5.7. RF Real Estate Market

5.7.1. Land Market

On January 1, 2009 there was 7.3% of all the land of the Russian Federation in the ownership of citizens of the Russian Federation and 0.5% in the ownership of legal entities (*Table 1*).

Table 1

Structure of the Lands of the Russian Federation as Broken Down by Forms of Ownership as of January 1, 2009

Forms of ownership	Ha, mln	%
Federal and municipal property	1576.9	92.2%
The property of individuals	124.3	7.3%
Including individual land shares	107.4	6.4%
Property of legal entities	8.6	0.5%
Total	1709.8	100.0%

Source: Federal Service of State Registration, Inventory and Mapping ("Rosreestr") data.

Of the 132.9 million hectares of land in private ownership in 2008, there was 2.42 million hectares in circulation (*Table 2*), or only 1.8%.

Table 2

Areas Involved in Transactions with Land in Private Property, by Federal Regions of the Russian Federation in 2008 (Ha)

Federal regions of the Russian Federation	Land sales by individuals and agencies	Transfer by way of gift	Inheritance	Pledge	Total
Russian Federation	1 067 302.6	335 042.2	596 197.3	416 637.0	2 415 179.1
Central Region	340 376.0	35 152.9	208 874.2	128 049.2	712 452.3
North-West Region	30 924.2	3 194.0	5 264.6	17 858.8	57 241.6
Southern Region	34 257.3	67 678.3	36 967.8	4 515.9	143 419.3
Volga Region	196 346.9	123 100.0	278 490.1	168 654.3	766 592.1
Urals Region	160 390.8	11 628.3	31 167.7	5 435.4	208 622.2
Siberia Region	293 819.0	93 181.7	35 014.3	89 045.7	511 060.7
Far East Region	11 188.4	1 106.2	418.6	3 077.7	15 790.9
Structure of transactions with the private land plots in the RF within 2008, %	44.19	13.87	24.69	17.25	

Source: Federal Service of State registration, Inventory and Mapping ("Rosreestr") data.

The turnover of federal and municipal land in 2008 amounted to 114.5 million hectares – land transferred to lease (*Table 3*). This figure is comparable with the total area of land in private ownership - 132.9 million hectares. A significant area of land leased in Russia belongs to the Urals Region, 27.4% of the total area of leased lands of federal and municipal property, the Far East Region (22.7%), and Siberia (22.3%) federal districts, where to large areas of deer pastures are leased. In particular, in the Chukotka Autonomous District there registered leases for the area of 24780.0 thousand hectares, in Yamalo-Nenets Autonomous District - 30,109.2 thousand hectares, mainly for deer pastures.

Table 3

Characteristics of the Turnover of State, Municipal and Private Land

Federal regions of the Russian Federation	Total land area (by State Register), ha, thousand	Land in the state and municipal ownership (by State Register) ha, thousand	Including: transferred to lease		Land owned by individuals and legal entities (by State Register), ha, thousand	Including: sold, inherited, gift, mortgaged in the reporting year	
			Ha, thousand	The share of leased land the total Region area (percentage of total leased land) %		Ha, thousand	Share of land in the turnover versus land in private ownership in the Regions, %
Russian Federation	1 709 824.2	1 576 884.2	114 531.9	7.26 (100)	132 940.0	2415.2	1.82
Central Region	65 020.5	40 532.3	2 721.6	6.71 (2.4)	24 488.2	712.5	2.91
North-West Region	168 696.8	163 764.7	13 189.8	8.05 (11.5)	4 932.1	57.2	1.16
Southern Region	59 131.5	35 643.8	8 527.2	23.92 (7.4)	23 487.7	143.4	0.61
Volga Region	103 697.5	68 047.5	7 210.6	10.60 (6.3)	35 650.0	766.6	2.15
Urals Region	181 849.7	171 998.0	31 361.5	18.23 (27.4)	9 851.7	208.6	2.12
Siberia Region	514 495.3	482 326.5	25 553.8	5.30 (22.3)	32 168.8	511.1	1.59
Far East Region	616 932.9	614 571.4	25 967.4	4.23 (22.7)	2 361.5	15.8	0.67

Source: Federal Service of State registration, Inventory and Mapping "Rosreestr" data.

In 2008 there were executed 441.8 thousand lease transactions with the state-owned and municipal land area of 15.7 million hectares against 19.9 million hectares in 2007. There was sold 0.5 million hectares sold of the state and municipal land through 292.8 thousand transactions, more than in 2007, when there were 233.7 thousand transactions with the total land area of 0.37 million hectares. In the private sector in 2008 there were committed 794.8 thousand transactions with the land area of 2.415 million hectares. In 2007, there were a little less transactions, 643.4 thousand with a smaller area - 1.2 million ha. Altogether, in 2008, there were 1.545 million transactions with the land area of 18.9 million hectares. The number of transactions involving the sale of land at the auctions, as compared with 2007 in Russia has increased from 16.337 to 22.916 plots, in terms of the square area - from 138.019.6 ha to 164.477.7 ha (*Table 4*).

Table 4

Transactions with Land in the Russian Federation

Transaction type	Number of transactions (area, Ha)			
	2005	2006	2007	2008
1.Rent of the state and municipal land (accrued total), including:	3 621 086	3 737 574	3 628 109	3 677 315
	(68 230 403.0)	(104 827 034.0)	(114 103 370.5)	(114 531 856.7)
1.1 Transactions made in reporting year	474 128	522 487	472 732	441 842
	(14 580 742.0)	(5 775 551.0)	(19 941 450.0)	(15 698 127.8)
2. Sale of lease rights for the state and municipal land	5 854	7 068	13 835	15 684
	(23 316.0)	(124 954.0)	(149 275.9)	(315 888.9)
3. Sale of the state and municipal land, including:	154 702	176 751	233 706	292 847
	(91 446.0)	(262 791.0)	(369 382.7)	(503 813.3)
3.1. Through auctions	9 562	10 793	16 337	22 916
	(35 250.0)	(57 406.0	(138 019.6	(164 477.7

Transaction type	Number of transactions (area, Ha)			
	2005	2006	2007	2008
Total effective transactions with state and municipal lands (accrued total), including:	3 781 642	3 921 393	3 875 650	3 985 846
	(68 345 166.0)	(105 214 779.0)	(114 622 029.1)	(115 351 558.9)
In the current year	634 684	706 306	720 273	750 373
	(14 695 504.0)	(6 163 296.0)	(20 460 108.6)	(16 517 830.0)
4. Land sale/purchase by individuals and legal entities	378 215	400 075	405 670	473 190
	(293 955.0)	(467 686.0)	(560 285.5)	(1 067 302.6)
5. Gifted	31 824	43 437	49 715	73 334
	(57 528.0)	(70 355.0)	(126 596.4)	(335 042.2)
6. Inherited	147 653	165 847	162 151	218 244
	(133 820.0)	(524 352.0)	(336 091.7)	(596 197.3)
7. Pledged	7 479	14 388	25 907	30 024
	(16 959.0)	(169 437.0)	(198 856.0)	(416 637.0)
Total transactions made by individuals and legal entities	565 171	623 747	643 443	794 792
	(502 261.0)	(1 231 830.0)	(1 221 829.6)	(2 415 179.1)
Total transactions with regard to all existing leases (accumulated total), including	4 346 813	4 545 140	4 519 093	4 780 638
	(68 847 427.0)	(106 446 609.0)	(115 843 858.7)	(117 766 738.0)
Transactions within	1 199 855	1 330 053	1 363 716	1 545 165
Current year	(15 197 765.0)	(7 395 126.0)	(21 681 938.2)	(18 933 009.1)

Source: Federal Service of State registration, Inventory and Mapping “Rosreestr” data.

The highest land prices are formed near the major centers. However, the information on land plots, as defined in the contracts of the land sale does not always correspond to actual market prices. As a rule, according to the authors of the State (National) Report on the Status and Development of Land in the Russian Federation in 2008"[1], the prices specified in the contracts for land sales are underestimated, and sometimes standard indicators of the land price of 1992-1993 are used, as well as legally established prices for land owners of buildings, structures and facilities located on the land. *Table. 5* shows the average prices of the state and municipal lands as of the result of sales in 2008.

Mortgage of land in 2008 in the turnover of land in private ownership amounted to 3.8% of the total number of transactions and 17.25% of the area. In 2007 – 4.03% of the number of transactions and 16.27% of the area.

The number of transactions secured by land in 2008 increased by 15.8% as compared with 2007, and the increase in the area of mortgaged land plots was more than doubled (*Fig. 1*).

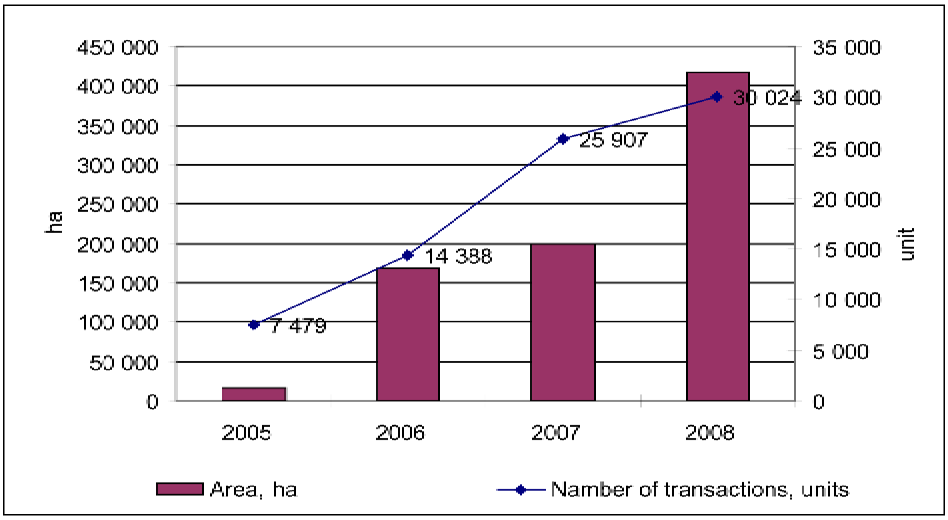
[1] "The National report on the status and development of lands in the Russian Federation in 2008." Ministry of Economic Development, Federal Agency for Real Estate Cadastre, Rosnedvizhimost, 2008, Federal State Unitary Enterprise "FCC Earth ", 2008.

Table 5

Average Prices for State and Municipal Land Sold to Individuals and Legal Entities in the Russian Federation in 2008, RUR /sq. m and an Increase in Average Prices in 2008 as Compared with the Preceding Year,%

Federal regions of the Russian Federation	To individuals and associations thereof for:				To legal entities for industrial use and other targeted purpose		Farmers, other agricultural enterprises	
	For individuals and associations thereof for housing construction		Individual household farming, gardening, and husbandry					
	In settlements	Outside settlements	In settlements	Outside settlements	In settlements	Outside settlements	In settlements	Outside settlements
Russian Federation	118.96	8.92	11.93	5.62	46.5	6.96	29.92	1.42
2008/2007	3.8	1.4	1.9	0.8	0.8	0.4	8.4	1.6
Central Region	72.29	7.72	16.22	8.7	47.27	16.22	65.84	0.85
2008/2007	1.3	1.0	1.1	0.7	0.8	0.6	65.2	0.5
North-West Region	604.5	9.29	41.39	9.53	32.62	4.91	3.95	2.35
2008/2007	44.4	2.6	11.5	2.8	0.6	0.5	1.3	0.9
Southern Region	129.94	176.16	21.3	1.94	85.06	4.67	6.37	0.47
2008/2007	3.2	X	4.2	2.0	1.7	0.3	0.7	0.1
Volga Region	23.68	8.56	5.09	9.69	40.44	3.21	5.27	2.75
2008/2007	1.4	1.2	1.0	1.4	0.6	0.8	1.9	10.2
Urals Region	16.62	0.72	1.32	0.54	28.79	1.21	1.89	0.05
2008/2007	0.5	X	0.8	0.9	1.0	0.2	2.1	0.0
Siberia Region	43.12	0.41	5.11	7.01	42.5	6.48	0.49	1.49
2008/2007	2.0	0.2	2.9	4.4	0.8	2.2	0.3	3.2
Far East Region	11.38	0.1	3.34	0.1	24.38	1.36	0.1	0.03
2008/2007	1.7	0.1	1.7	1.4	1.3	0.2	0.0	3.0

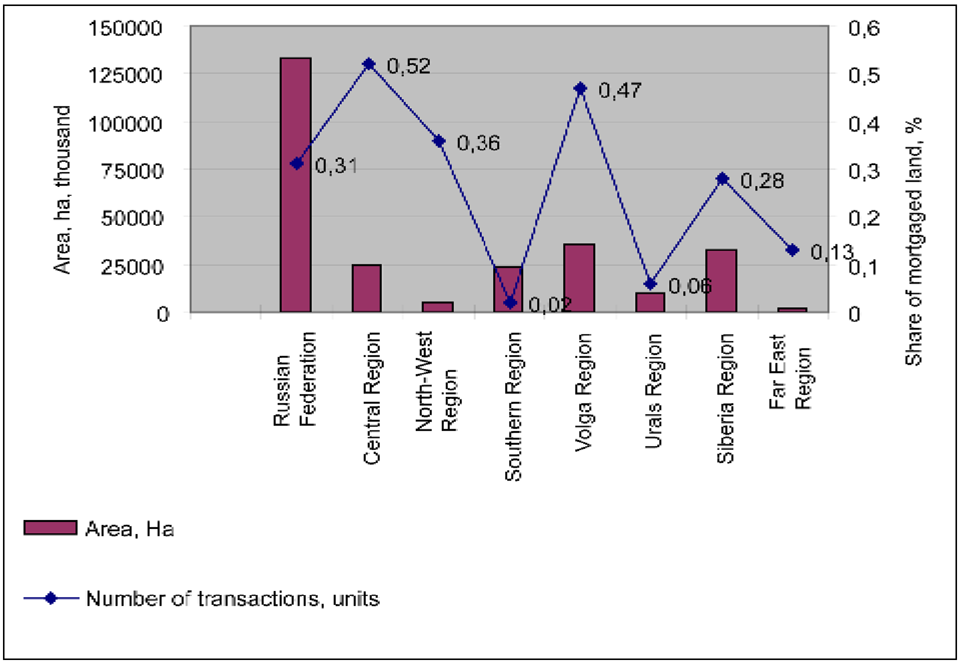
Source: Federal Service of State Registration, Inventory and Mapping (“Rosreestr”) data



Source: Federal Service of State registration, Inventory and Mapping (“Rosreestr”) data

Fig. 1. Dynamics in the Land Pledges

In 2008, the area of mortgaged land plots in the total area owned by individuals and organizations in Russia made on average 0.31%, varying from 0.02% in the Southern Federal District to about 0.52% in the Central Federal District (*Fig. 2*). While the bulk of the mortgaged land (85.5%) is agricultural land (356,020.7 hectares), they account only for 4.7% of mortgage contracts for land (1403 units). The average area of the mortgaged land for agricultural purpose is 253.7 hectares, and the average area of the mortgaged land plot from the lands of other categories is 2.12 ha.



Source: Federal Service of State registration, Inventory and Mapping "Rosreestr" data

Fig. 2. Land Mortgage in Federal Regions of the Russian Federation in 2008

Changes in the state system of registration of immovable property rights and transactions, including the registration of mortgages, based on the law as amended in 2004, have been continued in the reform of the entire system of registration of real property and registration of rights thereto. In the end, the Government of the Russian Federation, in accordance with Presidential Decree of 25 December 2008, on June 1, 2009 adopted a resolution № 1847 "On the Federal Service of State Registration, Cadastre and Mapping (Rosreestr). According to the Resolution, the Federal Service, along with the implementation of state registration of rights for immovable property and transactions with it and state cadastre maintaining state registries of: cadastral engineers, self-regulating organizations of appraisers, arbitration managers and self-regulating organizations of arbitration managers, as well as supervision of self-regulatory organizations compliance with the relevant federal laws and other legal acts regulating their activity. Rosreestr has the functions of state land and geodetic control, for the land evaluation and monitoring and land monitoring. The Service provides licensing of geodesic and cartographic activities, is the authorized body in terms of geographic names, and is monitored by the RF Ministry of Economic Development.

On September 14, 2009 the RF Government adopted Resolution № 732 "On maximum fees to be charged by agencies for issuing of extracts from accounting and technical documents, statements on buildings, structures, premises or on the unfinished construction, state technical registration of which was made before the day of entry into force of the Federal Law "On National Real Estate Cadastre" or in the transitional period of its application".

The State Duma passed the law that extends the "country house amnesty" for another five years until March 1, 2015.

5.7.2. Russian Housing Market in 2009: from the Crisis Downfall to Stagnation

The situation in the Russian housing market in 2009, like in other sectors of the economy was dependant on the highly negative dynamics of macroeconomic and financial indicators, which has gained force since the fall of 2008.

First of all, it is worth noting a large external debt of Russia, which by the beginning of October 2008 reached more than 540 billion dollars (43% of GDP)[1]. It was mainly due to the receipt of relatively cheap and "long" credits abroad by the Russian banks and companies of the real sector (including a significant share – by the developers). In view of the global financial crisis, since spring-summer 2008, foreign banks have stopped lending and restructuring the debts of Russian borrowers. In August and September there began a liquidity crisis in the banking system and investment in construction was suspended. At the same time lending to the population, primarily mortgage was sharply reduced.

Since September 2008, there was observed an increasing decline in real monthly disposable income. Outlined in 2009 revenue growth has not yet inspired the population to spend savings, as the people did not have enough confidence in the stability of the economic situation. According to the surveys conducted by the State Statistics Service, the share of respondents who make savings in order to purchase real estate, which was 23-25% in the I-III quarter of 2009, in the IV quarter exceeded 28% (against 15.6% in the last quarter of 2008)[2].

Therefore, an accumulation of deferred demand is taking place in the housing market, and the transfer of the potential financial reserve to the real market depends not only on the general economic situation, but also on internal factors of the real estate market.

Secondary housing market: the major results of the year[3]

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[1] Financial crisis in Russia and in the world/ Ed. E.T.Gaidar. M., Prospect, 2009, p. 155.

[2] Socio-economic situation of Russia, 2009, M., Russian Statistical Service, p. 257.

[3] All estimates were performed by the author basing on monthly data on the average unit price of housing market offers in the cities of Russia, presented by RGR certified real estate market analysts V.M. Lutskov (ASC holding "Miel"), S.G.Sternik (LLC Sternik's Consulting), independent analysts A.G.Beketov, A.Y.Sapozhnikov (Moscow and Moscow region), S.V.Bobashev, "Bulletin of Real Estate" (St. Petersburg), M.A. Khorkova, A.A.Antasyukom, G.T.Tukhashvili (RITS UPN, Ekaterinburg), A.V.Derbusaliev, "ISC" Volga - Group "(Samara), A.M.Cheremnikh, MC ACCA Story" (Izhevsk), A.A.Stepanova, SUN "Expert" (Ufa), N.N.Afanasyeva, "Adalyn Examination of property" (Yaroslavl), E.A.Ermolaeva, RID Analitics (Novosibirsk, Kemerovo, Barnaul, Krasnoyarsk), V.M.Troshina, "Information-Analytical Centre BROCK" (Tyumen), A.M.Chumakov, "Title ", G.V.Pivovarova, " Dong-NT ", E.A.Proskurin, YUGRO (Rostov-on-Don), E.D.Epishin, Yu.V.Epishin, "Kama Valley" (Perm), V.M.Kaminsky, TITAN (Tver), G.N.Zyryanov, "KuzbassInvestStroy" (Kemerovo), N.I.Kovalchuk, RC "Service Real Estate" (Chelyabinsk), S.V.Taruta, "Magazine Real Estate" (Omsk), M.Yu.Savina, "Press and Information Agency" (Ryazan), N.A.Yarsina, "Center for Real Estate" (Ulyanovsk), A.V.Trushnikova, "B.I.N.-Ekspert" (Sterlitamak), G.U.Eidlina, "Realty" (Chakhty).
The information was presented by analysts in the currency of nomination at the market of relevant city. M.V.Preminina, graduate student in "Economics and Management of Urban Construction" Department,GV Plekhanov REA took part in the estimates.

Before the analysis of price dynamics in the Russian housing market in 2009, it should be reminded that in 2007-2008 nearly in all cities in Russia there was an increase in prices, especially in dollar terms, and herewith, after the phase of stabilization, from the end of 2007, average unit bid price continued to grow, having reached a historical peak in September-November of 2008.

It should be noted that in recent years, due to the continued RUR strengthening, a gradual transfer to ruble denomination was noted at the housing markets, and by the end of 2007, all cities, including the historically established since the 1990's area of dollar-denominated prices (Moscow and Moscow region, St. Petersburg), started to nominate prices in local currency. This fact largely affected the behavior of buyers and sellers during the crisis (we would like to remind, that during the 1998 crisis, this behavior was totally different in cities with the ruble- and dollar-denominated prices). Remarkably, during the current crisis there was no reverse transfer to dollar denomination of prices in the markets (with the exception of a small elite housing segment). In this connection, recalculation of prices in dollar equivalent at the current rate of the ruble against the dollar is given only for reference.

Since the end of 2008 a decline was started in housing prices denominated in rubles and their dollar counter value. In some cities (Ekaterinburg, Izhevsk, Ufa) ruble prices started to decline since spring of 2007, but their dollar equivalent continued to grow until autumn of 2008. The most acute phase of the downfall in prices continued until May of 2009, after which the decrease in ruble prices continued at a slower pace, and by the end of the year virtually stopped in many cities. The dollar-denominated prices, both due to the fall of the ruble prices and due to the devaluation of the ruble fell down much more by May, but then, in view of the slowing of the ruble prices decline and some strengthening of ruble exchange rate that took place in line with minor variations within an established by the RF Central Bank range, got practically stabilized.

Overall, as of the 2009 results, the downfall in prices at the housing market was country-wide.

As follows from the data of *Table 6*, the group leaders in the depth of the prices downgrading in the secondary market (from 20% to 30%) includes Izhevsk, Samara, Moscow region, Novosibirsk, Kemerovo, Tver, Perm, Chelyabinsk and Krasnoyarsk. As opposed to them, in Ulyanovsk prices grew by 3.6% within the year, while in Ryazan prices fell only by about 5%. In the majority of cities, presented in *Table 6*, Including Moscow and St. Petersburg, the downfall was from 13% to 20%.

It can be stated that at the end of 2009 prices, despite the occurred downfall, as a rule were at a higher level than at the end of 2006. The most significant price growth was observed in Shakhty city (more than twice), Ulyanovsk and Ryazan (by 36-37%), Krasnoyarsk (by 1/3). In Novosibirsk and Tyumen, the price growth did not exceed 5%. Exceptions to this trend were Yaroslavl, where the average unit price offers of apartments in December 2009 was 10% lower than in December 2006, Ufa (by 14.3% lower), Yekaterinburg (by 16.5% lower) Izhevsk (by 31.2%). At the same time, the vast majority of cities the prices by the end of 2009 fell back below the level of late 2007. The only exceptions are Moscow and Moscow Region, St. Petersburg, Ulyanovsk and Shakhty city .

Table 6

Dynamics of the Average Unit Bid Price of Apartments in the Secondary Housing Market within 2006-2009

City (region)	RUR thousand/m²				Index			
	December 2006	December 2007	December 2008	December 2009	December 2007/ December 2006	December 2008/ December 2007	December 2009/ December 2008	December 2009/ December 2006
Moscow	126.93	133.38	186.8	153.0	1.051	1.401	0.819	1.205
St. Petersburg	68.17	77.76	101.3	81.1	1.141	1.303	0.801	1.190
Moscow Region	66.3	62.13	91.0	71.5	0.937	1.465	0.786	1.078
Ekaterinburg	63.5	64.1	62.2	53.0	1.009	0.970	0.852	0.835
Samara	…	59.9	64.4	51.0	…	1.075	0.792	…
Izhevsk	48.4	45.4	41.7	33.3	0.938	0.919	0.799	0.688
Ufa	48.3	45.2	50.2	41.4	0.936	1.111	0.825	0.857
Yaroslavl	46.2	46.9	51.6	41.6	1.015	1.100	0.806	0.900
Novosibirsk	43.59	59.0	59.4	45.5	1.354	1.007	0.766	1.044
Tyumen	42.0	53.7	52.5	43.1	1.279	0.978	0.821	1.026
Rostov-on-Don	41.093	52.0	56.4	48.4	1.265	1.085	0.858	1.178
Perm	37.61	55.8	58.2	42.4	1.484	1.043	0.729	1.127
Twer	36.5	49.4	62.6	46.1	1.353	1.267	0.736	1.263
Kemerovo	36.0	45.8	53.0	40.3	1.272	1.157	0.760	1.119
Krasnoyarsk	30.29	54.3	57.0	40.3	1.793	1.050	0.707	1.330
Chelyabinsk	…	…	50.5	36.8	…	…	0.729	…
Omsk	27.82	44.2	40.0	33.4	1.589	0.905	0.835	1.200
Barnaul	…	…	39.8	34.4	…	…	0.864	…
Ryazan	26.02	36.8	37.4	35.4	1.414	1.016	0.947	1.360
Ulyanovsk	22.58	30.6	29.9	31.0	1.355	0.977	1.037	1.373
Sterlitamak (Bash-kortostan)	22.08	26.3	28.1	22.9	1.191	1.068	0.815	1.037
Shakhty (Rostov Region)	12.6	22.1	31.1	27.0	1.754	1.407	0.868	2.143

In dollar terms price reduction as of the year results made less than 3% in Ulyanovsk, nearly to 34% in Krasnoyarsk (in Moscow and St. Petersburg 23% and 25% respectively).

Turning to the analysis of real housing prices (excluding the impact of inflation), it is necessary to remind the dynamics of basic macroeconomic indicators. In the past year, consumer prices rose by 8.8%. The value of the index of real (regardless inflation) housing prices index (IGS index) as per results of 2007, 2008, 2009 and 2007-2009 as of December 2006 for a sample of cities is shown in *Table. 7*.

As follows from *Table 7*, in 2009 the decline in real housing prices by more than 1/5 was countrywide, with the exception of Ulyanovsk (less than by 5%) and Ryazan (by 13%). The group of cities with the highest (30-35%) decline of housing prices (with regard to inflation in the consumer market) included Krasnoyarsk, Chelyabinsk, Perm, Tver, Kemerovo.

If we review a three-year period of 2007-2009, during which consumer prices rose by 37.9%, the real price of housing fell to a greater extent in Izhevsk (by 50%). More than by 1/3 it fell down in Ekaterinburg, Ufa, Yaroslavl.

As opposed to that, there was a group of cities with relatively low housing prices: Shakhty city, where the real price of housing has grown in three years by more than one 1.5 times, as well as Ulyanovsk and Ryazan, where it has remained almost unchanged. Similar result was observed in Krasnoyarsk, where housing price with regard to inflation at the consumer market has declined by only 3.5%.

As to the two capitals, in Moscow and St. Petersburg real price of housing has decreased by 13-14%.

The logical consequence of falling housing prices and a crisis in the economy in general was the reduction of activity in the real estate market, what is well illustrated by data from Moscow and Moscow Region in 2008-2009.

Table 7

Indices of Nominal and Real Prices for Housing in 2006–2009.

City (region)	Nominal price index				IGS Index			
	December 2007/ December 2006	December 2008/ December 2007	December 2009/ December 2008	December 2009/ December 2006	December 2007/ December 2006	December 2008/ December 2007	December 2009/ December 2008	December 2009/ December 2006
Moscow	1.051	1.401	0.819	1.205	0.939	1.237	0.753	0.874
St. Petersburg	1.141	1.303	0.801	1.190	1.020	1.150	0.736	0.863
Moscow Region	0.937	1.465	0.786	1.078	0.837	1.293	0.722	0.782
Ekaterinburg	1.009	0.970	0.852	0.835	0.902	0.856	0.783	0.606
Samara	…	1.075	0.792	…	…	0.949	0.728	…
Izhevsk	0.938	0.919	0.799	0.688	0.838	0.811	0.734	0.499
Ufa	0.936	1.111	0.825	0.857	0.836	0.981	0.758	0.621
Yaroslavl	1.015	1.100	0.806	0.900	0.907	0.971	0.741	0.653
Novosibirsk	1.354	1.007	0.766	1.044	1.210	0.889	0.704	0.757
Tyumen	1.279	0.978	0.821	1.026	1.143	0.863	0.755	0.744
Rostov-on-Don	1.265	1.085	0.858	1.178	1.130	0.958	0.789	0.854
Perm	1.484	1.043	0.729	1.127	1.326	0.921	0.670	0.817
Twer	1.353	1.267	0.736	1.263	1.209	1.118	0.676	0.916
Kemerovo	1.272	1.157	0.760	1.119	1.137	1.021	0.699	0.811
Krasnoyarsk	1.793	1.050	0.707	1.330	1.602	0.927	0.650	0.964
Chelyabinsk	…	…	0.729	…	…	…	0.670	…
Omsk	1.589	0.905	0.835	1.201	1.420	0.799	0.767	0.871
Barnaul	…	…	0.864	…	…	…	0.794	…
Ryazan	1.414	1.016	0.947	1.360	1.264	0.897	0.870	0.986
Ulyanovsk	1.355	0.977	1.037	1.373	1.211	0.862	0.953	0.996
Sterlitamak (Bashkor-tostan)	1.191	1.068	0.815	1.037	1.064	0.943	0.749	0.752
Shakhty (Rostov Re-gion)	1.754	1.407	0.868	2.143	1.567	1.242	0.798	1.554

According to the Federal Registration Service (FRS) of Moscow, in 2008 the number of sale-purchase transactions with apartments in the capital has reduced as compared with 2007 by more than 15%, to 65.12 thousand and 76.82 thousand respectively. The number of transactions made in the I-st quarter of 2009 (8993), was by 24% less than in 2008, and in April (4757) – almost by 30%. Further decline in the volume of transactions has stopped.

In general, according to the Information of the Federal Service for the State Registration, Inventory, Cadastre and Mapping (Rosreestr) for Moscow, the number of sales-purchase transactions of apartments concluded in 2009 has decreased by 14.5% as compared with 2008 and by 27.5% against the similar indicator of 2007, accounting to 55.68 thousand. In December 2009 there were by 34% more transactions than in December 2008, but by 16.3% fewer transactions than in December 2007.

The crisis blow was much stronger to the mortgage segment of the capital housing market. The number of sales-purchase transactions in housing with mortgages in the I-st quarter of 2009 was by 62-63% lower than the similar indicators in 2008 and 2007. The share of mortgage transactions, which reached 28-30% in Moscow on the eve of the crisis, as well as in the IV quarter of 2008, has decreased to minimum values (1.5-2%) in March-April 2009. In the future, in the second half of 2009, there was a steady increase in the number of mortgage transactions and their share in the total number of transactions with housing in December reached 16%.

A somewhat different trend in activity was observed in the housing market in the suburbs of Moscow.

According to the Federal Registration Service (FRS) of Moscow Region, the number of sales-purchase transactions with apartments in 2008 has increased considerably as compared with 2007, by more than 48%, having made 53.19 thousand and 35.85 thousand respectively. But in the IV quarter of 2008, the volume of transactions decreased as compared with the same quarter of previous year by 20% - from 15.11 thousand to 12.10 thousand (not so much as in Moscow). As a result of the downfall, occurred later, in the I-st quarter of 2009 the market “reached the bottom" and later the number of transactions each quarter was growing, gradually approaching to the previous year. If in the I-st quarter of 2009, the number of transactions (6,753) was nearly half less than in the relevant period of 2008, in the second quarter (9,974 transactions) and in the third quarter (11,558 transactions) the backlog was about 29% and 19% respectively. In the fourth quarter of 2009 the number of transactions (16,516) exceeded the indicator of the same quarter of 2008 by 36.5%, being higher than that in 2007. The total number of transactions in 2009 amounted to 44.80 thousand, which is by 15.8% less than in 2008, but by 1/4 more than in 2007.

The number of sale-purchase transactions in housing with a mortgage in the Moscow Region in the I quarter of 2009 (674) was lower than the relevant indicators of 2008 and 2007 by 74% and by 12% respectively, which far less than the level of decline in the number of transactions in the capital as compared with the beginning of 2007, but more than the decrease in the number of mortgage transactions in Moscow in the I quarter of 2009 when compared with I quarter of 2008. However, in the IV quarter of 2009, it exceeded the similar indicator of 2008 by 38% and reached the level of IV quarter of 2007. The share of mortgage transactions reached in the III quarter of 2008 25%, having decreased in the I quarter of 2009 to 10%, but in the IV quarter it has grown to 18.7%.

In St. Petersburg, the volume of registered sales-purchase transactions in housing declined in 2009 to 16%. In the Rostov Region the market turnover fell down by 25%, in Nizhny Novgorod - by 35%, in the Far East Region – by 16%. In Perm Region a growth of 2% was recorded.

In general, in 2009 Federal Service for the State Registration, Inventory, Cadastre and Mapping has recorded in Russia 1.943 million transactions in housing by individuals (including exchange transaction) against 2.367 million in 2008 and 2.326 million in 2007. Therefore, the decline in 2009 amounted to about 18 % as compared with 2008 and 16.5% against 2007.

Reduced turnover in the market of apartments was accompanied by changes in other market indicators.

Total offer in the Moscow market started to grow since September 2008 and has grown from 20-25 thousand to 35-40 thousand in December. In December of 2008 - January of 2009 as a result of the outbreak of ruble devaluation and falling prices (in dollar terms) the sellers left the market, and the volume of renewed offers dropped down from 10-12 thousand to 2.4 thousand. In February-March, after the devaluation of the ruble stopped, the sellers started to come back to the market in the hope they can save the proceeds from the sale of housing, as well as the buyers, who accumulated ruble equivalent of their dollar savings and did not have further inflationary expectations.

The period of exposure of apartments on the secondary housing market of Moscow from September 2008 to January 2009 increased from 50-55 days to 104 days, but by April it was reduced to 79 days.

Therefore, in complete accordance with the dynamics of macroeconomic and financial indicators, by summer of 2009 the acute phase of the crisis on the real estate market completed and there appeared signs of stabilization in the secondary housing market of Moscow (the offers volume reached the average rate, nearly 25-30 thousand of apartments, which increases during periods of low demand up to 35-40 thousand or more. The number of transactions ceased to drop and the term of apartments exposure in the market started decrease), which led to the slowdown in the fall of the ruble prices, and in line with the trend of ruble strengthening - to the positive dynamics in housing dollar prices.

Situation in the Primary Market

Analyzing the primary housing market during the crisis, it can be noted that in Moscow the demand in it started to decline since spring of 2008 and the end of the year decreased to minimum values.

The volume of offer, due to slowdown in construction rates was declining in the past three years, and in 2007-2008 it was not only due to stagnation and reduction the total volume of housing construction, but also due to the retargeting of the economy class new buildings mainly for the implementation of various social programs. As a result, by September 2008 the volume of offer in the market was below the level of demand. In principle, such situations have occurred before, which in summer of 2008 gave hope for relatively smooth transition to the market stabilization scenario of 2007 or at worst of 2004.

As a result, according to the Analytical Consulting Centre MIEl, sales in new buildings in Moscow declined in general from 2.43 million square meters (34.2 thousand apartments) in 2005 to 1.94-1.95 million square meters (27.3-27.5 thousand apartments) in 2006-2007. However, the sales of mortgages were steadily growing from 0.31 million square meters (4.4 thousand apartments), or 12.9% of the total scope in 2005 to 0.58 million square meters (8.1 thousand apartments), or 29.5% of the total in 2007. In 2008, total volume of sales fell down by nearly 60% to 0.8 million square meters (11.3 thousand apartments), including the sales of 0.22 million square meters in mortgage (3.1 thousand apartments), or 27.6% of the total volume.

Thus, the decline in sales in the housing market started with the primary market, what happened due to the buyers' understanding of the high risk of such purchases, based on the slowdown in construction rates and the threat of freezing construction projects, what inspired the inflow of buyers to the secondary market. However, from the summer-autumn the banks started tightening mortgage lending terms up to total suspension thereof. There was almost complete suspension of sales in the market of new buildings and reduction of their volume in the secondary market. The resumed devaluation of the ruble against the dollar has provoked uncertainty among the population and pushed away from the market not only sellers, but the buyers as well. In early 2009, those processes were slowed down, and even some positive signs were noted.

In contrast to the sales of apartments in the secondary market, the market sales of apartments in new buildings (equity rights) in Moscow, the average (ruble) prices have decreased slightly in November-December 2008, but then returned to the level of September-October. In this case, not agreeing to decrease the offer prices, developers in the situation of the falling demand were ready for unprecedented individual discounts. When converted into dollars, with ruble devaluation, the price equivalent dropped before February 2009, then began to upgrade gradually along with ruble strengthening. Only from May ruble price for the new buildings started to decline, having reached RUR 181 thousand/ sq. m.

Developed within the last 3-4 years the excessive average unit prices in the primary market over the prices of the secondary market (in ruble terms) at the end of 2009 amounted to 18.3%. Herewith, the reduction from historic peaks in April 2009 (204 thousand rubles/sq.m) was approximately twice less (by 11.3% against 20.1% in the secondary market as compared with historic peaks in November, 2008).

However, in contrast to Moscow, in the other cities, the average unit prices in the secondary housing market have always been higher than in the primary market.

In Moscow Region the average bid price in the primary market continued to grow, having reached the historic peak of 70.1 thousand rubles per sq. m in February 2009, while in the secondary market occurred in November 2008 (93.2 thousand rubles per sq. m). By December, prices in the primary market fell down to 63.5 thousand rubles per sq. m, and in the secondary market - up to 71.5 thousand rubles per sq. m (the difference was 12.6% in favor of the secondary market). Therefore, the depth of the downfall in prices was about 2.5 times higher (23.3% vs. 9.4%).

In Perm, in 2007, the average unit price of the offers in primary and secondary markets were equal, but by autumn of 2008 the gap was 13-14% in favor of the secondary market, but then prices in the primary market have fallen by December 2009 to 37 thousand rubles/sq. m (by 33% as compared with the historical maximum of 55.49 thousand rubles per sq. m in March 2008), and in the secondary market - up to 42.4 thousand rubles per sq. m (by 31% versus the historic peaks of 61.4 thousand rubles per sq.m in September 2008) and the gap was 14.6%.

In Novosibirsk in December 2009 prices in the primary market amounted to 40.4 thousand rubles per sq. m, having declined to historical maximum in March 2008 by 18,1% (to 49.3 thousand rubles per sq. m). Prices in the secondary market have fallen from a peak of 65.1 thousand rubles per sq. m in August 2008 to 45.5 thousand rubles per sq. m, or 30,1%. The gap amounted to 12.6%.

In Izhevsk the offer price in the primary market remained stable until autumn 2008 at the level of 43-44 thousand rubles per sq. m (with a historical peak of 45 thousand rubles per sq. m in August 2008), while in the secondary has prices have declined since February 2007, when the historical maximum was recorded at the level of 51.8 thousand rubles per square m. At that time, the gap in favor of the secondary market amounted to 26.4%, but then it decreased to minimum values within the one-year term from October-November 2007 (in some months the price of the primary market were even getting ahead). After an insignificant increase in the difference between the prices in the secondary and primary market in November-December 2008, prices were declining almost simultaneously, having practically matched in summer of 2009 (34-35 thousand rubles per sq. m). In subsequent months, with stabilization of secondary market prices at the level of 33 thousand rubles per sq. m (i.e. 35.8% as compared with the historical maximum), prices in the primary market continued to decline. As a result, in late 2009 they fell down to 31 thousand rubles, down from the historic peak by 31.1%. Therefore, the excess of secondary market prices over the prices of the primary market amounted to 7.3%.

In Omsk, from the beginning of observation in the primary market (January 2009) the average unit price proposal was 31.7 thousand rubles per sq. m against 42.2 thousand rubles per sq. m in the secondary market (the gap was 1/3), but later the prices only declined or stagnated, having reached the value of 27.5 and 33.4 thousand rubles per sq. m, respectively by the end of the year (the gap was 21.5%).

Thus, it is clear from the above examples that the decline in prices versus the historic peaks in the secondary market, as a rule, was higher than in the primary market (Moscow, Moscow, Novosibirsk, Omsk). The exceptions (Perm, Izhevsk) are examples of when a drop in prices in the secondary market is only slightly below that in the primary market. Herewith, the price gap between secondary and primary markets in late 2009 varied in a wide range from 7% (in Izhevsk) to 21.5% (in Omsk) in favor of the secondary market, with an apparent loss of this trend in Moscow, where prices of the primary market exceeds the prices in the secondary more than by 18%.

Currently here is no data on sales in new buildings. According to expert estimates, in the cities, where developers (including those under the intensive influence of federal and regional authorities) have reduced the offer price in the primary market, the stagnation of sales overcome. In Moscow, where such decline did not occur, the increased activity of buyers in the market so far is expressed only in the increased number of calls and visits to the departments of sales of real estate agencies, but the real sales are executed in a limited scope only with the specific objects and with a high degree of preparedness to a significantly adjusted price.

Dynamics of Housing Construction Commissioning

In the past 2009, for the first time since 2000 in Russia have been observed reduced volumes of housing construction. Herewith, the depth of incidence (6.7%) has exceeded the relevant value of 2000, when the construction industry experienced an annual lag due to the impact of 1998 crisis. Nearly the same decline was observed in 1994 (6.2%) and 1998 (6.1%). As per the preliminary data in 2009 there were commissioned 701.3 thousand apartments with the total area of 59.8 million square meters (*Table 8*).

Table 8

Residential Buildings Commissioning in Russia within 1999-2009

Year	Total area, sq.m, mln	Growth rates, %	
		Against the preceding year	Against 2000
1999	32.0	104.2	105.6
2000	30.3	94.7	100.0
2001	31.7	104.6	104.6
2002	33.8	106.6	111.5
2003	36.4	107.7	120.1
2004	41.0	112.6	135.3
2005	43.6	106.3	143.9
2006	50.6	116.0	165.7
2007	61.0	120.6	201.3
2008	64.1	104.6	210.6
2009	59.8	93.3	197.4

Source: Russian Statistical Yearly Report. 2007: Stat. Report/Russian Statistical Service, M., 2007, c. 507; Socio-economic situation in Russia, 2009, M., Social and Economic Situation in Russia, M., Russian Statistical Service, pp. 86-87, authors' estimates.

The main failure in the volume of housing construction occurred in the country in the IV-th quarter of 2009. Before that time quarterly figures eventually did not differ from those achieved a year earlier, what was based on smooth transition of available construction reserves.

Only at the end of the year one could see the impact of slow-down of the buildings construction, freezing of a number of construction projects and investment collapse, which took place in 2008. One can expect that this effect will be seen to the full extent in 2010-2011.

Consequences of financial and economic crisis, provided the most negative impact on the activities of developers, have been partially damped by individual housing construction, which has demonstrated positive dynamics in contrast to the construction industry in general. The growth of the housing construction performed by individuals at their own and borrowed funds amounted to 4.3% by 2008, and as a result, the share of such housing in the total construction increased to 47.7% against 42.6% in 2008, which is the maximum indicator for the entire period of 2000-s.

Despite the apparent decline in housing construction, in majority of the Russian regions, as per results of 2009, the volume of housing construction still increased, but among the 40 regions where there was a decrease, there were many areas, the centers of which were city-millionaires (Tatarstan, Samara, Volgograd , Rostov Region, Perm, Sverdlovsk, Chelyabinsk, Novosibirsk, Omsk Region), as well as Moscow and St. Petersburg. In this category there those regions which demonstrated better performance, i.e. Nizhny Novgorod region and Bashkortostan, where one could observe increase or in housing construction volume and preservation of the previous levels respectively.

Table 9 represents groups of regions with the highest growth rates in housing construction and with the deepest downfall by more than 10% in the past 2009.

Table 9

Housing Construction in the Russian Regions in 2009 (Sorted in the Order of Completion)

Regions with positive growth	Growth by the relevant period of preceding year, %	Regions with negative growth	Growth by the relevant period of preceding year, %
Chukot Autonomous Area	2.6 times	Rostov Region	–10.1
Adygea	+ 48.6	Tyumen Region	–10.4
Chechnya	+ 30.1	Orel Region	–12.4
Kalmykia	+ 26.9	Chuvashia	–12.9
Tver Region	+ 26.9	Volgograd Region	–12.9
Pskov Region	+ 25.9	Novosibirsk Region	–12.9
Astrakhan Region	+ 25.0	Krasnodar Territory	–13.8
Khabarovsk Territory	+ 22.7	Moscow	–17.2
Jewish Autonomous Region	+ 22.3	Tomsk Region	–17.2
Kostroma Region	+ 18.7	St. Petersburg	–18.9
Leningrad Region	+ 13.5	Perm Territory	–18.9
Tuva	+ 13.0	Amur Region	–19.3
Dagestan	+ 11.9	Buryatia	–20.4
Karelia	+ 11.7	Voronezh Region	–22.1
		Kirov Region	–22.3
		Krasnoyarsk Territory	–22.8
		Samara Region	–22.9
		Kaliningrad Region	–24.2
		Arkhangelsk Region	–25.6
		Chelyabinsk Region	–29.3
		Nenets Autonomous District	–33.5
		Komi	–37.8
		Omsk Region	–40.4
		Yamalo-Nenets Autonomous District	–43.1
		Ingushetia	–46.1

Source: On housing construction in 2009, www.gks.ru.

We would like to note, that the majority of regions where there was a marked growth in the volume of housing construction, are relatively small in population, where the volumes of housing construction are small in absolute terms. Besides, there are no cities with population exceeding one million of people and individual housing construction prevails in the total area of the completed construction.

As for the other group, it is worth noting a continued decline in housing construction in Moscow, although at a somewhat slower rate (over 17% against almost 1/3 in 2008). According to preliminary estimates of housing construction in Moscow as of 2009 results are lower than in 1996, and more than 1/3 of the volume of housing constructed in the framework of the city government programs, was performed outside of Moscow (against about 10% in 2005-2007 and more than 20% in 2008). Herewith, in Moscow, against the background of the stagnation observed a year earlier, positive dynamics of housing construction was noted (an increase of 4.5%).

In 2009, the downfall (about 19%) has reached St. Petersburg, which a year ago was among the leaders of growth. It is also worth noting the strong decline in housing construction in Samara (about 23%), Chelyabinsk (more than 29%) and Omsk (over 40%) regions. As compared with 2008, the share of the capital region in the total volume of housing construction in the country (Moscow Region (13.8% versus 12.2%) and Moscow (4.5% versus 5.1%) has insignificantly grown due to the Moscow Region, corresponding to the level of 1999.

Causes of Decline in Housing Construction

In purely quantitative terms, it is possible to assess not in the most pessimistic way the tentative data on the situation in the construction industry as of the outcome of 2009, developed under the influence of the crisis, as compared with the situation in the industry, particularly in the majority of manufacturing industries. The milestones achieved after the commencement of the National Project "Affordable housing", when some of them have been preserved and the volume of completed housing construction were close to the level of 2007, when prices in the housing market got stabilized after two years of “mortgage-oil" growth.

However, there is a possibility of further decline in housing construction in the next two years, as evidenced by the outpacing decline of investment (with regard to the dynamics of GDP) and construction materials output (with respect to the dynamics of the total industrial production), decreased number of construction companies contracts and orders, inevitably raises the issue of internal inherent to the construction, crisis developments.

Even before the second half of 2008, when the Russian economy more and more clearly started to feel the impact of the crisis in the world economy (including the "second wave" of the mortgage crisis in the US, where the growth in the share of overdue credits was accompanied by a decline in housing prices) the downfall in the rate housing construction since 2007 in Moscow and other Russian regions were indicating the trouble in this area.

Specifics of Housing construction and models of its financing became the result from the preceding development of the Russian economy, where since the early 90-s previously dominated public investments in the new construction from the state budget[1] has sharply declined, and the banking system, capital market, institutional investors and even the market as it is were only under formation.

[1] Complemented with the social funds of state enterprises, collective farms and public organizations. A part of the new housing construction was built by the individuals at their own expense and with the help of loans, as well as by housing cooperatives. However, all those sources were complementary.

In such circumstances the only available source of financing for the developers were the resources of citizens possessing them for the purchase of housing, and as a result, there started to develop an Institution of equity financing. This situation has become a significant hindering factor in the further development of the sector. With the establishment of financial institutions, there appeared new sources of funding in the market, and over time their importance is growing. However, until now their equity financing plays a very important role.

Today, there are four sources to raise funds for the housing construction in Russia:

– assets of citizens who have the assets to purchase housing - equity participants (holders);
– assets of large investors;
– assets of the stock market;
– credit assets.

If the development of equity financing in the 90-s was an objective process, in future the companies specializing in residential construction, actually became hostages of that scheme. This can be easily seen by comparing trends in housing market with the development of commercial real estate market. Due to the fact that the purpose of the office and retail buildings imposes their long-term utilization to generate regular income in the form of lease payments, the operators of that sector have not been able in the 90 years to attract easy money like the individuals who wanted to purchase housing facilities.

The work in this market required from the companies to make this segment more attractive to bank crediting, which would impose, first of all, the earliest legalization of cash flow and building of management systems in accordance with international standards of corporate governance. This eventually led to more rapid adaptation of this segment to the market conditions and improvement of its functioning efficiency.

Therefore, as an inheritance, the housing market has received from the 90-s a funding base, in which the key role is played by co-investors and equity participants. However, there were no legal provisions for the transactions of that type. There were no regulations on information disclosure, safeguarding, and most important - on the targeted funds utilization.

Following the entry into force of the Federal Law № 214-FZ dated December 30, 2004 "On Participation in the shared participation in construction of blocks of apartments and other real estate objects and on amendments to some legislative acts of the Russian Federation" on 1 April 2005, the situation in the legal area has changed. The law provisions were intended to recover the imbalance in the distribution of risks, having eliminated the discrimination of investors' rights. The idea was that the Law provisions were to reverse the situation and assist to increase the share of truly market-based funding instruments, providing better protection for the rights of all market participants.

However, the real state of affairs can be estimated only on the basis of statistics. We can compare the information on sources of financing the construction before and after the introduction of the Law[1].

In 2004, even at the earliest stages of the project (working trench) participation of equity investors exceeded 35%, which was higher than the share of bank financing. A comparable share was financed from their own funds. However, given the low standards of control over the targeted utilization of funds and shortage of land, one can assume that in the category of

[1] Housing finance / A.B.Kopeykin, N.N. Rogozhin, A.A. Tumanov, M.O.Yakubov - M.: Foundation "Institute for Urban Economics", 2007.

their own funds there was a substantial share of contributions in other projects, which were used for other purposes. And in the later stages of construction, the share of co-investment did was even prevailing. Based on the data for 2007, it is easy to see that both, the volume of completed construction in natural terms, and the volume of investments in equity financing accounts to nearly 30% of funding for a multi-storey building[1].

Many expert assessments, in particular, experts Foundation "Institute for Urban Economics" (IUE), indicate that after the adoption of the Federal Law on equity participation in the construction, some part of equity participation transactions was legalized, and the other part has change the legal status in order to allow developers to continue to shift much of the construction risk to the co-investors. Experts tend to estimate the true share of equity financing in a residential multi-storey buildings in 70-90%.

So confident dominance of the transitional in its essence funding scheme indicates that the market is not ready yet to accept more civilized instruments.

As to another source of financing, i.e., bank loans, it was hindered by the institutional barriers. Banks actively enjoyed a favorable situation in the housing market, actually applying discriminatory policy to the developers. This can be confirmed by the terms offered by the banks to the potential borrowers, which were significantly worse than the average market terms. While the average interest rate on loans to commercial organizations accounted for 10%, with an average annual rate of refinancing of 10,25% (CBR), the interest rates for construction loans were rarely below 12-15% (IUE).

The rights for the land plot were not regarded by the banks as a possible security for the loan. The situation has not changed much even after the adoption of Land and City-Planning codes. As a result, companies were likely to attract funds under the security of its extraneous assets, nor involved in the project, what expanded the risks, affecting the company in general.

Another disadvantage of the existing system of construction financing was inconsistency of credit arrangement with project financing schemes. No doubt, crediting of a development can not be implemented in the same way as project financing. But the key feature inherited from the project financing is the ability to repay the bulk of the debt only after the object completion. In Russia, the majority of credit are provided under condition of monthly repayment of the basic debt, which implies that a developer has an alternative source of funds. In other words, even the available credits do not relieve developers from the use equity participants' funds.

In such circumstances, bank crediting has taken a very specific place in the market. Since the overall attractiveness of the bank credit are inferior to equity participants' funding, investors do not use bank credits as the main resource for construction. However, bank credits are easier to be obtained. As a result, banks' funds are often used by large companies to address the acute shortage of funds, often occurring due to the misuse of investments, which in particular, leads to the predominance of short-term bank instruments in the market.

An important feature of construction credits is a close monitoring of the banks over the targeted use of funds. There is a number of examples, where embezzlement of borrowed funds to other projects of the developer led not only to the failure of the project, but also to the bankruptcy of the development company. This explains the fact that construction credits are

[1] Note that data for 2007 are not completely comparable with the data for 2004, as they are based on different surveys. 2004 data reflect the structure of financing for a multi-storey residential building, while the 2007 data also include the information on individual housing construction, which makes it necessary to exclude the share of private houses.

granted by parts as per the needs arising in construction project, rather than by lumpsum. Three are three ways to break down credit payments:

1) stepwise method: the funds are disbursed upon completion of certain stages of the object, and in this case the creditor, providing the next tranche, acquires the rights for the finished stage of the object;
2) draft method: the creditor provides the next share of the funds only upon the receipt of confirmation from an architect or a supervisor of the construction;
3) a voucher system: the creditor receives invoices from the subcontractors for actual works performed and provides the necessary funds.

Such a scheme, from the viewpoint of the developer, introduces additional complexity in the management of investment and construction projects.

Along with the rapid growth of the Russian stock market at the beginning of the XXI century Russian construction companies obtained an access to one more source of funding. In the pre-crisis period, corporate bond issues became a widely used form of fundraising. The main reason that inspired the Russian construction companies to take this step, was the situation described above with bank credits. At the beginning of 2008 the there were more than 40 construction companies in the bond market. With the global financial crisis, this factor has contributed to the fact that these companies were in the sector of the highest risk.

Therefore, in the first half of 2008, stability in the financial standing of construction companies has significantly deteriorated. Companies' capital structure in general was satisfactory in terms of the standards of construction industry. But the problem was that too large share of the debt was short-term.

Results of financial analysis imply that in a rapidly growing market and increasing access to bank credits, companies have been actively engaged in development by investing in new projects, neglecting the maintenance of their own financial sustainability.

This phenomenon can be explained by the following features of the Russian housing financing system and institutional factors affecting the market.

- With the rapid growth of the market, companies face the need to rapidly expand their operations. But for this there is a natural restriction, i.e., the land plot for future construction, as well as the complexity of its acquisition. Realizing the importance of this limitation, and understanding that the land for future construction should into regard in advance, the companies put all available funds in new land plots.
- The bulk of the funds is involved by companies from equity investors. At the background of the increasing importance of investment in future projects, the funds of interest holders are being withdrawn from the projects and used for other purposes.
- To avoid the construction suspension and incompliance with liabilities of the interest-holders, developers seek short-term credits from the banks. Credits Loans do not always correspond to the requirements of traditional construction loan. In the event of a possible reservation of a new land plot, the credit funds are also readdressed at the non-targeted application.
- All the housing finance system is inspired by the general optimism in view of rising prices and overall demand for residential real estate. Even bankers share this trend, which improves the availability of credits to the developers.

There should be noted another point that influenced the development of the housing sector in Russia. An important factor and a resource for the construction market is the land. Ever since the establishment of market relations in Russia the system of land distribution and a lack of legally defined property rights to land plots were hindering factors, leaving a wide area for corruption and bureaucracy.

In the western practice there is a wide-spread scheme, according to which the preparation of the project and acquisition (lease) of the land plot is performed at the expense of the funds of developer investors' funds. Financing of the construction and other costs is made at the expense of borrowed funds. However, in Russia this scheme is difficult to be implemented. As rule, the developer usually does not have sufficient assets to provide them as a loan security: one cannot use the land as a security because property right is not properly registered, the pledge of the objects under construction is difficult, the cost of equipment owned by the developer, according to market experts in average is less than 10% of the value of objects under construction. In such circumstances, the main source of funding are the assets of direct investors, as well as of prospective housing purchasers.

An important factor which hindered the work of both developers in the market and launching of the new projects in 2007-2008, were the results of the revision of the land cadastral value in accordance with the RF Government Decree № 206, dated of April 11, 2006 "On amendments to some acts of the Government of the Russian Federation in view of the improvement of the state cadastre assessment of land plots", which led to the growth of land prices and land rent rates.

Thus, as a result, in Saratov Region the land tax increased on average by 6 times, and land rent - by 15 times, and in some cases, the growth reached 160 times. The land tax rate in Tomsk Region for different categories of land has increased from 2 to 4 times, and in Moscow the growth was about 3 times. This was one of the major additional sources of unprofitability of a large range of construction projects in the situation of financial and economic crisis.

Many experts consider the reason for this excessive growth of the land value in the failures of the applicable methods for its assessment and inappropriate, economically unjustified position of regional and local authorities to the fiscal objectives through the appointment of the maximum of permitted upgrading rates[1]. Thus, in the Sverdlovsk Region the cadastral value of land exceeds on average 5 times of the current average market value of fixed assets located on this land. It turned out that the organization authorized in due time to perform the cadastral land assessment, made more than 4 thousand violations. In Omsk Region there were filed dozens of lawsuits from companies on the revision of the land cadastral value.

As a result, we can conclude that the initial crisis dynamics with a reduction in demand and housing prices was inevitable in the prevailing global environment. But the depth and the scale of the crisis in the market were the results of undeveloped system of funding and institutional environment.

During the global financial crisis the greatest financial difficulties arise in the companies that made large-scale borrowing in foreign markets (promissory notes, bonds, through the IPO).

There is a high probability of bankruptcy for those companies that relied on loans of domestic non-specialized banks, which in the past eighteen months have suspended credit provision to the developers or drastically tightened their terms. Despite the measure, taken by the gov-

[1] This situation is largely a natural consequence of the distinction of powers between different levels of public authorities and the existing system of intergovernmental fiscal relations, which resulted in the maximization of land payments has become a prerequisite for the implementation of the authorities at the local level with their obligations and responsibilities, which is especially important for municipalities.

ernment since autumn of 2008 for the financial support of the banking system, the real sector of the Russian economy still faces great difficulties in the access to credits.

The companies estimating the project budget basing on the outdated expectations of a rapid return on their small investments through selling shares to private investors despite the provisions of the Law on shared participation in construction found themselves in a difficult financial situation.

The companies operating in accordance with the Law are experiencing difficulties in organizing the construction process at an early stage due to re-focusing to project financing from affiliated banks, which later reduces their risks of the falling demand in the market. These companies were able to partially damp the impact of the crisis in several regions, having ensured positive dynamics in the scope of construction.

The prospect of bankruptcy of a number of developers and construction companies and the high probability of extension of the number of defrauded interest holders, like in 2004-2005, once again updated the issue of the adoption of specific amendments to the Law on financial insolvency (bankruptcy) of developers who have attracted the assets of individuals to finance the construction of apartment buildings.

It is proposed to regard the executive body of the state power of the RF Subjects, monitoring and supervising the shared construction of apartment buildings as the person involved in the bankruptcy of the developer.

In the case where the collection of funds in favor of the legal person is carried out by the organization, which has neither land plot in the ownership, nor a permit for building construction, shall be deemed as deals which overlaps a contract with the developer on the transfer of residential premises.

Citizens will have the right to bring claims to arbitration court to terminate the agreements on transfer of residential premises with the developer and the return of unjust enrichment in the form of monetary payment, as well as damages, if the satisfaction of the requirement to transfer the housing premises is impossible.

Priority should be given to the participants of construction, who have no dwelling either in the ownership or under a contract of social rent, suitable for habitation, or have such premises with the area of less than 15 square meters per each member of the family of the member of shared construction[1].

It is premature to talk about the new configuration of the institutional structure of the construction market, which will emerge after the crisis.

In 2008, as a result of mergers and acquisitions, the market of the construction and real estate has nearly doubled as compared with 2007 (145 transactions for USD 12.4 billion against 37 transactions for USD 6.2 billion). More than 2/3 of this scope occurred in real estate transactions, whereas a year ago their share was about 1/3, basing on which it can be concluded, that mergers and acquisitions in construction are maintained at the same level (about USD 4 billion). However, the objects of transactions, along with hotels, business centers, shopping centers were, as a rule, companies engaged in construction of infrastructure facilities. Among a few examples of transactions relating to housing construction, one can mention the acquisition

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[1] Interest holders will be protected from bankruptcy of developers, www.finansmag.ru, February 27, 2010. The negative aspect of such an option would be even greater mosaic structure of bankruptcy legislation, which already included the cpecifics in the implementation of insolvency proceedings in respect of strategic enterprises, city-forming, agricultural, financial institutions and natural monopolies.

of 49.91% in the real estate development company "scale" by "Augur Estate" company, which is implementing a project on construction of residential real estate in Moscow suburbs for 1.75 billion dollars[1].

An additional factor contributing to the institutional troubles in the industry, has become chaotic abolition of licensing in construction since early 2010, when the majority of developers did not hurry to join the self-regulatory organizations (SROs) (the membership in which is considered as an alternative to the government licensing), hoping for previously issued documents to stay in the effect. The process of establishment and registration of CPO in the construction, design and engineering surveys, in which membership was compulsory from January 1, 2010, has been intensified only in the second half of 2009. If according to the first round of monitoring the development of self-regulation (July 1, 2009) conducted by the National Institute of System Studies of Entrepreneurship Issues, there were registered 23 SROs, in the second round there were 294 of them[2]. The formation and registration of CPOs should be completed by mid-2010, although a number of issues of their operation is not entirely clear (standards, the list of construction works, an access to which is provided by the CPOs, formation of compensation funds to meet claims from clients and t . etc.)[3].

The program of antirecession measures of the RF Government for 2009, promulgated only in early April, envisaged a certain list of measures for the support of housing construction for a variety of purposes (the government obligations to provide housing to the specific groups of population (servicemen, veterans, young families), participation in development programs for municipal infrastructure, assistance in the restructuring of mortgage debt, support for low-rise housing). However, their practical implementation has started, when the housing market activity has already collapsed and the impact of the program obviously leaves much to be desired, as was confirmed by the results of 2009, especially in the IV-th quarter, as mentioned above.

The main instruments of the national policy in this area became the activities of the Fund for Assistance to the Reforming of Housing and Utilities to relocate citizens from the old and dilapidated houses, regarded not only as a measure to improve the living conditions of the population (mainly through the major repair of houses, supplemented by the purchase of new apartments) but as a way of maintaining its utilization, as well as the policy of restructuring of mortgage loans to citizens who find themselves in a difficult financial situation, pursued by banks with government participation and the Agency for Housing Mortgage Lending (AHML). For these purposes, the authorized capital of AHML was increased in 2008 to 60 billion rubles., and in 2009 – by another 20 billion rubles and 40 billion rubles more in the form of the credit.

Federal Fund for Housing Construction Promotion, established in 2008, only in September 2009 has held its first auction for sale of 4 land plots, which are in the federal property in Chuvashia, Kursk, Kirov and Tyumen Regions with the total area of 150 ha for the construction of 1.1 million square meters of economy-class housing. In the immediate prospective it is planned

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[1] Mergers and Acquisitions in the CIS. Overview of the market. Ernst & Yong, 2009, pp. 8-9; Market mergers and acquisitions in 2008. Ernst & Yong, 2009, pp. 26-27.

[2] Monitoring the development of self-regulation in the regions of Russia. Round 2. M., NISIPP, February 2010, p. 5.

[3] C. Domnin. Dutch concert. B: Apartments, January 14-20, 2010, № 1 (776), pp. 1, 3.

to sell the land plots for the construction of 5,5-6,0 million square meters of housing, or 10-12% of the total annual construction completion[1].

In general, the same approach is contained in the Guidelines for the Anticrisis Actions of the RF Government for 2010, approved at its meeting (Minutes № 42 of December 30, 2009). Thus, the Fund for Assistance to the Reforming of Housing and Utilities, which has the status of Public Corporation will be replenished with the additional contribution of 15 billion rubles.

A relatively new points can be considered the direction of the parent capital for housing acquisition, the completion of SniPS reform with regard to the current level of development of construction technologies, reform of the technical regulation and promotion of implementation of the Law on the support of housing cooperatives with the creation of the first cooperatives across the country with the participation of the Federal Fund for Assistance to Housing Construction.

However, apparently, the major stake is still placed, on the mortgage. This is evidenced by the articulated in February 2010 plans to support the relevant programs in the amount of 250 billion rubles through the purchase of mortgage bonds by Vnesheconombank and AHML from banks, provided that the final borrower receives credits in rubles at the rate below 11% per annum.

As the object of the mortgage should be the economy-class housing in the primary market, it is likely that this mechanism can serve as a good incentive for the revitalization of housing. The questions, however, are the actual timing of its launch and to what extent it will be backed by an actual offer from the developers and what impact will be provided on the housing market in general and its affordability to the public.

Outlook for Housing Market

We would like to remind, that in the onset of the financial and economic crisis in the early fall of 2008 all the different possible scenarios in the real estate market at the beginning of October was restricted by four scenarios[2].

Scenario No.1 – Conservative: "soft" - transition to stabilization before summer of 2009 c followed by a new stage of growth of prices similar to 2007.

ScenarioNo.2 – moderately pessimistic: "tough" - transition to stabilization, similar to 2004. In this scenario, from October-November, it was possible to start reducing the prices of housing offer in Moscow, and in six months, according to our expert estimates, the prices in dollars could be reduced by 5-10%, and would be followed by further growth. Such scenario implementation during 2009 would require high efficiency of the financial authorities and market players, backed up by national consensus of elites, the media community and the public.

ScenarioNo.3 – Crisis: despite the declared by the authorities decisions (too slowly passing to the stage of implementation), the Russian financial crisis becomes an economic one through a reduction of staff in the financial sector, trade, construction, followed by the reduction of orders and dismissals in the industry (including production of construction materials) and the economy in general. As a result, the solvency of population is decreasing together with the demand for housing. A large-scale mergers and acquisitions are observed in the construction

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[1] C. Domnin. The first pancake is not a clod. B: Apartments, 209, October 15-21, № 36 (763), pp. 1, 3.

[2] G.M.Sternik The housing market of the Russian cities in 2008: status and prospects. - Report on Petersburg Housing Congress, October 1, 2008, www.realtymarket.ru; Russian Economy in 2008. Trends and Outlooks (No. 30). M, March 2009, p.p. 547-565.

sector. In this scenario, it was expected that housing prices in Moscow by mid-2009 in dollar terms may be reduced against September 2008 by 40-45%, and in December - by 30-35%. Subsequently within two to three years there will take place stabilization of high volatility.

Unlike the crisis of 1998-1999, when price trend had the U-shape, in the current crisis the beginning of growth in housing prices was expected in 2011-2012 (price trend of L-shape).

In the framework of this scenario it was assumed that the ruble prices in 2009 will also will fall down, but the degree of reduction will depend substantially on the overall inflation. If inflation is maintained within the estimated by the Government rates of 13-14%, the decline in housing prices will be no more than 10-15%. If consumer inflation rises to 20-40%, the decline in the ruble prices for housing can pass into their improvement. And then the decline in prices in 2009 in dollar terms will be also reduced to 20-25%. The scope of housing construction in 2009-2010 will be reduced. There will be a change in the structure of housing (among other reasons, due to the increasing share of budget financing) from the Business class houses in favor of economy-class houses with smaller apartments and lower level of prices. The offer will be decreased but its structure, by contrast, will be changed in favor of high-quality housing, as in a the segment of economy class housing a significantly greater share could be the housing provided to executive authorities of all levels within the program of support to construction companies, which is therefore is not supplied to the open market. By the end of 2010, in the situation of effective demand recovery with a reduced volume of construction and housing offer, a new cycle of market recovery and increase in housing prices can take place to a level that ensures a reasonable return on investment to the developers.

The average yield of the construction business has declined and did not return to the previous outstanding level. The big players, who have survived in the market, should give up their previous aggressive strategy and be more careful in estimates of business development. In general the market under *Scenario 3* could make another major step in its formation and development.

As discussed by experts as "extraordinary case" was the *Scenario number 4 - Catastrophic*: despite the measures taken by the United States, European Union and supported by other countries (including Russia), the global financial system, based on the dollar will finally collapse, whereas the establishment of a the new system will require considerable effort and time.

There will be started a transition to a barter exchange of goods between the countries, accompanied by limited use of regional currencies. Due to the distortion of import structure, the economies of the US , Europe, and Russia as well as other countries (including the real estate markets) will collapse after the financial market, and it will take years, if not decades to restore it (with an optimistic assessment of the armed conflict curbing).

The contents of all four scenarios for the situation in the Russian housing market was complemented by tentative estimates of their implementation, allowing to select the most likely one as a weighted average of the four scenarios.

Since the *scenario number 1* was relevant up to spring of 2008 (when the forecast as to the level of price changes up to September was confirmed by the actual data), with regard to the developments in the autumn months of 2008, the most preferable in terms of implementation was the *scenario number 2*, but unfortunately, already in December, it became clear that it can never be implemented in reality.

Explicit incompleteness, retarded character and poor effectiveness of the authorities' anti-crisis measures made necessary to revise the probabilities of each of the scenarios when preparing the estimates for 2009. As a result, the *scenario № 3* (crisis one) was assessed as the only probable one, which began to be implemented from November-December 2008. The *scenario № 4* (catastrophic) to autumn of 2009 has lost its, albeit small, probability of implementation.

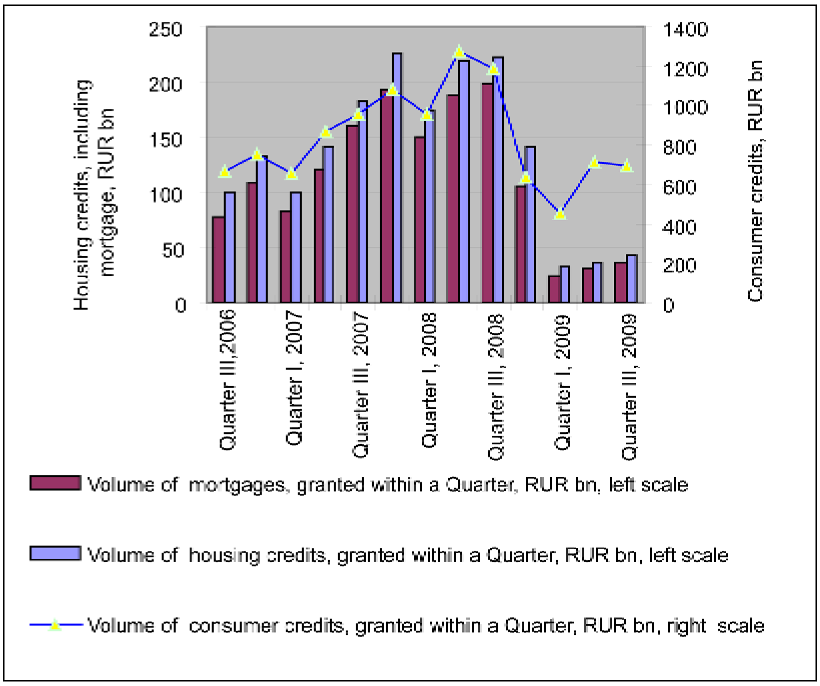
Results of 2009 show that the estimates of ruble prices in the secondary housing market in Moscow were quite accurate (ruble price reduction made 19% against the estimated level of 15-20%), while excessively pessimistic in dollar terms (the reduction was 35% with the estimated 40-45%). The reasons for this were unexpectedly rapid growth in oil prices started in I quarter of 2009 and the related ruble strengthening, which contributed to the increased housing prices in dollar terms.

Available estimates of the global and Russian economy for the coming years are contradictory, but the consensus forecast of oil prices and related parameters of the budget for 2010, approved by the government of Russia imply that the previously estimated price change for 2010 does not require adjustment: fluctuating stability of prices with high volatility will be maintained. Fluctuations in the ruble price are expected within the range of +/-5% with a possible increase by the end of the year for no more than 5%; the dollar prices - ranging from +5% to -10% within a one-year time interval with a possible decrease by 5% to end of the year as compared with December 2009.

We can expect that for the Russian housing market the year of 2010 will become the completion period of the crisis and entering a phase of stabilization, as indicated by the stagnation in prices which is now observed in the secondary market, where you can expect a gradual increase in sales volume and the beginning of recovery after stagnation. Herewith, in the primary market there might be a decline in prices and a delay in recovery rates before 2011-2012.

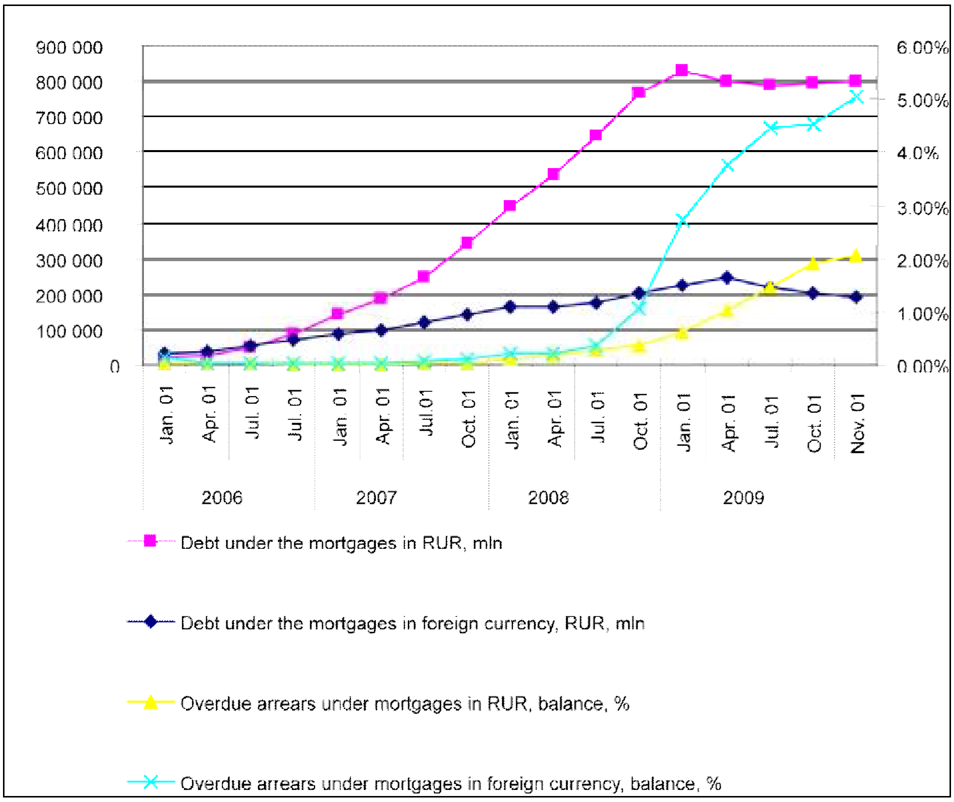
5.7.3. Mortgage Market

Since the beginning of 2009 through December 1, 2009, according to the RF Central Bank, there were issued 106,864 mortgage loans in the amount of 124 451 million rubles with the debt balance for credits granted in previous years, mortgage home loans in the amount of 1,000,738 million rubles. The volume of mortgage loans granted within 3 quarters of 2009, makes only 17.03% of the volume of mortgages over the relevant period in 2008, and 25.17% of the corresponding volume of mortgage credits granted in 2007. The total volume of housing loans on December 1, 2009 amounted to 149,977 million rubles or 148,432 loans. It is seen from ***Fig. 3*** that the growth of lending in 2008 was continued. Herewith, the growth rate of loans granted in 2007 and within the first two quarters of 2008 were close to each other, and only in the third quarter the growth was nearly stopped. In the 4-th quarter there started a two-fold downfall in the volume of loans, as well as in their quantity against the 4-th quarter of 2007. In the 1-st quarter of 2009 the volume of loans fell down nearly 6 times as compared with the 1-st quarter of 2008. In the 2 and 3 quarters of 2009 there was a small increase in volume, but still at the same low level. Issuance of consumer loans to individuals had a similar dynamics, but the decline in crediting was noted already in the third quarter of 2008.



Source: RF Central Bank.

Fig. 3. Dynamics of Credit Granting to Individuals within the Quarter



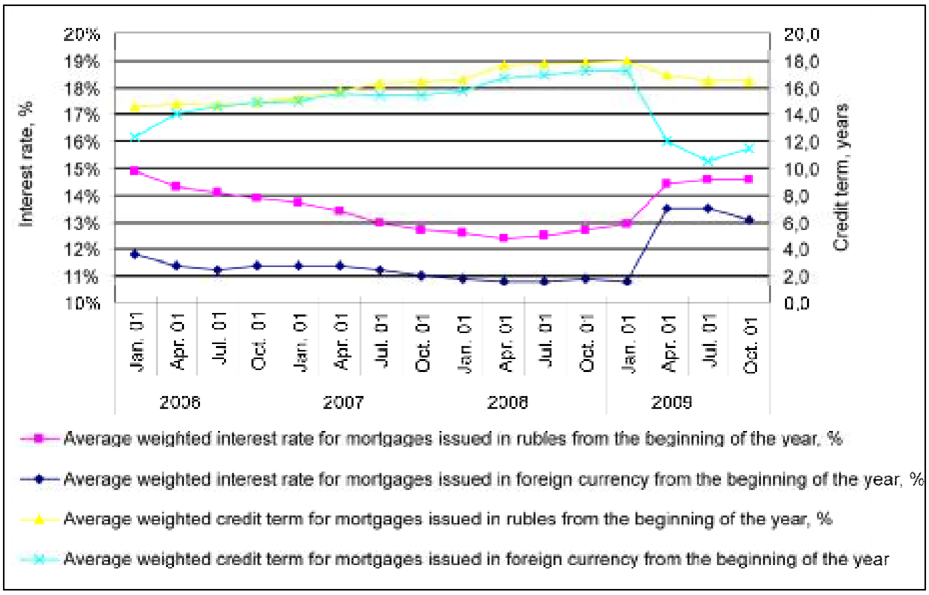
Source: RF Central Bank.

Fig. 4. Dynamics of the Debt and Stale Debt Share

By early 2009 the growth of debt for mortgages in rubles at the background of falling lending volume in the IV-th quarter of 2008 has been suspended at the maximum value of 828,463 million rubles, followed by a slight decline to 800 billion rubles. (*Fig. 4*). The debt growth rate under mortgages in foreign currency in 2007 and 2008 was significantly lower than the relevant growth rate of debt under loans in rubles. The maximum amount of the debt under mortgages in foreign currency, 267,491 million rubles was noted at the beginning of February 2009. The debt under mortgages in foreign currency has reached the annual minimum on November 1, 2009, accounting to 195 billion rubles.

Since the second half of 2007 a smooth increase in the overdue arrears share against the mortgages residual debt is observed, accompanied with the growing share of stale debt in foreign currency as compared with the outstanding debt in rubles. (*Fig. 4*). Since quarter III of 2008, the growth rate of the share of arrears on mortgage loans in foreign currency rises sharply, significantly exceeding the growth rate the of outstanding debts in rubles, which is growing as well. The share of outstanding debt on December 1, 2009 amounted to 2.16 % in rubles and to 5.24% for credits in foreign currency.

Before mid-2008 the average weighted credit interest rates for mortgages issued since the beginning of the year both in rubles and in foreign currency had a tendency to decrease. Since the RF Central Bank provides an averaged interest rate over the year, a sharp change in the transition from 2008 to 2009 indicates the presence of changes already in late 2008. ***Fig. 5*** shows an inverse relationship between interest rate and the term of loan: interest rate increase corresponds to a shorter loan term and vice versa. On December 1, 2009 the average weighted interest rate on mortgage loans issued since the beginning of the year in rubles decreased to 14.4%, while for the loans in foreign currency - up to 13.0%. Accordingly, the weighted average term of lending in rubles as of December 1, 2009 was 16.5 years and for the mortgages in foreign currency – 11.2 years.



Source: RF Central Bank.

Fig. 5. The weighted average interest rates (in%) and the loan terms (in years) for mortgages provided since the beginning of the year in rubles and in foreign currency – by years

The crisis in the mortgage market is also evident in the further monopolization of the market of mortgage loans. One can see from *Fig. 6* that among the credit institutions, ranked by total assets, the share of the top five largest lenders - Sberbank, VTB 24, Bank of Moscow, Russian Agricultural Bank and Gazprombank has grown over 2009 from 37.4% to 61.64%, i.e. by 24 p.p. Shares of the second, third and fourth groups have decreased, and the share of the most numerous fifth group has somewhat grown: from 5.5% to 9.7%. All groups demonstrated the growth of the stale debt share against the total outstanding debt. If at the end of 2008 the largest share of stale debt was demonstrated by the first group, a year later the leader is the third group, which share of overdue arrears grew almost 4 times.

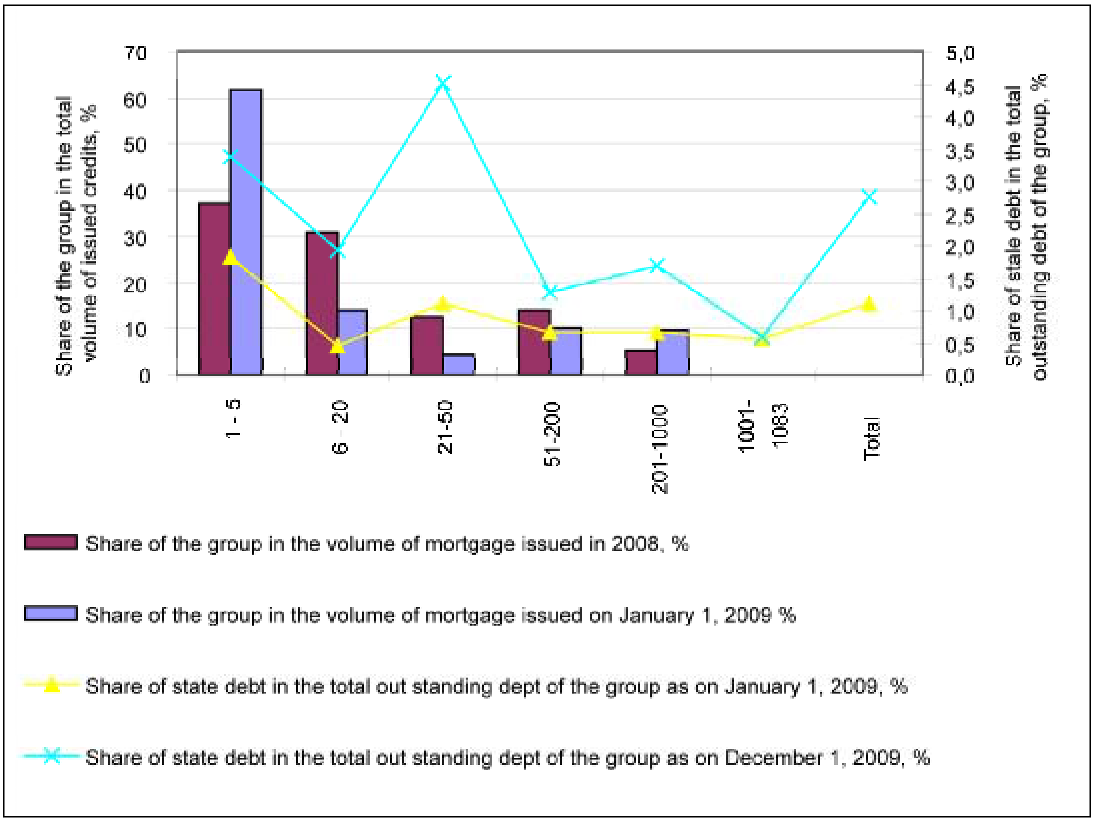


Fig. 6. Dynamics of mortgage housing loans and stale debt by groups of credit agencies, ranked by total assets

From April 24 to December 28, 2009 in view of the adjustment of the interest rates for the operations of the Bank of Russia, the RF Central Bank has reduced the refinancing rate ten times, as a result having lowered it from the maximum rate of 13% to 8.75%. At the same time interest rates for other operations of the Bank of Russia were reduced as well. After the Central Bank, JSC "Agency for Housing Mortgage Lending" (AHML) has reduced the interest rates for housing mortgage loans refinanced by the Agency.

On December 1, the minimal interest rate of the AHML standards in the presence of private insurance amounted to 9.47%, and 10.17% in the absence of personal insurance. The maximum values are 11.43% and 12.13% respectively. Table 10 shows changes in the minimum and maximum rates for a number of banks within one week of November. Only AHML Eurotrust have lowered their interest rates, following the decline in the CBR refinancing rate.

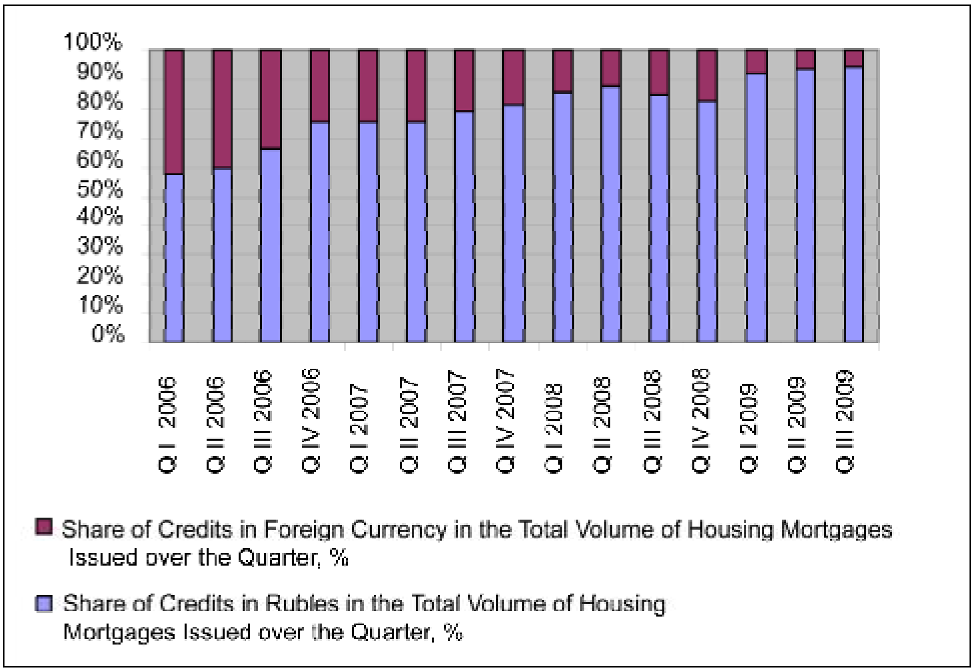
Table 10

Minimal and Maximum Rates on Mortgage Loans and their Changes as of November 30, 2009

N	Credit Agency	Minimal rate, %	Change in the week, pp	Change from baseline (06.02.2008), pp	Maximum rate, %	Change in the week, pp	Change from baseline (06.02.2008), pp
1	Agency for Housing Mortgage Lending (AHML)	9.05	–0.50	–1.70	11.71	–0.50	–2.29
2	European Trust Bank	9.05	–0.50	0.00	11.71	–0.50	0.00
3	City Mortgage Bank	10.05	0.00	0.00	12.91	0.00	0.00
4	Revival Bank	11.00	0.00	–0.50	21.50	0.00	5.75
5	Housing Finance Bank	11.99	0.00	2.24	16.75	0.00	4.00
6	Sberbank	13.50	0.00	3.00	16.00	0.00	4.00
7	Deltacredit	13.75	0.00	3.50	28.45	0.00	14.95
8	VTB-24	14.10	0.00	3.10	17.10	0.00	3.60
9	UniCredit Bank	15.50	0.00	0.00	18.00	0.00	0.00
10	MIA	15.50	0.00	4.50	15.50	0.00	0.50
11	RosEvroBank	16.00	0.00	4.50	18.00	0.00	1.50
12	Bank of Moscow	16.50	0.00	5.50	18.50	0.00	5.50
13	Uralsib	19.00	0.00	8.20	19.50	0.00	6.00
14	Uniastrum Bank	19.00	0.00	6.50	20.00	0.00	5.50
15	Credit Europe Bank	19.00	0.00	7.50	26.00	0.00	11.00
16	Raiffeisen bank	20.00	0.00	8.10	23.50	0.00	10.60
17	Alpha-bank	20.60	0.00	7.40	25.30	0.00	9.30
18	Absolut bank	25.00	0.00	15.00	30.00	0.00	14.00

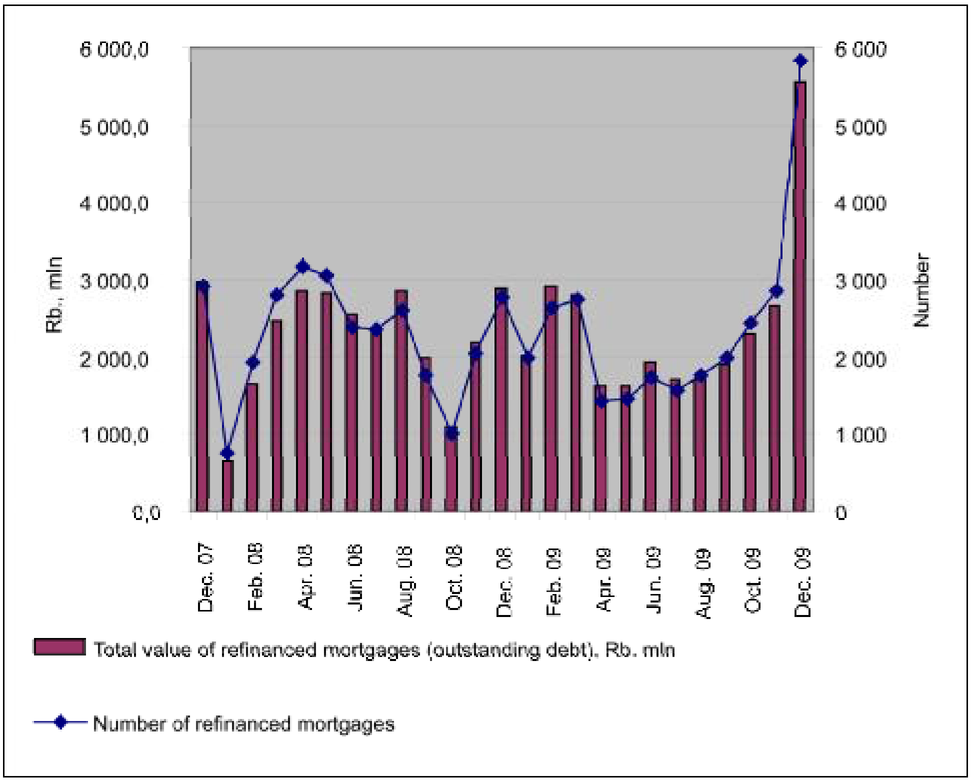
Source: Credit Mart estimates and monitoring for AHML.

The share of foreign currency loans in the volume of mortgages issued over the quarter, continued to decline (*Fig. 7*) from 17.33% in the 4 th quarter of 2008 to 5,57% in 3 quarter of 2009. In parallel with decreased 21.63% in the Quarter 4 of 2008 to 20.53% in Quarter 3 of 2009. At the same time, the share of debt for credits in foreign currency against the debt for housing mortgage is getting reduced. It is seen from *Fig. 4* that the decline of the share of housing mortgage in foreign currency in the total amount of loans, as well as in outstanding debts, is accompanied by more rapid growth of stale debts as compared with such growth in ruble credits. Nevertheless, the rate of growth of stale debts in rubles was higher in quarter 3 of 2009 - 0.47 percentage points, while in foreign currency - 0.08 p.p.



Source: RF Central Bank.

Fig. 7. Housing Mortgages in Rubles against Mortgages in Foreign Currency



Source: AHML data.

Fig. 8. Monthly Volume of Consolidated Debt of JSC "Agency for Housing Mortgage Lending"

The earliest expressed decline in the volume of consolidated debt for mortgage loans provided by the Agency for Housing Mortgage Lending took place in January - February 2008 (*Fig. 8*). At that point, financial and economic crisis has not affected the pace of the continuing growth of housing crediting (see *Fig. 3*). The decline in the volume of AHML refinancing was the result of preventive measures taken by AHML management in view of the expected crises in the mortgage market. The decline in the volume of refinancing in September - October 2008 coincides with the incipient decline in growth rates of loans issued in Quarter III of 2008. The growth in the volume of credits refinancing after the decline in April 2009 demonstrates rather an increased share of AHML credit refinancing in the total mortgage loans, rather than a significant increase of credit volume. Thus, in the first nine months of 2009, such AHML share was 20%, having significantly exceeded the level of 2008. In 2008, the share of mortgages refinanced by the Agency for Housing Mortgage Lending in the total volume of issued credits made 4% - in terms of value and about 6% in terms of number.

An even higher percentage of the Agency was in the total amount of refinanced loans. For the 6 months of 2009, according to the RF Central Bank, 140 agencies were refinancing mortgages for the amount of 33.383 billion rubles. Out of these, further emission of mortgage securities, credits were refinanced for 4.787 billion rubles. During this period, the Agency has refinanced mortgages for 12.9 billion rubles, what made about 40% of the total amount of refinanced credits.

In the crisis situation, 30 thousand borrowers benefited from the current restructuring program, however, the courts received more than 20 thousand claims for mortgages non-payment.

JSC "Agency for Restructuring of Mortgage Housing Loans (ARIMHL) has extended for 2010 the effect of the national assistance program (basic or first level of support) to the mortgage borrowers. Bad debts for credits will be restructured by ARIZHK again. In particular, it is expected to purchase mortgaged apartments from the creditor under a judicial sanction. Such housings will be transferred to municipalities.

Russian citizens have addressed 20.1 billion rubles for housing credits repayment and housing construction from the mother's capital. According to the Pension Fund of Russia since the beginning of 2009 nearly 75 thousand Russian families benefited from this right.

Manifold decrease in the volume of newly issued mortgages is accompanied by active transactions in mortgage securities.

On May 26 Federal Financial Markets Service registered the issue and prospectus of three tranches of mortgage securities of JSC “National Mortgage Agent VTB 001” (SPV-company of bank VTB 24) for the total amount of 14.479 billion rubles with the maturity on February 26, 2039. VTB 24 has attracted about 6 billion rubles for three months through the Central Bank REPO under the pledge of its ruble-denominated mortgage bonds, which were recently included in the mortgage list with the discount of 25% for REPO of more than two weeks.

On November 20, 2009 the Bank of Russia registered the five-year mortgage bonds for 15 billion rubles of Bank VTB 24.

Mortgage Agent of the Moscow Bank for Reconstruction and Development on September 17, 2009 placed its two issues of mortgage securities in the form of housing mortgage bonds grade "A" and "B" totaling to 2.2 billion

On December 15 JSC AHML has acquired from a special-targeted company ETB Mortgage Finance 1 S.A. (Luxembourg) the title for mortgage loans, provided to KB "European Trust Bank" (ZAO), secured by a mortgages for 2 billion rubles. Mortgages comply with the Agency standards. Transfer of mortgages and credit history files was performed through the depositories of JSC “Gazprombank" and JSC Bank "Revival ".

Vnesheconombank, as a state company that manages the pension savings funds (STMC), in accordance with recently approved by the Government new strategy of investing retirement savings, has obtained the right, starting from November 2009, to acquire AHML bonds and mortgage-backed bonds, if they have the appropriate rating and guarantees.

In November Gazenergoprombank has granted to "Home Credit and Finance Bank" LLC 1.8 billion rubles under the security of mortgage portfolio.

In the absence of demand for retail credits large banks are ready to resume the programs of refinancing of "foreign" loans under more favorable terms. Sberbank of Russia has introduced a new credit product - "Housing mortgage refinancing" for credits redemption (refinancing), issued by other credit institutions for up to 30 years.

VTB 24 has lowered the minimum initial installment for the borrower to 20% on all mortgage programs in the majority of regions of the bank representation.

In December, the State Duma has adopted in the first reading amendments to the Law "On banks and banking activity", which prohibits the banks to unilateral amendments of the interest rates on credits, deposits, commission and contracts validity terms with customers – physical persons.

Also in the first reading the State Duma adopted amendments to Art. 810, Part 2 of the Civil Code, providing for the citizens' right to early repayment of a loan without the consent of the bank.

In June 2009, JSC "Agency for Housing Mortgage Lending" (AHML), in cooperation with the Federal Fund on Promotion to Housing Construction submitted the "Program to encourage lending to developers, implementing housing projects in economy class and for individuals who buy dwellings in the framework of such projects", developed pursuant to the Minutes of the Government Committee on improvement the sustainability of Russian economic development No.12, dated of April 28, 2009. The agency assumes the obligations under the basic conditions of the program in pilot projects on the basis of the approved amount to 1.2 billion rubles.

It is assumed that AHML in accordance with the basic terms of the program will be providing targeted loans to credit agencies for the loans to individuals for dwellings purchase (no more than 30 thousand rubles per sq. m) in a house under construction (equity participation in construction) and/or support of a credit line for construction completion. A forward mortgage contract guarantees to the Agency purchase of the granted housing credits as soon as the construction is completed.

AHML implements the promotion of economy class housing jointly with Vnesheconombank. In the framework of this project, it was agreed in advance that the Bank of Development should provide a credit line to the Agency in the amount of 40 billion rubles for crediting the developers, implementing projects for construction of affordable housing by means of mortgage lending.

5.8. The Military Economy and Military Reform in Russia

The year of 2009 saw an unprecedented acceleration of the genuine military reform. This can be ascribed first to the fact that in the wake of the war with Georgia in August 2008 the tandem of the Russian leaders (the RF President, who also is the Commander-in-Chief, and the Prime- Minister) has *de facto* granted Mr. A. Serdyukov, the RF Defense Minister, *carte* *blanche* not only on continuation, but acceleration of the modernization of the Defense Ministry and the Armed Forces; second, this can be explained by the Minister's personal qualities and his commitment to pursue a real reform of the Armed Forces. But the time for the reform implementation has been missed.

5.8.1. New Challenges for the RF Ministry of Defense and the Armed Forces

The annual Report on the RF Ministry of Defense's performance in 2008 and main avenues of its operations for the forthcoming period did not come from press in a due time. But , referencing to a secret document approved by the RF President on September 15, 2008, in his account on results of 2008 Mr. A. Serdyukov enumerated tasks specified therein[1]. It was only on March 17, 2009, when addressing the extended Collegiums of the RF Ministry of Defense[2], Mr. D. Medvedev depicted the 2008 results as "fair, basically" and enunciated, as he put it, "a series of priority tasks". Unfortunately, the President's formulation of the tasks is not consistent with the Minister's, which is bad from all the perspectives - the military administrative culture and the normal civil management's. We are recapping on the tasks below, with citations attributed to their authors marked by the first letter of their names given in brackets (M for Mr. Medvedev and S - for Mr. Serdyukov):

1. "transition of all the units to the permanent combat readiness category" (S); "raising the combat readiness of the armed forces", including "transition of all the combat units to the permanent combat readiness category" (M). Let us note that the adjective "combat" was not further specified in any way – perhaps it was introduced to denominate a major component of the Armed Forces of RF which does not encompass another one, that is "the mobilization component in the form of arms and equipment storage and repair facilities, as well as mobile repair means" (S);
2. "Boosting the efficiency of the Armed Forces command system" (S); "optimization of the structure and quantity of the army" (M);
3. "Giving the Armed Forces modern warfare and military equipment" (S); "equipping the army with cutting-edge warfare" (M);
4. "Improvement of the cadre training system, military education and military science" (S); "a further improvement of the structure of the military education" (M);
5. "Provision of the military with a decent monetary allowance, permanent and departmental housing" (S); "solving the military's social problems" (M);
6. "Social adaptation of retiring officers…. Their retraining and current employment" (M) - notably, this task was specified by the President only.

Let us complement the above with the following statements by the President and the Minister of Defense, "A qualitative implementation of all these complex and large-scale tasks will depend upon a well-orchestrated, everyday, meticulous work, commitment and initiative of the highest rank of the Army and the Navy" (S); "at this juncture, there is the need in a high competence of commanders of all levels, synchronization of our joint effects and, of course, there is an extreme need in the public support of transformations conducted in the army" (M).

[1] ***Serdyukov A.*** 5 osnovnykh strategicheskikh zadach//Rossiyskoye voennoye obozreniye. 2009. №3. pp. 10-13
[2] ***Medvedev D.*** na puti k perspektivnomy obliku Vooruzhennykh Sil// Rossiyskoye voennoye obozreniye. 2009. №3. pp. 8-9

As to a more detailed concept of the "new face" of the Armed Forces and the Defense Ministry, a considerable fraction of the characteristics of the former and transformations in the latter constitutes a repetition of the past, non- or under-implemented ideas and programs whose rationale can be traced back to 1992, when the military-political leadership of RF had been making decisions on building the Armed Forces. At the time, the Supreme Soviet of RF developed, adopted and published main provisions of Russia's military policy[1]. Even from the today's perspective, it can be asserted that was a fairly progressive conceptual document that laid out the government's control and managerial functions in the military area:

- legislative approval of the government program of the military building and conversion of the defense sector;
- approval of the structure and the number of the Armed Forces together with the budget;
- control by the legislature over the cadre policy in the Armed Forces and the RF Defense Ministry.

The assertion contained in the Supreme Soviet's declaration that a "decisive transition in Russia's foreign policy to international cooperation and partnership creates a real basis for a substantial cutting of unbearable military expenditures as a necessary premise of a successful implementation of economic programs and elimination of tension in the society" remains vital. In late May 1992, the General Staff Academy held a conference on military building plans[2].

Merging the legislature and military experts' proposals, let us enumerate core elements of the then outlined "new face":

- Cuts in the number of the Armed Forces. In 1992, the troops outnumbered 2.5m, with the cap set in compliance with the act "On defense", that is, 1% of the population. Later, the President cited 1m as a benchmark of the future number of the military, but the cap was lifted by a respective act.
- The primary need to solve the military personnel's (both retiring and on service) all social problems, with a special attention paid to those coming home from the deployed overseas Army Group,.
- Transition of all the regular armed forces from conscription to draft. The provision was stipulated in the resolution by the RF government signed by Pres. Eltsin on November 30, 1992. The document formally retains its force.
- Sufficiency of the strategic nuclear forces whose "structure should be regulated on the basis of agreements with account of the need to keep the means that to the greatest degree meet the requirements of the nuclear security and minimum costs" as a factor precluding world wars.
- The factor of deterrence from "waging large-scale conflicts and local wars against Russia" should become "forces in possession of high-precision arms and means of their delivery", while the factor of neutralization of local military conflicts should become "conventional forces in the composition of a few Army and Navy blocks".

Except for some nuances, these elements match the recently declared concept of the "new face" of the Armed Forces of RF. Equally important is that back in 1992, most of the population and the military were supportive of the declared reform fundamentals. That is why the

[1] Vedomosti Syezda narodnykh deputatov RSFSR i Verkhovnogo Soveta RSFSR. M., 1992. see also: Izvestia. 1992. April 2.
[2] Voennaya mysl. Special edition. 1992.July

general list of characteristics of Russia's military policy that still are topical should be complemented with another two ones, which were declared and explicitly demonstrated then- namely:

- The official openness of the military policy and making the procedures and conditions of military service, the troops' freedoms and rights subject to the parliament and the society's control.
- Openness of the military building plans, as well as a detailed military budget and actual costs in a volume sufficient for the societal control; more specifically, in a full volume, as far as all the socio-economic aspects are concerned; in a volume equivalent to the UN standards on military expenditures - by other aspects, items and kinds of expenditures.

Back in 1992, a considerable fraction of the aforementioned characteristics and parameters meant the rise of a *de facto* new system of provision of the country's defense, a new defense ministry, a new armed forces, which have been just partly attained nowadays.

So, the new stage of the military transformation in many ways rests upon the earlier developed and theoretically justified findings of research teams and military experts.

As well, the current transformation is proved by the best overseas practices.

Lastly, the new stage of the reform underway in the Armed Forces and the Defense Ministry is backed by positive results demonstrated by structures within Russia's military organization that were keen to ensure them. It is worth mentioning, first and foremost, the RF Border Service that has succeeded in accomplishing its mission by having professionals engaged in using new technologies, rather than by merely beefing up.

Below, we highlight findings of the analysis of the reform process in the Armed Forces of RF.

5.8.2. Increasing the Combat Readiness of the Armed Forces.

Organizational developments on giving military units a "facelift" mostly concerned the Army. They had been completed as scheduled, that is, by July 1, 2009, some 50 units that did not change their dispositions transited to a new structure, followed by other (30 more units) by December 1.

Considerable changes have also occurred in the Air Force, with other ranches of the Armed Forces experiencing a substantially lesser transformation.

In each of 6 military districts there were formed structural elements of the operative-strategic command capable to run operations of all the forces, except the strategic ones, including the so-called "other" forces located in the territory of the district.

As well, Russia's Armed Forces contributed, with a paratroop division and a paratroop brigade, to the creation of the Collective Rapid Response Forces, which will be acting in the interests of the member nations of the Collective Security Treaty Organization.

There were planned and implemented a string of military exrecises, both individual and collective ones, as well as a number of huge war games that take part in the territory of China, Kazakhstan, as well as the operative-strategic exercise "West-2009" in the territory of Belarus, to name a few.

Thus, the task of creation of military units of *permanent readiness* is being tackled; however, the problem of sustaining their *permanent combat readiness* has remained unsolved, as the Armed Forces are still and will, through 2020, manned with conscripts at 65%. Having served in the army for 1 year, they demobilize to be replaced by rookies, and the cohesiveness between the units vanishes.

By late November, information was published of a comprehensive examination of the military units, including those already transited to the "new face" over the past training year, which, as usual, came to an end on October 30. Following the "normal" pattern, the information was first published by the mass media[1] and only after that - in the official sources[2].

Table 1

Assessment of Combat Readiness of the Army and the Navy by Late 2009

Score	Number of units	Comments
Excellent	4 operative units	All 4 – the Navy vessels (above-water crafts - AWC) and nuclear submarines (NS) equaled to brigade or division
Good	26 divisions of different branches (Air Force, Navy, SRF, paratroops)	A. 50% of units; 46% of the totality of regiments and bases remaining in the Armed Forces 55% of the 1st-class AWCs and NS; 33% of the "new-face" brigades
Fair	23 divisions	47% their total number
	105 of the "new-face" brigades	60% brigades of the "new-face"
	97 separate regiments	> 50%
Poor	4 brigades	From the Siberian military district and the North-Caucasian military district

So, it was slightly over 50% out of nearly 260 units and operative units equaled to them across all the Armed Forces, which can be provisionally called **combat ready**, that displayed just a satisfactory combat readiness. Besides, as by the end of 2009 nearly the half of the conscripts had demobilized from the Armed Forces, to be replaced by rookies, after the New Year many military units would fail to earn satisfactory scores. While their permanent readiness may be close to 100%, the combat readiness would remain pretty low, and such an undulating process in Russia's operative units will be noted until 2020.

From the military and economic perspective, an important fact is that, according to Mr. Serdyukov's article, the financing of the exercises was planned and executed "at the expense of funds allocated for the current maintenance of the Army and the Navy, as well as at the expense of proceeds from sales of military assets". Regretfully, no amount of such funds was specified, but the approach to the organizational problems should be lauded, nonetheless.

But establishment of the Collective Rapid Response Forces in such a fashion that their equipping with "modern warfare and military hardware, specially designed uniforms and equipage" was funded chiefly by Russia raises questions of appropriateness of such costs, as the forces are designated for ensuring Russia as well as all the CSTO member nations' military security.

While forming permanent readiness units, the military have also been tackling the most complex problem of organization of logistics support for the "new-face" army[3]. First, functions in the logistics support system were split, with the military fraction of the Interdepartmental (Unified) Logistics Support System (IULSS) retaining the duty of projecting and planning of the Defense Ministry's needs in certain kinds of works, products and services, while all the logistics business management functions were assigned to JSC Oboronservis. The company is formed by 9 sub-holdings that combined comprise a total of 56 federal public unitary enter-

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[1] Sargin A., Telmanov D. Armiya troechnikov//Gazeta. 2009. November 10

[2] Theses of the address of the Head of the Chief Command of Military Training of the Armed Forces of RF before representatives of the Russian mass media. See: http://www.mil.ru/847/852/1154/15977/37805/69116/69115/index.shtml

[3] Nasha konechnaya tsel- obespecheniye voennosluzhaschego (interview nachalnika Tyla VS RF)//Rossiyskoye voennoye obozreniye. 2009. №3. p. 21-23

prises and 19 earlier established JSCs. In the frame of the IULSS, every military unit (both in the Army and in other branches and military agencies) have now become subject to logistics support delivered by the nearest interdepartmental logistics support office.

As well, a very complex organizational work is underway, as far as provision of the logistics support to new military bases created overseas and military units with dispositions in the Far North and remote garrisons in Siberia and the Far East is concerned. This is a consequence of the revision of Russia's vitally important interests and changes in the geopolitical situation.

It is worth noting that the military leadership have focused on developing means and ways of conducting the so-called "information wars". That our info-, or cyber-, space has become a battlefield of invisible wars and Russia's Armed Forces fell behind the leading military nations in developing the respective forces and means and are in need for creation of a system of means of info-engagement – to counter an enemy in an "info-war" - was long discussed by the domestic expert community[1]. They believe these tasks are critical in the times of war as they are in the times of peace. While the information on the matter is brief and fragmentary, the Defense Ministry and the Armed Forces are now preparing to tackle the problem from the organizational perspective.

5.8.3. Optimizing the Structure and the Strength of the Armed Forces, and Increasing the Efficiency of Command and Control

In 2009, the structure of Russia's Armed Forces has seen some improvement, with the transition from the four-link (military district-army-division-regiment) command and control system to the three-link one (military district, which in the peacetime exercises the operational strategic command and control functions, - army, with its operative command and control functions, - brigade aimed at boosting the troops' mobility and flexibility.

The transformation has not stirred much public attention, while chiefly affecting interests of the high echelons of the army.

The public at large were far keener to explore other transformations, including those of the military education and science, and the military-medical service. It is a military staffing policy blueprint, which concerns the voluntary manning of the rank and file, that causes a particular alarm. The influx of young conscripts has recently fallen more than twice, thus making it impossible to ensure a 1mln-strong army, to say nothing of other branches, already in the nearest future. The number of the 18-year-olds will equal the number of university enrollees.

Hence the need in conscribing the bulk of university graduates, which will have an adverse effect on the economy, with the fall in the Armed Forces' combat readiness as a major negative consequence. At this point, it is worth citing the Concept Mr. V. Putin signed on June 15, 2008, "…In the nearest future it is planned to supply the Armed Forces of RF with-the new generation military hardware, which, with its greater efficiency as its distinctive quality, will at the same time be far more sophisticated than the ones currently in use; therefore, qualification (professional training) of the troops using the hardware should be enhanced, which will require additional time costs for their training; the transition to the 1-year-long conscription means that after being trained in rank-and-file centers and having acquired practical skills necessary for using the new-generation military hardware, the personnel will be demobilized due to expira-

[1] *Nikolaev Yu., Pchelyanoy V. Tsymbal. V.* Systema vooruzheniya VS RF – kakoy ey byt?//Vooruzheniye, politika, konversiya. 1997. №2, p. 27-32

tion of the term of conscription as per the law, i.e. the training of the personnel will be carried out permanently, and no fully trained rank-and-file specialists will be in place". So, reads the document, "at this juncture the transition to draft is the only realistic solution". But on August 18, 2008, amid the commotion in the immediate wake of the 5-day war, there was approved another FTP that retains the mixed manning of the permanent-readiness units.

The number of university graduates conscribed into the army is on the rise. Specifically, in the spring 2008 as many as 28,600 of them were enlisted, while in the spring 2009 the number climbed up to 37,900. Today, they have been conscribed for the term of 1 year, but are often forced to sign a contract for a longer term of service.

The state of the conscripts' health poses another problem. With reference to the head of the State Army Mobilization Department[1], in the spring of 2009 as many as 33% of the prospective conscripts was discharged from the military service, while "out of those conscribed over 30% have various kinds of health restrictions".

5.8.4. Equipping the Armed Forces with Arms and Military Hardware

Unfortunately, while pursuing the whole complex of transformations, the core question of coordination between the military-technical policy and the military-manning one has remained unanswered. What should the priority be given to – either mastering a serial production of the cutting-edge weaponry and giving it to the troops, or recruiting and training the troops of all the echelons of the military hierarchy keen to excel in their job in the first place and then fearlessly provide them with the newest military hardware?

Without a bold answer to this question the President's vow "to equip the army with fundamentally new high-tech arms" does not appear convincing, as the troops have to be capable to master them.

After the war with Georgia in August 2008 the need in change the past views has become obvious. Hence the imperative to form the public defense order (PDO) for 2009-2011 not only on the basis of the State Arms Program (SAP) for 2007-2015, but with "account of measures aimed at reequipping the conventional forces"[2], too, i.e. to adjust the PDO.

The government increased spending on arms purchases, albeit without a respective quantitative rise in supplies of a new, cutting-edge warfare, with public orders once again focusing on resource-intensive samples that provide just solitary military combatants.

The Army was supplied with rocket complexes "Iskander" and traditional antiair rocket "Buk-M2" and "Tor-M1" ones, anti-tank complexes "Kornet" , "Khrizantema", self-propelled assult guns "Khosta", "Msta-S", tanks T-90A, making an aggregate of 3,000 units. The problem of equipping the troops with positioning, communication, reconnaissance means has remained unsolved.

Hence a logical question as to whether the deficiencies of the recently approved SAP are to remain untouched, as are the drawbacks of the methodology that underpinned it. This question is even more persisting in the light of the 5-day-long war with Georgia which showed that the PDO needs to be adjusted.

In parallel with that, there is the need to modify the DIC management system. Pres. Medvedev has recently enunciated that "massive investment has been made in the modernization and

[1] O predvaritelnykh itogakh vesennego prizyva 2009 g.// Rossiyskoye voennoye obozreniye. 2009. №7. p 10-12
[2] ***Popovkin V.*** Novym Vooruzhennym Silam – novoye oruzhiye//Rossiyskoye voennoye obozreniye. 2009. №3. p. 19

development of the DIC…But, in my view, the return has not been high by far. Regretfully, one continues to pursue the "band-aid" policy. And objectives of an advanced technological rearmament of the sector have not been attained, to put it bluntly. All this tells on the quality of the hardware supplied to our Armed Forces and for export"[1]. Concerns that a wrong management of the DIC that implies retaining monopolists and a loose control over their own technological development would yield dire consequences have justified themselves. Pres. Medvedev noted that a new FTP is needed to eradicate the defect, hence new secret budget expenditures on provision of support to beforehand picked DIC corporations. This may turn into a new waste of funds, as it is yet more critical a task to develop "acts, standards and procedures, owing to which it will always be the best developers and producers of military hardware that will find themselves among corporations fulfilling the defense order in the frame of a tight but fair competition". Regretfully, these words sounded just as a wishful thinking.

5.8.5. Improving the Military Education and Research System

As far as the transition plans are concerned, the progress in the military education was only the understood in the frame of the traditional concept of manning, i.e. the officers' training. Despite the presence of the national military education's past success stories and its recognition internationally (Russian military universities still train specialists from 50 more countries), the situation required fundamental changes. With the annual enrollment of 8,000 people necessary for the modified Armed Forces, keeping 64 military universities is an intolerable luxury. The same is true for the military research organizations. Having survived since the Soviet time, they required substantial funding with nearly zero yields. Every tenth officer of the Armed Forces was engaged in the university and MRO system and, what's worse, secrecy hampered cooperation between the institutions advocating polar stances with regard to the problem of current/prospective weaponry.

Hence, ensuring integration between military universities and research institutions is a critical challenge, which might be yet more fruitful from the perspective of the general trends of innovational development.

But another problem raises serious concerns, that is, zero growth in the number of military schools for fresh conscripts in the Army and in the Navy, which means that what then President V. Putin vowed in one of his presidential addresses, that is, upon transition to the 1-year-long conscription young soldiers would be trained for the first half-year and dispatched to regular units for the other one, will remain unfulfilled. Hence the peril that fresh conscripts would be immediately dispatched to the permanent-readiness units and, if need be, further deployed in a zone of military conflict. Hence the question as to whether the pre-conscript training can serve as an adequate substitute for a military training camp.

5.8.6. Solving the Military's Social Problems

The most critical for the military reform avenue was labeled "Improvement of the social well-being of the military". Contrast to the other avenues, the respective measures were publicized in a fairly detailed document "The Strategy of the social development of the Armed Forces of the Russian Federation for the period through 2020". The document was approved

[1] Minutes of the meeting on development of the defense-industrial complex. Reutov, October 26, 2009. http://www.kremlin.ru/transcripts/5825.

at the Collegiums of the Defense Ministry, i.e. on the departmental level, rather than the federal one, on March 23, 2008. According to Mr. N. Makarov, Head of the General Staff, the Ministry will not need to raise any additional funds to implement the Program.

The Strategy encompasses all the social aspects of the military, civil employees with the Armed Forces, retirees, and their family members' lives. The authors of the document believe that solving the core challenge, that is, "meeting the social needs", necessitates completion of seven tasks, of which, as evidenced by the media, the primary ones are pay rises and the housing problem.

In late 2008, the domestic mass media aired vows by the Defense Ministry's leadership to considerably raise monetary allowances for the military. In reality, however, such pay rises were not made available to everyone. In compliance with the Defense Minister's order of August 2, 2008, № 400 "On awarding officers of the Armed Forces of the Russian Federation with money", as many as 34,000 best officers receive monthly bonuses effective as of January 1, 2009 and through December 31, 2009. The bonuses vary from Rb. 35,000 to 150,000, depending on the branch of the Armed Forces, rank and actual position of the grantee. It is planned to increase the number of grantees in 2010. To this effect a special bonus pool worth a total of Rb. 100bn was formed in the 2010 federal budget, with a view that the bonuses are payable in 2010-11.

Even if an officer's merits in 2008 were acknowledged with the "Minister's" bonus in 2009, it does not shield him from the peril of being dismissed due to the organizational-manning measures (to put it boldly, staff cuts) which are underway in the Armed Forces in 2009 due to the military reform. Bonuses for the rank-and-file military are not provided for, though, which is why the military service on these positions has not become more popular on the labor market.

During the whole 2009 the domestic media have been voicing justified doubts regarding the way the "Minister's bonuses" were awarded. In the fall of the year the information appeared that the criticisms had been heard of – following the military's opinions, the order should be amended- namely, since 2010 the bonuses will become payable not to an individual, but to a whole unit, which had demonstrated the best performance in 2009.

The "Strategy" provides for three stages of fulfillment of the tasks. The first stage is 2008-2012. The task with regard to service pays set for this stage reads as follows: "increase of the military's monetary allowance to the level of 90 per cent compared with the average salaries and wages of employees in the national economy". It is further envisaged that by 2020 (the deadline for the Strategy's effect) the monetary allowance would account for 1.25 of the average wages nationwide, which should boost up the military service's attractiveness on the labor market. As stipulated in the "Report on implementation of the Strategy of social development of the Armed Forces in 2008", to fulfill the task the Defense Ministry has designed and approved a "strategic plan of improvement of the monetary allowance through 2020" and drafted a bill on the military's monetary allowance reform. But the launch of the monetary allowance calculation system has been temporized.

The new system shall concern all the military on service and the military pensioners alike. The concept of the bill in question was to be submitted to the RF Government until October 1, 2009, but it still is not there.

Addressing to the State Duma in April 2009 with an account on the RF Government's performance in 2008, Prime-Minister V. Putin vowed that "by 2012 all the military in the Armed

Forces shall have been transited to the new monetary allowance system" and that under new arrangements the platoon commander's salary should be in a region of Rb. 50,000. Addressing the Federal Assembly on November 12, 2009, Pres. D. Medvedev echoed these words by maintaining that, "By 2012 we should also pass a special act on the military's monetary allowance". On November 15, the President issued the following executive order on implementation of the presidential Address to the Federal Assembly: "to submit to the State Duma a bill on the military's monetary allowance[1]". Mr. A. Serdyukov, the RF Defense Minister, argued at the Collegiums of the Ministry that a considerable increase of the monetary allowance will be made only since 2013, "when the new officer and sergeant corps has been formed".

Since August 2009 salaries by the military position and those by the military rank were raised by 8.5% for all the military. As the structure of the monetary allowance has remained unchanged, accordingly, the proportion of the monetary allowance in the salaries has not changed, either. That is to say it has remained at the level of below 40% (with the plans to attain the 40% benchmark only by 2012)[2]. As a consequence, the positive effect of the said pay rise is in decline, while the major drawback is still there, that is, the monetary allowance of the rank-and-file personnel remains low and uncompetitive on the labor market.

Meanwhile, the problem of the new structure of monetary allowance constitutes a core issue for the formation of the draft-based army. Given that the respective decision has been postponed, the draft-based army in Russia will have emerged no earlier than by 2020 and, hopefully, the Strategy of the social development will have be completed by then, too.

The situation with housing for the military leaves much to be desired. While addressing the Federal Assembly, Pres. Medvedev noted, "The set objective- that is, to secure <the military> with constant housing in 2010 and with the departmental one in 2012 shall be completed to the letter". The Defense Ministry's calculations proved the need in 90,000 apartments, and the decision was made to provide them in halves in 2009 and 2010. But in reality, according to Mr. V. Filippov, head of the Defense Ministry Construction and Billeting Service, as of November 2009, as many as some 25,000 apartments had been received and handed over to the military. Thus, the 2009 plans in this regard have failed, but the problem does not lie just in this fact. It goes without saying, 90,000 apartments will not be able to eliminate the shortage of permanent residential housing, as every year quite a number of the military retire and their need in accommodation should be satisfied.

5.8.7. Social Integration of the Retired Military

Regretfully, the problem of the military's social integration is regarded as a temporary one, which should be solved en route the transition towards the "new face". This is evidenced by the name of the Defense Ministry's own departmental program – "Fulfillment of social guarantees for the military dismissed from the military service in the period between 2009 and 2011", which was approved by the Minister's order of February 14, 2009.

The matter of the fact is, social integration of the former military should be included in the list of regularly exercised measures, for the transition of the RF citizens from the civil sphere into the military one and vice versa constitutes a normal process, which will continue further

[1] http://www.president.kremlin.ru/news/6001
[2] http://www.mil.ru/849/11876/37870/index.shtml

on and will be occurring repetitiously. Therefore, the social integration problem should have its own legal and economic-financial rationale and solution.

Currently the following forces have been deployed to cope with the problem: 57 military universities ready to provide a full-scale certified vocational training to officers by 144 civil professions; a handful of civil educational institutions that practice distance tuition; and charity organizations. In contrast to retraining programs of the 1990s, the role of international aid in this respect has become insignificant.

As to job opportunities *per se*, the problem has been passed over to the regional level. Plus, some of retired officers have got a chance to maintain their engagement with their department in a new capacity of a civil servant – there have appeared jobs in the Defense Ministry that can be filled both by officers and civil servants.

5.8.8. Improving the Planning, Programming, Execution and Performance Control System

Even the 5-day war with Georgia resulted in adjustment of the State Armament Program for 2007-2015 in the part of conventional forces. Failures to launch "Bulava" require the same with regard to the strategic forces, and this list can be extended further on. The reality dissuades one from appreciating the viability of the effective development procedures of government arms programs, with their five-year cycle, or the respective methodology. That said, the work on the new state arms program for 2011-2020, which had been ruled by the military commission under the RF Government back in December 20, 2007, started using the same old methodology. Meanwhile for the Armed Forces it is planned to attain the following levels of "the balance between maintenance costs and equipping one": 50:50 - by 2011 and 30:70 – by the end of 2015[1]. This is the backlog to the Soviet time. The civilized nations' experience testifies in favor of rationality of absolutely different proportions - more specifically, the European Defense Agency recommends the EU member nations not to curtail the proportion of the equipping costs in their military budgets below 20%[2], but not to hold them at the level 50 or a formidable 70%.

In parallel with that, there is an array of issues that formally fall beyond the mandate of the RF Defense Ministry and the Armed Forces – one will have to transform the military-technical policy control system, the system of orders and, on top of that, the system of the financial and economic control over these processes and preclude corruption from rising in the military economy, which by far has been notorious for that. Plus, the sphere of military service is equally notorious for numerous abuses and violations of the military's rights.

Those who propone reallocation of budget funds to give a boost to development of weaponry, military and special hardware label the army maintenance costs "a money waste", as if the funds were not spent on retaining our troops' combat readiness. But a sizeable proportion of the funds allocated for R&D and arms supplies is spent on labor compensations to the DIC employees, i.e. "wasted away" by their households. Yet a greater fraction of the funds in question is spent on the bureaucrats' labor compensations and, most appallingly, on kickbacks, quasi-bonuses and other illicit kinds of "money waste". That is the black hole consuming a

[1] *Popovkin V.* Novym Vooruzhennym Silam – novoye oruzhiye//Rossiyskoye voennoye obozreniye. 2009. №3. p. 20

[2] *Korobov I.* Voenno-promyshlennnaya integratsia straan Evropeyskogo soyuza//Zarubezhnoye voyennoye obozreniye. 2010.№ 1, p. 27

sizeable proportion of funds tagged as "development costs". While the public spending on the military aircraft and weaponry has been on the rise over recent years, in reality, the Air Force received only 3 new aircraft. The tendency was reversed only in 2009, but many experts ascribe this fact not so much to the growing attention to the army's needs, but to Algeria's refusal to buy originally agreed upon MIGs-29.

The discussion on proportions of "money waste" and "development" forms a smokescreen for the bureaucracy reluctant to offer the military (let us note, mostly scions of the needy families) a decent compensation for the hard and dangerous soldier labor, as such costs do not yield any kickback. It is far simpler to bite a piece from a huge public order, even more so as the respective procedures are typically closed ones. The closeness of the DIC from the rest of the economy likewise fuels corruption.

The methodology of the works needs to be revised, too. It is imperative to transit to a national analogue of a well-justified US system of budgeting as a core public administration vehicle. In so doing, it is equally necessary a task to identify causes that have utterly delayed the current reform and, accordingly made it hardly implementable.

5.8.9. The Military-Budget Policy and the Problem of Openness

In the conditions of the current financial and economic crisis the flexibility of the nation's annual financial plan hit an unprecedented level – while in 2008, in the first year of the crisis, the federal budget was modified just four times upon its approval, in 2009 there were seven such modifications, ie once in every six weeks. Between the RF President's signing into act the first version[1] of the federal budget and the moment of approval of the eighth one[2] allocations by section 02 "The National Defense" shrank for the first time over many years – from Rb. 1,336trln to 1,193trln, or by 10.7%, against an overall 9.1% increase in the federal budget expenditures over the same period. Compared with the 2008, the increase in allocations on the said section ultimately accounted for 12.6% in real terms[3] concomitant with a 0.56 p. p. increase in its proportion in GDP.

The level of secrecy of the 2009 federal budget expenditures slid insignificantly (***Table 2***) resulting from Rb. 96, 344bln in direct cuts in secret appropriations made in the course of the budget modification in April 2009 and increase in budget expenditures due to the government's anti-crisis measures. However, all that has had no effect on transparency of the budget ***per se***. Secret allocations have survived to date in such expenditure sub-items as 0701 "Preschool education", 0801 "Culture" and 0908 "Physical culture", their presence therein impossible to explain in rational terms. The proportion of secret expenditures has been on the rise across Section 05 "The housing and public utilities" (up by 62%) and 'The national economy" (+92%), with just "Environmental policy" continuing to be the one and only Section in the federal budget immune to the secrecy fever.

[1] On the 2009 federal budget and the planned period 2010 and 2011: federal act №204-FZ; passed by the State Duma on October 31, 2008

[2] On introducing amendments to federal act "On the 2009 federal budget and the planned period 2010 and 2011": federal act №309-FZ; passed by the State Duma on November 20, 2009

[3] With the use of the GDP deflator index (Rosstat's initial estimate for 2009 is 102.7%). Given the crisis conditions, earlier being conservative, this estimate has grown into an optimistic one, as the average annual values of indices of both consumer prices and industrial producer prices have remained in double digits.

Table 2

Proportion of Secret Appropriations in the Federal Budget Expenditures in 2003–2009, in %

Code and name of the Section (sub-section) that comprises secret expenditures	2003	2004	2005	2006	2007	2008.	2009
The federal budget expenditures, total	9.73	9.83	11.33	11.80	10.33	11.92	10.01
0100 GENERAL PUBLIC ADMINISTRATION ISSUES	n/a [1]	n/a	3.67	6.28	5.52	8.66	5.05
0108 International relations and international cooperation	31.88	18.04	–	0.01	< 0.01	3.66	–
0109 The state material reserve	97.73	93.33	82.86	89.23	92.18	90.17	85.01
0110 Fundamental research	–	–	2.13	1.22	1.12	0.97	0.78
0114 Other general public administration issues	n/a	n/a	0.05	0.72	0.28	4.42	1.56
0200 NATIONAL DEFENSE	37.22	38.40	42.06	42.77	45.33	46.14	48.09
0201 The Armed Forces of RF	35.39	36.11	33.07	35.59	37.11	39.04	40.21
0204 Mobilization preparation of the economy	100.0	100.0	100.0	100.0	100.0	100.0	100.0
0205 Preparation for and participation in provision of the collective security and peacekeeping activities	–	–	100.0	100.0	100.0	–	–
0206 Nuclear arms complex	100.0	100.0	100.0	100.0	100.0	100.0	100.0
0207 Implementation of international obligations in the sphere of military-technical cooperation	100.0	41.05	45.22	46.90	50.65	100.0	100.0
0208 Applied research in the area of national defense	n/a	n/a	98.37	93.94	93.69	93.20	92.85
0209 Other issues in the national defense area	n/a	n/a	2.49	8.79	24.38	29.21	34.64
0300 NATIONAL SECURITY AND LAW ENFORCEMENT	23.33	20.79	28.52	31.64	31.07	31.84	30.82
0302 Interior Ministry bodies	3.40	3.01	4.76	6.31	5.16	4.97	3.70
0303 Interior Ministry troops	13.21	11.10	11.76	10.31	9.80	10.25	8.19
0306 Security bodies	100.00	98.91	97.80	95.49	97.31	99.05	99.61
0307 Border Guard bodies	19.73	22.88	100.00	98.97	97.62	100.00	99.47
0309 Population and territory protection from emergency situations of natural and technogenetics situation, civil defense	43.69	41.74	59.02	62.39	50.65	51.39	51.00
0313 Applied research in the area of national security and law enforcement activity	n/a	n/a	73.95	66.41	64.43	75.49	79.35
0314 Other matters in the area of national security and law enforcement activity	n/a	n/a	8.26	50.71	39.95	56.32	68.37
0400 NATIONAL ECONOMY	n/a	n/a	0.05	0.02	0.44	0.64	0.55
0411 Applied economic research	n/a	n/a	–	–	5.23	5.84	4.49
0412 Other matters in the national economy area	n/a	n/a	0.12	0.06	< 0.01	0.31	0.72
0500 HOUSING AND UTILITIES SECTOR	n/a	n/a	–	3.42	0.85	6.96	10.09
0501 Housing	n/a	n/a	–	4.22	5.69	15.97	12.91
0700 EDUCATION	–	–	2.76	2.69	2.39	2.55	3.06
0701 Preschool education	–	–	2.03	2.17	2.44	2.48	2.45
0702 General education	–	–	1.51	1.91	2.14	2.00	2.75
0704 Secondary vocational training	–	–	1.06	1.03	1.02	0.86	0.99
0705 Professional training and retraining	–	–	16.85	15.78	17.22	1.80	2.54
0706 University and post-graduate professional education	–	–	3.15	2.93	2.53	3.08	3.64
0709 Other matters in the sphere of education	–	–	0.30	0.33	0.28	0.29	0.48
0800 CULTURE, MOTION PICTURE INDUSTRY, MASS MEDIA	–	–	0.17	0.17	0.21	0.17	0.18
0801 Culture	–	–	0.14	0.10	0.16	0.10	0.14
0804 Periodical media and publishing	–	–	13.46	7.45	2.57	2.62	3.14
0806 Other matters in the sphere of culture, motion picture industry and mass media	–	–	0.02	0.15	–	–	–
0900 HEALTH CARE, PHYSICAL CULTURE AND SPORTS	–	–	4.30	3.99	2.57	4.14	3.54
0901 Stationary medical assistance	–	–	5.61	4.66	2.94	3.24	2.77
0902 Outpatient medical assistance	n/a	n/a	n/a	n/a	n/a	13.94	4.34
0905 Rehabilitation	n/a	n/a	n/a	n/a	n/a	14.07	15.88
0907 Sanatorium-epidemiological well-being	n/a	n/a	n/a	n/a	n/a	2.09	0.63
0908 Physical culture and sports	–	–	0.28	0.26	0.24	0.42	0.32
0910 Other matters in the sphere of health care, physical culture and sports	–	–	–	–	–	1.74	1.07
1000 SOCIAL POLICY	–	–	–	–	–	0.01	0.01
1003 Social security of the population	–	–	–	–	–	0.02	0.02
1100 INTERBUDGETARY TTRANSFERS	–	–	–	–	0.16	–	–
1101 Subsidies to budgets of the RF Subjects and municipal entities	–	–	–	–	0.50	–	–

Source: the IET calculations by the 2003-2009 federal budget data (the 2003-2007 data have been adjusted to the respective sections and subsections of the budget classification that took effect as of January 2008)

So what constituted the genuine cause behind making programs, such as, for instance, the FTP "Development of the defense-industrial complex over the period 2007-2010 and through

[1] Non-applicable due to the modifications in the structure of the budget classification.

2015" classified information? The program in question was adopted back in 2006 and has been middling well ever since with no sufficient, albeit secret financing. According to Mr. V. Khristenko[1], the RF Minister of Trade and Industry, in all likelihood the state secret merely shields from bureaucrats and heads of the DIC enterprises from criticism and control.

Absolute and relative values of main components of direct military appropriations in the federal budget and their change relative to 2008 according to the final version of the 2009 federal budget are given in *Table 3* (recalculation into the 2008 prices was made with the use of the Rosstat's initial estimate of the 2009 GDP deflator index[2]).

Table 3

Direct Military Appropriations in the Federal Budget on Section 02 "National Defense"

Section and subsections	2009, as Rb mln / the same in the 2008 prices	Change 2009/2008 as Rb. mln./ increase as %	Allocated proportion, as % / change vs. 2008, as p.p.	
			In the 2009 federal budget	In GDP
1	2	3	4	5
NATIONAL DEFENSE	1 192 867 1 161 506	129 948 12.60	12.12 –2.57	3.06 0.56
The Armed Forces of the Russian Federation	887 916 864 573	115 639 15.44	9.02 –1.65	2.28 0.46
Mobilization and out-base training	3 623 3 528	–1 517 –30.07	0.04 –0.04	0.01 –
Mobilization preparation of the economy	3 381 3 292	–208 –5.95	0.03 –0.02	0.01 –
Preparation for and contribution to provision of collective security and peacekeeping operations	264 257	–303 –54.11	<0.01 –0.01	<0.01 –
Nuclear weapons complex	19 081 18 579	1 495 8.75	0.19 –0.05	0.05 –
Implementation of international obligations in the military-technical cooperation area	4 455 4 338	427 10.92	0.05 -0.01	0.01 –
Applied research in the national defense area	162 896 158 614	25 271 18.95	1.65 –0.24	0.42 0.09
Other issues in the national defense area	111 251 108 326	–10 857 –9.11	1.13 –0.57	0.29 –

Source: the IET calculations.

As a year ago, subsection 0202 "Modernization of the Armed Forces of the Russian Federation and Military Formations" appears missing in the open part of the federal budget and, judging by the match between the amount of allocations by subsections and the aggregate amount of allocations on Section 02[3], it is still missing in the secret appendices, either.

Military allocations by other sections of the federal budget are presented in *Table 4*.

[1] Minutes of the meeting on development of the defense-industrial complex. Reutov, October 26, 2009. http://www.kremlin.ru/transcripts/5825.
[2] Osnovnye ekonomicheskiye i sotsialnye pokazateli Rossii v 2009 ujdu: M.: Rosstat, February 9, 2009. http://www.gks.ru/rufree_doc/2009/b09_01/1-o.htm
[3] See the Federal Treasury data on execution of the consolidated budget

Table 4

Direct and Indirect Military Expenditures across Other Sections of the Federal Budget

The name of the section or *the nature of appropriations*	2009, as Rb. mln / the same in the 2008 prices	Change2009 to 2008, as Rb mln. / increase, as %	Proportion of the appropriation, as % / change relative to 2008, p.p.	
			in the 2009 federal budget	in GDP
In Section 03 «National security and law enforcement activity»				
Law enforcement forces	57 652 56 136	1 893 3.49	0.59 –0.19	0.15 0.02
Security agencies	179 755 175 029	28 816 19.71	1.83 –0.261	0.46 0.11
The border guard structures	80 134 78 027	10 164 14.98	0.81 –0.15	0.21 0.04
The RF MES forces and civil defense	41 152 40 070	3 289 8.94	0.42 –0.11	0.11 0.02
In Section «National economy»				
The presidential program "Liquidation of the chemical weapons inventory in RF"	1 081 1 053	–1 551 –59.57	0.01 –0.03	<0.01 –
Subsidies to transportation organizations that exercise procurements of motor vehicles for completion of the mobile component of motor columns.	80 78	–16 –17.15	<0.01 –	<0.01 –
Subsidies to the functioning of the Russia-NATO coordination center	21 20	–3 –13.10	<0.01 –	<0.01 –
Construction of special and military objects	4 317 4 204	–2 075 –33.04	0.04 –0.05	0.01 –
FTP «Industrial utilization of weaponry and military hardware (2005–2010)»	45 44	–45 –50.78	<0.01 –	<0.01 –
Subsidies to "Rostekhnologii" public corporation	4 408 4 292	2 792 186.11	0.04 –0.03	0.01 –
Contribution to authorized capital of, and subsidies to organizations of the defense-industrial complex	37 014 36 041	27 810 337.87	0.38 0.26	0.09 0.07
Classified expenditures	10 655 10 375	4 967 91.85	0.11 0.03	0.03 0.01
In Section 05 «Housing and Utilities Sector»				
FTP «Industrial utilization of weaponry and military hardware (2005–2010)»	2 165 2 108	316 17.62	0.02 –	0.01 –
Provision of the military with the departmental and permanent housing	84 627 82 402	47 494 136.06	0.86 0.36	0.22 0.13
Classified expenditures	14 346 13 968	5 358 62.22	0.15 0.02	0.04 0.02
In Section 07 «Education»				
The RF Defense Ministry's expenditures	42 315 41 203	6 111 17.42	0.43 –0.07	0.11 0.02
Classified expenditures	12 263 11 940	3 318 38.47	0.12 –	0.03 0.01
In Section 08 «Culture, motion picture industry, mass media»				
The RF Defense Ministry's expenditures	3 533 3 440	726 26.74	0.04 –	0.01 –
Classified expenditures	201 196	37 23.11	<0.01 –	<0.01 –
In Section 09 «Health Care, Physical Culture and Sports»				
The RF Defense Ministry's expenditures	31 063 30 247	5 061 20.09	0.32 –0.04	0.08 0.02
Classified expenditures	11 890 11 578	2 164 22.99	0.12 –0.01	0.03 0.01
In Section 10 «Social Policy»				
The RF Defense Ministry's pension plans	115 638 112 598	16 549 17.23	1.17 –0.19	0.30 0.06
The FSB pension plans	17 554 17 092	1 458 9.33	0.18 –0.04	0.04 0.01
Procurement of housing for the retired and designated for retirement military	10 598 10 320	–1 737 –14.41	0.11 –0.06	0.03 –

The name of the section or *the nature of appropriations*	2009, as Rb. mln / the same in the 2008 prices	Change2009 to 2008, as Rb mln. / increase, as %	Proportion of the appropriation, as % / change relative to 2008, p.p.	
			in the 2009 federal budget	in GDP
Complementary monthly material allowance to the disabled due to the military injures	373 / 363	57 / 18.79	<0.01 / –	<0.01 / –
Provision for conduct of refurbishment of individual housing owned by the families of military that have lost the breadwinner	317 / 308	18 / 6.36	<0.01 / –	<0.01 / –
Compensations to family members of the deceased military	1 481 / 1 442	–11 / –0.78	0.02 / –0.01	<0.01 / –
Relief and compensations to the military, individuals equaled to them, and those dismissed from their ranks	12 353 / 12 028	3 941 / 48.72	0.13 / 0.01	0.03 / 0.01
Classified expenditures	17 / 17	2 / 10.03	<0.00 / –	<0.00 / –
In Section 11 «Interbudgetary transfers»				
Subsidies to CATEs' budgets	10 442 / 10 168	390 / 3.99	0.11 / –0.03	0.03 / –
Support of measures on ensuring the CATEs' budget equilibrium	1 095 / 1 066	–68 / –6.03	0.01 / –0.01	<0.01 / –
Development of, and support to the CATEs' social and engineering infrastructure	5 412 / 5 270	–546 / –9.39	0.05 / –0.03	0.01 / –
Running the primary military and conscription records in territories with no military commissariats in place	2 066 / 2 012	387 / 23.82	0.02 / –	0.01 / –
One-time allowance to a conscript's pregnant wife and the monthly allowance for a conscript's child	1 077 / 1 049	– / –	0.01 / 0.01	<0.01 / –
Residents relocation from CATE	1 318 / 1 283	49 / 3.99	0.01 / –	<0.01 / –
Material security for specialists of the nuclear-arms complex of RF	3 303 / 3 216	1 010 / 45.78	0.01 / –	<0.01 / –
Complementary monthly material security for disabled due to the military injury	655 / 638	–32 / –4.82	0.01 / –	<0.01 / –

Source: the IET calculations.

The 2009 RF Defense Ministry's allocations on housing construction by Section 02 ("National defense") dwindled by 77% in real terms vs. the prior year's figures; however, that was overwhelmingly compensated for by a 136% increase in allocations to the military in the frame of Section 05 ("Housing and utilities"). Despite the moves, the objective set a few years ago, that is, provision of the military with housing by 2010 (i.e. by the end of 2009) was not attained. The federal budget appropriations on the housing certificates have remained practically unchanged since 2008 (see *Table 4*), while the military mortgage certificates posted a triple-plus growth (up to Rb. 3. 217bln), which should be ascribed to the low-base effect, as due to reasons nobody bothered to explain the 2008 appropriations were curtailed more than twice, down to Rb. 4,063bln.

While the annual appropriations on the Defense Ministry military personnel rose by 35% (24.4% in real terms[1]), in August 2009 the military's monetary allowance and pensions were increased just by 8.5%. That is to say, with account of the consumer price rise from the moment of the prior pay rise, the military's incomes in real terms had dropped by some 8% by the end of the year. The aforementioned bonuses granted to some 10% of the officer corps cannot fully explain the noted surplus by the item "Military personnel" estimated at a level of not less than Rb. 20 to 30bln. It might well happen that one of the reasons behind creation such a pool

[1] With the 2009 average annual CPI (11.7%) factored in.

has been its spending on readjustment pays in the course of the planned considerable cuts in the number of officers and warrant officers.

In 2009, allocations on military training were axed at 29% in real terms vs. the prior year, as in April the Defense Ministry opted for sequestration chiefly at the expense of the current expenditures. Allocations for the material and logistical supplies were curtailed by 15%, with the major cuts falling on fuel and lubricants (29% down); allocations for food supplies remained unchanged, while those on material support were cut once again, for another 9%, which further aggravated the situation with shortages of uniform, bed sheets and laundry services in the Armed Forces. It should be assumed that while the effect of noted fall in procurements of fuel and lubricants was mitigated by the price fall for oil products on the domestic market, it anyway has not contributed to a notable progress in terms of military readiness in the Air Force and the Navy compared with 2008, nonetheless.

The Defense Ministry's pension allocations were increased by 20% compared with the year 2008, thus, they sufficed to ensure a nominal 8.5% pensions rise since August 2009 and the respective payments in favor of the military dismissed in the process of the started reduction of the Armed Forces.

Calculated according to the UN military expenditure standards, the 2009 federal budget direct military appropriations (*Table 5*) accounted for 4.7% of GDP, while inclusive of allocations associated with the past military activities (military pensions, destruction of chemical weapons, etc.), they stood at 5.1% of GDP.

Table 5

Aggregate Indicators of the Federal Budget Military Expenditures and Other Associated Expenditures

Expenditure	Amount of appropriations, as Rb. mln	Proportion of appropriations, as % / its change vs 2008 г., as p.p.	
		In the 2009 federal budget	In GDP
Overall direct military appropriations	1 828 385	18.57 –2.83	4.69 1.04
Aggregate direct and indirect military appropriations related to the current and past military activity	1 995 388	20.27 –3.16	5.11 1.13
Aggregate appropriations across sections "National defense" and "National security and law enforcement activity"	2 215 322	22.50 –4.00	5.68 1.17

Source: the IET calculations.

As far as the issue of aggregate military expenditures is concerned, the execution of the 2009 federal budget displays no striking difference vis-à-vis the 2008 figures. Specifically, the Federal Treasury reports a Rb. 7,875bln-worth excess of the expenditure limit by the aggregate budget estimate of the federal budget over the respective appropriations by Section 02 "National defense" already since January of the year. The gap has been widening since and hit its peak value of Rb. 19,471bln. in July, but subsequently slid to 10,845bln in the fall 2009. To benchmark the executive power's discretionary powers, it should be noted that sections 9, 11 and 13 of Art. 25 of the 2009 federal budget act have capped increase in military appropriations at the expense of extra budget revenues in the frame of the specified budget estimate with Rb. 13,549bln; plus, by 2008 results this particular expenditure section posted a Rb. 9, 283bln overspending of budgetary funds.

The data on the monthly execution of the military expenditures and other associated expenditures of the 2009 federal budget are presented in *Table 6* and *Figs 1-3*. The year 2009 saw some progress in execution of military expenditures – specifically, the period for effecting up-front payments, the 1st quarter, appeared far clearly squared, the December overhang reduced, but that formed a backdrop for the problem of the practical absence of federal budget expenditure in January.

Table 6

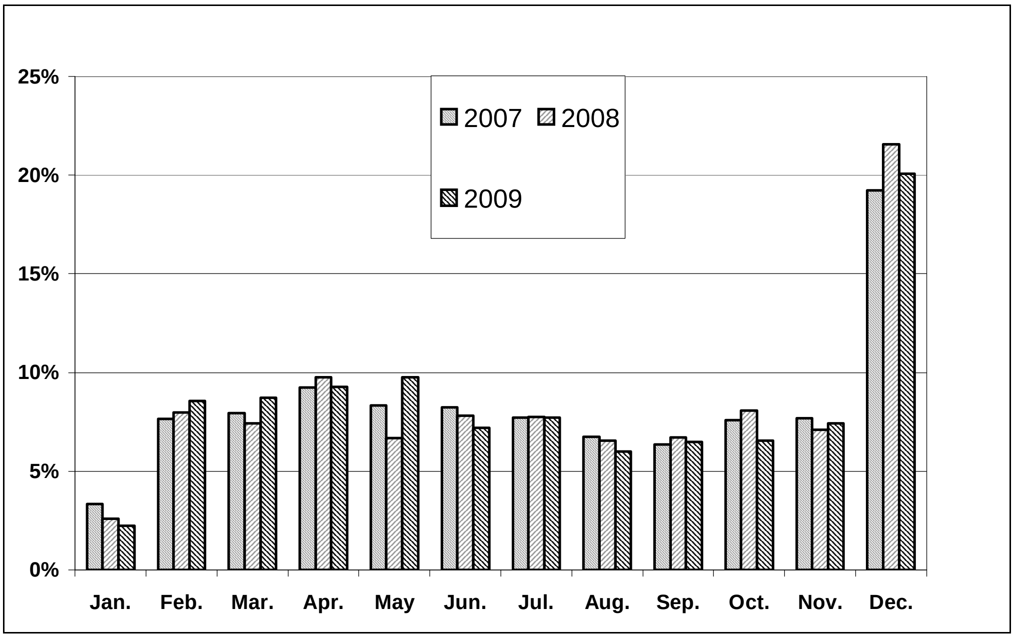
Monthly Execution of the Federal Budget Military Expenditures and Other Associated Expenditures in 2009, as Rb. Bn.

Expenditures	As per the FB 2009[1]	FB-2009, as amended[2]	January	February	March	April	May	June	July	August	September	October	November	December	Saved (over-spent)
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
NATIONAL DEFENSE	**1 336.4**	**1 192.9**	**22.5**	**96.4**	**96.6**	**116.6**	**107.4**	**81.9**	**85.2**	**72.1**	**72.4**	**75.0**	**78.6**	**89.8**	**4.7**
Armed forces of RF	962.6	887.9	20.0	76.8	78.0	83.1	87.4	64.4	69.2	53.6	58.2	58.8	66.5	179.9	(1.8)
Mobilization and out-of-army training	6.7	3.6	0.0	0.0	0.0	0.2	0.3	0.5	0.1	0.1	0.3	0.3	0.4	1.2	0.1
Mobilization preparation of the economy	3.5	3.4	0.0	0.1	0.2	0.2	0.3	0.8	0.6	0.6	0.5	0.3	0.3	0.6	(1.2)
Preparation for and participation in provision of the collective security and peace-keeping activities	0.1	0.3	–	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.2	(0.2)
Nuclear arms complex	22.4	19.1	0.8	2.0	1.3	0.3	2.5	1.3	0.1	0.1	0.3	0.0	0.2	0.5	–
Implementation of international obligations in the sphere of military-technical cooperation	2.9	4.5	0.8	0.5	0.1	0.0	0.0	0.6	0.4	0.2	0.2	0.0	1.0	0.9	0.4
Applied research in the area of national defense	174.2	162.9	0.6	16.0	12.7	19.5	7.8	8.2	7.1	9.3	5.2	8.4	13.1	53.0	(0.3)
Other issues in the national defense area	164.0	111.3	0.2	1.1	4.2	13.2	9.1	6.0	7.6	8.2	7.6	7.1	8.3	31.4	7.6
NATIONAL SECURITY AND LAW ENFORCEMENT	**1 093.2**	**1 022.5**	**27.9**	**80.8**	**81.9**	**73.9**	**69.7**	**84.6**	**77.8**	**64.2**	**92.0**	**79.1**	**94.3**	**153.8**	**18.0**
Interior Ministry bodies	65.0	57.7	1.3	2.7	6.7	4.3	4.2	4.8	4.3	4.5	4.5	4.5	5.2	10.7	(0.3)
Interior Ministry troops	185.1	179.8	5.1	14.0	13.9	13.3	11.8	13.4	14.0	12.2	13.1	14.4	15.1	30.4	0.5
Security bodies	92.4	80.1	1.7	5.7	5.9	5.4	6.2	5.7	7.7	5.6	5.6	6.1	7.6	13.0	1.3
Border Guard bodies	56.8	54.5	1.6	3.6	7.3	3.5	3.0	4.5	3.8	4.9	7.4	3.8	4.4	11.1	(4.2)
Population and territory protection from emergency situations of natural and technogenetics situations, civil defense	10.4	9.4	0.2	0.7	0.5	0.4	0.5	0.6	0.5	0.6	0.7	0.5	0.9	1.7	1.4
Applied research in the area of national security and law enforcement activity	7.6	9.4	0.2	0.3	0.4	0.3	0.2	0.9	0.2	0.3	0.3	1.5	0.5	1.3	2.6

Source: the IET calculations basing on the data of the Federal Treasury.

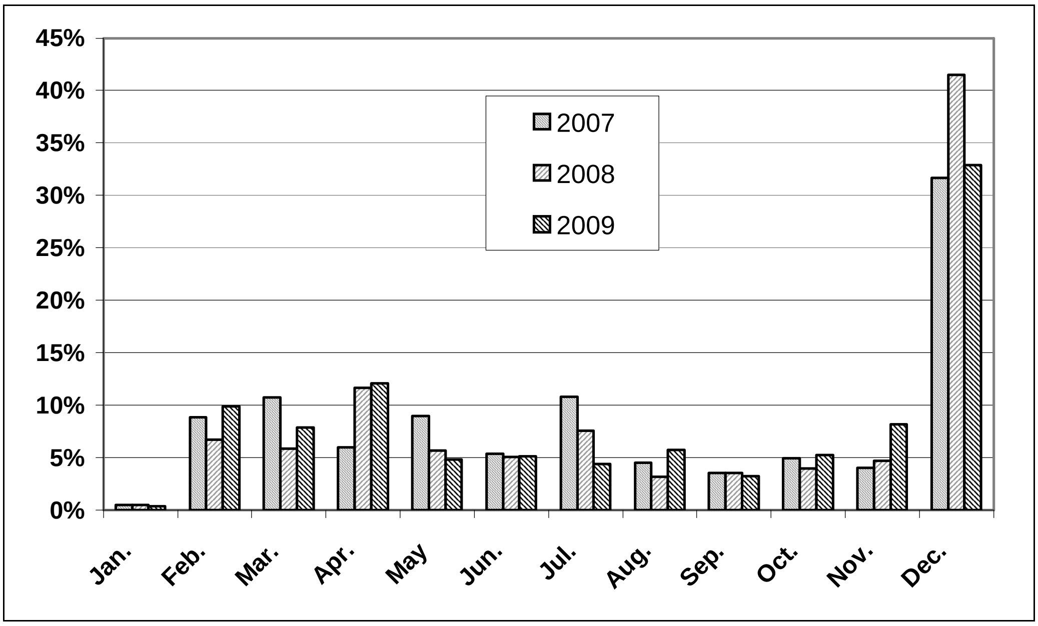
[1] On the 2009 federal budget and the planned period 2010 and 2011: federal act №204-FZ; passed by the State Duma on October 31, 2008

[2] On introducing amendments to federal act “On the 2009 federal budget and the planned period 2010 and 2011”: federal act №309-FZ; passed by the State Duma on November 20, 2009



Source: the IET calculations basing on the data of the Federal Treasury.

Fig. 1. Execution of the Federal Budget Expenditures by Sub-Section 0201 «The Armed Forces of the Russian Federation » in 2007–2009



Source: the IET calculations basing on the data of the Federal Treasury.

Fig. 2. Execution of the Federal Budget Expenditures by Sub-Section 0207 “Applied research in the area of national defense” in 2007–2009

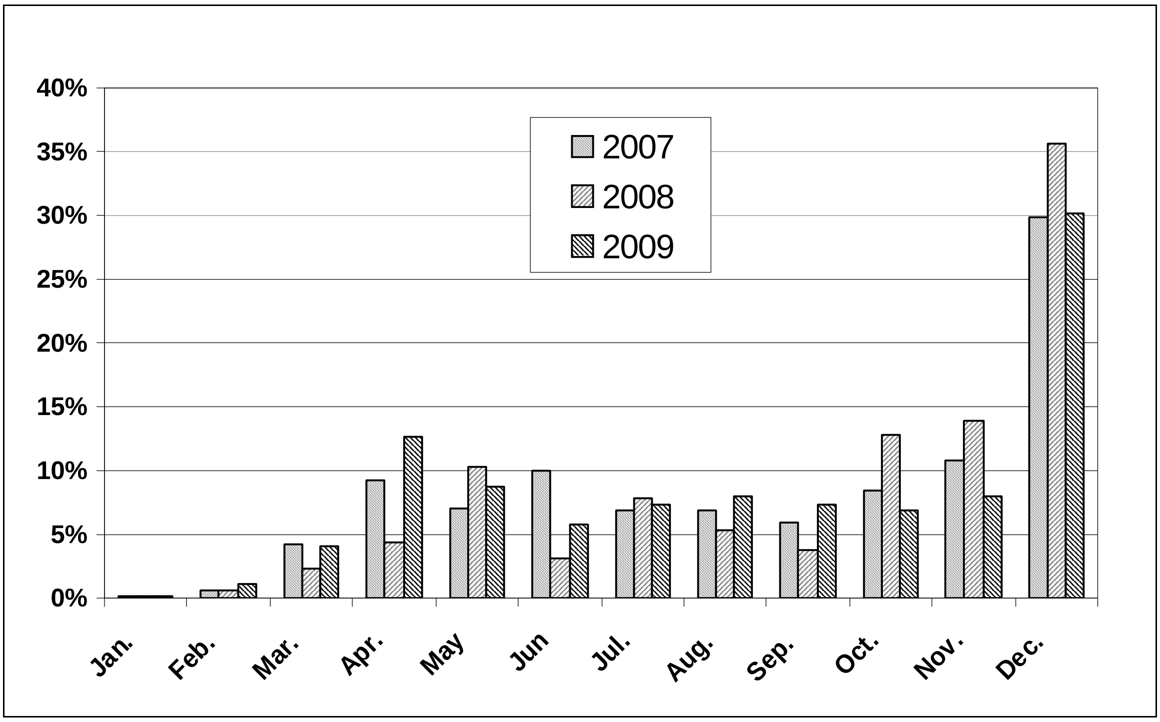


Fig. 3. Execution of the Federal Budget Expenditures by Section 0208 "Other Matters in the Area of National Defense" in 2007–2009

Table 7 evidences that long-standing trends continue to persist in the Federation Subjects' military expenditures – the ones on mobilization and out-of-army training generally do not exceed the amount of transfers from the federal budget on exercising the primary military registration.

Table 7

Military Expenditures of the Consolidated Budgets of the Federation Subjects in 2003–2009, as Rb. mln*

Name of the sub-section of the expenditure classification	2003	2004	2005	2006	2007	2008	2009
The Armed Forces of the Russian Federation	– / –	– / –	– / –	3.5 / 0.1	0.5 / 0.3	0.3 / 0.3	– / –
Modernization of the Armed Forces of the Russian Federation and military establishments	– / –	– / –	– / –	– / –	– / –	1.0 / 0.5	– / –
Mobilization and out-of-army training	13.1 / 13.2	– / –	65.6 / 65.6	899.3 / 808.6	1 351.9 / 1 245.6	1 797.9 / 1 702.2	2 116.0 / 2 021.6
Mobilization preparation of the economy**	449.7 / 405.6	532.4 / 500.6	485.4 / 468.6	708.3 / 692.8	861.2 / 840.9	1 137.2 / 1 063.9	1 045.4 / 989.7
Other matters in the national defense area	– / –	– / –	109.6 / 97.5	32.8 / 32.1	5.5 / 5.7	0.7 / 0.5	4.4 / 4.4
Ministry of Interior forces	14.6 / 12.7	12.4 / 12.2	9.9 / 9.9	3.5 / 1.4	1.0 / 1.0	0.3 / 0.3	– / –
Security agencies	3.7 / 2.1	6.7 / 6.5	0.3 / 0.3	16.5 / 16.5	0.1 / 0.1	0.0 / 0.0	60.0 / 60.0
Border Guard bodies	– / –	– / –	0.1 / 0.1	– / –	– / –	– / –	– / –
Population and territory protection from emergency situations of natural and technogenetics situations, civil defense	6 511.0 / 6 244.1	7 968.2 / 7 281.3	11 184.6 / 10 958.9	15 636.4 / 14 367.0	19 118.4 / 18 292.6	23 895.8 / 21 456.7	23 865.0 / 21 712.6

*numerator – as allocated, common denominator – as earmarked.

** had not been included in the section "National defense" until 2005

Table 8 presents results of the 11-year-long statistical monitoring of Russia's military expenditures over the period of 1999–2009. To avoid double count, the data do not comprise the ones presented in *Table 7.*

Table 8

Main Indicators of Military Expenditures of the Russian Federation in 1999–2009

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
1. In nominal terms (in current prices), as Rb.bn											
Execution of the federal budget expenditures by Section "National Defense" in the current budget classification [a]	115.6	191.7	247.7	295.4	355.7	430.0	581.1	681.8	831.9	1 040.8	1 188.2
The federal budget appropriations by Section "National Defense": in the current budget classification	93.7	209.4	214.7	284.2	354.9	427.4	578.4	686.1	839.1	1 031.6	1 192.9
placed into other sections of the budget classification [b]	–	–	–	–	–	–	44.3	77.7	91.3	126.5	202.4
In a comparable budget classification	93.7	209.4	214.7	284.2	354.9	427.4	622.6	763.9	930.4	1 158.1	1 395.3
Military expenditures, the UN data[c]	–	202.6	294.4	325.9	447.0	499.0	665.0	822.1	850.2	1 127.2	–
Overall direct military appropriations[d]	128.9	270.4	283.4	357.7	464.2	552.7	770.3	1 003.9	1 214.4	1 502.8	1 828.4
Direct and indirect military appropriations associated with the current and past military activity, combined [e]	144.0	304.6	329.6	460.1	602.3	638.8	855.1	1 090.4	1 375.6	1 645.4	1 995.4
2. In real terms (in the 2009 prices)[f], as Rb. bn											
Execution of the federal budget expenditures by Section "National Defense" in the current budget classification	1 159.2	1 251.8	1 203.3	1 130.8	1 142.3	1 153.6	1 252.3	1 182.0	1 190.9	1 249.0	1 188.2
The federal budget appropriations by Section "National Defense": in the current budget classification	939.7	1 367.4	1 042.9	1 087.8	1 139.8	1 146.6	1 246.3	1 189.6	1 201.3	1 237.9	1 192.9
placed into other sections of the budget classification	–	–	–	–	–	–	95.4	134.7	130.7	151.8	202.4
In a comparable budget classification	939.7	1 367.4	1 042.9	1 087.8	1 139.8	1 146.6	1 341.7	1 324.3	1 332.0	1 389.7	1 395.3
Military expenditures, the UN data	–	1 323.1	1 430.3	1 247.6	1 435.6	1 338.7	1 433.0	1 425.2	1 217.2	1 352.6	–
Overall direct military appropriations	1 292.7	1 765.6	1 376.7	1 369.1	1 490.8	1 482.7	1 659.9	1 740.5	1 738.5	1 803.4	1 828.4
Direct and indirect military appropriations associated with the current and past military activity, combined	1 444.2	1 939.0	1 601.0	1 761.5	1 934.2	1 713.9	1 842.8	1 890.4	1 969.2	1 974.4	1 995.4
3. In real terms (in the 1999 prices)[f], as Rb. bn											
Execution of the federal budget expenditures by Section "National Defense" in the current budget classification	115.6	124.8	120.0	112.8	113.9	115.0	124.9	117.9	118.8	124.5	118.5
The federal budget appropriations by Section "National Defense": in the current budget classification	93.7	136.4	104.0	108.5	113.7	114.3	124.3	118.6	119.8	123.4	118.9
placed into other sections of the budget classification	–	–	–	–	–	–	9.5	13.4	13.0	15.1	20.2
In a comparable budget classification	93.7	136.4	104.0	108.5	113.7	114.3	133.8	132.1	132.8	138.6	139.1
Military expenditures, the UN data	–	131.9	142.6	124.4	143.1	133.5	142.9	142.1	121.4	134.9	–
Overall direct military appropriations	128.9	176.1	137.3	136.5	148.7	147.9	165.5	173.6	173.4	179.8	182.3
Direct and indirect military appropriations associated with the current and past military activity, combined	144.0	198.3	159.6	175.6	192.9	170.9	183.8	188.5	196.4	196.9	199.0
4. Military burden on the economy, in % of GDP											
Execution of the federal budget expenditures by Section "National Defense" in the current budget classification	2.40	2.62	2.77	2.73	2.69	2.52	2.69	2.53	2.51	2.52	3.05

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
The federal budget appropriations by Section "National Defense":	1.94	2.87	2.40	2.62	2.68	2.51	2.67	2.55	2.53	2. 50	3.06
in the current budget classification placed into other sections of the budget classification	–	–	–	–	–	–	0.20	0.29	0.28	0.31	0.52
In a comparable budget classification	1.94	2.87	2.40	2.62	2.68	2.51	2.88	2.84	2.81	2.81	3.58
Military expenditures, the UN data	–	2.77	3.29	3.01	3.38	2.93	3.07	3.06	2.57	2.73	–
Overall direct military appropriations	2.67	3.70	3.17	3.30	3.51	3.24	3.56	3.73	3.67	3.64	4.69
Direct and indirect military appropriations associated with the current and past military activity, combined	2.99	4.17	3.69	4.25	4.55	3.75	3.95	4.05	4.16	3.99	5.11
5. By purchasing power parity (in current prices), in USD bn											
Execution of the federal budget expenditures by Section "National Defense" in the current budget classification	21.9	26.8	30.2	31.9	34.2	36.2	45.6	48.2	54.2	62.8	66.8
The federal budget appropriations by Section "National Defense":	17.7	29.3	26.2	30.7	34.1	35.9	45.4	48.5	54.6	62.3	67.1
in the current budget classification placed into other sections of the budget classification	–	–	–	–	–	–	3.5	5.5	5.9	7.6	11.4
In a comparable budget classification	17.7	29.3	26.2	30.7	34.1	35.9	48.9	54.0	60.6	69.9	78.4
Military expenditures, the UN data	–	28.3	35.9	35.2	42.9	42.0	52.2	58.1	55.4	68.0	–
Overall direct military appropriations	24.4	37.8	34.6	38.6	44.6	46.5	60.5	71.0	79.1	90.7	102.8
Direct and indirect military appropriations associated with the current and past military activity, combined	27.2	42.6	40.2	49.6	57.9	53.7	67.1	77.1	89.6	99.3	112.2
For reference:											
GDP deflator, as % to the prior year	172.5	137.6	116.5	115.5	114.0	120.1	119.2	115.8	113.5	118.0	102.7
Public administration final consumption expenditure deflator [g], as % to the prior year	138.5	153.6	134.4	126.9	119.2	119.7	124.5	124.3	121.1	119.3	*120.0*
Purchasing power parity[h], as Rb/USD	5.29	7.15	8.19	9.27	10.41	11.89	12.74	*14.14*	*15.36*	*16.57*	*17.79*

[a] For 2009 – the Federal Treasury preliminary data on execution of the federal budget.
[b] The Defense Ministry's expenditures and secret expenditures by sections 04–09 and 11 of the federal budget in 2005–2009
[c] The RF Government did not submit the 1999 data to the UN; the 2009 data will be submitted in 2010, inclusive of expenditures on the Ministry of Interior forces, the Board Guard and civil defense, among others
[d] Including on the Ministry of Interior forces, the Board Guard, civil defense, and other elements of the military organization
[e] Inclusive of pensions due to the military.
[f] Deflated by means of the public administration final consumption expenditure deflator.
[g] On 2009 - as estimated by the IET.
h For the period of 2006–2009 – the linear trade of past years' values (as estimated by the IET).
Sources: the 1999–2009 federal acts on federal budget and its execution; Natsionalnye scheta Rossii v 1997–2007 godakh: Stat. sb./ Rosstat. M., 2005–2009; Obyektivnayay informatsiya po voennym voprosam, vklyuchaya transparentnost voennykh raskhodov. Doklady Generalnogo Sekretarya OON 2001–2009; Rosstat; the Federal Treasury.

5.9. 2009 as a year of municipal counter-reform

In accordance with Russian municipal legislation, the year 2009 was to be the first year of full-scale implementation of municipal reform throughout the whole territory of this country, except the Republic of Ingushetia and the Chechen Republic where this process is to be launched from early 2010. The so-called transition period lasted from 2006 through 2008, During that period, the authorities of the Federation's subjects were able to regulate, on their own and on a rather broad scale, the rate of development and directions of the implementation of the transformations envisaged by reform.

Formally, by 1 January 2009 the transition period was over in all subjects of the Federation (with the exception of the two mentioned earlier), and municipal reform began to be implemented on a full scale all throughout Russia. In the Republic of Ingushetia and the Chechen Republic the territorial base for local self-government was created, and 11 October 2009 municipal elections were held there. In the Republic of Ingushetia, 46 municipal formations were created: 4 urban okrugs, 4 municipal raions, and 38 rural settlements. All municipal formations have adopted a model whereby heads of municipal formations are to be elected by representative bodies from among their deputies. In the Chechen Republic, 2 urban okrugs, 15 municipal raions, 2 urban and 219 rural settlements were created. Heads of municipal formations were elected by universal direct suffrage.

In this connection, it would have been an exaggeration to state that all the problems pertaining to the implementation of municipal reform in these regions have been adequately solved. For example, one of the biggest towns in the Chechen Republic – Gudermes – received no municipal status at all, and so remained a mere settlement, the administrative center of Gudermes Raion. All the powers of bodies of local self-government within the boundaries of the town of Gudermes are exercised by the raion authority[1]. Besides, there remains uncertainty with regard to the lack of proper delimitation of the borders of these RF subjects. Thus, legislation of the Chechen Republic on the creation of the Sunja Raion municipal formation and the municipal formations of which this raion is to consist, as well as on the establishment of their borders and the endowment of them with the status of a municipal raion and a rural settlement respectively[2] has been indeed adopted, but with the stipulation of the condition that the final delimitation of the borders of Sunja municipal raion will be achieved only after an agreement is concluded between the Chechen Republic and the Republic of Ingushetia concerning the establishment of their administrative borders in accordance with the RF Constitution.

At the same time, just as it happened in previous years, the formal indices of municipal reform's implementation and the real processes going on in that sphere were not only in discord, but sometimes their dynamics were even differently vectored. This fact became particularly obvious in 2009. In actual practice, that year was by no means a period of the most complete revelation of the potential hidden in the transformations envisaged by the ongoing reform – instead, it became a period of curbing municipal reform and an active infringement on the autonomy of local self-government, which began to be incorporated into the vertical of authority. In a situation when it was legally impossible to switch over – by analogy with the appointment of governors – to direct appointment of mayors (in accordance with the Constitution of the Russian Federation, bodies of local self-government are not part of the system of bodies of state authority), some other methods for establishing control over local self-governments were found. This control was by no means exercised by the population – whose rights relating to organizing local life were significantly reduced – it was imposed from above by superior levels

[1] The Law of the Chechen Republic, of 27 February 2009, No 19-RZ 'On the creation of the municipal formation of Gudermes Raion and the municipal formations of which it is to consist, the establishment of their borders and the endowment of them with the corresponding status of a municipal raion or rural settlement'.

[2] The Law of the Chechen Republic, of 13 February 2009,. No 6-RZ 'On the creation of the municipal formation of Sunja Raion and the municipal formations of which it is to consist, the establishment of their borders and the endowment of them with the corresponding status of a municipal raion or rural settlement'.

of authority. Early last year, a presidential draft law was submitted to the State Duma, whereby it was envisaged that a special institution for removing from office heads of municipal formations was to be established; the law was finally approved on 7 May 2009. This legislative act envisages an extrajudicial dismissal of heads of municipalities on the initiative of deputies of the representative body of a municipal formation or of the supreme official of a given subject of the Federation. The decision concerning the dismissal of the head of a municipal formation is to be made by the representative body's qualified majority, and in this connection the region's head must voice his opinion on this issue. The grounds for dismissal can be a substantial volume of outstanding accounts payable accumulated through the fault of the head of a municipal formation, or non-targeted spending of budget resources; a failure to fulfill, for three or more months, his obligation with regards to issues of local importance or the execution of state powers; and the results of the activity of the head of a municipal formation (as stated in his annual report) being estimated twice (in a row) as unsatisfactory by the representative body of a municipal formation. The head of a municipal formation enjoys the right to receive complete information concerning the date and place of conducting a meeting of the representative body and the content of documents relating to his own dismissal, as well as explanations concerning the circumstances referred to as the grounds for the dismissal.

In spite of the 'presidential' character of the innovations, the response to them on the part of society was by no means uniform. This issue was actively discussed at the meetings of the State Duma, by the experts' community, and in the press. The draft law was spoken against by some political parties, such as the CPRF and *Yabloko*; the deputies from the CPRF refused to vote for its approval in the first reading. The All-Russian Council on Local Self-Government received more than 300 comments from municipal formations suggesting some serious amendments to the draft law. This issue attracted the attention of the Congress of Local and Regional Authorities of Europe, which requested all the documents and set up an expert commission to examine them.

The opponents of the amendment noted that its introduction would result in creating a special institution for removing 'inconvenient' heads of local self-government who might be disliked by the governor for some or other reason, as well as in increasing the dependence of municipalities on the party in power. Thereby the independence of local self-government and its position outside of the system of bodies of state authority, which is guaranteed by RF Constitution, will be severely violated. Thus, in the appeal to the RF President from the Russian Association of the Democratic Yabloko Party it was noted that the vagueness of the procedure of enforced dismissal, the lack of guarantees of judicial protection and the lack of an arbiter in estimating the grounds for putting forth the initiative concerning an enforced dismissal would inevitably give rise to intriguing and punishments motivated by personal dislike, political ideology, or vested economic interest[1].

Out of all the arguments against the draft law, only two significant points were indeed taken into consideration: the list of grounds for dismissing heads of municipal formations was made closed and more precise; and the interval before a repeated proposal of a head's dismissal was lengthened to two month. The issues relating to the governor's role in initiating the dismissal

[1] Appeal to President of the Russian Federation D. A. Medvedev 'On introducing amendments to the draft of a Federal Law designed to allow dismissal of city mayors on the initiative of governors'. The Bureau's Decision No 788 was adopted on 28 March 2009. See http://www.yabloko.ru/resheniya_byuro/2009/04/06

procedure, the absence of judicial protection of heads of municipalities, and the passive role assigned to the population in this process remained unchanged.

In late 2009, a law was adopted whereby the procedure for merging settlements was altered. Instead of obtaining the population's consent to this (locally very important) type of territorial transformation expressed by voting or a general meeting of residents, it became sufficient to obtain the consent thereto of the representative body of a given municipal formation. As a result, regional authorities now had at their disposal a rather simple and easily controllable mechanism for carrying out territorial transformations, whereas a local referendum on this issue had by no means always yielded desirable results[1]. This decision – of fundamental importance for local self-government – was actually made without any preliminary discussion with the participation of the municipal and experts' community or any serious analysis of its potential consequences. As the Chairman of the State Duma Committee for Local Self-Government noted in this connection, 'merging of small settlements is necessary, it is already under way; we are only eliminating red tape and procrastination'[2].

It cannot unequivocally be stated that the period that elapsed between these two events – which have irreversibly eliminated the positive potential of municipal reform – was indeed full of energetic activity in the sphere of local self-government. Rather, one may speak of the interest in this particular issue gradually dwindling. Thus, the problems of local self-government remained practically unnoticed in RF President Dmitry Medvedev's Message to the RF Federal Assembly; besides, no strategic tasks have been formulated with regard to that particular sphere. Only current issues – although indeed important for the functioning of municipal authorities – were dealt with within the framework of the activity aimed at improving the institutional mechanisms of local self-government; and the solutions that were offered were by means always the best ones.

Some alterations were introduced in legislation on local self-government. Among the most important of these, the following can be noted:

- The list of interbudgetary transfers to be taken into account when determining the level of a municipal formation's reliance on donation was revised and abridged by the exclusion of subventions and the subsidies and interbudgetary transfers granted to municipal formations for funding their execution of part of their powers relating to issues of local importance in accordance with concluded agreements, which were covered from the Investment Fund of the Russian Federation [3];

[1] While in some regions the necessity of obtaining the population's consent was no obstacle to enlargement of population units (for example, in Vologda Oblast where the current crisis has brought about a significant reduction in the number of settlements), in others the local population was rather unanimous in their rejection of the suggested reform. Thus, in Cheliabinsk Oblast the large-scale plans developed by the regional authorities with regard to merging settlements ended up in an almost total fiasco – the referendums in a vast majority of cases yielded negative results. A similar situation was also typical of Amur Oblast.
[2] Gorodetskaia N. Ob"ediniat' poseleniia nachnut bez lishnikh skhodov [They will begin to merge settlements without too many resident meetings] // Kommersant. 11 December 2009.
http://www.kommersant.ru/doc-y.aspx?DocsID=1290191
[3] The amendment was introduced by Federal Law, of 28 November 2009, No 283-FZ 'On the Introduction of Alterations into Some Legislative Acts of the Russian Federation'.

- the procedure for a switchover from a direct election to the representative body of a municipal raion to its forming by delegates from settlements was defined more specifically[1];
- the list of rights enjoyed by bodies of local self-government was augmented by the right to create a municipal fire service[2].

In September 2009, two commissions of the RF Public Chamber – for regional development, and for local self-government and housing policy – in cooperation with the European Club of Experts on Local Self-Government – held experts' hearings on the theme 'The current status and prospects for local self-government in the Russian Federation'. At that meeting, the community of independent experts expressed their concern in connection with the increasingly negative trends observed in the sphere of Russian local self-government and the inadequacy of measures resorted to by the federal center in its attempts to achieved the declared goals of municipal reform. In the Recommendations issued as result if the hearing, it is noted that an analysis of the situation in Russian regions has confirmed the fact that the negative processes associated with the implementation of Federal Law FZ-131 and repeatedly pointed to by all related public organizations and the experts' community continued to develop throughout the year 2009[3]. In addition to proposals for adjusting the current policy of reforms and strengthening control over the implementation of the most disputable decisions adopted recently in this sphere, the Recommendations also contain some strategic proposals, in particular:

- to consider the possibility of separating from local self-government the raion level, with reestablishing the status of an administrative raion as the lowest fundamental level of state authority bearing full responsibility for fulfilling state obligations;
- to return to the issue of dividing big cities into districts and determining the status of urban districts.

As both these recommendations appear to be disputable, it is advisable that further discussion in the framework of the experts' and municipal communities should take place.

In December 2009, the Council for Local Self-Government under the Chairman of the State Duma met in order to discuss issues pertaining to the development of inter-municipal economic cooperation. In the resolution adopted by the Council it was stated that there existed some obstacles in the way of developing this form of interaction between municipal formations that had to do both with the specific features of its legal regulation and the widespread practice of transferring certain powers of settlements to municipal raions. The former issue became especially prominent in the course of the Council's meeting. Thus, Viacheslav Glazychev said that 'in our conditions, the scheme of inter-municipal interaction decisively contradicts the tradition of "packaging" the settlement-type municipal formations inside another municipal formation'[4]. He was opposed by Viktor Pankrashchenko who noted that 'the "packaging" of settlements

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[1] The amendment is introduced by Federal Law, of 27 December 2009, No 365-FZ 'On the Introduction of Alterations into Some Legislative Acts of the Russian Federation in Connection with Improving the Performance of the Bodies of State Authority of Subjects of the Russian Federation and Local Self-Government Bodies'.

[2] This amendment is also introduced by Federal Law, of 27 December 2009, No 365-FZ.

[3] Information letter of the RF Public Chamber's commissions for local self-government and housing policy No 83/AOB of 13 November 2009 to Chairman of the RF Council of the Federation's Committee on Local Self-Government Issues, President of the All-Russian Congress of Municipal Formations S. M. Kirichuk.

[4] Transcript of the meeting of the Council for local self-government under the Chairman of the State Duma devoted to the issues of developing inter-municipal economic cooperation. http://www.komitet4.km.duma.gov.ru/site.xp/050056054124051048052.html

inside a municipal raion is contrary to the letter of the law but is absolutely compatible with its spirit and, most importantly, with the existing economic system of the Russian Federation. So, whatever is adopted by way of the laws, this process will go on in actual life'[1]. In this connection, a number of different proposals were voiced as to what the further evolution of municipal raions was to be like, including the option of turning them into the territorial bodies of state authority.

However, this issue – just as some other among the most interesting issues that had been discussed (for example, the necessity of introducing changes in legislation in order to promote inter-municipal cooperation in the sphere of urban development, or the necessity of legislative regulation of inter-municipal cooperation in the framework of urban agglomerations as a whole, with regard to which the participants of the discussion expressed their personal points of view) – have not so far been reflected in the Council's decision. Instead, it was recommended – and this was perhaps the only concrete proposal – 'to investigate the issue of introducing in legislation and subsequently in actual practice such organizational-legal forms of inter-municipal cooperation as an inter-municipal enterprise and an inter-municipal institution, and for this purpose to adapt the existing legal structures of municipal institutions and municipal unitary enterprises to the stated goals'[2]. In fact, this means that some already discredited organizational-legal forms – of which bodies of state authority and local self-government alike have gradually been getting rid of - will once again be implemented in inter-municipal cooperation, which has been demonstrated, for example, in Nadezhda Kosareva's speech at the Council's meeting.

As for the practice of executing the functions of local self-government in 2009, it was increasingly characterized by anti-reforming trends, some of which had been given rise to by the introduction of new legislation, while others were a continuation of the processes that had already been going on for a few years. The most evident trends were associated with the following phenomena:

- practical implementation of the norms allowing dismissals of heads of municipal formations;
- a continuing practice of judicial prosecution of heads of municipal formations;
- further restrictions on applying the general election procedure to heads of municipal formations;
- an intensifying struggle of United Russia for 'suitable' outcomes of municipal elections by applying, among other things, certain forms whose legitimacy was questionable.

Some attempts to dismiss heads of municipal formations had been made even prior to the official entry into force of the amendments introduced with regard to this issue. The first precedent in this vein occurred in early June 2009 in Oziorsk, a town in Cheliabinsk Oblast. The initiative that Mayor Sergey Chernyshov should be dismissed was put forth by ***Fair Russia***'s faction that held a majority in the City Council of Deputies. According to the faction's leader, 'the issue as to the mayor's dismissal has been 'ripe' for a long time already: he has completely neglected the town, and even litter is now collected and disposed of very negligently in Oziorsk.' The opinion of the governor of Cheliabinsk Oblast that he would not object to the dismissal of the head of that municipal formation was related (orally) by Vice Governor

[1] See ibid.
[2] See ibid.

N. Riazanov who then arrived at Oziorsk. As regards the grounds for their decision the deputies cited two reasons who actually gave rise to many questions. The first one was the mayor's report for the year 2008 that had been estimated by the deputies as unsatisfactory (usually in cases like this a special commissions with the participation of deputies is created, and the report is then elaborated further). The second reason was that the report for the year 2007 had also been unsatisfactory. Mr. Chernyshov argued that last year's report had already been accepted by deputies, but they nevertheless black-balled him retrospectively.

Besides, the expression of lack of confidence in the mayor was legally disputable from the point of view of the decision-making procedure established for settling such cases, of which the deputies had been warned beforehand by a representative of the city prosecutor's office. Firstly, the doubly negative assessment of the mayor's report took place before 24 May, when the new Law had not yet come into force. Secondly, the mayor's explanations were not heard, as it was required by the law (because he was at that time on a leave). As a result, on 16 June the Oziorsk City Court of Justice deemed the dismissal of the head of Oziorsk City Okrug to be unlawful and passed a ruling that the suit filed by the acting Okrug's head be satisfied, and then on 21 June the Cheliabinsk Oblast Court of Justice declined the cassational appeal filed by the deputy.

One more attempt to dismiss the head of Oziorsk was made in early September, but this time the number of deputies' votes necessary for passing the resolution could not be collected. Representatives of law enforcement agencies once again warned the deputy corpse that this decision would be unlawful. This time it was pointed out that the violations of which the mayor was being accused of had not been proved. Besides, no official opinion of the governor concerning this issue was available. Thus, this new attempt to implement the dismissal procedure also failed.

At the same time, the town's deputies altered the procedure for forming the bodies of local self-government – the town's head was, from then on, to be elected from among the members of the town council, while the town administration was to be headed by a hired manager. Thus, at the municipal election in March 2010 the population will no longer be able to decide who is to be the head of their municipal formation.

The second incident involving a head's dismissal happened on 16 June 2009 in Suzdal, where the town deputies decided to terminate early the powers of the Suzdal mayor, S. Godunin, because of his failure to act properly. According to chairman of the Suzdal Town Council V. Malashkin, 'During the past year Godunin did not sign and did not publish the decisions of the town council. The deputies have failed to find any answer to the question as to why he has been sabotaging the town council's decisions'. Malashkin added that this was by no means the only one reason why Godunin had to be dismissed early: 'The problems have kept arising throughout all the three-and-a-half years after was elected the town's head'[1]. Meanwhile, such a situation is also rather controversial. Legislation lacks sufficient regulation of the issue as to what the head of a municipal formation must do when he considers the decision made by the representative body to be incompatible with the law, and what responsibility he must bear if he signs the adopted decisions. The fact of conflict between a town's head and the

[1] Cited from the news archive of the newspaper 'Mestnoe samoupravlenie' [Local Self-Government], http://emsu.ru/lg/default.asp?item=12

deputies' corpse in such a situation does not mean in itself that the mayor is always in the wrong.

The only case when a head of a municipal formation was dismissed on a governor's initiative was the dismissal of Yu. Vostriakov, mayor of the town of Tchaikovsky in Perm Krai. The decision to this effect was made by the town's deputies on 30 July 2009. The Krai governor, O. Chirkuniv, had come forth with this initiative because of the systematical failures of the urban settlement's head to properly perform his duties with regard to settling issues of local importance. Specifically, the mayor was blamed for having failed to properly deal with the following two issues:

- the organization of the service of hot water supply to citizens;
- resettling of citizens from hazardous buildings.

As the Krai governor was informed, hot water supply in Tchaikovsky had been non-existent from February through July 2009, which was regarded as the most blatant instance of the mayor's neglect in properly performing his duties. In all probability, in this particular case the reason for applying such a radical measure as a mayor's dismissal was that, in case of filing an appeal to a court of justice (which would have entailed a much lengthier procedure), there was a danger of the town entering the heating season next autumn not only without hot water supply but also without heating. The head of the town of Tchaikovsky, just as the mayor of Oziorsk had dome, tried to dispute this decision in a court of justice, but without success. At the same time, the town residents, in spite of the evidently existing problems with the organization of the town's economy, took controversial views towards the decision concerning their mayor's dismissal. Anyway, at the subsequent municipal election it was another candidate, and not the one supported by the regional authority, who became the winner.

When analyzing the newly introduced provisions of legislation and the emerging law enforcement practice, experts note that 'the mechanism of dismissing heads of municipal formations as stipulated in Article 74.1 of Federal Law No 131-FZ, is riddled with many gaps and contradictions. The legal technicalities applied in the Article give rise to many questions and create many problems when they are being actually implemented … An analysis of the emerging law enforcement practice demonstrates attempts to apply the dismissal mechanism in settling the score with an independent and self-sufficient head of a municipal formation'[1]. At the same time, after the first precedents that revealed both the legal and political drawbacks of this process, the practice of dismissals so far has not become widespread. And it is not clear just how actively this mechanism is going to be applied in the future.

In this connection, it should be noted that introduction of the amendment concerning a dismissal of a municipal formation's head did not put a stop to new 'loud cases' involving criminal prosecution of mayors – contrary to the hopes that had been nursed by the experts' community. The latest case – the initiation of two criminal suits against Nikolai Krasnikov, mayor of the 'science city' of Koltsovo, who was renowned for his achievements in the town's development. The governor of Novosibirsk Oblast publicly spoke in the mayor's defense, as did the

[1] Shugrina E. Udalenie glavy munitsipal'nogo obrazovania v otstavku: problemy zakonodatel'nogo regulirovania i pravoprimenitel'naia praktika. [Dismissal of a municipal formation's head: the problems of legislative regulation and the law enforcement practice.] // Aktual'nye voprosy razvitia mestnogo samoupravlenia v Rossii I za rubezhom. [The outstanding issues of the development of local self-government in Russia and abroad.] A collection of articles / Ed. A. V. Madiarova. E. Marquart, N. M. Mironov, L. V. Shapiro. M., 2009. Pp. 349, 359.

Town Council deputies. Over a thousand of the town's residents signed an appeal to President of the Russian Federation to take under his personal control the investigation of this case. In the appeal, it was stated directly that the mayor's prosecution was linked to the political struggle going on in their town: 'Perhaps someone wants to destroy the creative, development-oriented atmosphere in the settlement that has taken years to be developed, under the leadership of N. G. Krasnikov, by the personnel of the scientific and industrial enterprises and budget-funded organizations of Koltsovo. It seems that someone is beginning an election campaign in this way – by discrediting our head. Probably someone is excited by the prospects of Koltsovo's development as a RF 'science city', by its biotechnopark and social projects'[1]. At the same time, the mass media noted the peculiar methods applied in collecting the incriminating evidence against the town's head: 'Trains are being blown up in this country while the state security staff roam through a small town in search of compromising evidence and urge the residents and the personnel of enterprises to provide information against their mayor'[2]. It is difficult to forecast the outcome of this situation. So far it is known that a Novosibirsk raion court of justice rejected the petition filed by the mayor of Koltsovo in connection with the initiation of a second criminal case against him[3].

The year 2009 also saw the continuation of the other trends (that had emerged in the preceding period) towards limiting the autonomy of local self-government and making it part of the vertical of authority. One of the most significant processes going on in that sphere is the more limited application of direct elections of heads of municipal formations. This is especially obvious in big cities. Thus, in 2009 direct elections were abolished in Samara, Stavropol, Riazan, Nizhniy Novgorod, Tumen, Perm, Kazan, Ufa, and Tver. In a majority of these cities, a model was adopted instead that most strongly restricted the ability of the population to influence the process of forming the bodies of local self-government: the city heads are elected from among the city council deputies, and a manager is hired under a contract to perform the functions of the head of the administration; the choice of a candidate for this latter post can be strongly influenced by regional authorities.

The trend of merging the system of local self-government with the vertical of authority also takes shape of the alterations being introduced in electoral legislation. As early as 2005, municipal formations were granted the right to introduce not only the majoritarian electoral system, but also mixed or purely proportional systems of municipal elections[4]. In April 2009, federal lawmakers went even further, by establishing a new procedure in accordance with which the lists of candidates during a municipal election applying a proportional system could be

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[1] The appeal of more than 1,000 of Koltsovo's residents to the RF President was posted to Koltsovo's official website and published in the newspaper 'Kompas' of 26 November 2009; copies were sent to the governor of Novosibirsk Oblast, speaker of the Novosibirsk Oblast Council of Deputies and the regional prosecutor. *Source:* 1 December 2009, Taiga,info. http://tayga.info/documents/2009/12/01/~94580

[2] Samakhova I. Grazhdanskaia kazn' mera naukograda (Irina Samakhova otpravliaet "SOS" iz Sibiri.) ['Civil execution' of the mayor of a 'science sity'(Irina Samakhova sends "SOS" from Siberia). *Source:* 7 December 2009, Polit. Ru. http://www.polit.ru/analytics/2009/12/07/sos.html

[3] *Source*: 20 January 2010, TASS - Siberia
http://www.itartass-sib.ru/index.php?option=com_content&view=article&id=15907-302.html

[4] The wording as of 21 July 2005, of Item 3 of Article 32 of Federal Law of 12 June 2002, No 67-FZ 'On the Basic Guarantees of the Electoral Rights and the Right to Participate in a Referendum of Citizens of the Russian Federation'. It should be noted that, in the initial wording of this Law, candidates cold be entered onto the electoral lists could be entered by electoral associations or electoral blocs.

drawn only by the local sections of those political party that, in accordance with the federal law, had the right to participate in the election[1]. Previously, this right had been also enjoyed by the electoral blocs created during elections to local self-government institutions by public associations (public organizations or movements). Now those public associations that did not have the status of a political party can only suggest candidates to be placed on one or other party list, which should be done in the procedure established by the Federal Law 'On Political Parties'. As for the guarantees for those citizens who are not members of political parties or electoral associations to exercise their passive electoral rights, this issue has been transferred to the regional level[2].

The policy adopted by subjects of the Federation with regard to this issue was by no means uniform. Some regions altogether eliminated the possibility of organizing municipal elections on the basis of party lists, which is, in fact, quite compatible with the essential meaning of local self-government's activity – to deal with the economic (and not political) issues of local life. However, some subjects of the Federation granted to the bodies of local self-government the right to set one of the three available electoral systems, including the proportional one, thus failing to comply with the requirements stipulated in federal legislation concerning the guarantees for citizens of exercising their passive electoral right. Thus there emerged possibilities for violating the constitutional rights of those citizens who were not members of political parties or electoral associations[3].

In the autumn electoral campaign 2009, party elections began to be held both in big municipal formations and in small rural settlements. One example of the latter was the election held on 11 October 2009 in the rural settlement of Khomutinino in Cheliabinsk Oblast, whose regional legislation did not envisage the relevant guarantees for independent candidates. The settlement's population numbers only 1,400 (or 1,262 voters), and there had not been any active party cells for 20 years. Nevertheless, four parties – ***Fair Russia***, the CPRF, ***United Russia*** and the LDPR – officially put forth their candidates there. Interestingly, the candidates from three out of the four parties worked at the sanatorium 'Ural'. Although the population of Khomutinino is far from numerous, since the onset of municipal reform the settlement had been plagued by conflicts between different groups of interests. One sign of this situation, among other things, was the voluntary election model that envisaged appointing a hired manager to the post of head of the local administration, which made it possible to achieve a compromise by inviting a candidate that suited all. Although with difficulty, the balance of interests could somehow be achieved also with regard to other issues. The adoption of the model of elections based on party lists resulted in the situation actually exploding, because thus a mechanism for a takeover of power by one of the local groups was created. This was the management of the sanatorium 'Ural' (which provides employment to the majority of the village's adult popula-

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[1] The new wording as of 5 April 2009 of Item 3 of Article 32 of Federal Law of 12 June 2002, No 67-FZ 'On the Basic Guarantees of the Electoral Rights and the Right to Participate in a Referendum of Citizens of the Russian Federation' .

[2] In accordance with Item 3.1 of Article 32 of the Federal Law 'On the basic Guarantees …' (as amended 21 July 2005), if it envisaged by the RF Constitution, charter or law of subject of the Federation that within the representative body of a municipal formation all deputy mandates are to be distributed between the lists of candidates in proportion to the number of votes, then the Law of a RF subject must envisage guarantees for the execution of their passive electoral right by those citizens who are not members of any political parties or electoral blocs and associations.

[3] As stipulated in Article 18 and 19 of the RF Constitution.

tion), who thus acquired a monopoly over its entire territory. The preparations for the election in Khomutinino were associated with many scandals (for example, CPRF veterans wrote an open letter to their leader asking him to remove the list of 'pseudo-Communists'). As proved by the available information, the process of forming that rural settlement's representative body on the basis of party lists was too protracted, so that the residents of Khomutinino are not yet acquainted with all the deputies who are representing their interests in the reputedly elected body of local self-government.

The situation in Khomutinino actually mirrored the general atmosphere typical of the municipal elections held on 11 October 2009. The press referred to numerous facts of the results of elections being distorted, from placing insurmountable administrative barriers in the way of the registration of candidates who did not belong to United Russia to the rigging of the results of voting. A number of criminal proceedings were initiated. However, at present we know only one instance when the results of municipal elections were annulled. On 4 December 2009, the Derbent City Court of Justice annulled the ballot results obtained during the election of the city mayor where, according to the official results, the winner was the current head of the municipal formation. The list of violations committed there includes an unlawful refusal to register candidates; pressure on candidates in order to make them remove their names from the electoral lists; the inclusion in the election commissions of persons affiliated with the city head; unlawful issuance of ballots for early voting; computation of votes in absence of the members of electoral commissions with decisive votes and observers, etc. On the election day, 13 polling stations were closed, and another 12 operated intermittently.

Even after the 11 October elections, electoral legislation underwent some new changes that envisaged further centralization of municipal elections. In late December 2009, *United Russia*'s initiative that the role of parties in regional electoral commissions during the setting-up of municipal electoral commission should be made more prominent was supported by the State Duma. Previously, the electoral commissions of a municipal formation were formed by its representative body on the basis of proposals submitted by those political parties that had put forth federal lists of candidates with deputy mandates; the proposals submitted by voter meetings held at their places of residence, employment, studying; and the proposals submitted by the previous electoral commission of the municipal formation or the electoral commission of subject of the Russian Federation. The settlement's electoral commission was formed on the basis of proposals submitted by the electoral commission of the municipal raion. Now, one half of the municipal electoral commission is formed by the Oblast electoral commission, while the other half – by those parties that have been granted access to the distribution of mandates to representative bodies of authority. The number of members constituting the municipal electoral commissions has been increased approximately by one-and-a-half. Thus, the electoral commission of a municipal raion, a city okrug, or an urban territorial unit within a city of federal importance now consists of eight, ten or twelve members with the right of decisive votes. The electoral commission of a settlement consists of six, eight or ten members with decisive votes.

An analysis of the current development of the situation in the sphere of local self-government in 2009 has led to the following conclusions. Over that year, the trend of municipal 'counter-reform' was becoming stronger, aiming towards a deeper merger of local self-government with the 'vertical of authority', further restrictions of citizens' opportunities to influence the performance of bodies of local self-government and to exercise control over their activity. Over 2009, one could observe both the continuation of the anti-reforming trends that had emerged in the previous years and also new steps in that direction. The main developments were the introduction of a new amendment to municipal legislation concerning the dismissal of heads of municipal formations and the abolition of referendums as a mandatory requirement when making a decision concerning mergers of settlements. At the same time, the toughening of the legislative provisions aimed at liquidating all autonomy of local self-government did not result in diminishing the pressure on local authorities exerted in the form of force methods: criminal persecution, ballot rigging during elections, etc.