Federal Law No. 181-FZ of July 2, 2013** on Amendment of Article 78 and Article 78.1 of the Budget Code of the Russian Federation as Regards Provision of Grants, provisions of the Budget Code of the Russian Federation as regards provision of subsidies to legal entities have been brought in harmony with the existing corpus of effective statutory acts on which basis grants in the sphere of culture, art, education, science and technology are provided out of the budgetary funds to legal entities (commercial and non-profit organizations, except for government institutions)¹. In practice, grants to legal entities, including non-profit organizations took the form of subsidies; the general rules of provision of subsidies are regulated by Article 78 and Article 78¹ of the Budget Code of the Russian Federation as the specified beneficiaries of grants are not participants in the budgetary process.

To eliminate that loophole, Article 78 and Article 78¹ of the Budget Code of the Russian Federation were supplemented with norms which provided for the opportunity to make grants in the form of subsidies to legal entities (except for state (municipal) entities), as well as non-profit organizations which are not government institutions.

Also, a new provision was introduced in the Budget Code of the Russian Federation; under the above provision in the Law (decision) on the Budget in accordance with resolutions of the President of the Russian Federation, the Government of the Russian Federation, high-ranking official of a constituent entity of the Russian Federation, supreme executive authority of a constituent entity of the Russian Federation and local administration budget allocations can be envisaged for provision of grants in the form of subsidies, includ-

ing those provided on a tender basis to legal entities (except for government (municipal) entities), individual entrepreneurs and individuals. The above adjustment was made due to the fact that budget-funded and autonomous institutions which are under control of not only the organizer of the tender, but also other state authorities (local governments) have the right to take part in tenders for allocation of grants.

The procedure for provision of the above subsidies is established by regulatory statutory acts of executive authorities of a respective level of power.

In addition to the above, in the Budget Code of the Russian Federation such grounds for provision of subsidies out of the federal budget, budget of a constituent entity of the Russian Federation and local budget as the existence of a concession agreement concluded in accordance with the procedure determined by the legislation of the Russian Federation on concession agreements were introduced.

In addition to the above, it was established that conclusion of a concession agreement on behalf of the Russian Federation, constituent entity of the Russian Federation and municipal entity for the period exceeding the term of the approved limits of budget liabilities is carried out in cases provided for by resolutions of the Government of the Russian Federation, supreme executive authority of a constituent entity of the Russian Federation and local government in accordance with the respective procedure determined by the Government of the Russian Federation, supreme executive authority of a constituent entity of the Russian Federation and local government.

By **Federal Law No.144-FZ of July 2, 2013** on Amendment of Individual Statutory Acts of the Russian Federation in Connection with Upgrading of the Procedure for Assignment of Real Property which is in State Ownership of Constituent Entities of the Russian Federation or in Municipal Ownership or Rented by Small and Mid-Sized Business Entities (hereinafter Law No. 144-FZ) conditions of buying-out of state property by small and mid-sized business entities were liberalized.

¹ See, for example, Resolution No.1164 of December 30, 2009 of the Government of the Russian Federation on Provision out of the Federal Budget Other Inter-Budgetary Transfers to Budgets of Constituent Entities of the Russian Federation for Rendering of Additional State Support (Provision of Grants) to Leading Academic Theatres, Choral and Chamber Music Groups which are Budget-Funded and Autonomous Institutions of Constituent Entities of the Russian Federation and Subsidies to the *Muzykant* Limited Liability Company for the *Solisty Moskv*y Chamber Ensemble.

According to the Explanatory Note to Law No. 144-FZ, the statutory act in question provides for a number of measures on liberalization of conditions of buying-out and leasing of state (municipal) property:

1) lifting of limitations on the maximum size of leased floorspace for the purpose of realization of the priority right to a buy-out;

2.) granting of the right to priority buy-out of premises rented for at least two years as of September 1, 2012 by entities of small and mid-sized business;

3) establishment of the minimum period of an installment payment for property (3 years) with specification of the term – “installment payment”;

4) provision of an opportunity to suspend the term set for signing of an agreement on purchase and sale of premises in case of litigation by an entity of a small and mid-sized business as regards adequacy of the market value of the appraised property specified in the report before the court decision comes into effect;

5) provision of the right to entities of small and mid-sized business which have rented premises in good faith for over five years as of September 1, 2012 to submit in accordance with a notification procedure an application for buying-out of rented premises if such a property has been included in the lists of property for at least five years;

6) provision to the entities of small and mid-sized business which were earlier denied to buy-out rented property for reasons of limitation of floorspace of premises which was in effect then the right to submit another application for inclusion of premises in the lists of property due to a change in circumstances;

7) extension of the right to conclusion for a new term without holding of tenders and auctions of all the agreements on leasehold of state or municipal property entered into with entities of small and mid-sized business and not only those concluded before July 1, 2008;

8) expansion of the list of the units of infrastructure required for support of entities of small and mid-sized business by means of inclusion of units of infrastructure providing assistance to small innovation companies;

9) extension till July 1, 2015 of the period of validity of Federal Law No. 159-FZ of July 22 on The Specifics of Assignment of Real Property Which is in State Ownership of Constituent Entities of the Russian Federation or Municipal Ownership and Rented by Small and Mid-Sized Business Entities and On Amendment of Individual Statutory Acts of the Russian Federation which permits to expand opportunities for entities of small and mid-sized business as regards application of newly introduced rules.

In addition to the above, the Government of the Russian Federation, authorities of constituent entities of the Russian Federation and local governments are entrusted with powers to issue regulatory statutory acts as regards property support of small and mid-sized entrepreneurship.

Federal executive authorities, authorities of constituent entities of the Russian Federation and municipal authorities are granted the powers to set privileges as regards leasehold for entities of small and mid-sized business which engage not only in socially important types of activities, but other priority lines of business. ●