



RUSSIAN ECONOMY: TRENDS AND PROSPECTS

04'2012

MONTHLY BULLETIN:

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THE RUSSIAN ECONOMY IN APRIL 2012: PRELIMINARY DATA AND MAJOR TRENDS

Political Background: Expecting the Unknown

April was a month of political lull on the eve of the new president's inauguration and appointment of a new government. Predictably, political protests continued their downward trend. At the same time, the pre-electoral mobilization of the electorate also started to wear down. Thus, after having been close to zero over the course of 2011 and then having been on the rise for the next 3 months, climbing to +16 points in March 2012, Levada Center's Assessment of the Situation in the Country Index dropped to +10 points in April. Vladimir Putin's approval rating that had demonstrated a steady rise in the three previous months also began to decline.

The most noteworthy event of April was the final adoption of the law on the direct election of governors. At the final stage of its development, the Law was amended to include a so-called 'municipal filter', the norm requiring that a candidate for governor should be approved by 5 to 10% of municipal deputies. This norm strengthens the electoral position of the incumbent governor. In anticipation of the Law's coming into force, Kremlin has embarked on a massive campaign of governor replacements and reappointments, which has already hit Archangelsk, Tomsk, Volgograd, Smolensk, Kostroma, Moscow, Murmansk, Omsk and Saratov oblasts, Krasnodar and Maritime kraia and the Republic of Tyva. It is noteworthy that in 9 out of the 12 regions where governor replacements took place, United Russia had won less than 40% of the votes cast (in 6 regions – less than 35%). Worries about the growth of political activity in the regions are also reflected in another Law adopted by the State Duma in April. The Law establishes that Russia should have a single day of voting in September (instead of two days – in October and March – that she currently has). The purpose of this legislative innovation is to make the Opposition short of time for mobilizing its electorate, many of whom will be still on holiday or travelling at that time.

The process of the formation of the new government is traditionally shrouded in mystery: all the leakages of information have so far been contradictory and unreliable. It also remains unclear how the key roles in economic decision making will be distributed between the Presidential Executive Office and the cabinet of ministers. The outline of Russia's future economic policy is equally vague.

Macroeconomics and Finance: Petrodollars Instead of Investments

High oil prices continue to be the determining factor behind Russia's macroeconomic dynamics. After having experienced a robust growth over the course of three months, in April the price of oil revealed evidence of a downward trend: the average April prices of Brent crude and Urals crude dropped on March by 3.2% and 2% respectively. This price drop may have manifested the beginning of the seasonal decline in prices typical of March–September.

In April, the trend-change in the behavior of oil quotes and the RF Central Bank's energetic purchasing of foreign exchange stabilized the ruble against the basket of foreign currencies; the ruble's upward trend that had been observed over the course of 5 months resulted in the overall strengthening of the ruble by 8% (on October 2011). In March-April 2012, the RF CB was forced to return to its previous policy of checking the ruble's strengthening: the Bank of Russia bought \$4.3bn in March and almost \$3bn (according to preliminary forecasts) in April. As a result, the international reserves of the RF CB were rapidly rising – by more than \$10bn in April alone, and by almost \$26bn (or by 5%) since the beginning of the current year.

On the other hand, the RF Central Bank's interventions made it possible for the banking sector to replenish its liquidity (the volume of bank liquidity had shrunk because of the robust rise in credits issued by banks to the population and enterprises in the previous few months). In late March, the Bank of Russia took a number of steps to improve the liquidity situation in the banking sector (in particular, it increased the timeframe of liquidity provision to banks). The Bank of Russia's resumption of monetizing Russia's trade surplus was also advantageous to the banking sector.

The most important trend in Russia's economic dynamics is the ongoing outflow of capital. Over the course of Q1 2012, capital outflows from Russia amounted to \$ 35bn (thus being at the same level as in Q4 2011), which represented an almost two-fold rise on Q1 2011. At the same time, the volume of capital outflows from Russia substantially increased in March as compared with February (\$ 12.6bn vs. \$ 9bn). As recently as mid-April, the authorities confidently predicted that the outflow of capital would soon considerably decline, but on 24 April Bank of Russia First Deputy Chairman Aleksey Uliukaev stated that in April it "slightly decelerated". Among other things, the ongoing capital flight indicates that neither the end of the election season nor Vladimir Putin's return to the Kremlin have managed to change the skeptical mood of investors. The behavior of the stock market is equally indicative of this fact: after having experienced a robust rise in quotes from 13 December 2011 to 14 March 2012 (the MICEX Index had risen then by 21%), in the following one and a half month the stock market lost half of those gains (the MICEX Index dropped by 9.7%, below the 1500-point mark).

After having increased in March (to 0.6%), in April, the rate of inflation returned to its minimum values (0.3% over the course of four weeks in April), while the rate of annual inflation dwindled to 3.6%. Despite the indexations of regulated prices and petrol prices that will be forthcoming in the next few months, the rate of inflation can be expected to be moderate – due, among other things, to the fall in the annual growth rate of money (as of 1 March 2012 it amounted to 22% vs. 28% one year earlier).

The Real Sector: Consumption Grows with a Rise in Credits

As expected, after having experienced a surge in February, industry dynamics rather sharply reduced in March. In February, industrial production growth amounted to 6.5%, while in March it shrank to a meager 2%. According to preliminary estimates, GDP growth in Q1 2012 amounted to 4%, which represented no change on Q1 2011 and a 3.5% rise on Q1 2010. However, the growth rate of industrial production clearly demonstrates a downward trend by having declined from 9.5% in Q1 2010 as compared with Q1 2009, to 5.9% in Q1 2011 as compared with Q1 2010, to 4% in Q1 2012 as compared with Q1 2011. Thus, industry has effectively ceased to be a locomotive for Russia's economic growth.

In Q1 2012, the dynamic growth of household consumption continued to be the most important factor behind Russia's economic growth. Retail trade turnover rose by 7.5% on Q1 2011 (vs. by 5% in Q1 2010 as compared with Q1 2010). One of the main contributors to this rise was the growth in real wages (by 11.7% in Q1 2012 as compared with Q1 2011, and by 12.6% in March 2012 as compared with March 2011) and real incomes (by 2.6% and 2.8% respectively). Household consumption was also boosted by a pronounced decrease in the saving propensities of the population (despite low inflation, people prefer to either spend their incomes or to buy foreign exchange) and a steady rise in consumer credit. Thus, over the course of January-February 2011, the volume of new credits granted to the population amounted to 15% of the combined amount of retail trade turnover, public catering turnover and payable consumer services turnover, while over the same period of 2012 the share of credits amounted to an impressive 21%. This means that every fifth ruble spent by households on consumption had been borrowed from the banking sector.

In Q1 2012, Russia's manufacturing production index was 104% as compared with Q1 2011, while in Q1 2011 it had been 110.6% as compared with Q1 2010. In March 2012, it stood at 102.4% as compared with March 2011, while in March 2011 it had been 108.6% as compared with March 2010. The slowdown in growth was recorded for most types of economic activities, which can be explained by the high base of past year and the existence of internal production problems. It should be said that output rose above its pre-crisis levels of January–March 2008 across the whole of the machine-building industry. Especially noteworthy is the robust rate of transport equipment manufacturing output growth, which can be explained by the generous financial assistance provided by the Russian government to the automotive industry and by the intensive development of foreign passenger car assemblage. Over the course of Q1 2012 and in March, light industry recorded an across-the-board decline in output. The non-food commodity market was being shaped predominantly by accelerated import growth.

After having been on a steady rise in January-February 2012, the growth rate of the investment complex palpably declined in March. In March 2012, the fixed-asset investment index expressed in

annual terms amounted to 104.9% (and to 111.2% as compared with Q1 2011), the construction work volume index – to 98.3% (105.2%), and the index of residential housing floor space put into operation – to 96% (105.7%). In Q1 2012, the volume of investment in fixed assets was almost 10% below its level registered in Q1 2008. Bearing in mind all these circumstances, the RF Ministry of Economic Development rather cautiously assesses the rate of business activity in construction and explains the downgrading of its GDP and fixed-asset investment forecasts for 2012 from 103.7% to 103.4% and from 107.8% to 106.0% respectively exclusively by the impact of the investment component.

It has long become crystal clear that the ongoing rise in day-to-day household consumption can promote economic growth only to a certain extent, which really adds to the somber mood of industrial commodity producers. As is evident from business opinion surveys carried out by the Gaidar Institute, industrial enterprises are not ready to increase output in the current conditions of slow demand growth, unimpressive growth forecasts and the steady rise in redundant stocks of finished products. At the same time, the weak dynamics of demand forces enterprises to persistently restrict the rise in sale prices for their products. ●

THE POLLITICAL AND ECONOMIC RESULTS OF APRIL 2012

S.Zhavoronkov

In April 2012, on the eve of forming a new RF Government, Vladimir Putin resigned from the chairmanship of the United Russia party, to be succeeded by outgoing Russian President Dmitry Medvedev. This political event is a clear sign that Russia's ruling group has discarded the concept of "the President's party" and the-and-a-half political party system, according to which the political party in power should win, at any cost, in any election at any level. Like Boris Yeltsin before him, Vladimir Putin has irreversibly positioned himself as "president of all Russians". The law on direct gubernatorial elections has imposed a very difficult administrative barrier, envisaging that the candidates should collect signatures of 5 to 10% municipal deputies. Moreover, State Duma parliamentary parties are not exempt from this barrier. The existence of this barrier means that in many regions the Opposition will simply not be able to nominate any candidates at all. However, it should be admitted that even this state of affairs is better than the appointment of governors by the President.

April 2012 turned out to be a rather calm month, to be followed by the eventful May when a new government will be formed after Vladimir Putin's inauguration as Russian President. Also, May 2012 will see the appointment of a new Presidential Executive Office, the body that traditionally deals with Russia's domestic policies. Experts unanimously believe that only two current ministers – the recently appointed heads of the RF Ministry of Finance and the RF Ministry of Industry and Trade, Anton Siluanov and Denis Manturov – will retain their posts. As far as the other ministers are concerned, including those in charge of the power structures, it is very likely that they will be replaced. The new leadership of the Presidential Executive Office appointed in December 2011, that had successfully tackled the task of bringing Vladimir Putin to victory in the March 2012 presidential election, is likely to be re-appointed which, however, does not rule out the possibility of some new appointments at the level of key directorates.

At the same time, April saw the creation of several new institutional frameworks. Firstly, Vladimir Putin totally disassociated himself from *United Russia*. Putin's role there had always been rather ambiguous – after having headed the party list in 2007 he did not become its member. Instead, a special position of 'party chairman' with a wide range of prerogatives was invented for him, but formally he never used them. In September 2011, Vladimir Putin did not head *United Russia's* party list because his approval rating was way ahead of *United Russia's*: by heading that party's list he would have definitely improved *United Russia's* results in the forthcoming parliamentary election, but would have impaired his own results in the presidential election. Nevertheless, it should be remembered that, prior to December 2011, *United Russia* had possessed monopoly power at every level of authority: although the real decision-making was done by the Presidential Executive Office and the Government, it was thought to be necessary that *United Russia* should secure an overwhelming majority in elections at any level. Moreover, *United Russia's* election results gradually became the main criterion for assessing the performance of every governor or mayor. *United Russia's* dismal showing at the December 2011 parliamentary election (even according to official results it lost 15% of votes) further undermined its status within Russia's system of power. As a result, *United Russia's* symbols were discretely banned from being used in the electoral campaign of Vladimir Putin, and its PR role was increasingly being taken over by the mostly imaginary "All-Russia Popular Front". The authorities' farthest-reaching concession to the Opposition was the liberalization of Russia's legislation on the registration of new political parties. Vladimir Putin began to position himself as a national leader, roughly following in this respect in the footsteps of Boris Yeltsin, who never belonged to any of the parties of power of the 1990s, and repeatedly formed coalitions to tackle one or other major public event (such as his own presidential elections). In those coalitions, the party of power was always a majority shareholder

but never a sole one. In such a situation, a drop in the approval rating of the party of power is not a major debacle: it simply means that the party of power should simply share slightly more resources with its coalition partners. Invariably, the more numerous these coalition partners, the more cooperative with the authorities they become. Therefore it is better for the party of power when the Opposition is represented in Parliament, regional legislative bodies, etc. by a large rather than small number of political parties, which makes it easier for the party of power to select some sufficiently cheap coalition partners. This model was successfully materialized, for example, in St. Petersburg, where *United Russia* had failed to win even a simple majority in the local legislative assembly but managed to remain in power by forming a coalition with the LDPR. At the regional and local levels, where the approval ratings of *United Russia* were not high, the natural response of the party of power was to restore single-mandate electoral districts, where the winners will be representatives of the elite, formally not affiliated with *United Russia* but participating in coalitions with it.

The final stage of this process was Vladimir Putin's stepping down as chairman of *United Russia* and thus putting an end to his formal affiliation with that party. In accordance with Putin's proposal, *United Russia's* next chairman will be outgoing RF President Dmitry Medvedev. Vladimir Putin has said: *«In line with political practice here, the president stands above parties. The Constitution does not ban the president from being a member of a party, but in the spirit of our politics the president is a consolidating figure for all political forces, for all citizens. With this in mind, dear friends and colleagues, I think it would be correct if I step down as chairman of United Russia after my inauguration on May 7»*. Dmitry Medvedev, who has evolved from Russia's potential ruler or co-ruler into a total figurehead in the course of just one year, perfectly suits the purely technical role of *United Russia*, the party that simultaneously represents an instrument in the hands of the ruling group and a lightning rod whose failures would not be reflected on Vladimir Putin's authority. Medvedev once again made the public laugh, this time by saying that, in his view, the president, too, should be a member of the [*United Russia*] party – despite Vladimir Putin's pronounced aversion to this idea and his abandonment of the thankless and non-gratifying topmost position in the party. It should be noted that Medvedev himself was not *United Russia's* member during the period when it was necessary to present him as an important political figure.

All the above-listed rational reasons for Putin's departure from *United Russia* notwithstanding, this development was a clear victory of Russia's civil society outraged by repeated attempts in recent years to establish the monopoly of a single party. Russian civil society has managed to counter these threats by a successful strategy of voting for any party list but that of *United Russia*. This has clearly been a step forward in the development of Russia's political system. The possibility of victory for those candidates who are not affiliated with *United Russia* (in March 2012 *United Russia* was defeated in the mayoral elections held in two large cities, Yaroslavl and Togliatti), and also that the ruling party could win less than one-half of votes cast for party lists, opens the way to the next stage of political development – the possibility of coalitions being formed without *United Russia's* participation.

In April, the State Council of the Russian Federation approved the law on the direct election of governors. At the very last moment, it had been significantly de-liberalized by the invention of one serious administrative barrier for the candidates – the requirement that a candidate should win the approval of 5 to 10% of municipal deputies or heads of municipal formations (the exact percentage was left to the discretion of the regions) in three-quarters of the relevant municipal formations, which represented yet another severe restriction in its own right. It should be said that most local deputies heavily depend on executive authorities. Moreover, they are not salaried officials, which means that they do not earn their living at a local legislature, but elsewhere. As usual, this restriction was “justified” by fraudulent references to the experience of developed countries. In this event, references were made to France, where presidential hopefuls are required to collect the signatures of 500 elected representatives, such as regional councilors, mayors, etc., who thus account for less than 1% of their total number. This means that the “French experience” the Russian authorities were appealing to was simply a cover-up for the furtive introduction of a much more complicated procedure.

The new law envisages that the right to run for governor should be granted to Russian citizens over 30 years of age. The candidates for governor should be nominated by political parties or be self-nominated, provided they have garnered the approval of regional legislators. To support their applications to run for governor, the self-nominees should collect the signatures of 0.5 to 2% of the local electorate (the exact percentage is left to the discretion of one or other region). There can be no doubt that most of the regions will introduce the toughest requirements in this regard: 10% and 2% respectively, and will deprive the self-nominees of the right to run for governor. Thus, in many Russian regions, only the official candidate and his or her substitute will be able to participate in the gubernatorial election (which also means the impossibility of verifying the credibility of elections by way of their supervision, because the election observers will be appointed only by the election participants themselves). At the same time, real and credible gubernatorial elections will also take place, though limited to a number of Russian regions that have strong alternative centers of influence or to those of them where candidates will be ready to spend a lot of money buying the votes of local legislators.

The Law will come into effect from 1 July 2012, which means that the first gubernatorial elections must take place as early as October 2012. However, the past few months saw a wave of gubernatorial reappointments – and it should be noted that the governors appointed under the previous law should serve their full term in office (!). New governors were appointed for Vologda, Arkhangelsk, Tomsk, Volgograd, Smolensk, Kostroma, Moscow, Murmansk, Omsk, Saratov and Yaroslavl oblasts, Krasnodar, Perm and Maritime kraises and Tyva. Emergency Situations Minister Sergey Shoigu's appointment as governor of Moscow Oblast, the second largest subject of the Russian Federation, is worthy of special mention. A notoriously ambitious electoral and political heavyweight, Shoigu began his gubernatorial career by demanding a revision of the existing plan of annexing to Moscow a number of rich districts to the south-west of the capital city.

In April, Russia's Parliament adopted in the first reading one more, rather harmful, law that establishes a single day of voting in September. Currently, elections take place twice a year – in March and October. Dmitry Medvedev has commented on the new law in a comical manner typical of his speeches issued in the past 12 months: *“September is a good month, still warm, and people are in a good mood and want to go to the polls. On the other hand, crops have been harvested and not all the funding has been allocated yet, or at least there is some flexibility with budget decisions. Why not? Let's draft it”*. In reality, the case in point is certainly not the harvest, because in truth crops will now be harvested amid an electoral campaign. The crux of the whole matter is that the time of electioneering and signature-collecting has been made extremely inconvenient for independent candidates and vacationing voters alike. It was exactly for that reason that two days of voting were replaced by one day: it is much easier for the party of power to simultaneously concentrate its resources in different places. By contrast, it would have been more advantageous for the Opposition to carry out electoral campaigns where it can concentrate its resources from various regions, etc. However, it should be noted that the authors of this idea have apparently forgotten that just a short while ago the RF Government supported yet another legislative initiative – that the tariffs for services provided by natural monopolies should be increased from 1 July instead of 1 January. So, at last, the party of power has also suffered some inconvenience at the hands of legislators. ●

INFLATION AND MONETARY POLICY

N.Luksha

In March inflation turned out to be the highest this year – 0.6%. In April the price rise slowed down and at the end of the first three months amounted to 0.3% (against 0.4% for the same period 2011). Accumulated inflation from the beginning of the year through 23 April 2011 stayed at 1.8% (against 4.2% in 2011 when tariffs for the services of natural monopolies went up in January). In March according to the Bank of Russia preliminary estimates net capital outflow went up and reached 12.6 billion USD compared with 9 billion in February. As a result, in Q1 2012 net capital outflow amounted to 35.1 billion USD, which is 1.8 times higher than in 2011. At the end of March – beginning of April 2012 the Bank of Russia widened ability of the banks to refinance.

At the end of March, weekly inflation, which in previous weeks stood at 0.1% went up to 0.2% and then fell to its previous indicator. Monthly inflation rate reached 0.6% which equaled the same indicator of 2011 and was the maximum one for the last year. Food prices contributed by maximum to the inflation growth. They increased by 0.8% for the month, which by 0.1 p.p. exceeded the February index, but by the same amount was below than in March 2011. Price rise for nonfood products and services rendered to the population went up in March.

Among food products the highest price rise was for eggs (+7.4%). This price hike was expected owing to the Easter holidays. Granulated sugar prices went up significantly (+5.5%), which was leading in price rise from the onset of the year – 9.4%. At the same time, as in February, prices on grains and beans (-2.2%), sunflower oil (-1.4%) and pastas (-0.3%) continued to go down. In Q1 2012 the highest price fall was recorded for grains and beans (-5.5%). In March the price rise on nonfood commodities went up by 0.2 p.p. against February and as in March 2011 made 0.5%. As in February leaders in terms of price growth were tobacco products (+2.9%) and detergents (+1.2%). From the beginning of the year prices on tobacco products went up by 5.8%. Petrol prices did not change in March. There was no price reduction on any of nonfood commodities.

In March prices on paid services rendered to the population turned out to be higher than the previous month (when prices on services stayed unchanged) and in March 2011. By the end of March prices went up by 0.4%. Prices of medical services continued growing (+1.1%). Tariffs of passenger transport services grew by 1%. On the whole, communication services climbed by 1.2% due to the growth of tariffs on the urban phone communications. At the same time, the seasonal fall on out-bound tourism continued (-0.2%).

Annualized inflation rate (March 2011 against March 2011) constituted 3.7% (*Fig. 1*). This is 2.5 fold less than for the same period last year – 9.5%. This is owing to the fact that the growth of tariffs on the services of natural monopolies took place in January 2011 and in 2012 these tariffs will go up in July. In April inflation was growing at the rate of 0.1% a week. As a result, by 23 April CPI constituted 0.3% (against 0.4% for the same period in 2011). From the beginning of the year, accumulated inflation came to 1.8%, which is by 2.4 p.p. less than last year indicator.

It should be noted that in April for the first time since the beginning of the year the price of petrol went up (+0.6% as of 23 April). This price rise is due to the end of a compromise between the oil companies and the government about the price freeze on fuel as well as with the growth of the wholesale prices on fuel, which began in mid-February. One should expect further growth on fuel prices due to seasonal growth of demand for fuel. At the same time, the growth of prices on eggs and granulated sugar significantly slowed down from 5–7% to 0.5%.

The core consumer price index (CPI) in March¹ went up by 0.5%. Annualized growth of monetary base M2 slowed down: on 1 March it constituted 22% against 28% last year.

¹ The core consumer price index reflects the level of inflation on the consumer market after adjustment for the seasonal (prices of vegetable and fruit products) and administrative (regulated tariffs for certain types of services, etc.) factors. In Russia, it is calculated by the RF Statistics Service (Rosstat).

Thus, acceleration of inflation, which was expected in Q3 due to indexation of tariffs of natural monopolies can be somewhat smoothed thanks to low growth rates of money supply¹.

After a two-months contraction, in March the monetary base in the broad definition resumed its growth (+0.3%) and constituted by the end of month 7,787.8 billion rubles (Fig. 2). This is associated with the growth of commercial banks' correspondent accounts with the Bank of Russia, which made 812.5 billion rubles (+15.7%) on 1 April. The other components of the monetary base (with the exception of the Bank of Russia's bonds) contracted in March. Commercial banks' deposits with the Bank of Russia fell by the maximum. Their volume decreased nearly by one third down to 139.3 billion rubles. The volume of mandatory reserves also fell to 385.2 billion rubles (-2.2%) and the cash-in-circulation and of that of account balance of credit organizations – to 6,450.8 billion rubles (-0.2%)

In March owing to the growth of corresponding accounts of the credit organizations with the Bank of Russia the surplus reserves held by commercial banks² went on the rise. Their volume increased by 5.5% to 951 billion rubles on 1 April 2012.

The first half of April saw a continuation of growth of

international reserves volume of the Bank of Russia. Over a month, from mid-March international reserves rose by 2.7% and as of 13 April amounted to 518.8 billion rubles.

In March the Bank of Russia once again resorted to net purchases of foreign exchange on the domestic market. The regulator's currency interventions went up by 1.5-1.8-fold: over that month the regulator bought \$ 3.9 billion and 262.5 million Euros (Fig. 3³). In April purchases of foreign exchange by the Bank of Russia turned out to be comparable with the March volumes. Thus, in March-April the Bank of Russia continued to smooth the strengthening of the Ruble.

In March net capital outflow from Russia did not slow down against February but on the contrary, according to the bank of Russia estimate, increased and made up \$12.6 billion (against



Source: State Statistics Service (Rosstat).

Fig. 1. The CPI growth rate in 2009–2012 (% year to year)

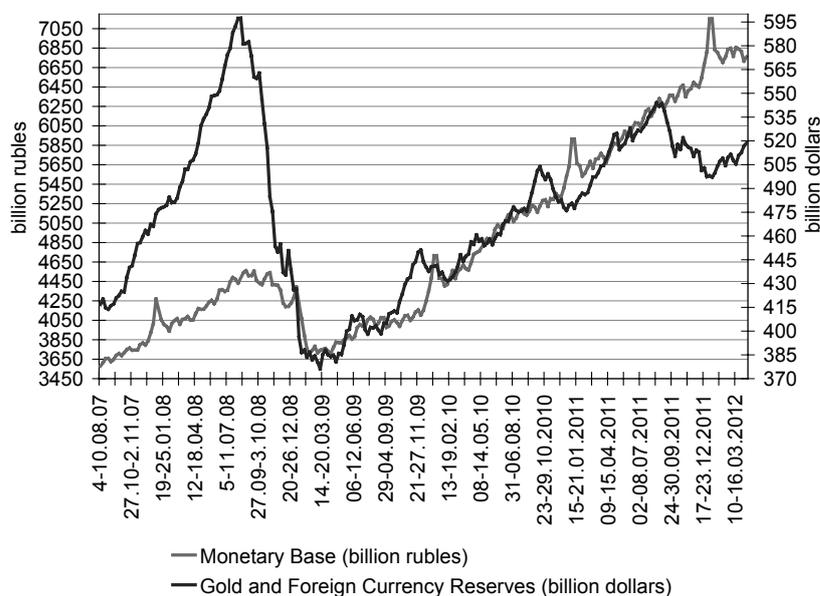
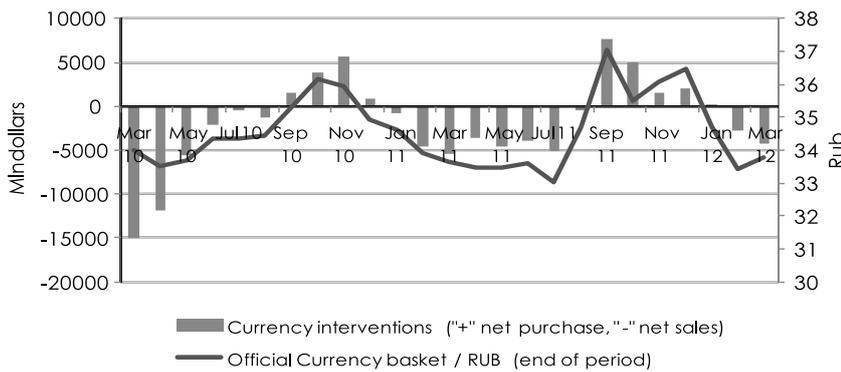


Fig. 2. Changes in Russia's Monetary Base (the narrow definition) and Gold and Foreign Currency Reserves in 2007–2012

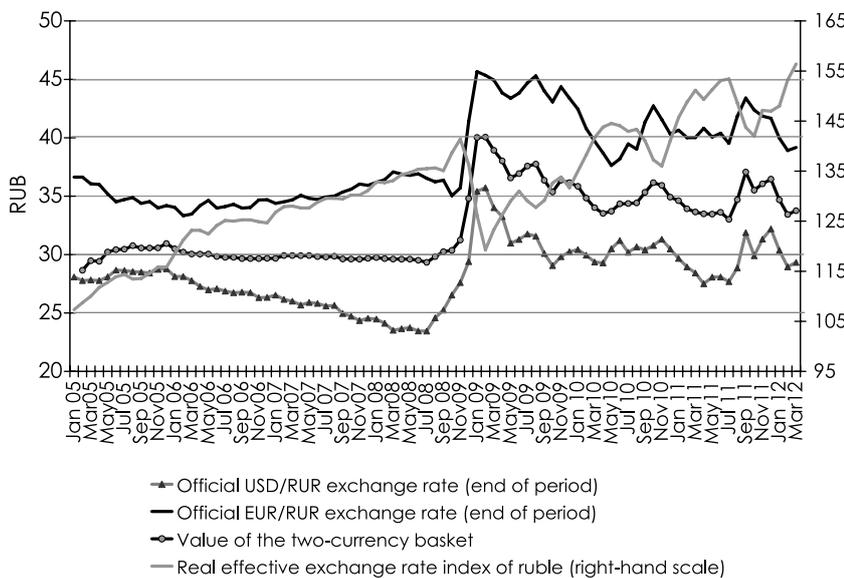
1 In 2007–2011, the CPI in January ranged between 1.5% and 2.5%.

2 The surplus reserves held by commercial banks at the RF CB are understood as the aggregate balance of their correspondent accounts, deposits with the RF CB and the bonds issued by the RF CB and held by commercial banks.

3 The level of January 2002 is taken as 100.



Source: RF Central bank, author's calculations.
 Fig. 3. Central Bank Currency Interventions and the Ruble Exchange Rate against Currency Basket in March 2010 – March 2012



Source: RF Central bank, author's calculations.
 Fig. 4. Indicators of Ruble's Exchange Rate in January 2005 – March 2012.

rate to the ruble went down to 38.8 Rb/Euro. The fall of the oil prices from the record \$126 to \$118 per barrel was the main factor of the dynamic of the ruble exchange rate in April.

In Q1 2012 thanks to the record high oil prices the ruble strengthened against the bi-currency basket – by 7.4%. In April the value of the bi-currency basket remained practically unchanged (0.3%) and constituted 33.7 rubles as of 25 April.

On 28 March 2012 the Bank of Russia announced about the resumption of Lombard credits on the auction basis and auction of direct REPO for the period a year. To remind, annual auctions of direct REPO were introduced during 2009 crisis as an anti-crisis instrument for a support of liquidity in the banking sector. In April 2010 with the recovery of the economy the Bank of Russia stopped holding auctions of direct REPO and Lombard credit auctions for a period of 12 months.

However, as a result of less interference of the Bank of Russia in the functioning of the foreign exchange market, which resulted in the reduction of currency interventions by the Bank of Russia and, consequently, to a significant weakening of its influence on the monetary base of the monetization channel of the balance of payments, there rose an issue of broadening refinancing of the banks by the Bank of Russia, which was required to support the money supply. One of the

\$ 9 billion in the previous month). As a result, by the end of Q1 2012 capital outflow from Russia constituted \$ 35.1 billion. Thus, the trend of significant capital outflow remains and it turned out to be 1.8 times higher than in the same period of the previous year.

The trend for strengthening of the ruble's real effective rate continued in March: over the month it climbed by 2.1%. As a result, the real effective exchange rate index rose to 156.41 156,41¹ (Fig. 4).

Over the first two months 2012 the ruble-to-USD exchange rate was decreasing. However, from March the decline halted and during March-April USD exchange rate stayed in the range of 28.9-29.7 rubles/USD. As a result, over the first 25 days of April the exchange rate of the US dollar against the ruble rose by 0.4% to 29.5 Rb/USD.

The behavior of the Rb-to-Euro exchange rate was similar to the dynamic of Rb/USD exchange rate. However, the period of decline when Euro slipped by 2.4 rubles ended somewhat later – in mid-March. The March strengthening of the European currency (+0.7%) was already reversed in April (-0.9%). As a result, over the first 25 days of April the euro exchange

1 The level of January 2002 is taken as 100.

instruments in solution of this issue is the increase of the period of liquidity supply to the banks by the bank of Russia.

On 30 March 2012, the Bank of Russia announced the resumption from 2 April of granting loans to the credit organizations secured by assets and guarantees of payment for a period from 181 to 365 days. On the same day the Bank of Russia starts granting loans secured by gold for a period from 181 to 365 days with the interest rate of 7.75%. This measure is designed to resolve the issue of shortage of long liquidity in the banking sector. At the beginning of this year several largest banks turned to the Bank of Russia with a request to extend the funding period.

On 9 April 2012 the bank of Russia decided to extend the list of monetary policy instruments by including in it depositary auctions for a period of 1 week with the maximum interest rate of 4.75% annualized. Starting with 17 April the Bank of Russia on a weekly basis will carry out operations for the period of 1 week either supplying liquidity (auction of direct REPO or lombard credit auction) or operations to absorb it (depositary auction). We consider this measure to be in line with the Bank of Russia's policy aimed at increasing the role of interest rates in the monetary policy. Interest rates of depositary auctions impact the minimal level of the interest rate on the interbank credit market. Interest rates on operations for providing liquidity (direct REPO and lombard credits) – on the maximum level of the interest rate on the interbank credit market.

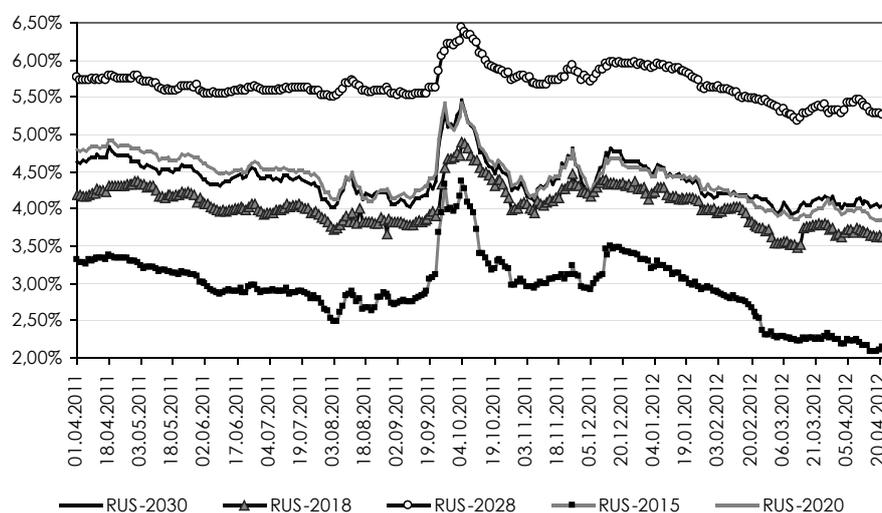
On 9 April 2012, the Bank of Russia, for the third time this year, decided to keep unchanged the rate of refinancing and other rates on its operations. We consider that the chance for lowering the rates in the near future if insignificant for the fear of risks that the inflation rate would accelerate in the second half of this year. ●

FINANCIAL MARKETS

N.Burkova, E.Khudko

In April 2012, a lack of substantial and positive developments both on the foreign and domestic financial markets resulted in a drop of 13% of the Russian share market. At the same time, investor activity in the government securities market rose by 61%. The value of Russia's most liquid companies demonstrated a multidirectional trend as compared to the beginning of 2012. The situation on the Russian corporate bond market remained quite stable. The key indices of that market – the volume index and market index, as well as indices of registration of new securities issues – showed positive dynamics. In April, a negative phenomenon consisted in worsening of the situation as regards meeting by issuers of their obligations to security holders.

The Government Securities Market



Source: on the basis of the data of the Finmarket Information Agency.

Fig. 1. The yields to maturity of the Russian eurobonds maturing in 2015, 2018, 2020, 2028 and 2030.

In April, tangible growth in investor activity on the government securities market resulted in a drop of 2% to 5% in the yields to maturity of all the papers in that segment of the financial market (Fig. 1).

In the period from March 26 through April 23, 2012, the aggregate turnover of the secondary market of OFZ bonds amounted to Rb 70.43bn with the average daily turnover of Rb 3.35bn which is equal to growth of 61% in the average monthly turnover as compared to the previous period.

In the period from March 26 through April 23, 2012, four primary placement auctions of OFZ bonds were held (the same number as a month earlier) (Table 1). The actual placement amounted to 51% of the planned figure (vs. 36.57% a month earlier). No additional auctions for additional placement of OFZ on the secondary market were held during that period.

Table 1

PLACEMENTS ON THE PRIMARY MARKET OF OFZ BONDS

Date of auction	Issue	Placement volume, m Rb.	Placement volume in nominal terms, m Rb	Weighted average yield
28.03.2012	OFZ-25079-PD	10, 000.00	9, 278.43	7.08
04.04.2012	OFZ -26207- PD	20, 000.00	17, 926.20	8.19
11.04.2012	OFZ -26205- PD	35,787.97	4, 575.00	8.00
18.04.2012	OFZ -26208- PD	10, 000.00	6, 818.96	7.78
Total:		75,787.97	38, 598.59	

Source: Ministry of Finance of the Russian Federation.

The Stock Market

Factors behind the Dynamics of the Russian Stock Market

As result of publication of the weak macroeconomic data on the USA and Europe, as well as the World Bank's forecast of a slowdown in Russia's GDP growth rates in 2012, the last week of March 2012 was characterized by a drop in the Russian stock market and the short-term temporary growth which followed it in the beginning of April. Such a situation was related both to approval of a decision by eurozone states to increase the volume of anti-crisis funds and growth in global oil prices.

However, from April 4 and over the next two weeks investors' concerns over development of the debt crisis in the eurozone states, as well as falling price on oil contributed to a drop in the Russian financial market.

On April 19 and April 20, a short-dated turn in the existing trend took place. Such a turn was justified by approval by China of number of measures to support liquidity in the country, positive results of an auction on placement of Spanish bonds and the authority of the IMF's opinion as regards gradual recovery of the global economy. However, as early as April 23, the stock market largely declined due to publication of the macroeconomic data on China and a drop in the GDP of Spain on a year-on-year basis.

Generally, within a month markets of developed countries fell by 1% to 7%, while those of developing countries, by 1% to 6%. The Mexican IPC index was an exception; it rose by 1.6%. From the beginning of the year, the global markets under review have risen by 3% to 20% (*Table 2 and Fig. 2*).

Table 2

THE DYNAMICS OF WORLD STOCK EXCHANGE INDICES

Index	Value (as of 23.04.2012)	Change over month (%)*	Change since beginning of year (%)
MICEX (Russia)	1,466.34	-4.84	9.89
RTS (Russia)	1,572.88	-5.73	20.74
Dow Jones Industrial Average (USA)	12,927.17	-1.17	7.06
NASDAQ Composite (USA)	2,970.45	-3.18	17.76
S&P 500 (USA)	1,366.94	-2.16	11.09
FTSE 100 (UK)	5,665.60	-3.23	5.07
DAX-30 (Germany)	6,523.00	-6.76	18.60
CAC-40 (France)	3,098.37	-10.87	10.01
Swiss Market (Switzerland)	6,114.83	-2.01	5.12
Nikkei-225 (Japan)	9,542.17	-4.69	18.40
Bovespa (Brazil)	61,539.38	-6.49	15.96
IPC (Mexico)	38,961.79	1.64	3.39
IPSA (Chile)	4,551.45	-1.43	10.54
Straits Times (Singapore)	2,962.35	-0.93	12.99
Seoul Composite (South Korea)	1,972.63	-2.67	11.01
ISE National-100 (Turkey)	60,122.90	-2.11	19.80
BSE 30 (India)	17,096.68	-1.53	12.34
Shanghai Composite (China)	2,388.59	1.66	6.83
Morgan Stanley Emerging&Frontier Markets Index	795.83	-3.22	13.40

* As a percentage of an index's value as of March 25, 2012.

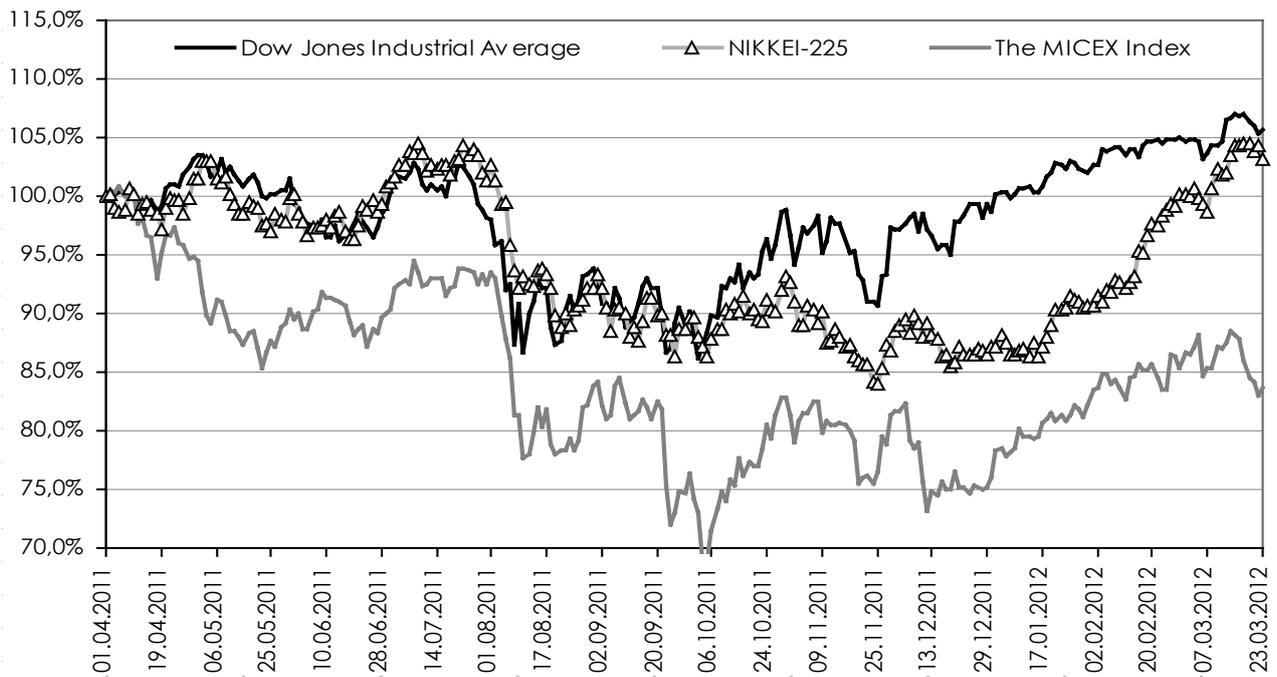
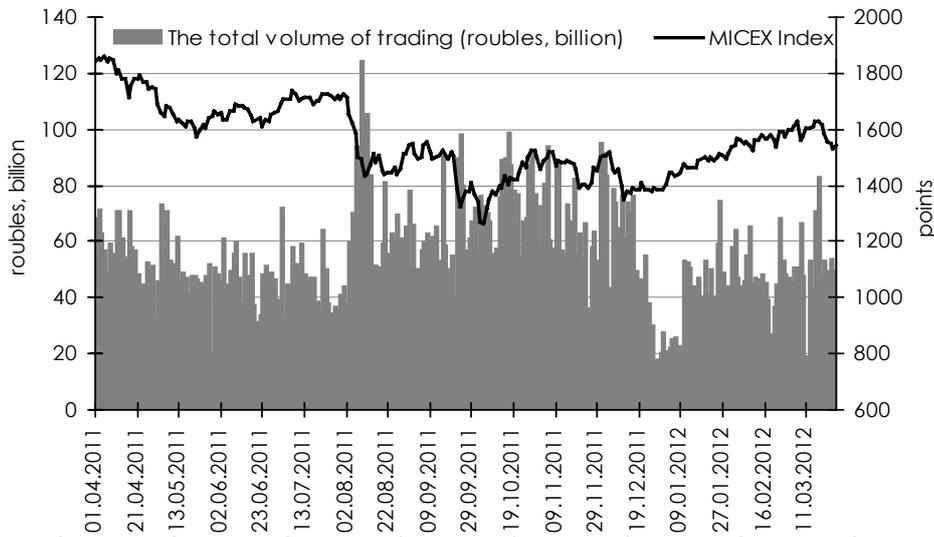


Fig.2. Dynamics of the main US, Japanese and Russian stock indices (as a percentage of their values as of April 1, 2011)

The Situation on the Share Market



Source: MICEX-RTS.

Fig. 3. The Dynamics of the MICEX index and the trading volume

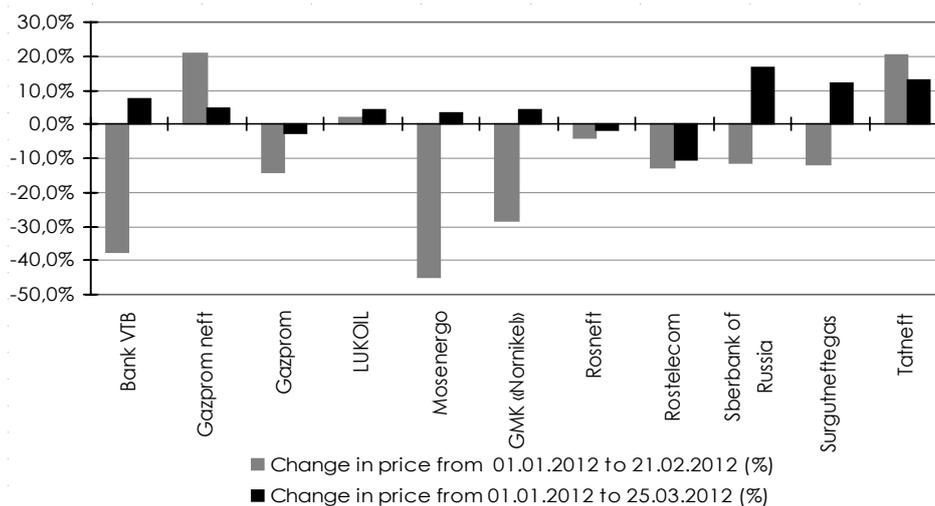
The MICEX Index reached its monthly peak on April 3 when it hit 1,550.05 points (vs. 1,631.15 points a month earlier). The MICEX Index dropped to its monthly lowest on April 23 when it hit 1,466.34 points (vs. 1,529.51 points a month earlier) (Fig. 3).

On the whole, over the period from March 26 through April 23, 2012, the MICEX index dwindled by 4.8%, or 74.63 points in absolute terms (in the period from April 24, 2011 through April 23, 2012, the MICEX index shrank by

18.3%), while the trading volume of the shares included in the MICEX index amounted to Rb 968.95bn. As compared to the previous period, in April the average daily level of investor activity on the stock market decreased by 13%.

In the period from the beginning of the year till April 23, 2012, the biggest price gainers among the blue chips were shares of *Sberbank*, *Tatneft* and *Surgutneftgaz* whose value appreciated by 16.6%, 13.1% and 12.3%, respectively (Fig. 4).

According to MICEX-RTS data, as of April 23, 2012 the five Russian companies – leaders in terms of market capitalization – were as follows: *Gazprom* – Rb 3,975bn (vs. Rb 4,294bn as of March 25, 2012), *Rosneft* – Rb 2,248bn (vs. Rb 2,222bn), the Savings Bank of the Russian Federation (*Sberbank*) – Rb 2,011bn (vs. Rb 2,088bn), *LUKoil* – Rb 1,510bn (vs. Rb 1,547bn) and *Surgutneftegaz* – Rb 1,021bn (vs. Rb 1,056bn).



Source: MICEX-RTS.

Fig. 4. The Dynamics of Russian Blue Chip Stocks

The Futures Market

In April 2012, the volume of trading in the MICEX futures market amounted to Rb 1.46bn (vs. Rb 4.18bn a month earlier). The ruble-US dollar currency pair futures contracts accounted for all the 75 transactions. The prices of futures contracts with the date of execution set for June 15, 2012 were mainly within the range of Rb 29.3 to Rb 29.9 per US dollar, which means that participants of that MICEX market had different expectations as regards the short-term prospect of the exchange rate; they expected both a possible depreciation and appreciation of the ruble as compared to the value as of April 23, 2012 (Rb 29.52 per US dollar).

In April, on the FORTS futures market average daily investor activity rose by 3.5% on the previous month. The first place as regards the futures trading volume belonged to futures contracts on the RTS index, followed far behind by ruble-US dollar currency pair futures contracts, futures contracts on shares of the Savings Bank of the Russian Federation (*Sberbank*) and *Gazprom*, and euro-US dollar currency pair futures contracts. The prices of the latest transactions concluded under ruble-US dollar currency pair futures contracts with the date of execution set for June 15, 2012 were, mainly, within the range of Rb 29.3 to Rb 30 per US dollar, while those with the date of execution set for September 15, 2012, within the range of Rb 29.7 to Rb 30.3 per US dollar which means that market participants expected the ruble to depreciate by 0.6% to 2.6% as of September 15, 2012 as compared to its value as of April 23, 2012. The prices of the latest transactions concluded under ruble-euro currency pair futures contracts with the date of execution set for June 15, 2012 were, mainly, within the range of Rb 39 to Rb 39.6 per euro, that is, market participants expected the ruble to depreciate by 0.5% to 2% as compared to its value as of April 23, 2012 (38.81 rubles per euro), while those with the date of execution set for September 15, 2012 were within the range of Rb 39.4 to Rb 40 per euro. Judging by the prices of the latest transactions, the value of futures contracts on the RTS index with the dates of execution set for June 15, 2012 and September 15, 2012 was, on average, within the range of 1,540 points to 1,650 points, which means that expectations of market participants were different as regards both possible decline and growth in the index as compared to its value as of March 25, 2012. The prices of the latest transactions concluded under futures contracts on the MICEX index with the date of execution set for June 15, 2012 were, on average, within the range of 1,440 to 1,540 points, which means that investors expected the MICEX index to rise by 0% to 5% as compared to its value as of April 23, 2012. Options were in much less demand, with the options turnover amounting to approximately Rb 284bn (while the futures turnover was Rb 4,272bn). The first place as regards the trading volume belonged to marginable options on the RTS Index futures contract.

The Corporate Bond Market

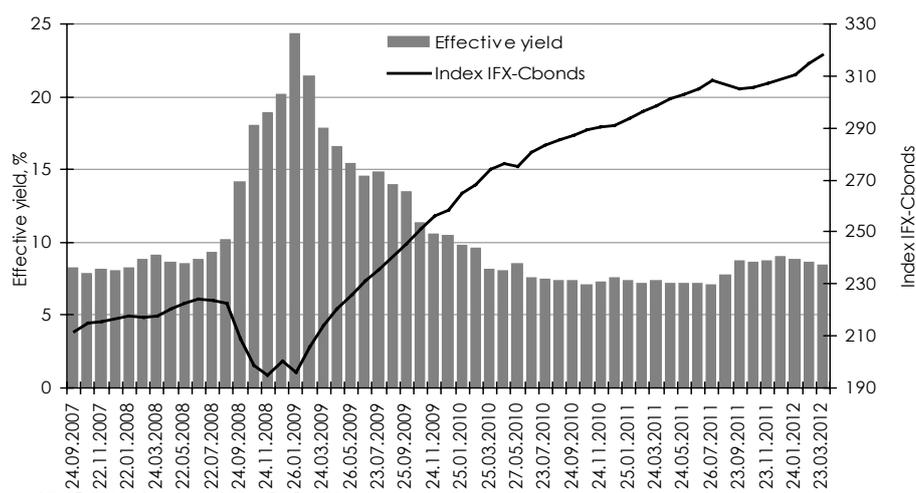
As of the end of April, the volume of Russia's domestic corporate bond market (by the par value of outstanding ruble-denominated securities) amounted to Rb 3,634.5bn, which represented a 2.9%

rise on late March of the current year¹. Such growth in market volume, as a month earlier, was only due to an increased number of bond loans (812 issues of corporate bonds registered in the national currency against 798 issues as of the end of the previous month), while the number of the issuers represented in the debt segment of the securities market decreased somewhat in the past month (335 issuers against 339 companies as of the end of March). As before, of all the issues denominated in foreign currencies only a yen-denominated bond issue and US dollar-denominated bond issue were still in circulation.

Investor activity in the secondary corporate bond market remained high. In the period from March 26 through April 23, the aggregate volume of transactions at the MICEX stock exchange amounted to Rb 126.5bn (by comparison, in the period from February 22 till March 23 the trading volume amounted to Rb 115.3bn), while the number of transactions in the period under review was 24,300 (against 25,100 in the previous period)².

The IFX-Cbonds index of the Russian corporate bond market kept growing at a high rate: by the end of April it rose by 2.2 points (or 0.7%) as compared to its value as of the end of March. At the same time, the weighted average effective yield in the past month was quite stable: 8.47% as of the end of April against 8.46% as of the end of March (Fig. 5). As in the previous months, growth in interest rates is restrained by quite favorable domestic factors. In April, rating agencies revised upwards ratings of a number of companies and constituent entities of the Russian Federation³. In addition to the above, with high oil prices prevailing the Russian market looks better than other emerging markets (thanks to a relatively high inflow of capital of institutional funds). However, the situation on foreign markets causes concern (in particular, fears of a possible downward revision of the rating of France and problems in the financial system of Greece). The above factors cannot but have an adverse effect on the dynamics of the Russian stock market. As a result, the level of yield in the corporate debt market is still higher than the rate of refinancing. After a sharp surge in March, the corporate bond portfolio duration index decreased somewhat (as of the end of April the duration index amounted to 801 days which is a 25-day drop as compared to the end of March), but it is still high and points to the fact that the share of long-term bonds in the corporate segment of the market is a large one.

Stability of the weighted average yield on the market is justified by a low volatility of interest rates on bond issues of first-tier issuers. The maximum change in the yield on the most liquid securities (both towards growth and decrease) amounted to no more than 1 p.p. and concerned mostly the financial sector. Industrial and telecommunications companies showed downward dynamics of the



Source: According to data of the Cbonds company.

Fig. 5. The dynamics of the IFX-Cbonds index of the Russian corporate bond market and the weighted average yield

interest rates. The yield on bond issues of large energy companies (FSK UES and RusHydro) remained virtually unchanged³.

After a drop in March, issuers' activity in the debt segment of the market rose high again. In the period from March 24 till April 24, fifteen issuers had 43 corporate bond issues with the total par value of Rb 171.8bn registered (by comparison, in the period from February 22 till March 23 only ten securities issues with a par value of Rb 18.5bn were registered). Stock

1 According to the data of the Rusbonds Information Agency.

2 According to the data of the Finmarket Information Agency.

3 According to the materials of the Cbonds Information Agency.

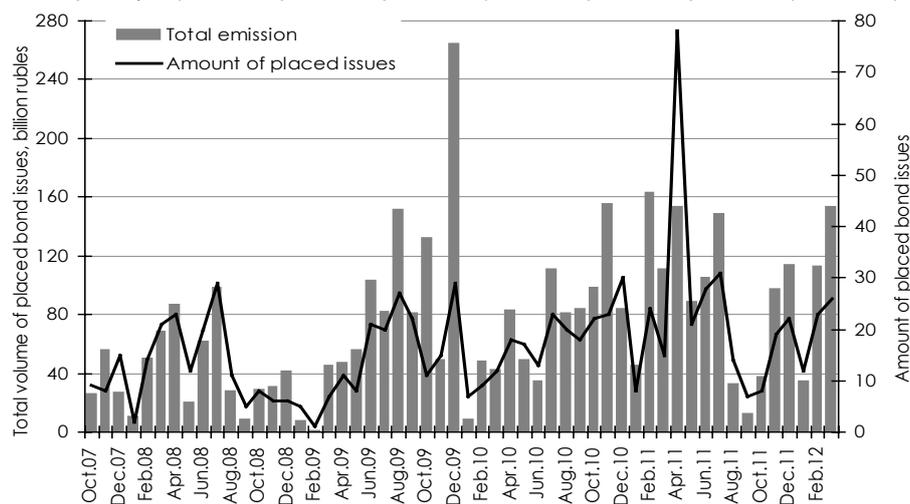
bonds accounted for over a half of registered issues. A fairly large number of debut issues were registered.

High investor activity prevailed not only on the secondary market, but also on the primary market. In the period from March 24 till April 24, twenty-two issuers placed 28 bond issues with a par value of Rb 135.3bn (in the period from February 22 till March 23 twenty-six bond issues with a par value of Rb 153.5bn were placed) (Fig. 6). It is to be noted that April is normally characterized by high trading indicators in the primary market.

Stock bonds accounted for nearly a half of the placed loans. Of 28 bond issues, seven bond issues have a maturity of ten years or more.

In the period from March 24 till April 24, sixteen issuers were obliged to redeem their bond loans for the total amount of Rb 34.7bn. However, five issuers failed to meet their obligations to bondholders in due time and declared a technical default (for reference, in March only two issuers declared a technical default, while in December–February all the issuers in the debt market met their obligations as regards repayment of the loan in due time). In May 2012, nineteen issues of corporate bonds with the total volume of Rb 25.5bn are expected to be redeemed¹.

In the period under review, the situation with actual defaults (that is, when the issuer is unable to pay the coupon to the securities holders even within the next few days after the scheduled repayment date) became somewhat worse. In the period from March 24 till April 24, as a month earlier, two issuers failed to meet their current obligations in due time or within the frameworks of the technical default. In the same period, two issuers failed to repay the par value of the placed bonds (in the previous period no actual defaults on repayment or offer of securities took place)².



Source: According to the data of the Rusbonds Company.

Fig. 6. The dynamics of the primary placements of corporate bond issues denominated in the national currency

¹ According to the data of the Finmarket Information Agency.

² According to the data of the Rusbonds Information Agency.

REAL ECONOMY: TRENDS AND FACTORS

O.Izryadnova

According to the preliminary data of the RF Ministry of Economic Development, in the 1st quarter 2012 the GDP went up by 4.0%, industry output – by 4.0%, including minerals extraction – by 1.9% and manufacturing industry output – by 4.4%. The situation at the internal market was determined by the acceleration of the retail trade turnover. In March 2012 the increase in retail trade turnover made 7.3% in annual terms, in foodstuffs production – 5.1%, in non-food goods production – 9.2%. The dynamic growth of the investment complex in the first two months of the current year was succeeded by the rates slowdown. In March 2012 the growth rates of the investments in fixed assets reached 104.9%. The growth rates are forecast to increase by 106.0% while GDP will grow by 103.4% according to the RF Ministry of Economic Development.

Federal State Statistics Service made the second estimation of the GDP for 2011 and updated quarterly data. In 2011 the GDP volume in Russia made Rb 54585.6bn in current prices. Besides, the volume and dynamics of the investments in fixed assets, retail trade and catering turnover have been corrected. As a result of 2011 the investments in fixed assets index made 108.3% and retail trade turnover index – 107.0%. Taking into account correction of the data the structure and dynamics of the GDP use as broken by components were specified. Under the existing situation at the market of the capital and accumulation resources the proportion of investments in fixed assets in GDP structure made 19.7% in 2011 remaining 0.6% of GDP below the average figure of two previous years despite the fact that the savings rate went up to 33.2% of the GDP.

Over 2010-2011 it was the increase in consumer demand that was one of the main factors supporting the economic growth. In 2011 the final consumption of the households went up by 5.3% versus the previous year exceeding by 6.6% the pre-crisis level of 2008.

The anticipating growth of import versus export physical volume was a characteristic feature of 2010-2011. As a result of 2011 the foreign trade turnover in terms of physical volume (calculated basing on systems of national accounts methodology) went up by 7.9%, including export – by 0.4% and import – by 20.3% versus the previous year.

Table 1

GDP CALCULATED BY THE METHOD OF INCOMES USE IN 2010-2011

	Rb bn		As percentage to the total		As percentage to the previous year	
	2010	2011	2010	2011	2010	2011
Gross domestic product	45172.7	54585.6	100	100	104.3	104.3
including:						
expenses for final consumption	32149.9	37254.9	69.6	66.8	103.3	105.3
of households	23482.0	27228.6	50.9	48.9	105.2	106.8
of state management	8441.9	9781.6	18.2	17.5	98.6	101.5
of non-commercial organizations providing services for households	226.0	244.7	0.5	0.4	99.5	97.1
Gross accumulation	10288.3	13644.4	22.3	24.6	128.8	120.8
net export	3739.7	4783.7	8.1	8.6	-	-
export	-	-	-	-	107.0	100.4
import (-)	-	-	-	-	125.8	120.3

Source: Federal State Statistics Service.

According to the preliminary estimation of the RF Ministry of Economic Development in the 1st quarter 2012 the increase in the GDP made 4.0% which corresponds to the respective period

of the previous year. At the beginning of 2012 the macroeconomic situation was formed under the influence of factors of expansion of the internal and external demand, acceleration of investments in fixed assets growth rates and contraction of the unemployment as compared with the 1st quarter of 2011. It should be noted that in contrast to the corresponding period of the previous year in the 1st quarter 2012 the effect of the foreign economy has become more pronounced which is accounted for by the recovery of the net export growth in the GDP.

In the 1st quarter 2012 the increase in the retail trade turnover made 7.5% as compared with the corresponding period of the previous year exceeding by 16.8% the figure of the 1st quarter of 2008. At the beginning of 2012 the dynamics and the structure of the retail trade turnover was determined by the decrease of the inflation pressure and the increase in volumes of the consumption crediting. In March 2012 the increase in the retail trade turnover in annual terms reached 7.3% including foodstuffs turnover – by 5.1% and non-food goods turnover – 9.2%. In March 2012 versus December 2011 consumer prices index made 101.5% (103.8% a year ago), for foodstuffs – 101.2% (104.8%) and for non-food goods – 101.2% (101.7%). The dynamics of the expenses of the population for goods purchase was considerably influenced by the maintenance of prices and tariffs for paid services rendered to the population in the first half of the current year approximately at the level of the previous year. In the 2nd half of 2012 the indexation of regulated prices and tariffs will change the inflation background though according to the RF Ministry of Economic Development consumer prices index as a result of the year will make 106.0% and the real incomes growth – 105.0% (100.8% in 2011).

This year the expansion of the internal consumer market was supported by the acceleration of the real incomes of the population growth. In the 1st quarter 2012 the increase in the real incomes of the population made 2.6%, while a year ago during the quarter the incomes remained unchanged, real wages went up by 11.7% (1.6% over the 1st quarter of the previous year).

Over the first two months of 2012 the population used Rb 4236.2bn for the purchase of goods and payment for service, which is 9.5% more than a year ago. Savings over the same period made Rb 635.9bn, which is 8.5% below the level of the corresponding period of the previous year. It should be noted that at the beginning of the year the expenses for foreign currency purchase were again observed to increase. The growth of the consumer demand was based on the expansion of the crediting volumes. Credits issued to natural persons over the first two months of the current year went up by approximately Rb 147bn or by 38.8% versus the corresponding period of the previous year.

Table 2

GROWTH RATES OF MAIN ECONOMIC INDICES IN THE 1ST QUARTER 2008-2012, AS PERCENTAGE ON THE CORRESPONDING PERIOD OF THE PREVIOUS YEAR

	2008	2009	2010	2011	2012
GDP	109.1	90.5	103.5	104.0	104.0
Industry	106.0	84.5	109.5	105.9	104.0
Investments in fixed assets	123.6	85.0	95.2	99.2	111.2
Retail trade turnover	117.2	101.3	102.2	105.0	107.5
Real disposable incomes of the population	107.8	101.9	108.1	100.0	102.6
Export	153.6	52.0	161.1	122.8	119.0*
Import	140.8	63.6	118.8	142.4	112.4*
Total number of the unemployed	96.5	134.8	96.3	85.7	86.7

* preliminary data of the RF Ministry of Economic Development.

Source: Federal State Statistics Service.

The dynamic growth of the investment complex in January-February 2012 was replaced by the rates slowdown in March. In March 2012 the index of investments in fixed assets in annual terms was equal to 104.9% (111.2% in the 1st quarter 2011), workload in construction – 988.3% (105.2%) and residential floor area implementation – 96% (105.7%). The crisis aftermath in the investment sector of the economy has not been overcome yet: in the 1st quarter of the current year

the investments in fixed assets was by 10% below the corresponding period of 2008¹. Taking into account these circumstances the RF Ministry of Economic Development makes reserved estimation of the business activity growth rates in construction and it is the influence of the investment component that explains the decrease in the forecast indices for GDP in 2012 from 103.7% to 103.4% and investments in fixed assets from 107.8% to 106.0%. In the 1st quarter 2012 the total number of the unemployed made 4.9m (6.5% of the economically active population) and reduced by 0.8m as compared with the corresponding period of the previous year. In the state employment services 1.3m was registered as unemployed as compared with 1.6m a year ago.

The demand of the employers for the workforce declared to the state employment agencies expanded: as at the end of March 2012 the number of vacancies reached 1.5m. The tension coefficient per 100 declared vacancies is at the level of 98.3 people versus 150.1 in March 2011.

In the 1st quarter 2012 the trend towards the slowdown of the industry growth rates formed in the previous year. As compared with the 1st quarter 2011 in the 1st quarter 2012 the industrial production index went up to 104.0% versus 105.9%, as compared with March 2011 in March 2012 – to 102.0% versus 105.3%.

As a result of January–March 2012 output index in the minerals extraction made 101.9% as compared with the corresponding period of the previous year, in March 2012 – 100.8% the figure for fossil fuels extraction output being, correspondingly, 102.3% and 101.4%.

It is a sudden weakening of the manufacturing industries dynamics that had a prevailing influence on the industrial growth rates. In the 1st quarter 2012 as compared with the 1st quarter 2011 the index of the manufacturing industry output decreased to 104.4% versus 110.6% a year ago, and in March 2012 as compared with March 2011 – 102.4% versus 108.6%. The slowdown of the growth rates is registered in the majority of economic activities and is accounted for by both the high basis of the previous year and internal problems of industry functioning.

Table 3

PRODUCTION INDICES AS BROKEN BY MAIN TYPES OF MANUFACTURING INDUSTRIES IN THE 1ST QUARTER 2008–2011, AS PERCENTAGE TO THE CORRESPONDING PERIOD OF THE PREVIOUS YEAR

	2008	2009	2010	2011	2012
Industry	106.2	84.5	109.5	105.9	104.0
Minerals extraction	100.7	96.2	106.7	103.3	101.9
Fossil fuels extractions	102.7	100.4	106.4	100.3	102.3
Minerals extraction excluding fossil fuels	92.2	96.2	110.9	107.7	101.5
Manufacturing industries	108.7	79.2	112.1	110.6	104.4
Foodstuffs production including tobacco and beverages	106.4	96.7	103.8	101.7	106.2
Textile and sewing industry	102.6	78.8	110.2	107.7	93.2
Leather, leather goods and footwear production	106.6	83.0	126.3	112.8	89.8
Timber processing and wooden goods production	115.6	70.8	111.1	106.9	100.7
Pulp-and-paper industry, publishing and editing	107.8	82.0	106.7	99.5	107.3
Coke and oil products production	105.0	96.3	104.7	104.6	102.3
Chemistry industry	103.7	77.6	123.8	108.0	99.4
Plastic and rubber goods production	130.4	82.7	122.8	120.6	102.8
Other non-metal mineral products production	108.6	67.8	104.9	112.7	112.7
Metallurgy and production of finished metal goods	108.6	72.3	118.8	109.1	104.8
Machinery and equipment production	116.4	74.3	109.1	111.6	119.8
Electric, electronic and optical equipment production	93.3	56.6	130.4.2	106.3	110.6
Transport vehicles and equipment production	114.4	64.5	113.3	159.6	122.7
Other industries	118.6	79.3	130.7	105.0	102.0

Source: Federal State Statistics Service.

¹ In the 1st quarter 2008 the investments in fixed assets were registered to grow maximally over the ten-year period as compared with the corresponding period of the previous year. In January–March 2008 the volume of investments in fixed assets in nominal terms made 20% of the annual increase with the average level for the 1st quarter 1999–2007 being at the level of 13%.

In the 1st quarter 2012 investment goods production was still characterized by anticipating growth rates as compared with the dynamics of consumer complex and intermediate goods production.

As compared with the corresponding periods of the previous years in January–March 2012 machinery and equipment production increased by 19.8%, electric, electronic and optical equipment production – by 10.6% and transportation vehicles and equipment production – by 22.7%. It should be noted that the output as broken by all types of machine-building production exceeded pre-crisis level of January–March 2008. The recovery rates of capital goods for construction production depend on the level of the investment demand. The upsurge in the investment activity in construction had a positive effect on the dynamics of the construction materials and adjacent production output. However, despite considerable positive shifts the output of the construction materials makes about 90% of the pre-crisis level of the 1st quarter 2011.

The segment of intermediate goods is marked by the slowdown of rubber and plastic goods production (102.8%), timber processing (100.7%), chemistry industry (99.4%) which is due to the exceptionally high growth rates in the post-crisis period of 2010-2011 as well as the expansion of the solvent demand.

Machine-building complex is characterized by the increase in transportation vehicles and equipment, which is accounted for by a high level of the anti-crisis support for passenger cars construction in 2009-2010 as well as intensive development of the Russian industrial assembly of foreign car models. Anticipating growth rates of domestic automobile industry versus import on one hand and creation of new workplaces in automotive industry and adjacent productions on the other are the results of this process.

The internal market is considerably influenced by the changes in the dynamics of the consumer complex and agriculture production. In March and January–March 2012 the production of foodstuffs went up by 5.2% and 6.2% respectively versus the corresponding periods of the previous year. The formation of this trend was supported by the growth of agriculture production by 4.0% versus the figure of January–March 2011 and 4.9% versus March 2011. This has resulted in the stabilization of the domestic industry production in the foodstuffs trade resources. In March and as a result of the 1st quarter 2012 the light industry complex was characterized by the output recession. The market of non-food goods was formed under the influence of the anticipating import growth.

Considering 2011 dynamics and the results of the 1st quarter of 2012 the RF Ministry of Economic Development estimated the expected industrial growth at the level of 103.1% versus the previous year. ●

THE RUSSIAN INDUSTRY IN MARCH 2012

S.Tsukhlo

The first quarter of 2012 showed weak results. Growth in demand which emerged only at the end of the period and disappeared as soon as the seasonal factor had been cleared has few chances to be continued. Such a situation resulted in excessive stocks, slowdown of the output growth rates and downward adjustment of production plans.

Demand in Industrial Products

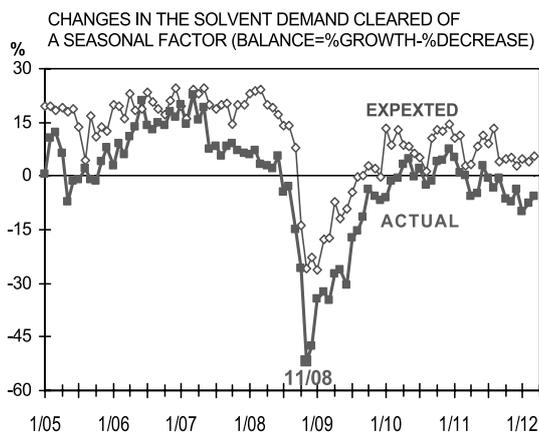


Fig. 1

In March, the dynamics of demand in industrial products showed positive changes again. The initial balance grew by 10 points and became positive for the first time in the past six months. However, with a seasonal factor cleared it was still in the negative zone with scanty growth, that is, a slowdown of intensity of a drop in the demand (Fig. 1). It is to be noted that further improvement in the dynamics of sales is doubtful. Initial forecasts of a change in the demand in March ceased to gain optimism and, as a result, the value of the index in the 1st quarter of 2012 stabilized at the level which is much lower than that of the 1st quarter of the previous post-crisis years. Forecasts of the demand cleared of the seasonal factor remain virtually unchanged with the beginning of aggravation of the Euro-zone crisis (that is, for seven months running).

However, such changes in the dynamics of sales were rated highly by enterprises. In February-March, the difference in estimates of satisfaction with the demand improved by 21 points and turned around the industrial optimism index at a dangerous level to which it was falling during the second half of 2011. If industry keeps showing adaptation to sluggish changes in the demand the index may stay in the positive zone and even grow substantially. The latter will be interpreted as acceptance of “a new normality” (as A. Ulyukhaev, First Deputy Chairman of the Central Bank of the Russian Federation was quoted as saying) by enterprises.

Stocks of Finished Products

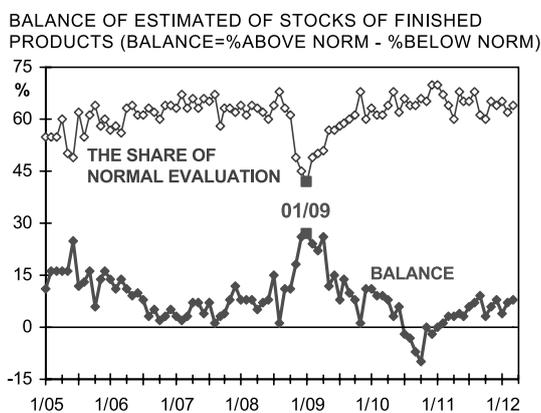


Fig. 2

In March, estimates of stocks of finished products as regards industry did not virtually change and eventually remained at the level of the past 24 months (Fig. 2). The industry definitely expected better dynamics of the demand in the 1st quarter of 2012, and no prospect of it getting better in the 2nd quarter is anticipated now. In February-March, the largest overstocks were observed with the light industry (+32 balance points) and the iron and steel industry (+26 balance points), while in the non-ferrous industry (-9 balance points) there was a shortage of stocks of finished products.

Production Output

In March, the data on the dynamics of the output (before clearing of the seasonal factor) showed, at first sight, an increase of 10 points in the output growth rates. However, the obtained result was worse than the indices of the same months in the past ten years (except for March 2009). Clearing of a seasonal factor showed that in March 2012 after a February surge (which many analysts and all the officials looked forward to) the output growth rates returned to the same low values which were hardly discernible to Rosstat (*Fig. 3*). The industry is not prepared at all to increase the output in conditions of the sluggish demand, low optimism of forecasts of the demand and growth in excessive stocks of finished products.

Prices of Enterprises

In March, slowdown of growth in enterprises' sale prices became more evident. After the growth in January with an intensity value (rate) of +13 points, it dropped to +4 points by the end of the quarter (*Fig. 4*). After the default of 1998, the more modest dynamics of growth in prices at the beginning of the year was registered by surveys only in the 1st quarter of 2009. However, taking into account the specifics of the pre-election economic policy – that is, postponing of a portion of price rises till the second half of the year – prevalence of the trend of a slowdown of growth in prices seems highly unlikely in the 3rd quarter. But now (until the end of the 2nd quarter) enterprises are planning (have to?) slow down growth in their prices. The light industry and timber industry are prepared not to raise prices at all, while the minimum growth in prices is possible in the food industry. The most intense growth in prices is expected in the chemical industry and the building industry.

The actual dynamics and lay-off plans

In March, no principal changes were introduced in enterprises' HR policy. Hiring of workers continued, but at the minimum intensity rate which is below the results of the same months of the previous year. The industry is not going for certain to employ new workers in conditions of sluggish demand and low optimism of forecasts (*Fig. 5*). A negative effect of disappearance of a shortage of personnel on enterprises' HR policy ("due to the expected changes in the demand") – such disappearance of shortage of personnel was registered in the industry in the 1st quarter of 2012 – cannot be ruled out. In the past six quarters, in estimates of the number of workers the answer "less than required" prevailed. As several months of intensive lay-offs preceded the disappearance of such shortages, the main factor behind

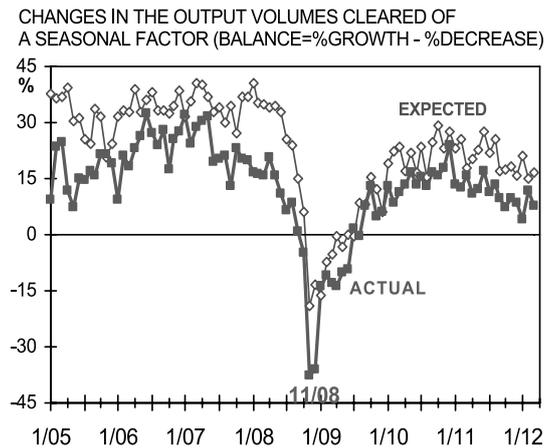


Fig. 3

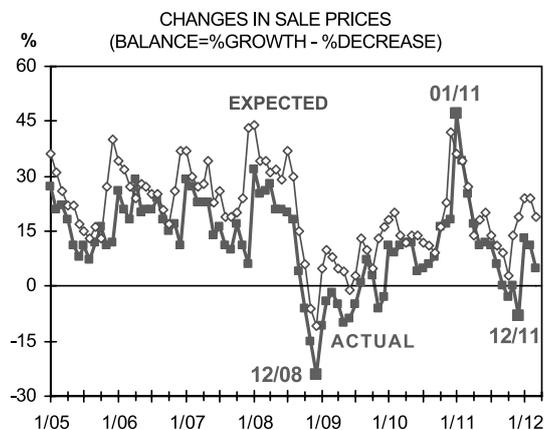


Fig. 4

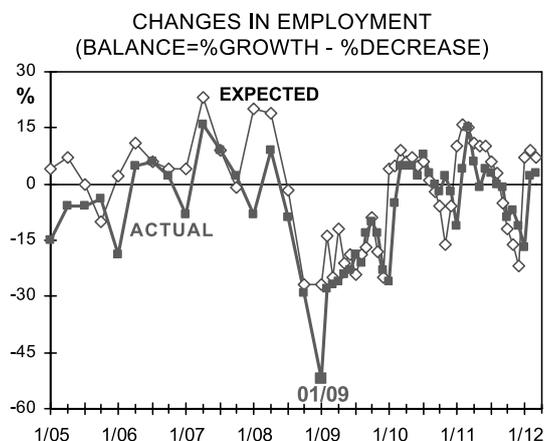


Fig. 5

a modest surplus of personnel was revision by enterprises of their expectations regarding growth in demand in their produce.

Lending to Industry

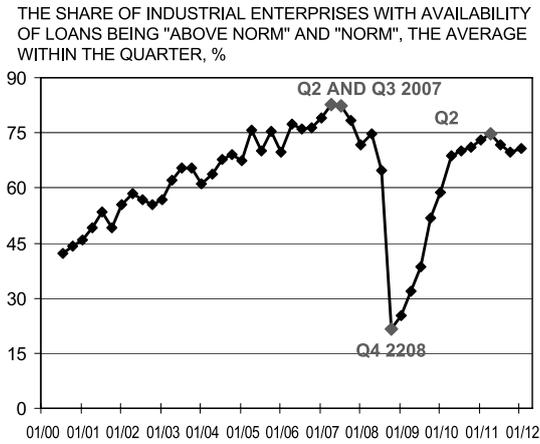


Fig. 6

In March, there were no principal changes in terms of lending to enterprises as compared to February. The aggregate availability of loans remained at the level of 70% (Fig. 6). At the same time, the average minimum rate offered by banks ceased to rise and fell to 12.1% after 12.3% in February.

In general, in the 1st quarter of 2012, banks ceased making terms of lending tougher which was registered by enterprises in the second half of 2011. After the post-crisis maximum of satisfaction (75%) was achieved in the 2nd quarter of 2012, that index fell to 70%, while the lowest level was registered in December and amounted to 68%.

THE FOREIGN TRADE

N.Volovik, K.Kharina

In February 2012, growth rates of the main indices of the Russian foreign trade slowed down. A good harvest of 2011 permitted to increase export of food products and at the same time reduce food purchases from abroad.

According to the data of the World Trade Organization, in 2011 the volume of global trade increased by 5%. Earlier, the WTO expected growth of 5.8% in the global trade in 2011. In 2011, growth rates of global production fell to 2.4% in 2011 against 3.8% in 2010. There are still serious risks to sustained global economic growth (the European sovereign debt crisis, growing oil prices and unrest in Arab states) and they cannot but affect the state of the global trade. In 2012, further slowdown of that index to 3.7% is expected.

In the rating of the leading exporters of commodities, including member-states of the European Union, on the basis of the results of 2011 the Russian Federation was rated the 9th. In 2010, Russia was rated the 12th. On a year-on-year basis, the volume of the Russian export grew by 30% which permitted Russia to be ahead of Belgium, the UK and Hong Kong. In 2011, in the rating of the leading importers the Russian Federation was rated the 17th, while in 2010 it was the 18th.

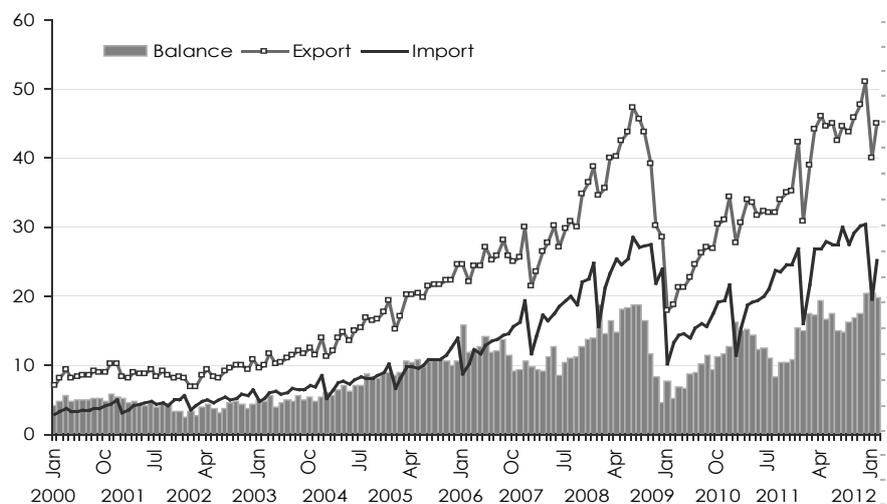
In February 2012, the Russian foreign trade turnover calculated on the basis of the methods of the balance of payments amounted to \$70.3bn which figure is 15% higher than the index of 2011.

On the global market, prices on some commodities went down. In February 2012, prices on non-ferrous metals, natural rubber and mineral fertilizers fell as compared to February 2011.

However, the global market situation remains favorable to Russian exporters. According to the data of the World Bank, in February 2012 prices on natural gas, timber and rolled iron grew as compared to February 2011. Due to worsening of the political situation in the Middle East, growth in demand in Europe owing to cold weather recorded in February and building-up of reserves in China, prices on oil kept growing. In February 2012, the average price on Urals oil increased by 17.3% to \$118.92 per barrel against \$101.34 in February 2011.

According to the monitoring carried out in the period from March 15, 2012 till April 14, 2012, the average price on Urals oil amounted to \$120.8 per barrel. In accordance with Resolution No. 352 of April 23, 2012 of the Government of the Russian Federation, from May 1, 2012 the rate of export customs duties on crude oil will be reduced from \$460.7 per ton in April 2012 to \$448.6 per ton. From May 1, the privileged export customs duty on oil will be reduced from \$241.5 per ton to \$232.4 per ton for a number of oil deposits of Eastern Siberia and North Caspian Region. The unified rate of export duty on oil products will amount to \$296 per ton against \$304 per ton in April this year, while the increased export duty on petrol preserved at the level of 90% of the oil duty amounts to \$403.7 per ton against \$414.6 per ton in April.

Early in 2012, in the market of the main non-ferrous metals the situation is getting better



Source: Central Bank of the Russian Federation.

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

mainly due to expectations of replenishment of stocks in China and Europe in the next few months. Though in February 2012, prices on aluminum, copper and nickel fell by 12%, 14.5% and 27.8%, respectively, as compared to February 2011, but as compared to January 2012 aluminum, copper and nickel appreciated in price by 2.8%, 4.7% and 3.2%, respectively.

Table 1

AVERAGE MONTHLY GLOBAL PRICES IN FEBRUARY OF THE RESPECTIVE YEAR

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Oil (Brent), USD/per barrel	20.3	32.1	30.9	44.8	59.7	58.26	92.66	43.87	73.8	104.1	119.7
Natural gas*, USD/1 million BTU	3.03	3.67	3.89	5.49	7.95	8.56	10.84	11.04	8.8	9.36	11.12
Petrol, USD/per gallon	0.616	1.045	1.045	1.37	1.734	1.662	2.48	1.262	2.16	2.70	3.14
Copper, USD/per ton	1601.5	1705.9	2759.0	3254	4982	5671.1	7887.7	3314.7	6899	9867.6	8441.5
Aluminum, USD/per ton	1370.8	1428.04	1685.6	1883	2455	2759.14	2776.9	1330.2	2061	2508.2	2207.9
Nickel, USD/per ton	6042.7	8619.64	15178.3	15350	14979	41154.5	27955.5	10409	19141	28252	20393.7

* The market of Europe, average contractual price, franco border.

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

According to the data of the UN Food and Agricultural Organization (FAO), in February 2012 the average value of the FAO Food Price Index amounted to 215 points which figure is 2.4 higher than the respective index of January. Growth in the FAO Food and Price Index was related mainly to appreciation of prices on sugar, vegetable oil, and grain crops. After considerable growth in January, in February prices on dairy products decreased somewhat. At present, the value of the FAO Food Price Index was 10% lower than its record-high level which was achieved in February 2011.

Table 2

THE DYNAMICS OF AVERAGE GLOBAL PRICES ON SOME AGRICULTURAL PRODUCTS

	2007	2008	2009	2010	2011	2012	
						January	February
Wheat, USD/per ton							
Canadian, CWRS	300.4	454.6	300.5	312.4	439.6	381.62	379.94
American, HRW	255.2	326.0	224.1	223.6	316.3	274.89	277.77
American, SRW	238.6	271.5	186.0	229.7	285.9	253.90	263.08
Corn, American, USD/per ton	163.0	223.1	165.5	185.9	291.7	272.84	279.46
Barley, USD/per ton	172.0	200.5	128.3	158.4	207.2	210.56	213.4
Soya beans, USD/kg	384.0	523.0	437.0	450.0	540.67	498.0	512.0
Soya oil, USD/per ton	881.0	1258	849.0	1005.0	1299.3	1218.00	1255.0
Thai rice, USD/per ton	326.4	650.1	555.0	488.9	543.0	542.0	537.5
Raw sugar, FOB Caribbean seaports, indicator price ISO, price/per kg	22.22	28.21	40.00	46.93	57.32	51.94	53.18

Source: World Bank.

In February 2012, the dynamics of the Russian export deteriorated as compared to the previous months. If throughout 2011 the average monthly growth rates of export amounted to 30.3% and in January 2012 they were equal to 32.2% against the same month of the previous year, in February they amounted to the mere 14.7%. Such worsening of the export dynamics can be explained by the fact that in February the export of oil in physical terms increased by the mere 2.2%; it is to be noted that growth took place due to an increase in oil supplies to CIS states at prices which are

lower than those charged for oil supplies to far abroad. In February 2012, the export of oil to far abroad in physical terms decreased by 9.2% as compared to February 2011. A similar situation was observed as regards the export of oil products.

However, a favorable situation on the global oil market ensured growth in revenues from the export of oil and oil products: in February 2012 the revenues rose by 17.5% as compared to the same month of 2011. In February 2012, the share of oil and oil products in the total volume of the Russian export amounted to 58.8%.

In January-February 2012, physical volumes of export supplies of copper and nickel rose considerably by 66.5% and 110%, respectively. As a result, with a dramatic drop in contractual prices (on nickel – by 30.2%, and copper – by 25.0%) the monetary volume of export of nickel and copper increased by 52.6% and 23.9%, respectively.

In the total monetary volume of export, the share of produce of the iron-and-steel complex decreased in general from 9.2% to 8.8%.

On the basis of the results of January-February 2012, the monetary volume of export of machines, equipment and transportation vehicles rose by 37.1% as compared to the same period of 2011. The monetary volume of export of cars increased by 200% only due to growth in supplies to CIS states. Purchasing by far abroad states of Russian cars decreased by 20%.

The export of food products and raw products for production thereof increased by 110% with the share of such products in the total volume of export increasing from 1.3% to 2.3%. Growth in the monetary volume of that group of products was caused by a dramatic increase in the physical volumes of export, including renewal of export of grain, as well as growth in physical volumes of sunflower oil (an increase of 1,400%).

According to the data of the Institute for Agricultural Market Studies, in the period from July 1, 2011 till April 15, 2012 Russia exported 18.5 tons of wheat. By doing so, Russia managed to beat the record of the 2009-2010 agricultural year when that index amounted to 18,275m tons. The total export of wheat in the current agricultural year (that is, till June 30, 2012) will amount to 20.5m tons. As a result, Russia may confidently occupy the second place after the USA in the rating of global exporters of wheat. Generally, Russian wheat is exported to countries of North Africa, the Middle East and Turkey.

The growth in the Russian import slowed down, as well. In February 2012, the import amounted to \$25.2bn which figure exceeded by 15.6% the similar index of the previous year; it is to be noted that in 2011 the average monthly growth rate amounted to 32.2%, while in January 2012, to 20.1%.

Because of a good harvest in Russia in 2011 and early in 2012, the import of food products and raw products for production thereof decreased. In January-February 2011, the share of that group of products fell from 16.7% to 13% in the first two months of 2012. So, the import of sugar, sunflower oil and vegetables dropped dramatically.

By Order No. 559-r of April 17, 2012 of the Government of the Russian Federation, the Strategy of Development of Food and Processing Industry of the Russian Federation till 2020 was approved. The above Strategy provides for the following increase in the share of the Russian production in merchandise resources (with carry-over stocks taken into account): sugar – up to 96.7% in the total volume, vegetable oil – 84%, meat and meat products – 88.3%; fish food products – 82% and milk and dairy products – 85.3%.

High growth rates still prevail in the import of machines and equipment. In January-February 2012, that index increased by 47.1% on a year-on-year basis which situation can be explained by a surge in the investment demand in the first two months of 2012.

In February 2012, the positive trade balance increased by 13.6% as compared to February 2011 and amounted to \$19.8bn.

According to the evaluation of the Central Bank of the Russian Federation, in the 1st quarter of 2012 the foreign trade turnover of the Russian Federation amounted \$208bn, which figure exceeds by 16.7% the similar index of 2011. The export amounted to \$134.7bn (the growth of 19%) and the import, to \$73.3bn (the growth of 12.6%). Such high indices of the 1st quarter have not been registered in the entire period of observation.

In September 2011, all the tablet computers equipped with a GSP unit were recognized by the Federal Customs Service (FCS) as navigators and not as computers. Due to the above, FCS started

to impose a duty of 5% on the import of such devices. To avoid paying such a duty, manufacturers had to prove that their products were not navigators, but computers. In February 2012, Apple sent a letter through the Association of Enterprises of Computer and Information Technologies to FCS. In the above letter, Apple explained in detail why iPad is a computer and not a navigator. From March 10, 2012 duties on Apple iPads were lifted.

As a result, Apple gained advantage over other market participants, and the Federal Antimonopoly Service (FAS) took interest in that situation. According to FAS, the decision of the Federal Customs Service violated the rules of the competition because a duty of 5% of the cost of the device is still imposed on other manufacturers' tablet computers brought in the territory of the Customs Union provided that they are equipped with a GPS unit. FAS proposed that a list of goods classified in accordance with sub-position 8471 (computers) should be specified and tablet computers be included in it without mention of a brand and name of the manufacturer.

At present, the Federal Customs Service is preparing a draft decision of the Eurasian Economic Commission (EEC) on classification of tablet computers with taking into account such a position of the Committee on the Harmonized System of the World Customs Organization as was developed at the spring session. With approval of that document, classification of modern multifunctional technical devices will be carried out on a system basis. The issue of duties on tablet computers is to be solved until May 1, 2012. ●

THE STATE BUDGET

T.Tishchenko

As of 1 April 2012, federal budget has been executed with a deficit of 0.9% of GDP. Federal budget revenue over January–March 2012 amounted to Rb 2,963.6bn, or 22.9% of GDP; federal budget expenditure – to Rb 3,084.9bn, or 23.8% of GDP. As shown by the results of the year's first month, the consolidated budget of RF subjects was executed with a slight surplus; however, the pre-election promises that social expenditures are going to be increased in addition to the already effectuated rise in the cost of the upkeep of the military and the police will inevitably have a negative effect on the budget system's balance.

Analysis of the Main Parameters of Federal Budget Execution in Q1 2012

In April 2012, the RF Ministry of Finance released its preliminary estimates of the execution of the federal budget in Q1 2012. Federal budget revenue over January–March 2012 rose on the same period of 2011 by 2.2 p.p. of GDP, including growth in the amount of oil and gas by 2.1 p.p. of GDP. The volume of federal budget expenditure in relative terms increased by 4.1 p.p. of GDP, while growth in absolute terms amounted to Rb 814.9bn. As a result, the federal budget was executed with a deficit of Rb 121.7bn, which is by 2.0 p.p. of GDP below the level of the same period of 2011. The volume of non-oil and gas deficit is Rb 1,666.1bn (or 12.9% of GDP), which is by 4.1 p.p. of GDP above the level registered in Q1 2011 (Table 1).

Table 1

MAIN PARAMETERS OF THE RF FEDERAL BUDGET IN JANUARY–MARCH 2011–2012

	January–March 2012		January–March 2011		Deviation	
	bn Rb	% of GDP	bn Rb	% of GDP	bn Rb	p.p. of GDP
Revenue, including:	2,963.6	22.9	2,391.3	20.7	572.3	+2.2
Oil and gas revenues	1,544.8	11.9	1,134.1	9.8	410.7	+2.1
Expenditure, including:	3,084.9	23.8	2,270.0	19.7	814.9	+4.1
interest	111.4	0.9	83.0	0.7	28.4	+0.2
non-interest	2,973.5	23.0	2,187.0	18.9	786.5	+3.9
Federal budget surplus (deficit)	-121.7	-0.9	+121.3	+1.1	-364.3	-2.0
Non-oil and gas deficit	-1,666.1	-12.9	-1,012.8	-8.8	653.3	-4.1
GDP estimations	12,942.0		11,541.0		-	

Source: RF Ministry of Finance (preliminary estimates); IEP's calculations.

Over the period of January–March 2012, the amount of taxes and other payments administered by the Federal Tax Service and received as part of federal budget revenue was Rb 1,237bn, which is by Rb 227bn (or by 0.8 p.p. of GDP) higher than the same index for the January–March period of last year. The amount of receipts of taxes and other payments administered by the Federal Customs Service was as high as Rb 1,596.4bn, which exceeds the volume of receipts over January–March 2011 by nearly Rb 300bn (or 1.1 p.p. of GDP).

Growth of federal budget deficit both in relative and absolute terms was caused by a higher rate of budget spending by comparison with that of revenue growth. As of 1 April 2012, approximately 24.3% of the per annum expenditure targets approved for the year 2012 had already been implemented (against 20.8% in 2011). The cash-based execution of 8 items of the federal budget in Q1 2012 amounted to more than one-quarter of the per annum budget allocations for 2012 (Table 2).

When broken up by item, the highest growth of expenditure both in absolute and relative (as part of GDP) terms over January–March 2012 on the same period of last year was displayed by the

item “National Defense” – by 2.4 p.p. of GDP, or Rb 343.7bn. The volume of expenditure under the following items rose considerably on last year: “Education” – by 0.9 p.p. of GDP; “National Security and Law-enforcement Activity” – by 0.6 p.p. of GDP; and “Health Care” and “Social Policy” – by 0.5 p.p. of GDP each. The items “National Economy” and “Housing and Utilities Sector” demonstrated a drop of federal budget expenditure on the same period of last year – by 0.3 and 0.4 p.p. of GDP respectively. These items also demonstrated the lowest level of the federal budget’s cash-based execution – 13.7% and 8.5% of the approved budget targets for 2012. As much of the amount of expenditure under these items is taken up by interbudgetary subsidies, it can be assumed that such a situation emerged as a result of absence of relevant normative-legal acts regulating the allotment of subsidies to the regions.

Table 2

EXECUTION OF FEDERAL BUDGET EXPENDITURE IN JANUARY–MARCH 2011
AND JANUARY–MARCH 2012

	January–March 2012			January–March 2011			Deviation, p.p. of GDP
	bn Rb	% of GDP	cash-based execution, %	bn Rb	% of GDP	cash-based execution, %	
Expenditure, total	3,084.9	23.8	24.3	2270.0	19.7	20.8	+4.1
including							
Nationwide issues	151.4	1.2	18.0	123.7	1.1	14.7	+0.1
National defense	607.5	4.7	32.9	263.8	2.3	17.3	+2.4
National security and law enforcement activity	350.6	2.7	19.2	248.1	2.1	20.4	+0.6
National economy	249.8	1.9	13.7	258.9	2.2	14.9	–0.3
Housing and utilities sector	11.6	0.1	8.5	60.1	0.5	24.9	–0.4
Environment protection	6.4	0.0	29.5	2.9	0.0	17.0	0.0
Education	206.7	1.6	34.1	84.2	0.7	16.2	+0.9
Culture and cinematography	20.4	0.2	23.7	11.5	0.1	13.4	+0.1
Health care	187.1	1.4	32.3	103.8	0.9	20.8	+0.5
Social policy	986.6	7.6	25.5	822.0	7.1	28.0	+0.5
Physical culture and sports	10.6	0.1	25.3	13.9	0.1	32.7	0.0
Mass media	15.7	0.1	21.3	13.5	0.1	22.1	0.0
Government debt servicing	111.4	0.9	28.7	82.9	0.7	21.3	+0.2
Interbudgetary transfers	168.8	1.3	30.4	135.7	1.2	23.6	+0.1

Source: RF Ministry of Finance; RF Federal Treasury; IEP’s calculations.

The other items of the federal budget demonstrate either a slight increase of expenditure (by 0.1–0.2 p.p. of GDP on last year), or no change at all in terms of share in GDP.

The volume of domestic government debt over March 2012 increased by Rb 37.8bn – to Rb 4,291.7bn, whereas that of foreign government debt shrank by \$ 90.9m due to a decline in the amount of debt against external bond loans – to Rb 34.8bn.

Execution of the Consolidated Budget of RF Subjects in January 2012

As reported by the RF Federal Treasury, the consolidated budget revenue of RF subjects in January 2012 amounted to 10.3% of GDP, which by 1.3 p.p. of GDP exceeds its level achieved over the same period of 2011 (*Table 3*). It can be noted that more than 43% of the aggregate regional revenue volume is constituted by gratis transfers from other budgets of the RF budgetary system; revenue growth under that item over the year’s first month amounted to 1.4 p.p. of GDP by comparison with January 2011.

Table 3

MAIN PARAMETERS OF THE CONSOLIDATED BUDGET OF RF SUBJECTS IN JANUARY 2011
AND JANUARY 2012

	January 2012		January 2011		Deviation	
	bn Rb	% of GDP	bn Rb	% of GDP	bn Rb	p.p. of GDP
Revenue, including:	395.5	10.3	311.8	9,0	83,7	+1,3
– tax on profits of organizations	62.2	1.6	59.2	1,5	4,0	+0,1
– PIT	106.2	2.8	97.6	2,8	8,6	0,0
– VAT, domestic	29.0	0.8	14.3	0,4	14,7	+0,4
– excises, domestic	33.3	0.9	26.2	0,8	7,1	+0,1
– tax on aggregate income	21.4	0.6	10.0	0,3	11,4	+0,3
– tax on property	19.0	0.5	20.8	0,6	–1,8	–0,1
– gratis transfers from other budgets of RF budgetary system	171.0	4.5	105.4	3,1	65,6	+1,4
Expenditure, including:	275.6	7.2	214.0	6,2	61,6	+1,0
Consolidated budget surplus (deficit)	119.9	3.1	97.7	2,9	22,2	+0,2
GDP estimations	3833		3470		-	

Source: RF Federal Treasury; IEP's calculations.

There also occurred growth of revenue in the consolidated budget of RF subjects generated by domestic VAT – by 0.4 p.p. of GDP, by excises and tax on profit – by 0.1 p.p. of GDP on January 2011. The volume of receipts of tax on aggregate income over January 2012 in the budgets of RF subjects increased by 0.3 p.p. of GDP on January 2011 due to a rise in the revenues generated by taxes collected under the simplified taxation system, thus pointing to an increase in the number of enterprises in the small-sized business category capable of applying special tax regimes. At the same time, a decline in the number of enterprises applying the general tax regime will result in a drop in the amount of receipts generated by tax on profit both in the budgets of RF subjects and in the federal budget. The amount of tax on profit receipts in the budget revenue of RF subjects in January 2012 shrank by 0.1 p.p. of GDP by comparison with January 2011; the amount of PIT receipts remained at the same level as last year – 2.8% of GDP.

The consolidated budget expenditure of RF subjects in January 2012 amounted to 7.2% of GDP, which is by 1.0 p.p. of GDP higher than in January 2011 (*Table 4*). The amount of expenditure under the item “Education” rose by 0.8 p.p. of GDP on January 2011. The amount of expenditures in the regional budgets under the items “National Defense”, “Culture and Cinematography”, “Health Care”, “Social Policy”, “Physical Culture and Sports” also somewhat increased by comparison with January 2011 – by 0.1–0.2 p.p. of GDP.

Table 4

EXECUTION OF THE CONSOLIDATED BUDGET EXPENDITURE OF RF SUBJECTS IN JANUARY
2011 AND JANUARY 2012

	January 2012		January 2011		Deviation, p.p. of GDP
	bn Rb	% of GDP	bn Rb	% of GDP	
Expenditure, total	275.6	7.2	214.0	6.2	+1.0
including					
Nationwide issues	16.6	0.5	18.6	0.6	–0.1
National defense	28.5	0.8	21.9	0.7	+0.1
National security and law-enforcement activity	2.9	0.1	11.9	0.4	–0.3
National economy	18.9	0.5	14.9	0.5	0.0
Housing and utilities sector	18.1	0.5	17.9	0.6	–0.1

Table 4, cont'd

	January 2012		January 2011		Deviation, p.p. of GDP
	bn Rb	% of GDP	bn Rb	% of GDP	
Environment protection	0.3	0.0	0.2	0.0	0.0
Education	84.3	2.2	46.7	1.4	+0.8
Culture and cinematography	9.4	0.3	5.9	0.2	+0.1
Health care	57.3	1.5	42.8	1.3	+0.2
Social policy	57.1	1.5	45.7	1.4	+0.1
Physical culture and sports	4.9	0.2	3.8	0.1	+0.1
Mass media	1.6	0.1	0.9	0.1	0.0
Government debt servicing	2.8	0.1	2.4	0.1	0.0
Interbudgetary transfers	1.9	0.1	2.2	0.1	0.0

Source: RF Federal Treasury; IEP's calculations.

A drop in the amount of expenditures was displayed by only two items: “National Security and Law-enforcement Activity” – by 0.3 p.p. of GDP; and “Housing and Utilities Sector” – by 0.1 p.p. of GDP. The reduced amount of *consolidated budget* expenditure allocated to law-enforcement activity can be easily explained by the fact that, from 1 January 2012 onwards, the financing of the police's activity, as well as of the guarantees and compensations granted to police personnel and their families, became a spending obligation at the federal level.

As seen by the results of the year's first month, the consolidated budget of RF subjects was executed with a surplus of Rb 119.9bn, which is by 0.2 p.p. of GDP higher than last year's level. The government debt of RF subjects slightly decreased over January 2012 (by Rb 19bn) and amounted to Rb 1,162.0bn.

Thus, the current situation with regard to the execution of the federal and consolidated budget can be described as well-balanced. At the same time, the principal problem faced by the budget is, as before, the inadequate orientation of budget expenditure towards development and modernization. In mid-April, Fitch Ratings¹ noted that Russia's regional policy is such that it creates development opportunities only for Moscow and several other territories specially selected by the government. In recent years the system has been suffering from frequent alterations introduced in the tax mechanisms and in the procedure of distribution and delegation of tax powers between different levels of authority across the country. While the amount of government debt of RF subjects slightly decreased, some regions effectively fell into a “debt pit”, because their debt levels exceed 50% of the revenues of regional budgets. Meanwhile, since 2008 the share of expenditures allocated in regional budgets to capital investments (which actually determine the development of a region's economy) in the total amount of expenditure shrank from 22% to 14%. ●

1 <http://uk.reuters.com/article/2012/04/11/idUKWLA614620120411>

THE RUSSIAN BANKING SECTOR

M.Khromov

The first quarter of 2012 revealed the principal problem that had first emerged last year – the necessity to balance the stagnating funding sources against the dynamically developing retail loans and the stable growth of corporate crediting. The main resource that ensures growth of crediting volume typical of Q1 of every given year has become shrinkage of liquid assets. However, as the volume of liquidity has already reached its lowest level, further growth of credits to the economy will solely depend on the inflow of new resources into the economy.

In March, Russia's banking system's assets increased by 1.4%, while their growth over the entire course of Q1 amounted to 1.9%¹. This rate of growth appears to be extremely low even for a year's *first quarter*, when the banking sector traditionally experiences a slowdown in the growth of the deposit base, especially if the dynamics of growth displayed by the bank assets over Q1 is set against the indices recorded in the pre-crisis period. In the period of 2004–2008, growth of bank assets in Q1 of each year was on the average 6–8%, and after 2010 it has never risen above 2%. That is, the growth rate in Q1 became stable at a low level. Growth of bank assets over Q1 2012 amounted to slightly more than Rb 800bn.

Over the course of Q1, the banking sector's equity increased by 3.7%, or Rb 256bn. The growth of equity in the banking sector was generated by profit. Over those three months, its size, including the reserves against potential losses, amounted to Rb 291bn, and less the reserves – to Rb 268bn. This level of profit corresponds to return on equity amounting to 22.2% per annum, and return on assets – to 2.6% per annum, which is slightly above the level achieved over the entire year 2011 (19.6% and 2.3% respectively). Thus, banks' profit ensured more than 35% of quarterly asset growth.

At the same time, growth of the banking sector's regulatory capital² over the same period turned out to be nearly twice as low – only Rb 136bn, which represents a drop by 2.6%. Such was the effect of constraints imposed by the RF Central Bank. Accordingly, the banking sector's capital adequacy slightly declined since the year's beginning – from 14.7% to 14.6%, thus continuing its medium-term downward trend (the overall *capital adequacy ratio floor* being 10%).

The banking sector's attracted (borrowed) funds in Q1 increased by 1.4%. The main reasons for the low rate of growth displayed by attracted funds over that period were the withdrawal of the RF Ministry of Finance's deposits, stagnation of the corporate sector's funds, and decreasing foreign loans.

Attracted Funds

The volume of *the population's deposits* in Q1 2012 increased by 2.5%. This is the historic low of the rate of inflow of physical persons' monies recorded by banks in a year's first quarter over the past decade, with the exception of the 'crisis year' 2009. Moreover, over the last three year the rate of individual deposit inflow in Q1 was continually on the decline – from 4.7% in 2010 and 3.2% in 2011. Thus, the per annum rate of growth of the population's deposits with banks has dropped to 19.0% (the historic high of 32% was recorded in the autumn of 2010)

A distinctive feature of Q1 2012 on the bank deposit market was the marked growth of bank accounts and deposits denominated in foreign currencies. Over the first three months of 2012, their volume rose by 9.8% in US dollar terms, or by \$ 6.7bn. This is more than the increase achieved over the entire year 2011, when the amount of deposits denominated in foreign currencies grew only by \$ 4.8bn. As for the ruble-denominated deposits of the population with banks, their amount over that period increased only by 1.1%.

1 Hereinafter, unless otherwise specified, the currency component adjustment factor is disregarded.

2 Calculated in accordance with Credit Institutions Financial Reporting Form 0409134.

The population's funds were most actively attracted by small and medium-sized banks. While the deposit inflow rate in the 30 biggest banks in Q1 2012 amounted to 1.5%, the same index for all the other banks stood at 5.6%. At the same time, big banks accounted for approximately 40% of the deposit inflow volume, while taking up more than 70% of the total deposit volume. This phenomenon was probably caused by the higher level of the interest rates on deposits offered by medium-sized banks. From the clients' point of view, the deposit insurance system has effectively made all banks equal in terms of deposit safety, and so it is only reasonable that the winners in the competitive struggle for deposits are becoming those banks that resort to a more aggressive interest rate policy.

Over the course of Q1 2012, the *bank accounts and deposits of enterprises* were displaying an unstable behavior, and as a result their growth amounted to only 0.5%. Nevertheless, the per annum growth rate by the results of Q1 2012 slightly rose (to 24.9%) because that period was characterized by an outflow of funds from the accounts of clients.

Similarly to the trend displayed by the population's deposits, the funds of enterprises denominated in foreign currencies were increasing at a higher rate than those denominated in the national currency. Thus, while ruble-denominated deposits shrank by 3.0% over the course of Q1 2012, those denominated in foreign currencies increased by 15.8% in US dollar terms, or by \$ 10bn.

In contrast to the population's funds, the deposits of enterprises were increasing at a faster rate when placed with big banks. Thus, the 30 biggest banks demonstrated an increase in the aggregate volume of their corporate clients' funds by 2.8%. The other banks, on the contrary, experienced, in Q1 2012, an outflow of funds from corporate accounts, which shrank by 6.3%.

The banking sector's *foreign liabilities*, as shown by their balance sheets, decreased by 1.3%, or by \$ 2bn. In this connection, according to the preliminary estimation of the balance of payments for Q1 2012, the decline of the banking sector's liabilities to non-residents was even more impressive – \$7.1bn. In spite of the noticeable differences between the estimates obtained on the basis of different methods, both these figures point to a drop in the amount of banks' debt to non-residents.

The amount of government support granted to the banking sector in Q1 2012 (the sum of *the RF Central Bank's loans* and *the RF Ministry of Finance's deposits*) declined by more than Rb 200bn (11.4%). At the same time, the structure of that support altered in favor of the RF Central Bank's refinancing instruments. Their aggregate volume over three months increased by Rb 257bn, or by more than 20%. The main recipients of loans from the RF Central Bank became *Sberbank* (Rb 222bn, growth by 39%) and small and medium-sized banks (Rb 109bn and 63% respectively).

The banks' liabilities to the RF Ministry of Finance for the deposits placed by it decreased from Rb 562bn as of 1 January to Rb 102bn as of 1 April. The Ministry's further opportunities for providing short-term funding to banks will probably depend on the result of the RF budget's execution (in Q1, the federal budget was drawn up with a deficit). However, if necessary, the expansion of the refinancing instruments applied to banks by the RF Central Bank will serve as a compensation for the RF Ministry of Finance's deposits.

Table 1

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

	12.06	12.07	12.08	12.09	12.10	06.11	09.11	12.11	01.12	02.12	03.12
Liabilities, bn Rb	13,963	20,125	28,022	29,430	33,805	35,237	38,443	41,628	41,150	40,874	41,533
Equity	14.3	15.3	14.1	19.3	18.7	18.5	17.3	16.9	17.3	17.6	17.5
Credits allotted by Bank of Russia	0.1	0.2	12.0	4.8	1.0	0.9	1.3	2.9	3.3	3.1	3.5
Interbank operations	3.4	4.1	4.4	4.8	5.5	5.2	5.4	5.7	5.7	5.3	5.1
Foreign liabilities	17.1	18.1	16.4	12.1	11.8	10.9	11.4	11.1	10.6	10.2	10.2
Physical persons' monies	27.6	26.2	21.5	25.9	29.6	30.4	29.0	29.1	28.7	29.4	29.4
Enterprises and organizations' monies	24.4	25.8	23.6	25.9	25.7	24.3	24.4	26.0	25.9	25.9	25.7

Table 1, cont'd

	12.06	12.07	12.08	12.09	12.10	06.11	09.11	12.11	01.12	02.12	03.12
Accounts and deposits of state administrative bodies and local governments	2.2	1.5	1.0	1.0	1.5	3.5	4.9	2.3	1.8	1.4	1.4
Securities issued	7.2	5.8	4.1	4.1	4.0	4.0	3.8	3.7	3.8	4.4	4.8

Source: RF Central Bank; IEP's estimates.

Invested Monies

Lending to physical persons remains the most dynamically growing segment of bank assets. Over the course of Q1 2012, the population's liabilities to banks rose by 6.6%, while the per annum growth rate of the retail credit portfolio exceeded the level of 40% – that is, the level of late 2008.

The higher growth rate of the aggregate credit portfolio continues to overshadow the real (although slower) growth of bad loans. Thus, the amount of the outstanding debt of physical persons to the banking sector increased by only 2.9% over the course of the first three months of 2012, while that of the reserves against potential retail credit losses – by 2.5%. As a result, the share of outstanding debt since the year's beginning had shrunk from 5.3% to 5.2%, while the ratio between reserves against losses and the aggregate volume of debt under retail credits – from 7.2% to 7.0%.

At the same time, the share of bank loans in final consumption is increasing at a significant rate. Thus, while in January-February 2011 the volume of credits newly allotted to the population amounted to 15% of the aggregate retail turnover of goods, catering and commercial services, the same ratio for the corresponding period of 2012 has risen to 21%. In other words, every fifth ruble spent by households on consumption had been allotted to them as a loan from the banking sector.

The highest growth rate in Q1 2012 was demonstrated by *Sberbank's* retail credit portfolio (9.3%) and similar portfolios of state banks (6.3%) and small and medium-sized banks (6.1%). An alarming fact in this connection is that over the same period both *Sberbank* and the group of small and medium-sized banks became the principal recipients of RF Central Bank's refinancing loans. If this is not a mere coincidence, then it means that the most serious problems with liquidity are experienced by those banks that display higher activity on the consumer lending market. However, this hypothesis can be either confirmed or disproved only on the basis of a more in-depth study that would go beyond the framework of our review.

The corporate segment of the corporate lending market in Q1 2012 demonstrated a very moderate growth of 2.3%. At the same time, the per annum growth rate dropped to 21.3%. It is noteworthy that the increment of payables in the corporate segment over the course of the first three months of 2012 turned out to be below that in the retail segment: Rb 369bn against Rb 392bn. Thus, the movement of corporate loans fell behind that of retail loans not only in terms of growth rate, but also in terms of absolute size.

The moderate growth of the aggregate portfolio of corporate loans could no longer disguise its worsening quality. In Q1 2012, both the size of outstanding debt and the reserves against potential losses against loans to non-banking borrowers were growing at a faster rate. As a result, the share of outstanding debt increased from 4.8% to 5.1%, and the ratio of reserves to the credit portfolio – from 8.3% to 8.4%.

The banking sector's liquidity, or the ratio of absolutely liquid assets to aggregate assets, shrank, over the course of Q1 2012, from 6.3% to 4.8%, thus declining to a level which, firstly, is below the pre-crisis level (4.9% as of 1 September 2008), and secondly, is close to the historic low of the autumn of 2011 (4.5% as of 1 November 2011). Besides, as was noted in our previous overviews, the bulk of liquid bank assets consists of the funds provided by the monetary authorities. So, without the loans issued by the RF Central Bank, the liquidity available as of 1 April 2012 would have amounted to only 1.2% of the aggregate assets; last time, this level was observed in 2009. And the index of liquidity less both the RF Central Bank's loans and the RF Ministry of Finance's deposits has already been hovering near zero for several months.

From the point of view of inter-sectoral financial flows in the Russian economy, the current shortage of liquidity is caused by the fact that households – the last remaining stable net creditor of the banking sector – has gradually been shedding that role. Thus, in 2011, the results of December taken alone demonstrated an excess of the volume of attracted deposits placed by physical persons over the increment of the retail credit portfolio. The results of Q1 2012 also reveal an excess of the volume of loans to the population (Rb 392bn) over the increment of deposits (Rb 306bn). For banks, such a strategy is justified in a short term, because the population's deposits traditionally represent one of the most expensive liabilities, and so their shrinkage in relative terms results in cheapening of the resource base, whereas retail lending yields highest returns. However, in a more remote perspective the persistence of the current trends in fraught with a bad debt crisis on the retail lending market as a result of a general decline of households' solvency.

Table 2

STRUCTURE OF RUSSIA'S BANKING SYSTEM'S ASSETS (AS OF MONTH'S END), AS % OF TOTAL

	12.06	12.07	12.08	12.09	12.10	06.11	09.11	12.11	01.12	02.12	03.12
Assets, bn Rb	13,963	20,125	28,022	29,430	33,805	35,237	38,443	41,628	41,150	40,874	41,533
Cash and precious metals	2.6	2.5	3.0	2.7	2.7	2.2	2.3	2.9	2.5	2.5	2.4
Monies placed with Bank of Russia	7.5	6.9	7.5	6.9	7.1	4.5	3.5	4.2	3.6	3.2	3.2
Interbank operations	5.8	5.4	5.2	5.4	6.5	6.4	6.2	6.4	6.6	6.3	6.2
Foreign assets	9.9	9.8	13.8	14.1	13.4	13.8	14.6	14.3	14.6	14.3	14.2
Population	14.7	16.1	15.5	13.1	13.0	14.0	14.2	14.4	14.6	15.0	15.3
Corporate sector	45.3	47.2	44.5	44.5	43.6	45.3	45.1	44.0	44.2	44.2	44.4
State	5.2	4.1	2.0	4.2	5.1	5.8	6.0	5.0	4.8	5.1	4.9
Property	2.4	2.2	1.9	2.7	2.6	2.5	2.4	2.3	2.4	2.4	2.4

Source: RF Central Bank; the IEP's estimates.

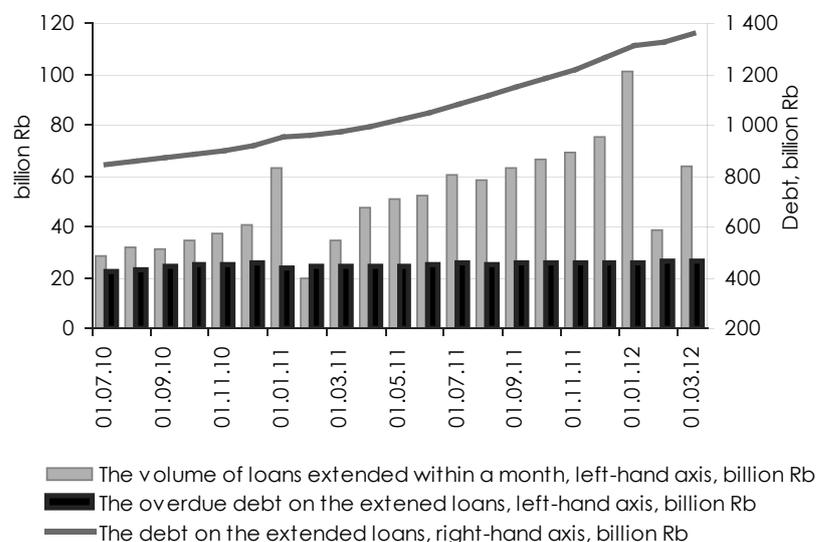
MORTGAGE IN THE RUSSIAN FEDERATION

G.Zadonsky

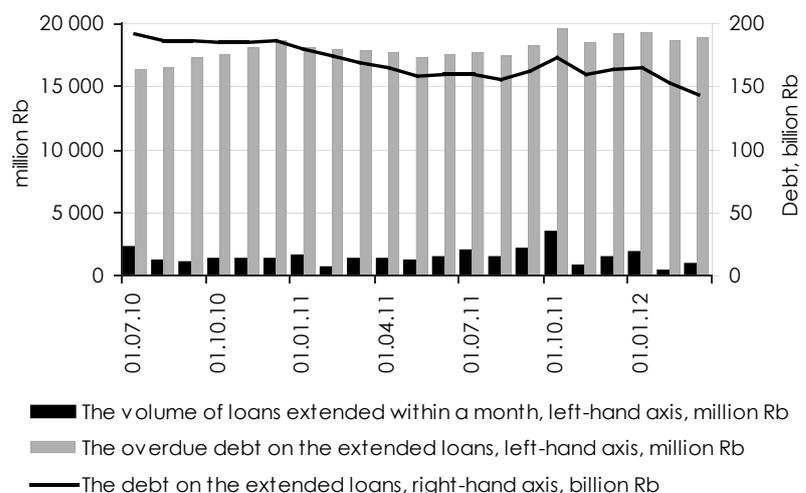
In February 2012, the number of the extended mortgage housing loans rose by 77% against February 2011, while their amount, by 81%. As of March 1, 2012, the overdue debt on mortgage loans in rubles (Rb 26,253bn) as a percentage of the outstanding debt was 0.04% lower than that as of February 1, 2012. However, as of March 1, 2012 the volume of the debt on defaulted mortgage housing loans (MHL) (Rb 73,619bn) increased by 39.6% as compared to the data as of February 1, 2012; it is to be noted that its share in the total amount of the debt on MHL rose by 1.34% having interrupted a steady trend of decline. Growth in the average weighted monthly rate on MHL in rubles continued; in February the above rate amounted to 11.9%.

According to the data of the Central Bank of the Russian Federation, in February 2012 45,061 mortgage housing loans (MHL) for the amount of Rb 64,544bn (Fig. 1) and 3,459 unsecured housing loans for the amount of Rb 3,186bn were extended. The volume of MHL extended within February 2012 exceeded by 77% and 81% the values of February 2011 as regards the number of loans and the volume in money terms, respectively. As of March 1, 2012, the outstanding debt on MHL amounted to Rb 1,499,375bn which figure is 31.62% higher than the respective debt as of the same date in 2011. As of March 1, 2012, the debt on MHL in rubles amounted to Rb 1,356,119bn having exceeded by 3.18% the value of the debt as of January 1, 2012 (Fig. 1). On the contrary, as of March 1, 2012 the debt on MHL in foreign currency decreased by 12.99% against the debt on loans in foreign currency as of January 1, 2012 and amounted to Rb 143,256bn (Fig. 2).

As of March 1, 2012, the overdue debt on MHL amounted to Rb 45,147bn, while that on unsecured loans, to Rb 6,181bn. As of March 1, 2012, the overdue debt on mortgage housing loans in rubles amounted to Rb 26,253bn (Fig. 1), which figure is 0.25%



Source: the data of the Central Bank of the Russian Federation.
Fig. 1. Dynamics of provision of mortgage housing loans in rubles



Source: the data of the Central Bank of the Russian Federation.
Fig. 2. The dynamics of provision of mortgage housing loans in foreign currency

higher than the data as of February 1, 2012 (Rb 26,187bn), while the share of that debt in the outstanding debt in rubles fell by 0.04% to 1.94% against February 1. As of March 1, 2012, the overdue debt on MHL in foreign currency increased by 1.63% to Rb 18,894bn against February 1, 2012 (*Fig. 2*), while its share in the outstanding debt on mortgage loans in foreign currency as of March 1 grew by 1.01% to amount to 13,19% against February 1.

According to the data of the Central Bank of the Russian Federation, as of March 1, 2012, the volume of the debt on the defaulted MHL (with payments overdue for over 180 days) increased to Rb 73,619bn which figure is 39.6% higher than that as of February 1, 2012; it is to be noted the share of that debt in the total amount of the debt on MHL grew by 1.34% (*Table 1*). The overdue debt (failure to make payments on loans on time) and the debt on loans with overdue payments are different values. The Central Bank of the Russian Federation has started to provide such a data on the debt with overdue payments as complies with international accounting standards not long ago. That issue has already been discussed. The specifics is a surge in the debt on the defaulted loans (that is, loans with payments overdue for over 180 days) as of March 1, 2012. So far, only suggestions can be made to that effect.

Table 1

GROUPING OF THE DEBT ON MORTGAGE HOUSING LOANS BY THE PERIOD OF DELAY
IN PAYMENTS IN 2012

Date	The total amount of the debt on MHL, million Rb	including							
		Without overdue payments		With payments overdue					
				From 1 to 90 days		from 91 to 180 days		over 180 days	
		Million Rb	The share in the total amount of the debt, %	Million Rb	The share in the total amount of the debt, %	Million Rb	The share in the total amount of the debt, %	Million Rb.	The share in the total amount of the debt, %
01 Jan.	1 478 982	1 391 130	94.06	27 805	1.88	5 916	0,4	54 131	3.66
01 Feb.	1 477 153	1 377 446	93.25	40 326	2.73	6 647	0.45	52 734	3.57
01 March	1 499 375	1 367 429	91.2	50 230	3.35	8 097	0.54	73 619	4.91

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

According to the data of the Central Bank of the Russian Federation, the average weighted interest rate on MHL extended in rubles within a month amounted to 11.9% in February 2012 which figure is 0.5% higher than that in December 2011 when the value of the average weighted interest rate was the lowest in the past few years. Average weighted rates on loans in foreign currency extended from the beginning of the year fell by 0.3% as of March 1, 2012 as compared to February 1, 2012 and amounted to 9.4%.

According to the data of the Central Bank of the Russian Federation, the average weighted period of lending on MHL extended within a month in rubles increased to 14.7 years in February 2012. The average weighted period of lending as regards loans in foreign currency extended from the beginning of the year decreased by 25.72% as of March 1, 2012 as compared to February 1, 2012 and amounted to 10.3 years.

As regards the number of MHL in rubles extended within a year per thousand persons, the Khanty-Mansiisk Autonomous Region, the Yamalo-Nenetsk Autonomous Region, the Nenetsk Autonomous Region, the Tyument Region and the Republic of Tatarstan were rated first in 2011 (*Table 2*). Among federal districts, the Urals Federal District was rated first, while the North-Caucasian Federal District, the last one.

As in 2010, in 2011 Moscow had the largest overdue debt in the total debt (*Table 3*). The North-Western Federal District and, in particular, St. Petersburg fall out of the general trend of decline of the overdue debt: if in 2010 that index amounted to 2.71%, in 2011 it was equal to 2.96%. In

2011, the amount of MHL paid in advance by borrowers in the volume of the granted MHL kept decreasing as compared to 2010. An exception is the Urals Federal District. As in 2010, in 2011 Moscow was the leader as regards the volume of loans paid in advance. The largest amounts collected from borrowers through realization of mortgaged property as a percentage of the volume of the granted MHL were registered in St. Petersburg and Moscow, while the lowest ones, in the Far Eastern Federal District (0.31%) (Table 3).

Table 2

ARRANGEMENT OF REGIONS BY THE NUMBER OF MORTGAGE HOUSING LOANS EXTENDED
WITHIN A YEAR PER THOUSAND PERSONS

	2011		2010	
	Number of loans per thousand persons	Average amount of a loan, million Rb	Number of loans per thousand persons	Average amount of a loan, million Rb
Region				
Khanty-Mansiisk Autonomous Region	10,325	1,884	7,071	1,705
Yamalo-Nenetsk Autonomous Region	10,135	1,917	7,156	1,708
Tyumen Region	8,916	1,775	6,164	1,599
Nenetsk Autonomous Region	7,543	1,865	6,573	1,673
Republic of Tatarstan	7,393	0,767	4,997	0,606
Chelyabinsk Region	5,760	0,923	3,534	0,865
Republic of Komi	5,704	1,072	3,166	1,110
Republic of Sakha	5,626	1,400	2,594	1,285
Tomsk Region	5,323	1,175	3,124	1,101
City of St. Petersburg	3,342	2,216	1,428	2,135
Moscow Region	2,960	2,466	1,464	2,332
City of Moscow	2,080	3,615	1,172	3,052
Republic of Altai	1,333	1,039	8,926	0,424
Federal District				
Urals Federal District	5,846	1,394	3,666	1,292
Privolzhsky Federal District	4,725	0,944	2,633	0,885
Siberian Federal District	4,242	1,155	2,836	1,049
Far Eastern Federal District	3,831	1,469	2,159	1,338
North-Western Federal District	3,576	1,535	1,797	1,398
Central Federal District	2,846	1,894	1,485	1,754
Southern Federal District(till 2010)	2,556	1,283	1,359	1,196
North Caucasian Federal District	1,104	1,190	0,716	1,016
Total in the Russian Federation	3,669	1,339	2,101	1,223

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

According to the data of the Central Bank of the Russian Federation, as of March 1, 2012 the share of the debt on MHL in foreign currency in the total debt decreased by 0.89% as compared to February 1, 2012 and amounted to 9.55%; it is to be noted that a trend of decline has been observed since 2009. The share of MHL in foreign currency in the volume of the extended loans increased by 0.36 % as compared to February 1, 2012 and amounted to 1.26% which figure is much lower than the index of 2.72% as of January 1, 2012.

In the 1st quarter of 2012, Sberbank increased by 40% the volume of extension of mortgage loans to Rb 86bn (71,000 loans were extended) as compared to the same period of 2011.

Table 3

DYNAMICS OF INDICES CHARACTERIZING BORROWERS OF THE RUSSIAN FEDERATION

Region	2011	2010	2011	2010	2011	2010
	Overdue debt as % of the total debt		Volume of MHL paid in advance by borrowers as % of the volume of the granted MHL		The volume of funds collected from borrowers through realization of mortgaged property as % of the volume of granted MHL	
THE RUSSIAN FEDERATION	3.06	3.69	24.32	29.35	0.63	1.02
CENTRAL FEDERAL DISTRICT, including:	4.93	6.07	29.76	39.84	0.66	1.27
Moscow Region	5.84	7.12	27.72	34.51	0.67	1.22
City of Moscow	6.42	7.68	37.68	51.44	1.00	1.92
NORTH-WESTERN FEDERAL DISTRICT, including:	2.51	2.47	19.80	32.52	0.65	1.18
St. Petersburg	2.96	2.71	25.43	47.25	1.03	1.93
SOUTHERN FEDERAL DISTRICT	2.70	3.46	19.61	27.81	0.39	1.20
NORTH CAUCASIAN FEDERAL DISTRICT	4.06	4.53	16.42	15.64	0.44	0.41
PRIVOLZHISKY FEDERAL DISTRICT	2.28	2.85	20.64	24.67	0.82	1.01
URALS FEDERAL DISTRICT	1.53	1.77	27.43	23.77	0.43	0.52
SIBERIAN FEDERAL DISTRICT	2.63	3.02	23.40	25.13	0.74	1.02
FAR EASTERN FEDERAL DISTRICT	1.11	1.55	17.62	17.82	0.31	0.97

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

In the 1st quarter of 2012, the AHML (Agency for Housing Mortgage Lending) refinanced 16,320 mortgages for the amount of Rb 21,322bn which figure exceeds by 120% and 104% the result of the 1st quarter of 2011 in money terms and as regards the number of loans, respectively. The share of loans under the Maternity Capital program amounted to 9.95% of the total volume of refinancing in money terms with an average amount of the loan being equal to Rb 1.3m, while that under the Military Mortgage program, to 32.98% with an average amount of the loan being equal to Rb 1.88m. In March 2012, the AHML refinanced 8,715 mortgages for the amount of Rb 11,381bn which figure exceeds the result of February 2012 by 65% and 63% in money terms and as regards the number of loans, respectively.

As of March 1, 2012, within the frameworks of the Stimul program of support of housing development the Agency extended 288 loans for the total amount of Rb 17bn. As a result, the total amount of financing by banks of housing development projects within the frameworks of the above program amounted to Rb 29.6bn. The Agency assumed obligations for the total amount of Rb 55.2bn under 168 agreements on funding of housing development (the volume of housing development amounts to 2.57m sq. meters). It is to be noted that obligations under 37 agreements were fulfilled in full. Another 91 applications for the amount of Rb 25.5bn are being considered. ●

CHANGES IN THE PRIVATIZATION PROCESS IN 2011

A.Radygin, G.Malginov

In 2011, the list of properties earmarked for privatization was significantly extended. This change involved all types of assets (federal state unitary enterprises (FSUE), economic societies (joint-stock companies (JSC) and limited liability companies (LLC)), and other properties). According to the data published by the RF Ministry of Economic Development and the RF Federal Agency for State Property Management (Rosimushchestvo), the amount of money receipts from privatization in 2011 was approximately 2.5 times higher than the aggregate amount of all privatization receipts over the previous 4 years (2007–2010). Last year saw a continuation of the implementation of measures designed to improve the system of administering economic subjects with state stakes (FSUE and JSC with state stakes).

The year 2011 saw an impressive intensification of privatization processes in the Russian economy, which is clearly demonstrated both by the soaring volume of sales and the financial results of privatization.

Since the privatization program for the period of 2011–2013 approved by the RF Government in November 2010 was elaborated on the basis of the alterations introduced in late May 2010 in the existing law on privatization and envisaging the prolongation of the planning period for the forecast federal property privatization plan (program) to three years, from then on it has remained the core document to which only certain alterations and amendments were later added. On the whole, from the moment of approval of the forecast federal property privatization plan (program) and the main directions for federal property privatization in 2011–2013 by the RF Government's Regulation of 27 November 2010, No 2102-r, a total of seventeen normative legal acts have been adopted, one of them appearing as early as late 2010, and five normative legal acts – in January–March 2012. The greatest number of amendments were introduced by the RF Government's Regulation of 24 March 2011, No 513-r.

The extension of the list of properties to be privatized had to do with all types of assets (federal state unitary enterprises (FSUEs), economic societies (JSCs and LLCs), and other properties). The most impressive growth was displayed by the latter category, which is mostly represented by immovables and land plots. While the initially approved wording of the privatization program for 2011–2013 included 73 'other property' items, their number as of late 2011 had increased to 468, or 6.4 times. On the whole, with due regard for the later alterations and additions (as of the beginning of the year 2012), the privatization program for 2011–2013 envisaged privatization of the federal stakes in 1,396 joint-stock companies, 276 FSUEs, and 468 "other property" items owned by the RF Treasury.

The list of the 10 "super-big" companies, in whose capital the State did not object to diminishing its stakes over the period of 2011–2013, remained unchanged; however, the format of that process was adjusted in regard to two entities – *Federal'naia gidrogeneriruiushchaia kompania* [Federal Hydrogenerating Company] (*Rusgidro*) and *Ob'edinennaia zernovaia kompaniia* [United Grain Company]. The RF Ministry of Economic Development and the RF Ministry of Energy were assigned the task to ensure, in cooperation with *Rosimushchestvo* and in the event of a favorable market situation, that prior to 1 July 2012 the federal stake in JSC *Federal'naia gidrogeneriruiushchaia kompania* (situated in the city of Krasnoyarsk) be sold in an established procedure, the State preserving its stake in that company's charter capital in the amount of 50% + one share. The same corporate control threshold is determined for *Ob'edinennaia zernovaia kompaniia*.

The distinctive features of privatization in 2011 are the launching of the mechanism for selling federal stakes through private sellers appointed by the government (in the main investment banks) and the sale of the state stakes in those companies considered to be attractive to investors that in

2010 had been stricken off the list of strategic organizations (sea and river ports, ship companies, airports).

With the assistance of LLC *Merrill Lynch Securities* (which as early as in the autumn of 2010 was designated as the sole executor of the government order to the effect that the federal stakes in JSC Bank VTB consisting of common nominal shares (up to 10% of its charter capital) be alienated, in February 2011 the privatization deal was completed that involved the sale of 10% of the bank's shares and became the Noughties' biggest deal in that category. The proceeds from sale amounted to Rb 95.68bn.

As for sales of assets in the transport sector, these were carried on throughout the year with a varying degree of success. With few exceptions, the state stakes in that group of companies were sold at the initially set price. Some sales did not take place due to absence of bids or the buyers' refusals to fulfill their payment obligations, and some sales were called off by *Rosimushchestvo* because the estimated value of the stakes to be sold had become outdated, and some more relevant financial information was obtained instead. As a result, the most significant privatization deals (in the amount of more than Rb 1bn) turned out to be those involving the sale of the controlling stake in *Tolmachevo* Airport (Novosibirsk Oblast; more than Rb 2.8bn); and the sale of blocking stakes in Tuapse Seaport (more than Rb 1.61bn) and Volga Ship Company (more than Rb 1.04bn)¹.

On the whole, in 2011 the stakes in 359 JSCs were sold (against 134 in 2010), and the decisions concerning the privatization terms were made in regard of 143 FSUE (against 62 in 2010) (*Table 1*).

Table 1

COMPARATIVE DATA ON PRIVATIZATION OF FEDERAL STATE UNITARY ENTERPRISES
AND FEDERAL STAKES IN 2000–2011

Period	Number of privatized enterprises (objects), formerly in federal ownership (as reported by Rosimushchestvo, prior to 2004 – by the RF Ministry of Property)	
	FSUEs privatized ¹ , units	stakes in JSCs sold, units
2000	2	320
2001	5	125 ²
2002	102	112 ²
2003	571 ³	630
2004	525	596 ⁴
2005	741	521
2006		356 ⁵
2007	377	377
2008	213	209 ²
2009	316+256 ⁶	52 ²
2010	62	134 ²
2011	143	359 ²

¹all the preliminary preparations are completed, and the decisions as to the terms of privatization are made;

²including those stakes that were put up for sale in the previous year;

³less those FSUEs whose property complexes became stakes in the charter capital of JSC *Rossiiskie zheleznye dorogi* [Russian Railways];

⁴ including 31 stakes that were put up for sale in 2004, but the results were drawn up in 2005.

⁵estimated value based on the Federal Agency for State Property Management (*Rosimushchestvo*)'s Report '*O privatizatsii federal'nogo imushchestva v 2007 godu*' ['On privatization of federal property in 2007'];

⁶ the number of FSUE concerning which the decision that they should be transformed into JSC was made by the RF Ministry of Defense – in addition to those concerning which a similar decision was made by *Rosimushchestvo*.

Source: www.rosim.ru; materials published by the RF Ministry of Economic Development, *Rosimushchestvo* (RF Ministry of Property) for the period of 2000–2012.

While the scale of the privatization process in 2011 evidently increased, it should be noted that its results in terms of the number of sold stakes are comparable with the pre-crisis levels of 2006–2007, whereas the number of sales per annum in the mid-2000s had been more than 500. These results look even more modest when compared with the privatization of unitary enterprises – given the fact that their transformation of nearly two-thirds of them into JSCs was effectively

1 www.rosim.ru

the creation of integrated structures, which was carried out at a larger scale than in the previous year. In 2011, the relevant decisions were made with regard to shares in 44 JSCs and 92 FSUEs, whereas a year earlier – 46 JSCs and 24 FSUEs. Among the newly created integrated structures, there are Open-end JSC *Korporatsia ‘Strategicheskie punkty upravleniia’* [Corporation ‘Strategic Administration Points’], Rosgeologia, and *Tsentral’nyi Moskovskii ippodrom* [Central Moscow Hippodrome]; among other things, it is envisaged that companies *Rusgidro* and *Rosspirtprom*, and concerns *Sozvezdie* [Constellation] and *Morinformsystem – Agat* must be enlarged.

Nevertheless, the financial effect of privatization expressed in terms of budget revenue has turned out to be much more substantial. According to the data published by the RF Ministry of Economic Development and *Rosimushchestvo*, the receipts generated by privatization in 2011 were approximately 2.5 times as high as the aggregate amount of receipts over the previous 4 years (2007–2010).

The aggregate federal budget revenue generated by privatization (or sale) and use of state property, as reported by the Federal Treasury, in 2011 rose by more than 2.7 times on 2010. Its amount (approximately Rb 241bn) hit an absolute historic high since the early 2000s, which is true not only of the revenues from privatization (or sale) of state property, but also the revenues from its use (*Table 2*).

Table 2

STRUCTURE OF PROPERTY-GENERATED FEDERAL BUDGET REVENUE
FROM DIFFERENT SOURCES IN 2000–2011

Year	Aggregate revenues from privatization (or sale) of state property		Revenues from privatization (non-renewable sources)*		Revenues from use of state property (renewable sources)**	
	m Rb	% of result	m Rb	% of result	m Rb	% of result
2000	50,412.3	100.0	27,167.8	53.9	23,244.5	46.1
2001	39,549.8	100.0	10,307.9	26.1	29,241.9	73.9
2002	46,811.3	100.0	10,448.9	22.3	36,362.4	77.7
2003	135,338.7	100.0	94,077.6	69.5	41,261.1	30.5
2004	120,798.0	100.0	70,548.1	58.4	50,249.9	41.6
2005	97,357.4	100.0	41,254.2	42.4	56,103.2	57.6
2006	93,899.8	100.0	24,726.4	26.3	69,173.4	73.7
2007	105,761.25	100.0	25,429.4	24.0	80,331.85	76.0
2008	88,661.7	100.0	12,395.0	14.0	76,266.7	86.0
2009	36,393.7	100.0	4,544.1	12.5	31,849.6	87.5
2010	88,406.4	100.0	18,677.6	21.1	69,728.8	78.9
2011	240,964.2	100.0	136,660.2	56.7	104,304.0	43.3

* including proceeds from sale of shares, land plots and various types of property in federal ownership;

** including dividends and incomes from other forms of participation in capital; rental payments for state-owned land and other properties; part of profit after taxes and other mandatory fees transferred by FSUEs (from 2001); incomes generated by the Vietsovetpetro joint venture.

Source: laws on the execution of the federal budget in 2000–2010; “Otchet ob ispolnenii federal’nogo biudzheta na 1 janvaria 2012 goda” [Report on the execution of the federal budget as of 1 January 2012], www.roskazna.ru; the authors’ calculations.

In this connection, the share of non-renewable sources in the structure of aggregate revenues from the privatization (or sale) and use of state property in 2011 increased more than 2.5 times on the previous year (to 56.7%), having exceeded 50% for the first time in 7 years.

The past year saw some further steps in improving the system of administering economic subjects with state stakes (FSUEs and JSCs with state stakes).

In practical terms this means more frequent hiring professional managers on various posts in the administrative bodies of joint-stock companies with state stakes. The number of such professionals increased on 2010 approximately by 1.7 times. Professional managers now work in the administrative bodies of more than 26% of JSCs with federal stakes (not counting companies with “golden share”), while in 2009 they worked in less than 9% of such JSCs, and in 2010 – in more than 15% thereof.

Another, no less important, development in the year 2011 was the dismissal of vice prime ministers, ministers, heads of other federal bodies of executive authority and officials of the RF President's executive office from the boards of directors of joint-stock companies with state stakes, which often used to be headed by such individuals (such changes occurred in approximately 20 biggest companies). They have been in part replaced by independent directors and professional attorneys, but the practice of issuing mandatory directives on the most important issues for representatives of the State has been preserved.

A separate note should be made with regard to the introduction of a large number of alterations and amendments in the existing law on privatization. The following comments can be made concerning their content.

The prolongation of the timelines for the conclusion of a purchase and sale contract with winners in the privatization procedures and the introduction of the norm establishing a minimum interval between the moment of recognizing the candidates to be actual participants in those procedures and the moment of staging the events is expected to increase the competition for purchasing the assets to be privatized.

The strengthening of the information feedback for the privatization procedure through the Russian Federation's official website coupled with the introduction of a minimum time period between the date of publication, on the Internet, of a protocol of the results of sale of state or municipal property and the conclusion of a contract on the basis of that deal's results is expected on the whole to increase the transparency of the privatization process.

The position of the new owners of the privatized enterprises, as well as that of the enterprises, is expected to be strengthened by the norm regulating the right of those enterprises to operate on the basis of licenses and other authorization documents issued to a given unitary enterprise.

The privatization process will probably become better organized as a result of the alterations introduced in the procedure for the repayment of monies transferred in the course of a sale of state or municipal property that subsequently was recognized to be null and void; these alterations envisage that the monies received from sale of property to other buyers in the framework of other privatization deals cannot be used for such purposes prior to their distribution.

Other amendments introduced in legislation (including the related law on unitary enterprises) are designed to ensure multiple scenarios for transforming economic subjects belonging to this organizational-legal form, so that they could be reorganized not only into open-end JSCs (as it was possible previously), but also into limited liability companies (LLCs) and autonomous not-for-profit organizations (ANOs).

The previously widespread practice of reorganizing nearly all¹ unitary enterprises (including many small-sized enterprises) into open-end JSCs with a 100% state stake inferred formal compliance with all the requirements established by legislation on joint-stock companies and securities (while their actual prospects for attracting investments through entry on the stock market were dubious) and the necessity to cover all the subsequent costs of the representation of their interests by the State².

On the other hand, when a unitary enterprise is transformed into a LLC, there emerges a certain deviation from the main trend that was typical of the entire period of reforming property relations in Russia, when the bodies responsible for property administration were oriented to minimizing the presence of the State in the economy in any organizational-legal forms other than OJSC – because of the high degree of transparency of the latter. Meanwhile, considering the possibility that it may take some time to find a buyer prepared to purchase the full stake owned by the State (or municipality) in a LLC, this prospect should be recognized as quite realistic. Besides, the criteria usually applied to small-sized businesses, which determine the actual possibility of transforming some unitary enterprises into LLC, are also variable and by no means mandatory.

¹ One negligible exception was the sale of the property complexes of unitary enterprises, later abolished in pursuance of the afore-analyzed amendments introduced to the law on privatization in the summer of 2011.

² However, the transformation of unitary enterprises into ANOs and LLCs per se cannot provide an adequate solution to the problem presented by the necessity to protect the interests of the State, which is confirmed by the approval, by the RF Government's Decrees of 27 January 2012, No 33, on the Procedure for the participation of representatives of the State in the supreme administrative body of an autonomous not-for-profit organization and No 34, on the Procedure for administering LLC with state stakes created as a result of privatization.

The next few years will demonstrate just how successful these innovations are going to be.

The introduction, in the list of terms of sale through a tender, of restrictions on altering the purpose of some property entities that have been used in scientific research and (or) research & development activity may have some negative effect because of the danger of a formal approach to privatization and disregard for sectoral specificity, as well as the well-known issues of ensuring control over compliance with the terms of a tender.

We should also note the obvious persistence of the trend towards further expanding the already considerable prerogatives of the government in the sphere of privatization coupled with nearly complete absence of any independent control over the privatization process. This trend is confirmed by the emergence of a new norm designed to regulate alienation of 15 categories of property that are not subject to regulation by the law on privatization, other federal laws and other normative legal acts.

The innovation that was introduced in 2010 and so far has not been properly formalized (it envisages that the sale of property earmarked for privatization may be organized not only by bodies of authority, but also by other legal entities)¹ has been augmented by provisions that grant to those legal entities in certain cases to exercise, on behalf of the State, some rights of a shareholder or participant in a LLC, without actually defining the range of such rights and the situations when such rights may be delegated.

Thus, by way of summing up, it can be stated that the alterations introduced in 2011 in Russian legislation on privatization are a logical continuation of the important innovations introduced by last year's law on privatization.

However, these provisions, while being oriented to providing solutions to the problems presented by privatization of a rather large body of relatively small-sized assets, are also fraught with some significant potential risks when applied in a context of broader terms and mechanisms of privatization of big and 'super big' companies in the public sector. These risks are created by the insufficient transparency of the procedures of sale of property to strategic investors, lack of clear definition of the mutual obligations between the State and the buyers of property, and vagueness with regard to the mechanisms that can ensure that such obligations be fulfilled². ●

1 The list of such organizations that consists of 23 legal entities, including Sberbank and VTB, was approved in 2010.

2 See the IEP's annual overview Russian Economy in 2010. Trends and Outlooks (Issue 32) (Section 6.1.5. A New Stage in Implementation of the National Policy in the Field of Privatization of State-Owned Property: Basic Priorities and Objects, Actions and Risks, pp. 426–459).

INSTITUTIONAL CONSTRAINTS TO PRIVATIZATION OR LEASE OF LAND IN AGRICULTURE

N.Shagayda

The analysis of institutions regulating the process of re-registering titles to state- and municipally-owned land plots that were formerly assigned to corporate farms for permanent indefinite use as well as of the actual practice of such re-registration brings to the conclusion that the state is not yet ready to carry out the privatization of land or its leasing out. Proposals aimed to change the situation are being made.

Two stages can be distinguished in the privatization of land in agriculture. The first one – the privatization of farmlands used by collective and state farms – was carried out in the early 1990s. About 115 million hectares were privatized within 3-4 years. Then only a small share of land areas were transferred to individual private farms in the form of individual plots. Farmland of a collective or state farm (3,000–7,000 hectares) was almost always assigned to it as a single plot. As a result peculiar multi-segment plots were created: one such plot could consist of hundreds of crop, hay and pasture fields. It was owned by a collective including hundreds of individuals. It's obvious that the transfer of such plots was impossible. The ideologists of privatization understood that, but it was irrational to divide such areas into individual plots of 3-7 hectares each since not all owners wished to be engaged in farming and an individual farmer or a corporate farm interested in the lease or purchase of individual plots would then have faced the problem of their consolidation: there will always be 1 of the 100 owners who will be against transferring his land to the same user together with all the others. The problem of consolidation is familiar to all countries where land was privatized in the form of plots. Besides, a lot of work would have been needed to form individual plots, and in rural areas one would have been unable to avoid conflicts when dividing lands of a collective or state farm between a large number of owners-beneficiaries of state land distribution since plots would have inevitably differed greatly.

Theoretically, the privatization could have been done straightway in favour of agricultural producers. But at the moment of privatization many of them were inefficient, private farming was just emerging and the existing practice showed that the distribution of land among potential farm producers by means of choosing the most deserving ones would have been a highly corruptive procedure. So, the institutions of the first stage of privatization were adequate to the situation. Privatization was to be conducted quickly, not to infringe the interests of rural residents, to endow them with land without conflicts and controversies, to transfer the consolidated plots from the ones who did not intend to be engaged in farming to the ones who wished to run this kind of business.

So, to carry out privatization the state elaborated a technology including specific privatization mechanisms, created bodies that were charged with doing the respective work, took all the necessary decisions at the level of district authorities, prepared map documents. The only thing that a claimant had to do was to take the decision and to submit an application to the district administration. At the second stage of the reform one planned to implement an active redistribution of privatized land. It was to be executed through the transfer of shares in the title to a specific plot: the concentration of shares by means of individual agreements with each share holder enabled farm producers (corporate farms, individual private farmers) to form plots according to their capabilities, opportunities and objectives and to parcel them out as space-effective tenures. It was supposed that titles to land plots would gradually pass to smaller groups of owners or – as a result of shares' buying out – to a single farmer or corporate farm. One expected that this way land would be progressively redistributed to efficient farm producers. Yet, the process took a different route.

There were serious constraints to the implementation of the procedure – the redistribution of shares in the title to a plot and further parceling out of plots for use by farm producers. In the first years since the start of privatization strong administrative reluctance was observed at the local level

(there were clarion calls for nationalization of land till as late as 2001). Then the body responsible for the reform – the Committee on land reform and land tenure – was actually liquidated: it was deprived of some functions and respectively renamed. The liquidation of the single body being in charge of land reform resulted in the springing out of departmental, frequently contradictory initiatives, the complexity and often even inability to coordinate actions of institutions engaged in the transformation process, the involvement of new people that had no idea of the situation with specific plots in agriculture and figuratively speaking had seen only plots under buildings or their own suburb (“dacha”) plots. Starting from 1998 numerous changes began: revisions took place in the system of registering titles to real estate and transactions with it (the data from former registers were not copied in the new ones), the requirements to plots (in case a farmer parceled out a plot of 5 hectares, the initial plot was liquidated and the boundaries of two plots had to be demarcated; the farmer could not pay for the respective works required for the plot measuring thousands of hectares that was not transferred to him), the approaches to the size of share in a plot, the amount of tax (from the tax on the whole plot to the tax imposed on each co-owner of the plot being a common share property), etc. As a result the costs of land transfer extremely grew due to higher expenditures on marking of boundaries, registration of titles, numerous visits to different offices. They reached the peak in the period from March 2008 to December 2008 when the process of transfer or division of share-owned land plots actually stopped. Afterwards some norms entailing high costs were gradually replaced.

The abolition of some norms at the level of federal legislation led to the appearance of other ones at the level of internal documents of ministries and departments, e.g. orders. Hernando de Soto¹ rightfully notes that these are not the kind of documents broadly discussed by outsiders which allows to preserve sources of high transaction costs. Regretfully, there are still serious problems pertaining to plots in share ownership. There is an opinion that they are the outcomes of ill-considered transformations carried out at the first stage of privatization. But one should treat this opinion with caution since complications arose – let alone the first stage of political opposition – due to the absence of a single body implementing consistent policies of land reform and the replacement of object-specific regulations with unified norms designed for plain plots owned by one person. That is to say that the quality of institutions introduced after 1998 leaves much to be desired, they were not appropriate to the object that they were intended to regulate. So, the second stage of the reform is still going on albeit with great difficulty.

The insight into the history of the first stage of privatization and the stages of land reform was needed to show that the endeavors of state in any direction require situation-specific institutions and organization of work. One can surely assert that at the first stage of privatization this requirement was met. This is all the more surprising as the institutions of privatization were being formed in the very process. Still, at this difficult time (1991–1993) the state not only created institutions adequate to the situation but also formed plots to be transferred from public ownership. At the expense of budget funds a scheme of state land redistribution was elaborated in each collective and state farm which specified lands remaining in ownership of the state (assigned to the entity for permanent (indefinite) use or lease from the land redistribution fund), privately-owned lands and lands transferred to the jurisdiction of local rural administrations. These efforts brought results: huge land areas were redistributed.

In 2001 the state demanded that all plots earlier assigned to legal bodies for permanent (indefinite) use should be involved in market transfer, i.e. bought out or leased. From that moment the second stage of privatization began in agriculture: as of January 1, 2001 corporate farms had over 271 million hectares of land assigned to them for permanent indefinite use. With only a few exceptions these were non-agricultural lands. That is to say that market transfer (including privatization) was to embrace more lands than one had privatized at the first stage of privatization.

In order to make the re-registration quicker and less expensive for users, Federal Law No.137-FZ of October 25, 2001 “On the enactment of RF Land Code” set a limit on the amount of rent for lands of agricultural destination (0.3% of the cadastral value of the plot) and Federal Law No.101-FZ of July 24, 2002 “On the transfer of lands of agricultural destination” – on the buy-out price (15% of the cadastral value). Formally, there were all grounds to expect a quick buy-out or lease of

1 Hernando de Soto. *The Mystery of Capital*. Moscow: Olymp-Business, 2004.

land. But the deadline for re-registration was shifted first from January 1, 2004 to January 1, 2006, then – to 2008, 2010 and 2012. Now it's the 1st of July 2012. The mechanism of sanctions against the ones who fail to meet the state requirement was worked out. Article 7.34 was introduced in the Code of Administrative Offences reading that the violation of term and procedure of re-registering the title of permanent (indefinite) use of land plots invokes penalty ranging from Rb 20,000 to Rb 100,000. The penalty comes into force beginning from January 1, 2013.

At first glance it may seem that there are no problems in agriculture: within 10 years after 2001 the area of lands in permanent (indefinite) use reduced by nearly 100 million hectares (*Table 1*). However, in case the re-registration proceeds, the area of owned or leased land should be increasing. Meantime, the area of land owned by corporate farms grew by only 5.4 million hectares (and according to expert estimates this is not the result of re-registering titles to non-agricultural lands but the outcome of purchasing farmlands from individuals who got land in the course of the first stage of privatization) and that of land leased by them fell by over 43 million hectares. So, neither privatization nor involvement of land in market transfer through lease takes place. The decrease of use-title lands is due to the gradual re-qualifying of non-agricultural lands – primarily woodlands – into lands of other categories in the process of land inventorying.

Table 1

AREA OF PLOTS ASSIGNED TO CORPORATE FARMS UNDER DIFFERENT TITLES, MILLION HECTARES

Title	As of 1.01.01	As of 1.01.11
Ownership of a legal body	3.6	9.0
Permanent (indefinite) use	271.1	171.5
Lease of state-owned lands	198.1	155.0
Total	472.8	335.5

Source: Land fund of the Russian Federation as of January 1, 2001; Land fund of the Russian Federation as of January 1, 2011.

In order to understand why privatization is not progressing, one should look at the object that is to be bought out or leased and refer to the provisions of law regulating the re-registration procedure. Otherwise, it's impossible to comprehend why areas of land under different titles either alter or remain unchanged.

From 2001 to 2007 the re-registration procedure as such did not exist. Everything was regulated solely by Article 36 of the RF Land Code that specified where a person interested in acquiring state land should apply and set the term within which the corresponding decision should be taken and the agreement should be forwarded to the applicant – 2 weeks. Even a fleet glance made it clear that this term could not be observed since according to provisions of this article “at the expense of the mentioned persons (*i.e. the applicant*) boundaries of the land plot are established afield and the cadastral map (plan) of the land plot is drawn”. The procedure did not specify the list of documents to be attached to the application. As a result applicants learned that they needed to bring additional documents only at the moment of application and no earlier. In the absence of a finite list of documents local officials showed zeal and could demand any set of them. In 2007 – after the second postponement of deadline for state lands' buying out or lease – an amendment was made to Article 36 of the RF Land Code, and the Ministry for economic development approved by its order the List of documents to be attached to the re-registration application and later introduced the provision stating that any additional requirements to this List are illegal.

The unawareness or poor understanding of real situation with the plot that had to be bought out or leased led to lamentable results: the buy-out and lease of land failed to progress even after the adoption of the List. One had to shift the respective deadline one more time: from 2008 to 2010. It couldn't have been otherwise: a user of state-owned land had in his hands the resolution of the head of local administration on the assignment of land, a state-recognized certificate and an old extract from cadastre stating that there was a plot of land with a certain identification number and declared area that had to be defined more accurately in the course of boundary marking. The area

specified in the documents usually differed from the one recorded in the cadastre. Besides, there could be dozens of buildings, facilities and constructions situated on the multi-segment plot. These objects were on the balance sheet of the corporate farm. Many of them were built in the Soviet period under informal agreements and were not properly commissioned. These were dispatcher offices, intra-farm roads, monuments, etc. Titles to such objects were not registered since technical inventoring of all objects was required for such registration. On top of all, the cadastral value that served the basis for establishing the buy-out or lease price was single for the entity as land tax payer, and it was the value of agricultural lands and not that of lands under buildings, roads, swamps, etc.

In this situation the following documents were to be submitted according to the List:

- a cadastral plan of the plot. Meantime, the bodies of cadastral record-keeping wouldn't issue it diverting to the declarative nature of information about the plot that had to be defined more accurately in the process of boundary marking. Boundary marking is a very expensive service but the government failed to reduce its price either in 2004 or in 2012;

- an extract from the Consolidated State Register of Titles to Real Estate and Transactions therewith (CSRTRET) stating the titles to buildings and constructions on the plot and copies of other documents certifying (establishing) these titles. By that moment less than 1% of titles to the existing buildings and constructions had been registered in CSRTRET. It was not specified what were other documents certifying titles to objects. Theoretically, in addition to the extract from the corporate farm's balance sheet one could submit the list of property that had been approved by the district property committee in the early 1990s. But few entities preserved it and it was hard to find it in archives; besides, entities – legal successors of collective farms did not have it at all since their property was not public. All these nuances could have been explained in methodological recommendations but these recommendation were never issued.

From 2001 to 2011 requirements to forming a plot changed several times. It was mentioned above that beginning from 2001 the parceling out of a plot entailed liquidation of the initial plot and the forming of two new objects: the one based on the parceled out land share (or other parceled out plot) and the one remaining from the initial plot. In 2008 this provision was abolished for share-owned plots but remained in force for the state-owned ones. In order to register these two new plots in the cadastral records it was necessary to demarcate their boundaries. It was possible for a plot under cowshed but not for the remaining plot measuring hundreds of hectares. Starting from 2008 it was prohibited to register a plot in the cadastral records as a multi-segment one – each detached part of it had to be registered separately. Should one wish to form a plot under each cowshed non-registered in CSRTRET, he had to register the title to this cowshed when registering the title to the plot, and it required additional money for technical inventoring. It's understandable that cases of such re-registration were singular. The expenditures on boundary marking, preparation of district authorities' resolutions (state-owned plots), payment of fees for registration of title to the building and then – to the plot under it piled up into an enormous sum. It's impossible to estimate the actual expenditures of corporate farms on the buying out or lease of plots due to the lack of information. It can be obtained in the course of monographic description of the procedure at selected objects. Below (*Table 2*) are given expenditures of a corporate farm¹, situated in a remote district of Moscow oblast. This example is typical.

For instance, one corporate farm in Moscow oblast started the procedure of buying out or lease of land in 2006. Its use-title plot (the area of which was less than 800 hectares) included over 3 hundred separate plots of tiny and small size that were situated amid fields, titles to which belonged to other persons. Within 2.5 years of work of a specially hired employee who was to arrange for the activities of cadastral engineer and for the meeting of all state requirements, the lease of only 199 hectares of the total area concerned (i.e. one fourth thereof) was registered. Out of 800 hectares (that were formerly considered as a single plot including several hundred detached plots) the cadastral engineer formed 119 plots with the total area of 199 hectares. The remaining area – about 600 hectares – continues to be in permanent (indefinite) use.

1 The head of this corporate farm agreed to submit the information on expenditures on the condition of anonymity since a great share thereof were informal payments.

Table 2

EXPENDITURES OF A CORPORATE FARM ON RE-REGISTERING THE TITLE OF PERMANENT (INDEFINITE) USE OF LAND

Items of expenditures	Lease		For reference: buy-out	
	expenditures, Rb 1,000		expenditures, Rb 1,000	
	per 1 ha	per total area	per 1 ha	per total area
Boundary marking	5	995	5	995
Arrangements with the cadastral chamber – informal payment	1.5	298.5	1.5	298.5
Registration fee		11.9		11.9
Rent (0.3% of the cadastral value)	0.072	14.3		
Buy-out cost (15% of the cadastral value)			3.6	716.4
Total expenditures of the entity		1319.7		2021.8
including government revenues from these expenditures during the first year, %		1.98		36*

*less land tax.

Source: monographic description of the case of re-registering the title of permanent (indefinite) use of land by a corporate farm – materials of the author.

These 119 plots (state-owned) were formed and registered in the cadastral records; the corporate farm also paid the fee for registering the corresponding lease agreement. The share of its total expenditures on the arrangement of leasing that went to the state budget was less than 2%. In case these plots were sold, the share of the state in these expenditures would have been 36%. So, the state gained from its property less than commercial institutions and selected officials. If there were buildings on the plots, the government's revenues would have increased by the amount of fees and those of private persons – by the cost of works for technical inventorying.

The informal payments are a tribute to poor institutional framework and the lack of state organization responsible for re-registration. Federal Law "On the enactment of RF Land Code" states that the user should buy out or lease the respective plot. He has no competitors in this case. But there are other laws. For instance, according to the RF Forestry Code one cannot buy out or lease a plot by simply filing an application. In the examined case among lands of agricultural destination there are plots under forest. The area of some of them is 0.4 hectares. Can there be forest amid fields on such a plot? It's not clear who and on the basis of what criteria should take the decision on altering the category of land. While at the beginning of restructuring there was the Committee on land reform, now its functions of keeping the register of titles, cadastral registration and monitoring of land use are performed by Rosreestr. But a serious substitution took place: the committee was to ensure the progress of land reform while Rosreestr is not assigned with such a task.

Gradually one started to understand that something was wrong with the adequacy of formal institutions to the actual situation. On December 21, 2009 amendments were introduced in Federal Law No.221-FZ of July 24, 2007 "On the state cadastre of real estate": it became possible to enter data on the location of a real estate object in the cadastre without parceling out the plot under this object. However, it did not help much. At the end of November 2010 the requirements to documents that were to be attached to the application for buying out or leasing of state-owned lands were simplified. But it was also of little help. In the middle of July 2011 one more amendment was made in Federal Law "On the enactment of RF Land Code": it became possible to re-register the title to a plot on the basis of extract from the cadastre (i.e. without cadastral passport and boundary marking) containing any information about the plot. The latest update of the list of documents to be attached to the application was made on September 13, 2011. In principle, a plot under a building can now be re-registered without bureaucratic delays.

One corporate farm in Moscow oblast tried to do it: to buy out a plot that was earlier assigned to it for permanent indefinite use in accordance with this new procedure – i.e. on the basis of extract from the cadastre, the list of objects situated on this plot, without marking of boundaries, technical

inventorying and registration of titles in CSRTRET. All the needed documents were attached to the application. In response it received a letter from the district administration. The text of it is worth citing here.

“Having examined your application of November 21, 2011 (No. N) for granting you the ownership title to plot with cadastral number N, the administration of ... municipal district of Moscow oblast informs you of the following:

Taking into account that in compliance with Article 27 of the Land Code of the Russian Federation there are restrictions on the transfer of land plots under especially valuable sites of cultural heritage of peoples of the Russian Federation, objects included in the List of world heritage sites, historical and cultural conservation areas, archeological heritage sites; there is a ban on privatization of land plots within the coastal line established in accordance with the Water Code of the Russian Federation and of land plots under ponds and flooded open pits within the boundaries of common use; commonly used land plots under squares, embankments, public gardens, water objects, beaches and other objects are not subject to privatization according to Article 87 of the Land Code of the Russian Federation and in compliance with Federal Law No. 101-FZ of July 24, 2002 “On the transfer of lands of agricultural destination” and the Land Code of the Russian Federation for the examination of possibility to grant the ownership title to the requested land plot to close joint-stock company N we ask to submit cartographical materials (general layout plan) enabling to establish restrictions in respect of the above mentioned plot in accordance with the current legislation. First Deputy Head of administration of ... municipal district ...”.

That is to say, in compliance with legislation of the Russian Federation the corporate farm applied to the owner of the plot with the set of legally required documents. And a representative of the owner replied that he did not have cartographical materials on his property, did not know which plots had limited transferability, whether there were such wonders as squares, public gardens, embankments, sites of cultural heritage of peoples of the Russian Federation on the plot of the former state farm, and therefore could not sell the plot. This is a common situation for all plots that the state wishes to involve in the market transfer: the owner has no delineation of the plot boundaries, does not know what is situated on the plot and whether the latter can be privatized.

So, the analysis of data on the dynamics of land areas under the title of permanent (indefinite) use shows that the cases of their involvement in market transfer are singular. The examination of re-registration practice and the state of objects as well as of the institutions that are to regulate the questions of privatization and lease of non-agricultural lands included in the category of lands of agricultural destination evidences that the state is not yet ready for the involvement of land in market transfer. The analysis of functions performed by different organizations has not helped to find the one whose task is to ensure the re-registration of land. All this determines the rates of re-registering land titles. It's true not only as regards agricultural lands but also in respect to other lands on which some objects are situated and that include several detached plots.

In this situation it would be rational:

- to abandon the practice of establishing deadlines for re-registering titles of permanent (indefinite) use of land plots;
- to carry out the inventorying of state and municipal lands with determining the ones that can be subject to either privatization or lease, or only lease. All the encumbrances should be established;
- to carry out cadastral registration of plots;
- to revise the principles of establishing the price for buy-out or lease of land taking into account that the owner himself will do all the works for preparing the plot for sale or lease;
- to set criteria in compliance with which plots covered with trees (for instance, with the area up to 1-2 hectares) could not be classified as forest and could be subject to privatization. Besides, one should set criteria enabling to buy out a plot under water object, e.g. private farmer's pond. Such a criterion can also be the object's area;
- to determine the body that would be responsible for the fulfillment of the government task to involve state- or municipally-owned land plots in market transfer.

After all works for the preparation of a land plot for sale are completed, one can proceed to economic methods of stimulating buy-out or lease of state land. For instance, progressive tax can

be imposed on plots in permanent indefinite use depending on the period within which an entity continues to use the plot that is ready for sale or lease.

In case the state cannot afford such expenditures on preparing state-owned plots for sale or lease, other decisions are needed. For instance, plots can be leased out at the application of their user without additional requirements for marking of boundaries, etc. Then one should think about establishing the latter's right to buy out the plot, about the term of lease, etc.

The work of forming a plot is a long-term process. Therefore privatization cannot be a campaign carried out within some limited period of time. That is what one needs to understand: objects, institutions and decision-taking officials should be ready for privatization. ●

WORLD TRADE IN GOODS AND SERVICES IN 2011 AND THE DEVELOPMENT PROSPECTS OF RUSSIA'S FOREIGN TRADE

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In mid-April 2012, the World Trade Organization's Secretariat published its annual analytical report on the development of international trade in 2011 and its development prospects for 2012. This document also contains some by-country preliminary statistical data on world trade in goods and services in 2011¹.

According to the WTO's overview, the rate of world trade growth in 2011 dropped 2.5 times on 2010 – to 5%. In this connection it is assumed that this trend will also continue throughout the current year (growth rate at the level of 3.7%). WTO experts explain this slowdown by the problems that had to be faced by the world economy including, among other things, the European debt crisis.

As estimated by WTO experts, while world GDP in 2011 increased by 2.4%, the rate of world trade growth in real terms amounted to 5.0% with regard to exports (according to the WTO's last year's forecast, the growth rate was expected to be at the level of 6.5%) and 4.9% with regard to imports against 13.8% and 13.7% respectively in 2010².

“More than three years have passed since the trade collapse in 2008-09, but the world economy and trade remain fragile. The further slowing of trade expected in 2012 shows that the downside risks remain high...”, said Pascal Lamy, WTO Director-General, at the presentation of the report³.

In nominal terms, global commodity exports rose by 19%, first of all as a result of increasing international prices of raw materials (26%), including energy carriers (32%), and reached the level of \$ 18.2 trillion. In the finished product category, exports of automotive products were at the top, while exports of telecommunication equipment were at the very bottom.

Exports of commercial services rose by 11% to \$ 4.2 trillion, the highest growth rate (12%) being displayed by the “trade” sector. The share of services in the total world trade volume hit its historic low since 1990 – 18.6% (20.3% in 2010) due to the accelerated growth of exports of raw materials⁴.

As a result, over the period of 2005–2011, the average per annum growth rate of the world goods amounted to 10%, and that of trade in services – to 9%, in spite of the different movement of these two indices in each given year. On the whole, the world trade growth in that period was twice as high as that of world GDP.

One of the main causes of the continuing growth has been the revival of the developing markets, which effectively became the locomotives of world trade. Exports in developing economies and CIS countries rose in real terms by 5.4% (the same index for developed countries is 4.7%). As a result, the share of that group of countries in world exports increased to 47%, that of imports – to 42%.

On the whole, the world's top ten commodity exporters and importers displayed only slight changes, among which one noteworthy development was the emergence of the Russian Federation as one of the biggest supplier countries (it rated 9th, as in 2008), which happened mostly due to the favorable situation with prices for energy carriers and some other raw materials. For more details on the world ratings of the leading exporters and importers of goods and commercial services in 2011, see *Tables 1* and *2*.

1 World Trade 2011, Prospect for 2012. Trade growth to slow in 2012 after strong deceleration in 2011, WTO Secretariat, Geneva, PRESS/658, 12 April 2012, 25 p.

2 “Trade growth to ease in 2011 but despite 2010 record surge, crisis hangover persists”, WTO, Geneva, Press/628, 7 April 2011, 27 p. (http://www.wto.org/english/news_e/pres11_e/pr628_e.htm)

3 Finmarket Information Agency, 12 April 2012.

4 Trade growth to slow in 2012 after strong deceleration in 2011, WTO, Press/658, 12 April 2012 (http://www.wto.org/english/news_e/pres11_e/pr658_e.htm)

Table 1

LEADING EXPORTERS AND IMPORTERS IN WORLD TRADE IN GOODS IN 2011

Place	Exporter country	Volume, \$ bn	Share, %	Change by 2010, %	Place	Importer country	Volume, \$ bn.	Share, %	Change by 2010, %
1	China	1,899	10.4	20	1	USA	2,265	12.3	15
2	USA	1,481	8.1	16	2	China	1,743	9.5	25
3	Germany	1,474	8.1	17	3	Germany	1,254	6.8	19
4	Japan	823	4.5	7	4	Japan	854	4.6	23
5	The Netherlands	660	3.6	15	5	France	715	3.9	17
6	France	597	3.3	14	6	UK	636	3.5	13
7	Republic of Korea	555	3	19	7	The Netherlands	597	3.2	16
8	Italy	523	2.9	17	8	Italy	557	3	14
9	Russian Federation	522	2.9	30	9	Republic of Korea	524	2.9	23
10	Belgium	476	2.6	17	10	Hong Kong, China	511	2.8	16
						– imports for domestic consumption	130	0.7	16
11	UK	473	2.6	17	11	Canada ¹	462	2.5	15
12	Hong Kong, China	456	2.5	14	12	Belgium	461	2.5	17
	– exports of domestically manufactures goods	17	0.1	14					
	– re-export	439	2.4	14					
13	Canada	452	2.5	17	13	India	451	2.5	29
14	Singapore	410	2.2	16	14	Singapore	366	2	18
	– exports of domestic products	224	1.2	23		– imports for domestic consumption ²	180	1	27
	– re-export	186	1	10					
15	Saudi Arabia ³	365	2	45	15	Spain	362	2	11
16	Mexico	350	1.9	17	16	Mexico	361	2	16
17	Taiwan, China	308	1.7	12	17	Russian Federation ¹	323	1.8	30
18	Spain	297	1.6	17	18	Taiwan, China	281	1.5	12
19	India	297	1.6	35	19	Australia	244	1.3	21
20	UAE ³	285	1.6	30	20	Turkey	241	1.3	30
21	Australia	271	1.5	27	21	Brazil	237	1.3	24
22	Brazil	256	1.4	27	22	Thailand	228	1.2	25
23	Switzerland	235	1.3	20	23	Switzerland	208	1.1	18
24	Thailand	229	1.3	17	24	Poland	208	1.1	17
25	Malaysia	227	1.2	14	25	UAE ³	205	1.1	28
26	Indonesia	201	1.1	27	26	Austria	192	1	20
27	Poland	187	1	17	27	Malaysia	188	1	14
28	Sweden	187	1	18	28	Indonesia	176	1	30
29	Austria	179	1	17	29	Sweden	175	1	18
30	Czech Republic	162	0.9	22	30	Czech Republic	151	0.8	20
	Total, 30 countries ⁴	14,835	81.4	–		Total, 30 countries ⁴	15,180	82.6	–
	World, total ⁴	18,215	100	19		World, total ⁴	18,380	100	19

1 Imports, FOB price.

2 Imports for Singapore's domestic consumption are determined as aggregate imports less the re-export volume.

3 WTO Secretariat's estimates.

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

Source: WTO Secretariat, Press release, PRESS/658, Geneva, April 12, 2012, p.18 (Appendix Table 3 Merchandise Trade: Leading Exporters and Importers, 2011).

Table 2

LEADING EXPORTERS AND IMPORTERS IN WORLD TRADE IN COMMERCIAL SERVICES* IN 2011

Place	Exporter country	Volume, \$ bn.	Share, %	Change by 2010, %	Place	Importer country	Volume, \$ bn.	Share, %	Change by 2010, %
1	USA	578	13.9	11	1	USA	391	10.1	6
2	UK	274	6.6	11	2	Germany	284	7.3	8
3	Germany	253	6.1	9	3	China	236	6.1	23
4	China	182	4.4	7	4	UK	171	4.4	7
5	France	161	3.9	11	5	Japan	165	4.3	6
6	India	148	3.6	20	6	France	141	3.6	7
7	Japan	143	3.4	3	7	India	130	3.4	12
8	Spain	141	3.4	14	8	The Netherlands	118	3.1	12
9	The Netherlands	128	3.1	11	9	Italy	115	3	5
10	Singapore	125	3.0	12	10	Ireland	113	2.9	6
11	Hong Kong, China	121	2.9	14	11	Singapore	110	2.9	15
12	Ireland	107	2.6	10	12	Canada	99	2.6	10
13	Italy	107	2.6	9	13	Republic of Korea	98	2.5	3
14	Switzerland	96	2.3	17	14	Spain	91	2.4	5
15	Republic of Korea	94	2.3	18	15	Russian Federation	90	2.3	24
16	Belgium	86	2.1	1	16	Belgium	82	2.1	5
17	Sweden	76	1.8	16	17	Brazil	73	1.9	22
18	Canada	74	1.8	10	18	Australia	59	1.5	18
19	Luxembourg	72	1.7	8	19	Denmark	56	1.5	11
20	Denmark	66	1.6	11	20	Hong Kong, China	56	1.4	10
21	Austria	60	1.4	11	21	Sweden	56	1.4	15
22	Russian Federation	54	1.3	22	22	Saudi Arabia	55	1.4	8
23	Australia	50	1.2	6	23	Thailand	50	1.3	13
24	Taiwan, China	46	1.1	14	24	Switzerland	47	1.2	18
25	Norway	42	1	7	25	UAE1	46	1.2	...
26	Thailand	40	1	19	26	Austria	44	1.2	20
27	Greece	40	1	7	27	Norway	44	1.1	4
28	Macao, China	39	0.9	36	28	Taiwan, China	41	1.1	11
29	Turkey	38	0.9	12	29	Luxembourg	40	1	10
30	Poland	37	0.9	12	30	Malaysia	37	1	17
Total, 30 countries		3,480	83,8	-	Total, 30 countries		3,140	81.2	-
World, total		4,150	100	11	World, total		3,865	100	10

* Foreign trade in commercial services is understood as the performance of paid-for work (or rendering of services) by one country for another one, this activity having no direct relation to the creation of material valuables. Non-commercial services are understood in the main as the so-called public services, which are rendered inside a given country and outside of the competitive environment.

¹ Preliminary estimates. The data for a number of countries and territories are based on the WTO Secretariat's estimates. The per annum growth rate indices and ratings are influenced by gaps in the available data series for a large number of countries, as well as the limited opportunities for their *cross-sectional comparison*.

Source: WTO and UNCTAD Secretariats, Press release, PRESS/658, Geneva, April 12, 2012, p.20 (Appendix Table 5 "Leading Exporters and Importers in world trade in commercial services, 2011").

The highest growth increment in real terms in 2011 was displayed by exports of goods from India (16.1%), China (9.2%) and the USA (7.2%). According to data released by the WTO, China in 2011

once again became leader in exports of goods (\$ 1,899bn; 10.4% of world exports), coming ahead of the USA (\$ 1,481bn; 8.1% of world exports) and Germany (\$ 1,474bn; 8.1% of world exports). The USA continue to top the list of biggest importers (\$ 2,265bn; 12.3% of world imports), followed by China (\$ 1,743bn; 9.5% of world imports) and Germany (\$ 1,254bn; 6.8% of world imports).

The distribution of leaders in exports of commercial services also remained unchanged: the first place went to the USA (\$ 578bn; share in world exports – 13.9%), followed by the UK (\$ 274bn; 6,6%) and Germany (\$ 253bn; 6,1%). The USA also came first among consumers of services (\$ 391bn; share in world imports – 10%), followed by Germany (\$ 284bn; 7.3%) and China (\$ 236bn; 6.1%).

World trade's prospects for growth have become less optimistic because of the threats to global economic growth created by the debt crisis in the eurozone. In fact, even a moderate recession in the European Union may result in negative consequences for the entire global industry and trade.

The countries with developing markets will undoubtedly suffer from the declining demand for imports in the EU countries, Europe being their biggest supply market. According to the forecasts of WTO experts, in 2012 the growth of exports from developed countries will amount to only 2%, and that from developing ones (including CIS countries) – 5.6%. As for imports, the WTO expects the rates of growth to be at the level of 1.9% for developed countries and 6.2% for developing economies and the CIS.

WTO experts believe that the rate of growth of the international trade volume in 2012 may go down to 3.7%, which is generally below the average level of the past two decades (5.4%). According to the WTO's forecast, growth of world GDP in 2012 will amount to 2.1%. The forecast gives consideration to the effects of the earthquake in Japan and the potential shrinkage of that country's exports and imports. Besides, the political instability in the Middle East may result in the forecast's further downward adjustment. However, at the same time WTO experts predict that in 2013 the growth rate of world trade may increase to 5.6%, while the rates of growth of exports from developed and developing countries – to 4.1% and 7.2% respectively¹.

For the sake of comparison, we may cite here the estimated rate of international trade growth – 5.8% in 2011, which was published by the IMF practically at the same time as the WTO Secretariat did. The IMF predicts that, in 2012 and 2013, the rate of growth of world commodities turnover will be at the levels of 4.0% and 5.6% respectively. This deviation from the estimates released by the WTO can probably be explained by the more optimistic outlook of the IMF's experts in regard of the world economy's development. Thus, the rate of world economic growth as forecasted by the IMF will drop from 4% in 2011 to approximately 3.5% in 2012 due to weak business activity in late 2011 and the first half-year 2012, mostly in response to losses resulting from the deteriorating state finances and the situation in the banking sector in the eurozone².

According to the WTO's data, last year Russia's external trade turnover displayed a very high growth rate (30% in nominal terms), which improved her rating as one of the leaders in exports and imports of goods and commercial services (*Table 3*). At the same time, it must be emphasized that the world's leading oil exporters demonstrated growth of their exports at the level of 40–50%, while the growth rate of Russia's exports in real terms amounted to approximately one-quarter of that in nominal terms.

As a result (as shown by preliminary data released by the WTO), in 2011 Russia's world rating climbed up three points on 2010 – to 9th place (\$ 522bn). This country's share in global exports amounted to 2.9% (against 2.4% in 2009 and 2.6% in 2010). In terms of value of imports of goods (\$ 323bn; growth by 30%), the Russian Federation rose from 18th to 17th place, and her share in world imports amounted to 1.8% (against 1.5% in 2009 and 1.6% in 2010). Less the volume of regional trade in goods in the EU (i.e., the turnover of goods between EU members), Russia came 6th in exports of goods and 11th in world imports (in 2010 – 7th and 12th respectively).

In the 2011 rating of suppliers of commercial services, the Russian Federation (\$ 54bn; growth by 22%) came 22nd, her share amounting to 1.3% (against 23rd place and 1.2% in 2010). In the sphere of imports of commercial services (\$ 90bn; growth by 24%) this country went up one position in the

1 Ibidem.

2 IMF World Economic Outlook (WEO) Growth Resuming, Dangers Remain, Wash., 17 April 2012. <http://www.imf.org/external/pubs/ft/weo/2012/01/index.htm#>

world rating – to 15th place, while her share rose to 2.3% against 2% in 2010.¹ Less the volume of regional trade in services in the EU countries, Russia came 11th in world exports and 9th in world imports (against 12th and 9th respectively in 2010).

Table 3

RUSSIA'S WTO RATINGS AND MOVEMENT OF HER SHARE IN WORLD TRADE IN GOODS AND COMMERCIAL SERVICES IN 2000–2011

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

* First figure – rating; second – share as %.

Source: calculations based on WTO statistics for each given year.

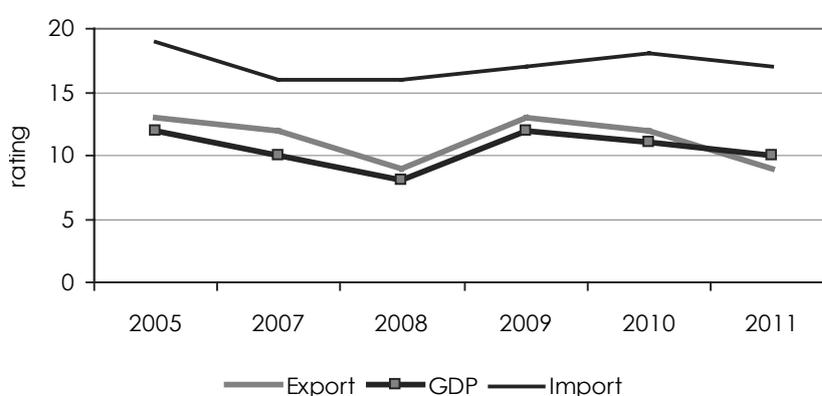
Typically, a comparable trend can also be traced with regard to Russia's global GDP volume rating, which is calculated by the IMF in nominal terms. Thus, according to the IMF's estimates, in 2009 the Russian Federation came 12th in the world (GDP volume of \$ 1,229bn), in 2010 she rose to 11th place (\$ 1,477bn), and 2011 moved on to become 10th (\$ 1,850bn). As a result, this country's share in global GDP in 2009–2011 was 2.1%, 2.4% and 2.8% respectively².

The existence of a direct correlation between the ratings of

GDP volume and exports once again demonstrates the dependence of Russia's economic growth on the volume of her exports, and primarily that of energy carriers (see Fig. 1). At the same time, the share of services in the Russian Federation's aggregate trade volume shrank to 9.4% (against 10.0% in 2010), which is twice as low as the world's average level – 18.6% (20.3%).

The RF Ministry of Economic Development's currently adopted basic economic development scenario for the period of 2012–2014 is based on the expectation that the average per annum price of Urals in 2012 will amount to 100 USD./barrel³. In early April, in response to the upgraded forecasts of oil prices, the Ministry upgraded its forecasted value of trade balance for 2012 by 30.5% – from \$ 144.4bn (set in September 2011) to \$ 188.5bn.

According to the draft of the adjusted basic scenario for 2013–2015, this year the volume of exports will amount to \$ 558bn (against \$ 513bn in the previous forecast), and that of imports – to \$ 369.5bn (against \$ 368.6bn). The forecasted exports volume for 2013 is \$ 526bn (against \$ 515bn), that of imports – \$ 407bn (against \$ 413bn); the volumes forecasted for 2014 are \$ 551bn and \$ 445bn respectively; and in 2015, as forecasted by the RF Ministry of Economic Development, exports will increase to \$ 581bn, and imports – to \$ 485bn⁴ (Fig. 2).



Source: calculations based on IMF and WTO statistics for each given year.

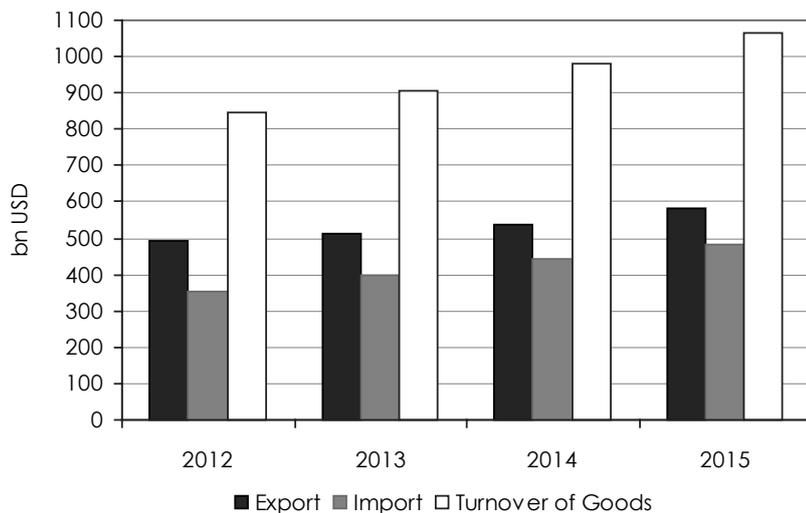
Fig. 1. The Russian Federation's Place in the World Economy and Trade (GDP; exports; imports)

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

2 International Monetary Fund, World Economic Outlook Database, April 2012: Nominal GDP list of countries. Data for the year 2011.

3 "Prognoz sotsial'no-ekonomicheskogo razvitiia Rossiiskoi Federatsii na 2012 god i planovyi period 2013-2014 godov" [Forecast of the socio-economic development of the Russian Federation for the year 2012 and the 2013-2014 planning period] (approved on 21 September 2011 at the RF Government's meeting).

4 Finmarket Information Agency, Nezavisimaia gazeta [The Independent Newspaper], 10 April 2012.



Source: Calculated on the basis of the upgraded draft of the economic development scenario for the period of 2013-2015 (RF Ministry of Economic Development, April 2012).

Fig. 2. Forecasted Value Volumes of Russia's Foreign Trade in Goods in 2012–2015

It should be noted that the trends observed early in 2012 have essentially confirmed the reality of such expectations: according to the preliminary estimates released by the Federal Customs Service, in Q1 the turnover of goods rose to \$ 126.1bn, or by 21.5% on the same period of 2011. The rate of exports growth amounted to 22.8% (with the EU, Russia's main partner in trade, – to 34.6%). Imports of goods from far-abroad countries increased by 23.2%, which can be explained primarily by the rise in imports of machine-building products from far abroad by 33.5% (their share in imports increased from 46.3% to 50.9%)¹. The demand for imported consumer goods and foods is also on the rise.

The first priority at present, as before, is to ensure diversification of the structure of Russian exports. The core items of Russia's exports in 2011 were fuel and energy products, whose share in the structure of exported goods increased to nearly 70%. However, the potential for any further growth of their exports has been effectively exhausted, while the existing potential for innovation technologies can be realized only in the medium-term perspective. It is expected that Russia will achieve a sharp rise in her exports of items other than raw materials – by 2.5 times towards 2020, and by 7.5 times towards 2030; their share in the structure of exports will rise from 18% in 2011 to 29% in 2020². In this connection, the most important role in the implementation of these plans can be played by a newly created system of comprehensive support of exports and the efficiency of its mechanisms, including the activity of Open-end JSC Export Insurance Agency of Russia (EXIAR)³.

The dynamics of Russia's foreign trade in goods and services in 2011 and forecasts of its further developments, its sectoral structure, and the backwardness of the non-commodity forms of Russian exports are clearly indicative of the existence of some systemic problems that require the adoption of some new approaches to the overall development of the whole field of foreign trade. Of no less importance in this context is the need to rethink the role of the "foreign" sector in Russia's economic development in the post-crisis period, with due regard for the new institutional factors – the functioning of the Customs Union, the creation of a single economic space, and the Russian Federation's forthcoming accession to the WTO. ●

1 According to the Federal Customs Service's data (<http://www.customs.ru>) for January-February 2012.

2 Abstract of Minister E. S. Nabiulina's report 'On the Priorities of Long-term Economic Development' delivered at the plenary meeting of the XIII April International Academic Conference on Economic and Social Development; National Research University – Higher School of Economics, Moscow, 3 April 2012. RF Ministry of Economic Development's website.

3 By late 2014, EXIAR will have spent Rb 500bn on the support of exporters, while the share of insured non-raw-materials exports will increase from 0.8% to 9.7%. Vedomosti, 3 April 2012.

THE REVIEW OF THE MEETING OF THE GOVERNMENT OF THE RF

M.Goldin

In April 2012, at the meetings of the Presidium of the Government of the Russian Federation the following issues were discussed: such amendments to the Law of the Russian Federation on Insurance Business as provide for an increase in the size of the quota of foreign participation in authorized capital of insurance organizations from 25% to 50% and the draft law which sets new requirements to gambling institutions.

On April 5, at the meeting of the Presidium of the Government of the Russian Federation the draft of the Federal Law on Amendment of Article 6 of the Law of the Russian Federation on Organization of Insurance Business in the Russian Federation was discussed.

The draft law provides for an increase in the size of the quota of foreign participation in the authorized capital of insurance organizations from 25% to 50%. The above quota was established by Law No. 4015-1 of November 27, 1992 on Organization of Insurance Business in the Russian Federation. It is to be noted that in case of an excess of that quota, the Federal Financial Markets Service (FFMS) ceases to issue licenses to carry out insurance activities to insurance organizations which are either subsidiaries of foreign investors or have an interest of over 49% owned by foreign investors in their authorized capital.

The amendment is related to the requirement – which came into force on January 1, 2012 – as regards increasing of the minimum sizes of the authorized capital of insurance organizations to the following amounts:

- Rb 60m as regards insurance organizations which carry out mandatory medical insurance only;
- Rb 120m as regards insurance organizations which carry out accident and health insurance, voluntary medical insurance, property insurance, public liability insurance and business risks insurance;
- Rb 240m as regards insurance organizations which carry out life insurance, accident insurance and health insurance;
- Rb 480m as regards organizations which carry out reinsurance, as well as insurance in combination with reinsurance.

The above amounts have been increased by Federal law No. 313-FZ of November 29, 2010 on Amendment of Individual Statutory Acts of the Russian Federation in connection with adoption of the Federal Law on Mandatory Medical Insurance in the Russian Federation.

According to the calculation carried out by the FFMS of Russia, as early as the 1st quarter of 2011 the quota of foreign capital's participation in the authorized capital of insurance organizations amounted to 22,242% out of the admissible 25%. As the quota was virtually exhausted, the FFMS of Russia had to stop issuing permits for insurance organizations with foreign participation to increase the authorized capital.

At the same time, according to the data of the FFMS of Russia, as of December 31, 2011 about 31% of insurance organizations did not comply with new requirements to the authorized capital, while the aggregate authorized capital deficit amounted to over Rb 20bn.

The draft law is to solve the existing problem of participation of foreign investors in the authorized capital of insurance organizations.

The draft law was approved and sent to the State Duma on April 16, 2004.

On April 5, at the meeting of the Presidium of the Government of the Russian Federation the draft of the Federal Law on Amendment of Article 6, Article 8 and Article 16 of the Federal Law on State Regulation of Activities Related to Organization and Holding of Gambling and Introduction of Amendments into Some Statutory Acts of the Russian Federation and Article 1 of Federal Law on Amendment of the Federal Law on State Regulation of Activities Related to Organization and

Holding of Gambling and Introduction of Amendments into Some Statutory Acts of the Russian Federation was discussed as well.

A draft federal law was introduced by the Ministry of Finance of the Russian Federation.

The draft law sets requirements to gambling institutions, including those as regards:

Location of gambling institutions in buildings, constructions and structures;

Floorspace of the area of servicing of participants in gambling;

Number of gambling tables and game-playing machines in the area of servicing of participants in gambling;

Maintenance of the office area and auxiliary area of a gambling institution;

Availability in the office area of a gambling institution of both specially equipped premises for receipt, issuing and temporary keeping of cash funds and premises for organization of security of a gambling institution;

Ensuring of unified accounting, processing of bids, recording of results of gambling and calculation of the amounts of winnings, as well as identification of the instance on which the outcome of the bet depends.

Also, the draft law eliminates differences in the Federal Law on State Regulation of Activities Related to Organization and Holding of Gambling and Introduction of Amendments into Some Statutory Acts of the Russian Federation as regards the period of validity of bank guarantees for fulfillment of activities related to organization and holding of gambling at bookmakers' office and pari-mutuel with taking into account the requirements of Article 9 of Federal Law No.99-FZ of May 4, 2011 on Licensing of Individual Types of Activities as regards unlimited validity period of the license. Due to the above, the draft law provides for establishment of the period of validity of a bank guarantee. Such a period cannot be less than a year.

According to the draft law, a bank guarantee is extended (re-executed) throughout the entire period of validity of the license to the specified activities granted to the organizer of gambling at a bookmaker's office or pari-mutuel and cannot be revoked.

The amount of a bank guarantee is determined in the relevant agreement and cannot be less than Rb 500m. ●

REVIEW OF THE ECONOMIC LEGISLATION

I.Tolmacheva

In April, the following amendments into the legislation were introduced: in Russia it is planned to put into operation the federal state information system of territorial planning; the Constitutional Court of the Russian Federation has ruled that a partnership of owners of housing is not an entity in which participation by an individual is recognized as employment (that is, an individual's job or income).

I. Resolution of the Government of the Russian Federation

1. Resolution No. 289 of April 12, 2012 ON THE FEDERAL STATE INFORMATION SYSTEM OF TERRITORIAL PLANNING.

From June 15, 2012, it is planned to put into operation the federal state information system of territorial planning in Russia. The above system is an information and analytical resource which is available through a specialized internet-site; the above resource provides access to the data of state and municipal information systems of support of urban planning activities and territorial planning. The information which is to be available through the system includes the following: draft documents of territorial planning and materials justifying them; territorial planning documents; land use and development rules; digital topographical maps without information which is attributed to the state secret; information on borders of constituent entities of the Russian Federation, municipal entities and population centers; information on location of projects of federal, regional and local importance; information on zones with special conditions of utilization of territories, territories of cultural heritage projects and natural areas of preferential protection; information on territories exposed to the risk of occurrence of emergency situations generated by technology or natural disasters; information on special economic zones; information on outputs of engineering surveys and information on location and development of mineral deposits.

The objectives for which the system is established include the following: organization of access of federal, regional and local state authorities of the Russian Federation to the data which is required for fulfillment by them of powers in the sphere of territorial planning; ensuring of openness in taking and realization by state authorities of the Russian Federation of decisions in the sphere of territorial planning; information support of activities of state authorities of the Russian Federation, legal entities and individuals as regards development of territories.

The Ministry of Regional Development has been determined as the operator of the system. The Ministry of Telecom and Mass Communications of the Russian Federation has been entrusted with supervision over compliance with the rules of maintaining of the federal state information system of territorial planning.

II. Instructions, letters and orders

1. Ruling No. 10-P of April 23, 2012 of the Constitutional Court of the Russian Federation on the CASE OF CHECKING CONSTITUTIONALITY OF PARAGRAPH TEN OF ARTICLE 2 OF THE LAW OF THE RUSSIAN FEDERATION ON EMPLOYMENT OF POPULATION IN THE RUSSIAN FEDERATION DUE TO A COMPLAINT OF CITIZEN E.N. ERLIKH

Partnership of owners of housing is not an entity in which participation by an individual is recognized as employment (that is, an individual's job or income). In accordance with the Law of the Russian Federation on Employment of Population in the Russian Federation, deemed as employed are citizens who are founders (participants) of entities, except for founders (participants) of public and religious organizations and associations, charitable and other funds and associations of legal entities (associations and unions) which have no proprietary rights in respect of those organizations. It has been recognized that the above norm established by paragraph 10 of Article 2 of the Law fails to comply with the Constitution of the Russian Federation to the extent it prevents

recognition of founders (participants) of non-profit organizations – partnership of owners of housing – as unemployed. Such a regulation, namely, the restricted list of non-profit organizations – established by Paragraph 10 of Article 2 – whose founders (participants) are not recognized as employed fails to take into account the specifics of the legal status of founders (participants) of non-profit organizations (which are not specified in the above list) such as partnerships of owners of housing which do not carry out economic activities through participation in a legal entity in order to receive a regular income. However, as was stated by the Constitutional Court of the Russian Federation possession of such proprietary rights in respect of an organization-legal entity as arise from participation in that legal entity is not conclusive evidence of a lack or existence of the right with founders (participants) of that legal entity to make profit from economic activities and, consequently, it cannot be regarded as criteria for differentiation of the rights of founders (participants) of organizations in the sphere of protection from unemployment. ●

AN OVERVIEW OF THE NORMATIVE DOCUMENTS ON ISSUES ON TAXATION ADOPTED IN MARCH–APRIL 2012

L.Anisimova

1. The period of March – April 2012 saw some further elaboration of the standpoints of the RF Government and the business community on the issue of a tax maneuver, happening on the very eve of the new RF President's inauguration. RF incumbent President D. A. Medvedev and the RF Ministry of Finance agree that, as an emergency measure, the rate of 30% for insurance contributions to the state off-budget funds may be preserved at the existing level,¹ while the business community does not like that idea and insists that the tax load on the processing industry and the innovation sector of the economy should be reduced, and the rate of insurance contribution radically decreased.

2. The discussion on the ways of reforming the pension system is gaining force. The mass media are discussing three different standpoints (of the RF Ministry of Health Care and Social Development, the RF Ministry of Economic Development, and the RF Ministry of Finance, the latter relying on the conclusions stipulated in Strategy 2020. In brief, these standpoints can be described as follows: the RF Ministry of Health Care and Social Development is for a return to the predominantly distribution-based scheme supplemented by corporate and individual insurance of pensions (the rate of deduction to the solidarity component remains at the level of 22%; it suggested that a corporate component should be established for the employees of “some organizations or branches”; and the funded component is to become voluntary for individuals)². The RF Ministry of Economic Development objects to these proposals, arguing that the return to a distribution-based scheme in a situation of population decline will result in a decreased amount of pension per pensioner, and so the funded component must be preserved. The fundamental points shared by the RF Ministry of Finance with Strategy 2020 are as follows: raised retirement age, lowered rates, a changed base for calculating the insurance contributions alongside the preservation of the funded component model. Thus, in particular, in the framework of Strategy 2020 it is “... proposed to expand the tax base by means of raising the salary threshold established for deductions to the pension system. The ratio of the salary margin to the average salary over a given year to which the deductions are to be charged at a standard rate is increased from 161% to 230%”. At the same time, the funded component is preserved (with slight alterations). As a result, as envisaged in Strategy 2020, Russia will have four types of pensions: social pension for individuals without an employment history, or with a short history of formal employment, or with low-income employment in the informal sector; basic pension for low-income employees of the informal sector; combined pension for medium-income categories; and combined-alternative pension for high-income categories³.

Arguing against the authors of Strategy 2020, RF Deputy Minister of Health Care and Social Development Yu. Voronin notes that the main purpose of the pension system's organization is to ensure compliance with the principle of solidarity insurance, and not to insure against a pensioner's loss of his or her former earnings (the latter, in his opinion, is the purpose of Strategy 2020). He argues his point as follows⁴: “In the pension insurance system this principle is implemented in the most just way – insurance contributions are paid at a single tariff for every employee irrespective of the level of

1 A. Bashkatova. *Biznesmeny davno nashli rezervy dlia nalogovogo manevara* [Businessmen have long ago found the reserves for a tax maneuver.] Website ng.ru, 12.04.2012; A. Bashkatova. *Minfin zablokiroval nalogovyi manevar. Stimulirovanie ekonomiki svelos' k sokhraneniuu sushchestvuiushchikh stavok* [Minfin [RF Ministry of Finance]. blocked the tax maneuver. Incentives for the economy were reduced to the preservation of the existing rates.] Website ng.ru, 10.04.2012.

2 O. Kuvshinova, E. Pis'mennaia. *Na pensiiu grazhdanam pridetsia kopit' samim* [The citizens will have themselves to save for their own pensions]. Website vedomosti.ru, 16.04.2012

3 *Avtory "Strategii 2020" predlagaiut povysit' pensionnyi vozrast do 63 let* [The authors of Strategy 2020 suggest that the retirement age should be raised to 63 years]. Website vedomosti.ru, 14.03.2012,

4 Yu. Voronin. *Pensiia po-russki: vmeste ili pouroz'?* [Pension Russian style: together or separately?]. Website izvestia.ru, 6.04.2012

their earnings, but the size of pension is restricted by an established margin, thus making it possible to redistribute the cut-off value of highly paid employees in favor of their less well provided-for colleagues, so that they can be allocated their pensions at a socially acceptable level”.

The author, in effect, explains the fundamentals of taxation. It is tax that suits best the purposes of simple redistribution-based relations, when there is no need for keeping personified records of the monies transferred to the account of each individual employee. Russia’s model of forming and using the pension fund is still called “pension insurance”, although it implements no insurance mechanism.

Insurance is collective protection of the participants from more or less probable risks. The core notion here is “an event’s probability”. Nearly everybody retires, and so the probability of ‘insured event’ is nearly 100%. So public insurance may be implemented, for example, in health care (in the event of an employee’s illness), or against loss of employment (social insurance); but we do not believe that there exist any technical grounds for insuring retirement.

In the course of reform, pension (state welfare benefit) was fused with a supplementary component that envisages individualized savings guaranteed by the State. In this connection, no additional sources of financing for the funded component were envisaged. The former SST (single social tax) was transformed into a “payment” consisting of two parts: tax (named “the tariff’s solidarity component”) and individual (the so-called funded component). As result, the amount of funds mobilized in the framework of only ‘the insurance tariff’s solidarity component’ was no longer sufficient for covering the current labor pension payments. Hence the RF Ministry of Health Care and Social Development’s proposal that the distribution-based system should be reinstated. However, the other economic departments object to this idea – the funded component is needed not only for preventing a decline of the size of pension, but also for creating a government-controlled fund of irrevocable long-term money needed for investment.

The funded component of the tariff has no features of insurance-based relations, either. By way of illustration, let us look at bank deposit schemes. In the banking system, deposits per se do represent a form of insurance, although from a technical point of view the procedures very much resemble those of forming the RF Pension Fund and making payments from it: money can be paid to some individuals at the expense of the sums placed as deposits by other individuals, while part of the money is simply kept on the accounts. The deposits placed by individuals are additionally insured in order to lower the risks of a systemic banking crisis (so that non-payers could not get into several banks at once that are linked by correspondent banking relationships). For this purpose, a special fund is formed from the deductions charged to the banks that voluntarily participate in the deposit insurance system, and the insured event is a bank’s bankruptcy. In other words, in the situation involving insurance of bank deposits the classical insurance principle manifests itself: the payments are made by all the banks participating in the deposit insurance system, while the payments from the fund are made only to those banks that have been taken over by external management and are settling with their depositors.

In regard of payments to state off-budget funds, the classical insurance rules may be applied if the funded component is transformed into bank deposits distributed among different banks (instead of being transferred only to VTB) and on condition that an analogue of a deposit insurance fund is created for safeguarding those deposits (possible at the expense of a commission directly charged, on an annual basis, to the sum of insurance contribution kept on “funded” irrevocable accounts).

The common feature of the scheme put forth in Strategy 2020 and the one proposed by the RF Ministry of Health Care and Social Development is that expansion of the base for levying pension contributions is viewed as a reliably source of deficit redemption and mobilization of additional resources for the RF Pension Fund. However, in reality, as proved by available estimations, this country’s average salary level of Rb 25,000 per month only slightly exceeds the base to which the rate of contributions set for the year 2012 is going to be applied. In other words, no real growth of revenues can be expected in the nearest future in response to an increase of the taxable base in nominal terms because the nationwide average salary level is actually low. That is why the RF Pension Fund’s deficit against the payments of current pensions in the next 10 years (until 2022, when the first group of pensioners born after 1967 are going to retire, and so the funded component will begin to be used as a source for pension payments) will have to be redeemed primarily by

applying non-financial methods – raising the retirement age, increasing the mandatory employment history length, etc., as well as by resorting to some additional sources of federal budget revenue (raw materials, privatization).

3. The mounting political activity in late 2011 – early 2012 in response to the elections to the State Duma and the presidential election also resulted in some attempts to alter the tax system. In particular, the proposal to abolish the mechanism (envisaged in the RF Tax Code) for the personal income tax (PIT) being withdrawn by a tax agent at the source of income was met with some enthusiasm. The motives behind this innovation are that it is needed in order to educate the population in terms of tax грамотности and civil responsibility, as well as the necessity to transfer tax sources to the level of local authorities¹.

A fixed rate of PIT (base rate – 13%) was introduced so as to reduce to a minimum the need for citizens to get in touch with tax officials. It is convenient for tax agents to deduct tax at a fixed rate every time they pay personal income, because no recalculation of a taxpayer's tax liabilities is needed in that case (in contrast to what happened when a scale of tax rates was applied, or when an individual was deriving income from two or more sources). Besides, it must not be forgotten that legislation envisages sanctions that must be imposed in an event of a tax violation. A fixed tax rate significantly lowers the risks of incorrectly calculated tax liabilities for tax agents and taxpayers alike. The federal Tax Service is planning that, from July onwards, it will become possible for taxpayers to open up their personal cabinets on the Internet, where they will be able to see the sum of incomes declared under their INN codes and the sum of levied taxes, including PIT.

The problem that will arise in connection with the transfer of taxes to municipal budgets was described by Sergey Shoigu. In his new capacity as Moscow Oblast Governor, he suggested that PIT should be paid at the place of its deduction (the place of an individual's employment) instead of the place of residence. This issue was commented on by newly elected RF President Vladimir Putin². He noted that it is more convenient to withhold PIT at the place of deduction (place of employment), this being only a matter of tax administration technique; and later on, the tax can be transferred in accordance with the place of residence.

However, the officials from the RF Ministry of Finance (Deputy Head of Department Sergey Razgulin) pointed to the complexity of the task of implementing the technical aspects of the proposed scheme³: “If the responsibility for the transfer of personal income tax (PIT) is established at a taxpayer's place of residence, it is evident that we must switch over to mandatory declaration of the amount of that tax by each taxpayer. At present it is envisaged in tax legislation that the responsibility to pay PIT lies with the employer, which in this case acts as a tax agent”. Over the past seven or eight years, such proposals have been regularly submitted to the State Duma in the form of draft laws and then rejected by the RF Ministry of Finance. “This is an institution of interbudgetary relations, the issue of tax redistribution should not be subject to regulation by the Tax Code”, Sergey Razgulin emphasized.

Regretfully, in this particular situation we are faced with the imperfection of the vertical of administrative power. In order to deal with each given problem, a federal body of executive authority needs a direct government assignment. The imperfection of the existing vertical of administrative power is that people, when they want their problems to be dealt with, need to go directly to “the top”. But when an initiative “from above” moved down to the level of federal bodies of executive authority, it is often rejected because it is impossible to settle a given issue in the framework of prevailing legislation, and no allocation of budget funds is envisaged in this connection. In this particular case the RF Ministry of Finance's officials have given too little regard to the status of the idea's author. We believe that, after the new RF President's inauguration, he and the RF Government will give the necessary assignments to the relevant federal ministries, and so, in all probability, some solution to the problem will be found.

1 See O. Samofalova. *Lichnoe delo kazhdogo* [Everybody's personal business], website vz.ru, 2 April 2012.

2 E. Arsiukhin. *Plati nalogi tam, gdie zhivesh'* [Pay taxes where you live], website Kp.ru, 19 April 2012.

3 S. Kulikov, M. Sergeev. *Minfin obestsenivaet initsiativy vlasti. Nasledniki Kudrina podvergaiut somnenniiu bol'shinstvo predvybornykh pozhelanii izbrannogo prezidenta* [Minfin devaluates the authority's initiatives. Kudrin's inheritors cast doubt on most of the president-elect's pre-election wishes], website ng.ru, 16 April 2012.

The distribution of collected taxes can be done automatically via the information systems of the RF Federal Treasury's agencies. But this, naturally, will require special adjustments that will have to be made to these systems, as well as to adjust the electronic payment form in cooperation with the RF Central Bank. In technical terms, it will be necessary to establish the regions' identification codes, so that money could be transferred to their budgets on the basis of two INNs (tax agent's and taxpayer's), on condition that a special entry should be made in budget legislation concerning the proportional distribution of the sum of tax between the municipal budget at the place of an income source (the relevant region's cipher is to be encoded in the tax agent's INN) and the municipal budget at the place of a taxpayer's residence (the cipher of the region of residence is to be encoded in the taxpayer's INN). Besides, to ensure control over the actual tax receipts INN municipal budgets, the municipalities' officials will have to be endowed with an additional right of access to PIT data based on the INN of their region, and also the right to use the database of the online taxpayer cabinets that will be created by the Federal Tax Service (PIT is a federal tax, although it is transferred to municipal budgets), but without an access to the personal data of individual taxpayers.

One more group of problems associated with the lack of well-organized interaction between federal ministries was outlined in the questions put by former RF President's assistant Andrey Illarionov to former RF Minister of Finance Aleksey L. Kudrin concerning the 'mistaken' VAT refunds paid to the accounts of some fly-by-night firms, which resulted in multi-billion losses inflicted on the federal budget. These questions were published by the Ekho Moskvyy [Echo of Moscow] radio station on 6 and 9 April 2012. The case in point is that the Federal Treasury's agencies responsible for budget refunds have no information on the current balances of VAT liabilities under each taxpayer INN, including the information of previous setoffs and refunds, or the information on issued bank guarantees. The RF Ministry of Finance has repeatedly raised the issue of the necessity to refund VAT only within the limits of the actually paid amounts of VAT¹, but that standpoint so far has not been reflected in the judicial system's practice.

We believe that this issue must be further discussed in the future. In those cases when the sums of setoffs and refunds since a year's beginning are found to be higher than the issued bank guarantees and the amount of VAT paid over the same period (including the residual as of the year's beginning), the VAT refund under that INN should be stopped. In our opinion, a special norm to this effect should be introduced in the RF Tax Code.

4. Some serious alterations that have recently been introduced in the normative base are associated with the decisions adopted by supreme judicial instances with regard to many legal issues, and first of all the issues belonging to the domain of so-called corporate law²³. The resolutions of supreme

1 See, for example, Letter of the RF Ministry of Finance of 29 March 2012, No 03-03-06/1/163, where its position is also confirmed, namely that the amount of VAT levied on the materials the cost of which was charged to production that yielded nothing is to be restored (explanation: the refunded or set off amounts of VAT are to be restored if production yielded no result – that is, no tax liability with regard to that taxpayer did not arise).

2 In particular, the newspaper Kommersant described the resolution of the RF Supreme Arbitration Court's Presidium as of 6 September 2011 in the case of cell phone provider SMARTS operating in the Volga region as "a revolutionary precedent". The RF SAC's Presidium estimated the refusal to initiate a court proceeding on grounds of lack of proof as to an exact sum of incurred losses as a denial of justice.

In the resolution of the RF Supreme Arbitration Court's Presidium as of 6 March 2012 in the case where the Kirov Plant was one of the participants, and its resolution as of 20 March 2012 in the case of Iunit Prestizh the burden of providing evidence as to good faith dealing was shifted onto the defendant, who had been a participant who owned the company's controlling block of shares and managed it.

The RF SAC's new practices (prevention of related party transactions, recovery of assets withdrawn from a company and recovery of losses incurred as a result of unlawful acts of a manager or shareholder) are creating an effective mechanism for bringing to responsibility persons who act in their own mercenary interests, states the Kommersant (see A. Zanina, A. Gorshkova. *Arbitrazh vyvodit aktsionerov izzainteresovannosti. Kak meniaetsia praktika rezresheniia korporativnykh konfliktov* [The arbitration court makes shareholders unrelated parties. How the practice of settling corporate conflicts is changing], Kommersant, No 65 (4850) of 12 April 2012).

3 D. Kaz'min. *VAS predlagayet lishat' doli v OOO za prichinenie obshchestvu ushcherba* (The SAC is preparing a draft overview of judicial decisions, where it intends to include decisions concerning the procedure of depriving the owners of limited liability companies of their shares therein when they are sued by the other co-owners, in order to develop a mechanism for settling conflicts between owners in cases when their controversies stop the process of managing a legal entity). Website vedomosti.ru, 19 April 2012.

judicial instances are incorporated in the draft of alterations to be introduced in the RF Civil Code (in particular, Part One of the Code), put forth by RF incumbent President D. A. Medvedev.

One of the most important achievements is the direct consolidation in the draft of the RF Civil Code of the duty of shareholders (founders, participants) and the managerial bodies of a legal entity to act in good faith in regard of that legal entity. This means that, in an event of disclosure of facts being elicited concerning losses in the value of assets or other losses incurred by a legal entity, the burden of providing proof of having acted in good faith is to be imposed on the aforesaid persons (by the way, the duty to act in good faith towards legal entities will now be legislatively established also with regard to auditors)¹.

The importance of the new standpoint of the supreme judicial bodies is that it guarantees equal protection of title to property for all participants in market relations. It is essential for government bodies to remember that, in an event of detriment to the interests of property owners resulting from acts committed by state bodies of authority, the federal budget may be sued for these damages.

Let us consider the following situation. By its Information Letter of 27 March 2012, the RF Federal Financial Markets Service clarifies Item 6 of Article 35 of Federal Law of 26 December 1995, No 208 (wording as of 30 November 2011) “On Joint-stock Companies”, under which “if the joint-stock company’s net asset value becomes less than the size of its charter capital after the end of a financial year following the second financial year, or every subsequent financial year, after the end of which the joint-stock company’s net asset value is found to be less than the size of its charter capital, including in the event envisaged in Item 7 ... of this Article, the joint-stock company is obliged, no later than within six months after the end of a relevant financial, to make one of the following decisions: 1) concerning the reduction of the joint-stock company’s charter capital to a size that does not exceed its net asset value; 2) concerning the joint-stock company’s liquidation”. It seems that the stipulations in this provision of the Law are worded very clearly.

However, the Federal Financial Markets Service notes that “failure, by a joint-stock company, to fulfill the aforesaid obligations imposes no restrictions on its legal capacity – neither within the six-month period established for the relevant decision-making, nor even after its expiry – if the decision concerning the reduction of a joint-stock company’s charter capital to a size that does not exceed its net asset value, or the decision concerning its liquidation has never actually been adopted. A joint-stock company’s failure to fulfill, within an established period of time, the responsibilities with regard to decision-making specified in Items 6 and 11 of Article 35 of the Federal Law “On Joint-stock Companies” does not result in its operation being stopped, or in its opportunities for making various deals being eliminated”.

In other words, if a legal entity (a joint-stock company) had to be liquidated in accordance with the Law, but its shareholders did not pass a decision to that effect, the transactions concluded on behalf of that company would be legitimate. In that case, responsibility lies with the shareholders. Assume that the shareholders are non-residents. In that case, the shareholders themselves, having made the decision concerning the commitment by the legal entity, a Russian resident, of violations of the provisions stipulated in a RF federal law, remain outside of the scope of application of Russian legislation. We believe that, in such a situation, the Federal Financial Markets Service should, alongside issuing an Information Letter, to address the Federal Tax Service (as a body in charge of registration of legal entities within the scope of its jurisdiction) with the information on relevant law violations and the proposal that a given joint-stock company should be struck off the RF Register of legal entities.

We also believe it feasible that the federal bodies of executive authority should elaborate a coordinated approach to methods of protecting the interests of Russian participants and the RF budgetary system (its revenue base) in their relations with their international partners in business, with due regard to the current trend of capital withdrawal from Russia, including by way of altering the jurisdiction of the owners of capital. Experts note that there occurs transfer of Russian companies’ administrative bodies

¹ Annual balance sheets are confirmed by independent auditors who, in accordance with the draft RF Civil Code, now will also be obliged to observe primarily the interests of the organization whose operations they are checking.

to the territory of other states¹, thus making it possible to settle the issues relating to the management of Russian assets in European and other foreign courts.

There is nothing catastrophic in the movement of capital per se, if the State, in pursuance of its interests, does not permit incomes to be withdrawn untaxed from the territory of Russia (the main function of capital being to generate income).

Russian civil law recognizes several types of owners: a physical person; a legal entity; the State; municipalities. Russian civil legislation lacks the notion of 'trust' as a specific form of transferring a title to property. Thus, within the framework of Russian legislation, persons under Russian jurisdiction have the right to transfer property not into a trust (with a change of the title of ownership) but into trust management (not involving transfer of property title). If a property has in fact been transferred into a trust in the territory of a foreign state, this fact does not impact a Russian taxpayer's tax liabilities. The refusal of the manager of a trust to pay taxes into the Russian budgetary system and the failure of that person to submit relevant information in accordance with Russian tax legislation can be classified as tax violations perpetrated by a Russian taxpayer.

In the event when, in the course of their activities, the shareholders (or participants, or founders) of a Russian organization take a decision to change their jurisdiction, this by no means implies that the jurisdiction of the organization itself should be automatically changed as well – it remains Russian. Thus, the transfer of a business to another country will entail the following consequences for the shareholders (or founders, or participants) of a Russian organization: 1) the Russian organization will be stricken off the register of legal entities, or reorganized in accordance with Russian legislation; 2) its property will be distributed among the former shareholders (or participants or founders) of that organization; 3) taxes will be paid in accordance with Russian legislation and international agreements on the avoidance of double taxation in connection with the appropriation of the distributed property. According to Russian legislation, any actions carried out in violation of that arrangement will be deemed to be illegal with regard to the appropriation and disposal of the property of the former Russian organization. In this event the organization should be liquidated in a judicial procedure and a court decision should be passed concerning the distribution of the property and the rights of the liquidated legal entity.

As far as the right of ownership to stocks (or shares or stakes) in Russian organizations is concerned, the norms of Russian legislation that determine the rules, terms and restraints on ownership of stocks (or shares or stakes) should be applied in full, regardless of who is the owner of those stocks (or shares or stakes). In the event of Russian law having been violated, the relevant federal executive authority bodies (the RF Federal Financial Markets Service, the RF Federal Anti-Monopoly Service, the RF Central Bank) should initiate court proceedings against the involved organizations under the jurisdiction of the Russian Federation with aim of restoring the rights of ownership of the legal entity, the introduction of external asset management, etc.

5. In mid-March 2012, the newly elected President of Russia, Vladimir Putin, instructed the main ministries in charge of economic matters (the RF Ministry of Finance and the RF Ministry of Economic Development), the Federal Tax Service and the RF Federal Financial Monitoring Service (Rosfinmonitoring) to develop arrangements that are to make it possible for Russia to extend its taxation to the foreign assets of Russian tax residents. The overall purpose of these arrangements is to protect the RF federal budget's interests in its relations with the budgets of other states.

According to the suggested alterations to the RF Tax Code, payments for work and services (including those of interest on loans), property rights and securities should, forwarded to the address of a company registered in an offshore zone should not be charged to costs by the Russian organization, and, correspondingly, should not be taken into account in the process of forming its taxable base, unless information on the beneficiary (the recipient of funds) of that offshore company is disclosed. A Russian organization would be capable to avoid paying tax on such costs only by submitting a documented confirmation that it does not exercise control over the offshore recipient of payments and does not save on taxes: the tax paid in the offshore zone must amount

1 O. Solntsev. *Kto unasleduet rossiiskie kompanii? Inostrantsy* [Who will inherit Russian companies? – Foreigners will], 25 April 2012, website slon.ru

to no less than half of that of a similar Russian tax¹. The tax in the amount of 9% of the payment amount should be paid if the Russian organization voluntarily confesses that it is indeed an offshore beneficiary. In the event when this circumstance has been established by a relevant tax body, the rate of tax will amount to 20%².

The arrangement stipulated in the amendments has been well received by the experts' community. Experts believe that, in the main, it meets its purpose and fully conforms to generally accepted rules.

6. Among the taxation-related documents of high practical importance issued in April 2012, the ruling passed by the Presidium of the RF Supreme Arbitration Court, on 3 April 2012, in the case of Ulianovsk Motor Plant, is especially noteworthy³. According to that ruling, the company, which had failed to withhold VAT in its transaction with a non-resident, was obliged to pay that tax at its own expense. The amount of the VAT paid by the tax agent could be later claimed as a tax deduction. According to experts' comments on that ruling, the new practice established by the RF Supreme Arbitration Court can be also applied to profits tax, in which case the taxpayer will face much more serious consequences, bearing in mind the absence of the tax deduction mechanism.

7. Letter of the RF Ministry of Finance of 12 April 2012 No 03-07-15/37 and Letter of the RF Federal Tax Service of 13 April 2012 No ED-4-3/6289@ clarify the procedure for levying VAT in the event when one and the same person is the authorized participant of a simple partnership agreement, the managing participant of an investment partnership agreement, the concessioner, and the trust manager.

The RF Tax Code (as amended by Federal Law No 336-FZ) does not envisage that a tax body should carry out separate accounting for different VAT liabilities that must be paid into the budget (or compensated for) in connection with the implementation of a simple partnership agreement, a concession agreement, or a trust management agreement. Therefore, the participant of a simple partnership agreement, authorized to carry out the general accounting of transactions, who is also the concessioner and the trust manager in one person, is obliged, not later than the 20th day of the month following the tax period, to submit, in accordance with the generally established procedure, a single tax return to the tax body at the place of its tax registration. Simultaneously, the participant of a simple partnership agreement, who is also the concessioner and the trust manager in one person, is obliged, in accordance with Item 5, Article 174.1 of the RF Tax Code, to carry out separate accounting of transactions implemented under each of the aforesaid agreements.

If one or other organization is the authorized managing partnership under two or more investment partnership agreements, it is obliged to submit to the tax body a tax declaration for its other activities unrelated with the implementation of the investment partnership agreements.

8. By Federal Law of 30 March 2012, No 19-FZ alterations are introduced to Articles 67 and 288 of the RF Tax Code. RF subjects are now empowered to independently determine the grounds for and the conditions of granting an investment tax credit, including its period and the rate of interest on the sum of credit, with regard to the taxes transferred to the budgets of regions, and municipalities are similarly empowered with regard to the taxes transferred to the budgets of municipalities. The same Law introduces the mechanism for calculating the size of payments (advance payments) for the tax on profit of a consolidated group among whose members there are organizations – owners of objects within the Unified Gas Supply System. ●

1 A. Koroliova. *Slozhnosti vyvoza. Vladimir Putin nameren zastavit' rossiiskie kompanii deklarirovat' i uplachivat' nalog s dokhodov ot ikh inostrannykh agentov* [Difficulties with withdrawing capital overseas. Vladimir Putin wants to force Russian companies declare incomes of their overseas agents and pay taxes thereon]. Website expert.ru, 10 April 2012.

2 *FNS predlozhila oblozhit' nalogom offshory* [The FNS proposes to impose tax on companies operating in offshore zones]. Website bfm.ru, 10 April 2012.

3 V. Visloguzov. *NDS 'za sebia i za togo parnia. Nalogovym agentam pridiotsia platit' za partnerov-nerezidentu* [VAT is to be paid "for yourself and for that chap as well". Tax agent will be forced to pay tax for their non-resident partners]. Newspaper Kommersant. No 59 (4844), 4 April 2012.

CHANGES IN THE REGULATORY BASE OF THE BUDGETARY PROCESS

M.Goldin

In its letter, the Ministry of Finance of the Russian Federation explained the specifics of the procedure for establishment of state (municipal) agencies.

In Letter No. 12-08-06/1616 of April 11, 2012 on Placement of the Information on State (Municipal) Agencies at the Internet Official Site as Regards Specification of the Ministry of Finance of the Russian Federation as a Founder, the Ministry of Finance of the Russian Federation explained the following.

In accordance with Article 31 of the Budget Code of the Russian Federation which determines the scope of one of the principles of the budgetary system of the Russian Federation, that is, the principle of independence of budgets, it is inadmissible to establish spending liabilities which are subject to simultaneous fulfillment at the expense of funds of two or more budgets of the budgetary system of the Russian Federation. The above norm determined the specifics of the procedure for establishment of state (municipal) agencies. So, in accordance with Article 15 (2) of Federal Law No.7-FZ of January 12, 1996 (as in force on November 16, 2011) as well as Article 6 (1) of Federal Law No. 174-FZ of November 03, 2006 on Autonomous Agencies:

- The founder of federal state agencies is the Russian Federation;
- The founder of state agencies of a constituent entity of the Russian Federation is a constituent entity of the Russian Federation;
- The founder of a municipal agency is a municipal entity.

It is to be noted that none of the statutory acts of the Russian Federation provides for a procedure for taking of a joint decision on the above issues by several founders which are public entities.

Also, the Ministry of Finance specified that key authorities in the sphere of economic activities are attributed to the founder's level of authorities (so, the list of issues which are within the competence of the founder of an autonomous agency of any level of state authority or local government is specified in Article 9 of Federal Law No. 174-FZ, while that of a state-financed organization, in Article 9.1 and Article 9.2 of Federal Law No. 7-FZ).

Taking into account the above, the Ministry of Finance of the Russian Federation states that public entities of different levels, as well as a few public entities of the same level cannot be founders of one and the same state (municipal) agency. In addition to the above, in accordance with the civil legislation of the Russian Federation legal entities of all the forms of incorporation and ownership have no right to become founders of state (municipal) agencies.

At the same time, the Ministry of Finance of the Russian Federation permits distribution of functions and authorities of a founder of a federal state agency between several state authorities of the Russian Federation, those of a state agency of a constituent entity of the Russian Federation between several state authorities of a constituent entity of the Russian Federation and those of a municipal agency between several bodies of a local government.

In addition to the above, the Ministry of Finance of the Russian Federation points to an opportunity of establishment of inter-municipal organizations in accordance with Article 68 of Federal Law No. 131-FZ of October 6, 2003 on the General Principles of Organization of Local Government in the Russian Federation. However, the above organizations can be established only in the form of closed joint-stock companies and limited liability companies. ●