

RUSSIAN ECONOMY: TRENDS AND PERSPECTIVES 01'2010

MONTHLY BULLETIN:

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RUSSIAN ECONOMY IN JANUARY 2010: TENTATIVE INDICATORS AND MAJOR TRENDS

A series of resignations and appointments of governors, accomplished by President D. Medvedev in January happened to be the most important developments in political environment. In the first days of the new year the appointment of six governors has been announced (four of them are reappointed, two governors are new), and later it was informed on the replacement of such prominent figures as Mintimer Shaimiev, President of Tatarstan, and probably, Muha Aliev, President of Dagestan. One cannot track any logic in the decisions on reappointment or replacement of the governors: for example, such unpopular and even scandalous figures as Alexander Berdnikov, the Altai governor and Sergei Darkin, Primorski Krai governor retained their positions; indicators of socio-economic development in the regions are also disregarded in those decisions. Moreover, policy to limit the governors' service with three terms (announced after resignation of M. Shaimiev) is not observed: Oleg Bogomolov, the Kurgan region governor, has been reappointed in early January for the fourth term. In general, the procedure and incentives of appointment remain explicitly nontransparent and are not disclosed to public. The appointment of Alexander Khloponin as a Representative of the President in the North Caucasus Federal Region and Deputy Chairman of the government was another innovation in the regional policy. The personality of the appointee, combination of the two positions and some accompanying solutions (application for the goods customs clearance in the territory of the Chechen Republic, as well as a sudden decision to "return" of RussNeft Company to Mikhail Gutseriev) demonstrate, that Moscow is seeking to create economic conditions to stabilize the situation in the Northern Caucasus.

The accelerated inflation can be regarded as the most remarkable development of January. Within the period from January 1 to 25, it amounted to 1.7%, which allows to expect the monthly inflation rate of 2%. The inflation rate in January is certainly seasonal, and the price growth in the current January was lower than in January of 2008-2009 (2.3% and 2.4% accordingly), but higher than in January 2007 (1.7% within the month).

The price growth rate in autumn 2009 was 2-3 times lower than in the relevant periods of preceding years, though as of January results, this gap seems insignificant, so the official inflation estimates for the year at the rate of 7-7.5% looks unrealistic against this background, especially since the Central Bank expects inflation to accelerate in the second half of 2010 due to monetary factors (in December 2009 growth of the monetary base amounted to 23.9%, becoming the most significant since December 2003). It should be noted, that in January, for the first time since April 2009, the Bank of Russia did not take further actions to reduce the refinancing rate. Accelerated inflation was mostly due to increased charges for heating, hot water and energy (the growth made 11-14%), as well as for public transport; prices for foodstuffs, such as sugar, vegetables and alcohol (due to the increased excise tax) have also grown.

Within December - January, oil prices, which have the most significant impact on the Russian trade balance and macroeconomic indicators, showed a higher volatility than in preceding months. In the period from December 20, 2009 to January 6, 2010 prices increased by more than 10% - to the post-crisis maximum level (up to USD 82 per barrel for Brent), but later demonstrated the same intensity in decline (to USD 71 per barrel on January 30). The RF gold and foreign currency reserves in January slightly declined (USD 435.5 billion on January 22 against USD 440.6 billion on January 1) for the second consecutive month (post-crisis maximum was recorded in early December and made USD 451.2 billion). The dollar, after falling in the first half of the month returned to the pre-New Year values, Euro continued to decline, which was observed from the second decade of December. Within the period from December 1, 2009 to February 1, 2010 the nominal exchange rate of dollar against ruble grew by 4.7% to RUR 30.43/USD 1, and Euro, by contrast, has fallen down by 3%, to RUR 42.46/Euro 1. As a result, the value of the two-cur-

ncy basket¹ started to decrease again, amounting to RUR 35.84 (-0.4 per cent) by February 1. The dynamics of oil prices had an impact on the stock market: dealings for a rise in the first week after Christmas holidays has been replaced by a downward trend, which returned the indices to slightly higher values than the pre-New Year indicators (MICEX on January 29 - 1419 points against 1370 points on December, 31). At the same time, a favorable situation with ruble liquidity and changes in the international rating agency Fitch Ratings estimates for Russia's credit rating from "negative" to "stable" supported the government bond market, where the investors activity grew by 70%.

According to the RF State Statistics Service, industrial production in late 2009 demonstrated a positive dynamics: growth in production in December, as compared with November amounted to 5%, as compared with December 2008 – by 2.7%. However, these figures have urged contradictory comments of experts, due to both the incompleteness of data in the tentative estimates of the Federal State Statistics Service, and the base effect - in December 2008, production was rapidly decreasing. Herewith, business surveys in January 2009 provide grounds to believe in further positive dynamics of production. First of all - and most important is that assessment of the current demand is getting improved: for the first time during the crisis, the share of reports on declining sales was equal to the reports on their growth. In the food industry 73% of companies are satisfied with sales, in metallurgy – 56%, in chemistry – 49%. Estimates of expected demand improved significantly as well. According to the estimates, production dynamics is coming back to normal together with the demand; decrease in output (after seasonal factor cleaning) was observed in January only in the construction industry, timber industry and light industry. Output plans of enterprises for February-March significantly improved. The new year began with the extension of business portfolio: orders schedule in portfolio increased from 4.9 to 7.2 months within a quarter and returned to the pre-crisis level (as compared with January 2006 – 6.7 months; 2007 – 6.7; 2008 - 7 months).

However, the positive dynamics of demand and growth of orders urge companies to raise prices. Improving dynamics of demand has already caused rather intense cycle of increase in prices in August and October, but in November-December that trend has been reversed. Optimistic position of businesses is contributed by planned improvement in the availability of credits in the industry. Average minimum interest rate on credits in January declined to 16.8% per annum against 17.4% in December, although to small businesses credits are offered in the best case under 19%.

In November-December 2009 the RF Statistical Service observed some increase in unemployment after several months of its decline in the mid-year. Surveys of enterprises performed in January 2010 indicate, that the intensity of dismissals remained at the same level. However, in view of positive changes in the estimates of demand and sales, HR plans of companies seem to be very optimistic: the balance of the forecast of hiring and dismissals for the first time since the crisis became positive.

Therefore, the beginning of the year looks quite favorable for the Russian economy. However, instability in the global economy and volatility in commodity markets pose a significant threat to these positive trends. The dynamics of industrial production is likely to be dependent on the sustainability of recovery trend. ●

1 Two-currency basket is the RF Central Bank operational indicator in its foreign currency policy. Currently the share of EURO in the currency basket makes 45 per cent, USD – 55 per cent.

THE POLITICAL AND ECONOMIC RESULTS OF JANUARY 2010

S.Zhavoronkov

In January, a new official responsible for the North Caucasus was appointed – former Krasnoyarsk Governor and big entrepreneur A. Khloponin, who made a declaration as to the necessity to adopt a new course with regard to the region thus causing concerns among some of the local top officials, and primarily R. Kadyrov. M. Shaimiev, who for many years has been President of Tatarstan, announced his intention to retire from his post. On the basis of the results of the January meeting of the State Council where D. Medvedev admitted the necessity of ‘political modernization’, the authorities agreed to introduce only some minor alterations in electoral legislation aimed at abolishing early voting, which is by no means the primary instrument currently applied for falsifications. The RF State Duma ratified the protocol on reform of the European Court on Human Rights designed to speed up its operation. The ultimate effect of this decision will only be judged by the speed (or lack of speed) in the Court’s consideration of the case ‘Yukos versus Russia’.

In January, much of the news had to do with regional politics. Russia declared that a new North-Caucasian Federal Okrug (NCFO) will be created incorporating Dagestan, Ingushetia, Kabardino-Balkaria, Karachaevo-Cherkessia, North Osetia, Chechnya, and Stavropol Krai with its center in Piatigorsk (previously, the center of the larger Southern Federal Okrug was the city of Rostov). The new presidential plenipotentiary representative, whose appointment was announced in the Presidential Message but was then delayed for a long time, became former Krasnoyarsk Governor A. Khloponin, an owner (quite officially) of a substantial fortune, who had come into politics from the *Interros* conglomerate. The core right obtained by the presidential plenipotentiary representative as part of his new powers is that of coordinating the appointment of heads in the structures subordinated to the federal center in the Okrug’s territory.

North Caucasus can be characterized – without any exaggeration – the most problem-ridden region in Russia. Several of its regions – Chechnya, Dagestan, Ingushetia – are effectively a battleground between the power structures and the armed Islamist underground; the development and outcome of this war being far from clear. Last year the Islamists increased the number of their attacks on representatives of official structures; thus, they managed to kill Dagestan’s Minister of Internal Affairs A. Magomedtagirov, and Ingushetia’s head Yu. Yevkurov survived only by a happy chance after his car had been blown up by a suicide bomber. Even officials admit that the Islamist underground in these three republics has created networks which exist in parallel with the formal governance structures and actively prey on the population and businesses alike. The corruption level in the region is extremely high, the bulk of its population is very poor, while the broad range of the informal authority enjoyed by the power structures often affects the peaceful population (however, the borderline between peaceful and non-peaceful population in such zones of conflict is largely conditional). In this situation any simple increase in the amount of financing (the budget-funded target programs for the development of the Caucasian republics in the next few years amount to more than 100 billion rubles) and in the numbers of power structures personnel cannot be viewed as a way to achieve success, because the money is mostly stolen, and some of it goes as a ‘security tax’ to the gunmen, while the power structures terrorize the population irrespective of its relation to the underground and create no incentives for its cooperation with the authorities.

By way of offering council to Khloponin, D. Medvedev said as follows: ‘I trust that already year the extraordinarily high level of crime and corruption in the North Caucasus... Most of the problems plaguing that region have their roots in a weak economy and absence of any prospects for the people who live there ...’.

The first statements made by Khloponin himself demonstrate his concerns about the existence of these problems: ‘...really, it is not difficult to attract investment ...it is the people with whom

one has to work side by side that are important'. Indeed, the appointment of Khloponin fits into a certain logic – that the new heads must be those who have worked for a long time elsewhere; the same logic has been behind the appointment of the heads of Ingushetia, Karachaevo-Cherkessia and Kabardino-Balkaria, and so it can also be applied to appointing the president of Dagestan. However, all this had to do not only with people but with rules – both formal and informal, which is of particular importance in this region where opposition is not limited to staging picketing and meetings. From this point of view, democratization of the region is important – at least at the municipal level, so that certain order could be imposed on the struggle of the various existing pressure groups, and minorities could have their rights guaranteed. From this point of view, by the way, the recent cancellation of Derbent mayor election returns offers a promise of some hope.

Interestingly, the appointment of A. Khloponin by D. Medvedev was sharply criticized by Chechnya's head R. Kadyrov: *'To unite all the regions of the Caucasus, to bring them all to the same model ... I don't believe that this could be a very successful solution. If there exist intermediaries between the government of the Russian Federation and the presidents of the republics – this is already a sign of weakness. I think that if I am a president, and if I am trusted, then I must report directly to the government of the state. And the President of Russia must have possibilities for studying various issues and for assigning appropriate tasks to the government and to the Ministers...'* Previously it was Kadyrov himself, who is proclaiming terrorist methods in dealing with his opponents and who is accused of grave crimes, that was considered to be one of the candidates for the post now occupied by Khloponin.

January saw the retirement of two political diehards – Tatarstan's head M. Shaimiev (who has been staying in republic's government since 1991 and two months before the expiry of his term in office voluntarily retired) and Head of the Administration of Volgograd Oblast N. Maksiuta (who was first elected the Oblast's Governor in 1996, and whose term in office expired in December 2009). For the post of Head of the Republic of Tatarstan, the RF President is going to recommend one of M. Shaimiev's cronies – Head of the Republic's government R. Minnikhanov, while First Deputy-Head of the Administration of Volgograd Oblast A. Brovko was appointed to N. Maksiuta's former post. In this connection, of the greatest importance is the precedent with M. Shaimiev who used to head a big and wealthy region. In the early 1990s the region was famous for its strong separatist feelings which were later suppressed, the price being the creation in that region of a specific political regime where the core official posts and economic assets were divided between a few powerful families. This regime, which had been shaped in the main by the mid-1990s, continued its existence even after the abolition of elections of regions' heads. It looks as if Shaimiev's departure will prove – very soon - that there are no 'indispensable' officials in the regions, and in this respect it serves as a good precedent.

In this connection, it is noteworthy that at the same time there once again emerged the discussion concerning changes in the administrative boundaries of the regions. Chairman of the State Duma - *United Russia's* leader B. Gryzlov - declared that *'...Subject of the Federation is a lofty name. A Subject of the Federation must indeed be compatible with that name. In my opinion, there should be no self-sufficient RF subjects ... Either the approach to work in such a RF subject must be altered, or it must be merged with another subject so that this territory could become self-sufficient. There is land, mineral natural resources, working hands. I do not see why a subject cannot be self-sufficient in such a situation'*. It should be remembered, by the way, that all the republics in the North Caucasus are 'not self-sufficient'. It seems that actually it is not changes of their borders that are being discussed – this discussion is just a way to remind their heads of their dependent status.

In January, the situation around the Ministry of Internal Affairs of Russia (RF MIA) became much more dramatic. In December, RF President's edict on reforming the RF MIA was issued, followed by some changes in personnel and by some obligations being assumed by the Ministry's CEOs, who declared their readiness for reform. This particular government agency has become, in effect, one of them main threats to human rights and private property in this country. In January Minister R. Nurgaliev stated that he had signed Order No 25 'On the issues relating to the assessment of the operation of RF agencies of internal affairs', whereby new criteria for

assessing the militia's activity were introduced, which '... abolish the notorious system based on 'discipline of the rod'¹. According to the Minister, now the operation of the agencies of internal affairs will be carried on with due regard for public opinion and for society's response for a revealed or solved crime, and independent sources will be involved in data collection. However, it soon became clear that the Order offered no specific definitions related to the issues in questions (e.g., of 'public opinion', 'independent sources', etc.). Moreover, Order No 25, as it was found out, largely reestablished the principles of the existing practice, and the militia, as before, is required to increase its quantitative indices. At the same time, the situation in the Ministry itself remains difficult; it is impossible to prevent even the gravest crimes which the authorities have avowed to eradicate – murders of ordinary citizens by militiamen. This time, the brutal murder of a journalist allegedly committed by an on-duty police officer, who was then arrested and charged with aggravated assault, led to the dismissal of the Director of the Administration of Internal Affairs of Tomsk Oblast.

Simultaneously the RF MIA's CEOs demonstrate their aggressive attitude to the members of their staff who dare to come forth with criticism. In January, former police officer A. Dymovsky was attested in Novorossiisk. A few months earlier he had posted to the Internet a video footage of his well-substantiated speech addressing the unsatisfactory state of affairs with the militia [police]. Dymovsky was charged with fraud and abuse of office – the authorities alleged that he had appropriated a sum of 27 thousand rubles allocated for special purposes. The criminal proceeding against him had been initiated immediately after the video was released, but initially he had remained free on his own recognizance not to leave. This demonstrative punishment, in addition to many other things, is a proof of the fact that it is now still too early to be soothed by a few 'correct' declarations of the 'first persons' in the government.

On 22 January, a general meeting of the State Council – an advisory body under RF President – took place at the Kremlin, which was attended by both President D. Medvedev and Prime Minister V. Putin. At this meeting, a variety of declarations were made, mainly in order to avoid any significant alterations. On the one hand, D. Medvedev voiced a number of important statements such as '*... the political system needs to become smarter, more flexible, more modern*', there were some appeals to the governors (who, incidentally, had been appointed by those same Medvedev and Putin) that they should negotiate with the opposition and to take its opinions into consideration; however, neither Medvedev nor Putin set such goals before themselves. On the other hand, V. Putin warned against 'the Ukrainization of Russian political life', which can be understood primarily as a call against fair elections. It was exactly by that moment that the first round of a new presidential election was completed in Ukraine, in the course of which the current head of the state could not even pass on to the second round; besides, the electoral campaign was conducted in competitive conditions – not only in terms of ensuring registration of all the candidates but also of adequate presentation of relevant information by TV channels; and there were no serious concerns about the fairness of vote count.

The practical outcome of the State Council's meeting was that the RF Central Electoral Committee submitted to the RF President's Executive Office a proposal concerning the abolition of early voting during the elections of all levels, which is one of the frequently applied methods of falsifying the results of elections due to the impossibility to trace a bulletin after a voter has voted early. This idea is worthy of approval, but it has little practical importance in a situation when the opposition's candidates are usually barred from standing in elections (and so have no opportunities for appointing their own observers), while the Russian courts of justice have legitimized the practice of rewriting the ballot election protocols by higher - level commissions without any control by any observers under the pretext of 'recalculation of bulletins', these final versions of the protocols being very different from the copies issued to the observers. Thus, just as they did it before in the Presidential Message, the authorities are forced to admit the falsifications committed during elections, but they present these as some singular, untypical

1 A system for appraising the activity of the Ministry of Internal Affairs' personnel, which requires continual growth of the indices of the numbers of persons brought to criminal and administrative responsibility and the incidence of solved crimes, have many times been an object of criticism for being prone for falsifications and for the militia personnel being forced to commit such falsifications.

cases – be it the example of just one city in Dagestan (Derbent), or the example of one and by no means the most widely applied technique of ‘early voting’¹.

In January, the State Duma ratified Protocol No 14 to the European Convention on Human Rights and Fundamental Freedoms. Russia was the last country that had not yet ratified that document. It envisages reform of the European Court of Human Rights and makes it possible to simplify the decision-making procedure and thus speed up its work (at present, the period of waiting for and considering a case by the ECHR is from 6 years). This protocol was approved as early as 2006, but its ratification by Russia was at first delayed, and then it began to be seriously doubted. As a result, Russia agreed that the number of the ECHR’s courts from different countries should be strictly regulated, and could not be increased on an arbitrary basis. Informally, the consideration of the notorious case ‘*Yukos versus Russia*’ is delayed for an indefinite period (but remains accepted for consideration). Within the framework of that case, a group of *Yukos*’s former managers accuse the Russian Federation, represented by the heads of this country’s executive authority, in deliberately inflicting financial losses on that company and depriving its employees of their freedom. The recognition, last year, of that suit as eligible for consideration by the ECHR was unpleasant news for the Russian authorities.

Some substantial replacements took place in the top leadership of the Russian armed forces. The following officers were transferred to the reserve: Commander-in-Chief of the RF Ground Forces V. Boldyrev (to his post was appointed former Commander of the Siberian Military District A. Postnikov); and Commander of the North Caucasian Military District S. Makarov (to his post was appointed Head of Staff of the same Siberian Military District A. Galkin). The logic of these appointments is absolutely clear – the Russian General Staff is headed by N. Makarov under whom both the newly appointed officers had served in of the Siberian Military District. However, in terms of common sense it is rather difficult to find an explanation for these new appointments to the key posts in the armed forces, and not in the least because during last year’s war with Georgia the ground forces in general and the forces of the North Caucasian Military District in particular earned some high praise – which was quite justified from military point of view.

In January, Minister of Finance A. Kudrin published some important estimates of the state of the Russian budget. First, if oil prices remain at the level of about \$ 70 per barrel, Russia will have to resort to foreign borrowing for yet another 5 years, and the state budget will be drawn with a deficit. Mr. Kudrin noted that this is not a tragedy, because Russia’s government debt, by the international criteria, is small – 8.2 % of GDP.

While one cannot essentially disagree with the ‘non-tragic’ estimates offered by A. Kudrin, still one alarming fact should be noted – that the Russian authorities once again have effectively confirmed their intention to wait for a new rise in prices for hydrocarbons but not to cut down budget expenditure.

In January, there also took place the IPO of ‘Russian Aluminum’ – one of Russia’s biggest companies. Last year the company – similarly to its principal shareholder O. Deripaska’s business – became effectively bankrupt, and so received an active support from the State. State banks allocated some substantial sums to the restructuring of its debts. The IPO was designed to demonstrate an improvement of the company’s financial indices and the reestablished trust of its creditors. However, another fact became obvious: out of the \$ 2.4 billion received for 11 % of its shares, a quarter came from the Russian State corporation Vneshekonombank; besides, shares were bought by Sberbank of Russia and VTB, as well as Libya’s sovereign fund. The company acquired no significant investors – even such as the sovereign funds of China, Singapore or the Persian Gulf countries. In fact, it was found out that ‘Russian Aluminum’, as before, existed thanks to government support, its controlling shareholders – in contrast to the common practice of developed countries – remaining the same. ●

¹ This technique is not particularly widespread – among other things, because it requires some considerable efforts on the part of the authorities. They must first ensure that a sufficient number of people personally turned up at the polls in order to participate in an early voting. In the presently existing conditions, it is much easier to make alterations to a final protocol once it is submitted to a superior-level commission.

INFLATION AND CREDIT AND MONETARY POLICY

N.Luksha

According to the December 2009 results, CPI in Russia amounted to 0.4 per cent, what is nearly twice lower than in the relevant period of preceding year. Thus, the increase in consumer prices in 2009 amounted to 8.8 per cent, having reached the historic minimum. In January, inflation has traditionally been accelerated, amounting to 1.7 per cent in the four weeks of the month, but remained below the last year level. After a three-months strengthening of the real ruble exchange rate it began to decline again: in December the decline made 1.6 per cent. In December, foreign currency reserves of Russia have also declined: their volume on January 1 amounted to USD 439 billion. In January, after a few weeks of moderate growth they were somewhat adjusted, and on January 22 amounted to USD 435.6 billion. The Bank of Russia continued mitigation of monetary policy: on December 28, the refinancing rate was lowered to 8.75 per cent per annum.

Consumer price index in December was the minimum for this month over the past ten years, having reached 0.4 per cent (for comparison: in December 2008 it reached 0.7 per cent) (see Fig. 1). The largest contribution to the prices growth in December made foodstuffs (+0.6 per cent).

Growth in prices for food products doubled as compared with November, when it was 0.3 per cent. It was promoted mainly by the price growth for fruit and vegetables, which went up by 3 per cent. The price for butter was getting up (+3.5 per cent). Like in November, prices were getting down for cereals and beans (-1.6 per cent), pasta (-0.6 per cent), fish and seafood, sunflower oil (-0.5 per cent), meat and poultry (-0.3 per cent). Again prices started to rise for sugar, having increased by 0.4 per cent.

In December there was also observed an increase in prices for commercial services, the prices of which rose by 0.5 per cent (against 0.1 per cent in November, 2008). On the eve of New Year and during Christmas holidays prices have traditionally increased for overseas tours (+1.8 per cent), for passenger transport (+1.5 per cent) and healthcare and resort services (0.1 per cent). Prices for household and healthcare services, as well as services of cultural organizations continued to grow (by 0.7 per cent). There was no reduction in prices on any group of services sector in December.

In the last months of 2009 prices for non-food goods have grown by 0.2 per cent, however, their growth compared with November slowed by 50 per cent. Like in November, prices were growing for knitwear (0.8 per cent), tobacco, clothes and underwear (at 0.6 per cent) and medicines (0.5 per cent). Motor gasoline again has fallen in price (- 2 per cent).

Therefore, in December, consumer price growth was lower than the indicator of the last year figure by 0.3 percentage points. In the first three weeks of the month prices increased by 0.4 per cent, and during the last week the inflation was zero.

Capital outflow from the country as of the year results and the downfall of consumer and investment demand have created the prerequisites for inflation reduction. As a result, on the basis of last year the CPI amounted to 8.8 per cent, which is 4.5 percentage points lower than in the preceding year. Despite this fact, as per 12 months results, Russia became one of the three European countries with the highest inflation, following only its neighbors - Ukraine (12.3 per cent) and Belarus (10.1 per cent)¹. On average, in the EU countries consumer prices increased over 2009 by 1.4 per cent .

Within the four weeks of January, consumer prices increased by 1.7 per cent (versus 2 per cent for the relevant period of the preceding year). Accelerated inflation is quite typical for January due to seasonal factors. The main reasons were the traditional growth in prices for fruit and vegetables, increased tariffs for the services of natural monopolies (for the period from January 1 to 25 payment rates for water supply and sewerage increased by 14.3 per cent, for electricity, heating, hot water - by 11-12.3 per cent), as well increased budget expenditures in late 2009. According to the estimates

¹ RBC News (<http://top.rbc.ru/economics/26/01/2010/365222.shtml>), 26.01.2010.

of A. Ulyukaev, First Deputy Chairman of the Central Bank, in January 2010, inflation was to be 1.4-1.5 per cent¹, however, already by January 25 actual inflation has exceeded this forecast. Excessive inflationary pressure, in addition to seasonal factors, was provided by increased excise duties on alcohol and beer (the latter was upgraded by three times)².

Since February, according to A. Ulyukaev, inflation will start to decrease sharply in comparison with January³. As a result, it is expected that the average growth rate

of consumer prices in the I-st half of the year will vary within the range of 0.3-0.4 per cent. It will be supported (with a lag), by some growth of monetary supply in the II-nd half of 2009, low consumer demand and changes in the structure of the population expenditures (in favor of priority of savings over consumption). In the II-nd half of the year increase in inflationary risks is possible due to capital inflows, expansion of monetary supply and global inflation. Nevertheless, according to Mr. Ulyukaev, the year-end inflation will not exceed 7 per cent. The official inflation estimates, made by the Ministry of Economic Development in 2010 should amount to 7-7.5 per cent.

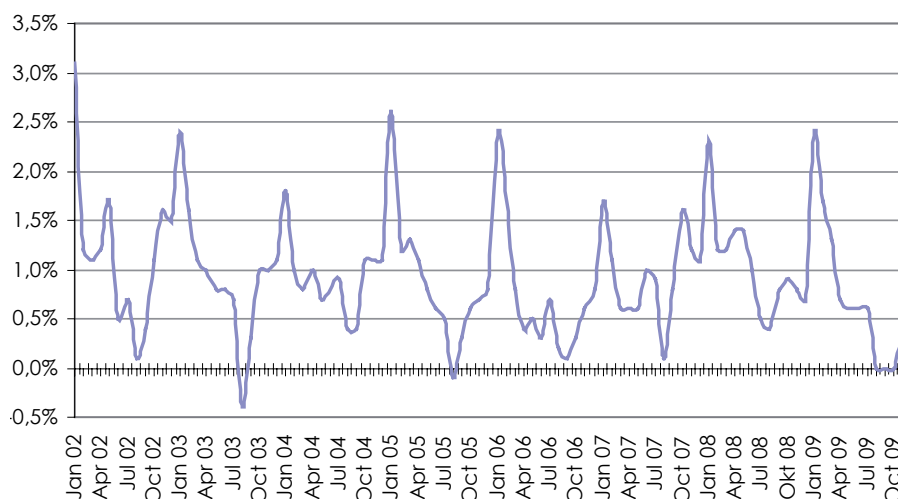
The basic CPI of consumer price index⁴ in December has made 0.4 per cent (versus 0.8 per cent in the relevant period of 2008).

As of November results, the monetary base (in broad definition) has grown by 3.9 per cent and amounted to RUR 6467.3 bln. The growth rate of the monetary supply made 23.9 per cent, which demonstrated the greatest result since December 2003. Sharp increase in monetary supply in the last week of December happened apparently due to financing of the RF consolidated budget deficit. The December upsurge in monetary supply will provide inflationary pressure with a time lag of around six months.

Cash in circulation with regard to the fund balances in credit organizations on January 1 has reached RUR 4.6 trillion (+15.1 per cent as compared with November), correspondent accounts of credit organizations in the Bank of Russia made RUR 900.3 billion (+35.4 per cent), mandatory reserves made RUR 151.4 billion (remained unchanged since November), banks' deposits with the Bank of Russia made RUR 509 billion (-1.8 per cent), the value of shares of the Bank of Russia with credit organizations made RUR 283.7 billion (increased by 2.6 times).

In December, the excessive reserves of commercial banks⁵ have grown again, amounting as a result of the month to RUR 1,693 billion. Therefore, the growth made RUR 641.5 billion, or 61 per cent. Excessive liquidity growth was again observed in the banking system.

Despite the Central Bank policy of smooth interest rate decline (started back in April of the last year) in order to support the banks' credit activity, the credit portfolio remained practically unchanged. Thus, according to G. Melikyan estimate, the First Deputy Chairman of the Central



Source: RF Statistical Service.

Fig. 1. The Growth Rate of the CPI in 2002 – 2009 (% per month)

1 RBC News (<http://www.rbc.ru/fnews.frame/a/top/////20100120170010.shtml?>), 20.01.2010.

2 Interfax (<http://www.ifx.ru/txt.asp?rbr=1492&id=1399596>), 27.01.2010.

3 RBC News (<http://www.rbc.ru/fnews.frame/a/top/////20100120170010.shtml?>), 20.01.2010.

4 Basic index of consumer prices is an indicator of the inflation level without regard to seasonal price reduction (fruit and vegetable products) and to administrative measures (tariffs for government-regulated services, etc.). It is estimated by the RF Statistics Service

5 RIA News (<http://www.rian.ru/economy/20100115/204718318.html>), 15.01.2010.

Bank, within the period since the beginning of 2009 to December 1, the growth of credit volume was only 1.5 per cent in nominal terms¹.

In December, the Russian banks have once again reduced the credit portfolio on non-financial sector, as well as on individuals. In general, credit portfolio of the banking sector has decreased again - by 0.2 per cent (we'd like to remind, that in November, after several months of interruption credit portfolio of banks has slightly increased - by 0.3 per cent)².

In December, the share of banks' overdue loans to non-financial sector has slightly declined by 0.18 per cent, and in general decreased by 2.5 per cent under the banks credit portfolio.

According to A. Uljukajev, the First Deputy Chairman of the Central Bank, by the end of 2010 Russian banks may increase the nominal amount of credits by 15-20 per cent as compared to the current levels³. Basically it will be achieved due to corporate segment, recovery of active crediting to legal entities can start already at the end of the I-st or at the beginning of the II-nd quarter of 2010. As to retail crediting, it will be activated only by the end of the year, due to the high-level of the risk to individual borrowers.

The main reasons for credit growth in the new year will become, according to Mr. Ulyukayev: 1) increased competition on the part of the Western banks, which are more than ever before willing to provide credits to the Russian borrowers due to the decrease in devaluation expectations and 2) the issue of negative margin of domestic banks due to expensive funding obtained in 2009. Thus, within the second half of 2009, banks were actively involving public funds for deposits. With the Central Bank reducing rates, this type of financing became increasingly expensive to them, so the banks will seek new highly profitable ways to invest borrowed funds.

Similar trends are currently observed in many economies. However, unlike Western countries, in Russia they are likely to be more sustainable. European and American banks have an alternative of corporate credit in the form of investments in securities of emerging markets. For understandable reasons, Russian financial institutions have virtually no alternative.

In December the growth of the volume of cash in circulation by 15.1 per cent with stable mandatory reserves urged the expansion of monetary base in narrow definition (cash plus mandatory reserves)⁴ by 14.6 per cent (see Fig. 2).

In December the volume of international reserves of the RF Central Bank decreased by 2 per cent and by the end of the month amounted to USD 439 bln. After almost 11 per cent reduction in 2008, international reserves in 2009 again showed an increase by USD 11.95 bln, or by 2,8 per cent. In January, after a few consecutive weeks of insignificant growth, by January 22 they made USD 435.6 bln.

According to tentative estimates of the Central Bank, in the IV-th quarter of 2009 inflows of foreign capital to the country amounted to USD 11.6 bln. Therefore, in general, the net capital outflow as of 2009 results amounted to USD 52.4 bln, having exceeded the official estimates by USD 40 bln. Major capital outflow took place in the I-st and III-d quarters of the year, when the outflow from the country made USD 35.1 bln and USD 33.4 bln, accordingly. Nevertheless, capital outflow in 2009 was by 2.5 times lower as compared with 2008.

As a result of capital inflow to the country in the IV-th quarter, there was noted growth of the real effective ruble rate by 3.1 per cent. The outflow of capital in the last month of 2009 has urged a reduction of the real effective exchange rate by 1.6 per cent. Index of real effective exchange rate as a result of the month made 131.7⁵ (see Fig. 3). In general, within the year the weakening of the

1 The same.

2 From the speech of A. Ulyukayev, Deputy Chairman of the Central Bank of Russia at the conference "Russia and the World: Challenges of the New Decade", organized by the Institute for Economy in Transition, the Academy of National Economy under the RF Government and the Expert Council under the Government Committee to improve the sustainability of the Russian economy on January 22, 2010.

3 We would like to remind, that the monetary base in the broad definition is not a monetary instrument, it reflects the obligations of the Bank of Russia in national currency. The monetary base in narrow definition is a monetary instrument (one of indicators of the volume of monetary offer), which is under total control of the RF Central Bank.

4 We'd like to remind, that the monetary base in the broad definition is not a monetary instrument, it reflects the obligations of the Bank of Russia in national currency. The monetary base in narrow definition is a monetary instrument (one of indicators of the volume of monetary offer), which is under total control of the RF Central Bank.

5 The level of January 2002 is accepted as 100 per cent.

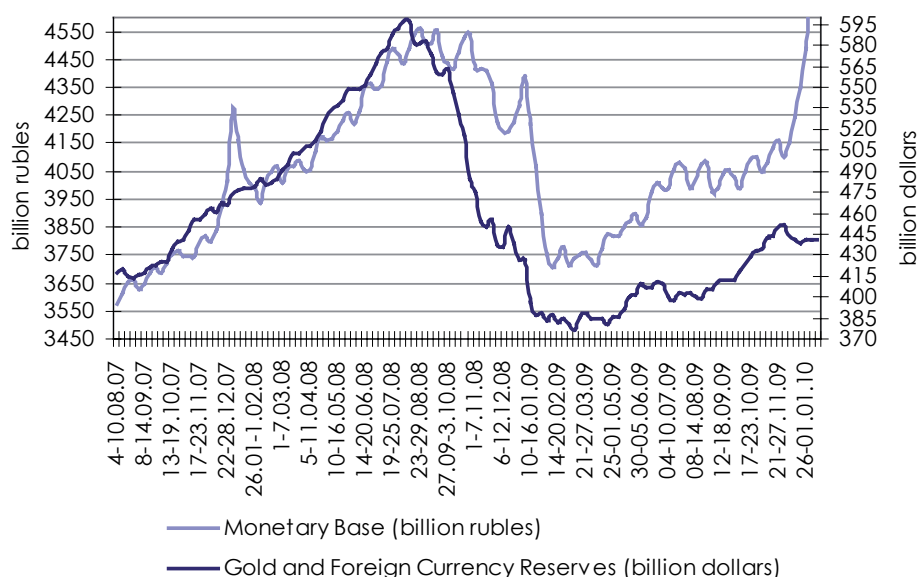
ruble in real terms to the basket of currencies reached 5.6 per cent compared to its strengthening by 5.1 per cent in 2008.

The main characteristic of the ruble rate changes to the dollar for December 2009 and January 2010 is, of course, their high volatility. Nevertheless, the range of fluctuations of the dollar does not exceed two rubles, staying within RUR 29.07-30.75 to USD since the beginning of December 2009 to January 27, 2010. Another important feature of recent months is enough to neutral reaction of households and business to the sharp changes in the ruble rate. This is evidenced, in particular, by a smooth decrease in the share of foreign currency in the bank assets.

During the period from December 1, 2009 - February 1, 2010 the nominal exchange rate of RUR against USD grew by 4.7 per cent, to RUR 30.43. And Euro, by contrast, has fallen down by 3 per cent to RUR 42.46. As a result, the value of the two-currency basket¹ started to decline again, having amounted to RUR 35.84 as of February 1 (-0.4 per cent).

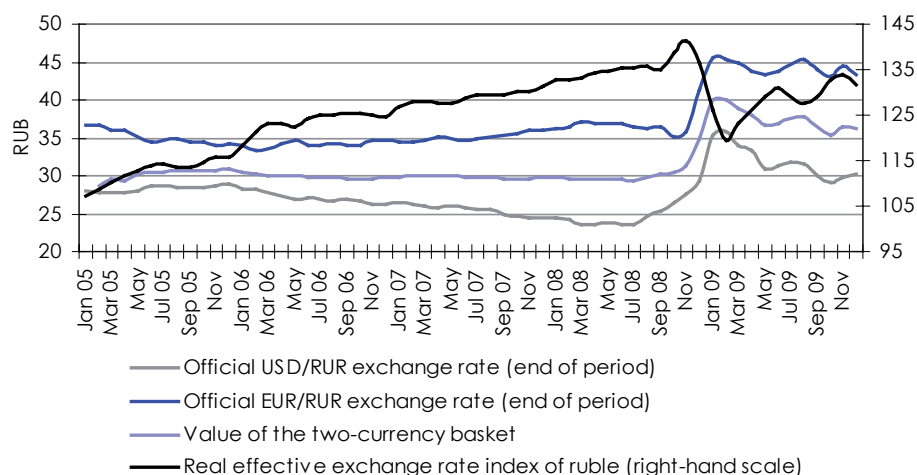
According to A.Ulyukayev², First Deputy Chairman of the Central Bank, in 2010 the concept of inflation targeting will be modified. It means that the Central Bank will not assume the liability not to intervene in the domestic foreign exchange market. The main objective of foreign exchange interventions, as in the last few months of the past year, will be the smoothing of the ruble exchange rate volatility, which is sensitive to the dynamics of capital inflows and outflows. A.Ulyukayev noted that the task of the Central Bank will reduce exchange rate fluctuations of RUR versus USD and bringing them closer to the other pairs of major currencies in the international market.

Since December 28, 2009, the Bank of Russia decided to reduce the refinancing rate and other key interest rates on the Central Bank



Source: RF Central Bank.

Fig. 2. Changes in the Monetary Base and in the Gold and Foreign Currency Reserves in 2007 – 2009



Source: RF Central Bank, author's estimates.

Fig. 3. Indicators of RUB exchange rate within January 2005 – December 2009³.

1 Two-currency basket is the RF Central Bank operational indicator in its foreign currency policy. Currently the share of EURO in the currency basket makes 45 per cent, USD – 55 per cent

2 From the speech of A. Ulyukayev, Deputy Chairman of the Central Bank of Russia at the conference “Russia and the World: Challenges of the New Decade”.

3 The level of January 2002 is accepted as 100 per cent.

operations. The refinancing rate was set up at the rate of 8.75 per cent per annum, which is a new historical minimum (see Table. 1).

Table 1

INTEREST RATE UNDER RF CENTRAL BANK CREDIT OPERATIONS

	Term	From 25.11.09	From 28.12.09
Lombard credits (lowest interest rates)	14 days	6.25	6
	3 months	7.75	7.5
	6 months	8.25	8
	12 months	8.75	8.5
Direct Repo through an auction (Stock Exchange and OTC) (minimum interest rate)	1 day	6.25	6
	7 days	6.25	6
	90 days	7.75	7.5
	6 months	8.25	8
	12 months	8.75	8.5
Overnight credits	Overnight	9	8.75
«Foreign currency swap» (RUR share)	1 day	9	8.75
Lombard credits (under fixed interest rate)	1 day	8	7.75
	7 days	8	7.75
	30 days	8	7.75
Direct Repo (under fixed interest rate)	1 day	8	7.75
	7 days	8	7.75
	12 months	8.75	8.5
Credits, secured by assets or warranty (Credit, secured by assets or warranty)	Up to 90 days	8	7.75
	From 91 to 180 days	8.5	8.25
	From 181 to 365 days	9	8.75
Deposit operations (Credit, secured by assets or warranty)	«tom-next», «tom-next», «on demand»	3.75	3.5
	«Week 1», «Spot-week»	4.25	4

Source: RF Central Bank.

Therefore, the Bank of Russia for the tenth consecutive time and the last one in 2009. As in previous months, the decision to mitigate the interest policy was possible due to the continuing downward trend in inflation (inflation for two consecutive months, in November and December, remained minimal over the past ten years, and the CPI for the year amounted to 8.8 per cent, which is also a historical minimum). The main objective of this approach is the recovery of the real sector of the economy, and as a result, motivation of economic activity in the country. Furthermore, the reduction of interest rates should help to reduce the attractiveness of the Russian financial market to the inflow of speculative capital. The decision on further mitigation of monetary policy will depend on the dynamics of inflation, as well as on indicators of industrial and credit activity.

According to A. Ulyukaev, First Deputy Chairman of the Bank of Russia, currently the risk of inflation is still lower than the risks of financial instability, so in the first half of 2010 the Central Bank may continue the policy of reducing interest rates. However, in the second half of the year, with the growth of inflationary risks one can expect interest rates growth. Therefore, the Central Bank is planning to move from the phase of the rates reducing to stabilizing thereof. ●

FINANCIAL MARKETS¹

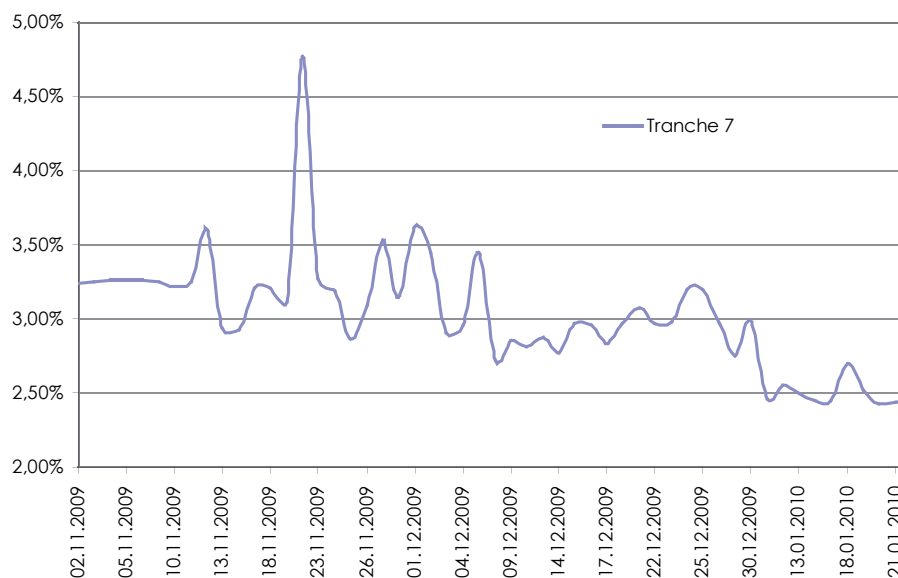
N.Burkova, E.Khudko

In January there was volatile dynamics in the Russian financial market, urged by both external and internal factors. Thus, the situation in the stock market since January 11, was deteriorating due to a decline in global oil prices, the financial performance of major international companies, the negative macroeconomic statistics from the US, which resulted in a decrease in the daily average turnover in the market of corporate securities during the month by 31 per cent. However, the favorable situation with ruble liquidity, strengthening of the RF national currency, and upgrading of the forecast of Russia's credit rating by Fitch Ratings international rating agency from "negative" to "stable" helped to support the government bond market, where investor activity has increased by 70 per cent. The market volume and the index of corporate bonds has grown again, the effective yield has reduced, the number of issuers and emissions, as well as high levels of trading on the secondary market remain virtually unchanged. Herewith, at the beginning of the year virtually no initial placements were made, and the situation has worsened with the performance of issuers of their obligations to bondholders, which is confirmed by the record number of actual defaults at the beginning of the year.

Government securities market

In January a positive situation with ruble liquidity, strengthening of the ruble against the two-currency basket, lower rates of the RF Central Bank supported the government securities and led to the positive dynamics in the market quotations for ruble and foreign currency government bonds and high trading activity after the holidays. This also contributed to the absence of substantial proposals in the secondary market and the placement of only one OFZ issue in the primary market within the month.

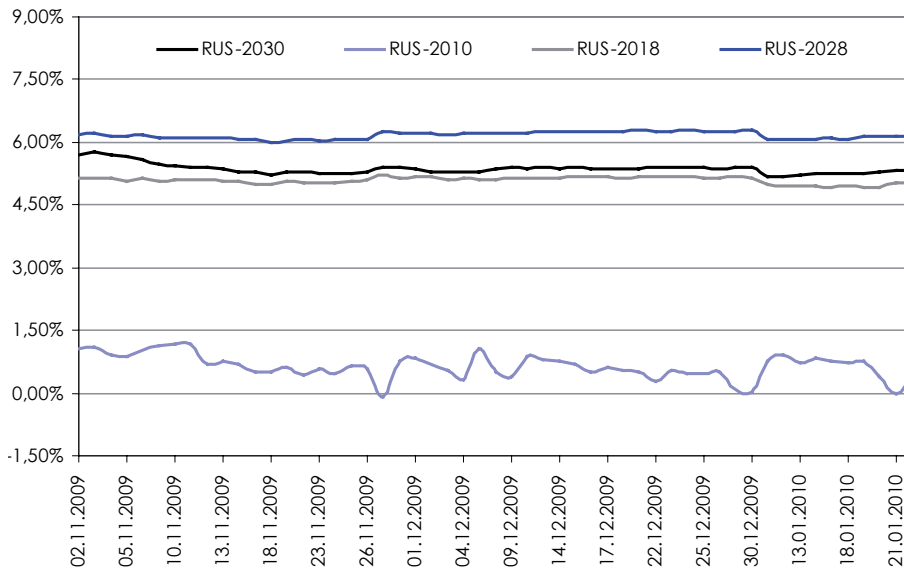
As of January 24, the Russian Eurobonds RUS-30 yield to maturity has decreased as compared with the level of December 21 from 5.37 to 5.32 per cent per annum (by 0.86 per cent), RUS-28 – from 6.28 per cent to 6.05 per cent per annum (by 1.86 per cent), RUS-18 – from 5.19 per cent to 5.03 per cent per annum (by 3.16 per cent), RUS-10 – from 0.50 to 0.38 per cent per annum (by 24.13 per cent). As of the same date, a similar trend was observed in the yields of external currency debt bonds. Thus, the yield to redemption of the seventh tranche of external currency debt bonds has decreased



Source: "Finmarket" Information Agency data

Fig. 1. Minfin bonds' yields to maturity in November 2009 – January 2010

1 In the course of preparation of the survey, there were used analytical materials and surveys published by the "Interfax", MICEX, RTS, RF Central Bank and the materials presented at web sites of Russian issuing companies.



Source: "Finmarket" Information Agency data

Fig. 2. Yields to maturity of the Russian Eurobonds with maturity in 2010, 2018, 2028 and 2030 in November 2009 – January 2010

January 24, there was one auction on government bonds additional placement (against four auctions a month before) at the primary government bonds market. Thus, an auction for government bonds additional placement series 25072 for the amount of RUR 45 bln was arranged on January 30. Actual placement volume was RUR 38.96 bln with an average weighted yield of 7.11 per cent per annum. Therefore, the actual volume of placement for the period under review was RUR 86.58 per cent versus the estimated level of (70 per cent a month earlier), which demonstrates an increased interest of the investors to additional placements in the primary government bonds market within the given period.

As of January 24, the total actual of on government bonds in the secondary market for the period amounted to RUR 1 439,85 bln as per market value (versus RUR 1,469.75 bln and RUR 1,408.21 bln accordingly as of December 21).

The duration of the OFZ market portfolio was 1.621,92 days, having increased by 48.63 days as compared with the preceding month (as of December 21).

Stock market

Stock market situation

With the start of trading in the new year, the stock market has demonstrated a significant decrease caused by the decline in the global commodity prices observed at the end of the first decade of January. The volatility of global financial markets during January, strengthening of the national currency of Russia, reduced Central Bank refinancing rate from December 28 (from 9 to 8.75 per cent), provision a loan to Belarus in the amount of RUR 6 billion by the Russian banks, reduction of the annual inflation rate in 2009 by 4.5 percent points up to 8.8 per cent as compared with 2008 (according to tentative estimates), RF government's plans to launch in March a program on partial subsidy for buying new vehicles at the expense old cars disposal, reduction of the external Russian debt by 2.1 per cent to RUR 469.7 billion in 2009 (according to preliminary estimates), and modified on January 22 forecast of Russia's credit rating from "negative" to "stable" by the international rating agency Fitch Ratings and confirmation of long-term Issuer Default ratings (IDR) of Russia at the BBB level, short-term IDR - at F3, and the country ceiling rating - at the level of BBB+, on the one hand, and reduction of international reserves of Russia, revocation of the licenses of a number of banks, the decline in gas exports by 11.2 per cent within 11 months of 2009, the Government's plan to borrow about USD 17 billion abroad, reduction in the trade surplus of Russia more than 2 times as of 2009 results, the allocation of the loan to AVTOVAZ in the amount of RUR 28 billion

from 3.07 to 2.45 per cent per annum (by 20.33 per cent) (see Figs 1-2). Source: "Finmarket" Information Agency data

Within the period from December 22, 2009 to January 24, 2010 the total turnover of the secondary market of government bonds amounted to approximately RUR 327.89 billion with an average daily turnover of RUR 18.22 billion (about RUR 224.08 billion with an average daily turnover of RUR 10.67 billion in December), what corresponds to the growth of an average monthly turnover nearly by 70 per cent.

Within December 22 –

by the RF Government and problems with oil supplies to Belarus, on the other hand, contributed to the volatile dynamics of the Russian financial market, where a downward trend was dominating during the month. Thus, while in late December a general downgrading trend in the MICEX index was observed, which was replaced by an upgrading trend since early January (See Fig. 3). The minimum value for the period the MICEX index has reached on December 24 –

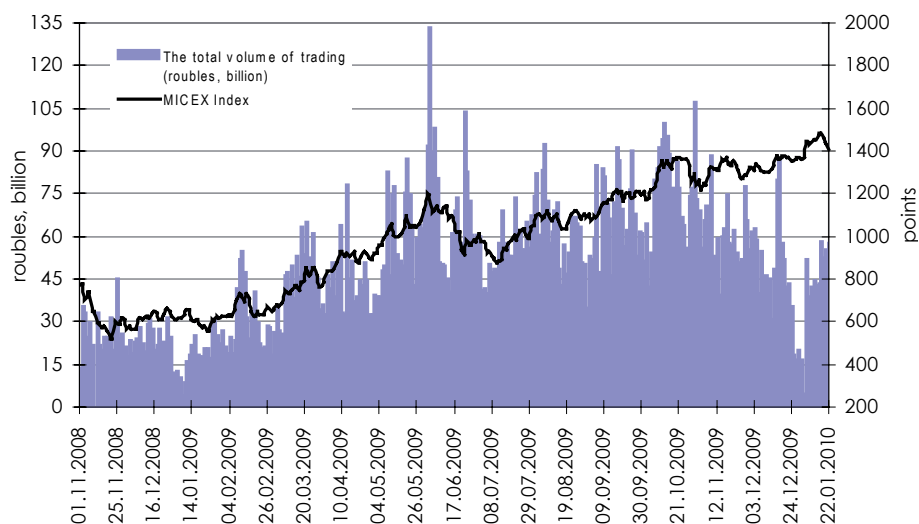


Fig. 3. Dynamics of MICEX Index and trading volume

1,351.19 points (against 1,301.33 points in the preceding month). The maximum value the MICEX index has reached on January 19, having reached 1,484.03 points (1,388.59 per cent points in the preceding month).

In general, within the period from December 22 to January 24, the MICEX index has increased by 2.35 per cent, what makes about 32.45 points in absolute terms (within the year, from January 25, 2005 to January 24, 2010, the MICEX index has been upgraded times 2.5). Over the same period, the turnover of trades in shares, included in the MICEX index, made about RUR 724.84 bln at an average daily turnover of RUR 40.27 bln (against RUR 1,226.3 billion with an average daily turnover of RUR 58.4 billion in the preceding period). Therefore, the investors' average daily activity in the stock market in January has declined as compared with the preceding period by 31 per cent. The indicators of maximum and minimum daily turnover in the market trades made, accordingly, RUR 58.13 bln (as of January 22), and RUR 4.32 bln (on January 31).

As of the month results (from December 23 through January 24), the “blue chips” securities have shown a volatile trend. The leaders in growth were GMK “Nornickel”, whose shares have grown by 15.02 per cent), Mosenergo (10.12 per cent) and Sberbank of Russia (6.27 per cent). Some lower growth rates were noted in securities of “VTB Bank” (2.01 per cent), “Rostelecom” (by 1.12 per cent), Surgutneftegas (0.51 per cent), LUKOIL (0.31 per cent) and “Tatneft” (2.01 per cent).

At the same time, shares of other “blue chips” have demonstrated a downward trend. Thus, Gazprom bank shares have decreased by 4.25 per cent, followed by Rosneft and Gazprom, declined by 1.84 per cent and 0.55 per cent, respectively (Fig. 4).

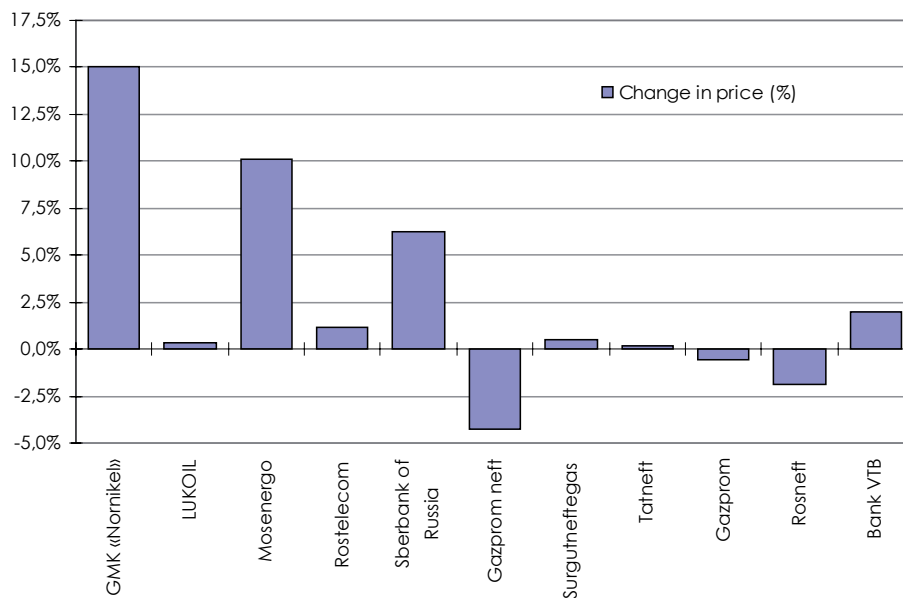


Fig. 4. Dynamics of the Russian Blue Chips from December 22, 2009 to January 24, 2010

In January the MICEX turnover leaders were: “Sberbank of Russia” (28.45

per cent of the total turnover), “Gazprom” (20.19 per cent of the total turnover), GMK “Nornickel” (8.14 per cent), “LUKOIL” (7 per cent) and “VTB Bank” (6.62 per cent). The total share of transactions with the shares of the five «blue chips» was about 70.4 per cent (all «blue chips» - 77.50 per cent) of the total trades in shares at the MICEX stock market during the period from December 22 to January 24.

According to MICEX information, as of January 24, the top five leaders of the domestic stock market in terms of capitalization were: “Gazprom” – RUR 4,270.70 bln (RUR 4,332.96 bln a month earlier), “Rosneft” – RUR 2,659.29 bln (RUR 2,718.43 bln in preceding month), “Sberbank of Russia” - RUR 1,882.81 bln (against RUR 1,753.72 bln), “LUKOIL” - RUR 1,417.12 bln (RUR 1,416.32 bln in preceding month) and “Surgutneftegas” - RUR 951.35 bln (RUR 971.03 bln) .

Futures and Options Market

In January the total turnover in the MICEX (futures) market has increased by 13 per cent as compared with the preceding month. Thus, in the period from December 22 through January 24 the total turnover in the MICEX (futures) market made approximately RUR 47.65 bln (148.97 thousand of transactions, 1.17 mln of contracts), against approximately RUR 42.11 bln (81.31 thousand of transactions, 1.08 mln of contracts) in December. The largest volume of trading in January, as a month earlier, was observed in foreign currency futures, amounting to RUR 22.77 billion (209 thousand of transactions, 0.75 mln of contracts). Herewith, contracts for the US dollar were in the first place in terms of trading in the MICEX futures market, followed by futures contracts for Euro and for Euro/USD rate.

It is worth noting that prices of futures contracts, concluded in January for RUR/USD futures in the MICEX market were within RUR/USD 29.6–30.2 for March, RUR/USD 30-31 for June, RUR/USD 30.5–31.5 for September and RUR 30.9–31.3 for December 2010.

The greatest number of transactions (147.12 thousand) per month was made with the futures contracts on equity instruments (79 thousand transactions in December); the volume of trades made RUR 21.2 bln (or 60 per cent more than in preceding month). Herewith, futures for the MICEX index in the short-term MICEX market in terms of the volume of trade were followed by commodity futures contracts for «Sberbank of Russia» and «Gazprom» shares. It should be noted, that the value of the MICEX index (the price of transactions) for March and June 2010 was in the range of 1,380–1,490 points. Trading trade volume in futures for commodity assets within the period has decreased by 3.5 per cent (from RUR 3.41 billion to RUR 3.29 billion). On January 22 there was one futures contract for MosPrime interest rate with the volume of trade of RUR 400 mln, 40 transactions.

Opposite trends were observed in the RTS FORTS futures market, where the investors' activity in January has decreased by 2 times as compared with the previous month. Thus, in the period from December 22 to January 24 the total market turnover of futures and options in RTS was about RUR 973.79 billion (4.5 million of transactions, 20.78 million of contracts) as compared with about RUR 1,944.04 billion (8.69 million of transactions, 48.21 million of contracts) in December. The greatest demand among the participants, as before, was demonstrated in Futures: trading volume in them during the period under review amounted to RUR 942.3 billion (4.44 million of transactions and 20.05 million of contracts). The first place in terms of futures trading were the futures contracts on the RTS index, which was followed by the futures contracts for dollar-ruble rate and for the shares of Sberbank of Russia and Gazprom. It should be noted that in the futures market of RTS FORTS prices of the recent transactions, concluded on futures contracts for the date of execution on March 15, 2010, were within RUR 29.8-30.5/ USD, on June 15, 2010 - RUR 30.2-30.9/ USD, and on September 15, 2010 – RUR 30.5-31.6/ USD, on December 15, 2010 – RUR 31-32/USD .

The value of futures of the RTS index (based on the prices of recent contracts) for March 15, 2010 was estimated on average at 1 430–1 590 points, for June 15 - 1 450–1 590 points and for September 15 - 1 450–1 570¹. Options enjoyed far less demand, the turnover made about RUR 31.49 bln (60.62 thousand transactions and 1.73 mln of contracts). The maximum daily turnover in the short-term RTS futures market in the period under review made RUR 121 billion (as of January 22), and minimum was RUR 5.44 bln. (on December 31).

1 RTS index as of 24.01.2010 made 1 489.46 points (See *Table 2*).

External factors behind the Russian stock market dynamics

In January the Russian financial market dynamics, as a month earlier, was largely dependant on the situation in the global financial markets. Among the basic factors of positive global market indicators, affecting the Russian market in January, one should mention:

- Increased global oil price at the first half of the month (up to USD 82 per barrel);
- payment of U.S. banks Bank of America Corp., Citigroup and Wells Fargo USD bln and USD 25 billion, respectively, obtained under the anti-crisis program;
- reduction in the net loss of U.S. bank Citigroup to USD 1.61 billion as of 2009 results, compared with the loss of USD 27.7 billion a year earlier;
- information about the increased net profit of IBM by 9 per cent to USD 13.4 billion as per 2009 results and of the U.S. bank Goldman Sachs Group Inc. - 6 times (up to USD 13.4 billion)
- increased orders for durable goods in the US;
- plans to form a common reserve with the total volume of USD 120 billion by the countries of the Association of Southeast Asian Nations (ASEAN), China, Japan, South Korea and Hong Kong to meet short-term problems with foreign exchange liquidity in the region
- intention of the U.S. government to allocate USD 30 billion in the framework of government financial assistance to small businesses with the purpose of accelerating the rates of economic recovery;
- the decision of Japan Government to support Japan Airlines Corp., which happened to be on the verge of bankruptcy;
- news from China: government's plans to invest in the national economy USD145.3 billion in 2010, export growth in December 2009 by 17.7 per cent as compared with December 2008, increase of international reserves by 23.3 per cent as per 2009 results.

Along with the above, the following events were restraining the global markets growth within the month:

- US government plans to restructure the financial sector to limit the risk of operations;
- Reduction of Greece credit ratings by the international agencies Moody's and Standard & Poor's to the lowest level among the countries of the Eurozone;
- Upgrading of the upper threshold of US national debt to USD 12.4 trillion, as well as an increased number of requests for unemployment insurance in US in January;
- decline of GDP in Germany in 2009 to 5 per cent (tentative data);
- the decision of the British bank Barclays to suspend payment of bonuses to the top managers until 2013;
- Plans to reduce the American company UPS of 1,8 thousand employees, by pharmaceutical companies Pfizer and Merck – by more than 2 thousand jobs in the US;
- information about Alcoa net loss in the amount of USD 1.15 billion in 2009;
- China's central bank upgrading the share of reserve requirements to the banks by 0.5 p.p. - up to 15 per cent.

All those factors have generally resulted in volatile dynamics of the global stock indices in January, as of the month results. Herewith, the markets of developed countries were demonstrating a general decline in the indices by 1-4 per cent, with the exception of Japanese and British indices, where an increasing trend was observed. At the same time, the stock markets of the majority of developing countries have grown over the month. The exception was the Mexican IPC index (–3.05 per cent). Herewith, there was observed a decline in the basic stock market indices in the global markets as compared with early January 2010 results (See Table 2 and Fig. 5).

Table 2

DYNAMICS OF THE GLOBAL STOCK INDICES (AS OF JANUARY 24, 2009)

Index	Ticker	Value	Dynamics within the month(%)	Dynamics since the year beginning(%)
MICEX (Russia)	MICEXINDEXCF	1 410.38	2.35	2.95
RTS (Russia)	RTSI	1 489.46	4.49	3.10
Dow Jones Industrial (USA) Average (USA)	DJI	10 172.98	–2.32	–2.45
NASDAQ Composite (USA)	NASD	2 205.29	–1.45	–2.81

Table 1, cont'd

Index	Ticker	Value	Dynamics within the month(%)	Dynamics since the year beginning(%)
S&P 500 (USA)	SPX	1 091.76	-2.00	-2.09
FTSE 100 (UK)	FTSE	5 302.99	0.17	-2.03
DAX-30 (Germany)	DAX	5 695.32	-3.97	-4.40
CAC-40 (France)	CAC	3 820.78	-1.32	-2.94
Swiss Market (Switzerland)	SSMI	6 493.96	-0.16	-0.79
Nikkei-225 (Japan)	NIKKEI	10 590.55	4.00	0.42
Bovespa (Brasil)	BUSP	66 220.00	0.45	-3.45
IPC (Mexico)	IPC	30 830.91	-3.05	-4.01
IPSA (Chile)	IPSA	3 774.82	7.28	5.40
Straits Times (Singapore)	STI	2 819.71	1.18	-2.69
Seoul Composite (South Korea)	KS11	1 684.35	2.44	0.09
ISE National-100 (Turkey)	XU100	53 997.49	5.30	2.22
BSE 30 (India)	BSE	16 859.68	1.56	-3.46
Shanghai Composite (China)	SSEC	3 128.59	0.18	-4.53
Morgan Stanley Emerging Markets Free Index	EFM	763.24	1.76	-2.50

* – Versus index indicator valid on December 21, 2009.

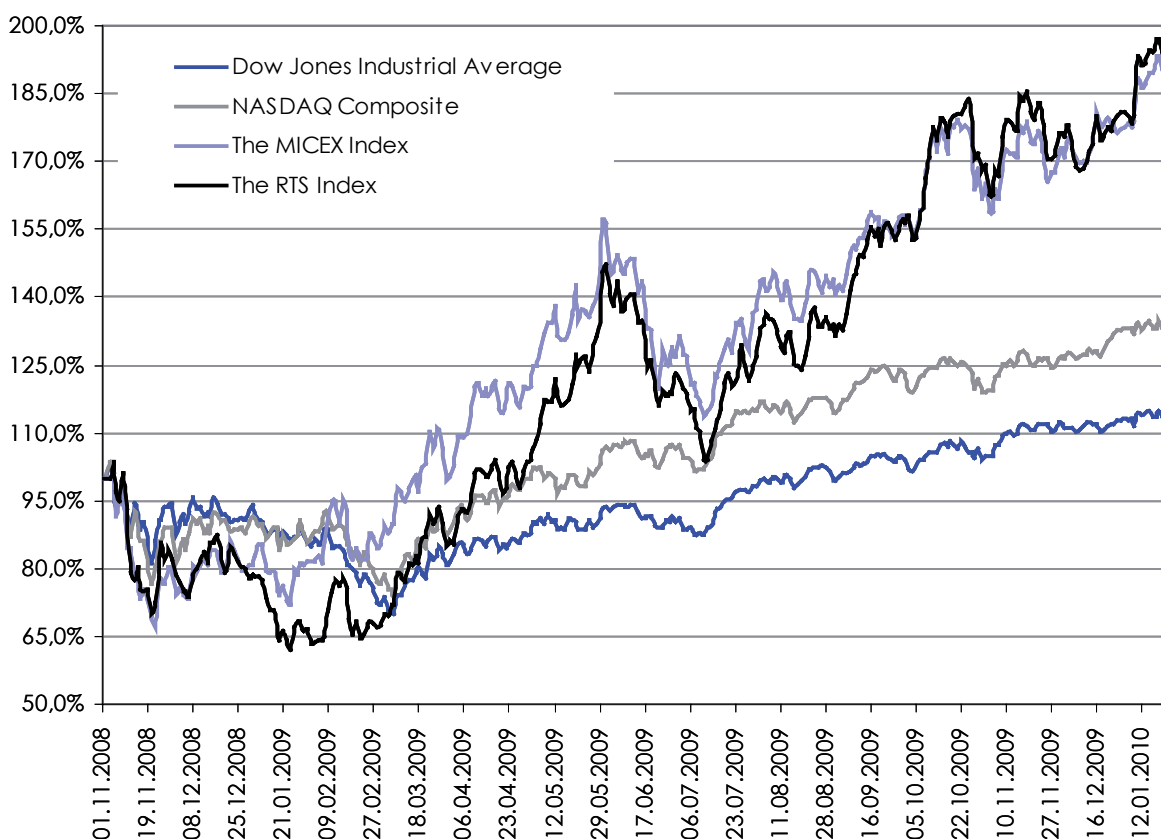


Fig. 5. Dynamics of the main USA and Russian stock indexes (in % versus the date 01.11.2008)

Corporate News

OAO "VTB Bank"

At the end of December 2009 - January 2010, OAO "VTB Bank" has provided loans / opened credit lines to: TNK-BP group in the amount of RUR 26.8 billion, to OAO "GC" Russian Sea " - in the amount of RUR 1.7 billion; to GC "Rostekhnologii" – RUR 600 million; to Smolensk region – RUR 825

million; to "Synergy" group of companies - RUR 4 250 million. On January 14 OAO "VTB Bank" has disclosed unconsolidated results for 2009 developed according to RAS: assets on January 1, 2010 amounted to RUR 2 674 billion, as compared with RUR 2 551 billion as of January 1, 2009, net profit – RUR 27.96 billion (against RUR 26.89 billion in 2008).

OAO «Gazprom»

On December 23, OAO "Gazprom" has signed an agreement on cooperation with St. Petersburg, and on January 15 with the Leningrad region in 2010. The parties will cooperate in the development of an integrated gas supply system of the RF Subjects. On December 27, OAO "Gazprom" and China National Oil and gas Corporation have signed an agreement on the basic conditions of gas supply from Russia to China. On December 28, OAO "Gazprom" have signed an agreement with Uzbekistan on the terms of gas supplies.

OAO «Rostelecom»

On December 22 OAO "Rostelecom" has disclosed unaudited consolidated results developed under IFRS for the first 9 months of 2009: net profit amounted to RUR 3.3 billion, having falling over the same period in 2008 to 72.5 per cent; OIBDA indicator (operating income before amortization, depreciation of fixed assets and loss (profit) on disposal of fixed assets) decreased by 19.5 per cent to RUR 9.5 billion, OIBDA net profit margin made 19.5 per cent. On December 30 Consortium "RID-Expert RA" increased the corporate management rating of OAO "Rostelecom" to level "8", which is currently the highest rating for the Russian companies, indicating an advanced corporate governance practice and a high level of transparency.

Sberbank of Russia

At the end of December - January, the Sberbank of Russia continued to provide credits to domestic enterprises in the framework of the program on the support to priority sectors of the Russian economy. In particular, Sberbank of Russia provided the loan / credit lines to ZAO "Plant fertilizer Kirovo-Chepetsk Chemical Complex" (RUR 1 billion), to OAO "Chelyabinsk Tube Rolling Plant" Group (RUR 10 billion), to OAO "Tulachermet" Company (RUR 3 billion). In addition, on December 30, Sberbank of Russia, Vnesheconombank, OAO "Gazprombank" and OAO "Alfa-Bank" have provided to the Ministry of Finance of the Republic of Belarus a syndicated credit in the amount of RUR 6 billion for the term exceeding 1 year.

On December 23 Sberbank of Russia has disclosed financial results developed under RAS for 11 months of 2009: net profit amounted to RUR 18.5 billion against RUR 113.2 billion for 11 months of 2008, assets increased by 1.3 per cent and on December 1, 2009 amounted to RUR 6,806 billion; Russia's enterprises were granted credits amounting to nearly RUR 3.6 trillion. The share of restructured loans for which changes were made in the original contracts in favor of the borrower's side, in the loan portfolio of legal entities by December 1, amounted to 15.5 per cent. On January 22 Fitch Ratings agency has revised its long-term rating of Sberbank of Russia in foreign currency from "negative" to "stable". The revision came after the change in the long-term rating of the Russian federation in foreign currency from "negative" to "stable".

Corporate bonds market

The volume of the Russian domestic stock market (as per nominal value of shares in circulation, denominated in national currency) in January 2010 has grown again at the end of the month reached RUR 2,417.5 bln (692 emissions and 404 emitters), which is more than the relevant indicator of preceding month by 4.2 per cent¹. The number of emitters has been practically unchanged (for comparison, in late December there were 689 emissions, made by 403 emitters). There are still one emission of bonds in circulation, denominated in Japanese yens and three emissions denominated in US dollars.

At the beginning of the year the volume of trading in the secondary market of corporate bonds reached a new record level. The trading volume in the period from December 22 of the last year to January of the current year reached its maximum over the last eighteen months and amounted to

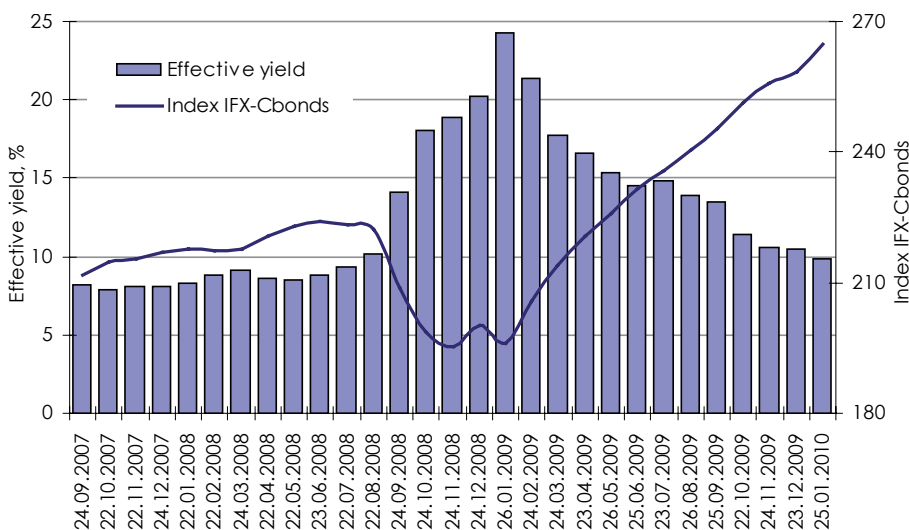
1 As per Rusbonds information

RUR 90.9 billion, though the growth was virtually unnoticeable (in the period from November 23 to December 21 2009, the trading volume was equal to RUR 90.5 billion)¹. In the period under review on the MICEX Stock Exchange there were committed 26.4 thousand of transactions in bonds (for the previous period, the number of transactions amounted to 27.0 thousand).

In January 2010 the trend to growing index of the Russian market of corporate bonds IFX-Cbonds, which was observed throughout the preceding year was continued. Within the period from December 23 to January 25, the index has grown by 6.2 points (or 2.4 per cent), having reached the highest level since the beginning of its assessments. The effective yield has decreased from 10.5 to 9.8 per cent during the period under review (see Fig. 6). The duration of corporate bonds market portfolio dynamics is volatile in the recent months: after a sharp upsurge in the last month, by the end of January of the current year it has decreased again and made 592 days, which is by 23 days less against the level of the end of 2009.

At the end of December and in January, large companies still were active in borrowing through the bonds emissions, registering 4-7 on and more issues at a time. The number and total amount of registered issues have grown in comparison with the previous month. Thus, in the period from December 24, 2009 to January 25, 2010, 11 emitters have registered 38 bond issues for the total amount of USD 188.6 billion (for comparison, from November 25 to December 23 last year 14 emitters have registered 32 emissions amounting to RUR 128.5 billion). The largest share of the reported emissions were made by seven series of bonds of OAO “Russian Railways” for the total amount of RUR 100 billion, fifteen series of stock exchange bonds of OAO “The Fifth Power Generation Company of Wholesale Electricity Market” in the amount of RUR 51 billion, four series of stock exchange bonds of OAO “TMK” in the amount of RUR 30 billion².

After the record indicators of primary bond market in December of the last year, at the beginning of the current year the volume of the new issues placement fell a dozen times. This is due to decreased activity of not only investors but also the emitters, typical in January of each year. Thus, in the period from December 24, 2009 to January 25, 2010 there were placed 7 issues totaling to RUR 8.5 billion. That has the minimum level over the last calendar year (for comparison, in the relevant period of preceding year there were placed 41 issues of bonds, denominated in national currency for the total amount of RUR 264.2 billion and one issue of bonds denominated in US dollars) (Fig. 7). During the period under review the largest bond issues were placed by LLC «INC» (one series of bonds worth RUR 3 billion) And OOO «Real-leasing Invest» (one series of bonds worth 2 RUR billion). This month



Source: Cbonds data.

Fig. 6. Russian corporate securities index and average weighted yield dynamics

was a period of placement of exchange-traded bonds - six of the seven emitters placed their issues under a simplified procedure.

In the period from December 24 to January 25 there was again a large number of issues, recognized invalid due to non-placement of any security. In this period, like in the preceding term, the Federal Statistical Service for Financial Markets of Russia has recognized as invalid four issues of corporate bonds, offered for open placement (against four issues in the period from November 25 to December 23 of 2009)³.

1 As per “Finmarket” Information agency.
 2 As per Rusbonds data
 3 As per FSS of Russia.

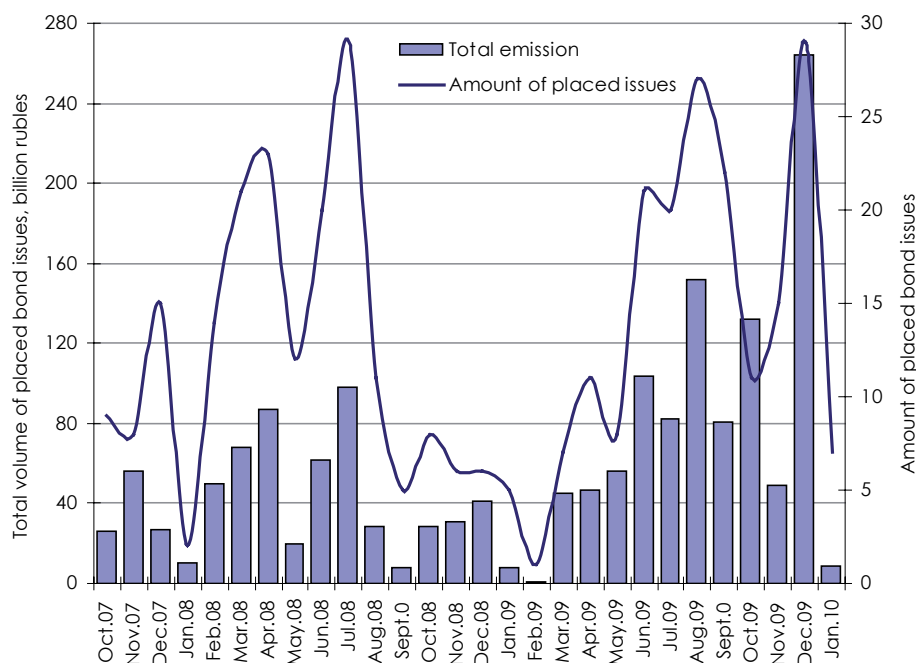
Within December 24 to January 25 emitters were supposed to redeem their 9 bond issues totaling to RUR 10.2 billion. However, one emitter, OOO “Russian Investment Group” has announced a technical default on repayment of its bond loan, totaling to RUR 1.2 bln (against eight emitters announced a technical default on repayment of their bond loans, totaling to RUR 7.4 bln in preceding period).

In January 2010, five issues of corporate bonds redemption for the total amount of RUR 4.5 bln are expected¹.

В период с 24 декабря по 25 января должны были погасить свои выпуски 9 эмитентов на общую сумму 10,2 млрд руб. Однако один эмитент – ООО «Русская инве-

стиционная группа» – объявил технический дефолт по погашению своего облигационного займа на сумму 1,2 млрд руб. (за предыдущий период восемь эмитентов объявили технический дефолт на общую сумму 7,4 млрд руб.). At the same time one cannot speak about the situation improvement with the return of invested funds to owners of bonds yet, because originally planned for repayment the amount and the number of emissions made in the fourth quarter of the last year were considerably higher than at the beginning of this year. In February 2010, fifteen issues of corporate bonds redemption for the total amount of RUR 26.9 bln are expected².

The issue of the emitters’ failure to perform their liabilities in regard to the bonds holders is still acute. Thus, from December 24 through January 25, the real default on bonds coupon yield redemption on 19 issues was announced by seventeen emitters (since November 25 through December 23 a real default on bonds coupon yield redemption was announced by fifteen emitters). Among them, four issuers managed to reach agreement with bondholders to restructure the debts. A real default on offer (bonds redemption) was announced by one emitter (against 3 emitters in the previous period)³. A real default on failure to repay the nominal value of the bond loans within the period under review was announced by nine emitters under 10 issues for the total amount of RUR 12.2 billion (against for the previous period – four emitters for the amount of RUR 5.6 billion); herewith, bond holders of only one issue agreed to restructure the debt. ●



Source: Rusbonds data

Fig. 7. Corporate securities primary placement dynamics, denominated in national currency

1 As per Rusbonds data.
 2 As per Rusbonds data.
 3 Cbonds data

REAL ECONOMY SECTOR: TRENDS AND FACTORS

O.Izryadnova

It was the contraction of the internal market under the influence of the simultaneous contraction of the investment and consumer demand that became one of the main trends of 2009. In 2009 the decrease of the GDP made 7.9%, the investments in fix assets reducing by 17.0%, and the final consumption – by 5.4%. The situation at the labor market remains complicated. The average number of the employed in the economy reduced by 2.4% versus 2008, the level of the general unemployment increasing up to 8.4% (6.4% a year ago), and the level of officially registered unemployment – up to 2.1% (1.4% in 2008).

The recovery of the net export dynamics had a positive effect on the macroeconomic situation. In 2009 the macroeconomic situation was characterized by highly volatile dynamics of the main indices throughout the year. The inertial decrease registered at the beginning of 2009 was accounted for by general unfavorable development in the 4th quarter 2008 and weakened substantially in the second half of the year against the background of the gradual recovery of global markets of raw materials and adaptation of financing and crediting institutes to the crisis. Upon the reduction of the GDP by 10.4% in the 1st half of 2009 and by 8.95 in the 3rd quarter, in the 4th quarter the recession has slowed down to 4.7% versus corresponding periods of the previous year. On the whole, as a result of 2009 the GDP is estimated to be at the level of 92.1% versus the figure of the previous year.

Table 1

INDICES OF MAIN MACROECONOMIC FIGURES IN 2008–2009,
AS PERCENTAGE OF THE CORRESPONDING YEAR

	2008					2009				
	year	Quarters				year	Quarters			
		1	2	3	4		1	2	3	4
Gross Domestic Product	105.6	108.7	107.5	106.0	101.2	92.1	90.2	89.1	91.9	98.3
Investments in fixed assets	109.8	123.6	117.4	111.7	97.7	83.0	84.4	79.0	80.9	89.4
Commissioning of residential floor area	105.3	108.1	99.1	105.7	105.1	93.3	102.4	97.2	98.9	85.9
Volume of industrial products	102.1	106.2	105.5	104.7	93.9	89.2	85.7	86.4	89.0	97.4
Minerals extraction	100.2	100.7	100.3	100.6	99.0	98.8	96.2	96.9	97.8	103.9
Processing industries	103.2	108.7	108.1	106.4	92.3	84.0	79.2	78.4	85.0	93.5
Electricity, gas and water production and distribution	101.4	105.6	102.1	104.3	94.6	95.2	94.9	93.7	89.7	100.4
Agricultural goods production	110.8	105.5	106.9	113.0	115.6	101.2	102.3	100.9	98.0	106.4
Freight turnover	100.7	105.1	102.9	101.4	93.6	89.8	83.7	81.3	93.0	101.8
Retail trade turnover	113.5	117.2	114.8	114.9	108.6	94.5	99.9	94.4	90.8	93.9
Paid services rendered to population	104.9	107.7	105.6	105.3	102.0	95.7	99.1	95.3	93.3	–
Foreign trade turnover	132.2	148.8	147.9	149.3	95.4	65.0	56.2	55.5	60.0	91.2
Export	133.1	153.3	151.3	152.8	89.5	64.3	52.1	53.9	60.3	97.0
Import	130.6	140.8	143.0	142.1	105.3	66.0	63.7	58.2	59.5	83.4
Real disposable monetary incomes	102.7	107.8	106.0	106.6	94.2	101.9	100.4	103.1	97.1	107.0
Real wages	109.7	113.4	112.5	112.2	102.5	97.2	99.2	96.1	94.8	99.0
Real amount of accrued pensions	118.1	119.0	113.7	122.7	116.9		106.1	113.3	109.1	
Average annual number of employed in the economy	100.6	100.8	101.2	100.7	99.6	97.6	97.7	97.1	97.9	98.8
Total number of the unemployed	104.4	96.5	94.2	105.6	123.7	131.7	134.8	152.1	132.2	112.0
Number of officially registered unemployed	89.7	89.7	89.3	88.9	91.1	148.9	126.5	157.4	163.0	152.3

Source: Federal State Statistics Service

Peculiar features of the economic development in 2009 were defined by simultaneous contraction of the internal and external demand under the influence of the investment contraction, production and consumer demand in 2009 the internal market according to the preliminary estimation went down by 15.1%, and the external demand – by 9.5%.

Against the background of gradual increase of world market for hydrocarbons starting with 2nd quarter 2009 as compared with corresponding period of the previous year, the slow-down of export rates decrease was observed, and versus the preceding quarter 2009 export dynamics became positive.

The formation of this trend had a positive effect on the change of production dynamics. Starting with the 2nd quarter 2009 the slow-down of the recession of the internal production was observed mainly due to the output of the export-oriented goods on the extraction of fuel and energy commodities, and starting with the 3rd quarter the same applied to processing industries. In the 4th quarter 2009 the volume of industrial production went down by 2.6% versus the 4th quarter 2008. There was a growth of production by 3.9% observed in minerals extraction, and by 0.4% - in electricity, gas and water production and distribution. As a result, minerals extraction decline made 1.2%, of the fossil fuels extraction – 0.6%, minerals extraction – 6.2%.

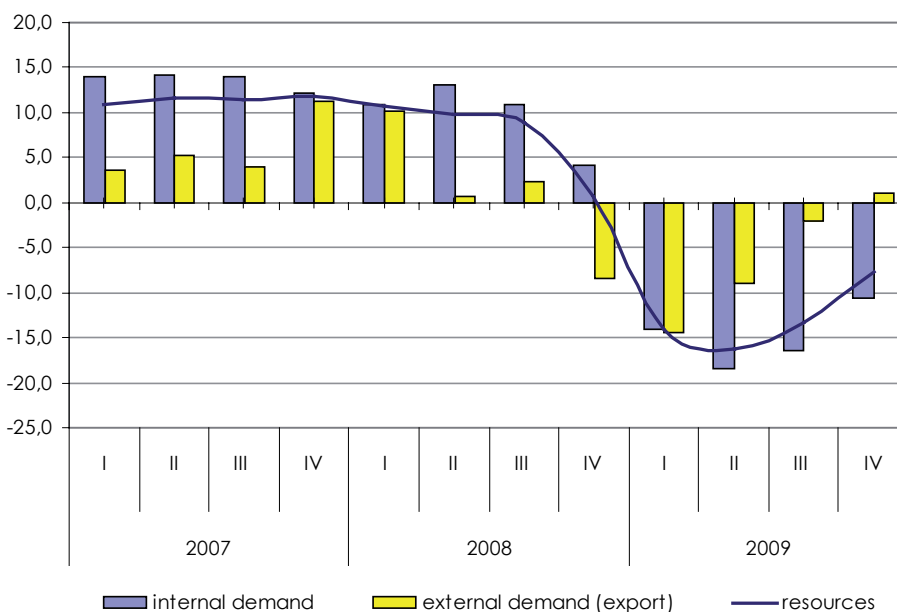
The dynamics of the internal market starting with the 4th quarter 2008 was formed simultaneously with the drop in the production of domestic goods of intermediate and final consumption and import.

In processing industries despite gradual slackening in the production output contraction rates during the year, the crisis had the most destroying effect and the output made 84.0% of the previous year level. Under the influence of the investment contraction in fixed assets by 17.0% and the workload in construction by 16.0% versus 2008, production of the investment goods dropped nearly by one third: the construction materials production made 75.2%, production of machinery and equipment – 71.6%, transport vehicles production – 62.0% of 2008 level. The fall in demand for investment goods affected the whole complex of adjacent production: metallurgy, timber and chemistry complex.

It should be noted that in the environment of the global financial crisis the deficit of liquid funds required to purchase raw materials, high cost of credit resources strengthened negative effects on functioning of domestic production of consumer goods as well as on dynamics of the retail trade turnover.

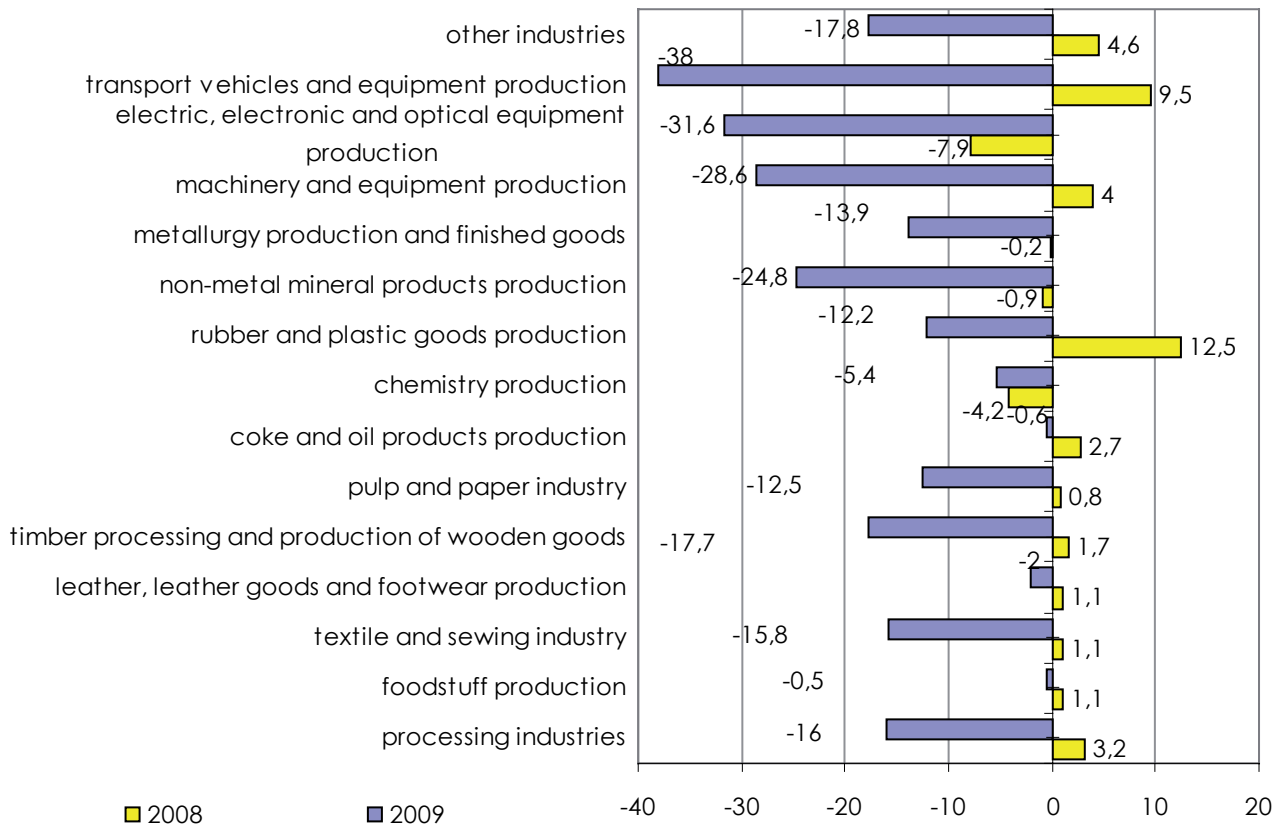
Besides, absolute decrease in the volume of output of goods defined contraction of demand for the services of natural monopolies. Electricity, gas and water production and distribution dropped by 4.8%, and the freight transportation – by 10.2% versus 2008.

It should be noted that since anticipated import growth versus domestic production which was characteristic of economic dynamics in 2006-2008 and which was accompanied by decrease in the share of domestic resources production, the dramatic drop of import in 2009 determined structural changes in the domestic market resources. As a result of contraction and changes in consumer demand, domestic producers' role at the global market increased. The proportion of import in retail



Source: Federal State Statistics Service

Fig. 1. Changes in GDP Dynamics as Broken by Components of Internal and External Demand in 2007-2009, as percentage to corresponding quarter of the previous year



Source: Federal State Statistics Service

Fig. 2. Growth Rates by Kinds of Activities in Processing Industry in 2008-2009, as Percentage to the Preceding Year

trade increased to 41% at the domestic market versus 47% in the corresponding period of the previous year. At the same time, in 2009 there were unfavorable shifts in the structure of imports, sharp drop in imports' volume taking place against the background of relative refocusing on imports of consumer goods and of intermediate demand type.

Table 2

PROPORTION OF CONSUMER, INTERMEDIATE AND INVESTMENT GOODS IN TOTAL VOLUME OF IMPORT INTO THE RUSSIAN FEDERATION (CALCULATED BY THE BALANCE-OF-PAYMENT METHODOLOGY), AS PERCENTAGE TO THE TOTAL

	Goods			
	consumer	investment	intermediate	total
2008				
1 st quarter	45.0	22.6	32.4	100
2 nd quarter	41.3	23.9	34.8	100
3 rd quarter	43.6	24.2	32.2	100
4 th quarter	37.8	24.4	37.8	100
Year	41.8	23.8	34.4	100
2009				
1 st quarter	46.8	18.6	34.9	100
2 nd quarter	44.0	18.1	38.4	100
3 rd quarter	43.8	19.7	36.6	100

Source: Federal State Statistics Service

In 2009 formation of trend of consumers' demand decline became one of the main issues. In 2009 the retail trade turnover went down by 5.5%, that of foodstuffs – by 2.5%, of non-food products – by 8.3%. The volume of paid services rendered to the population decreased to 95.7% of 2008 level.

Consumer's inflation since the beginning of current year made 8.8% versus 13.3% in 2008. At the same time, the price index for foodstuffs made 106.1% against 116.5% in 2008, and for non-food products – 109.7% versus 108.0% a year ago.

The dynamics and structure of consumer demand was considerably affected by population income structural changes, the decrease of real wages by 2.8% versus 2008 and trend for increase in the proportion of population with the monetary incomes below the minimum subsistence level.

In the 1st-3rd quarters of 2009 as compared with corresponding period of 2008, proportion of social payments went up, while proportion of labor remuneration (including hidden wages), incomes from entrepreneurial activity and incomes from property decreased.

Table 3

 STRUCTURE OF MONETARY INCOMES OF POPULATION IN 2008-2009,
 AS PERCENTAGE TO THE TOTAL

	2008				2009			
	year	Quarters				Quarters		
		I	II	III	IV	I	II	III
Monetary incomes – total	100	100	100	100	100	100	100	100
Incomes from entrepreneurial activity	10	10.2	9.6	10.2	9.9	10.2	9	9.8
Labor remuneration, including hidden wages	68.6	68.4	68.4	69	68.5	69.4	69.8	68.4
Social payments	12.8	13.3	12.7	12.4	13	14.7	14.5	15.2
Incomes from property	6.6	6.1	7.4	6.4	6.6	3.8	4.6	4.6
Other incomes	2	2	1.9	2	2	1.9	2.1	2

Source: Federal State Statistics Service

The shortage of resources resulted in the fact that expenditures on final consumption in 2009 accounted for major part of the GDP – 74.7% versus 65.5% in 2008. During crisis implementation issues of social guarantees and liabilities were of primary importance. In order to maintain the living standard of population and social stability the share of expenses for public consumption increased up to 20.3% in 2009, exceeding by 3.0 percentage points the value compared with corresponding period of the previous year.

Table 4

 STRUCTURE OF GDP USE IN 2008-2009, AS BROKEN BY QUARTERS,
 AS PERCENTAGE TO THE TOTAL IN CURRENT PRICES

	2008				2009					
	year	quarters				year	quarters			
		I	II	III	IV		I	II	III	IV
GDP	100	100	100	100	100	100	100	100	100	100
Expenses for final consumption	65.5	67.5	64.2	61.5	68.8	74.7	81.5	78.0	70.4	71.0
of households	47.7	48.3	46.8	45.8	51.6	53.9	57.0	55.8	50.9	52.6
of state management	17.3	18.6	16.9	15.3	16.7	20.3	23.7	21.6	19.0	17.8
Gross accumulation	25.4	20.0	25.5	29.0	26.5	18.0	12.4	14.9	21.8	21.3
Gross accumulation of fixed assets	22.2	16.2	20.8	21.7	27.8	20.2	16.5	19.8	19.6	24.1
Changes in stocks of material liquid funds	3.2	3.8	4.7	7.3	-1.3	-2.2	-4.1	-4.9	2.2	-2.8
Net export	9.1	12.5	10.3	9.5	4.7	7.3	6.1	7.1	7.8	8.0

Source: Federal State Statistics Service

Internal market support in 2009 was based on redistribution of incomes from enterprises to population. The share of labor remuneration in the GDP went up to 51.9% in 2009, exceeding by 4.6 percentage points corresponding value of 2008.

Table 5

STRUCTURE OF FORMATION OF THE GDP BY SOURCES OF INCOMES IN 2008-2009,
AS BROKEN BY QUARTERS, AS PERCENTAGE TO THE TOTAL, IN CURRENT PRICES

	2008					2009				
	year	quarters				year	quarters			
		I	II	III	IV		I	II	III	IV
GDP	100	100	100	100	100	100	100	100	100	100
Labor remuneration of employees (including hidden wages and mixed incomes)	47.3	48.3	46.8	42.3	45.9	51.9	56.2	53.7	47.2	51.8
Net taxes on production and import	19.9	20.5	21.2	20.2	19.1	16.7	17.8	18.5	19.7	11.6
Gross profit of the economy and gross mixed incomes	32.8	31.2	32.0	37.5	35.0	31.4	26.0	27.8	33.1	37.6

Source: Federal State Statistics Service

Dynamics and structure of people's incomes was considerably affected by negative signals coming from the labor market. Against the background of lower levels of wages and incomes of the population, the high level of unemployment remained. General unemployment growth against the background of the slow-down of economic dynamics rates has been observed since July 2008, and has strengthened considerably under the influence of financial and industrial crisis. General unemployment figures reached their peak level of 7084 thousand of individuals in February 2009, but starting with March it started to decrease. At the end of 2009 the total number of unemployed made 6355 thousand and increased by 31.7% versus 2008. The number of officially registered unemployed in 2009 made 2084 thousand individuals and exceeded 2008 volume by 48.7%. ●

RUSSIAN INDUSTRY IN JANUARY 2010

S.Tsukhlo

In January Russian industry continued its way out of the crisis. The dynamics of sales, estimations of the demand allowed enterprises to maintain the growth of the output, and the forecasts for the demand, supported by the portfolio of orders testifies that the massive hopes for the recovery. In January the industry has claimed for the first time that it will not proceed with resignations but will start hiring the employees.

Official Statistics of December

According to the data of the Federal State Statistics Service, the index of industrial production made 101.5% in November 2009 and 102.7% in December 2009 (versus November and December 2008, correspondingly). In December 2009 the growth made 105% versus November 2009. These official data have received different estimations, which has become a tradition: “the drop of the production at the end of the year has slowed down”, “Federal State Statistics Service has called off the “economic boom”, “rose hopes for the recovery have not been supported”. According to the calculations of the Centre for Macroeconomic Analysis and Short-term Forecasting at the end of the year the recovery growth in the industry has ceased. Thus, the scantiness of the official statistics indices still complicates the understanding of the situation in the Russian industry.

Demand for Industrial Goods

In January 2010 the demand for industrial goods upon exclusion of seasonality has stopped decreasing for the first time during the current crisis: the proportion of reports on the decrease of sales became equal to the proportion of reports on the growth (fig. 1). The improvement of the dynamics of the demand, however, as compared with the 4th quarter 2009, was negligible and is worth mentioning only because it is now in the neighborhood of zero. At the same time the initial data quite adequately reflected the all-Russian ten-day holidays, revealing before the exclusion of seasonality the decrease of the balance of responses by 8 points - down to normal level of January registered in 2002-2008. Thus, dynamics of the demand in January (2010) is comparable with the pre-crisis one.

This thesis is testified by the satisfaction with the volume of the demand as well. In January the proportion of the normal estimations went up by 10 points at once and reached 42% on the whole throughout the industry, which is the maximum of this figure for the crisis (fig. 2). In foodstuffs production 73% of enterprises are satisfied with the sales, in metallurgy – 56%, in chemistry industry – 49%. It seems that January turned out not to be as bad for the Russian industry as could be expected according to forecasts of November-December. Forecasts of demand were subject to most considerable positive changes during the current crisis: according to initial data the forecasts improved by 48 points (from -26 to +22), according to those upon

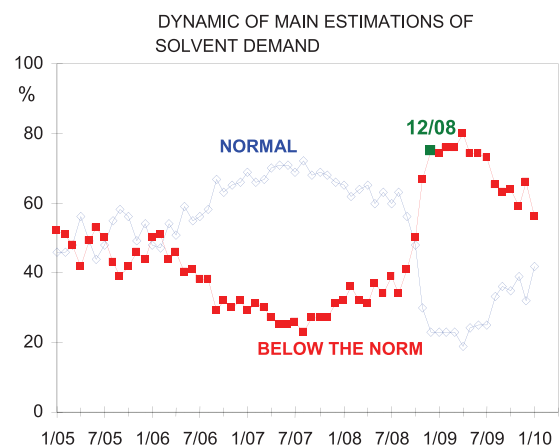


Fig. 1

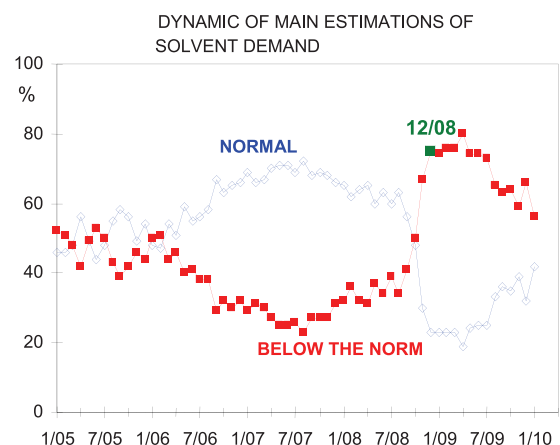


Fig. 2

exclusion of seasonality – by 11 points (from +1 to +12). According to all sorts of data the figure reached the maximum of the crisis and testifies that there are massive hopes for the recovery in the Russian industry.

Stocks of Finished Goods

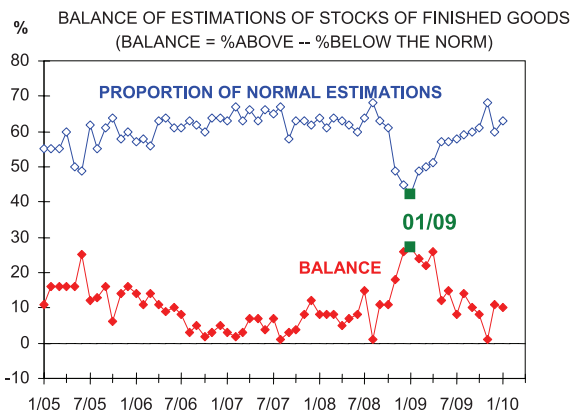


Fig. 3

Estimations of stocks of finished goods did not change in January, maintaining the level of excess, registered nearly all the second half of 2009 (fig. 3). However, the situation by branches is substantially different. Whereas in the foodstuff production the shortage of goods there is a shortage of the reserves observed, in the industry of construction materials there is the biggest excess of reserves, the estimations in the light industry worsening sharply over the month. In the machine-building the balance of estimation of the stocks has improved by 10 points. At the same time the direct estimations of the dynamics of the physical volumes of stocks of the finished goods by enterprises testify that the decrease of the amount of stocks continues.

Output of Goods

In January 2010 the industrial production, according to the estimations of the enterprises, continued to grow (upon exclusion of the seasonality) with the same intensity. Starting with September 2009 the surveys registered comparatively acceptable and relatively stable growth of output in the industry. According to the estimations of the producers themselves, the recession of the production stopped in July 2009. Initial data (before exclusion of seasonality) demonstrated certainly that in January the output contracted, but to the same extent as it happened in the similar months of 2002-2008 and was 2.5 times lower than in January 2009 (fig. 4). In other words, the dynamics of output started to become normal after the demand. In January at the level of branches of industry the decrease of the output (upon exclusion of seasonality) was observed only in the industry of construction materials, timber industry and light industry. In January the production plans of the enterprises in February-March improved as compared with the plans registered in December by 52 points at once. The surveys have not registered the increase of optimism according to the initial data in 1992-2010 before.

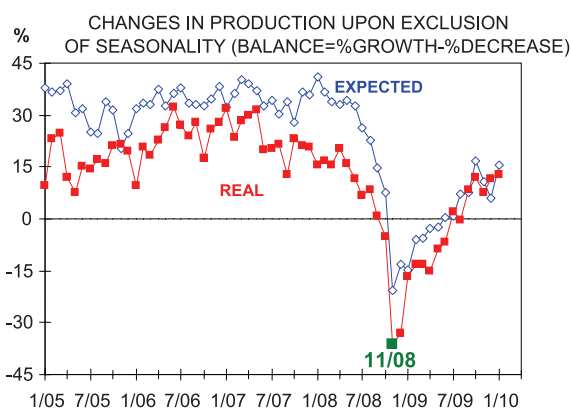


Fig. 4

the exclusion of seasonality has considerably corrected the growth of this figure (up to 10 points), but the result was still remarkable (being below the maximum of the crisis by only 1 percentage point). The decrease of the output is planned only in the ferrous metallurgy and the industry of construction materials.

The growth of optimism in the plans for output has quite a determined basis in the industry. According to the data of the enterprises the New Year started with the active filling of the portfolio orders. The provision with the orders increased over the quarter from 4.9 to 7.2 months and returned to the pre-crisis level (6.7 in January 2006, 6.7 in 2007 and 7 months in 2008).

Prices of Enterprises

The price policy of the enterprises at the beginning of 2010 was formed under the influence of the growth of the demand for the production made and traditional New Year's increase of prices and tariffs. However both factors pushed up the real dynamics of prices and the producer's pricing plans not as strongly as in the pre-crisis years. The modest figure of January 2009 has however been exceeded (fig. 5).

In January 2010 the modest decrease of the prices in November-December was replaced by quite intensive growth. This has been the second attempt of producers to check its market price. The first, taking place in August-October, was not very successful. In January the growth of the sales prices was the crisis maximum and has all the chances for continuation – pricing plans of the enterprises reached maximum of the crisis as a result of three-month growth. Earlier (during the current crisis) the latter figure continued to grow during two months. The most intensive growth of the prices in January was registered in non-ferrous metallurgy, chemistry and machine-building. At the same time the industry of construction materials, timber industry, ferrous metallurgy and light industry refrained from their increase. In February-March the prices will increase in all the branches of industry except for the industry of construction materials and ferrous metallurgy, and the most intensive increase will be observed in chemistry, machine building and light industry.

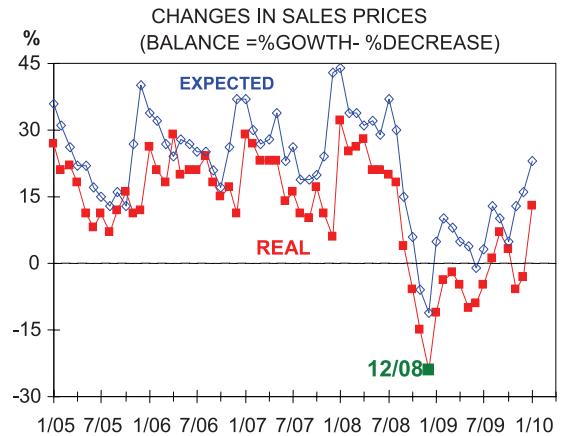


Fig. 5

Redundancies: Real Dynamics and Plans

Intensity of redundancies in the industry in January was not different from that in December and was near the level registered during 9 months of the crisis. The reduction of the number of staff occurred in all branches of industry in January with the exception for foodstuffs production. They were most intensive in the industry of construction materials, light industry and timber industry. The staff plans of enterprises were subject to the most considerable changes in January. Over the month the balance of intentions turned into definitely positive (+7 balance points) out of sharply negative (-25 points) and reached the crisis maximum (fig. 6). Thus, the Russian industry for the first time during the current crisis declared the wish to refuse from the redundancies and transfer to the hiring of the employee. The most massive hiring of the additional employees can occur in foodstuffs production (+32 balanced points), light industry (+25) and chemistry (+10) branches.

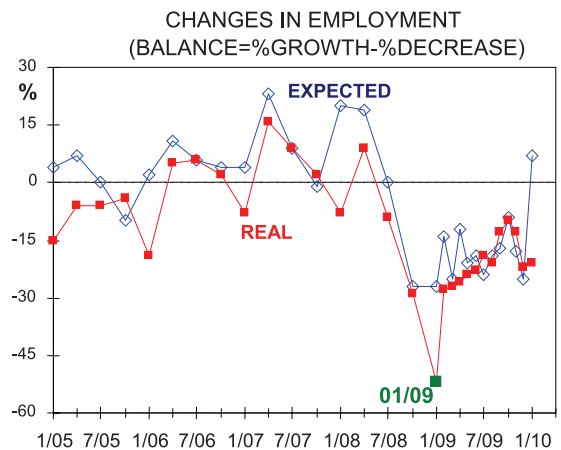


Fig. 6

Crediting of Industry

In January banks softened a bit its crediting policy for the Russian industry: the proportion of the normal estimations of the available credits increased by 3 points and reached 57% (fig. 7). As a result the difference from the level of crisis bottom made already 40 points and there are still 23 points to reach the pre-crisis maximum. The priorities of the banks remained the same as before: metallurgy, foodstuffs production, chemistry industry. The average minimum rate for credits reduced down to 16.8% per annum in January after 17.4% in December. The credits for small-scale enterprises are suggested with 19% per annum as the best variant.

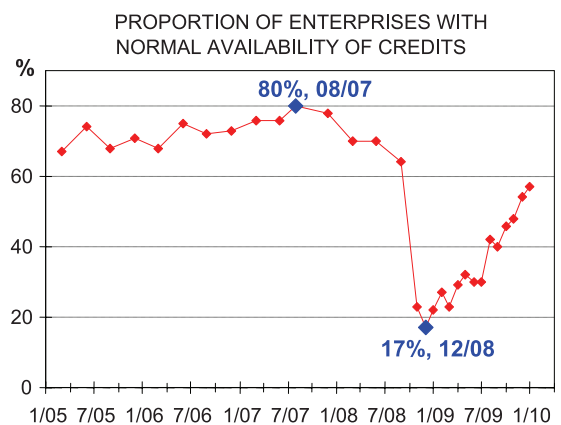


Fig. 7

FOREIGN TRADE

N.Volovik, K.Resenkova

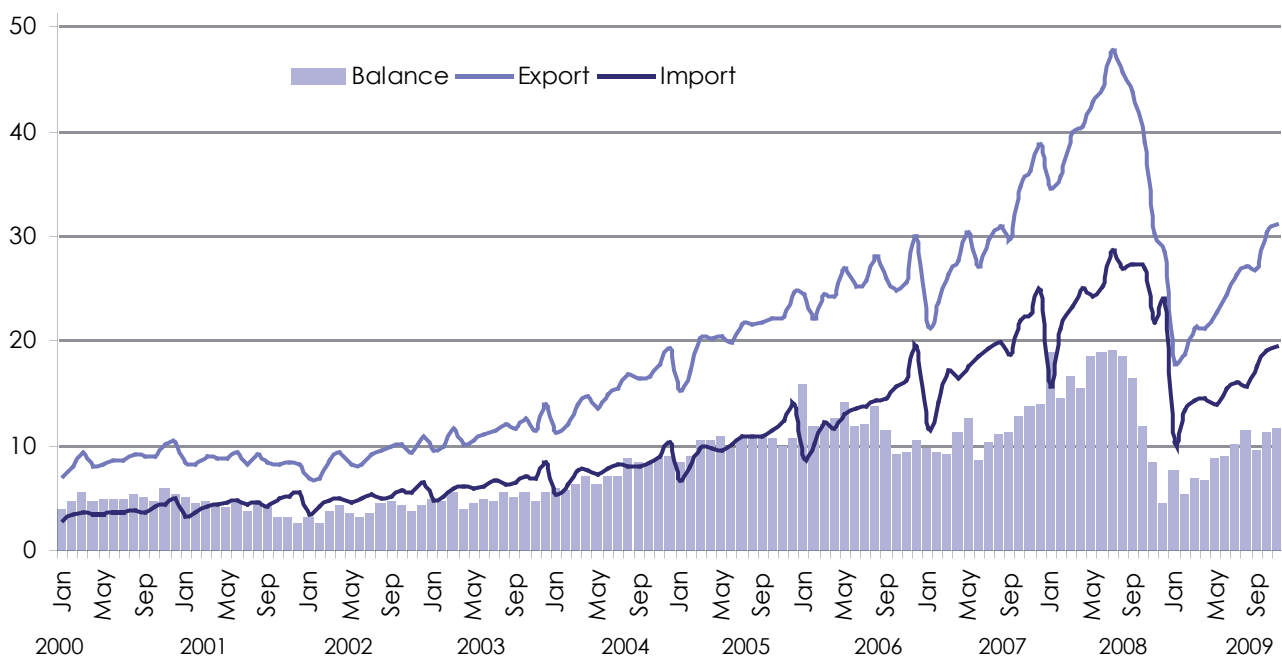
In November 2009 the gradual recovery of the volumes of the Russian foreign trade continued, which was accounted for by the recovery from the recession of the majority of the developed countries. Starting with January 1, 2010 in connection with the agreements between Russia, Belorussia and Kazakhstan coming into the effect some importers started to experience difficulties with the import of goods into the territory of the Russian Federation.

In January 2010 the International Monetary Fund reconsidered towards improvement the October forecast for the growth of the world economy in 2010 - from 3.25% to 4%, noticing, however that the recovery will be unstable and will require the measures of fiscal stimulation in the near future.

The formation of the foreign trade dynamics at the end of 2009 was accounted for by the improvement of the prospects for the development of the world economy. Russian foreign trade turnover calculated on the basis of the balance-of-payments methodology made USD 50.5 billion in November 2009. As compared with the previous month it went up by 1.8%, and as compared with November 2008 – it reduced by 3.3%.

In November 2009 the volume of Russian export made USD 31.1 billion, which exceeds by 2.3% the analogous figure of the previous month and by 2.4% - the figure of November 2008. The growth was due to the increase in export supplies to CIS countries, where goods worth USD 5 billion were exported which is by 19.8% more than in November 2008. Goods worth USD 26 billion were exported to non-CIS countries, which is 0.4% below the last year figure.

A gradual recovery of the volumes of export was connected with the improvement of the situation at the world market. In November 2009 the general trend for the growth of prices for oil sustained, which was assisted by the expectations for the growth of the demand for energy carriers in connection with the improvement of the prospects for the development of the world economy.



Source: Central Bank of the Russian Federation

Fig. 1 Main Indices of Russian Foreign Trade (as USD billion)

Besides, in the environment of the excessive liquidity at the world market and the weakening of the US dollar the raw materials remain attractive objects for investments.

In November 2009 the prices for oil at the world market remained at approximately the same level as in the second half of October and fluctuated within the range of USD 75-78 per barrel. The price for oil grade Light Sweet made as a result of the bidding at NYMEX USD 84.07 per barrel on November, 28, which is by USD 7.07 per barrel more than at the beginning of the month. The price for oil grade Brent as a result of the biddings at the Intercontinental Exchange in London stopped at the level of USD 77.51 per barrel on the same day (+ USD 4 per barrel versus the beginning of the month). The price for oil grade Ural made USD 76.1 per barrel in November 2009, increasing by 1.5 times versus November 2008 and by 5% versus the previous month. On average in January-November 2009 the price for oil grade Urals was USD 59.9 per barrel, which is by 1.7 times less than the average level of the corresponding period of 2008.

Over the first week of January 2010 the prices for oil future at oil exchanges in new York and London went up considerable, but already on January, 13 the price for Russian oil Urals dropped to USD 75.55 per barrel. Afterwards the trend for the decrease also dominated the markets of raw materials, which was caused by the evolving risks connected with the regulatory innovations in the USA which limit the trading operations of the banks and contribute into the outflow of the capital from the market of raw materials as well.

In the period of monitoring from December 15, 2009 to January 14, 2010 the average price for Russian oil made USD 75.91506 per barrel. As a result the export duty rate for oil will increase up to USD 270.7 per ton starting with February, 1 versus USD 267 per ton in January 2010. The duty for light oil products will increase from USD 192.2 per ton to USD 194.7 per ton, for dark oil products – from USD 103.5 per ton to USD 104.9 per ton.

According to the data of the London Metal Exchange, as compared with October in November 2009 the prices for copper went up to 6.2%, for aluminum – to 3.8%, for nickel – reduced by 8.3%. Average world prices in January-November 2009 were considerably lower than the figures of 2008: by 31.8% - for copper, by 39.4% - for aluminum, by 34.8% - for nickel.

Table 1

AVERAGE MONTHLY PRICES IN NOVEMBER OF CORRESPONDING YEAR

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Oil (Brent), USD/barrel	24.1	32.14	21.45	27.2	29.6	49.8	58.2	57.9	81.4	79.63	77.42
Natural gas, USD/1 million BTU	2.558	5.767	2.649	4.144	5.162	7.7	12.2	12.76	7.47	6.824	5.215
Petrol, USD/gallon	0.699	0.895	0.603	0.801	0.841	1.43	2.056	1.484	2.13	4.195	2.01
Copper, USD/ton	1748.1	1838.6	1405.1	1519.0	1916.4	3012.0	4060	7500	8008	4925.7	6675.6
Aluminum, USD/ton	1470.7	1473.5	1280.8	1313.2	1474.8	1822.8	1929	2659	2442	2121.4	1949.3
Nickel, USD/ton	7984.2	7353.2	4836.8	6840.9	11030	14483	12403	32348	30999	12140	16991

Source: calculated on the basis of data of London metal exchange, International oil exchange (London)

The volumes of import into the Russian Federation made USD 19.4 billion in November 2009, which is by 1% more than the figure of the previous month, but by 11.2% less than the figure of November 2008. At the same time it is the supplies from non-CIS countries that reduced – by 14.1%, in contrast to CIS countries, from which there were 14.3% more goods imported into Russia as compared with the corresponding figure of 2008.

The volumes of import supplies for the main enlarged items of the commodity classification, such as machine-building and chemistry production, in November 2009 remained approximately at the level of the corresponding figures of the previous month. At the same time the import of foodstuffs and raw materials for their production increased, and that of footwear and textile – decreased.

Starting with January 1, 2010 the Single tariff of the Customs Union of Russia, Belorussia and Kazakhstan came into effect. The Single Customs Tariff (SCT) is the first document within the framework of creation of the Customs Union that directly affects the participants of the market. There one can find the classification of all the goods that can be imported into and exported from the member countries. Each commodity is given a particular code, basing on which the customs should calculate the duty rate. The document also stipulates the import duties. Export duties are established by separate documents.

As compared with the Russian tariffs, import duty rates for household appliances and electronic equipment, large buses and medicinal equipment, some kinds of pearls and diamonds is substantially lower, while duty rate for clothes import is higher, also the import rates for some kinds of pipes and scrap metal are different. The codification has been changed partially (the SCT code does not coincide with the code of the Classification of goods for foreign economic activity).

On January 27, 2010 the first meeting of the customs commission of the Customs Union took place, at which it was decided to create a committee for issues of foreign trade regulation. The new body is to, first, study the proposals for changing the SCT and then submit an concerted decision to the Commission. The reconsideration of the customs tariff is planned to be made approximately once in six months. In the first months when the mechanism is being adjusted such decision will probably be made at each meeting of the Commission of the Customs Union. Since January, 1 there have already been 5 suggestion on the changes to the single customs tariff made.

It was not possible to come to agreement regarding the most complicated question in the trilateral collaboration – the placement of the funds raised from the import duties to national accounts at the first meeting of the Commission. The basic principle of the distribution consists in accounting the whole volume of import from abroad at the single rate and defining the proportion of each country depending on the proportion of its import volume in 2007-2008. Russia and Kazakhstan suggested distributing the customs payments in the following proportion: 86.5% - to the Russian Federation, 8.5% - to Kazakhstan, 5% - to Belorussia. As a result it was possible to agree upon the basic principle of distribution of the payments, but not the proportion since the Belorussian party insists on the increase of its proportion by 0.3 percentage points. It is suggested to work on this issue in two weeks.

The Customs Union is a completely new structure and the start of its operation is bound to cause difficulties and administrative problems. Before the agreement came into effect the introduction of new customs tariffs had been widely discussed, but the expansion of the list of the licensed goods had not been given enough attention. That is why some importers have started to experience problems with the import of the goods into the territory of the Russian Federation.

Starting with January, 1 the agreements of the member countries of the Customs Union concerning the unified rules for licensing in the sphere of the foreign trade and the list of goods which import requires licensing came into effect. In concordance with them it is necessary to have licenses for all kinds of alcohol production, whereas earlier such a requirement in the Russian Federation applied to vodka, tequila and some other liquor.

The importers claim that they were not duly notified about these innovations, while the Ministry for Industry and Trade started to receive application for issuing licenses only after New Year holidays. As a result in the first days after holidays the import supplies were paralyzed. On January 19, 2010 the Federal Customs Service informed that if an importer has a document testifying the application for the license to the Ministry of Industry and Trade the alcoholic goods are “let in conditionally” into the territory of the Russian Federation to reduce the time of the customs clearance. However the goods imported conditionally cannot be sold before the customs clearance has been finished, that is the license has been issued. On the whole the market needs several tens of thousand licenses. On January, 25 the Ministry of Industry and Trade started to issue “one time” licenses to importers.

Importers of vitamins faced the similar problems. Earlier Russian suppliers could import them on the basis of the letters of permission of the Roszdravnadzor (Federal Service for the Supervision of Public Health and Social Development). Now, besides the permission of this department one needs to get a license of the Ministry of Industry and Trade – the same as for medicines import.

The start of operation of the Customs Union also complicated the import of laptops, mobile phones and some accessories for them, for instance Bluetooth. According to the regulations of the Customs Union the companies importing the devices with the possibility for ciphering are to pass the procedure of notification, that is notify the government body in charge of the state security about this. Such a body has not been defined officially. Only on January, 21 the Federal Customs Service informed that one should apply to the Center for Licensing, Certification and Protection of State Secret of the Federal Security Service.

The mobile operators have to shift the period for construction of the third generation networks in the territory of the Russian Federation. Due to the Customs Union they faced the problem with the import of the equipment for construction 3G networks. In order to import a basic station of communication one should first get a license for the import of ciphering devices which is issued by the Federal Security Service and the license for the import of radioelectronic devices issued by the Ministry for Industry and Trade. The companies comment that the disruption of supply may not only slow down the process of the 3G networks putting into implementation but also may cause the recall of the license from the operators.

So far the creation of the Customs Union has caused several trade conflicts – not only in the sphere of import of wine, mobile phones and vitamins, but also in the sphere of export duties for oil: in January 2010 the oil from Russia to Belorussia was supplied without a contract since the parties could not come to the conclusion concerning the conditions of the supply.

The argument between Russia and Belorussia about duty-free supply of oil started at the end of 2009. The main problem is that Russia suggested supplying duty-free oil only for internal needs of Belorussia (6.3 million of tons of oil), and take the entire duty from all other oil. Belorussia, which imports annually more than 20 million of tons of Russian oil, insisted on duty-free import of the whole volume. Belorussian party appealed to the fact that within the framework of the Customs Union of Russia, Belorussia and Kazakhstan that is functioning exactly starting with January 1, 2010 the trade between two countries should proceed on conditions different from the practice, which is applied to third parties.

Several rounds of Russia-Belorussia negotiations took place which came to no result. At the beginning of January 2010 in the environment of the unsolved dispute concerning the privileged supplies of oil in Belorussia, Minsk made a decision to increase the oil transit rate for Russia by 5.5 times. About 60 million tons of Russian oil are supplied to Europe through Belorussia. Minsk also threatened to stop supplying energy to Baltic countries and Kaliningrad, if a new contract is not signed. The last round of negotiations which started on January, 25 concluded with signing the compromise documents.

The tariff for transit of the Russian oil through the territory of Belorussia will increase by 11%. The Russian Federation will supply 6.3 million of tons of oil to Belorussia duty-free. In September the volumes of consumption and tariffs will be checked and corrected if necessary. ●

MORTGAGES IN THE RUSSIAN FEDERATION

G.Zadonsky

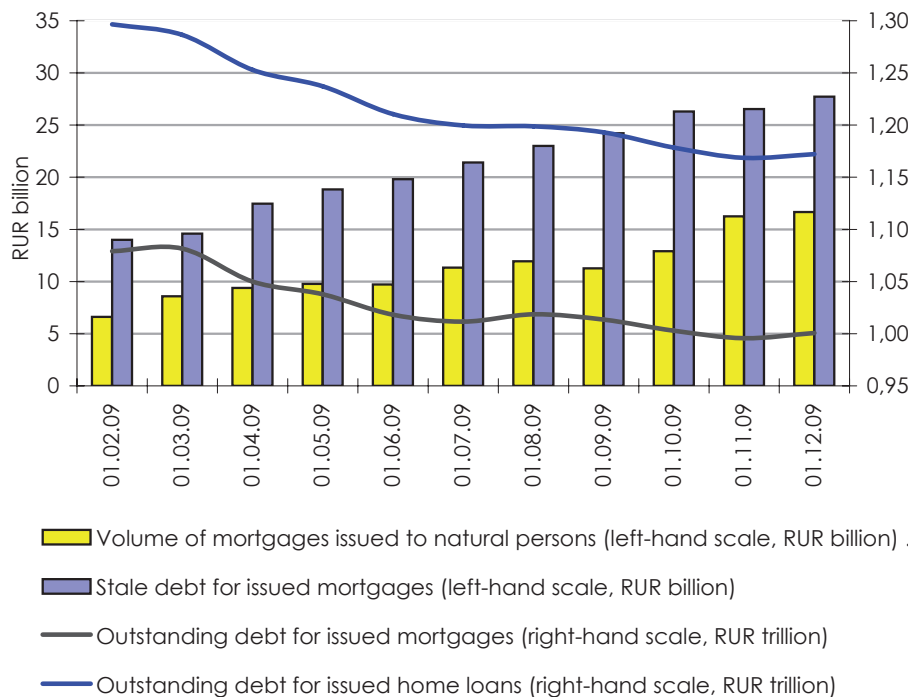
The interest rates for the home loans continued to decrease. The average weighted rate of the crisis refinance by the Agency for Home Mortgage Lending decreased down to 11.5% in November 2009. The increase of the volumes of newly issued credits is not high but enough to sustain the level of the outstanding debt. The volume of stale debt for home loans continues to grow.

As on December 1, 2009, according to the data of the Central Bank of the Russian Federation, there were 106 864 mortgages of RUR 124 451 million issued, the debt being equal to RUR 1 000 738 million. The volume of mortgages issued by December 1, 2009 made RUR 149 977 million or 148 432 credits the debt being RUR 1 172 141 million. In November (fig. 1) there were housing credits of RUR 16.663 billion, which is by 2.6% more than in October. The stale debt for mortgages went up by 4.5% in November versus October and made RUR 27.721 billion. At the same time the stale debt for mortgages in rubles made 2.06% of the debt for credits in rubles, and for the credits in foreign currency – 5.24% of the corresponding debt.

The increase in the volume of newly issued housing credits over the month reached the level when its volume compensates the sums of credit repayment, as a result the volume of debt ceased to decrease both for the mortgages and for the housing credits on the whole (fig. 1).

The proportion of mortgages in foreign currency in the volume of the credits issued in November 2009 made 6.88%. As on December 1, 2009 the proportion of such credits in the outstanding debt was at the level of 19.73% (fig. 2).

As on December 1, 2009 the interest rate for credits issued in rubles over the month reduced



to 13.9%, and the average weighted interest rate for credits issued in foreign currency made 13.0%. (fig. 3). The average weighted interest rate for credits refinance by the open-joint company Agency for Home Mortgage Lending reduced to 11.5% in November versus 12.05% in October 2009. Starting with December 28, 2009 the refinancing rate of the Bank of Russia makes 8.75%. Following it the average weighted interest rates for mortgages reduce.

According to the data of Kreditmart the average market price of mortgages in rubles in December 2009 reduced down to 17.58% (18.06 in November 2009, 18.22% in January 2009). As compared with November 2009 the average market

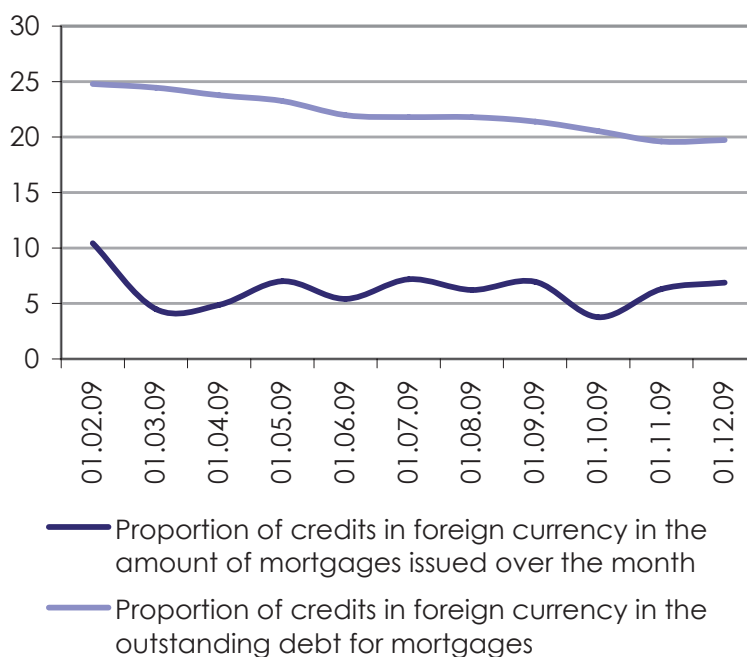
Source: according to the data of the Central Bank of the Russian Federation

Fig. 1. Dynamics of Issuing of Home Credits in 2009

interest rates for credits in US dollars reduced down to 14.36% (15.21% in November 2009, 14.49% in January 2009).

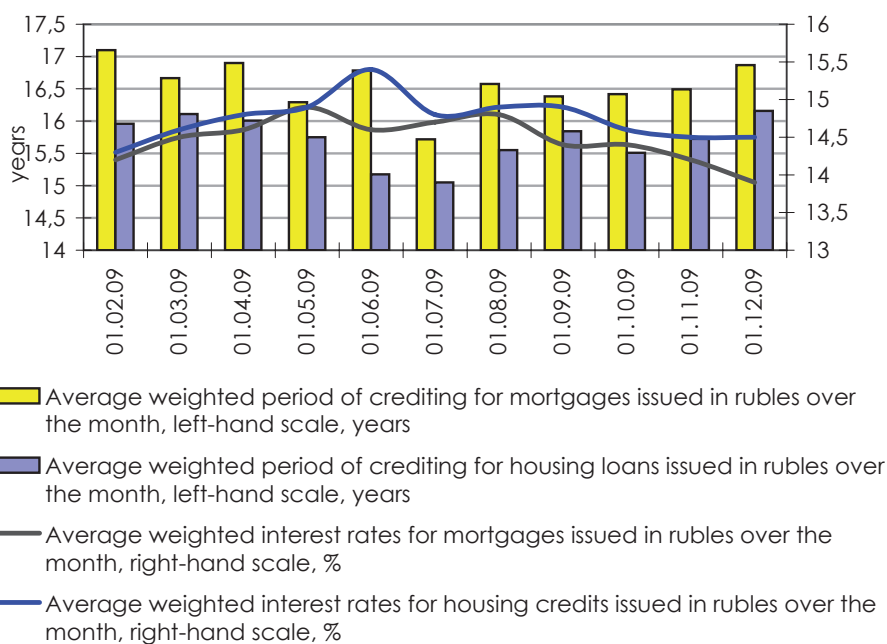
As on December 31, 2009 the Agency for Home Mortgage Lending refinanced 164 407 mortgages the volume of the main debt being RUR 134 062.89 million. In December AMHL refinanced 5 837 mortgages of RUR 5.56 billion, which is two times more than the volume of refinancing both in November 2009 (RUR 2.68 billion) and in December 2008 (RUR 2.89 billion). Over 2009 the Agency refinanced the mortgages worth RUR 28.77 billion, which is slightly more than in 2008 (RUR 26.43 billion). The Agency is going to create a filial company of mortgage insurance, which allows increasing the ratio of credit to mortgage for the insured clients.

The closed joint-stock company CB DeltaCredit issued 2 444 mortgages of RUR 4.8 billion in 2008. The credit portfolio of the bank made RUR 47 billion as in December 31, 2009. At the moment the minimum rate of DeltaCredit for ruble credits makes 12.5% and for credits in US dollars – 7.75%. In January 2010 Sberbank of Russia resumes issuing housing credits of natural persons in foreign currency and reduces the interest rates for a number of credit products. Sberbank creates credit reference bureau with a planned number of 23 million of references. VTB 24 resumes the program of refinancing of mortgages issued by other banks. The volume of a new credit should exceed the sum necessary to settle the existing credit and the difference the borrower can spend on any purposes. The supervisory board of Vnesheconombank established the program of investments in bonds with mortgage backing at the expense of RUR 50 billion of own funds and RUR 160 billion of funds of retirement savings in November 2009. In December 2009 the Government of the Republic of Mordovia, AHML and Mordovia mortgage corporation signed the agreement on the collaboration for fulfillment of the program for stimulation of the crediting of the construction of the economic housing.



Source: according to the data of the Central Bank of the Russian Federation

Fig. 2. Dynamics of Mortgages in Foreign Currency



Source: according to the data of the Central Bank of the Russian Federation

Fig. 3. Average Period of Repayment and Average Interest Rates for Credits in Rubles

Table 1

AVERAGE MARKET INTEREST RATE FOR CREDITS IN RUBLES, AS PERCENTAGE

Credit product	October 2009		November 2009		December 2009	
	min	max	min	max	min	max
Credit for purchase of a flat at the secondary housing market	16.58	19.27	15.86	18.68	15.45	18.39
Purposeful credit on mortgage of the present object of immovable property	18.92	21.71	18.56	21.24	17.99	20.49
Credit for purchase of a house with a land plot at the secondary housing market	16.92	18.68	16.16	17.86	15.56	17.57

Source: according to the data of Kreditmart

In concordance with new Federal Law adopted in January 2010 “On making changes to article 29 of the Federal Law “On banks and banking activity” the banks loose the possibility to unilaterally decide on the increase of the interest rates for the agreements with the borrowers that are natural persons and to increase and establish the commission for its operations. ●

THE STATE BUDGET

E.Fomina

In January 2010 it became possible to make a preliminary estimation of the 2009 federal budget's execution on the basis of budget statistics for last year's first 11 months. The actual receipts of federal budget revenue exceeded the planned parameters by 9 p. p., whereas the execution of federal budget revenue amounted to 97 % of budget revenue and expenditure. As a result, federal budget deficit was by 1.4 p. p. of GDP below the level determined in the budget law and amounted to 5.9 % of GDP.

At the same time, the macroeconomic situation remains tense and poorly predictable; the recent economic revival is unstable, and there still exist risks for the stability of this country's financial system. It is in these conditions that the necessity of continuing the government's anti-crisis policy in order to achieve a reliable trajectory of stable economic growth.

An analysis of the main parameters of the execution of the general government budget in January – November 2009

According to the preliminary estimates of the general government budget's execution in the first 11 months of 2009, the revenue volume dropped by 4.9 p. p. of GDP on the corresponding period of 2008, while the expenditure volume, on the contrary, increased by 7.1 p. p. of GDP. As of 1 December 2009, the general government budget deficit amounted to –3.2 % of GDP, while in the corresponding period of 2008 the budget of general government was executed with a surplus of 8.8 % of GDP (see Table 1).

Table 1

THE EXECUTION OF BUDGET REVENUE AND EXPENDITURE AT ALL LEVELS OF AUTHORITY IN JANUARY – NOVEMBER 2008 – 2009

	January – November 2008		January – November 2009		Deviation, p. p. GDP
	billion rubles	% GDP	billion rubles	% GDP	
Federal budget					
Revenue	8,663.4	22.3	6,445.9	18.2	– 4.1
Expenditure	6,152.2	15.8	8,178.8	23.0	+ 7.2
Deficit (–) /Surplus (+)	2,511.2	6.5	– 1,732.9	– 4.8	– 11.3
Consolidated budgets of RF subjects					
Revenue	5,575.4	14.3	5,267.8	14.8	+ 0.5
Expenditure	5,047.9	13.0	5,157.3	14.5	+ 1.5
Deficit (–) /Surplus (+)	527.5	1.3	110.5	0.3	– 1.0
General government budget					
Revenue	14,743.2	38.3	11,871.7	33.4	– 4.9
Expenditure	11,363.2	29.5	12,995.1	36.6	+ 7.1
Deficit (–) /Surplus (+)	–3,380.0	8.8	– 1,123.4	– 3.2	– 12.0
For reference: GDP, billion rubles	38,493.8		35,500.7		

Source: RF Ministry of Finance, IET estimations.

Throughout the year 2009, the resources of the general government budget remained highly depended on the external market situation: the parameters of the revenue inflow were fluctuating depending on prices and demand for Russian export commodities, and mostly the products of the fuel and energy complex. While looking at the structure of general government budget revenue (Table 2), it can be noted that the most dramatic drop was demonstrated by the revenues from tax on mineral resources extraction and foreign trade.

Alongside the market factors, budget revenue was influenced by the difficulties experienced by the domestic economy, which resulted in a sudden reduction of the receipts of tax on profit of organizations due to a shrinking taxable base.

The volume of revenues from tax on mineral resources extraction and foreign trade first 11 months of 2009 amounted to 2.7 % and 6.5 % of GDP respectively. Even the situation on foreign markets in the last few months of 2009, which was better by comparison with that early in the year, failed to reverse the trend of rapid decline of the receipts of these taxes in the budgetary system. In addition to the external factors, the declining revenues from tax on incomes of enterprises and organizations were influenced by the alterations in tax administration introduced from early 2009.

In January – November 2009, the inflow of organizations profit tax into the general government's budget sharply declined and amounted, in relative terms, to 3.2 % of GDP against 6.1 % of GDP in the corresponding period of 2008. The financial situation of Russian enterprises, by and large, remains very difficult, thus resulting in shrinkage of the taxable base. As demonstrated by the data for the first 11 months of 2009, the share of profit-making organizations in the overall number of organizations by comparison with the corresponding period of last year dropped by 5.8 p. p. and amounted to 67 %, which resulted in the aggregate balance of the real sector amounting to 3,639.3 billion rubles, which is by more than 1.2 times lower than the same index in the corresponding period of 2008. The worst financial results for the first 11 months of 2009 were demonstrated by companies manufacturing electrical equipment and means of transportation, as well as chemical products.

As before, the size of the taxable base was being negatively influenced by a number of amendments introduced in Chapter 25 of the RF Tax Code, which came into force from early 2009 and addressed the administration of organizations profit tax and the improvement of taxpayers' situation. The most important alterations were the lowering of the base tax rate (from 24 % to 20 %), as well as the increased depreciation bonus (the changing to costs in a current tax period of part of the initial value of fixed assets) from 10 to 30 %.

Table 2

DYNAMICS OF THE TAX BURDEN LEVEL AND THE REVENUES FROM THE MAIN TAXES IN RF
GENERAL GOVERNMENT BUDGET IN JANUARY – NOVEMBER 2009, AS % OF GDP

	first 11 months 2008	first 11 months 2009	Deviation, p. p. GDP
Tax burden level (1 + 2 + 3)	35.7	30.3	– 5.4
Tax revenues (1), including:	24.0	20.5	– 3.5
organizations profit tax	6.1	3.2	– 2.9
PIT	3.8	4.1	+ 0.3
SST*	1.9	2.0	+ 0.1
VAT	5.2	5.3	+ 0.1
Excise	0.8	0.9	+ 0.1
Tax on mineral resources extraction	4.2	2.7	– 1.5
Insurance contributions to mandatory pension insurance (2)	3.0	3.3	+ 0.3
Revenues from foreign trade (3)	8.7	6.5	– 2.2

* without insurance contributions to mandatory pension insurance.

Source: RF Ministry of Finance; Rosstat; IET estimations.

Alongside the significant drop in the inflow of profit tax and mineral extraction tax, the volume of budget revenues from VAT for January – November 2009 somewhat increased in relative terms: the inflow of this tax into the general government's budget amounted to 0.1 p.p. of GDP, whereas in nominal terms it noticeable declined. The reason for the drop in revenues from VAT in absolute terms in the general government's budget during the first 11 months of 2009 became both the overall slowdown of business activity and the adoption of some measures aimed at improving the procedures of calculating and administering this tax, including the abolition of payment of VAT in cash in instances of non-cash settlements, exemption from VAT of technological equipment, and the granting of the right to deduct VAT from advance payments.

The volume of revenues from PIT in the general government budget reached the level of 4.1 % of GDP, which is by 0.3 p. p. of GDP higher than the index recorded in the corresponding period of last year. This pattern of revenues from PIT in relative terms can be explained by the accelerated rate of drop in GDP, as compared to the pattern displayed by the population's disposable incomes. According to preliminary estimates, the increase of the population's real disposable incomes (incomes less mandatory payments, adjusted by consumer price index (CPI)) in 2009 reproduced the dynamics noted in 2008 and amounted to 1.9 p.p. At the same time, from the year 2009 onwards some privileges were introduced that decreased the taxable base for PIT.

Against the backdrop of the dwindling general government's budget revenue, in January – November 2009 budget expenditure was growing at an accelerated rate, mostly due to the dynamics of federal budget revenue (Table 3). General government budget expenditure in the first 11 months of 2009 amounted to 36.6 % of GDP against 29.5 % of GDP in 2008 (Table 3).

Table 3

EXECUTION OF THE GENERAL GOVERNMENT EXPENDITURE BUDGET
IN JANUARY – NOVEMBER 2008 AND 2009, AS % OF GDP

	January – November 2008		January – November 2009		Deviation, p. p. of GDP
	billion rubles	as % of GDP	billion rubles	as % of GDP	
Expenditure, total	11363.2	29.5	12995.1	36.6	+ 7.1
including					
Nationwide issues	1053.5	2.7	1072.5	3.0	+ 0.3
Of these, servicing of state and municipal debts	174.7	0.5	211.0	0.6	+ 0.1
National defense	781.8	2.0	923.1	2.6	+ 0.6
National security and law- enforcement activity	907.6	2.4	1052.4	2.9	+ 0.5
National economy	1766.5	4.6	2161.1	6.1	+ 1.5
Housing and utilities system	827.2	2.2	782.5	2.2	+ 0.0
Environment protection	24.5	0.06	23.4	0.07	+ 0.01
Education	1356.0	3.5	1470.9	4.1	+ 0.6
Culture, cinematography and mass media	252.8	0.7	267.9	0.8	+ 0.1
Public health care and sports	1271.8	3.3	1368.4	3.9	+ 0.6
Social policy	3,121.6	8.1	3,871.4	10.9	+ 2.8

Source: RF Treasury, IET estimations.

Over the period under consideration, substantial financing was allocated to the item 'National Economy': 6.1 % of GDP in 2009 against 4.6 % of GDP in 2008. A historic high of the first 11 months of 2009 was displayed by the item 'Social Policy' – approximately 11 % of GDP against 8 % of GDP in 2008. A rather substantial growth was demonstrated by expenditures under the items 'National Defense' and 'National Security and Law-Enforcement Activity'. State obligations with regard to financing under these items in the first 11 months of 2009 were executed in the aggregate amount of 5.5 % of GDP, which is by 1.1 p.p. higher than the corresponding index of 2008.

The execution of the RF federal budget in January – December 2009

In 2009, the federal level of the budgetary system was charged with the task of supporting some of the sectors of the national economy during the crisis period. According to the preliminary estimates published by the RF Ministry of Finance, federal budget revenue in 2009 amounted to 18.7 % of GDP, which is by 3.6 p.p. of GDP lower than the same index for 2008 (Table 4). The drop in the volume of federal budget revenue in 2009 against last year's level occurred largely due the declining receipts from the oil and gas sector resulting from the negative changes of the prices on foreign markets and the demand for Russian export commodities. Besides, the consequences of the global financial crisis had a negative effect on the situation in the domestic economy, thus resulting in a decline of the 'oil and gas' component of federal budget revenue.

Table 4

THE MAIN PARAMETERS OF THE RF FEDERAL BUDGET IN JANUARY – DECEMBER 2008 AND 2009

	January – December 2008		January – December 2009		as % of budget revenue and expenditure	Deviation	
	billion rubles	% of GDP	billion rubles	% of GDP		billion rubles	p. p. GDP
Revenue, including:	9,274.1	22.3	7,336.0	18.7	109.3	– 1,938.1	– 3.6
Revenues from oil and gas	4,389.4	10.5	2,983.9	7.6	145.1	– 1,405.5	– 2.9
Deductions to Reserve Fund and National Welfare Fund (Stabilization Fund)	2,307.9	5.5	902.5	2.3	–	– 1,405.4	– 3.2
Expenditure, including:	7,566.6	18.2	9,662.2	24.6	97.2	2,095.6	+ 6.4
interest	1,53.3	0.4	177.8	0.5	87.7	24.5	+ 0.1
non-interest	7,413.3	17.8	9,484.4	24.2	97.4	2,071.1	+ 6.4
Federal budget surplus (deficit)	1,707.5	4.1	– 2,326.1	– 5.9	78.1	– 4,033.6	– 10.0
Deficit unrelated to revenues from oil and gas	– 2,681.9	– 6.4	– 5,310.1	– 13.5	95.7	– 2,628.2	– 7.1
GDP estimations	41,668.0		3,9212.0				

Source: RF Ministry of Finance (preliminary estimations), IET estimations

In 2009, federal budget expenditure increased by 6.4 p. p. of GDP and reached 24.6 % of GDP. The key reason for this substantial growth of budget expenditure was the impressive size of the anti-crisis package adopted by the RF Government, these measures being aimed at supporting both the population and the enterprises in the real sector. In 2008 – 2009 the overall volume of financing allocated to the anti-crisis measures, quasi-budget sources including, amounted to approximately 3.5 trillion rubles.

According to the preliminary estimates of the RF Ministry of Finance, federal budget deficit as demonstrated by the results of the year 2009 amounted to 2,326.1 billion rubles, or approximately 5.9 % of GDP. The main source for balancing the federal budget was the Reserve Fund, from which 2,964.8 billion rubles was allocated to cover budget expenditure (Table 4). The volume of resources attracted from the oil and gas fund was calculated on the basis of the necessity to ensure 100% financing of the approved budget allocations for the year 2009. However, in actual practice the execution of federal budget expenditure in cash terms amounted to 97.2 %, which resulted in cash residuals formed by the Federal Treasury. Thus, it can be stated that it became possible to fund the implementation of anti-crisis measures in this country without resorting to foreign borrowings due to the accumulation of financial reserves during the period of economic growth, and that the idea of creating special 'oil and gas' funds was fully justified and so can be regarded as an asset of the current budgetary policy.

Table 5

DYNAMICS OF THE FORMATION AND USE OF THE OIL AND GAS REVENUES BY THE FEDERAL GOVERNMENT IN 2009, BILLION RUBLES

Indices	Fund residuals, end of 2008	Received in 2009		Used in 2009, to fund:		Fund residuals, end of 2009*
		oil and gas revenues	revenues from fund management	adequate balance of federal budget	oil and gas transfer	
Reserve Fund	4,027.6 (9.7 % of GDP)	488.5	205.0	2964.8	179.4	1,830.5 (4.7 % of GDP)
National Welfare Fund	2,584.5 (6.2 % of GDP)	–	92.5	–	–	2,769.0 (7.1 % of GDP)

Table 5, cont'd

Indices	Fund re- siduals, end of 2008	Received in 2009		Used in 2009, to fund:		Fund re- siduals, end of 2009*
		oil and gas rev- enues	revenues from fund manage- ment	adequate balance of federal budget	oil and gas trans- fer	
Total	6,612.1 (15.9 % of GDP)	488.5	297.5	2964.8	179.4	4,599.5 (11.8 % of GDP)

Source: Federal Treasury.

* residuals as recalculated at the exchange rate as of January 2010

Table 6 shows the dynamics of spending the resources of the federal budget in accordance with the functional classification of budget expenditures.

On the whole, the execution of the federal budget in 2009 was by 2.8 p. p. better than in 2008. The greatest improvement rate was demonstrated by the sections 'Housing and Utilities System' – 30.2 p. p., 'Public Health Care and Sports' (5.3 p. p.), 'Interbudgetary Transfers' (5.7 p. p.), and 'Education' (2.3 p. p.).

Table 6

FEDERAL BUDGET EXECUTION IN CASH TERMS IN JANUARY – NOVEMBER 2009, AS A
PERCENTAGE OF ANNUAL BUDGET REVENUE AND EXPENDITURE

	January – November 2008 r.	January – November 2009 r.
BUDGET EXPENDITURE – TOTAL	79.6	82.4
Nationwide issues	72.1	70.4
National defense	74.3	76.4
National security and law-enforcement activity	83.6	84.5
National economy	74.7	71.5
Housing and utilities system	36.5	66.7
Environment protection	78.4	75.3
Education	76.2	78.5
Culture, cinematography and mass media	76.3	82.8
Public health care and sports	68.6	73.9
Social policy	81.7	79.8
Interbudgetary transfers	89.0	94.7

Source: RF Ministry of Finance; IET estimations

Against the backdrop of the generally accelerated spending of federal budget resources as compared to the dynamics of 2008, the execution of a number of items, on the contrary, became slower. In particular, the items 'Nationwide Issues' and 'National Economy', which were the areas where anti-crisis measures were mainly focused, demonstrated a reduction by 1.7 p. p. and 3.2 p. p. respectively; besides, slower execution of federal expenditure was noted with regard to the item "Social Policy" – by 1.9 p. p.

In addition, the persistently arrhythmic character of the execution of spending obligations in cash terms should be noted, which is an obstacle to efficient and timely implementation of budget allocations. In particular, in December 2009 a total of about 15 % of annual budget revenue and expenditure was implemented. It is evident that the traditional carry-forward of the bulk of financing to a year's last months is fraught with increased inflation risks, which can be felt as early as the beginning of the next year.

An overview of the main developments in the sphere of budgetary policy:

On 30 December 2009, 'The Main Directions for the RF Government's anti-crisis measures in 2010' were approved. The main priority activities of the government for the year 2010 are

determined as follows: social protection of the population; support of the national economy's revival; ensuring the stability of the emerging positive trends; and intensification of the implementation of measures aimed at building up a modernization model of the economy.

The ongoing implementation, in 2010, of government anti-crisis measures is a response to the perceived necessity of promoting the recovery of the Russian economy after the 2008 – 2009 crisis and the acceleration of economic growth. Some of the measures included in the government anti-crisis program for the year 2009 are to be implemented over a long period, and so will be continued in 2010. The volume of funding allocated to the implementation of these measures will amount to approximately 0.5 % of GDP.

Besides, the support of system-forming enterprises will be carried on, but in contrast to the practice typical of 2009, when no strict rules were applied to the distribution of aid between enterprises, the mechanism for providing support in the form of government guarantees has been somewhat upgraded. Support to an enterprise will be provided only if it adopts its own program of strategic development as a recipient of budget funding. The government also intends to implement certain measures aimed at promoting domestic demand. In particular, it is planned to expand state purchases of housing and means of transportation.

In our opinion, while providing financial aid in 2010 to enterprises operating in different sectors of the national economy, it will be necessary to maintain proper balance between support of enterprises and social support of the population. An analysis of the system of anti-crisis measures makes it possible to state that so far there has been a certain evident 'bias' towards supporting companies; it should be borne in mind, however, that lack of attention to the support of the population results in lower effect of state funding. A total of 80 % of the overall volume of financing from budget and 'quasi'-budget sources was allocated to the measures aimed at supporting the financial and real sectors of the economy (in 2008 – 2009), while only 20 % was spent on direct support to the population.

The RF Ministry of Finance links the prospects of improving the yield of budget expenditures to implementing performance-based budgeting mechanisms. On 16 January 2010, RF Minister of Finance A. Kudrin informed Chairman of the RF Government B. Putin of the preparation of the documents designed to improve the cost-effectiveness of budget expenditures. According to Mr. Kudrin, at present the draft concept for the program aimed at improving the cost-effectiveness of budget expenditures is ready, while the program itself is to be approved by 1 April 2010. As in conditions of post-crisis development the model of annual growth of state expenditure is no longer applicable, the RF Government is now oriented towards reducing the budget deficit, while simultaneously intends to improve the yield on each ruble of allocated budget funding.

The authorities see this goal primarily as 're-conversion', in the next year or two, of the budgets of the majority of state departments into the form of target program methodology¹; in other words, it is intended to dramatically increase the share of target programs in the budget, and then to switch over to a program-based classification of budget expenditure. Another direction for improving the quality of administering budget resources is associated with reforming the program and principles of state purchases – among other things, by means of significantly increasing the share of state expenditures in the innovations-linked sector of the national economy.

In our opinion, the main directions for improving the cost-effectiveness of budget expenditure have been selected on a well-substantiated basis. At the same time, any general improvement of the quality of managing budget resources can be possible only if a comprehensive approach to providing the solution to this problem is applied, thus making it possible not only to encompass the broadest possible range of regulatory instruments, but also to properly structure their use over time. In particular, in the next few years (2010 – 2011) it appears necessary to focus on the issues of making the social services rendered by the State more accessible to the population, which can be achieved through restructuring the budgetary network as well as through strengthening, at the basic level, the incentives for more efficient use of budget resources and optimizing certain specific budgeting procedures (incorporation of assessments of the effect of regulation in the 'technology' of administrative decision-making with regard to the budget).

1 <http://www.interfax.ru/business/news.asp?id=119044>

As more institutional structures are formed in this country, further development of some of the more complicated administrative mechanisms (such as performance-based budgeting, target programs, public-private partnership) may become an important factor capable of making the structure of budget expenditure more rational, as well as of improving the overall efficiency of the budgeting process. The implementation of this set of measures must be completed during the period of 2010 – 2015. ●

INFRASTRUCTURAL PROBLEMS OF THE RUSSIAN GRAIN MARKET

N.Karlova

The actual grain output and the apparent factors of its further growth indicate that Russia has a great potential for exporting grain. Given the relative stability of domestic consumption and the economic inexpediency of enlarging carryover stocks, the attained and projected grain production levels are well above the domestic demand. Accordingly, there is a need for additional efforts that would make it possible to fully realize grain export potential of the country including complex development of grain market infrastructure.

For two years in succession the crop of grain in Russia has been record high and well above the domestic market demand. In 2008 108.2 million tons of grain were produced; the 2009 net grain output is preliminarily estimated at about 97 million tons (Table 1). Given the extremely large carryover stocks of 19.7 million tons, the beginning stocks in 2009/2010 MY are record high (Table 2). The domestic consumption of grain in Russia does not exceed 77 million tons. So, in the last two years its supply was about 40% bigger than demand. In the new 2009/2010 MY production will exceed domestic consumption by 20 million tons and the market surplus of grain taking into account carryover stocks will be about 40 million tons.

Table 1

GROSS OUTPUT OF GRAIN IN 2002-2009 (WEIGHT AFTER PRIMARY PROCESSING,
THOUSAND TONS)

	2002	2003	2004	2005	2006	2007	2008	Estimate 2009
Grain	86612	67199	78092	78187	78625	81796	108179.0	96300–98000
	Including							
Wheat	50609	34104	45413	47698	45006	49390	63765.1	60500–61500
Barley	18739	17968	17180	15791	18093	15663	23149	17600–18150
Corn	1563	2113	3516	3211	3669	3953	6682.3	3900–4100

Source: Sovecon.

Table 2

SUPPLY/DEMAND BALANCE FOR GRAIN: ESTIMATES AND FORECAST (MILLION TONS)

	2007/08	2008/09	2009/10 (forecast)
Supply (resources)			
Beginning stocks	8.3	7.85	19.65
incl. intervention stocks	1.45	0.2	8.25
market stocks	6.85	7.65	11.4
Production	81.8	108.2	97.0
Imports*	1.1	0.6	0.45
Total	91.2	116.65	117.1
Consumption			
Domestic consumption	70.0	73.5	77.0
Exports*	13.35	23.5	19.5-21.5
Total	83.35	97.0	96.5-98.5
Intervention purchases	-	8.05	2.0-2.5
Ending stocks	7.85	19.65	19.6-20.6
incl. intervention stocks	0.2	8.25	9.3-10.3
market stocks	7.65	11.4	9.3-11.3

*including flour in grain equivalent.

Source: Sovecon.

Despite being high in 2008-2009, the actual exports of grain were far below the country's capacity to supply this item to foreign markets. The reason for that was the shortage of elevators and port shipment facilities as well as underdeveloped transport infrastructure unable to "digest" record volumes of grain.

First, exports mainly consist of grain from southern regions of Russia that is shipped through the Novorossiysk port. Meantime the delivery of grain from Siberia or Altai is economically unjustified because of the high transportation costs. These problems increase infrastructural burden on each exported ton of grain and thus lower its competitiveness on the world market.

Second, in 2009 the problem of grain quality grew acute. Egypt has set stricter requirements to crop infestation by chinch bug (the share of grain infested by it should not exceed 1%). The toughening of requirements is due to good crop in the exporting countries, low world prices and consequently stiffer competition between suppliers. According to expert estimates, out of all regions of Russia's South only Krasnodar kray produces wheat that meets the new quality requirements. Small supply of adequate quality wheat in Russia's South may result in the extending of export supply zone up to Western Siberia and other regions free of the chinch bug problem. This will inevitably require complex development of grain market infrastructure. In 2010 Turkey is also likely to toughen requirements to wheat quality.

So, large-scale infrastructural projects are needed to develop and expand Russia's grain export potential that will help to alleviate the burden born by agricultural producers.

In the Soviet times Russia was the largest importer of grain in the world and respectively grain terminals in most sea ports were adapted to import operations. The state of grain market infrastructure is presently one of the key factors hindering further growth of grain exports.

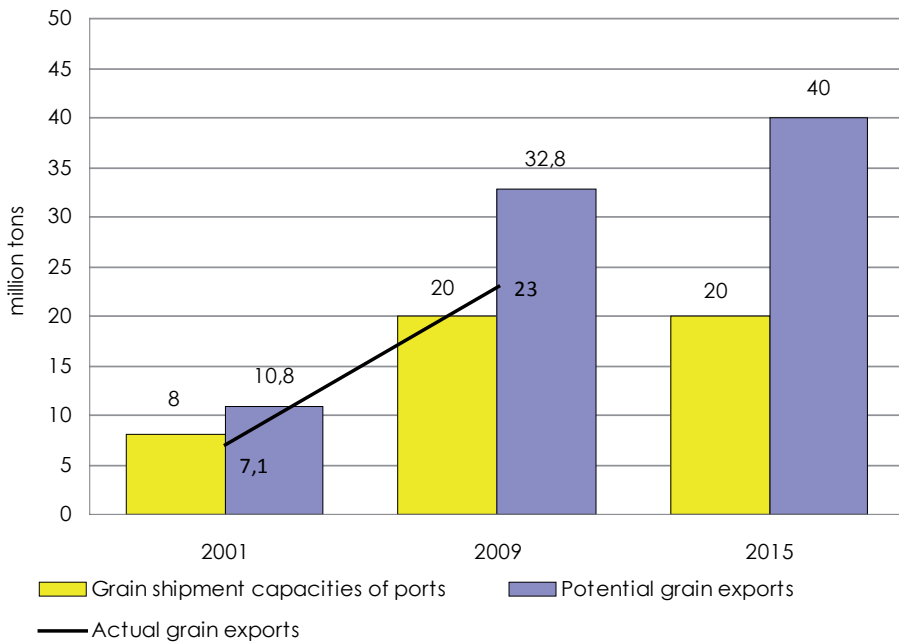
After 2000 the increase of grain exports from Russia was supported by the development of ports' shipment capacities – from 2001 to 2009 they increased from 8 to 20 million tons. In 2008/2009 MY Russia's grain export potential was record high owing to bumper crop – 32 million tons. However, only 23.5 million tons of grain and grain products (in grain equivalent) were actually exported. Taking into account that maximum ports' capacities were utilized by 100%, their deficit amounted to about 10 million tons.

In 2010 the pressure on Russian ports will increase due to the transit from Kazakhstan. The Kazakh government allocated 5 billion tenge (33 million dollars) to compensation of exporters' expenditures on transit transportation of 1.7 million tons of Kazakh grain through the territory of Russia basing on the rate of 20 dollars per ton of grain. It is also expected to allocate additional funds to subsidizing of grain transit through Russia. This will not only aggravate the overall deficit of ports' grain shipment capacities but will also strengthen competition with Kazakh grain since the latter is supplied to markets traditionally being buyers of Russian wheat. This also places great pressure on grain prices in the Western Siberia and the Urals regions where producers hoped for the market revival owing to bigger exporters' demand for higher quality wheat¹.

According to projections of the RF Ministry of Agriculture, by 2015 Russia's grain exports may increase up to 40 million tons. Taking into account this estimate the annual deficit of ports' shipment capacities may reach 20 million tons of grain (Picture 1). In this situation the elimination of port capacities' deficit and the technical upgrading of grain terminals turn out to be an indispensable condition for realizing Russia's grain export potential.

An open joint-stock company "United Grain Company" (UGC) was set up in order to develop elevator capacities, transport and port infrastructure of the domestic grain market and to enhance the country's grain export potential. The company is 100% state-owned. It was formed in 2008 by transforming the federal state unitary enterprise (FSUE) "Federal agency for food market regulation" (affiliated to the Ministry of Agriculture) into a joint-stock company. From 1997 the FSUE operated as a state agent for carrying out state purchase and commodity interventions aimed at regulating agricultural and food markets. Authorized capital of UGC will incorporate assets of 31 joint-stock companies in 19 regions, with the share of state in the capitals thereof being not less than 25%. Among the most attractive assets are: the Novorossiysk factory of bakery products, six elevators and three grain terminals in Novorossiysk, Eysk and Kaliningrad ports. The summary grain bunker capacity of UGC will exceed 3 million tons.

1 Data of Sovecon.



Source: RF Ministry of agriculture.

Fig. 1. Grain shipment capacities of Russian ports

The company will act on behalf of Russia as the largest grain exporter, participant of international tenders and supplier of grain in the framework of international humanitarian programs. It will engage in construction of grain elevators and export port terminals. The forming of its own railway car fleet is planned for transporting grain by rail.

The shipment capacity of ports is to be increased by larger transshipments at the Novorossiysk factory of bakery products and at the terminal in Azov Sea. The construction of new deep-water port terminals is also planned in the Black Sea and the Far East. According to UGC's projections, by 2015

its port shipment capacities should reach 16 million tons. The company intends to become one of the leading grain exporters and to supply 16 million tons of grain to the world market.

On the one hand, the market can benefit from this project. Exporting of intervention grain that stockpiled last year and became a heavy burden for the new marketing year will unload elevators whose capacities are limited as it is. A positive side may also be the establishing of trade relations with new countries-importers of Russian grain since so far domestic traders cannot count on autonomous expansion to new markets. On the other hand, one cannot exclude that the state company will start operating on the already developed markets and in this case may become a serious competitor to private exporters. ●

THE NEW IMAGE OF THE RF ARMED FORCES: THE ISSUES OF THE MILITARY PERSONNEL NUMBER AND THE INCREASE OF THEIR MONEY ALLOWANCE

E.Trofimova

As stated by the top military leadership of Russia, by early 2010 the first phase of reforming of the RF Armed Forces – which involved the formation of a new combat composition of the Armed Forces – had been completed. One of the next goals of reforming will be to improve the system of money allowances. The information released by the RF Ministry of Defense and the mass media makes it possible to analyze the various options of solving this problem with due regard to the declared parameters of the new image of the RF Armed Forces.

When congratulating the personnel of the RF Armed Forces with the new 2010 year, RF Minister of Defense A. Serdiukov noted that the task of ‘forming a new combat composition of the Armed Forces’ had been successfully completed¹. As a result of the measures implemented in 2009 in the sphere of personnel organization of the army, a new table of organization has been introduced. The number of RF Armed Forces active military personnel now amounts to 1 million. The number of officer positions has been reduced from 355 thousand to 150 thousand, the institution of praporshchiks (warrant officers) (142 thousand positions) has been totally abolished². The remaining military personnel – its current total amount being 850 thousand – is constituted by privates and non-commissioned officers (PNCO) enrolled by conscription and under contracts. According to Head of the RF Armed Forces General Staff N. Makarov, ‘within the framework of creating a new image of the Armed Forces, it is planned that, every year, approximately 700 thousand persons are to be conscripted’³. Consequently, the number of PNCO contractees will amount to 150 thousand persons. It should be noted that when, in 2004, the federal target program (FTP) for the switchover of troops to a contractual basis was launched, the number of contractees in the RF Armed Forces was nearly the same as at present. So the people in charge tacitly decided that the awkward question of what the sum of 100 billion rubles allocated within the framework of that FTP had been spent on (moreover, in 2003 prices) should be put to rest.

To make the picture of the future structure of expenditures complete, it should be added that not all of the ‘redundant’ officers were actually discharged. The reason for this state of affairs is the shortage of housing. These officers have been made supernumerary, but still they will be paid a minimum money allowance as seconded for temporary service .

As RF President D. Medvedev has said, in 2010 ‘the transition of Russia’s Armed Forces to a qualitatively new level should be complete , and we will have created a modern, efficient and mobile army’. The system of money allowances (MA) to be paid to the military personnel of the ‘new’ RF Armed Forces will also be changed. The President has promised that ‘the new system of payment for military service and material incentives should significantly improve the lives of our soldiers’. The ‘glitch’, however, is that it will actually be implemented only by 2012.⁴

What the money allowance system for the military personnel in the ‘new’ RF AC is going to be like is yet unknown, but on the basis of information released by the RF Ministry of Defense and the

1 See Krasnaia zvezda [The Red Star]. 31 December 2009 r.

2 Novoe shtatnoe raspisanie VC [The new table of organization of the AC] // Voenno - promyshlennyi kur'er [The Military – Industrial Courier]. 16 – 22 December 2009.; Genshtab vystroil novyi oblik [General Staff has built a new image] // Nezavisimoe voennoe obozrenie [The Independent Military Review]. 30 December 2009; Cherniak I., Gavrilov Yu. Armia pri tseli. [The army has a goal]. Interview with Minister of Defense A. Serdiukov // Rossiiskaia gazeta [The Russian Newspaper]. 24 December 2009.

3 Khudodeev V. Na lideriushchikh pozitsiakh. [In the leading position] // Krasnaia zvezda [The Red Star]. Weekly issue. 20 January 2009.

4 RF President D. Medvedev’s Message to the Federal Assembly of the Russian Federation // Rossiiskaia gazeta [The Russian Newspaper]. 13 November 2009.

mass media it is possible (with a certain degree of probability) to estimate some of its parameters and to identify its new features. The results of our estimations (as projections for the year 2012) are presented in Table 1.

The plans for increasing the size of the money allowance to be paid to officers are impressive: from 50 thousand rubles per month to a lieutenant to 180 thousand rubles per month to a general. A private or a PNCO contractee is promised no less than 30 thousand rubles per month. Simultaneously, the RF Ministry of Defense has developed and is currently implementing a system for training sergeants 'of a new type'. After graduation from a sergeants' training center (where they are to be trained for 2 years and 10 months) they will be paid 35 thousand rubles per month (the first training center had been established in Riazan)¹.

Table 1

THE OVERALL STRUCTURE OF EXPENDITURES ALLOCATED TO MONEY ALLOWANCES FOR THE MILITARY PERSONNEL OF THE 'NEW-TYPE' ARMED FORCES IN 2012

Ranks military personnel	Number of military personnel, persons	Size of monthly MA, thousand rubles	Total MA per month, thousand rubles	Total MA per annum, thousand rubles
Officers				
Total, including:	150 000		10 686 800	128 241 600
General	780	180	140 400	1 684 800
Colonel	8 000	150	1 200 000	14 400 000
Lieutenant - Colonel	16 220	120	1 946 400	23 356 800
Major	25 000	80	2 000 000	24 000 000
Captain	40 000	60	2 400 000	28 800 000
Lieutenant	60 000	50	3 000 000	36 000 000
NCOs and other ranks under contract				
Total, including.:	150 000		4 575 000	54 900 000
Sergeant	15 000	35	525 000	6 300 000
Private	135 000	30	4 050 000	48 600 000
NCOs and other ranks – under conscription				
Total, including:	700 000		275 880	3 310 560
Starshina (highest NCO)	22 000	0,605	13 310	159 720
Senior sergeant	40 000	0,550	22 000	264 000
Sergeant	50 000	0,495	24 750	297 000
Junior sergeant	88 000	0,440	38 720	464 640
Yefreitor (corporal)	220 000	0,385	84 700	1 016 400
Private	280 000	0,330	92 400	1 108 800
Military personnel, TOTAL	1 000 000		15 537 680	186 452 160

Unfortunately, the military leadership's plans do not even offer any hints as to any possible increase of the allowances to be paid to the military personnel serving under conscription. The period of service under conscription is 1 year, during which a money allowance is paid in the amount of 330 to 605 rubles per month². They represent the component of the 'new-type' RF Armed Forces characterized by absence of any rights and a 'beggar's allowance.

1 Cherniak I., Gavrilov Yu. Uravnenie v stroiu. [Equation in the ranks]. Interview with Minister of Defense A. Serdiukov // Rossiiskaia gazeta [The Russian Newspaper]. Weekly issue. 24 December 2009; Baranets V. Nachal'nik shtaba, general armii Nikolai Makarov: K 2012 godu ofitseri rossiiskoi armii budut poluchat' v tri raza bol'she. [Head of Staff, General of the Army Nikolai Makarov // Komsomol'skaya pravda. 6 June 2009; Gavrilov Yu. Dekabristy – 09. [The Decemberists – 09]. // Rossiiskaia gazeta [The Russian Newspaper]. 9 September 2009; Litovkin V. Serzhant s poluchkoi polkovnika i diplomom. [A sergeant with a colonel's salary and a diploma] // Nezavisimoe voennoe obozrenie [The Independent Military Review]. 25 December 2009.

2 Order of the RF Ministry of Defense of 29 January 2007 No 33 'On increasing the size of some types of money allowances of the military personnel of the Armed Forces of the Russian Federation and payments to the civilian personnel of the Armed Forces of the Russian Federation'.

Table 1 demonstrates the size of money allowances as stated in official documents. However, some steps are currently being taken in order to increase their MAs¹. But even in spite of these efforts, the future system of money allowances to the military still retains the principal flaw that characterized all its predecessors: a fundamentally different attitude to the rights and living standards of the people serving in the army under conscription and under contract². At the same time, in Germany the size of the money allowance for a conscript is from 600 to 700 euro³, or 25.5 to 29.7 thousand rubles. In the US army⁴ a private, after having served for two years, will receive about 16 thousand USD per annum (or 40 thousand rubles per month), in addition to other payments 'which may be higher than the basic money allowance'. After four years of service the salary will amount to approximately 25 thousand USD (or 62.5 thousand rubles per month), and after six years – approximately 31 thousand USD (or 77,5 thousand rubles per month), which is more than the average salary of a civilian professional.

When comparing the sums required to cover the MA to be paid to officers, contractees and conscripts, it can be seen that the lion's share of the expenditures allocated to the money allowances will go to officers (15 % of the total number of the army personnel). The upkeep of all the officer per annum will amount to 128 billion rubles (see Table 1), which constitutes almost 70 % of the sum required to cover the cost of all the money allowance of the whole army. And less than 2 % (or 3.3 billion rubles) of the total sum is allocated to all the RF Armed Forces' conscripts, who constitute 70 % of the total number of the army personnel. That this principle to the distribution of money allowances in the RF Armed Forces Russia can actually be applied in the 21st century appears astonishing – and we believe it to be entirely useless. In absence of any underlying ideology (that is, a cause that makes it worthwhile to suffer privations), fair distribution of money allowances between military personnel becomes of critical importance if we wish to improve the army's combat potential and to maintain it at a high level.

The clumsy attempts of the RF Ministry of Defense to increase the size of money allowances only for part of the military personnel, while keeping all the others at the former low level of endowment, is by no means conducive to making service in the army more attractive. According to Head of the General Staff N. Makarov, in 2010 out of a total of 150 thousand officers remaining in the army after the cuts in the number of military personnel made in 2009, the bonuses paid in under Order No 400⁵ will be received by approximately 52 thousand persons, or every third officer⁶. Thus, for a second year in a row Order No 400 will be dividing military personnel into the rich and the poor. Order No 115⁷ has similar flaws, being conducive to arbitrary acts and irresponsibility of the officer corps. The conscience of the leaders of the staff and brigadiers can by no means always be relied upon⁸. Officers quarrel and file suits to courts of justice concerning fair distribution of money awards, while conscripts are deprived even of the right to demand a decent money allowance for themselves.

Besides, the structure of the presently existing MA system gives rise to some other questions. As stated by Minister of Defense A. Serdiukov, by now all the military units of the RF Armed Forces

1 Speaking at the round-table meeting held at the Higher School of Economics, Head of the Main Administration for Education of the RF AC A. Bashlakov said that today the money allowance of conscripts amounts on the average to 718 rubles. We also believe that such a sum cannot be attractive for young people, even if the food, вещевого and transport endowment is taken into consideration. (Bozh'eva O. Rodina-mat' perestala zvat' [The Motherland calls no more] // *Moskovskii komsomolets*. <http://www.mk.ru/politics/article/2009/11/27/393005-rodinamat-perestala-zvat.html>)

2 Trofimova E. O structure i pokazateliakh denezhnogo dovol'stvia voennosluzhashchikh Vooruzhennykh sil RF [On the structure and effectiveness indices of the money allowances of the military personnel of the RF Armed Forces // *Ekonomiko - politicheskaiia situatsia v Rossii*. [The economic and political situation in Russia]. 2009. No 9. C. 84–88.

3 Bozh'eva O. Rodina-mat' perestala zvat' [The Motherland calls no more] // *Moskovskii komsomolets*.. <http://www.mk.ru/politics/article/2009/11/27/393005-rodinamat-perestala-zvat.html>

4 V pogone za rekrutami. [In pursuit of recruits] // *Krasnaia zvezda* [The Red Star]. 16 December 2008.

5 Order of the RF Ministry of Defense of 2 August 2008, No 400, 'On the payment of money awards to officers of the Armed Forces of the Russian Federation'.

6 Poletaev V. Pravo pervogo udara. [The right of a first strike] // *Rossiiskaia gazeta* [The Russian Newspaper]. 22 December 2009.

7 Order of the RF Ministry of Defense of 28 марта 2009, No 115 "On additional measures designed to increase the effectiveness of the use of the money allowance fund for the servicemen of the RF Armed Forces and the wage fund for the civilian personnel thereof.

8 Baranets V. Obshchak millionerov [Millioners' money pool] // *Komsomol'skaya pravda*. 20 January 2010.

have been transferred to the category of permanent readiness. At the same time, in accordance with Article 123 of 'The procedure for endowing the military personnel of the RF Armed Forces with money allowances', to 'the military personnel serving under contract in formations and military units of permanent readiness' a monthly 'The bonus for the special conditions of combat training' is due in the amount of 2,700 to 3,300 rubles, depending on a specific post. Does this mean that now all PNCO contractees will be receiving this bonus as the personnel of units of permanent readiness?

As for ensuring the necessary number of the personnel serving in the 'new-type' RF Armed Forces, the prospects are by no means rosy. In addition to the 700 thousand of young able-bodied men of the conscription age needed by the RF Armed Forces, there also exist the needs of the other power structure. As estimated by the IET¹, after 2009 it will become impossible to provide the army with this number of servicemen. And there are few possible solutions to this problem. The first one would be to decrease the size of the RF Armed Forces and to preserve conscription, that is, to enroll the maximum possible number of conscripts. No additional money will be required to support this solution. The second one would be to abolish conscription and to switch over to manning the RF Armed Forces only on a contractual basis. In this case, the overall number of NCOs and other ranks can indeed be decreased, because the combat potential of a contractee is significantly higher than that of a conscript who undergoes combat training only for one year. This solution will require some additional money but will totally eliminate all the corruption currently associated with conscription.

So, let us sum up our considerations:

1) Under the new remuneration system in the RF Armed Forces the size of the money allowance paid to the military personnel serving under conscription will remain pitiful, which will have negative effect on the attractiveness of military service in the eyes of the population. At the same time, while conscription is not abolished, all the components of the associated corruption allowing young people to avoid army service will remain in place (payments for fraudulent medical documentation, bribes to members of the conscription board, etc.);

2) An alternative to service under conscription may become service under contract as NCOs and other ranks. The money allowance for NCOs and other ranks serving under a contract, indicated in Table 1 can be considered adequate. According to our estimates, to ensure the payment of such allowances, nearly 55 billion rubles will be required, or about 28 % of the total sum of money needed by the RF Armed Forces;

3) By our estimations, after 2009 Russia may experience a shortage of young able-bodied men needed for the conscription in the army, the required number being 700 thousand persons. Thus means that the entire concept of a new image of the RF Armed Forces may appear doubtful – given the requirements of the other troops, which must also be taken into account. ●

¹ Tsymbal V. I., Trofimova E. V. Sotsial'no-ekonomicheskaya znachimost' peremen v voenno-kadrovoy politike Rossii. [The socioeconomic important of changes in Russia's policy with regard to military personnel] // *Rossia: tendentsii i perspektivy razvitiia*. [Russia: trends and outlooks of development.] A Yearbook. Issue. 4. P. II. P. 47 – 54.

STIMULATING OF INNOVATIONAL DEVELOPMENT IN THE CONTEXT OF ECONOMY MODERNIZATION

I.Dezhina

As a result of eight meetings of the Commission on Modernization and Technological Development new directions for innovative and interconnected scientific and technological policy were defined. Among the priorities and measures suggested for stimulation and development of innovative activity the main stress is put on the intensification of research and development works in entrepreneurial sector by balancing the coercive and stimulating measures.

In 2009 the Commission on Modernization and Technological Development of Russian Economy was formed, the aims of which are the development of the state policy in the field of modernization and technological development, determination of the priority directions, forms and methods of the state regulation as well as coordination of the activity of executive bodies in this sphere. The issues of stimulation of innovations on the whole and financing of the research and development works in particular became the focus of its work, as can be concluded by the content of eight meetings, the latest of which took place in January 2010. The main problems discussed at the meetings of the Commission are represented in Table 1.

Table 1

MAIN PROBLEMS DISCUSSED AT MEETINGS OF COMMISSION ON MODERNIZATION AND TECHNOLOGICAL DEVELOPMENT OF RUSSIAN ECONOMY

Date and place of the meeting	Main topic
18.06.2009, Kaspersky Laboratory, Moscow	Declaration of five priority direction of technological development and criteria for their choice
22.07.2009, federal nuclear center "All-Russian research institute of experimental physics", Sarov	Problems of development of nuclear energy industry
31.08.2009, Vladimir oblast, Pokrov	Problems of pharmacology industry and development of medical equipment. Discussion about creation of centers to provide for technological breakthrough
30.09.2009, Russian scientific center "Kurchatov institute", Moscow	Measures to increase energy efficiency of the economy
28.10.2009, Scientific and technical association "IRE-Polus", Fryazino, Moscow oblast	Projects in the sphere of telecommunication and space exploration
25.11.2009, Lomonosov Moscow State University, Moscow	Increase in efficiency of institutes of development for five priority directions of technological breakthrough
25.12.2009, Gazprom, Moscow	Possibilities for the state companies' participation in the process of country's economy
20.01.2010, Lipetsk	Problems of technical regulation

Source: <http://www.kremlin.ru>

The following issues of the work of the Commission can be applied directly to the questions of science and innovative development: the choice of priority directions of technological breakthrough, the development of which is to be based on the fundamental and applied research in the corresponding fields of science; discussion of the issues of optimization of the work of the development institutions, as well as the state companies from the points of view of their more active involvement in innovative activity. The discussion of the instruments for stimulation of the demand for innovations, such as technical regulations, standards and certification became a separate topic.

At the first meeting of the Commission the President of the Russian Federation announced five directions for “technological breakthrough” and criteria for their choice¹:

- Energy efficiency and energy saving;
- Nuclear technologies;
- Space technologies, including the infrastructure for transfer all kinds of information;
- Medical technologies, primarily diagnostic equipment and medicines;
- Strategic information technologies, including the issues of creation of supercomputers and development of software.

The following was referred to as the criteria for selection of the technologies mentioned: significance of the existing state of art, possibility to get multiplying effect from the development of the technology, its connection with the needs of the state defense and provision of citizens’ security, social effect. Finally, an important criterion is the presence of the research results that are comparable with the world level, which “are quite likely to become the basis for production that will be in demand at the markets of the near future”². Thus, the significance of the results of the scientific research as well as the existing state of art are among criteria for the selection of the direction of the technological breakthrough.

The new list of the priorities has something in common with the priorities of a number of the developed countries (the USA, the European Union). At the same time the current situation is a strange one, since at the moment in Russia there are in fact two lists of the state (federal priorities) (table 2). It should be noted that the mechanisms for the selection of the priority directions that were in effect before the declaration by the President in June 2009, are quite well-known, whereas who, how and why prepared the new choice of presidential priorities has not been clarified.

Traditionally, the priority directions for the scientific and technological development and the corresponding critical technologies were defined once in a few years on the basis of prognosis (last year - foresight) research, formed by the Ministry for Education and Science of the Russian Federation and then were approved by the President of the country. A regular reconsideration of priority directions took place in 2009 and by September the Project of the Ministry for Education and Science containing the corrected list of priorities had been ready (table 2).

Table 2

LISTS OF PRIORITY DIRECTIONS OF DEVELOPMENT OF SCIENCE, TECHNOLOGIES AND TECHNIQUE IN THE RUSSIAN FEDERATION

List 2006	List 2009 (project)	List of RF President
Information and telecommunication systems	Information and telecommunication systems	Strategic information technologies
Rational use of natural resources	Rational use of natural resources	-
Industry of nanosystems and nanomaterials	Industry of nanosystems	-
Life systems	Life sciences	Medical technologies
Energy industry and energy saving	Energy efficiency and energy saving	Energy efficiency and energy saving
Transportation, aviation and space systems	Transportation, aviation and space systems	Space technologies
-	-	Nuclear technologies

Sources: 1. Priority directions for the development of science, technologies and technique in the Russian Federation and the List of critical technologies for the Russian Federation. Approved by the RF President 21.05.2006, Pr-842. 2. Priority directions for the development of science, technologies and technique in the Russian Federation and the List of critical technologies for the Russian Federation. Project by the Ministry for Education and Sciences. 30 September 2009. 3. First meeting of the Commission for Modernization and Technological Development of Russian Economy. 18 June 2009. <http://www.kremlin.ru/transcripts/4506>

As it follows from the data of table 2 the President’s priorities differ from the previous formats not only in content but also in wording. Traditionally, the priorities were formulated in the terms

1 <http://www.kremlin.ru/transcripts/4506> 18 June 2009

2 Introductory speech by D. A. Medvedev at the meeting of Commission on Modernization and Technological Development of Russian Economy <http://www.kremlin.ru/transcripts/4506> 18 June 2009

of broad fields and disciplines (“life systems”, “transportation and space systems”) or industries (“industry of nanosystems”). Priorities of technological breakthrough are formulated more narrowly and precisely, in terms of the very technologies.

At the same time the existing federal targeted programs (FTP) and first of all the main FTP in the fields of R&D support – “Research and development in the priority directions for the development of the science and technological complex of Russia for 2007-2012” – is structured according to the list of 2006. At the same time new President’s priorities, as it follows from the reports on the meetings of the Commission on modernization, are to serve as the guidelines for the work of different ministries, departments and development institutions. It is likely that the reconsideration of the content of the programs and a large number of measures aimed at the support for the development of different technologies will follow soon. For instance, the Russian Academy of Sciences has already reacted to the new list, revised the topics of scientific research and established that the financing of the projects of five directions of the technological breakthrough makes only 23% of financing of the Program of the fundamental research at present. It was at the same time defined that this figure can be increased up to 35%¹.

The main problems and possible measures to stimulate the innovative development in a broader context, and not only in connection with the particular technologies, were considered at three latest meetings of the Commission. The first broad topic was the work of the development institutes, the second – activity of the state companies, also from the point of view of the volumes and the quality of R&D financing, the third – the issues of technical regulation.

As for the development institutions, well-known problems have been summarized: the sporadic nature of institutes (lack of coordination and doubling functions as a result), insufficiently systematic approach to the work, “gaps” in support for some stages of scientific research, development and commercialization of R&D results. This primarily concerns small-scale programs of “sowing financing”, absence of the segment of financing of the medium-sized science-intensive companies as well as institute to support the purchase of technologies and lacking competence. It was noted that the institutes work basing on the principle of “flat subsidy”, there is no system for supporting the projects and pushing them through the stages of innovative cycle. It should be noted that this drawback applies not only to the development institutes but also to the whole infrastructure created in the country to support the scientific and innovation activity the development institutes have not managed so far to become “system integrators” of innovative changes. It seems that there are problems in the conception of the state corporations itself, as well as in the difficulties of overcoming the resistance of the surroundings where they have started operating, and in the lack of the qualified specialist-managers who were to organize the processes of the work on the strategy of the technological development and well-grounded choice of short- and long-term instruments to achieve the goals.

The measures suggested concerning the development institutes are primarily aimed not at the optimization of their organization and management, but at correcting the nature of the works financed by them. As to the work of the development institutes themselves, only the issue of coordination of their activity has been touched. The coordination of the work of the development institutes is suggested to improve through the exchange of the information on the projects, also by creating the technological platforms under which the areas to discuss the most important projects and formation of demand for them are understood.

The main suggestions on changes in the content of the work of development institutes can be summarized as the following²:

1. Support of companies fulfilling R&D works at the expense of budget grants;
2. Financing of the fundamental research with the prospect of private business being willing to co-finance experimental and construction works;
3. Scaling of financing of the sowing phase, also by more intensive functioning of the Russian venture company and additional capitalization of the Fund for assistance of the small-scale enter-

1 No hammer. RAS will give a fundamental basis to modernization //Poisk, №3-4, 22.01.2010, p.5. (in Russian)

2 Verbatim report on the meeting of the Commission on Modernization and Technological Development of Russian Economy. 25 November 2009 <http://www.kremlin.ru/transcripts/6108>

prises in scientific and technical sphere which is probable through additional allocation of RUR 500 million a year to fulfill the special program of the Fund;

4. Priority support of the development of small-scale companies by the development institutes which are formed under the supervision of the research institutes and higher educational institutions after adoption of the Federal Law No 217-FZ¹.

The first two suggestions require serious elaboration so that the given measures will not turn into budget financing of those works that business could finance independently. The fulfillment of two other directions have in fact already started, and they are really aimed at overcoming of the serious gaps in the innovative system. As it is seen from the list of measures, they are mainly aimed at the support of the business of both small and large companies.

A more detailed analysis of the situation connected with the innovative activity in the state companies was presented at the last meeting of the Commission on modernization in 2009². The data on several large companies testify that they are characterized by low expenses for R&D works, and the most widespread types of R&D works are the following: the elaboration and adaptation of the technologies purchased abroad, development of the specific software in companies and improvement of the technologies existing at the enterprises. With a rare exception the state companies do not fulfill the breakthrough innovations connected with the development and implementation of the new technologies, products and services. That is, not only volumes but also the quality of the conducted R&D works is low, if one takes the novelty and breakthrough nature of innovation in the world as a criterion.

In order to correct the statement it is suggested to use two main measures of the coercive nature and a number of tax and administrative stimuli, which are to serve as “compensations”:

- Introduction of compulsory corporate programs for innovative development for state companies in concordance with the requirements established by the Government, which should be accepted together with and not be included to the list of investment programs.

- Introduction of a standard on the proportion of expenses for the R&D works for state-owned companies, separately for each company, basing on its branch specificity and comparison with the similar companies abroad.

- Optimization of tax administration and the supplementation of the list of R&D concerning the privilege envisaging the possibility for nonrecurrent recognition of some expenses for R&D including without a result and their write-off with the application of 1.5 coefficient.

- The reduction of the period for amortization of non-material assets (inventions, models, know-how etc.) by the choice of the taxpayer but not below 2 years.

- The change in the procedure for accounting the value of the objects of intellectual property, including the accounting of the expenses for R&D works when defining the initial value of non-material assets.

Finally, for such an instrument of the stimulating companies for innovation activity as technical regulation it was suggested to use the world experience and practice in this sphere more widely, as well as to intensify and optimize the development of technical regulations and standards³.

The suggested set of measures can be seen as an attempt to balance the encouraging, compelling and stimulation of the companies to invest in R&D and innovative activity. At the same time the main stress is put on the business sector, which is right on the whole since so far the issues of support, development and efficiency of the R&D were considered generally in the context of the state sector of science, including the work of the state academies of sciences and partially higher educational institutions.

There are however several worrying moments. First, the process of making decisions is spontaneous and not transparent enough, which is especially clearly seen in the example of the appearance of the new list of the technological priorities. Second, the suggested measures for forcing the

1 Federal Law “On making changes to some legislative acts of the Russian Federation concerning the issues of creation the economic entities by the budget scientific and educational institutions for the purposes of practical application (implementation) of the results of intellectual activity” (No 217-FZ from 02.08.2009).

2 Verbatim report on the meeting of the Commission on Modernization and Technological Development of Russian Economy. 25 December 2009. <http://www.kremlin.ru/transcripts/6460>

3 The first meeting of the Commission in 2010 was devoted to the issues of technical regulation. 20 January 2010 года. <http://www.kremlin.ru/news/6674>

business recall the Soviet principles for economy management (perhaps, it is sop-called “hands-on management”). The suggested approaches are not practiced in the countries with the developed innovation systems. In some countries there is an indicative planning but not a detailed elaboration for each state company (or company in which the state owns a “golden share”) “standards” for expenditures for R&D works and requirements to make plans for innovative development. These issues are under the authority of the company’s management and not the federal government and management of the company is conducted according to the market principles. The coercion should proceed through more flexible instruments – technical regulation, co-financing of the innovation activity in companies on predefined conditions etc. Finally, the third indirect regulation is still weakly developed and the field of their administration has a lot of problems and cannot be compensation or counterbalance for the suggested compulsory measures. ●

FOREIGN ECONOMY COMPLEX OF RUSSIA AND PROBLEMS WITH MECHANISM FOR EXPORT SUPPORT FUNCTIONING

A.Pakhomov

In the period of economic crisis the stimulation of the goods and services export by the state is of special importance since when the internal demand is contracting the significance of the external market is growing. Taking into account this task within the framework of development of the Russian foreign economy complex it is necessary to provide selected support to Russian exporters and investors, which would also be oriented on the preservation of the Russia's position on the most important markets of goods and services.

In the middle-term prospect in the post-crisis period one should take into account that the competition on the external markets will become much more acute and will reach a breakthrough level. This trend is accounted for by expansion of the influence of companies from fast developing and developed countries that managed to modernize the structure of their national economies and strengthen their export potential.

According to the majority of the forecasts, the world trade markets in post-crisis period will be characterized by a high level of volatility as well as by the hardening of the competition and modification of support given by countries to their exporters. In this environment the Russian companies will face the tasks to preserve their position at the global markets and to conquer new business segments for sale of goods and services, which is possible only on the basis of the increase of the national competitiveness. Without effective support of the export activity by the government such task seems to be unachievable, and Russia faces the danger of losing its positions both in the international trade and in the world economy, as a whole.

Russia will be able to answer the challenges of the world crisis in case it focuses the attention of the government on the issues of the support of the export activity of the domestic enterprises including the measures to modernize infrastructure of the foreign trade and its institutes especially in the sphere of stimulation of export of Russian goods, services, investments as well as the objects of intellectual property. These measures include, first of all, provision of the export crediting, rendering guarantees and risk insurance for the participants of the foreign economic activity, also by strengthening of work by corresponding financial structures (institutes).

The existing regulatory and legislative base and the main elements of the system to support export had been formed in Russia only by the middle of current decade. As it is shown by practice, these stimulation mechanisms have not been functioning effectively enough yet, which is accounted for by low efficiency of application of some instruments of support and revealed absence of a number of system forming elements in the field of the foreign economic activity¹.

The first attempts taken by Russia directed at forming the basis for export support mechanisms refer to the middle of 1990s and such long process of its creation is mainly accounted for by the fact that during state foreign trade monopoly period in the USSR, the system of export promotion in its classical meaning was practically absent, and the necessary result was achieved primarily by the administrative measures².

1 Since 2004 the Government of the Russian Federation has introduced a number of measures to promote export, including state guarantee, part compensation of expenses on payment interest rates for credits (export crediting) and insurance of export loans. At the same time, effective mechanisms of export promotion are used inefficiently due to complicated procedures, excessive requirements to exporters, insufficient state provision with finances and other objective and subjective reasons.

2 It should be noted at the same time that in the Russian empire there existed an advanced and quite effective complex of measures, including financial ones, to assist the export of industrial goods and raw materials. See, for example, Tompston S. R. Russian foreign trade in 19th and at the beginning of 20th century, Moscow, 2008, p. 47, 157

The system of foreign economic management existing now in Russia still has characteristic features and instruments of the planning and administrative economy and partially of state foreign trade monopoly.

At the moment Russia faces an important task of pursuing a purposeful policy of export promotion on the whole and, particularly, of high-tech products export (goods, services and technologies), which is possible only in case the complex measures to create the conditions to realize the export potential of the country and to conduct well-thought structural and industrial policy will be taken.

Highly-developed industrial countries are characterized not only by the level of technological effectiveness or innovativeness of product but also with the use set of modern instruments of government support and national producers and exporters protectionism.

In many countries of the world there is an effective system of export promotion, which is of universal nature when its main characteristic and structure of the applied instruments are concerned, though there are some specifically national features. The study of the leading world practice and its use can contribute to formation of the entire mechanism of the support for export in Russia and creation of its lacking elements (instruments and institutions).

Besides there being no proper mechanism for export stimulation, the measures of its state support in Russia are not coordinated, since they are carried out by different departments. For instance:

- Ministry of industry and Trade of the Russian Federation is commissioned with the function of development of the state policy in the field of support of export of industrial goods, including the trade fairs and exhibitions, as well as with the financial mechanism for compensating to the exporters the expenses for payment of interest rates for credits ;

- Vnesheconombank and Exim bank of Russia are authorized to provide state guarantees, insurance and crediting of export;

- Ministry of Agriculture of the Russian Federation is in charge of the export of the domestic agriculture goods (agriculture raw materials and foodstuffs); similar functions are carried out by other departments according to their specialization in branches and sectors of industry;

- Ministry of Finance of the Russian Federation is responsible for the tax policy, including VAT compensation for export goods and allocation of corresponding financial funds for functioning of the system of export support on the whole;

- Ministry of Economic Development of the Russian Federation coordinates the activity of development institutions and also supports investment collaboration. Besides, the Ministry together with the Ministry of Foreign Affairs of the Russian Federation gives information and diplomatic support to the Russian participants of the foreign economic activity.

At this stage many domestic companies that are oriented towards export acutely need the active support of their activity from the state. Taking into account the current complicated economic situation, it is necessary to reach a breakthrough level in the coordination both between the state institutions mentioned above and with the sphere of interaction with the business.

According to the data of the Ministry for Economic Development of the Russian Federation the structure of the application for the main measures of the state support by the exporters is the following: financial stimulation (35%), tariff regulation (30%), tax policy (25%) and information support (10%).

The annual report of the European Bank for Reconstruction and Development devoted to the economic situation in the countries with the economy in transition (Transition Report 2009), it was noted that in the periods from December 2004 to April 2005 and from December 2008 to April 2009 there were no significant changes in the diversification of the Russian export. In the first case the oil and gas sector accounted for 43.5% of the structure of Russian export, and the branches with high added value – 5.9%, and in the period of 2008-2009 the situation remained practically the same (44.0% and 6.2%, correspondingly).

The tasks of diversification of the Russian economy are difficult to solve without the increase in the role of export (of raw materials and industrial goods) in this process and necessity of rational state support of the export of goods with high extents of processing. It should be taken into account that the real situation with the stimulation of export in Russia testifies that there are symptoms of “Dutch disease” – over the last five years there was more than USD 30 billion invested in new

oil- and gas pipelines, and less than USD 1 billion – to support the sales of the domestic finished goods abroad.¹ In this context the comparison of the suggestion of the Ministry for Economic Development on creation of the system for export support in 2002 and in 2009 becomes meaningful. (table 1)

Table 1

COMPARISON OF SUGGESTION OF THE MINISTRY FOR ECONOMIC DEVELOPMENT OF RUSSIA IN THE SPHERE OF EXPORT SUPPORT IN 202 AND IN 2009

November 2009	September 2002
Creation and organization of operation of the Agency for insurance of export credits and investments	Creation of the state agency for risk insurance
Formation of the development institute in the sphere of support for the foreign economic activity of enterprises	Exists partially
Improvement of financial mechanisms for export support	Granting of the state guarantees to exporters of high-tech products
Stimulation of regional programs, including those to support export-oriented small –and medium-scale enterprises	Exists partially
Creation of the unified Portal of economic information, including regional information resources for the sphere of foreign economy	Создание Интернет-сайта «Экспортные возможности России»

Source: composed by the author on the basis of the data on the site of the Ministry for Economic Development of the Russian Federation <http://www.economy.gov.ru>, 30 October 2009; “Gazeta”, 25 September 2002

As it is seen from table 1, 5 directions envisaged in 2009 explicitly or implicitly repeat 4 unfulfilled projects of 2002. This testifies the fact that the program of export support was poorly fulfilled over the 7 years, and the same applies to the Concept of the development of the state financial (guarantee) support of the industrial production in the Russian Federation approved by the Decree of the Government of the Russian Federation from October 14, 2003, No 1493-r.

When comparing the suggestion in the sphere of export support in Russia in 2002-2009 one can see that over this period no changes in the organization of the operation of the Agency on insurance of export credits have taken place, and the same applies to the improvement of financial mechanisms. At the same time the creation of the development institute in the sphere of the assistance to the foreign economy activity of enterprises and stimulation of the export of production of small- and medium-scale enterprises were apportioned as separate directions for export support.

There is no doubt that the export support and the stimulation of investment activity are the state tasks of high priority in the field of the foreign economic activity. This is defined by the complex of internal and external factors: primarily, due to the existing critical situation in the world economy, the introduction of the protectionist measures, occurring everywhere, the decrease of the export volumes, the drop of the budget incomes, the necessity of the development of the import of raw materials.

The recovery of the world economy will fundamentally change the situation in the international trade and is of vital importance for further development of Russia. In this connection at the current stage it is necessary to form the integral mechanism for export support taking into account the national specific features of the development of Russia and the structure of its foreign economy complex with the use of a broad range of financial and non-financial instruments.

At present one can single out three institutional models for organization of the system for export support in the world:

- 1) Classical European model, putting emphasis on the insurance provision of export operations;
- 2) Anglo-Saxon Model, in contrast, envisages primarily credit support;

¹ Zaiko A. Exporter's loneliness. “Energy of industrial growth” (in Russian: “Energiya promyshlennogo rosta”, September 2009, p.5).

3) and Mixed model, which is most widespread in the world today (for example in Japan and China). It can be assumed that in the existing situation in Russia one should also orientate towards the latter model, which not only provides the egalitarian access to the credit resources, but also envisages partial financing at the expense of the state for fulfillment of the industrial strategy¹.

Export, including that of not raw materials, can become one of the leading powers of the recovery from the crisis in the country, which should be taken into account when developing the corresponding targeted programs of the Government.

At the moment when the Russia's accession to the WTO is still undefined, the formation of the Customs Union of Russia, Belorussia and Kazakhstan is especially important. The state regulation of the foreign trade will be conducted under new conditions starting with 2010 already, when a considerable part of Russia's authority in this sphere will be handed over to the supranational level of the Commission of the Customs Union.

Thus, the factor of creation of the Customs Union (and in the prospect of the Common economic space) will exercise a direct influence on the formation and fulfillment of the foreign economic policy of the Russian Federation, as well as on the formation of the integral and multi-purpose system of export support for the domestic goods, services, investments and the objects of intellectual property.

At the same time one should not overestimate the possibilities of the state stimulation as the main direction of the increase of the domestic export of goods and services. First of all, in order to expand export, it is necessary to have the national products of the corresponding quality and competitive ability. Besides, it is important to possess an adequate transportation system and logistics network, including the creation of centers for technical support of the Russian goods abroad. Thus, within the framework of the foreign economy complex Russia needs to form the system of support which will embrace the whole life cycle of an export product.

To sum up, it can be stated that in the middle-term run it is difficult to count on the emergence of the new domestic mass production, which will be in demand on the external market because of its technological characteristics, innovativeness and the level of competitive ability. At the same time the efficiency of the state support of export will be mainly determined by the modernization of the domestic economy and its key sectors, which can produce export products (goods and services). ●

1 Fradkov P. // "Energy of industrial growth" in Russian: "Energiya promyshlennogo rosta", September 2009, p. 22-23)

THE PRACTICE OF REGULATING ECONOMIC CONCENTRATION IN MERGER AND TAKEOVER DEALS

O.Smirnova

Merger and takeover deals are contrary to competition, and so their effect on relevant commodity markets is assessed by the controlling bodies responsible for supervision over competition and prevention of monopolistic activity. The paper analyzes the practice of the RF Federal Antimonopoly Service (FAS) rejecting the application for registering such deals. The drawbacks in the methodology of analyzing the market for mergers u takeovers which is used as a substantiation for the decisions by the FAS made with regards to violations of antimonopoly legislation are pointed out.

The main goal of regulating economic concentration is to limit opportunities for some of the market participants to influence the overall conditions for economic activity on the market. In accordance with Federal Law No 135 'On protection of competition', the Federal Antimonopoly Service (FAS) of Russia exercises control over the parameters of economic concentration in merger and takeover deals with the participation of resident companies of the Russian Federation. After the adoption of 'the second antimonopoly package' on 23 August 2008, it is necessary to obtain a preliminary approval by the FAS of a deal involving merger, takeover and creation of a commercial organization in cases when the summary value of an organization's assets amounts to 7 billion rubles, and annual proceeds – to 10 billion rubles. A notification of the conclusion of a deal is necessary if the value of assets or the proceeds from sales are in excess of 400 million rubles

The economic factors for a deal becoming an object for the attention of the RF FAS are asset value, the volume of proceeds, or the fact of one of the participants in a deal being on the register of economic subjects occupying 35 % of the market. It is important to measure the size of assets because it is only logical to build on the assumption that the bigger a company the greater the market power it enjoys. The factor of at least one of the participants in a deal on the register of economic subjects occupying 3 % of the market places that deal in the category of those having a potentially significant influence on the market.

This approach has some limitations of its own because the register of economic subjects may contain no data on the participants in a deal while these participants taken together may take up a substantial market share. Possibly, in addition to the existing registration practice, it would be worthwhile to give consideration to registering the instances of collective domination on some of the markets in order to more efficiently regulate the economic concentration processes.

As economic concentration parameters, the market concentration index (CR – the sum of the market shares taken up by different producers) and the Herfindahl - Hirschman Index (HHI).

According to Russian antimonopoly legislation, the economic factors applied in analyzing a deal can be divided into those estimated during the phase of a deal entering the sphere regulated by Law No 135-FZ 'On protection of competition' and those estimated during the phase of a deal being considered by the RF FAS. After an analysis of the market as a whole, it becomes possible to study its individual indices – in particular, the dynamics of prices or the profitability indices of the participants in a deal.

We are going to look at the practice of regulating merger and takeover deals on the basis of examples of the operation of the FAS of Russia drawn from all its press releases concerning refusals to register a deal (2007 – 2008 and the first half-year 2009) or the prescriptions (2008 and the first half-year 2009) published on the Federal Antimonopoly Service's official website (www.fas.gov.ru).

It should be noted that these data have some limitations. Thus, the regulation practice has demonstrated that it is only in some exceptional that the RF FAS can take the decision to reorganize the economic subject created as a result of a deal concluded without notifying the antimonopoly agency, and that by no means all the deals are concluded with the preliminary approval or notification of the antimonopoly agency.

There also exist other methods of gaining control beside merger and takeover deals – for example, a tolling scheme makes it possible to fully control the economic activity of a subject and thus to influence the actual economic concentration status.

According to the results of our analysis of the practices of 2007 – 2008 and the first half-year 2009, all the reasons of refusals to approve the conclusion of a deal can be subdivided into two groups:

1) insufficient information for adequate decision-making, including lack of information on the real owners of the applying company (the end beneficiaries), false information on the groups constituting the parties to a deal, and failure to submit the information concerning the relative activity of the parties to a deal;

2) The consequence of a deal may be restriction of competition, for example in ‘horizontal’ and ‘vertical’ deals, including the formation of a merger on the power engineering market in accordance with Federal Law of 26 March 2003, No 36-FZ, ‘On the specific features of the functioning of power engineering during the transition period, on introducing alterations to some legislative acts of the Russian Federation, and on recognizing as null and void some legislative acts Russian Federation in connection with the enactment of the Federal Law ‘On power engineering’).

Table 1

THE STRUCTURE OF REFUSALS TO AUTHORIZE DEALS

Index / year	2007	2008	First half-year 2009
Number of refusals	15	30	16
Of these, for reasons of:	12	28	14
- absence of information to base decision-making on: including:			12
- absence of information on end beneficiaries;	7	16	
- false information on groups of persons;	1	9	1
- no information on activities of parties to a deal;		3	1
- possible restrictions to competition: including:			2
- restrictions to competition in ‘vertical’ deals on power engineering market;	3	2	
- in ‘horizontal’ deals	3	2	1
- in ‘concentric’ deals	2		
	1		1
Number of applicants	13	23	10
- of these, foreign	7	4	3

While analyzing the data shown Table 1, it can be said that the most frequent reason of a refusal is the incomplete character of the submitted information, while potential restrictions on competition only rarely serve as the grounds for a refusal to satisfy an application or to accept the submitted information.

Thus, the only case when the agency refused to grant the permission to purchase a share in a ‘horizontal’ deal in the first half-year 2009 was the application by Open-end Joint-Stock Company ‘VAMIN Tatarstan’ which, according to the Tatarstan Administration of the RF FAS, occupies 54 % of the market for whole milk products. The object of the deal – Limited Liability Company ‘Asanbash’ – also manufactures whole milk products. As a result, it was ruled that as a result of that deal competition could become restricted due to elimination of the economic subjects not belonging to the relevant group, and the core economic subject’s dominant position could become even more prominent.

The refusals to approve of ‘vertical deals’ occurred only on regional power engineering markets.

Consequently, a refusal as a method for managing economic concentration is practiced only in absence of necessary information concerning the parties to a deal. On regional markets refusals are issued with regard to deals with a clear domination of one of the parties.

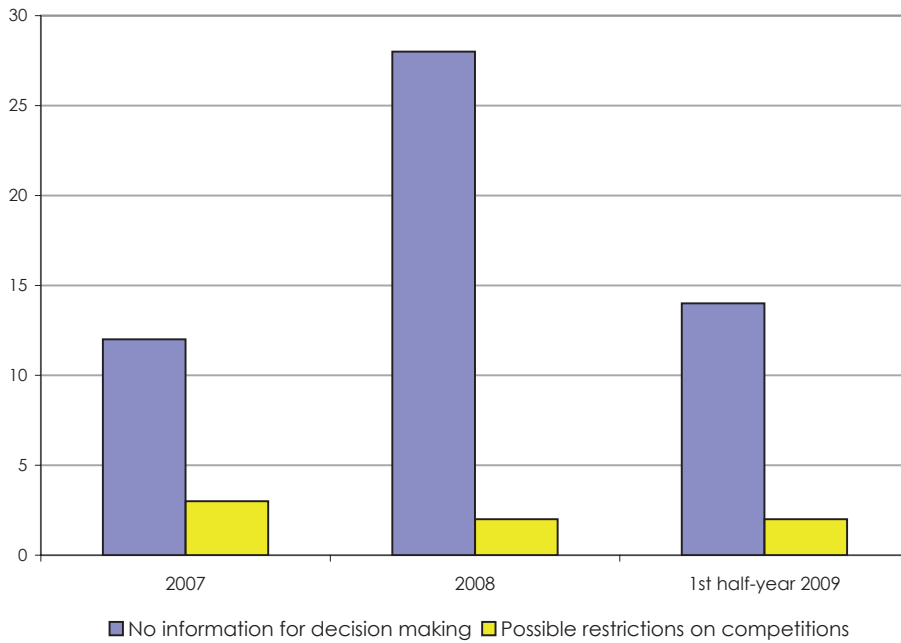


Fig. 1. Reasons for refusals to satisfy applications and to accept the submitted information

Let us consider another method of economic concentration management – the issuance of a prescription by the results of the consideration of a deal. This type of regulation has been applied for preventing misuse of a dominant position (Article 10 of Federal Law No 135-FZ ‘On protection of competition’). On the basis of our analysis of prescriptions it can be concluded that they by no means list all the possible instances of violation of antimonopoly legislation. When the terms for a specific behavior on the market are issued with regard to a certain deal, the sectoral specificity of a given market is taken into

consideration – the experience of the sector’s functioning and the types of violations of antimonopoly legislation committed on that market.

Table 2 systematizes the prescriptions issued by the RF FAS in 2008 and the first half-year 2009.

Table 2

STRUCTURE OF PRESCRIPTIONS

Index / year	2008	First half-year 2009
Number of prescriptions	76	24
Applicant’s sector:		
- investment activity;	40	17
- industry;	9	1
- extracting industries;		1
- housing and utilities system;	9	
- fuel and energy complex;	9	
- communications services;	4	
- wholesale and retail trade;	1	3
- transport services;	1	
- insurance	1	1
Market where competition is to be possibly restricted resulting from specific deal:		
- industry;	30	11
- fuel and energy complex;	9	
- housing and utilities system’s services;	24	6
- transport services;	1	
- insurance services;	2	1
- extraction of mineral resources;	1	
- wholesale and retail trade;	3	3
- communications services;	6	
- tourism services		3
Type of deal:		
- horizontal;	25	3
- vertical;	14	5
- concentric	37	16

Table 2, cont'd

Index / year	2008	First half-year 2009
Number of geographical or commodity markets where restriction of competition resulting from deal is identified:		
1	58	20
2	11	0
3	4	3
4	1	0
5	1	0
6	1	0
6	0	1
7	0	0
Participation of foreign companies in deals:		
- yes	20	4
- no	56	20

As seen from Table 2, more than in 50 % of cases the applicant is a company engaged in investment activity. It should be noted that 80 % of the foreign companies participating in deals are investment companies.

The common feature of the year 2008 and the first half-year 2009 is that the share of companies stating that their core activity is investment is more than 50 %.

In order to assess the structure of cases when prescriptions were issued, the data presented in Table 2 were subdivided into groups on the basis of cluster analysis of kmedians. As result, there emerged 10 groups consisting of a total of 76 deals in respect of which prescriptions were issued in 2008 and 4 groups of 24 deals in 2009.

If we compare the distribution of prescriptions into groups in 2008 and the first half-year 2009, it can be said that some types of deals resulting in possible restriction of competition remained unchanged – these are purchases by investment companies of enterprises render-

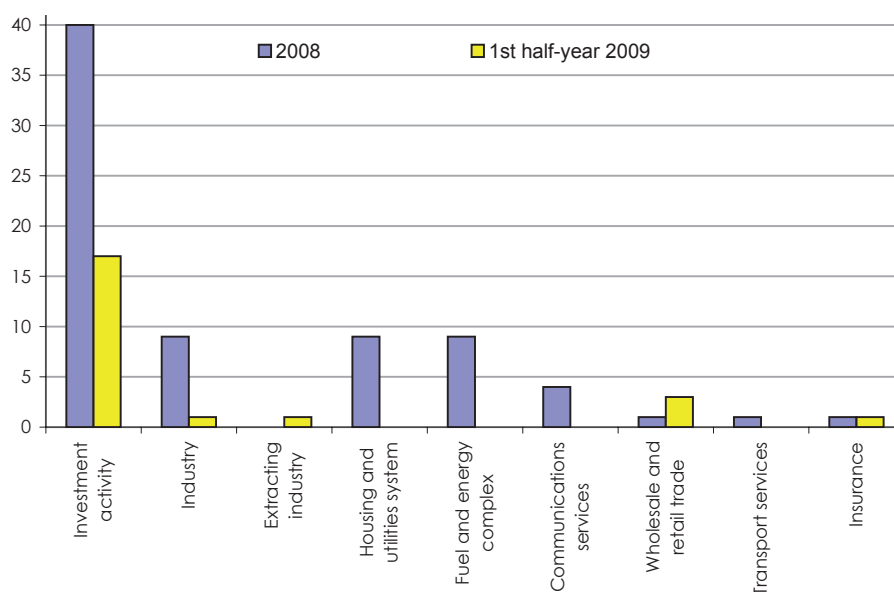


Fig. 2. Sectoral structure of the prescriptions issued in 2008 and the first half-year 2009.

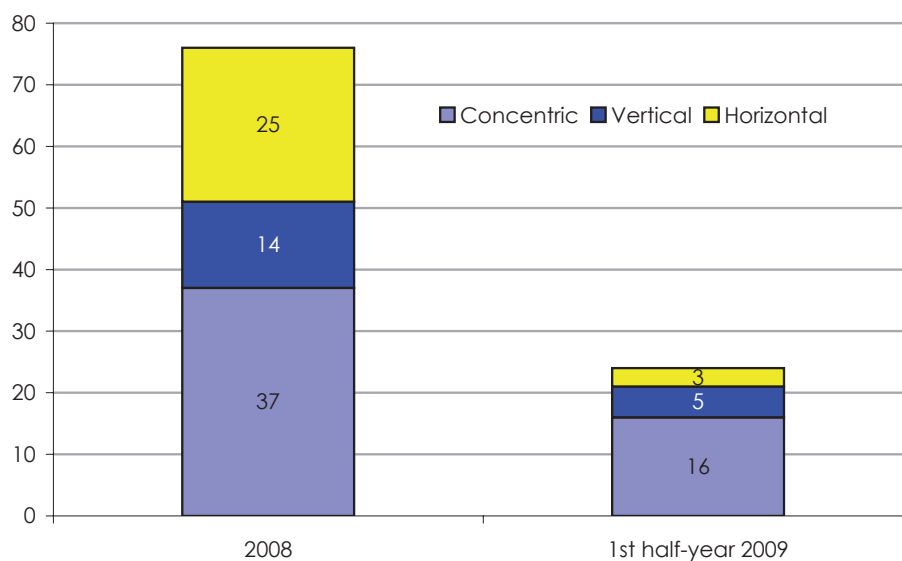


Fig. 3. Structure of prescriptions, by type of deal, 2008 and the first half-year 2009.

ing heating and water supply services and horizontal deals between foreign and domestic producers of mutually replaceable products.

A certain dependence between the creation of holding companies and the sectoral market where the target companies operate has proved the fact that with the present situation on the corporate control market the regulation of economic concentration on the basis of market principles is quite justified. Nevertheless, a significant obstacle to assessing the effect of certain deals on competition by the antimonopoly agency is the very small number of markets that have been actually systematically studied. Thus, there exist some restrictions to market assessment in the form of commodity and product boundaries between market participants. The shortcomings of the methodology applied in market analysis are the main reason for the abolition, in a judicial procedure, of the RF FAS's resolutions issued with regard to violations of antimonopoly legislation and the placing on the register of economic subjects that take up more than 35 % of federal or regional markets.

Table 3

GROUPS OF CASES WHEN PRESCRIPTIONS WERE ISSUED IN 2008.

No of group	Group description
1	Horizontal deals between participants of heating and water supply markets
2	Horizontal deals between companies on industrial commodity markets manufacturing mutually replaceable products
3	Concentric deals between domestic companies selling heating and water supply services
4	Deals between participants in the construction industry and companies selling rendering and water supply services
5	Deals between market participants engaged in investment activity and producers of industrial commodities
6	Deals between market participants engaged in investment activity and extraction of mineral resources
7	Deals between producers of heating and water supply services and trade companies
8	Vertical deals between companies in industry or fuel and energy complex, with possible restrictions of competition on several commodity markets
9	Deals between foreign companies engaged in investment activity and those rendering communications services
10	Deals between companies engaged in investment activity and those selling heating and water supply services

Table 4

GROUPS OF CASES WHEN PRESCRIPTIONS WERE ISSUED IN THE FIRST HALF-YEAR 2009

Group No	Description
1	Horizontal deals in industry between companies with foreign participation manufacturing mutually replaceable products
2	Vertical deals between trade companies and companies rendering o heating and water supply services
3	Deals between companies on insurance market
4	Deals between foreign companies engaged in investment activity and companies rendering heating and water supply services, with possible restriction of competition on several regional markets

The approach based on the study of the economic parameters of the activity of participants in deals in almost never applied in the practice of the antimonopoly agencies in the Russian Federation. The main reasons for the limited application of such indices are the specificities of the Russian accounting system, the records of financial indices kept by statistics agencies, and the methodological backing for these procedures. Meanwhile, an analysis of the financial indices of individual companies is less costly that the study of a market as a whole. ●

REVIEW OF MEETINGS OF THE GOVERNMENT OF THE RUSSIAN FEDERATION IN JANUARY 2010

M. Goldin

In January 2010 at the meeting of the Presidium of the Government of the Russian Federation the following issues were considered: the project of the Federal Targeted Program “Nuclear energy technologies of new generation for the period of 2010-2015 and for the prospect of up to 2020”; the bill, abolishing the payment for the use of geological or any other information on the subsoil received as a result of the state geological study of the subsoil.

On January, 21 at the meeting of the Presidium of the Government of the Russian Federation the project of the Federal Targeted Program “Nuclear energy technologies of new generation for the period of 2010-2015 and for the prospect of up to 2020” was considered. The project was developed by the State Nuclear Energy Corporation Rosatom in concordance with the Concept of the Program, approved by the Decree of the Government of the Russian Federation from 23.07.2009 No 1026-r.

According to the project of the decree it is planned to approve the presented Program, as well as to commission the Ministry for Economic Development of the Russian Federation and the Ministry of Finance of the Russian Federation with inclusion of the Program in the list of federal targeted programs when forming the project of the federal budget.

The total amount of funds that is planned to direct to the realization of the Program will make RUR 128.234 billion, including RUR 110.428 billion from the federal budget and RUR 17.866 billion from off-budget sources.

The aim of the Program is declared to be the development of the nuclear energetic technologies on the basis of the reactors on fast neutrons with the closed nuclear fuel cycle for nuclear power stations which meet the demand of the country for the energy resources and for the increase of the efficiency of natural uranium and processed nuclear fuel used.

In the part of the Concept “Preliminary estimation of the expected efficiency and the results of the suggested variant for solution of the problem” it is mentioned that the planned growth of production and sales of the innovation products of the nuclear energy industry, including export of high-tech equipment, works and services in the sphere of use of nuclear energy should provide for the increase of the contribution of the industry in the volume of the industrial goods produced in the country up to 1.3% by 2020.

Besides, the fulfillment of the Program will allow securing:

- the increase of growth rates of export of high-tech equipment, works and services in the field of nuclear energy industry of about 1.7 times by 2020 ;
- attraction of young researchers and developers to the nuclear energy industry, which will provide the estimated decrease of the average age of researchers and developers from 46 to 42 years;
- the increase in the number of publications in the reviewed world editions in the field of the use of the nuclear energy (15 publications a year per 100 researchers and developers by 2020);
- the increase in the number of patent applications for inventions and registered technical solutions (12 a year per 100 researchers and developers by 2020).

Also, on January 21, at the meeting of the Presidium of the Government of the Russian Federation the project of the federal law “On making changes to the Law of the Russian Federation “On subsoil areas”, Federal Law “On agreement on production share” and on invalidation of some statements of legislative acts of the Russian Federation” was discussed.

The bill envisaged abolishing the payments for the use of geological and other information on subsoil received as a result of the state geological study of the subsoil from the corresponding federal body, as a result of which it is planned to increase the number of potential users of mineral resources taking part in the contests and auctions for the right to use a subsoil plot, the change of the plot structure. The adoption of the suggested changed will enable to provide the open access to the

geological information and pull it into larger turnover. The use of the full geological information when making projects for the study of subsoil, exploration and development of the mineral deposits will contribute to the execution of the license conditions by the users of mineral resources to the full extent, simplify the access to the necessary geological information to the subjects of small- and medium-scale entrepreneurship.

The total sum of the incomes of the federal budget from the article “Payment for geological information on subsoil when using subsoil in the territory of the Russian Federation” made approximately RUR 350 million in 2006-2008. It is suggested to compensate the lost incomes of the federal budget (about RUR 90 million a year) by increasing the budget task for other kinds of payments when using the subsoil (flat payments for the use of subsoil, fees for issue licenses and fees for participation in the auction). ●

REVIEW OF REGULATORY DOCUMENTS CONCERNING TAXATION OVER DECEMBER 2009 – JANUARY 2010

L.Anisimova

1. According to the Order of the Federal Tax Service of the Russian Federation from December 31, 2009 No MM-7-6/730 the form for submission of tax declarations, accounts and other documents serving as basis for calculation and payment of VAT to taxation bodies in electronic form (on the basis of XML) (version 5, part 3) was approved.

The electronic form was brought into concordance with the Order of the Ministry of Finance of the Russian Federation from October 15, 2009 No 104n “On approving the form of the taxation declaration on the value added tax and Procedure for its completion”. The Order comes into effect on the date the tax declarations fro 4th quarter 2009 are submitted in electronic form.

2. According to the Ruling of the Constitutional Court of the Russian Federation from December 23, 2009 No 20-P the question concerning paragraph 5 subpoint 2 point 1 article 165 of the Tax Code of the Russian Federation was clarified. The problem is that the paragraph mentioned established the liability of the taxpayer to submit to the taxation bodies in addition to the general set of the necessary documentation for the purposes of proving the soundness of application of 0% rate of value added tax and the right for tax deductions for the incoming VAT the agreement of the specified type in case the earnings from the sale of goods to a foreign person was transferred to the account of the taxpayer from the third party. In this case the RF Tax Code prescribes to submit the agency contract of payment for the mentioned goods (supplies) signed by a foreign person and organization (person) that made the payment as well as the bank statement(its copy), testifying the real receipt of earnings from the purchaser of goods (supplies).

The Supreme Arbitrary Court of the Russian Federation appealed to the Constitutional Court of the Russian Federation with the application of recognizing the requirement to submit the agency contract with the third person for the purposes of application of 0% rate and the receipt of the right to deduce the incoming VAT as inconsistent with the Constitution of the Russian Federation, since it limits the rights of the participants of the market.

The RF Constitutional Court explained that the norm mentioned was adopted in connection with the necessity to regulate specifically the procedure for fulfilling the taxpayers’ right for application of 0% rate for VAT directly in the tax of the RF Tax Code. At the same time the RF Constitutional Court agreed that the federal legislator has needlessly limited the right of participants of foreign economic deals for the free use of their abilities and property to testify the fact of delivery, envisaging according to the text of the RF Tax Code the use of only the agency contract for this purpose. The paragraph mentioned in its current version is recognized as inconsistent with the RF Constitution.

3. According to the Federal Law from December 27, 2009 No 368-FZ changes were made to chapter 21 (value added tax), chapter 23 (personal income tax) and chapter 25 (organizations’ profit tax) of the RF Tax Code.

For the purposes of the recover from the economic crisis changes were made to the period for submission of the documents necessary to receive the right for application of 0% VAT rate for export operations - in the period from July 1, 2008 to March 31, 2010 they were prolonged from 180 to 270 days (that is by 90 days).

As for the personal income tax, the granting of standard and social tax deductions (expenses for education, health care) of up to RUR 120 thousand was simplified – in order to get them the taxpayer does not have to submit the application together with the declaration – the recalculation will be made automatically on the basis of the presented documents.

From the moment the changes mentioned come into the effect the taxpayers of the personal incomes tax are exempted from the liability to specify in the declaration the incomes they have

that according to the RF Tax Code are not regarded as taxable as well as the incomes the tax from which was collected by tax agents.

Such a procedure for reflection the information in the tax declaration will, in our opinion, create complications connected with the control over the general level of the tax load on the personal incomes and with the monitoring of the demand elasticity, since a part of the real incomes of the population (exempted from taxation within the existing scheme of taxation) is not to be taken into account and monitored when planning the tax load.

Changes were made to the tax on organizations' profit that were aimed at the counteraction to the outflow of the Russian capital abroad, for instance limitations for the sum of the capital of the Russian organization for application of 0% rate for the received dividends and payments of a deposit on condition that the proportion of the Russian organization that receives dividends (profit from deposits) makes no less than 50% in the capital (fund) of the paying organization. Earlier such a regulation applied only to the Russian organization whose participation in the capital of the payer exceeded RUR 500 million.

Starting with January, 1 to June 30, 2010, inclusive, regarding the expenses in the form of interests payments for liabilities evolved by November 1, 2009 the maximum interest rates that are recognized as expenses for the purposes of taxation (including the interest rates and the differences in sums for liabilities in term of conventional monetary units according to the exchange rate of conventional monetary units as established by the agreement of the sides) is assumed to be equal to the doubled refinancing rate of the Central Bank of the Russian Federation for the liabilities in rubles and to 15% - for the liabilities in foreign currency.

4. According to the Federal Law from December 27, 2009 No 374-FZ changes were made to the list and the rates of the state taxes of the Russian Federation regulated by chapter 25.3 of the RF Tax Code. A number of state taxes on the government services were increased by 2-4 times (this applies for instance to the registration of a cat, submission of an application to the court, receipt of a travelling passport, registration of mass media etc.)

5. According to the Federal Law from December 29, 2009 No 383-FZ changes were made to part 1 of the Tax Code of the Russian Federation and some regulatory acts, for instance, the Criminal Code of the Russian Federation. These changes concern a more detailed description of the procedures in case of violating the tax legislation, taking legal actions in case the orders of tax bodies are not fulfilled, transfer of the materials to the internal securities bodies, as well as changes of the penalties for violations of the law in the field of taxation.

The specifications aimed at the mitigation of the criminal responsibility for the violations of the tax legislation of natural persons and organization made to the RF Criminal Code concern the following issues.

In concordance with article 198 of the RF Criminal Code the evasion from taxes and (or) fees by a natural person by non-submission of the tax declaration and other documents, the submission of which in concordance with the legislation of the Russian Federation on taxes and fees is compulsory, or by inclusion of the misleading information in the tax declaration and such documents on a large or especially large scale is punished by the fine, the basis for which calculation is the sums, recognized as large or especially large violation.

The rates of the fines adopted by the Law have not been changes and the basis for qualification of the violation was considerably increased, which, on the whole, testifies that the responsibility for tax violations has been mitigated.

Upon adoption of the new Law for the purposes of qualification of a violation the sum of taxes which within the period of 3 financial years in a row makes more than RUR 600 thousand (on condition that the proportion of the non-paid taxes and fees exceeds 10% of the sum of taxes and fees to be paid) or the sum of concealment exceeding RUR 1.8 million is recognized as a large concealment. The sum of taxes which within the period of 3 financial years in a row makes more than RUR 3 million (on condition that the proportion of the non-paid taxes and fees exceeds 20% of the sum of taxes and fees to be paid) or the sum of concealment exceeding RUR 9 million is recognized as an especially large concealment. Earlier the sum of taxes which within the period of 3 financial

years in a row made more than RUR 100 thousand or the total sum of RUR 300 thousand was recognized as a large concealment, and the sum of taxes which within the period of 3 financial years in a row made more than RUR 500 thousand or the total sum of RUR 1.5 million - as an especially large concealment.

Upon the adoption of the new Law in concordance with article 199 of the RF Criminal Code for the purposes of qualification of the violation of the law, the sum of taxes which within the period of 3 financial years in a row makes more than RUR 2 million or the sum of concealment exceeding RUR 6 million is recognized as a large concealment. The sum of taxes which within the period of 3 financial years in a row makes more than RUR 10 million or the sum of concealment exceeding RUR 30 million is recognized as an especially large concealment. Before the Law was adopted the sum of taxes which within the period of 3 financial years in a row made more than RUR 500 thousand or the total sum of RUR 1.5 million was recognized as a large concealment, and the sum of taxes which within the period of 3 financial years in a row made more than RUR 2.5 million or the total sum of RUR 7.5 million - as an especially large concealment.

6. According to the Federal Law from December 17, 2009 No 318-FZ changes were made to the RF Tax Code, concerning the implementation of application procedure for VAT reimbursement. The Law defines the procedure for submission of the application, its consideration and the possibilities for decision. It is important that the application for VAT reimbursement can be submitted either by (a) a large taxpayer (whose own tax liabilities within the preceding 3 years made no less than RUR 10 billion) or (b) by a taxpayer that together with the tax declaration submitted a valid bank guarantee envisaging the liability of the bank to pay to the budget on behalf of the taxpayer the sums of the tax that were received by him (taken into account) excessively as a result of reimbursement of the tax by application in case the decision on the reimbursement of a cum of the tax that was applied for reimbursement is cancelled totally or partially. It should be noted that only the guarantees from the banks included in the corresponding list are recognized, which includes only the banks with the authorized capital of no less than RUR 500 million and the own funds of no less than RUR 1 billion.

7. According to the Letters of the RF Ministry of Finance from December 18, 2009 No 03-07-15/167 and the Federal Tax Service from December 29, 2009 No ShS -22-3/985@ the procedure for application of VAT deductions when executing geologic and exploration works, including the boring of search and exploration wells in case later these wells are recognized as dry and are liquidated without the start of exploitation.

The RF Ministry of Finance has explained that, according to the general procedure, in order for the paid VAT to be accepted for the deduction (reimbursement) the following conditions should be met: the purchased goods (works, services) were to be accepted for accounting, there are invoices for purchased goods (works, services) and these goods (works, services) were purchased for entrepreneurial activity with the purpose of deriving income. Since the purchase of the geological information is necessary to develop a plot of subsoil for the purposes of oil production, the sum of VAT claimed for the geological and exploration works is to be deducted according to the generally established procedure including for those oil wells that are liquidated without the start of exploitation.

8. According to the Letter from the RF Ministry of Finance from December 24, 2009 No 03-02-07/1-561 the issue on submission of the single (simplified) tax declaration by a taxpayer to a taxation body is explained. In concordance with paragraph 2 article 80 of the RF Tax Code the persons recognized as taxpayers of one or several taxes and not making operations resulting in transfer of the monetary funds on its banking accounts (in the organization's cash-point) and not possessing the objects of taxation for these taxes submits the single (simplified) tax declaration.

The RF Ministry of Finance explains that in case the taxpayer does not have an object of taxation, and there were transfers in the banking accounts, the taxpayer does not have any reasons to submit the declaration in the simplified form. Chapters 21 (VAT), 25 (taxation of profit) and 30 (tax on organizations' profit) of the RF Tax Code do not exempt the taxpayers from submitting

the declaration for the corresponding taxes that is why the zero tax declaration should be submitted separately for each of the taxes according to the form established for it.

9. According to the Letter of the RF Ministry of Finance from December 25, 2009 no 03-07-11/331 the issue on the application of VAT by an autonomous organization when executing works (rendering services) for legal entities and natural persons within the framework of the task of the founder of the given organization is clarified.

The RF Ministry of Finance explained that the autonomous organization is not a government body and hence the privilege envisaged by paragraph 2 article 146 of the RF Tax Code concerning the exemption of the operations of the government bodies and local governments from VAT within the executing the unique authority they have does not apply to the autonomous organizations. The taxation of the works (services) of the autonomous organization should be made according to the general procedure regardless of the source of payment for these works (services), even in case such works (services) are made for free.

10. According to Letters of the RF Ministry of Finance from December 25, 2009 No 03-11-09/415 and from December 28, 2009 No 03-11-06/3/304 the question on application of the statements of chapter 26.3 “The system of taxation in the form of the single tax on the imputed income for some kinds of activities” regarding the activity of leasing (1) a shop; (2) warehouses for (a) retail and (b) wholesale trade, as well as for the storage of goods was clarified.

The RF Ministry of Finance explained that in concordance with subpoint 13 point 2 article 346.26 of the RF Tax Code single tax on the imputed income is applied for some kinds of activities, for instance, for the entrepreneurial activity in the sphere of rendering services for transferring for the temporary ownership and (or) use of the site for trading located in the objects of the stationary trading chain with no trading halls, objects of non-stationary trading chain, as well as the objects of the organization of catering without the hall for clients servicing.

A shop is a specially equipped building (part of the building) envisaged for sale of goods and rendering services to the clients and equipped with the trading, auxiliary, administrative premises, as well as premises for receipt, storage of goods and their preparation for sale. Correspondingly, the activity of leasing a shop cannot be transferred to the single tax on the imputed income.

The entrepreneurial activity connected with the leasing of the warehouses for the purposes of wholesale or exclusively for the purposes of goods storage (as store premises) by the lessee is also not subject to be transferred to the single tax on the imputed income.

As for the entrepreneurial activity of leasing the warehouses for the purposes of organization of the retail trade and storage of goods by the lessee, that are to be later sold on the rented premises, then, in case the conditions of chapter 26.3 of the Code are fulfilled, such activity may be transferred to the taxation with the single tax on the imputed income.

11. According to the Letter of the RF Ministry of Finance from December 28, 2009 No 03-02-07/1-576 the question on the unpaid accounting documents drawn by the taxation bodies to the banks' clients was clarified. The RF Ministry of Finance made a conclusion on the banks not having a right to return encashment letter of the tax bodies to the collectors proves its position by investigating the statements of the RF Tax Code only. However, the RF Tax Code does not regulate the charging and payment operations. It would be more correct to refer to paragraph 12.7 of the Regulations of the Central Bank of the Russian Federation from October 3, 2002 No 2-P “On non-cash payments in the Russian Federation”, in concordance to which the banks rendering services to debtors execute the received encashment letters with the submitted executive documents or, in case the monetary funds on the account of the debtor are insufficient or lacking for the satisfaction of the collector's demands, make a note on the encashment document on full or partial non-execution of the requirements on connection with the absence of the monetary funds on the account of the debtor and place the encashment letter with the attached executive document to the files for non-balance account No 90902H “Accounting documents not paid duly” (so-called file No 2, taken into account by the bank balance). Encashment letters referred to the files No 2 of the bank are executed with the monetary funds are received according to the order established by the legislation.

12. According to the Letter from December 29, 2009 No 03-04-05-01/1032 the RF Ministry of Finance answered a private question on the calculation of the tax on personal incomes when the participant leaves the society. Basing on the references to paragraph 1 article 219 and article 212 the RF Ministry of Finance concluded that when a participant leaves the society the profit in the form of the paid real value of the share emerges which is to be taxed with the tax on the personal incomes emerges and no double taxation is made.

The position of the RF Ministry of Finance can be illustrated in the following way.

In concordance with article 90 of the RF Civil Code the authorized capital of the limited liability company is made out of the value of its shares purchased by the participants. Thus, the profits from the realization of a share of participation in the capital of the limited company are, in fact, according to paragraph 2 subpoint 5 point 1 article 208 and point 1 article 219 of the RF Tax Code the objects for taxation with the personal incomes tax.

In contrast to securities and futures such an object as material benefit envisaged by point 3 article 212 in the form of the excess of the market value over the real price of the deal does not apply to the shares of participation and other property rights. That is, regardless of the market price by the date of the purchase of the share of participation in the capital of the limited company, the taxation base in the form of the material benefit is not calculated for it and the expenses for its purchase are fixed at the level of cash expenses.

When selling a share (its part) in the authorized capital of the limited company the taxpayer has a right, according to subpoint 1 point 1 article 220, to reduce the sum of the incomes levied with tax by the sum of the expenses made and proved by documents connected with the receipt of these incomes. That is why the difference between the earnings and the real expenses for purchase proved by documents is to be levied with the tax. Thus, there is in fact no double taxation.

In concordance with subpoint 2 point 1 article 228 the liability to pay the tax from such incomes is incumbent directly on the taxpayer (and not on the tax agent).

Besides, the Letter of the RF Ministry of Finance and the RF Federal Tax Service from June 25, 2009 No MN-22-6/511@ “On fulfillment of the statements of the Federal Law No 312-FZ from December 30, 2008 by the taxation bodies” should be taken into account, in which the situations connected with the registration of the limited liability companies, filling in the documents and other bureaucratic details defining the transfer of the property to the share of the participant of the limited liability company is quite specifically analyzed.

13. According to the letter of the RF Ministry of Finance from December 31, 2009 No 03-02-08/95 it is clarified that in concordance with point 11 article 40 of the RF Tax Code when defining and recognizing a market price of goods (works, services) the official sources of information on market prices for goods (works, services) and exchange quotations are used. The list of the official sources of information on market prices is not defined by the RF Tax Code. Hence, in the opinion of the RF Ministry of Finance, when applying the market prices the information on prices published in the official publications of the authorized bodies including statistics and pricing bodies can be used.

14. According to the Letter of the RF Ministry of Finance from December 31, 2009 No 03-03-06/1/835 the question on the period for accounting for the purposes of amortization calculation of the fixed assets subject to the state registration (objects of immovable property etc.) is clarified. For instance, the RF Ministry of Finance concludes that when reorganizing in the form of affiliation, the affiliated company charges amortization in the tax accounting up to the month (inclusive) when the reorganization was completed. At the same time the organization that received the amortized property as a result of reorganization in the form of affiliation, has a right to charge amortization for the property mentioned starting with the 1st day of the month following the month when the reorganization has been completed. At the same time, as it is underlined by the RF Ministry of Finance, for the objects of fixed assets the rights for which are to be registered by the state the amortization is charged by the reorganized organization starting with the date mentioned only on condition that the taxpayer has received the docu-

mental prove of the fact of submission of the documents for registration of the rights for this property by that time.

15. According to the Letter of the RF Ministry of Finance from January 11, 2010 No 03-11-06/1/01 the questions on application on the single agriculture tax are clarified, for instance the procedure for definition of the proportion of the agriculture goods in the total amount of the produced goods. Since, in concordance with subpoint 1 point 5 article 346.5 of the RF Tax Code when defining the object of the taxation the incomes of the taxpayers of the single agriculture tax are defined by cash method, when calculating the percentage proportion of the incomes from the sale of the agriculture goods produced by taxpayers in the total incomes from sale of goods (works, services), the taxpayers should take into account the total incomes basing on cash method.

16. According to the Letter of the RF Ministry of Finance from January 12, 2010 No 03-02-07/1-9 the question on the accounting of the expenses that were not accounted in the preceding taxation periods is clarified. For instance, the RF Ministry of Finance explained that the sums of the underaccounted expenses for the profit tax over the preceding periods which resulted in excessive payment of the tax can be taken into account when recalculating the taxation base in the taxation (accounting) period when the mistake was revealed. It should be remembered, that in case the taxpayer finds a mistake which resulted in the reduction of the tax liabilities, the taxpayer has to recalculate the tax liabilities for the period to which the mistake refer (point 1 article 54 of the RF Tax Code).

17. According to the Letter of the RF Ministry of Finance from January 12, 2010 No 03-11-06/2/01 the question on the accounting the expenses for the purchase of fixed assets when applying the simplified taxation system is clarified.

According to subpoint 4 point 2 article 346.17 of the RF Tax Code the expenses for the purchase (construction, production) of the fixed assets are accepted for deduction after these fixed assets have been put into implementation and for the purposes of the simplified taxation system are reflected on the last day of the accounting (taxation) period at the rate of the sums paid. Within the taxation period the expenses are accepted for accounting periods in equal shares. That is, as the RF Ministry of Finance explained, the expenses for fixed assets put into implementation in 2010 and paid by parts in the period from 2010 and 2011 can be taken into account when defining the taxation base for the simplifies taxation system during 2010 at the rate of payments made. ●

REVIEW OF ECONOMIC LEGISLATION

I.Tolmacheva

At the end of December 2009 – January 2010 the changes were made to the legislative acts concerning the issues of formation of the authorized capital of economic entities; the possibility for the receipt of the status of scientific centers by the scientific organization regardless their organization and legal form was stipulated; the refinancing rate of the Bank of Russia was decreased down to 8.75 % per annum; the procedure for making monthly payments established by the Federal Law on “monetization of privileges” was changed.

I. Federal Laws of Russian Federation

1. “ON MAKING CHANGES TO SOME LEGISLATIVE ACTS OF THE RUSSIAN FEDERATION CONCERNING THE RECONSIDERATION OF THE LIMITATIONS FOR THE ECONOMIC ENTITIES WHEN FORMING THE AUTHORIZED CAPITAL, RECONSIDERATION OF THE WAYS TO PROTECT THE RIGHTS OF CREDITORS WHEN REDUCING THE AUTHORIZED CAPITAL, CHANGES IN THE REQUIREMENTS TO THE ECONOMIC ENTITIES IN CASE THE VALUE OF AUTHORIZED CAPITAL DOES NOT CORRESPOND TO THE VALUE OF NET ASSETS, RECONSIDERATION OF LIMITATIONS CONNECTED WITH THE EMISSION OF BONDS BY ECONOMIC ENTITIES” from 27.12.2009 No 352-FZ

Came into effect on 31.12.2009

In concordance with the changes made to the Civil Code of the Russian Federation, Federal laws “On joint-stock companies”, “On securities market”, “On banks and banking activity”, “On state registration of the economic entities and individual entrepreneurs”, for instance, the possibility of the use of the attracted funds to form the authorized capital of a crediting organization is specified as well as the possibility to pay for the authorized capital of a limited liability company in case the authorized capital is increased by settling the claims to the company, the procedures required for a joint-stock company to implement upon adoption the decision on the decrease of its authorized capital is specified. The limitations for the output of the bonds by a company as well as the consequences of the authorized capital of a company being inconsistent with the value of its net assets were changed. New norms regulating in detail the emission of the bonds by economic entity were established.

2. “ON MAKING CHANGES TO ARTICLE 5 OF THE FEDERAL LAW “ON SCIENCE AND STATE SCIENTIFIC AND TECHNICAL POLICY” from 27.12.2009 No 358-FZ

The possibility to receive a status of the state scientific centers by a scientific organization regardless of its organization and legal form was established by law. Such a change has been made to article 5 (“Scientific organization”) of the Federal Law “on science and state scientific and technical policy”. Before the mentioned amendment was made the status of a state scientific center could be granted only to a scientific organization that had been under the authority of a federal executive body or the state academy of sciences and its regional divisions.

II. Decree of the Government of the Russian Federation

1. “ON APPROVING THE REGULATIONS FOR RENDERING SERVICES ON ORGANIZATION OF TRAFFIC OF TRANSPORT VEHICLES ALONG THE PAID MOTORWAYS OF THE GENERAL USE OF FEDERAL IMPORTANCE, OF PAID STRETCHES OF SUCH MOTORWAYS” from 19.01.2010 No 18

“Regulations of services rendering for organization of traffic of transport vehicles along paid motorways...” have come into the effect. The use of a paid motorway (paid stretch of a motorway) is made according to the contract made, for instance, by paying for the passing card, paying for the pass at the point of payments receipt, entrance to the paid motorway. The amount of payment is established by the operator (owner of a paid road, concessioner, in case the paid road is used

according to the concession). The maximum size of such payment is established by the Government of the Russian Federation. The collection of other payments except for the payment for passing is prohibited. The size of the payment for passing may differ for different types of transport vehicles depending on the time of the day, day of the week or month. The operator has to submit full and exact information on the rendered services to the user. This information should contain the following: the scheme of the paid road with the marks for the points of payment and the road for alternative free passing, information about the operator, the size of the payment for passing, list of privileged users. The regulations also define the rights and liabilities of the operator and user of the paid motorway.

III. Orders, Letters, Instructions

1. Order of the Central Bank of the Russian Federation “ON REFINANCING RATE OF THE BANK OF RUSSIA” from 25.12.2009 No 2369-U

Starting with December 28, 2009 the refinancing rate of the Bank of Russia is established at the level of 8.75% per annum. Earlier, from November 25, 2009 the refinancing rate of 9% per annum was in effect.

2. Order of the Ministry for Health Care and Social Development of the Russian Federation “ON MAKING CHANGES TO THE ORDER OF THE MINISTRY FOR HEALTH CARE AND SOCIAL DEVELOPMENT OF THE RUSSIAN FEDERATION FROM NOVEMBER 30, 2004 NO 294 “ON ESTABLISHING THE PROCEDURE FOR MAKING MONTHLY MONETARY PAYMENTS TO SOME CATEGORIES OF CITIZENS OF THE RUSSIAN FEDERATION” from 17.12.2009 No 994n

Registered in the Ministry of Justice of the Russian Federation on 29.12.2009 No 15890

The procedure for making monthly monetary payment set in concordance with the Federal Law “on monetization of privileges” (from August 22, 2004 No 122-FZ). The Order of the Ministry of Health Care and Social Development regulating the procedure for making the payments mentioned defines the procedure for establishing this payment to the citizens without conducting additional reconsideration from January 1, 2010 – in contrast to the procedure that had been in effect before this date the payment will be established depending on group of disability and not the extent of the limited working ability; at the same time the correspondence between the groups of disability and the extent of limited working ability applied for the purposes of establishing the payment were defined. Besides, the procedure for recalculation of the set payment which will be made in case the disabled is given higher or lower group of disability. ●

CHANGES IN NORMATIVE BASIS OF BUDGET PROCESS

M.Goldin

In January 2010 the following changes were made to the normative basis of budget process in January 2010: according to the Decree of the Government of the Russian Federation the experiment on the stimulation of the purchase of new motor vehicles to replace those put out of operation and handed over for utilization is carried out; new regulations for formation and use of the Investment Funds of the Russian Federation are introduced.

According to the Decree of the Government of the Russian Federation from 31.12.2009 No 1194 “On conducting experiment on stimulation of the purchase of new motor vehicles to replace those put out of the operation and handed over to utilization and on creation in the Russian Federation the system of collection and utilization of the motor vehicles put out of the operation” starting with January 1, 2010 and till December 31, 2010 the experiment on stimulation of purchase of new motor vehicles to replace those out of operation and handed over to utilization.

The Decree has been adopted in concordance with part 5 article 24 of the Federal Law “On budget for 2010 and for the planning period of 2011 and 2012” and for the purposes of support of the Russian automobile industry, increase of the safety of road traffic and stabilization of the ecologic situation.

According to the Decree for fulfillment of the experiment the following sums of:

1. RUR 50 million is directed to organization of the experiment on stimulation of purchase of new motor vehicles, the total mass of which does not exceed 3.5 tons, to replace those out of operation and handed over to utilization, the total mass of which does not exceed 3.5 tons and the age of which exceeds 10 years and to creation in the Russian Federation the system of collection and utilization of the motor vehicles put out of the operation;

2. RUR 10 billion to grant subsidies to compensate for the losses of profits to the trading organization when selling motor vehicles within the framework of the experiment;

3. RUR 1 billion is directed to the direct granting of subsidies to compensate for the losses of the trading organizations evolving when transporting the motor vehicles that were put out of operation the total mass of which does not exceed 3.5 tons and the age of which exceeds 10 years to the utilization points.

Besides, the Decree establishes:

- Regulations for granting subsidies from the federal budget to compensate for losses of incomes of the trading organizations when selling the automobiles of Russian origin with a discount;
- Criteria for selection of the models and producers of new motor vehicles of Russian origin sold within the framework of the experiment.

It should be noted that earlier the measures to stimulate the demand for the purchase of motor vehicles have already been taken. For instance, the Regulations of granting the subsidies to the Russian crediting organizations from the federal budget to compensate for the lost income from the credits issued by the Russian crediting organizations to the natural persons for the purposes of motor vehicles purchase, adopted by the Decree of the Government of the Russian Federation from 19.03.2009 No 244, established the procedure and the conditions for granting the subsidies to the Russian crediting organizations from the federal budget to compensate for the lost income from the credits issued by the Russian crediting organizations to the natural persons for the purposes of motor vehicles purchase.

According to the Decree of the Government of the Russian Federation from 31.12.2009 No 1189 “On making changes to the Regulations on formation and use of budget allotments of the Investment Fund of the Russian Federation” new regulations of formation and use of budget allotments of the Investment Fund of the Russian Federation were developed.

The amendments, for instance, envisage stricter requirements for the investors that want to take part in the project. For instance, it is established that the investor should correspond to the indices of the absolute and relative financial stability, approved by the Ministry of Regional Development of the Russian Federation. According to new statements the budget allotments of the Investment Fund are granted exclusively to finance the creation and (or) development of the objects of capital construction of transportation, energetic and engineer infrastructure, as well as for the realization of concession projects. The means of the fund will be granted only on condition that the proportion of financing at the expense of the investor's funds of the project of the all-state significance is no less than 25%, and of regional investment project – no less than 50%. ●