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RUSSIAN ECONOMY: TRENDS AND PROSPECTS

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RUSSIAN ECONOMY IN MARCH 2012: PRELIMINARY DATA AND MAJOR TRENDS

The Political Background: Elections Offering no Window of Opportunity for Reform

According to the official results of the presidential election, Vladimir Putin captured about 64.3% of the vote. Independent analysts' estimates based on statistics and data from the well-supervised polling stations known to produce an accurate, untampered-with vote count suggest that Putin's actual result is 7 to 12 p.p. lower than the official one. However, it should be said that those estimates are very rough, because the supervision over voting in the provinces is quite insufficient, and because recently there have emerged some new electoral fraud technologies. Thus, for example, in Moscow, Moscow Oblast and St. Petersburg the number of voters entered in the voter lists had miraculously increased almost by 0.5m by comparison with the 4 December 2011 parliamentary election. At the same time, Moscow experienced a decline in large-scale electoral fraud and, unlike in December, no fraudulent data were fed into the electronic voting system GAS Vybory. By contrast, in St. Petersburg this type of electoral fraud became widespread – more than during the previous election. In the aftermath of the presidential election, protest activity in Moscow began to visibly decline.

Nevertheless, the political instability that emerged in the wake of the parliamentary election has apparently not been overcome. Firstly, the anti-Putin feelings in Moscow and St. Petersburg continue to be strong. Secondly, the recent elections to regional and municipal bodies of authority have shown a sharp rise in competition (many independent candidates were voted into municipal bodies in Moscow, while serious tensions arose in connection with the mayoral elections in Chernogolovka (a town situated in the vicinity of Moscow), Astrakhan and Yaroslavl). On the whole, there was a considerable reduction in the ability of the central authorities and United Russia to keep political processes at the regional level in check (in a number of places, candidates nominated by United Russia had to distance themselves from their political party in order to improve their odds).

Finally, the uncertainty associated with the composition of the future Russian government remains as strong as ever. Due to the fact that the post of prime minister was promised to Dmitry Medvedev within the framework of a political deal, there is no likelihood whatsoever that the future cabinet of ministers will be purely technocratic and rubber-stamp, and therefore the various factions within the top bodies of executive authority for some time already have been actively vying for positions in the RF government.

Thus, there are three factors that are determining the corridor of opportunity for the future administration with regard to the development of economic policy in the new political cycle. First, Vladimir Putin's victory was achieved by him against the background of a downward trend in his personal popularity, and this alone will inevitably push him to a populist economic course. Second, the government will most likely be formed on a compromise basis, and thus will be divided on many of the fundamental issues that underlie its economic policy. Third, the level of control over political processes at the regional level will become lower, which, in its turn, will bring down the level of political and economic control exercised by regional executive authorities, and this will also become a factor that will restrain the federal government's ability to carry out any major economic transformations. Thus it can be said that the traditional post-election window of opportunity for reform effectively never opened in Russia.

Macro-Economy: Oil, Pre-Election Disinflation, and Budgetary Populism

In early 2012, the macroeconomic situation in Russia was determined by persistently high oil prices, an ongoing considerable capital outflow (capital outflow estimates for January–February range between \$ 22bn and \$ 30bn), and the additional anti-inflation measures adopted in anticipation of the presidential election.

The price of oil remained at the same levels that it had climbed to as a result of the February upsurge in oil prices (the price of Brent crude fluctuated between \$ 122 and \$ 126 per barrel). At

the same time, the halt in the rise of oil prices in March brought about stabilization of the exchange rate of the Russian ruble: the bi-currency basket stopped losing value. It is typical that March also witnessed a turning point in yet another trend observed since mid-December 2011: in mid-March, the key stock-exchange indices that had been continually growing for 3 months (the MICEX Index and the RTS Index had shot up over that period by 21% and 29% respectively) began to decline (by 30 March, they had dropped by 7%).

The macroeconomic situation (the strengthening of the ruble over the course of recent months, the rise in money supply in 2011) and the imposition of a number of administrative measures (postponement of natural monopoly tariff hikes, artificial restraints on fuel prices) resulted in a record low rate of inflation in early 2012: in March, prices grew by 0.5% month-on-month and by 3.7% year-on-year, while the inflation accumulated since the beginning of the current year amounted to 1.3%. However, it can be expected that the rate of inflation will begin to increase already in the nearest future, due to the weakening of administrative price restraints.

In early 2012, the economic situation was largely determined by the electoral factor. In particular, it was the electoral factor that was clearly responsible for the unusually high volume of budget funds pumped into the economy at the beginning of the current year. According to the RF Ministry of Finance's preliminary estimates, federal budget expenditures in January and February rose to 26.2% of GDP, representing an increase of 6.7 percentage points of GDP on the corresponding period of 2011. As a result, the federal budget for January and February was executed with a deficit of 3.0% of GDP, while the non-oil-and-gas deficit climbed up to 15.7% of GDP, representing an increase of 7.3 percentage points of GDP on the corresponding period of 2011. The cash-based execution of the federal budget for January and February amounted to 16.6% of the per annum targets, while in the previous years it amounted to 12 percent, on average. However, it should be noted that one of the factors determining the behavior of expenditures was the newly established procedure that envisages that subsidies should be transferred to state institutions engaged in the implementation of state orders on a quarterly basis. Nevertheless, it cannot be disputed that the presidential election was yet another major factor behind the rise in expenditures. In particular, the cash-based execution, in January–February, of the Subitem “Mobilization and Military Training for Civilians” of the Item “National Defense” amounted to 25.9% of the approved budget targets (or 5.9% of GDP), or by 3.4 percentage points of GDP higher than in the same period of 2011. The cash-based execution of some other items and subitems exceeded the corresponding half-year targets (for example, that of the Subitem “Youth Policy and Children's Health” of the Item “Education” – 60.6%). Federal budget expenditure indices as percentage share of GDP for the majority of budget items rose in January–February 2012 on the same period of last year, including “Nationwide Issues” by 0.3 p.p. of GDP; “National Security and Law-enforcement Activity” by 0.7 p.p. of GDP; “Education” by 0.6 p.p. of GDP; “Health Care” by 0.9 p.p. of GDP; and “Social Policy” by 1.0 p.p. of GDP.

In February 2012, the excess reserves of commercial banks continued to decline: over the course of the month they dropped by 18%, to Rb 902.4bn. It can be expected that, in Q2 2012, their demand for liquidity will increase due to the end of the pre-election spending spree that would bring the federal budget back to surplus. In this connection, the Bank of Russia announced the possibility of extending the list of assets acceptable as collateral for REPO transactions. According to the Bank of Russia, it could also mitigate its rating requirements for bonds offered as collateral. This will make it possible for the banking sector to additionally receive almost Rb 100bn in liquid assets.

The Real Sector: Acceleration with the Prospect of Deceleration

January and February 2012 saw a continuation of the upward trend in industrial growth rates. By comparison with the same period of last year, industrial output rose by 4.9% (February on February – by 6.5%), retail sales – by 7.3%, and investment into fixed assets – by 15.4%. The main factor behind this upward trend was a 2.6% rise in the real incomes of the population and a 11.9% increase in real wages on January–February 2011. Industrial growth was characterized by the accelerated growth rates of industrial production (a 5.6% rise in January–February on the same period of 2011).

In January–February 2012, after three years of slump, fixed asset investment rose by 15.4%, the construction work volume – by 9.2%, and the total annual amount of housing space put into

operation – by 13.1%. The high level of business activities can be explained, among other things, by the intensive budget funding of investment programs. Despite these positive developments, the fixed asset investment volume, the construction work volume and the construction material output volume registered in January–February 2012 amounted to only 86.9%, 79.3% and 83.9% of their respective 2008 levels.

At the same time, in January–February 2012, after three consecutive years of high growth rates, the textile and garment industries registered a 4.7 drop in output, the output of leather, leather products and footwear dropped by 10.3%, and that of household utensils – by 0.8%. Apparently, one of the factors behind this drop in output was the growing competition of imports. It should be noted that the post-crisis period has already witnessed a number of important changes in the structure of Russian imports: the share of consumer goods in the structure of imports declined from 44.3% in 2009 to 36.3% in 2011, while the share of intermediate products increased from 36% to 42%. On the whole, the shift towards domestically assembled products should be considered as a positive phenomenon. However, Russia's prospects of economic growth will largely depend on whether or not this trend survives a further strengthening of the ruble, and on whether or not there emerges a trend towards a stronger localization of assembly production.

The sufficiently positive data for the first two months of 2012 look somehow mismatch the results of pessimistic business opinion surveys. The first industrial opinion surveys conducted in March indicate that the value of the Industrial Optimism Index remains at its previous level – the lowest since mid-2010. The Index began its slide in July 2011, and at present is close to zero (thus having returned to its values of the second half of 2010). In March 2012, it was prevented from shifting into negative territory only by the fact that the respondents' subjectively assessed their current levels of sales as positive. Also, there was a slight improvement in the assessments of demand, which had been pulling the Index downwards in the previous months. At the same time, the actual changes in demand and in the assessments of stocks remained in negative territory. In March, the balance of stock assessments lost two more points, which had a negative impact on production-out plans: they dropped by another 3 points (seasonally adjusted data) – to their 27-month low. The IEP's forecast index has dropped to its lowest level since early 2010. At the same time, in March, the forecasts of demand after adjustment for seasonality remained practically stable since the beginning of the new round of crisis in the eurozone (that is, for the seventh month in a row), while enterprises' hiring plans, after having traditionally surged in January, showed a decline in February–March. ●

THE POLITICAL AND ECONOMIC RESULTS OF MARCH 2012

S.Zhavoronkov

Vladimir Putin was declared winner of the 4th March 2012 presidential election. According to official results, he gained 63.6% of the vote. Although Putin's actual result was apparently lower than the official figures, he undoubtedly managed to hold a significant lead over his major contestants and thus largely legitimized his victory both inside and outside Russia. Immediately, the mass street protest movement nose-dived sharply, and it can be confidently said that from now on the political process will be mostly confined to parliamentary forms of struggle. The results of the presidential election, and in particular Mikhail Prokhorov's coming third with almost 8% of the vote, have also demonstrated a growing demand for new political leaders and an increasing attractiveness of liberal rhetoric in the eyes of the general public. At the same time, as is demonstrated by the sharp fluctuations in Sergei Mironov's December 2011 and March 2012 electoral results, the recent success of Mikhail Prokhorov, achieved by him in conditions of a few-party system cannot be automatically transposed into Russia's future multi-party system, because the number of contestants in those elections was limited.

Russia's main political event of March 2012 was the presidential election. According to official results, *United Russia's* candidate, Prime Minister Vladimir Putin, won about 63.5% of the vote, or 45.5m votes (in the December 2011 elections to the State Duma, *United Russia* captured 49.3% of the vote, or 32.3m votes). Second place predictably went to the CPRF's leader Gennady Ziuganov, who finished with 17.8% of the vote, showing a slightly lower result than that achieved by the CPRF in December 2011, while the billionaire entrepreneur Mikhail Prokhorov came third with 7.98% of the vote. By comparison with the electoral results of their parties, a sharp decline in fortunes befell Vladimir Zhirinovskiy (6.22%) and Sergei Mironov (3.85%) – by almost two and four times respectively.

The electoral results can hardly be called unexpected. The key issue is not the electoral results *per se*, but the degree to which these results may be regarded as the actual expression of the free will of the electorate and the ability of the opposition to contest these results on the streets – as it indeed happened in December.

From a technological point of view, the presidential election results were contributed to by four major factors. *First*, as in December 2011, the party of power achieved anomalously high results in the republics of the North Caucasus, Tatarstan, Bashkortostan, Mordovia and Tyva. On the whole, these regions brought Putin 8.7m votes, or about one-fifth of all the votes gained by him. While the high percentage of votes cast for Putin can be somehow attributed to a variety of reasons, the officially declared voter attendance (for example, more than 99% in Chechnya and more than 91% in Dagestan and Karachaevo-Cherkessia) – in view of the half-empty polling stations registered by the video cameras installed there on the eve of the presidential election – can only be characterized as blatant fraud. *Second*, according to the RF Central Election Commission's official data, only three months after the 4 December 2011 parliamentary election, there was a huge increase in the number of people voting at home. While in the 4 December 2011 election their numbers stood at 4.522m, in the presidential election on 4 March 2012 the figure rose to 6.522m. That is, if we believe the RF Central Election Commission's data to be true, over the course of three months the number of voters not capable to arrive at their polling stations in person increased by more than 1.6m. *Third*, as in December 2011, polling in a number of regions (St. Petersburg, Astrakhan Oblast) was characterized by blatant irregularities and fraud that resulted from the state computerized election system "GAS Vybery" having been fed by data that contradicted those entered in the election supervisors' electoral protocols. However, the main reserve of "administrative votes" for Vladimir Putin was voting by absentee ballots and mass voting using additional voter lists – a procedure practically never used before.

According to the RF Central Election Commission, in the course of the 4 March election 1.6m persons voted by absentee ballots (or by 27% more than in the 4 March State Duma election). These figures are important with regard to two factors. *First*, the absentee ballots continued to be used as a tool for committing a law violation that is very difficult to detect – the so called *merry-go-round* vote fraud, when people repeatedly vote in the course of an election. In fact, there is only one way to detect this fraud – by tracking and registering the movements of the participants in a merry-go-round that has caught the attention of the press and law enforcement agencies. There are no other methods for verifying the fact that a merry-go-round has indeed taken place because all the data on the persons who have cast their votes in that way would be formally entered in the registration lists at each of the polling stations involved in the scam, and thus would be legally classified as “personal data” and made secret. As a result, neither the election supervisors nor even the majority of the members of the corresponding election commissions will be able to see those data and compare them with data from other polling stations. *Second*, for the first time in Russian history, it turned out that, one week before the election, most of the polling stations had already ran out of absentee ballots, and the real flesh and blood voters who came there to collect their absentee ballots received official refusals to their requests. Thus, an instrument reputedly created for protecting the electoral rights of a small number of persons who cannot attend their polling stations because of being away from home on the date of an election was transformed into an instrument for mass violation of these rights: while real voters could not get these certificates, the latter turned out to be an excellent tool for multiple merry-go-round voting. The 4 March 2012 election also had one unique feature: the highly organized and massive use of the “additional voter list” mechanism. This voting technique is essentially as follows: voters are officially entered on the additional voter list of one or other polling station outside of their own electoral districts, and brought there in an organized fashion by bus or other means of transport to cast their ballots. Legislation does contain provisions to the effect that additional voter lists may be composed at enterprises with an around-the-clock continuous work cycle, but establishes no criteria for selecting such enterprises. This loophole made it possible for some ordinary shops and other such enterprises of the services sector to be presented as enterprises with an around-the-clock continuous work cycle. Apart from the possibility to stage a merry-go-round similar to that involving absentee ballots, such voting offers the schemers an opportunity to control the electoral will of voters by forcing them to succumb to the electoral preferences of the employer. The scope of such organized voting was unprecedented in the history of Russian elections. Those who voted under this scheme were either entered on the first line of the final protocol (*The Number of Voters Entered on the Voter List*), or were not taken into account at all – their ballots were simply counted, thus increasing the percentage of the votes cast, but without increasing the total number of voters in the corresponding electoral district. As regards data on the voters who have voted with the use of additional voter lists, the scope of their inclusion in the protocols cannot be checked even tentatively, the scope of application of the former method, when sham voters are entered on the first line of the final protocol, can be judged from the anomalous growth in the number of voters entered on the voter lists on the 4th of March. For example, in Moscow, Moscow Oblast and St. Petersburg (where the trick with “additional voter lists” and “workers of enterprises with a round-the-clock continuous work cycle” was widely used) the number of voters entered on voter lists increased by 482,000 in comparison with the 4 December 2011 State Duma election¹. The average percentage of persons who voted by absentee ballots and were entered on the additional voter lists at the polling stations of Moscow and St. Petersburg amounted to 7–10% of the votes cast.

At the same time it should be noted that the March 4 election also witnessed some changes to the better. First of all, there was an almost total disappearance of the practice of expelling election supervisors under any invented pretext and then concocting implausible election results (which had been so widespread in Moscow in December 2011). It was that practice that made it possible to

1 Such an increase in the number of voters over the course of only three months cannot be attributed to any natural reasons: according to the RF Federal State Statistics Service (Rosstat), annual (!) population growth in Moscow and Moscow Oblast amounts to about 80,000 (including minors), while in St. Petersburg it amounts to about 50,000. An almost half a million rise in the number of voters in Moscow, Moscow Oblast and St. Petersburg over the course of three months since the State Duma election simply defies any rational explanation.

register some absurd results, when the party of power could capture twice as many votes in one of two adjacent electoral districts than in the other one. Voting in the capital returned to the natural order of things that had been first registered a decade ago, when the party of power achieved better than average results in outlying districts, and lower than average results in the downtown and its surrounding districts. As a result, in percentage terms, Vladimir Putin's poll result in Moscow (46.95%) was the lowest in the country. The authorities consciously sacrificed their possibility to obtain some additional "administrative votes" in the capital in order to provide evidence that there were at least no explicit electoral irregularities. At the same time, the aforesaid voting technologies are difficult to pinpoint, and anyway their verification is time-consuming. Numerous voluntary election supervisors were at work not only in Moscow and St. Petersburg, but in other big cities as well, thus compensating for the absence of paid supervisors (in December 2011 such supervisors were sent to polling stations by political parties, and their services were paid for by those parties' candidates entered on the corresponding regional lists).

Undoubtedly there was a rise in the number of real votes cast for Vladimir Putin by comparison with the electoral results of *United Russia*. This rise was especially visible against the background of a sharp universal decline in the number of votes cast for Vladimir Zhirinovskiy and Sergei Mironov – the votes were clearly redistributed in favor of the official candidate. The rise of voter support for Vladimir Putin was determined by several factors, including the robust TV and press campaign strongly resembling Boris Yeltsin's 1996 campaign. It was aimed not so much at proving the correctness of Vladimir Putin's policies as at explaining the "catastrophic consequences" of his departure from power. Even the mass protest rallies of the opposition were successfully used by the organizers of Putin's electoral campaign as a vivid indication of the reality of the "orange threat" (in the absence of mass rallies such threat would have seemed purely theoretical). No less important was the fact that the protests were not sufficiently coherent and sense-laden: none of the speakers at the rallies managed to offer any solutions to Russia's problems, and neither could they call people to vote for some specific presidential candidate. Moreover, Mikhail Prokhorov, whose election program was apparently most reflective of the protesters' demands, was harshly denigrated by all the keynote speakers at the rallies. Instead of supporting Prokhorov, they put forth slogans of spoiling the ballots, boycotting the election, etc.

As a result, the presidential election was won by Vladimir Putin not only in formal but also in actual terms: he definitely captured a majority of the votes cast, and even if that majority was insufficient to guarantee his victory in the first round (bearing in mind the instances of fraud), his victory in the second round would have been practically inevitable. Unlike in December 2011, the opposition did not manage to exhibit multiple instances of fraud either to anybody, including themselves – which was a major factor behind the sharp reduction in the number of rally participants. And it should be remembered that Moscow authorities did not repeat their scandalous December mistake of expelling election supervisors. Although a number of speakers at the opposition rallies hinted at the possibility of a seizure of power by calling for "a stroll towards the Kremlin on the 5th of March", those 10 to 15 thousand persons who actually went to the streets on that date were by far not enough for the realization of such a scenario. In due course, the leaders of top world powers congratulated Vladimir Putin on his victory.

As far as the poll results of the other presidential candidates are concerned, the most noteworthy result was achieved by Mikhail Prokhorov, whose program was full of liberal rhetoric (had he run for parliament, Prokhorov would have overcome the election hurdle – on 4 March he captured more than 20% of the votes cast in Moscow and 15% of the votes cast in St. Petersburg). As Grigory Yavlinsky had been barred from running for president, it is evident that part of his electorate cast their votes for Prokhorov despite his lackadaisical election campaign and his electoral disadvantage of being wealthy (in this country, super-rich candidates usually set a record in anti-ratings). Prokhorov's success has disproved the notion that liberals are inherently unpopular in Russia – it has turned out it is the liberals "leaders of twenty years" standing that people are bored with, and not liberal rhetoric as such. Geographically, Mikhail Prokhorov drew most of his electoral support from the territories that traditionally generate the majority of the votes cast for *Fair Russia* and the LDPR in parliamentary elections: big cities, the European North of Russia, and the Urals. At the same time, the geography of Prokhorov's success does not coincide

with that of Ziuganov's power base – in the last State Duma election, the communist leader did especially well in Russia's heavily depressed regions – Orel Oblast (29% of the vote), Orenburg Oblast (25%), and Kostroma Oblast (24%). The presidential election has brought one big piece of news for Ziuganov: his electorate has remained relatively stable, and he has lost only 2% of votes. Vladimir Zhirinovskiy's losses do not seem tragic either: traditionally, since the 1995–96 election cycle, he has been capturing fewer votes in presidential elections than in State Duma elections. It seems that in a presidential election, part of his electorate tend to cast their votes for the candidate nominated by the party of power. Moreover, in the eyes of many of his supporters, Zhirinovskiy is too exotic to become President of Russia. Sergey Mironov fared the worst in the race for president (even in St. Petersburg he managed to collect less than 7% of the votes cast). In fact, his disappointing poll result has put in question the very future of *Fair Russia*: under the new legislation on political legislation, he will be deprived of his main advantage (by comparison, for example, with Ziuganov and Zhirinovskiy) – a guaranteed party license and a zero anti-rating. However, to some extent Mironov's poor showing can be explained by the simple fact that his campaign totally lacked adequate financing. Paradoxically, for the same reason, the results of the presidential election promise a troubled future for Mikhail Prokhorov as well: in the future election he will neither be the only liberal candidate permitted to take part in it, nor the only new politician in the electoral arena, and so he will risk re-enacting the "Mironov phenomenon".

In March, the alterations in the Law "*On Political Parties*" were adopted in their final reading by the State Duma. These alterations have left intact the Law's initial concept that, in order to be registered, a political party should number no less than 500 members (a staggering drop in their minimum required number). Moreover, the Law has even been slightly improved by the alterations: it is now envisaged that, in the event of any discrepancy being revealed between the documents submitted by a political party to the RF Ministry of Justice and the established official standards, the party should be given time to correct the discrepancy (previously it was necessary to undergo the whole process once again, from the very beginning). This law is one of the major results of the recent parliamentary election and the subsequent mass protests. It will significantly change to the better Russia's political institutions by enabling new politicians to take part in elections – something they have been deprived of for the past eight years. There is no danger in the existence of a multitude of registered political parties: as in the 1990s, most of the political parties will have no funds to finance an expensive election campaign, and so will be automatically ousted from the electoral arena. On the other hand, an opportunity has been created for devising new projects and looking for the resources needed to implement them – and the Russian political field is currently characterized by a very high demand for innovations. At the same time, we can confidently predict that at least the two mastodons of Russia's political system – the CPRF and the LDPR – will not perish. They are strong enough to survive in the competition with both right-wing and left-wing political newcomers (given the fact that the reduction of the election hurdle to 5% could turn out to be sufficient for two or more political parties of the same ideological substance to enter parliament). ●

INFLATION AND MONETARY POLICY

N.Luksha

The postponed indexation of the regulated tariffs set by natural monopolies, the slow growth of money supply in 2011, and the ruble's strengthening observed over recent months all contributed to the level of inflation remaining at its historic low in February. The CPI, as determined by the month's results, amounted to 0.4% (against 0.8% in February 2011). As seen by the results of the first three weeks of March, the inflation rate remained at the same level as in the previous month's first three weeks – 0.3%. February saw a continuation of net capital outflow from this country, although at a somewhat slower rate than in January: by various estimates, the outflow volume amounted to \$ 9–12bn. As of 16 March, the volume of Russia's international reserves was \$ 505.4bn. In February, the Bank of Russia, for the first time since August 2011, purchased foreign currency; the transaction was carried out on the domestic market to the value of \$ 2.6bn.

In February 2012, the level of the CPI remained at its historic low. As seen by the month's results, the inflation rate dropped to 0.4%. This amounts to half of its values recorded both in February 2010 and February 2011.

Just as one month earlier, the main contribution to growth of prices in February was made by products which rose by 0.7% (against 1.2% in February 2011). The leader in terms of price growth was granulated sugar (+3.6%). There was a seasonal rise in the prices of fruits and vegetables (+2.1%). At the same time, the prices of a number of food items declined, in particular those of grains and beans (-2.2%), pastas (-0.2%), sunflower oil (-0.7%), and eggs (-1.2%).

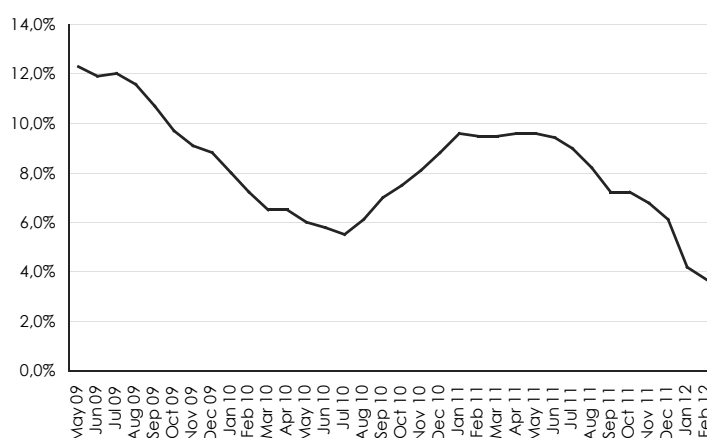
In February, the growth rates displayed by the prices of nonfood commodities were the same as in February 2011 – 0.3%. This is by 0.1 p.p. below the previous month's level. The prices of tobacco products, similarly to those of detergents, continued their noticeable climb as in January (+2% and +1.2% respectively). In response to the government's requirement that the fuel prices should be frozen, the prices of motor gasoline continued to decline (by 0.3% over the course of February).

The prices and tariffs established for commercial services rendered to the population did not increase in February (while in February 2011 they rose by 0.8%). The rise in the prices of medical services (+1.3%), insurance and pre-school education (+1.1% each) was compensated for by the declining prices of passenger transport services (-1.4%) and out-bound tourism (-1.1%). In February, no changes were observed in the prices of housing and utilities services.

The core consumer price index¹ in February 2012 dropped to 0.4% from 0.5% in January (in February 2011 – 0.7%).

The per annum inflation rate (February 2012 on February 2011) dropped to 3.7% (Fig.1). This is nearly 2.5 times lower than in the same period of 2011 – 9.5%.

In March, the inflation rate did not accelerate either: over the period of nearly three weeks since the month's



Source: Rosstat.

Fig. 1. The CPI Growth Rate in 2009–2012 (% Year-on-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).

beginning, the consumer price index amounted to 0.3%. Since the beginning of 2012, the accumulated inflation rate stood at 1.2% – one-third of its 2011 value.

In February 2012, the broad monetary base continued to shrink (-1.7%). As of 1 March it amounted to Rb 7,760.7bn (*Fig. 2*). The main cause of the shrinkage of the broad monetary base was, first of all, the decline of banks' deposits with the RF Central Bank by 1.9 times. Over the course of one month, their volume dropped to Rb 200.2bn. Besides, the monies kept on commercial banks' correspondent accounts with the RF Central Bank shrank to Rb 702.2bn (-3.1%). The other components of the monetary base (with the exception of the Bank of Russia's bonds) were on the rise: mandatory reserves increased by 1%, to Rb 393.9bn, and cash in circulation, including the cash balances of credit institutions – by 0.9%, to Rb 6,464.4bn.

In February 2012, the surplus reserves held by commercial banks¹ continued to dwindle. Over one month, their volume dropped by another 18%, to Rb 902.4bn. In spite of the current relatively tranquil situation on the money market, one may already expect a surge in banks' demand for liquidity in Q2, which will mark the end of the period of high budget spending on the election campaign and the budget's return to surplus. In this connection, representatives of the Bank of Russia announced a possible extension of the list of assets acceptable as collateral for REPO transactions, including by means of placing shares on the pawnbroker list. Besides, as early as spring the rating requirements to bonds accepted as pledge may be already softened. As estimated by the Bank of Russia, this will provide the banking sector with some additional ruble-denominated liquidity in the amount of nearly Rb 100bn.

The simultaneous growth of the cash-in-circulation volume by 0.9% and of that of mandatory reserves by 1% caused broadening of the narrow monetary base (cash plus mandatory reserves)² in February by 0.9% – to Rb 6,858.3bn (*Fig. 2*).

Early 2012 saw a halt in the decline of the international reserves volume that had been continuing since August 2011. Over two-and-a-half months it rose by 1.5%, and as of 16 March amounted to \$ 505.4 bn. In February 2012 – for the first time since last summer – the Bank of Russia once again

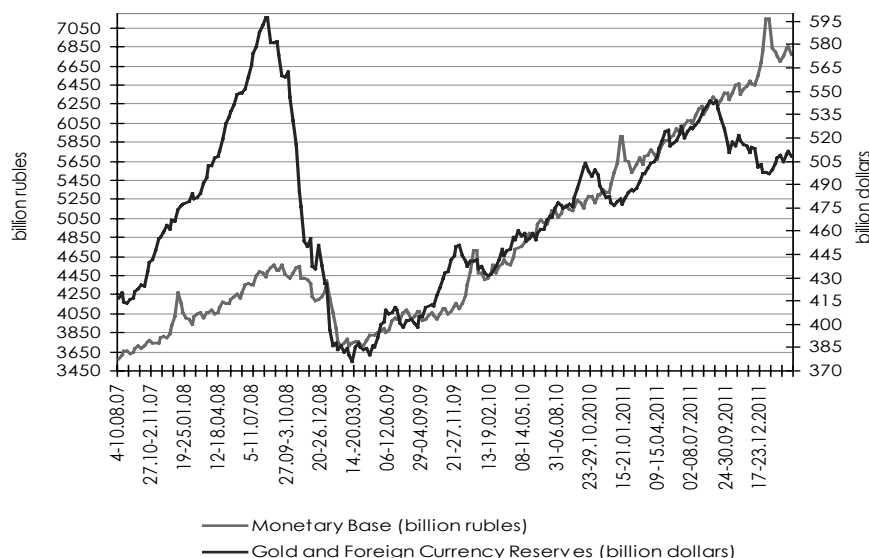


Fig. 2. Behavior of Russia's Narrow Monetary Base and Gold and Foreign Currency (International) Reserves in 2007–2012

resorted to net purchases of foreign currency. Over that month, within the framework of currency interventions, the regulator bought \$ 2.6bn and € 147.2m on the domestic market (*Fig. 3*³). Thus, the sum of US dollars purchased in February is six times higher than that purchased a month earlier. This growth in the amount of foreign currency purchases can be explained by the seasonal factor – the February balance of payments is traditionally strong. Last year saw similar developments: in February 2011, the Bank of Russia's currency interventions increased nearly fivefold on

1 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.

2 It should be remembered that the monetary base in a broad sense is not a money aggregate; it is a characteristic of the Bank of Russia's liabilities denominated in the national currency. The monetary base in a narrow sense is a money aggregate (being one of the characteristics of the money supply volume), fully controlled by the RF Central Bank.

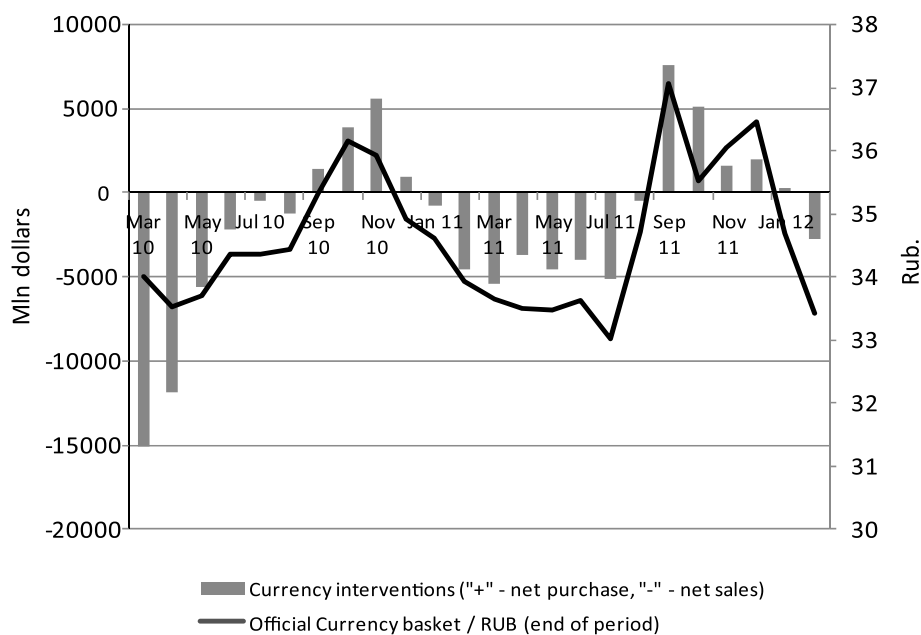
3 The level of January 2002 is taken as 100.

January 2011 (from \$ 646m to \$ 3.5bn). At the same time, this year the big purchases of foreign currency by the Bank of Russia in February were a form of response to the rising oil prices: the Central Bank was energetically buying up the “oil dollars” so as to prevent the ruble’s rapid strengthening.

February saw a continuation of capital outflow from Russia. According to the RF Ministry of Economic Development’s preliminary estimates, the capital outflow volume in February amounted to approximately \$ 11–12bn. The RF Central Bank’s estimates are, as in January, somewhat lower than those published by the Ministry and amount to \$ 9bn. If the RF Ministry of Economic Development’s estimates are confirmed, then capital outflow in the first two months of 2012 will have amounted to nearly \$ 30bn. As estimated by the Bank of Russia, the outflow volume is going to be lower – \$ 22.5bn. In any event, this is still higher than the volume of capital outflow in Q1 2011 (\$ 20.1bn).

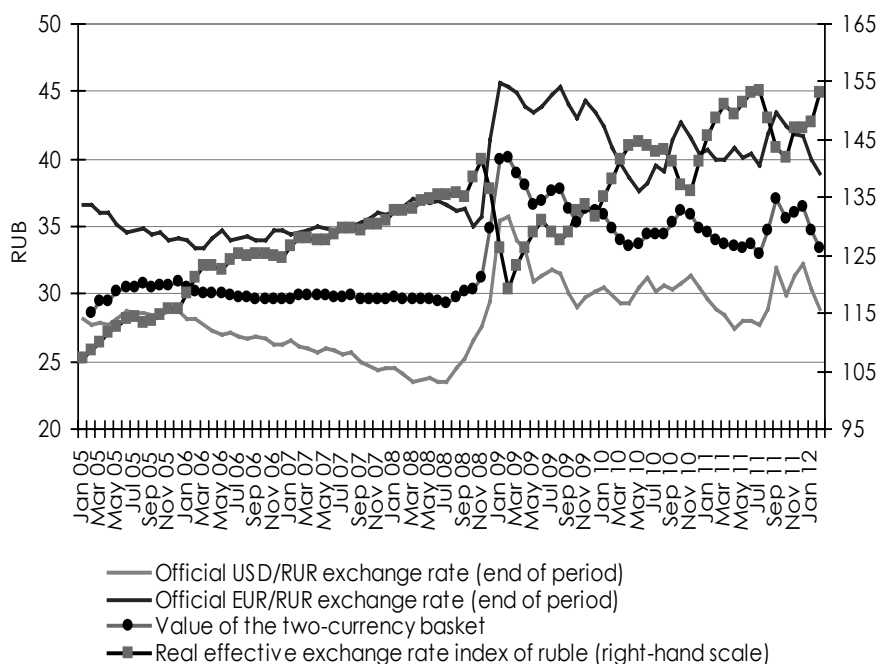
Capital outflow increases alongside the rise of oil prices. It should be noted that capital outflow is largely associated with loans granted to Russian businesses registered abroad. Besides, net capital outflow from the RF as reflected in the balance of payments is the result of a

substantially high value of the current account’s positive balance: in a situation when the scale of currency interventions by the Bank of Russia is negligible, the entire amount of proceeds from sales denominated in foreign currencies and sold by exporters is bought by corporations, which is reflected in the balance of payments as capital outflow. At the same time, the strengthening of the ruble observed over recent months is an indication of an excess of demand for ruble-denominated assets over the volume of their supply.



Source: RF CB; the author’s calculations.

Fig. 3. The Bank of Russia’s Currency Interventions and the Ruble Exchange Rate against the Bi-currency Basket in March 2010 – February 2012



Source: RF CB; the author’s calculations.

Fig. 4. Behavior of the Rubles’s Exchange Rate Indicators in January 2005 – February 2012

In February, the rubles's real effective exchange rate continued to gain in strength, having climbed by 3.5% over than month. As a result, the real effective exchange rate index rose to 153.19¹ (*Fig. 4*).

The behavior of the ruble-to-USD exchange rate in February was volatile. The exchange rate of the US currency, having hit, on the last day of February, its historic low since last August (28.95 Rb/USD), in early March once again began to climb. This was happening against the backdrop of declining oil prices. In mid-month the US dollar cheapened, and once again its exchange rate began to go up. As a result, over the first 24 days of February the exchange rate of the US dollar against the ruble rose by 1.6% to 29.4 Rb/ USD.

In continuation of its behavior over the last few months, in the first half of March the euro/Rb exchange rate declined. However, from 20 March onwards it began to climb: within one week the euro's exchange rate rose by 1%. Its strengthening can be explained by the positive developments in the eurozone – the anti-crisis measures designed bail out Greece helped that country to avoid a default. Nevertheless, it is still too early to speak of the reversal of the previously observed trend. As seen by the results of the period of slightly longer than three weeks, the euro/Rb exchange rate dropped by 0.3% to 38.8 Rb/euro.

The value of the bi-currency basket increased and as of 24 March amounted to Rb 33.6 (+0.6%).

On 13 March 2012, the Bank of Russia, for the second time this year, decided to keep unchanged the rate of refinancing and other rates on its operations. The monetary authority abstains from lowering the rates for fear that the inflation rate would accelerate in the medium-term perspective. At the same time, the persistently slow rate of economic growth in the RF leaves little hope that the Bank of Russia's rates may be soon increased. ●

1 The level of January 2002 is taken as 100.

FINANCIAL MARKET

N.Burkova, E.Khudko

In March 2012, the average daily turnover on the government securities market dropped 4.4 times, while investor activity on the share market rose by 6%. The prices of shares issued by Russia's most liquid companies since early 2012 have also been predominantly on the rise. The key indices of Russia's domestic corporate bond market: its volume, market index, weighted average yield, and corporate bond portfolio duration index – were all demonstrating growth.

The Government Securities Market

In March, the lowering investor interest in the government securities market resulted in a rise in the yields to maturity of practically all categories of securities tradable on that segment of the financial market (Fig. 1).

Over the period from 22 February 2011 to 25 March 2012, the combined turnover of the secondary market of OFZ bonds amounted to Rb 43.73bn, while the average daily turnover was at the level of Rb 2.08bn, which corresponds to a 4.4-times drop in the average daily turnover over than month by comparison with the previous period.

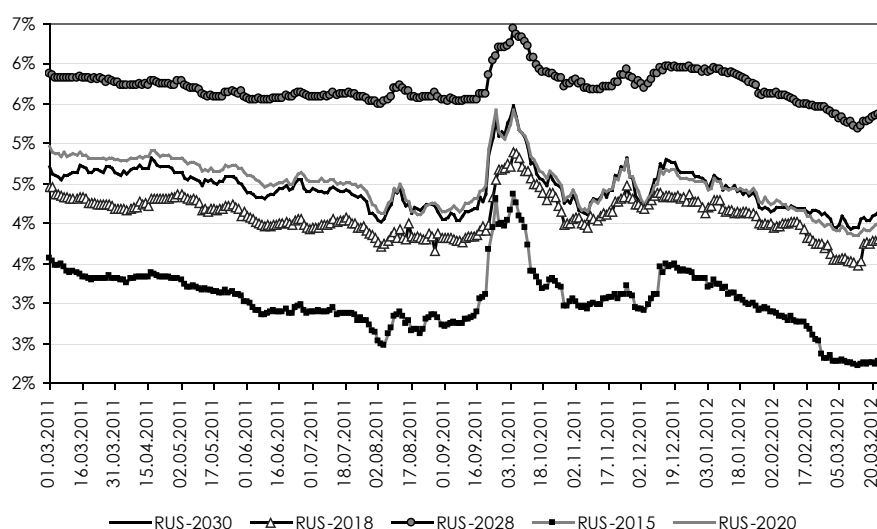
Over the period between 22 February and 25 March 2012, four primary placement auctions of OFZ bonds were held in Russia (the same number as one month earlier) (Table 1). The actual placement amounted to 36.57% of the planned figure (vs. 98.25% one month earlier). No additional auctions for additional placement of OFZ on the secondary market were held over 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
22.02.2012	OFZ-26207-PD	10,000.00	9,802.00	8.32
07.03.2012	OFZ-26208-PD	45,000.00	8,008.80	7.75
14.03.2012	OFZ-26206-PD	19,303.75	19,193.28	7.46
21.03.2012	OFZ-26208-PD	35,000.00	2,967.54	7.65
Total:		109,303.75	39,971.62	

Source: RF Ministry of Finance.



Source: Data released by the Finmarket information agency.
Fig. 1. The Yields to Maturity of the Russian Eurobonds Maturing in 2015, 2018, 2020, 2028 and 2030

The Stock Market

Factors in the Dynamics of the Russian Stock Market

During the last one-and-a-half weeks of February 2012 through 5 March, the Russian stock market was on the whole demonstrating growth. This trend resulted from the publication of positive macroeconomic data concerning the USA and China, the decision to issue a second tranche of financial aid to Greece, and the rising international oil prices.

The slowdown in economic growth in China and the resulting lower forecasted estimates of China's GDP growth, sliding from 8% to 7.5% in 2012, the frozen interest rates in anticipation of the March 8 holidays, as well as the statement of the Fitch Ratings credit rating agency concerning the possibility of downgrading Russia's credit rating for 6 years in the event of the pre-election promises of President-elect V. Putin being fulfilled, caused a collapse of the Russian financial market on 6 March 2012. On 7 March, the market demonstrated slight adjustments after the previous days' spectacular plunge. In the period from 11 through 14 March the upward trend on the Russian market became more pronounced in response to the European Central Bank's decision to continue its program of financial aid to the eurozone countries and the publication of robust macroeconomic indices in the USA.

From mid-March until the beginning of the month's third week the market was on the decline. The situation on the world's stock markets over that period was influenced in the main by Fitch Ratings lowering the UK's credit rating outlook from stable to negative, Spain's increasing government debt, Greece's unemployment level hitting its historic high (of more than 20%), and China's bleak macroeconomic statistics.

On the whole, over the month, the markets of developed countries grew by 1 to 6%, and those of developing countries demonstrated mixed behaviors – from growth by 1 to 2% to decline by 1 to 6%. Since the year's beginning, the indices of the markets under consideration rose by 2 to 19% (Table 1 and Fig. 2).

Table 2

THE DYNAMICS OF WORLD STOCK EXCHANGE INDICES

Index	Value (as of 25.03.2012)	Change over month (%) [*]	Change since beginning of year (%)
MICEX (Russia)	1,540.97	–1.16	11.18
RTS (Russia)	1,668.41	0.79	19.79
Dow Jones Industrial Average (USA)	13,080.73	0.89	6.12
NASDAQ Composite (USA)	3,067.92	4.05	13.18
S&P 500 (USA)	1,397.11	2.56	8.32
FTSE 100 (UK)	5,854.89	–1.24	6.39
DAX–30 (Germany)	6,995.62	1.27	17.12
CAC–40 (France)	3,476.18	0.32	9.67
Swiss Market (Switzerland)	6,240.33	0.04	5.08
Nikkei–225 (Japan)	10,011.47	5.80	11.92
Bovespa (Brazil)	65,812.95	–0.59	16.65
IPC (Mexico)	38,334.90	1.26	2.11
IPSA (Chile)	4,617.69	2.04	8.33
Straits Times (Singapore)	2,990.08	–1.16	14.31
Seoul Composite (South Korea)	2,026.83	0.13	10.87
ISE National–100 (Turkey)	61,417.44	0.27	19.48
BSE 30 (India)	17,361.74	–5.79	19.24
Shanghai Composite (China)	2,349.54	–1.34	8.28
Morgan Stanley Emerging&Frontier Markets Index	822.29	–2.01	15.73

^{*} As a percentage of an index's value on 21 February 2012.

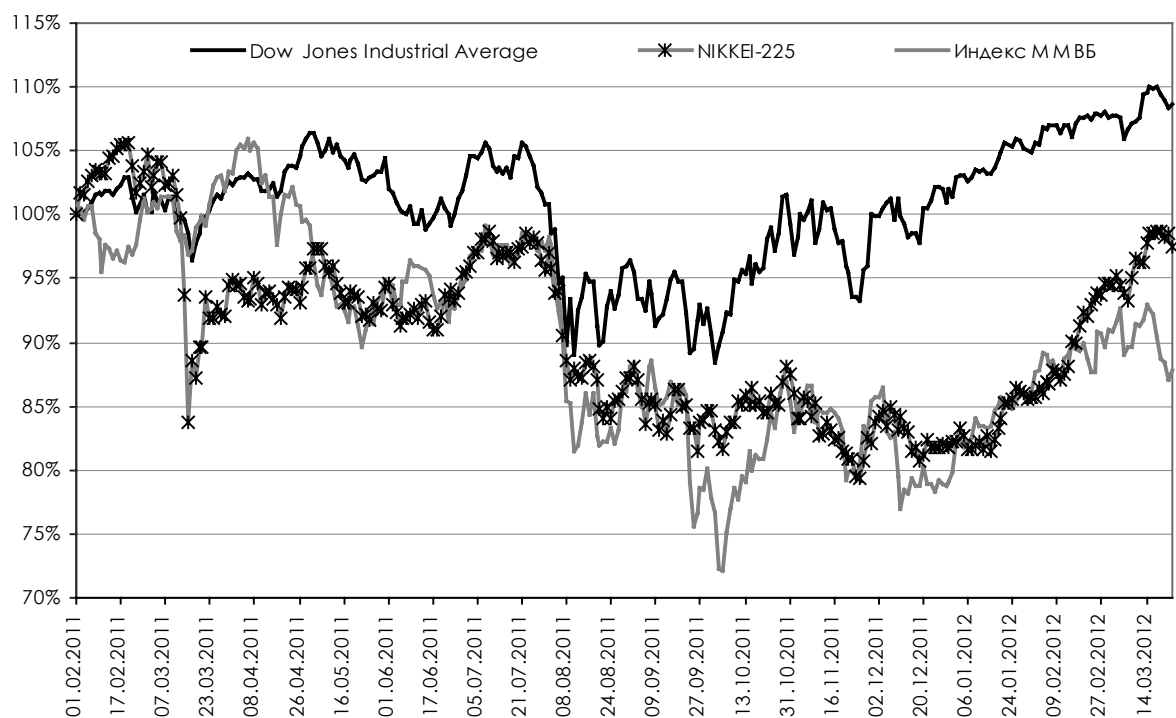


Fig. 2. Dynamics of the Main USA, Japanese and Russian Stock Indexes (As a Percentage of Their Values on 1 February 2010)

The Situation on the Share Market

The MICEX Index reached its monthly peak on 14 March when it hit 1,631.15 points (vs. 1,579.38 points one month earlier). The MICEX Index dropped to its monthly lowest on 22 March when it hit 1,529.51 points (vs. 1,525.17 points one month earlier) (Fig. 3). Source: MICEX-RTS.

On the whole, over the period from 22 February through 25 March 2012, the MICEX Index dwindled by 1.2%, or by 18.01 points in absolute terms (from 26 March 2011 through 25 March 2012, the MICEX Index shrank by 14.7%), while the trading volume of the shares included in the MICEX Index climbed to Rb 1,116bn. By comparison with the previous period, in March the average daily level of investor activity on the stock market rose by 6%.

In the period from 1 January 2011 to 22 January 2012, the biggest price gainers among the blue chips were shares in Sberbank and Tatneft, whose value increased by 22.9% and 22.4% respectively (Fig. 4). According to MICEX-RTS data, as of 25 March 2012 the five Russian companies holding leadership in terms of market capitalization were as follows: Gazprom – Rb 4,294bn (vs. Rb 4,483bn as of 21 February

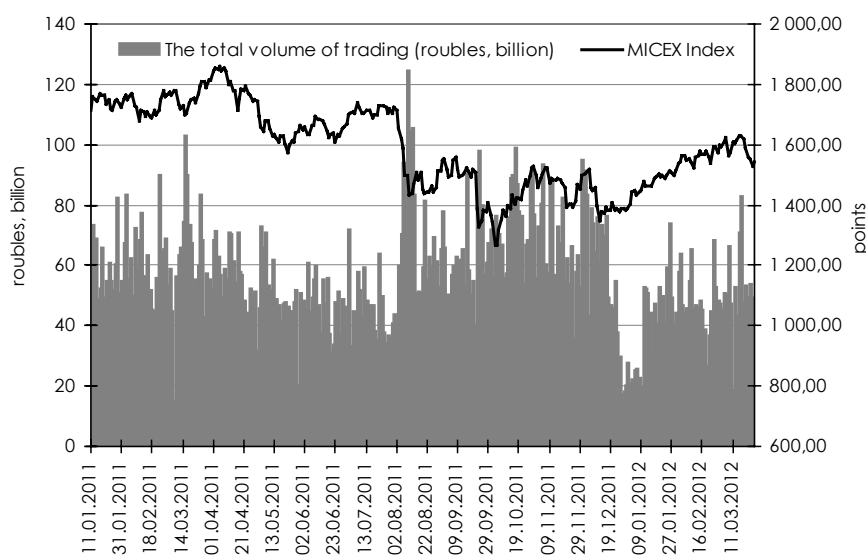
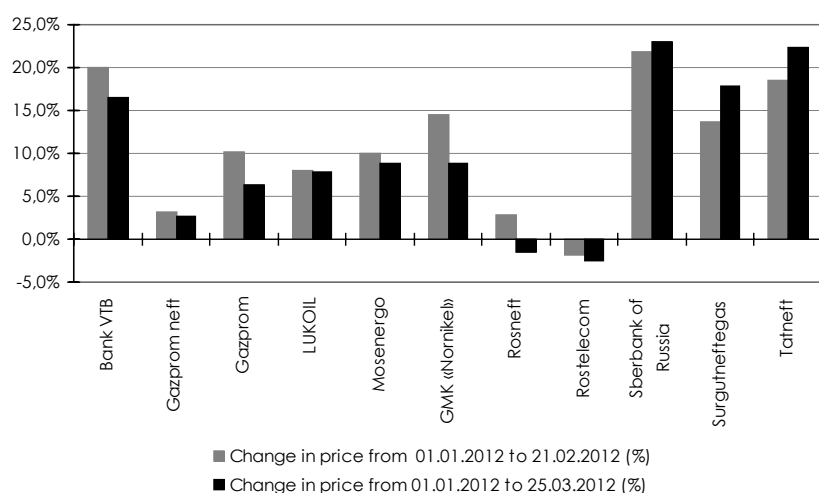


Fig. 3. The Dynamics of the MICEX Index and the Trading Volume



Source: MICEX-RTS.

Fig. 4. The Dynamics of Russian Blue Chip Stocks

2012); Rosneft – Rb 2,222bn (vs. Rb 2,311bn); the Savings Bank of the Russian Federation (Sberbank) – Rb 2,088bn (vs. Rb 2,088bn); LUKoil – Rb 1,547 bn (vs. Rb 1,578 bn); and Surgutneftegaz – Rb 1,056 bn (vs. Rb 1,030bn).

The Futures Market

In February 2012, the volume of trading in the MICEX futures market amounted to Rb 4.87bn (vs. Rb 5.03bn one month earlier). The overwhelming share of the trading volume – Rb 4.16bn (269 transactions) – was recorded by transactions with foreign exchange futures. By the trading

volume in this section of the MICEX futures market, the first place belonged to cash-settled US dollar futures contracts, followed by euro-ruble currency pair futures contracts and euro-US dollar currency pair futures contracts. The prices of the ruble-US dollar currency pair futures contracts with the date of execution set for 15 June 2012 were, on average, within the limits of 29.5 to 30 rubles per US dollar, which means that participants of this MICEX market expected that the ruble would become weaker by 0.3 to 2% by comparison with its value as of 25 March 2012 (29.4 rubles per US dollar). The volume of trading in funds futures contracts amounted to Rb 19.3m (287 transactions).

In March, the FORTS futures market saw a rebound in average daily investor activity by 19.3% on the previous month. The first place in the volume of futures trading belonged to futures contracts on the RTS Index, followed far behind by ruble-US dollar currency pair futures contracts, futures contracts on shares in 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 15 June 2012 were, as a rule, within the limits of 29.5 to 30.1 rubles per US dollar, which means that market participants expected that the ruble would rise by 0 to 3% by comparison with its value as of 22 November 2011, and those with the date of execution set for 15 September 2012 – within the limits of 29.9 to 30.4 rubles per US dollar. The prices of the latest transactions concluded under ruble-euro currency pair contracts with the date of execution set for 15 June 2012 were, as a rule, within the limits of 39 to 39.8 rubles per euro, which means that market participants expected that the ruble would decline by 0.5 to 2.5% by comparison with its value as of 25 March 2012 (38.82 rubles 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 15 March 2012 and 15 September 2012 was, on average, within the limits of 1,600 to 1,700 points, which means that most of the market participants expected that the RTS Index would decline by 0 to 4.1% by comparison with its value as of 25 March 2012. The prices of the latest transactions concluded under futures contracts on the MICEX Index with the date of execution set for 15 June 2012 were, on average, within the limits of 1,510 to 1,600 points, which means that investors expected that the MICEX Index would rise by 0-3.8% by comparison with its value as of 25 March 2012. Options were in much less demand, with the options turnover amounting to approximately Rb 298bn (while the futures turnover was Rb 4,105bn). The first place in the volume of options trading belonged to marginable options on the RTS Index futures contract.

The Corporate Bond Market

In March 2012, the volume of Russia's domestic corporate bond market (by the nominal value of ruble-denominated securities in circulation) continued to grow. In late March, it amounted to Rb

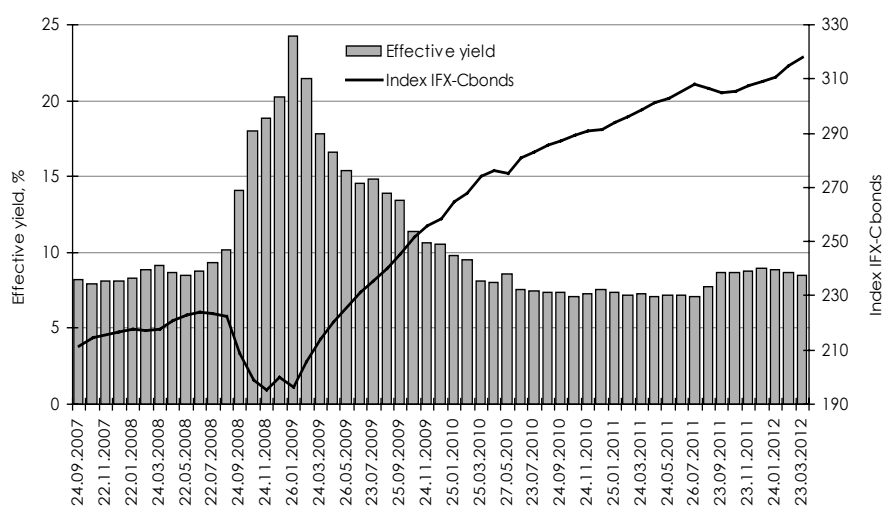
3,532.6bn, which represented a 1.7% rise on late January of the current year¹. This rise in volume was exclusively due to an increased number of bond loans, while the number of the emitters represented in the debt market did not change. For some time, of all the issues denominated in foreign currencies, only one, yen-denominated, issue of bonds still remained in circulation. Then, in late February, it was joined by yet another bond issue denominated in foreign currency – the bond issue denominated in US dollars, placed by the state corporation GK Vneshekonombank. The number of bond issues denominated in foreign currencies can increase over the course of the current year. Thus, Price Finance Ltd has announced that it plans to place a bond issue at a face value of 1,000 US dollars.

Investor activity in the secondary corporate bond market remained high (with allowance made for a smaller number of trading days during the period under consideration). The combined volume of transactions carried out on the MICEX stock exchange from 22 February to 23 March amounted to Rb 115.3bn, and the number of transactions was 25.1 thousand².

By the end of March, the IFX-Cbonds index of the Russian corporate bond market rose by 3 points (or 0.9%) by comparison with its value as of the end of February. At the same time, the weighted average effective yield slightly declined on the previous month – to 8.5% as of the end of March vs. 8.6% as of the end of February (*Fig. 5*). It is possible that, if the forecasts regarding the financial situation of the bond market's issuers had not been so controversial, the level of yield in the corporate debt market might have demonstrated a more significant decline. While the ratings of some Russian banks have been revised upwards (KB Renaissance Capital, Baltinvestbank, etc.), analysts forecast that the financial situation of a number of big industrial companies is going to worsen³. The corporate bond portfolio duration index sharply surged – to 826 days by the end of March (a 45-day rise on the end of February), which represents its record high since November 2011. This rise in the duration index testifies to a significant increase in the proportion of long-term bonds placed on the corporate bond market share.

The general drop in the weighted average effective yield in the corporate market was mostly due to the indices demonstrated by some companies belonging to Russia's financial and industrial sectors. In March, the biggest bond-yield losers (by more than 1 p.p.) were securities issued by OJSC MDM Bank (07 series bonds), OJSC Rossiiskii Selskokhoziaistvennyi Bank [Russian Agricultural Bank] (09 series bonds), OJSC Mechel (19 series bonds), JSC "Aksionernaya Kompaniya po Transportu Nefti "Transneft" [Oil Transportation Joint-Stock Company Transneft] (03 series bonds), and LLC EvrazHolding Finance (07 series bonds)⁴.

After its record-high surge in January and February, issuer activity on the corporate debt market noticeably shrank. Thus, in the period from 22 February through 23 March, 4 emitters registered 10 issues of corporate bonds with a total face amount of Rb 18.5bn (for reference: from 25 January through 21 February, registration was granted to 33 bond issues with a total face amount of Rb 255.5bn). Over the period under consideration, the biggest issues were registered by LLC "Torgovy Dom



Source: According to data released by the Cbonds company.

Fig. 5. The Behavior of the IFX-Cbonds Index of the Russian Corporate Bond Market and the Dynamics of its Weighted Average Effective Yield

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

TsentrObuv” [Trading House Footwear Centre] (4 bond series with a combined face value of Rb 12bn) and SLL “SU-155 Capital” (4 bond series with a combined face value of Rb 4bn)¹. Not a single stock-bond issue was registered.

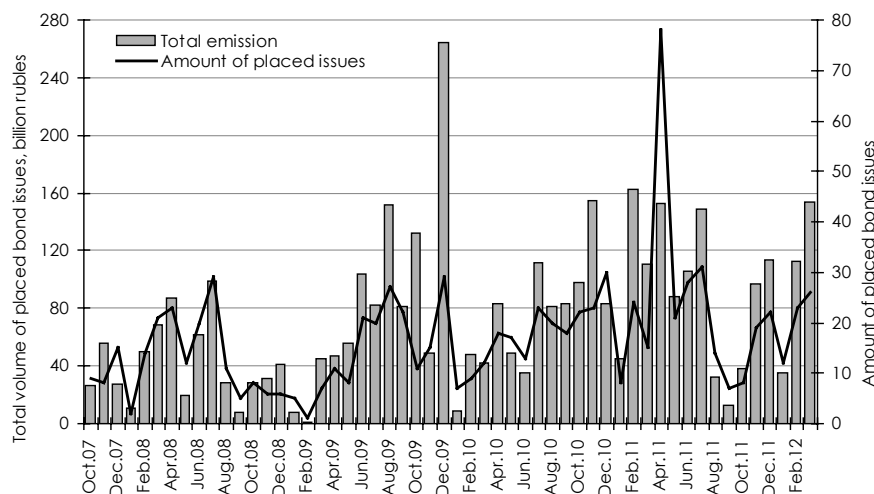
However, investor activity on the primary bond market responded, nevertheless, to the surge in bond-issue registration in late 2011-early 2012 and the broadly investor-friendly market situation. As a result, primary bond market indicators sharply shot up. From 22 February through 23 March, 17 emitters placed 26 bond issues with a total face amount of Rb 153.5bn, which was the highest level since the beginning of 2011 (from 25 January through 21 February 2012, 23 bond issues with a total face value of Rb 112.5bn were placed on the market) (Fig. 6). Among the placed loans, almost one-half was constituted by stock bonds, and there were also several initial placements of bond issues. Of the afore-said 26 placed bond issues, 11 have maturities of 10 years or more, which explains the increase in the duration of the corporate bond portfolio. The companies “Vypel-Kommunikatsii” [Vypel Communications], “Metalloinvest”, and TKG-1 placed bond issues with maturities of 10 years, Rezervnaia Trastovaia Kompaniia [Reserve Trust Company] placed a bond issue with a maturity of 25 years, while Vneshekonombank and Zapadnyi Skorostnoi Deametr [Western High-Speed Diameter] placed bond issues with maturities of 30 years.

It should be noted that in March the Federal Financial Markets Service of Russia (FFMS of Russia) annulled only two bond issues due to failure to place even a single security (for reference: in February, one corporate bond issue was annulled, although earlier the FFMS of Russia annulled, on average, 5 to 7 bond issues per month). This drop in the number of annulments can be an indication of a high investor demand for corporate bonds².

During the period between 22 February and 23 March, 16 emitters were obliged to redeem their bond loans with a total face amount of Rb 66.9bn. However two of them failed to do so in due time and declared a technical default (for reference: in December 2011 and February 2012 the bond market saw no technical defaults on redeeming the face value of securities). It is expected that, in April 2012, 12 issues of corporate bonds with a total face amount of Rb 28.5bn will be redeemed³.

The state of affairs with respect to actual defaults (a situation when the emitter is incapable of paying the coupon to the securities holders even within the next few days after the record date) continued to be relatively stable. In the period from 22 February through 23 March, 2 emitters failed to fulfill

their current obligations with regard to bond loans in due time or within the framework of a technical default (in the period from 25 October through 21 February, none of the emitters declared an actual default due to missing a coupon payment to the securities holders)⁴. At the same time, all of the emitters managed to redeem the face value of their bonds (including before their maturity by means of a buyback offer to their current holders) (in January–February, two emitters declared actual defaults on redeeming the face value of their securities).



Source: According to data released by the Rusbonds company.

Fig. 6. The Dynamics of the Primary Placements of Corporate Bond Issues Denominated in the National Currency

- 1 According to data released by the Rusbonds company.
- 2 According to data released by the FFMS of Russia.
- 3 According to data released by the Rusbonds company.
- 4 According to data released by the Cbonds company.

REAL ECONOMY: TRENDS AND FACTORS

O.Izryadnova

In January–February 2012 the industrial growth dynamics remained positive, and the situation at the consumer and investment markets improved. As compared with January–February 2011 the increase in the industrial production made 4.9%, retail trade turnover – 7.3%, and investments in fixed assets – 15.4%. The expansion of the internal solvent demand resulted from the growth of both the real incomes of the population by 2.6% and real wages by 11.9% as compared with January–February 2011.

In the beginning of 2012 the total number of the unemployed reduced, while the demand for the workforce declared by the employers to the state employment agencies expanded.

In January–February of the current year the macroeconomic situation was determined by the influence of the factors that formed in the 4th quarter 2011 and caused the upsurge in business activity. The growth of the retail trade turnover in February and January–February 2012 made, correspondingly, 107.3% and 107.7%. The consumers' behavior was affected by the inflation slowdown and the increase in the real incomes of the population. In February 2012 consumer prices index made 100.9% versus the beginning of the year as compared with 103.2% a year ago. The real disposable monetary incomes of the population went up by 2.6% and real wages – by 11.9% as compared with January–February 2011.

In January–February 2012 the index of investments in fixed assets made 115.4% versus 98.8% a year ago. In February and January–February 2012 the growth of the industrial production made, correspondingly, 106.5% and 104.9% versus the corresponding periods of the previous year. In January–February of the current year the agriculture output was 2.7% above the level of the previous year.

The development of the industry is characterized by the anticipating rates of the development of the manufacturing as compared with the minerals extraction production. In January–February 2012 the manufacturing industries growth rates made 5.6% versus January–February of the previous year, minerals extraction -2.5% and electricity, gas and water production and distribution -3.2%. At the beginning of 2012 the manufacturing industry was characterized by the anticipating growth rates of the investments goods as compared with the consumer and intermediate goods.

In January–February 2012 in the complex of machine-building industries the production of machinery and equipment went up by 28.3%, electric, electronic and optic equipment production – by 16.8%, transport vehicles and equipment production – by 23.4%. It should be noted that it is only transportation vehicles and equipment that exceeded the pre-crisis level by 31.6%. The output in other types of machine-building production is at the level of approximately 2/5 of the figure of January–February 2008. The recovery growth rates of capital goods for construction production depend on the level of the investment demand. As compared with the corresponding period of the previous year in January–February 2012 for the first time since the beginning of three-year recession in such a period the investments in the fixed assets were observed to grow by 15.4%, workload in construction – by 9.2%, implementation of the residential floor area – by 13.1%. High level of the business activity in the first two months of the current year is accounted for by both the continuation of the trends of the second half of 2011 and by the timely receipt of the funds (including budget funds) for investments program financing. Upsurge of the activity in the construction had a positive effect on the dynamics of the construction materials and adjacent industries output. The index of nonmetallic constructional materials production made 115.0% in the first two months of the current year versus January–February 2011, construction materials output – 144.8%, finished metal goods production – 111.4%, steel assemblies – 112.3% and aluminum and its alloys assemblies – 155.3%. Despite considerable positive changes the investment complex has not overcome the crisis aftermaths: in January–February 2012 the volume of investments in

fixed assets made 86.9% of the corresponding figure of 2008, workload in construction – 79.3%, construction materials output – 83.9%.

In the segment of the intermediate goods the slowdown of growth rates in rubber and plastic goods production (103.9%), timber processing (100.6%), chemistry industry (109.4%) was observed, which is accounted for by the high recovery rates in 2010–2011 as well as the moderate expansion of the solvent demand.

In January–February 2012 after three years of the high growth rates the textile and sewing production growth rates are observed to decrease by 4.7%, leather, leather goods and footwear – by 10.3%, household appliances production – by 0.8%. In January–February 2012 in the foodstuffs production the growth rates made 106.8% versus 102.3% a year ago while the supplies of the agriculture raw materials to the processing enterprises went up.

Noting the importance of the expansion of the internal market as a dominating factor in the post-crisis economy development, the dynamics and structure of import supplies as compared with the domestic production should be brought into the focus. In 2011 the index of output volume by the basic types of the economic activity made 101.3% versus the pre-crisis level, domestic production of the goods for internal market – 99.2%, physical volumes of export – 105.3% and import – 102.3%. Domestic production for the internal market is very slow to recover despite the fact that its recession during the acute phase of 2009 crisis was less deep than import reduction. The proportion of the import in the trade resources of retail trade turnover made 43% as a result of 201 (41% in 2009), including 33% for foodstuffs and 51% for non-food goods.

Over 2010–2011 the import structure changed, which is connected with the reorientation to the import of intermediate and investment goods the proportion of the consumer goods in import decreasing. This is accounted for both by the intensive development of the industrial assembly enterprises and the expanding gap between the structure of the production and solvent demand for the industrial goods at the internal market. The absence of fundamental qualitative changes, inertial development of both the export-oriented and final demand sector enterprises based on the extensive use of the main factors of production, high proportion of import in the internal market resources were three causes for the moderate growth rates of the Russian economy.

Table 1

PROPORTION OF CONSUMER, INTERMEDIATE AND INVESTMENT GOODS IN THE TOTAL VOLUME OF THE RUSSIAN FEDERATION IMPORT SUPPLIES (CALCULATED ON THE BASIS OF BALANCE-OF-PAYMENTS METHODOLOGY), AS PERCENTAGE TO THE TOTAL

	Goods		
	Consumer	Investment	Intermediate
2006	46.2	17.0	36.8
2007	44.4	18.9	36.7
2008	41.8	23.8	34.4
2009	44.3	19.7	36.0
2010	40.7	19.5	39.8
2011	36.6	21.4	42.0

Source: Federal State Statistics Service.

In 2011 the financial situation at the enterprises has been observed to improve gradually – the balanced financial result of organizations exceeded by 20.0% the figure of the previous year. However, despite the positive trends on the whole throughout the economy the profitability did not reach pre-crisis levels and was 2.0% below the figure of 2008.

It was the minerals extraction that remained the most profitable type of activity in 2011. The favorable situation at the world market of hydrocarbons and mineral raw materials provided conditions for fast recovery of extractive industry enterprises. In 2011 the financial result of such enterprises made Rb1981.0bn (148.7% versus 2010). The profitability of sales for the minerals extraction made 35.7% having increased by 2.2% as compared with 2010.

In 2011 the financial result of the manufacturing industries exceeded that of 2010. The operation of organizations producing goods that are not traded at foreign markets is mostly low efficient. It

should be noted that despite the growth of the financial result in the spheres of the activities aimed at satisfying internal investment demand the situation in these types of activities is still insecure.

In January 2012 the balanced financial result of the organizations reached Rb824.1bn, having increased by 24.8% versus January 2011. It should be noted that in January 2012 in the industry the balanced financial result went up by 3.8% compared with the corresponding period of 2011.

Table 2

PROFITABILITY OF PRODUCTION AND DYNAMICS OF BALANCED FINANCIAL RESULT OF ORGANIZATIONS AS BROKEN BY TYPES OF ECONOMIC ACTIVITY 2008–2012, %

	Profitability of sold goods, products, works, services				Growth rates of balanced financial result, as percentage to the corresponding period of the previous year					
					Year				January	
	2008	2009	2010	2011	2008	2009	2010	2011	2011	2012
Total	13.0	11.5	11.4	11.0	62.9	116.6	142.9	120	156.5	124.8
Including: agriculture, hunting and forestry	10	8.4	10.3	10.3	86.6	68.3	108.5	144.5	191.5	160.5
minerals extraction	25.4	29.2	35.5	35.7	89.8	106.7	143.1	148.7	156.5	84
manufacturing industries	17.1	12.5	14.3	13.2	75.7	78.9	154.8	120.4	250	117.1
electricity, gas and water production and distribution	4.9	7.6	7.2	6.7	98.6	91.9	265.7	33.3	84.3	119.5
construction	5.6	6.6	5.7	6.6	95.2	90.2	89.4	102.9	-	9.7
wholesale and retail trade; motor vehicles, motorcycles service; household appliances and items of personal use repair	10.8	8.3	9.2	8.9	69.8	161.7	107.3	178	142.1	152.9
transportation and com- munication	14.2	14.1	13.8	12.8	81.9	93.7	134.7	107.6	163.7	139.8

Source: Federal State Statistics Service.

Since the beginning of the year the demand for the workforce has been growing. Due to the increase of the number of vacant positions declared to the state employment agencies diminished to 109.5 per 100 declared vacancies in contrast to 167.3 a year ago. The number of the unemployed (calculated on the basis of the ILO methodology) reduced by 87000 in February making 4.8m (6.5% of the economically active population); 1.33m of the unemployed was registered in the state employment agencies (1.8% of the economically active population), which makes 80.9% of the figure of January–February 2011.●

RUSSIAN INDUSTRY IN FEBRUARY

S.Tsukhlo

According to the surveys conducted by the Gaidar Institute¹, the February value of the Industrial Optimism Index is indicative of a slightly improved situation faced by the respondent enterprises. However, the growth of its value resulted from the upward movement of only one of its components – the current demand estimate. Thus, it is by no means certain that this positive dynamics will continue over the next few months. The balance of the estimations of stocks of finished products did not display any significant changes in February, having remained (with regard to industry in general) at the level of a slight (and already traditional) surplus. In industry, job cuts gave way to new personnel recruitment. So far, that index has been extremely low, but the important fact is that the negative trend of the second half-year 2011 has been reversed.

Industrial Optimism Index

The value of the Industrial Optimism Index registered in February (Fig. 1) demonstrates that the situation faced by the respondent enterprises slightly improved. However, the increased value of the Index was produced by the growth of only one of its component – the current demand estimate. Thus, it is by no means guaranteed that this positive dynamics will continue over the next few months.

The forecasts made by the respondent enterprises, after having demonstrated a dramatically increased optimism in January, in February once gain returned to its historic low of the last two years (Fig. 2).

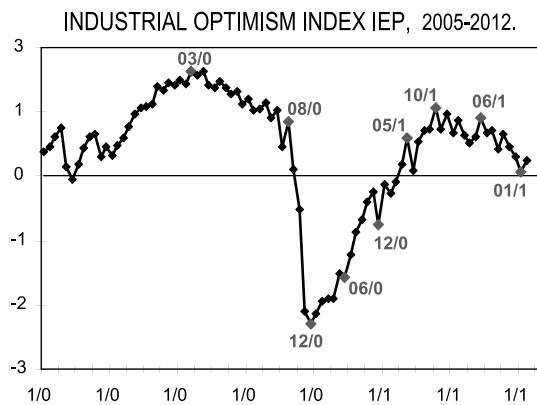


Fig. 1

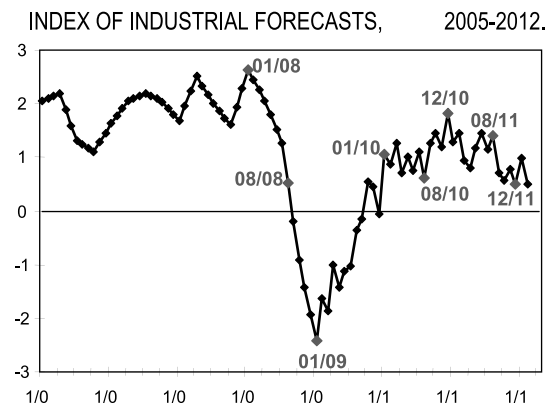


Fig. 2

Demand for Industrial Products

In February, the demand for industrial products demonstrated a traditional positive surge from its level in the “holiday month” of January; the change was slight by comparison with Q4 2011. However, the February rebound in sales was weak: the balance (the rate of change) can be regarded as positive only when compared to the level of January 2012, which looks like “slump” if set against the values recorded in the period between two crises (1999–2008) and the post-

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

crisis period (2009–2011); it somewhat improved to a level slightly above that observed in the last quarter of 2011. However, the unpleasant fact is that the values remained in the negative zone, which means that the demand for industrial products continues to decline. When cleared of seasonality, the adjusted rate remains negative, and so the values of early 2012 are the worst result since September 2009 (*Fig. 3*).

The initial demand forecasts also revealed a positive change in February, which also turns out to be weaker than in the second month of each year between the two crises and the post-crisis years. When cleared of seasonality, this index becomes indicative of a stable, astonishingly low level of optimism with regard to forecasts of sales that was first recorded in September 2011, with the onset of a new wave of the European debt crisis. Russian industry definitely fails to display optimism. Therefore, even modest changes in the level of demand were estimated to be “high” by the respondent enterprises. In February, satisfaction with the level of sales increased for the first time over the last four months – to 55% (*Fig. 4*).

Stocks of Finished Products

The balance of estimates of finished product stocks did not display any significant changes over February, remaining across industry as a whole at the level of slight surplus (which has already become habitual over the past months (*Fig. 5*). Thus, it appears that industry has quite successfully tackled the issue of stocks of finished products by avoiding both overstocking and running out of stocks.

Output

The actual output movement in February (one of the few statistical parameters applied by officials and analysts alike in their attempts to know what is really happening in industry) can be regarded as a rather reliable source of optimism because, after the January plunge, its growth rate improved at once by 61 points, and when cleared of seasonality – by 9 points. Thus, the results achieved in February may well become the best since mid-2011 (*Fig. 6*).

At the same time, the plans of enterprises are still indicative of lack of confidence in industry as to the prospects of maintaining the output rate at a high level. While in the previous years the initial February plans were better than the January plans, this year the plans remained unchanged. And the elimination of seasonality brought their level down to the two-year historic low. However, absence of a positive outlook in the output plans of enterprises appears to be quite normal in view of the “weak” forecasts of demand. As a result, the correspondence of the expected output changes to the changes in demand over March and April can be possible for 72% of enterprises, which is typical of that estimate.

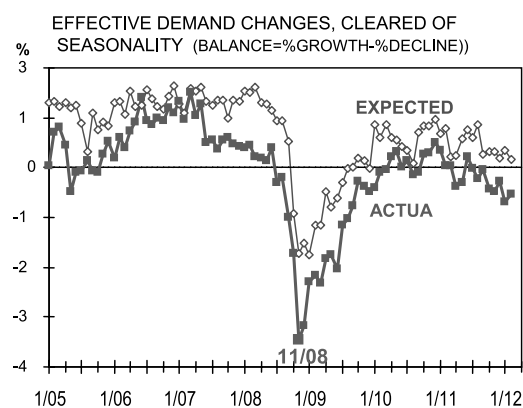


Fig. 3

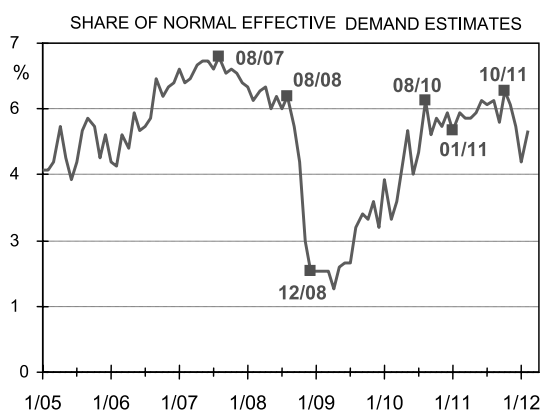


Fig. 4

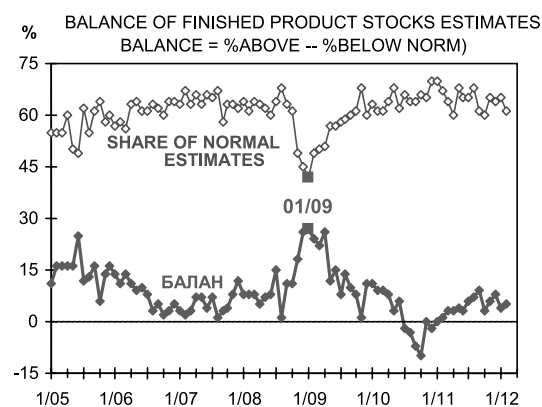


Fig. 5

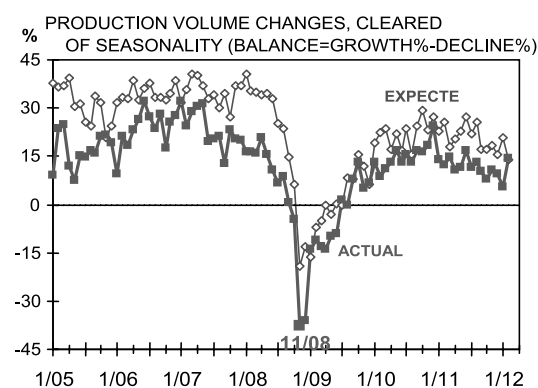


Fig. 6

Producer Prices

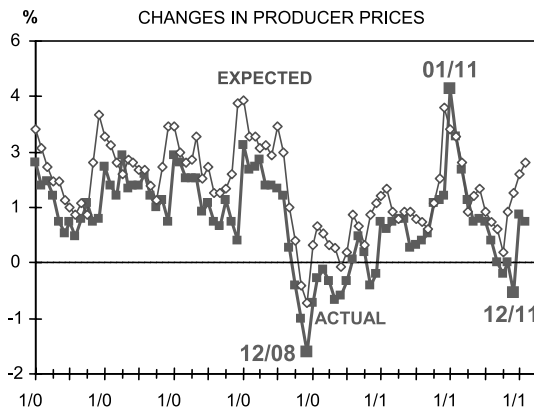


Fig. 7

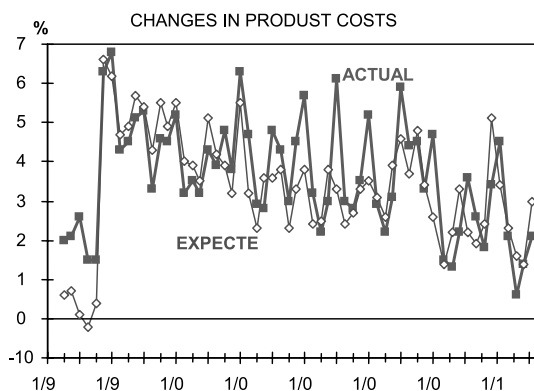


Fig. 8

points), and the chemical industry (+28 points). A complete absence of any planned growth of prices is registered only in ferrous metallurgy.

Growth of costs in industry in Q1 2012 turned out to be at its first-quarter historic low for the entire period of monitoring – only +21 points (*Fig. 8*).

Actual and Planned Job Cuts

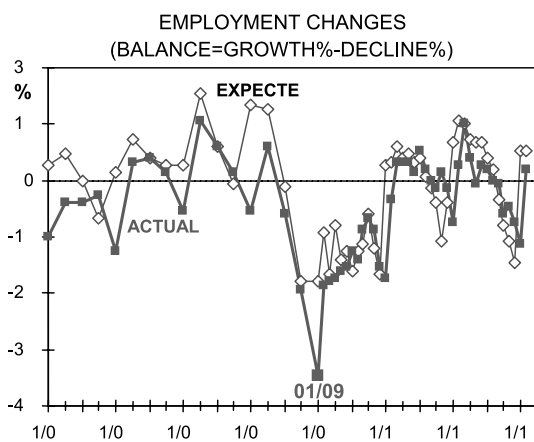


Fig. 9

not change by comparison with January, which points to uncertainty of the respondent enterprises in the prospects of maintaining this recruitment trend.

As estimated by the respondent enterprises, the rate of growth displayed by producer prices in February turned out to be slightly lower than in January. Industry evidently enters the year 2012 in a somewhat different situation than a year ago when our surveys revealed the most rapid rise of prices since early 1999. One of the principal causes of the unprecedented leap of producer prices in early 2011 was the raised insurance contribution tariff (Single Social Tax – SST). By now the government has acknowledged the erroneousness of that measure, because treasury revenues did not increase – instead, they declined.

However, enterprises offer quite a different estimation of the consequences of the raised SST rate in 2011. “Shadow” wages and other “optimization tricks” were practiced rather rarely in industry. The most popular form of response was diminished profit (that is, covering the SST increment by business money), increased producer price (that is, covering the SST increment by consumer money), and cuts on investments (that is, compensation by means of a slower industry modernization rate).

Since November, the pricing plans of enterprises have been demonstrating the producers’ intention to switch over from a slowdown in price growth to a more rapid growth rate (*Fig. 7*). Over those months, the balance of forecasts increased from +3 to +27 points. Plans for the most rapid growth of prices in January–February (that is, plans for February–April) are recorded in machine-building (+37 points), the construction industry (+31

points), and the chemical industry (+28 points). A complete absence of any planned growth of prices is registered only in ferrous metallurgy.

In February, mass-scale dismissal of personnel in industry gave way to personnel recruitment (*Fig. 9*). So far, the intensity of recruitment has been very low (only +3 points) after (-11 and -17 in December and January), but it is important that the negative trend of the second half-year 2011 has at last been reversed. Another optimistic fact is that the switchover from job cuts to personnel recruitment occurred is a situation when enterprises had already eliminated the personnel shortages that had been bothering them for a year and a half and managed to present their balances of estimates with a slight surplus. In other words, now industry displays a slightly higher number of enterprises believing that their personnel number is “more than sufficient” by comparison with those enterprises that offer the estimate of “less than sufficient”. However, February forecasts did

Crediting of Industry

In February, industry did not experience any specific changes in crediting conditions. The aggregate credit availability (“above the norm” + “normal”) (Fig. 10) remained at the level of 72%, while the mean minimum rate on credits offered by banks to enterprises was stabilized at 12%. Over the last few months (in continuation of the previous trend), the lowest rates are offered to metallurgy (9.2%), the chemical industry (11.4%), the food industry and machine-building (11.8% each); the highest rates – to the construction industry (13.6%) and light industry (13.9%). At present, the rate offered in conditions of normal credit availability is 11.6%, while in October 2011 it had been estimated by enterprises to be at the level of 11.0% (Fig. 11).

No fundamental changes occurred with regard to enterprises’ crediting plans. Industry reports a moderate level of borrowing growth plans. The balance of that index in Q1 2012 amounted to +14 points, thus displaying no changes against the levels of Q4 2011 or Q1 2011. The most intensive growth of demand for loans is possible in the timber industry (+27 points), the construction industry (+20), and light industry (+19). ●

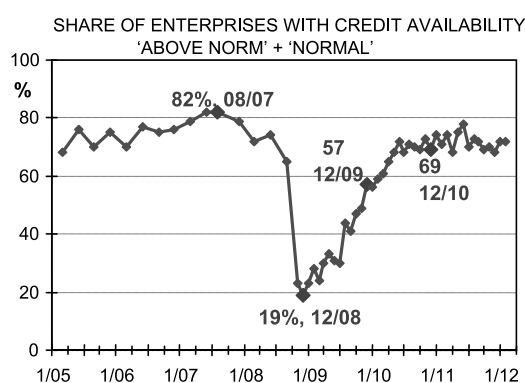


Fig. 10

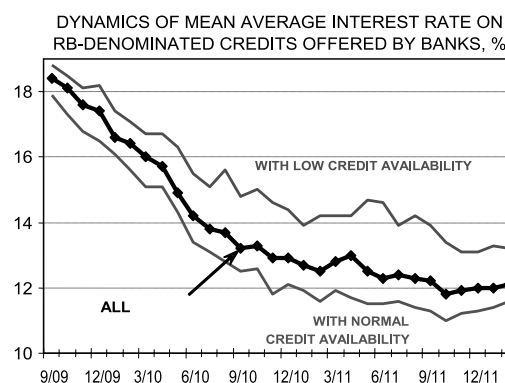


Fig. 11

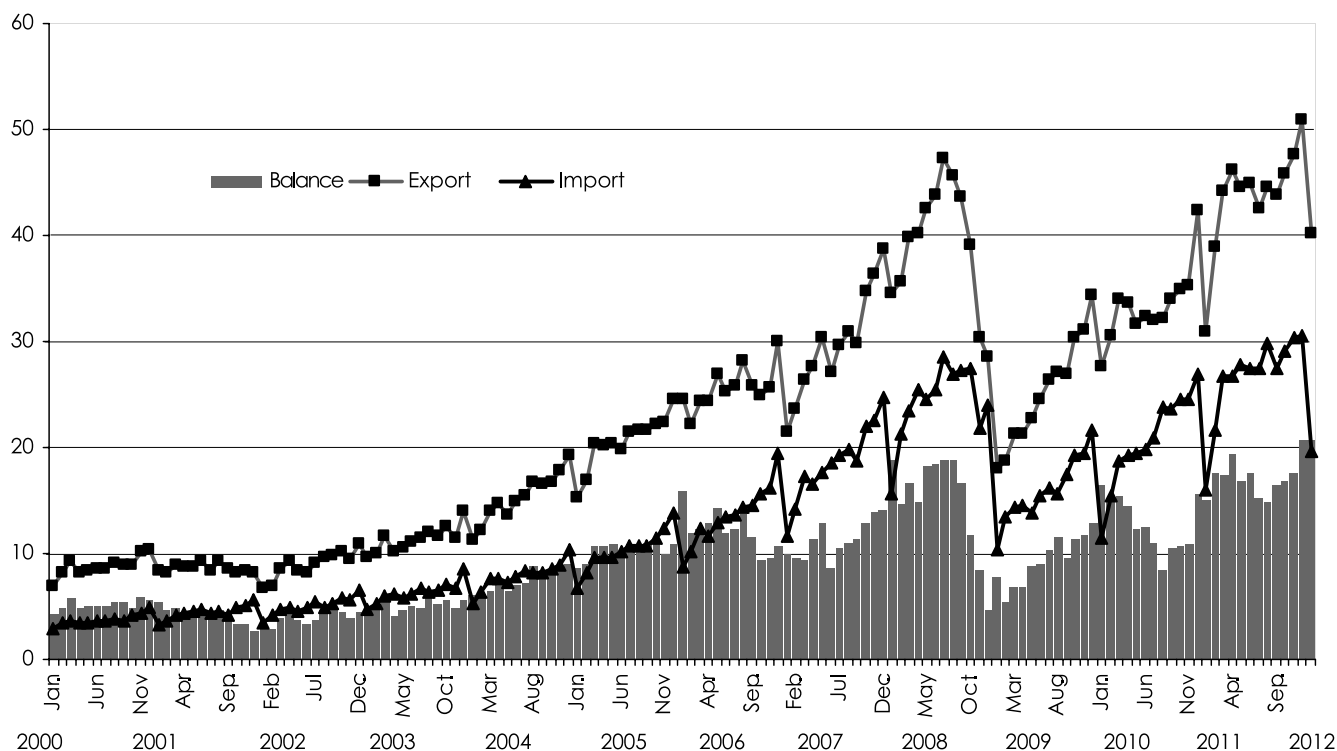
FOREIGN TRADE

N.Volovik, K.Kharina

In January 2012, growth in the main indices of the Russian foreign trade continued. Surplus on trade balance reached the record level in the entire period of observation. The main factor behind growth in export is still high global oil prices, while that behind growth in import is an increase in physical volumes.

In the Report of the World Bank¹ which came out in March 2012, the forecast of the growth in the global economy was significantly downgraded. If in September 2011 analysts of the World Bank expected the growth of 3.2% in the global GDP on the basis of the results of 2012 in March the forecast was reduced to 2.5%. It is to be noted that in 2013 the index of growth in the global economy is expected to rise to 3.1% as compared to the current year. According to the forecasts of the World Bank, in 2012 in developed countries growth in the GDP will amount to 1.4%. In the September report, more active growth of 2.2% in the economy of those countries was expected. In developing countries a slow-down of economic growth rates is expected, as well. According to evaluations of the World Bank, in 2012 growth in the GDP of those countries will amount to 5.4% (in the September forecast, to 6%) which is the lowest index in the last decade (except for the 2009 crisis year). In 2013, growth of 6% in that index is expected. The forecast of growth in the GDP of Russia in 2012 was reduced to 3.5% as compared to 3.8% in the September report.

In January 2012, Russia's foreign trade turnover calculated in accordance with the methods of the balance of payment rose by 27.9% to \$59.7bn as compared to January 2011.



Source: Central Bank of the Russian Federation.

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

1 <http://www.worldbank.org/russia>

In January 2012, the volume of the Russian export rose by 32.2% to \$40.1bn on the respective period of 2011. The factor behind growth in exports was higher prices on oil and an increase in the physical volumes of export supplies.

The good macroeconomic data from China which formed expectations of a higher demand in energy carriers contributed to growth in oil prices in January 2012. In 2011, the GDP of China grew by 9.2% on a year-to-year basis. The news from China put off to some extent fears about a slowdown of the recovery rates of the global economy due to worsening of the debt crisis of the Euro-zone states.

In January 2012, the minimum value (to which the price on Brent oil fell) amounted to \$109.78 a barrel, while the maximum one, to \$113.63 a barrel; the average price amounted to \$111.16 a barrel.

In January 2012, the average price on Urals oil amounted to \$110.1 a barrel having increased by 14.3% as compared to January 2011.

Late in February 2012, the price on Brent oil exceeded \$120 a barrel and did not go down below that level for a month. The factor behind the growth was the report of the International Atomic Energy Agency (IAEA) in which it was stated that Iran had sharply increased production of enriched uranium. The above statement resulted in escalation of the situation around that country. Also, oil prices were supported by the positive macroeconomic data from the USA and Europe.

According to the monitoring of the Ministry of Finance of the Russian Federation, in the period from February 15, 2012 till March 14, 2012 the average price on Urals oil amounted to \$123.5 a barrel. Thus, according to Resolution No.205 of March 21, 2012 of the Government of the Russian Federation the export duty on oil will be raised by 12% to \$460.7 a ton from April 1 (in March it amounted to \$411.2 a ton). The reduced duty rate applied to a number of deposits in Eastern Siberia and the North Caspian Region was raised by 18% to \$241.5 a ton against \$204.4 a ton in March. The duty on light and dark oil products which was unified at the level of 66% of the duty on oil will amount to \$304 a ton from April 1 against \$271.4 a ton in March. On the basis of the ratio of 0.90, from April 1 the export duty on gasoline will amount to \$414.6 a ton (in March it was \$370.1 a ton). From April, the duty on condensed gas will amount to \$158.6 a ton (in March it amounted to \$157.3 a ton).

Early in 2012, in the precious metals market after a protracted fall a trend towards growth in prices was observed. Due to low prices and with energy carriers becoming more expensive last year, aluminum producers cut down the output which situation with the existing level of the demand resulted in a drop in stock reserves and growth in prices. For the first time in eight months, in January 2012 prices on aluminum were going up by 6% as compared to the previous month.

In 2011, a drop in prices on copper was related to a great extent not to a decrease in the demand as it was in 2008, but to a fewer number of speculative deals due to uncertain prospects of the global economy. It is to be noted that the main copper-consuming sectors are stable at present. In January 2012, prices on copper rose by 6.8% as compared to December 2011.

After falling in November 2011 to the minimum value in the past two years, prices on nickel started to grow. In January 2012 they increased by 8.7% as compared to December 2011.

However, prices on precious metals went down considerably as compared to January 2011. In January 2012, prices on aluminum, copper and nickel were 12.1%, 15.9% and 22.6% lower, respectively. Also, during the year prices on timber, paper pulp, natural rubber, rubber and other went down.

In January 2012, the food price index of the FAO rose by nearly 2% as compared to December 2011 and that increase was the first one from July 2011. It is to be noted, that prices on all the food groups included in the index went up. Growth in vegetable oil prices was the highest one and it was followed by that in prices on grain, sugar, dairy products and meat. The new value of the index amounted to 214 points, however, it is 7% lower than last January.

In January 2012, energy carriers accounted for the main portion of the Russian export, that is, 75.3% of the total volume of export of commodities in value terms against 74.9% in January 2011. They were followed by metals 8.6% (9.3%), chemical products 5.4% (5.5%), and machines and equipment 3.4% (2.5%).

In January 2012, the volume of the export of oil in value terms grew by 38% to \$14.6bn as compared to the respective period last year. It is to be noted that revenues from the export of oil to far abroad rose by 31% to \$13.4bn while those from export of oil to the CIS, by 280% to \$1.2bn. In January 2012, in physical terms the export of oil from Russia increased by 22.3% to 19.5m tons as compared to the same period of 2011. The average contract price grew by 13.1%.

In January 2012, export of natural gas from the Russian Federation grew by 24.8% to \$ 6,449bn as compared to January 2011. It is to be noted that in January 2012 the physical volume of gas exported from the Russian Federation rose by 7.6% to 18.3bn cubic meters as compared to January 2011.

Table 1

AVERAGE MONTHLY GLOBAL PRICES IN JANUARY OF THE RESPECTIVE YEAR

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Oil (Brent), USD/a barrel	19.4	28.1	31.3	42.9	62.5	54.8	92.4	45.7	76.2	96.29	111.16
Natural gas, USD/1m BTU	3.06	3.61	3.87	5.46	7.96	8.59	10.7	13.89	8.8	9.61	11.45
Gasoline, USD/a gallon	0.573	0.852	0.992	1.291	1.849	1.59	2.38	1.115	2.04	2.45	2.77
Copper, USD/a ton	1557.8	1571.3	2441.9	3170	4734	5668.7	7061.6	3220.7	7385	9556	8040.5
Aluminum, USD/a ton	1377.9	1291.1	1608.2	1832	2378	2808.3	2445.5	1413.1	2234.5	2440	2144.2
Nickel, USD/a ton	6094.6	7643.9	14855	14505	14555	36795	27689	11307	18430	25646	19855

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

Despite a drop in average contractual prices on copper and nickel by 28.2% and 27%, respectively, due to growth in physical volumes of export supplies by 22.2% and 68.7%, respectively, the volume of export of copper and nickel in value terms increased by 70.2% and 130%, respectively.

In January 2012, the export of products of chemical industry amounted in value terms to \$2.1bn which figure exceeded by 28.0% the similar index of January 2010, while its share in the total export of the most important goods fell from 5.5% in January 2011 to 5.4% in January 2012. The leaders in that group of commodities of the Russian export are as follows: mineral fertilizers (40.4% of the total export of chemical products), inorganic chemical products (18.6%) and synthetic rubber (12.1%).

In January 2012, the export of food products and agricultural raw materials rose by 140% and amounted to \$941.1bn as compared to January 2011. 989,600 tons of wheat were exported (in January 2011 the ban on export of wheat was in effect). The export of vodka decreased by 15.7% as compared to the previous year.

In January 2012, the volume of the Russian export amounted to \$19.6bn which figure was 20% higher as compared to last January.

In the structure of the Russian import, machines, equipment and transportation vehicles amounted to 49.1% (in January 2011, it was 43.7%), food products and agricultural raw materials for production of such products, to 12.9% (17.2%) and products of chemical industry and natural rubber, to 13.9% (13.8%).

The import of cars grew considerably to 57,900 units which figure is 22.4% higher as compared to the same period of the previous year. In the above period, in money terms \$1.15bn worth of cars was imported which figure is 50.1% higher than the value of the similar index of the previous year.

In January 2012, \$2317.6m worth of food products and agricultural raw materials was imported which figure is 8.0% lower than in January 2011. As compared to the previous year, physical volumes of import of coffee, tea, grain, meat products and tinned meat and cacao products rose by 40.3%, 5.5%, 81.7%, 16.5% and 12.4%, respectively. The physical volumes of import of poultry

meat, milk and condensed cream, cheese and cottage cheese, white sugar, potatoes and sunflower oil fell by 28.4%, 37.0%, 23%, 84.0%, 95.4% and 98.4%, respectively.

Average contractual prices on some products increased as follows: fresh and frozen meat (by 12.2%), poultry meat (8.8%), dairy butter (22.2%), coffee (12.5%), sunflower oil (8.9%), raw sugar (49.3%) and cacao products (5.0%). Average contractual prices on white sugar fell by 31.7%.

In January 2012, surplus on the trade balance of Russia amounted to \$20.5bn which is the record value in the entire period of observation.

In March 2012, negotiations were held on lifting of the ban on export of Egyptian potatoes to the Russian Federation which ban was introduced in June 2011.

It is to be reminded that restrictions on import of potatoes from Egypt were introduced due to the fact that at quarantine phytosanitary examination of potatoes delivered from Egypt from January till May 2011 in 24 instances a germ– potatoes brown rot – which is a quarantine object in Russia was identified. It is to be noted that the infested produce was accompanied by phytosanitary certificates issued by Egyptian officials who guaranteed that it complied with the Russian phytosanitary requirements. To prevent destabilization of the phytosanitary situation in Russia, in accordance with Article VII 1 a) of the International Plant Protection Convention (Rome, 1951; 1997 edition) Rosselkhoznadzor (the Federal Service for Veterinary and Phytosanitary Surveillance) had to introduce temporary restrictions on import of potatoes from Egypt to Russia.

Later, Rosselkhoznadzor partially lifted the ban, however, in September 2011 it restricted deliveries again as Egypt kept supplying the unsafe produce.

The drought of 2010 which ruined a large portion of harvest in the Russian Federation resulted in soaring growth in import of potatoes. According to the data of Rosselkhoznadzor, until 2010 Egypt supplied 70,000 to 100,000 tons of potatoes to Russia, while in winter and spring 2011 import of potatoes from Egypt grew to 200,000 tons.

In March 2012, in the course of negotiations the Russian side put forward additional conditions related, in particular, to sanitary processing of potatoes at the port of shipment. However, the Ministry of Agriculture of Egypt turned down the additional conditions which were put forward by Russia as unacceptable to Egypt as they infringed the interests of Egyptian companies.

According to the data of Rosstat, in 2011 the gross yield of potatoes amounts to about 32.6m tons. The above volume is sufficient enough to meet the demand on the domestic market. ●

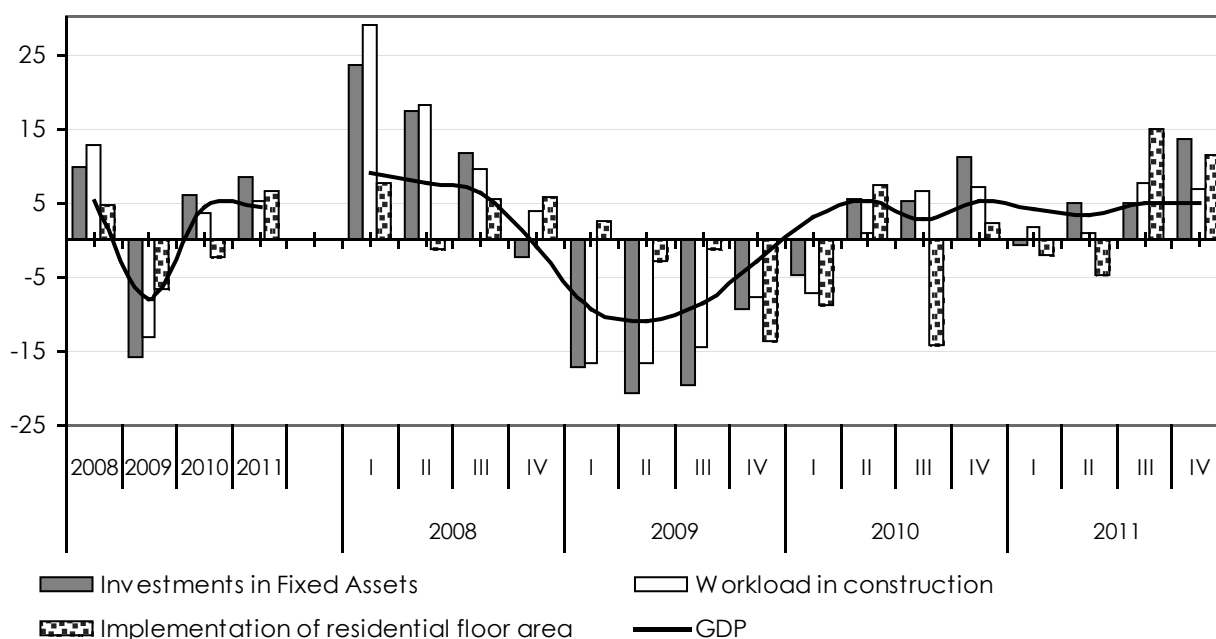
INVESTMENT IN REAL ECONOMY SECTOR

O.Izryadnova

During 2011 the investment activity was observed to increase gradually, investment growth rates exceeding by 2.3% the figure of the previous year reaching 108.3%. The dynamic development of the investment sector in the second half of 2011, backlog making determined the conditions for maintenance of the positive dynamics at the beginning of 2012. In January–February 2011 investments in fixed assets made 115.4%, workload in construction – 109.2%, implementation of residential floor area – 113.1% versus the corresponding period of the previous year.

In 2011 the growth rates of the investments in fixed assets went up to 108.3% versus 106.0% a year ago. Throughout 2011 the situation in the investment sector was observed to change gradually. The increase in the investments in fixed assets went up from 2.7% in the 1st half of the year to 11.3% in the 2nd half of 2011 versus the corresponding periods of the previous year. The workload in construction as a result of 2011 increased by 5.1% as compared with 2010, the main proportion of the growth occurring in the 2nd half of the year in the 2nd half of the year more than 2/3 of the annual residential floor area was implemented, which compensated for the recession of the business activity in the 1st half of the year and provided for the increase in the implementation by 6.6% versus the previous year. However, despite these positive shifts, the main indices of the investments complex in 2011 did not reach the pre-crisis level of 2008.

The dynamics of the investments in fixed assets is substantially differentiated by large and small enterprises. In 2011 the investment dynamics remained positive in the segment of small business: in 2011 the investments in fixed assets in this segment went up by 2.3% as compared with the previous year and reached the level of 2008. The complex of anti-crisis measures of the government program 2009-2010 continued to have a positive effect on the dynamics of the investments in the segment of large-scale enterprises. At large-scale enterprises the increase in investments in fixed assets made 10.1% in 2011 as compared with 5.1% a year ago.



Source: Federal State Statistics Service.

Fig. 1. Dynamics of the Main Indices of Investment complex and GDP in 2008–2011, as Percentage to the Corresponding Period of the Previous Year

In 2010–2011 the structure of the investments as broken by sources of financing was subject to changes. Slow recovery rates of the internal market and the profits of the economy accounted for the larger use of the enterprises' own funds to finance the investment programs. As a result of 2011 the proportion of the enterprises' own funds in the structure of the investments in fixed assets went up to 42.7%, exceeding by 1.7% the figure of the previous year.

Table 1

STRUCTURE OF INVESTMENTS IN FIXED ASSETS AS BROKEN BY SOURCES OF FINANCING
(EXCLUDING THE SUBJECTS OF SMALL-SCALE ENTREPRENEURSHIP AND INVESTMENT VOLUME
NOT OBSERVED BY DIRECT STATISTICAL METHODS), AS PERCENTAGE TO THE TOTAL

	2008	2009	2010	2011
Investments in fixed assets – total	100	100	100	100
of which by the source of financing:				
own funds	39.5	37.1	41.0	42.7
profit remaining at the disposal of enterprises (accumulation fund)	18.5	16.0	17.1	17.2
borrowed funds	60.5	62.9	59.0	57.3
including:				
bank credits	11.8	10.3	9.0	7.7
including foreign banks credits	3.0	3.2	2.3	1.5
funds borrowed from other organizations	6.2	7.4	6.1	5.0
budget funds	20.9	21.9	19.5	18.8
including:				
federal budget funds	8.0	11.5	10.0	9.8
funds of Russian Federation subjects budgets	11.3	9.2	8.2	7.9
off-budget funds	0.4	0.3	0.3	0.2
other	21.2	23.0	24.1	25.6
including:				
funds of superior organization	13.8	15.9	17.5	20.2
funds received from share participation in construction (organizations and population)	3.5	2.6	2.2	1.9
including funds of the population	1.9	1.3	1.2	1.1
funds from corporate bonds emission	0.1	0.1	0.01	0.0
funds from stocks emission	0.8	1.0	1.1	1.0
Foreign investments in the total volume of the investments in fixed assets	4.3	4.3	3.8	3.1

Source: Federal State Statistics Service.

The changes in the volumes and proportion of the borrowed funds in the sources of financing were accompanied by the changes in the structure of their use. In concordance with the priorities of the state investments the funds were directed to modernization and development of the objects of industrial infrastructure strategically important for the country, fulfillment of the investment projects of modern technology implementation for the production of competitive goods at the machine-building complex enterprises, as well as to the conduction of the works for security of energy, transportation objects operation, water and forests management. The volume of budget funds used for the investments in fixed assets made 2.66% of the GDP in 2011, the federal budget funds making – 1.39% of the GDP. The proportion of the federal funds in the structure of the budget financing sources went up to 52.2% in 2011 versus 38.2% in 2008.

In 2011 Rb 946.0bn (1.74% of the GDP) was directed at the construction, reconstruction, technical re-equipment and objects purchase, as well as the fulfillment of the FTIP measures, which is Rb 181.6bn more than in 2010.

The financing of the objects included in the federal target programs (FTIP program part) was envisaged at the volume of Rb 573.8bn (60.7% of the total FTIP volume) in 2011. The construction and realization of the measures not included in the federal targeted programs there was Rb 372.2bn allocated, which makes 39.3% of the total FTIP volume. In 2011 Rb 160.2bn or 16.9% of the total

volume of FTIP was envisaged for financing of the special works included in the state defense order.

In concordance with the data of the State Federal Statistics Service, the level of budget allotments financing for FTIP construction sights and objects (not taking into account construction sights and objects included in the state defense order), which are monitored by the Federal State Statistics Service, made Rb 504.6bn or 70.9% of the annual limit in January–December 2011.

In concordance with the Federal Targeted Investment Program for 2011 with corrections of January 1, 2012, the budget allotments were envisaged for construction and purchase of 3842 objects and implementation of 2226 objects. In fact in 2011 500 objects were commissioned, 425 – to the full extent, 75 – partially. As on January 1, 2012 at 876 object the extent of the technical readiness ranged from 51.0% to 99.9%.

Table 2

OBJECTS ENVISAGED BY TARGETED INVESTMENT PROGRAM AND VOLUMES OF STATE INVESTMENTS IN 2011 (NOT TAKING INTO ACCOUNT CONSTRUCTION SIGHTS AND OBJECTS INCLUDED IN THE STATE DEFENSE ORDER)

	Number of objects for 2011		Commissioned in 2011		Limit of state investments in 2011		Financed from the federal budget in 2011	Investments used at the expense of all sources of financing in 2011
	total	including those with the date of commissioning in 2011	partially	to the full extent	total	Including from the federal budget		
	Units				Rb billion			
Total	3842	2226	425	75	771.4	711.6	504.6	515.6
including: transportation complex	1110	532	127	11	295.3	276.9	248.9	237.7
agriculture complex	184	107	49	13	8.6	8.4	7.7	6.8
special complex	753	545	111	14	55.3	50.4	31.0	31.9
social complex	1611	966	131	34	362.6	332.8	186.2	214.0
other objects	184	76	16	3	49.5	43.0	30.8	25.2

Source: Federal State Statistics Service.

In 2010 Rb 504.6bn (70.9% of the total amount of funds envisaged for the year) was financed from the federal budget and Rb 51.0bn – from the budget of subjects of the Russian Federation (69.4% of the total volume of funds from the budgets of subjects of the Russian Federation). The state customers in January–February 2011 used Rb 515.6bn of the state investments or 66.8% of the annual limit of the funds envisaged for the construction. The level of budget allotments use in the total volume of financed funds from all the sources of financing made 92.8%.

In 2011 the absolute volumes of investments in fixed assets financing were observed to expand thanks to the banks' credits, however their proportion in the total volume of the investments in fixed assets decreased by 1.3% as compared with the previous year and made 7.7%. The growth of credits of the domestic banks in nominal terms fully compensated for the reduction in the volume of foreign banks' credits. Over the year the increase in Russian banks' credits issued to finance investments in fixed assets made Rb 46.0bn.

Crisis of 2008 was characterized by deeper recession rates of the foreign investments in the Russian economy as compared with the internal investments. In 2011 direct foreign investments went up by 33.3%, making though only 2/3 of the pre-crisis figure of 2007–2008. The situation was aggravated by the sustention of the trend for the capital withdrawal in the last three years. As a result the proportion of the investments from abroad in the total volume of the investments in fixed assets in 2011 went down to 3.1% against 3.8% in 2010.

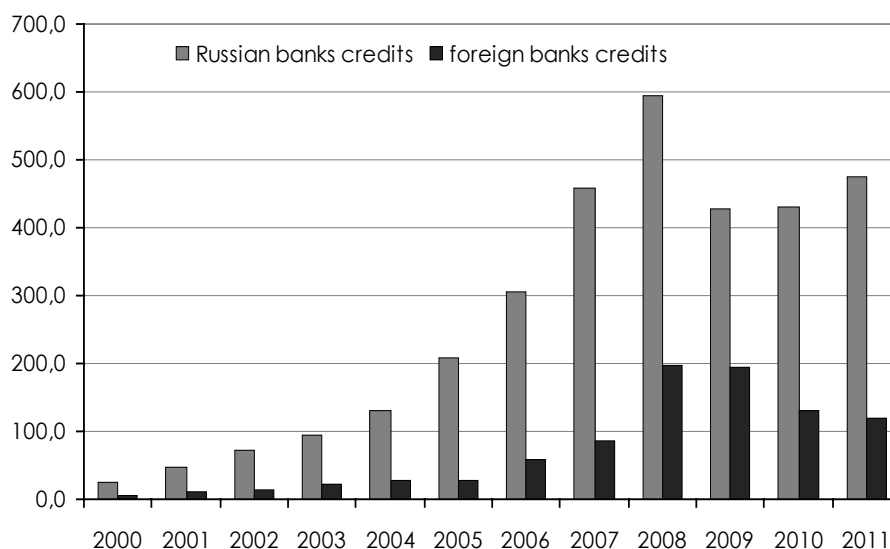
After steady increase in housing construction during 2001–2008 in 2010 the implementation of the residential floor area reduced by 8.9% versus the pre-crisis level. In the 1st half of 2011 the decrease in the residential floor area implementation made 3.7%. The situation changes in the 3rd quarter when the implementation of the residential floor area went up by 15% as compared with the corresponding period of the previous year. The proportion of the individual house-building in the total volume of residential floor area implementation

reduced and made 42.9% in 2011 as compared with 43.7% in 2010 and 47.7% in 2009. In 2011 the investment activity of the population was supported by the growth of the demand for the credits and interest rates reducing, however the influence of this factor on the implementation dynamics is determined by the time lags of the construction cycle and spreads beyond the period of the elapsed year. In 2011 as compared with the previous year the volumes of the investments in housing construction were observed to increase in absolute terms by Rb 25.5bn, of which Rb 14.5bn account for the funds of the population in the form of share participation in construction, however when considering the structure of the investments in fixed assets on the whole throughout the economy, the proportion of the investments in housing construction reduced down to 1.9% in 2011 versus 2.2% in 2010 and 3.5% in 2008.

The changes in the structure of investments in fixed assets in the last two years allow distinguishing characteristic features of investment demand transformation. In 2009–2011 the proportion of the industry in the total volume of the investments in fixed assets (not taking into account small-scale enterprises) has somewhat increased. At the same time the rates of the investments in fixed assets were observed to differentiate considerably by the industrial complexes. The recovery from the crisis was defined by both the higher growth rates of the extractive industry and by higher dynamics of its investment demand growth. At the same time it should be taken into account that the crisis recession of the investments in the fixed assets in extractive sector and electricity, gas and water production and distribution was not as deep as in the manufacturing sector of the economy. In 2011 investments in fixed assets in extractive industries as compared with the previous year went up by 13.8%, in electricity, gas and water production and distribution – by 8.1% and in manufacturing sector – by 6.3%. Investments in fixed assets in the extractive sector exceeded by 9.4% and in electricity, gas and water production and distribution – by one third the volumes of 2008.

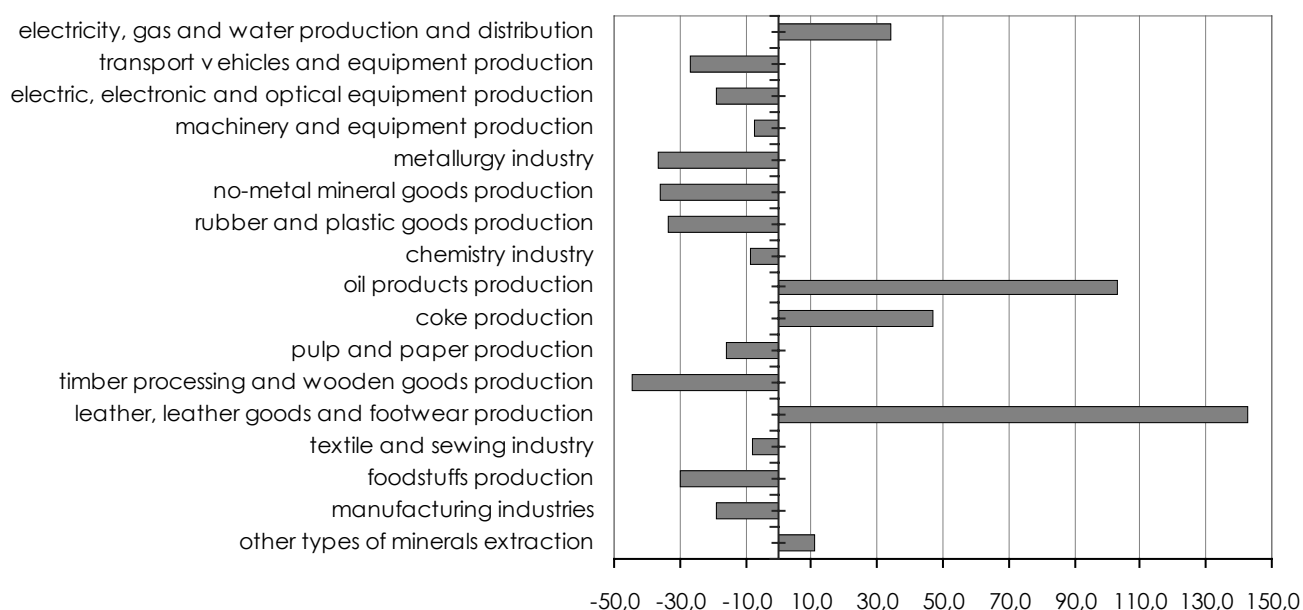
In 2011 the investments in fixed assets were observed to grow in the most types of the activities in the manufacturing industries, although they have not reached the pre-crisis volumes yet. On the whole throughout the manufacturing sector investments in fixed assets made 81.0% of 2008 level.

In 2011 among the manufacturing industries the most noticeable growth of the investments was observed in wood processing and wooden goods production (148.4% versus 2010), chemistry industry (123.4%) and coke and oil products production (115.5%). It should be specifically noted that during the last three years the level of the investment activity in textile production and leather production was high and stable due to the changes in the customs regime for equipment and raw materials import.



Source: Federal State Statistics Service.

Fig. 2. Bank Credits for Investments in Fixed Assets Financing in 2000–2011, Rb bn



Source: Federal State Statistics Service.

Fig. 3. Investments in Fixed Assets as Broken by Types of Activity in Industry in 2011, as Percentage to 2008

Slow recovery of the demand for the capital goods and construction materials resulted in the maintenance of the investments volumes in the metallurgy industry and production of finished metal goods at the level of 2010, the investments in finished metal goods production decreasing by 22% as compared with the previous year.

Recovery of the investment activity in the machine-building complex occurs much slower than in other types of economic activities. In 2011 the proportion of the investments in fixed assets in the machine-building complex made 2.3% of the total volume of investments in the economy and 13.5% of the investments in manufacturing industries. In 2011 investments in machinery and equipment production went up by 13.0%, and investments in transportation equipment and vehicles decreased by 3.8% versus the preceding year.

In 2011 the proportion of investments in transportation development expanded to 25.3% of the total volume of the investment in fixed assets in the economy. As compared with 2008 investments in transportation and communication development went up by 1.3 times, which is connected with the intensive fulfillment of the investment programs aimed at pipeline transportation development in 2009–2011.

Investments in the social sphere development remain below the pre-crisis level.

The investments in research and development have been observed to grow for the last three years. In 2009–2011 the investments in research and development increased by 1.7 times. Investments in research and development in 2011 accounted for 1.0% of the total volume of investments in fixed assets throughout the economy. ●

FOREIGN INVESTMENTS

I.Ilyukhina

Throughout most of the year 2011, growth in activities of foreign investors in the Russian Federation was observed. The main increase in the aggregate foreign investments on the basis of the results of the year was ensured by growth in foreign investments in January–September 2011. The level of the influx of foreign investments as a percentage of the GDP increased by 2.5% on the 2011 figure. Foreign investments were mainly concentrated in industry and financial activities. The largest volume of investments came from Switzerland, Cyprus and the Netherlands.

On the basis of the results of 2011, the aggregate growth of 66.1% in foreign investments in the Russian economy to \$190.6bn as compared to the year 2010 was registered which situation was justified by considerable growth in foreign investments in the first three quarters of the year (an increase of 180% on the level of January–September 2010). In the 4th quarter of 2011, the influx of foreign investments in the Russian Federation fell by 15.5% as compared to the corresponding period of 2010. The level of influx of foreign investments as a percentage of the GDP grew from 7.8% in 2010 to 10.3% in 2011.

Table 1

THE STRUCTURE OF FOREIGN INVESTMENTS IN THE RUSSIAN ECONOMY
IN THE 2007–2011 PERIOD

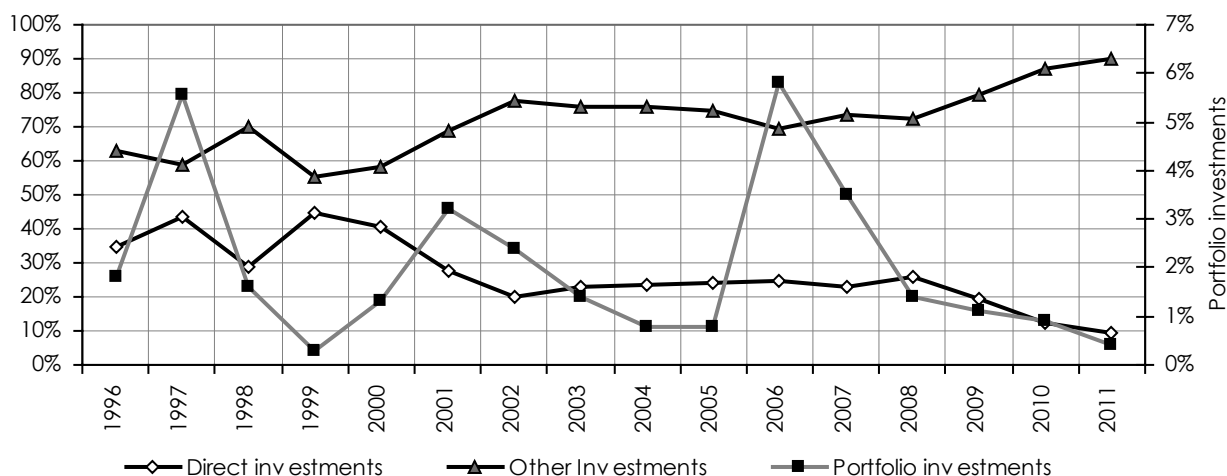
	In million \$				As % of the previous year			
	Total	direct	portfolio	other	total	direct	portfolio	other
2007	120 941	27 797	4 194	88 950	219.5	203.2	131.8	232.6
2008	103 769	27 027	1 415	75 327	85.8	97.2	33.7	84.7
2009	81 927	15 906	882	65 139	79.0	58.9	62.3	86.5
2010	114 746	13 810	1 076	99 860	140.1	86.8	121.9	153.3
2011	190 643	18 415	805	171 423	166.1	133.3	74.9	171.7

Source: Rosstat.

In 2011, the aggregate volume of foreign investments in the Russian economy grew mainly due to an increase in other investments whose growth amounted to \$71.6bn on the basis of the results of the year. The share of trade loans in the structure of the other investments decreased from 17.6% on the basis of the results of 2010 to 16.2% in 2011 (in 2008 it amounted to 21.5% and in 2009, to 21.4%). As regards the terms for which investments were attracted, the share of loans with a term of over six months decreased to 28.3% against 38.0% in 2010 (in 2008 and 2009 it amounted to 68.1% and 67.9%, respectively). The unit weight of loans extended for the term of less than six months grew to 53.4% (in 2010, 2009 and 2008 it amounted to 10.1%, 10.1% and 8.8%, respectively).

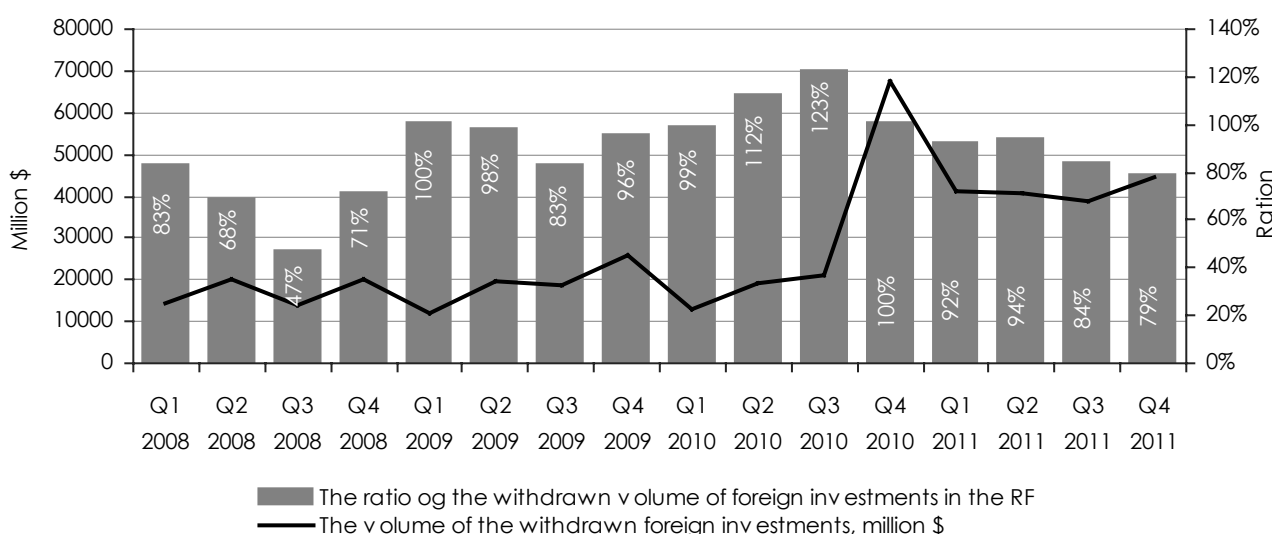
In 2011, direct investments grew less than other investments. Contributions to the authorized capital and loans received from foreign co-owners of companies accounted for the larger portion of the volume of direct investments. On the basis of the results of 2011, contributions to the authorized capital increased by 17.9% to \$9.1bn, while loans from foreign co-owners of companies, by 62.6% to \$7.5bn. Thus, the unit weight of loans received from foreign co-owners of companies in the structure of direct foreign investments in the Russian Federation grew from 33.4% in 2010 to 40.7% in 2011, while the share of contributions to the authorized capital decreased from 55.8% to 49.3%.

In 2011, portfolio investments in the Russian economy fell by 25.1% as compared to the year 2010. It is to be noted that growth of 67.6% in investments in equities and interests was registered and, as a consequence, their unit weight grew from 32.0% in 2010 to 71.7% in 2011 (in 2007 it amounted to 95.5% of the volume of the portfolio investments, while in 2008 and 2009, to 79.6% and 42.9%, respectively).



Source: Rosstat.

Fig. 1. Structure of foreign investments in the Russian economy in the 1996–2011 period



Source: Rosstat.

Fig. 2. Withdrawal of foreign capital from the Russian economy in the 2008–2011 period

It is to be noted that if in the 1st quarter and the 4th quarter of 2010 the volume of funds withdrawn abroad in the form of income of foreign investors, as well as the interest paid on loans and loans repaid was comparable to the volume of foreign investments received in the above period, while in the 2nd quarter and the 3rd quarter it was in excess of it, in 2011 the quarterly dynamics of the withdrawn capital was below the volume of foreign investments in the Russian economy in that period.

On the basis of the results of 2011, \$165.2bn was withdrawn which figure is 36.7% higher than in 2010. Generally, in 2011 86.6% of the volume of the received foreign investments was withdrawn (in 2010 it was 105.3%).

In 2011 as in 2010, priorities were given by foreign investors to industry, the financial sector and commerce. The above sectors of the Russian economy accounted for 90.5% of the aggregate volume of foreign investments in the Russian Federation (in 2010 it was 86%). Investors showed less interest in transport and communications.

The lower growth rates of investments in industry and operations with real property as compared to the growth in the aggregate indices of foreign investments in the Russian economy and the existing growth in investments in commerce and financial activities resulted in a change in the sectorial structure of foreign investments as compared to the previous year. Distribution of foreign investments by the main industries of the Russian economy is shown in *Table 2*.

Table 2

SECTORIAL STRUCTURE OF FOREIGN INVESTMENTS IN THE RUSSIAN ECONOMY
IN THE 2009–2011 PERIOD

	In million \$			As % of the previous year			As % of the total		
	2009	2010	2011	2009	2010	2011	2009	2010	2011
Industry	32 980	47 558	61 145	66.4	144.2	128.6	40.3	41.4	32.1
Transport and communications	13 749	6 576	5 943	282.8	47.8	90.4	16.8	5.7	3.1
Wholesale and retail trade; repair of motor vehicles, motorcycles and household and personal goods	22 792	13 334	24 456	95.3	58.5	183.4	27.8	11.6	12.8
Operations with real property, leasehold and rendering of services	7 937	7 341	9 237	51.6	92.5	125.8	9.7	6.4	4.8
Financial activities	2 658	37 913	86 885	53.4	1426.3	229.2	3.2	33.0	45.6
Other industries	1 811	2 024	2 977	36.6	111.8	148.1	2.2	1.8	1.6

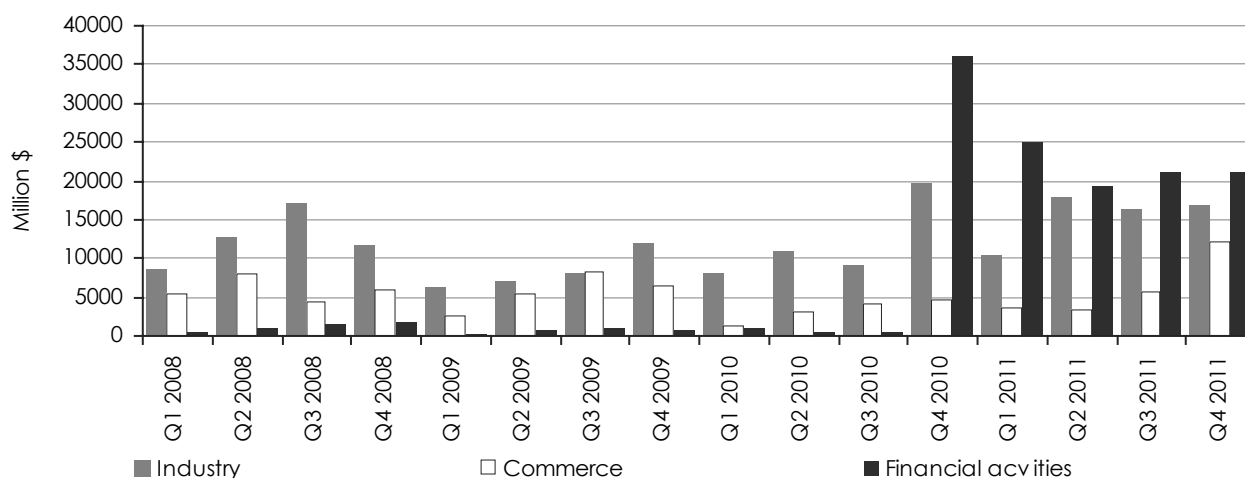
Source: Rosstat.

The analysis of the quarterly dynamics of foreign investments in industry in 2011 points to the growth in foreign investments in January–September 2011 on the corresponding period of 2010. It is to be noted that in the 4th quarter of 2011 foreign investments happened to be 13.7% lower than in the 4th quarter of 2010.

In 2011, quarterly volumes of foreign investments in the sphere of commerce grew consistently exceeding the respective indices of 2010 (the growth amounted to 160% on the 4th quarter of 2010).

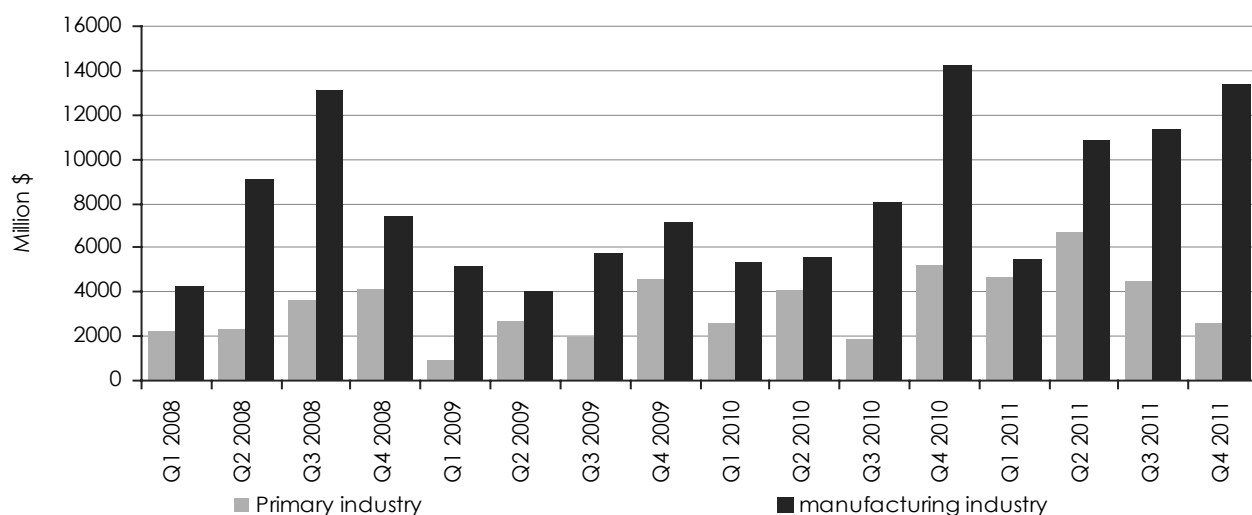
Investments in the financial sector remained high throughout the 2nd quarter and the 3rd quarter of 2011 and fell somewhat as compared to the 4th quarter of 2010 and the 1st quarter of 2011. In the 4th quarter of 2011, their volumes were 41.3% lower than in the 4th quarter of 2010.

On the basis of the results of 2011, in the structure of foreign investments in industry the leader was the production of primary products. As compared to 2010, investments into the above industry grew by 34.5% (in 2010 growth amounted to 34.2%). Foreign investments in manufacturing industry grew by 23.9% (in 2010 growth amounted to 49.2%). In terms of absolute values, the largest volume of foreign investments goes to manufacturing industry. The quarterly statistics of the influx of foreign investments in production of primary products and manufacturing industry points to a drop late in 2011 as compared to the respective indices of 2010.



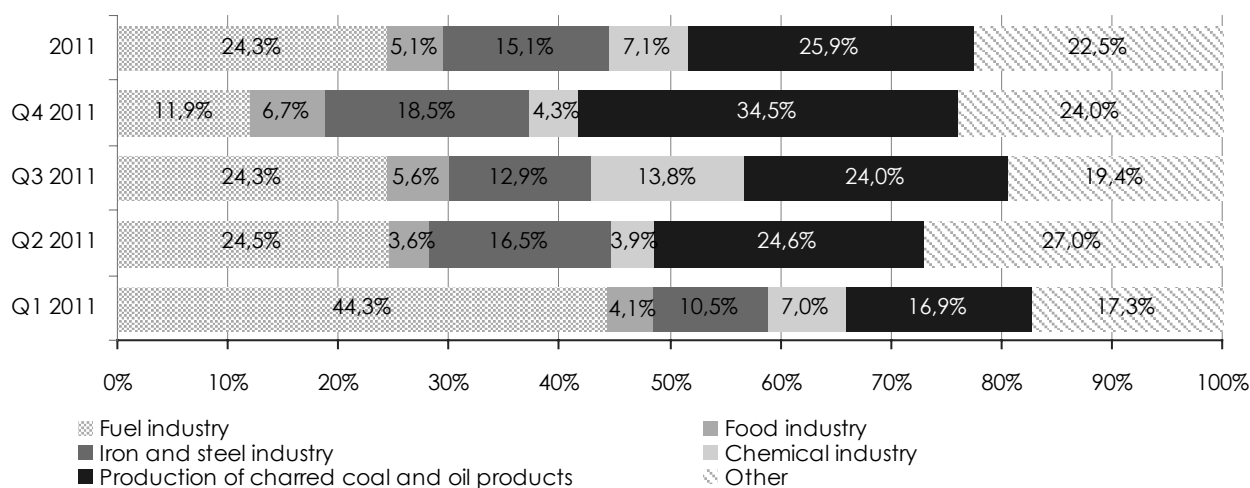
Source: Rosstat.

Fig. 3. Foreign investments in industry, commerce and financial activities in the 2008–2011 period



Source: Rosstat.

Fig. 4. Foreign investments in primary industry and manufacturing industry in the 2008–2011 period



Source: Rosstat.

Fig. 5. Sectorial structure of foreign investments in industry in 2011

In manufacturing industry, investments in production of charred coal and oil products increased by 19.4%, while those in chemical industry, by 100% amounting to \$15.8bn and \$4.4bn, respectively (in 2010 investments in production of charred coal and oil products grew by 150%, while those in chemical industry, by 41.3%). In 2011, foreign investments in iron and steel industry grew by 21.1% to \$9.2bn as compared to 2010 (in 2010 growth of 69.7% in that industry was registered).

In 2011, the quarterly dynamics of foreign investments in different sectors of industry as compared to the respective period of 2010 was of a mixed nature. In the 4th quarter of 2011, investments in fuel industry decreased by 46.6% as compared to the respective period of 2010, while investments in iron and steel industry increased by 22.0%. Similar differences were seen in the change in the quarterly sectorial structure of foreign investments in industry throughout the year.

As compared to 2010, direct investments and other investments in industry grew by 40.6% and 26.4%, respectively (in 2010 direct investments in industry fell by 7.9%, while other investments increased by 62.0%). Portfolio investments in industry increased by 39.9% (in 2010 they fell by 41.6%). Thus, the unit weight of other investments in industry fell from 84.9% in 2010 to 83.4% in 2011, while the shares of direct investments and portfolio investments in the that period increased from 14.3% to 15.7% and from 0.8% to 0.9%, respectively.

On the basis of the results of 2011, \$20.3bn (10.6% of the total volume of foreign investments to the Russian economy in that period) was received from Cyprus, while \$16.8bn, from the Netherlands

(8.8%). The UK whose investors made \$13.1bn worth of investments (6.7%) in the Russian economy is among the leader-suppliers of capital to the Russian Federation.

On the basis of the results of 2011, Switzerland is another leading supplier of capital to the Russian Federation; investments from Switzerland into the financial activities are evaluated in the amount of \$83.1bn or 43.6% of the total volume of foreign investments in the Russian economy in 2011.

The geographical structure of foreign investments by sectors which accounted for 97.7% of the aggregate foreign investments in the Russian economy in 2011 is shown in *Table 3*.

Table 3

THE GEOGRAPHICAL STRUCTURE OF FOREIGN INVESTMENTS BY INDUSTRIES
OF THE RUSSIAN ECONOMY IN 2011

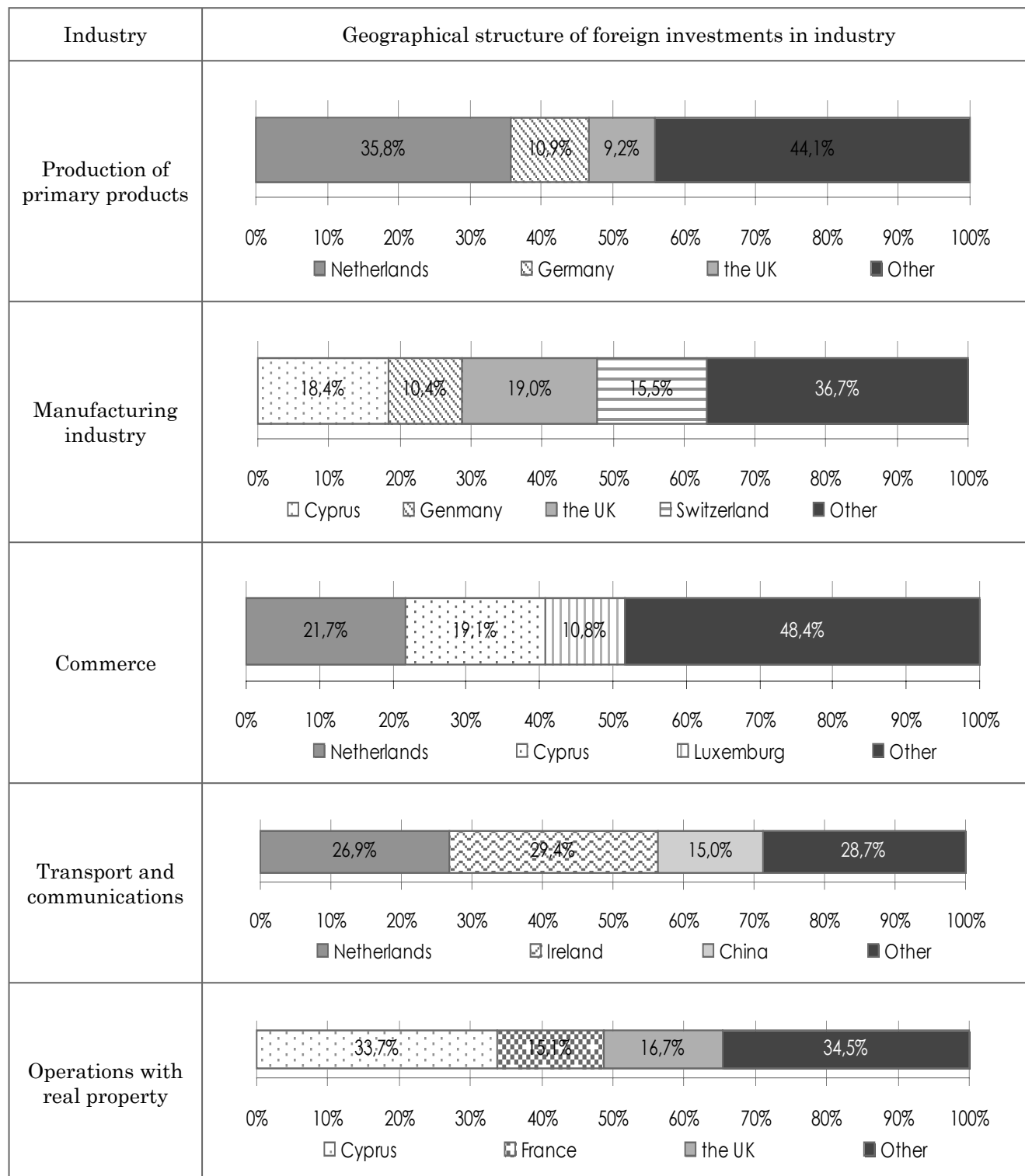
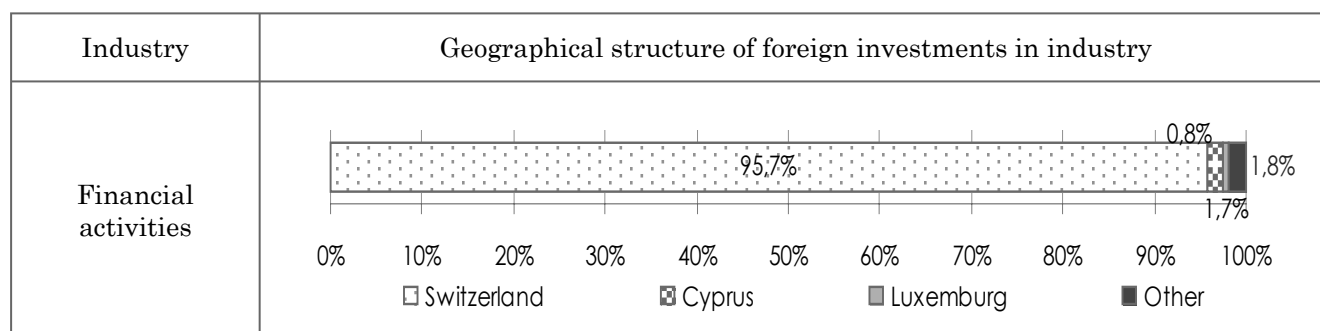


Table 3, cont'd



Source: Rosstat.

As of the end of 2011, the accumulated foreign capital (without taking into account the monetary control authorities) of commercial and savings banks, including ruble investments calculated into the US dollars amounted to \$347.2bn which figure is 15.7% higher than the respective index as of the beginning of the year. From the beginning of the year, direct accumulated investments grew by 19.8%, while other investments, by 13.2%.

On the basis of the results of 2011, in the total volume of the accumulated foreign investments the leaders are Cyprus, the Netherlands, Luxemburg, Germany and China whose share amounted to 63.5% (in 2010 and 2009 it amounted to 64.4% and 66.3%, respectively). At the same time, the share of the top five investor-countries in the segment of other investments was estimated at 63.2% (in 2010 and 2009 it amounted to 64.8% and 62.9%, respectively), while in the structure of direct investments and portfolio investments, at 66.9% and 22.1%, respectively (in 2010 it amounted to 67.1% and 21.9%, respectively, while in 2009, to 69.0% and 85.1%, respectively).

In the structure of foreign investments accumulated as of the end of 2011, other investments dominate and account for 57.1% (in 2010 they accounted for 58.3%). A similar index as regards direct foreign investments amounted to 40.1% (in 2010 it amounted to 38.7%).

According to the report on investments of the UN Conference on Trade and Development (UNCTAD, *World Investment Report 2011*), as regards the volume of the attracted direct foreign investments to the Russian Federation in 2010 the Russian Federation moved to the world's 7th place (in 2009 it was rated the 6th; in 2008, the 5th; in 2007, the 9th; in 2006, the 10th and in 2005, the 15th). As in the previous year, among the developing countries Russia was rated second after China. In accordance with the above report, in 2010 Russia accounted for 3.3% of the global direct foreign investments (in 2009 and 2008 it accounted for 3.5% and 4.1%, respectively) and 7.1% of direct foreign investments to developing countries (in 2009 and 2008 it accounted for 8.2% and 11.9%, respectively). ●

THE STATE BUDGET

T.Tishchenko

According to the RF Ministry of Finance's preliminary estimates, the volume of federal budget revenue over January–February 2012 increased by 2.6 p.p. of GDP, and that of federal budget expenditure – by 6.7 p.p. of GDP on the same period of 2011. As a result, over the first two months of 2012 the federal budget was executed with a significant deficit of 3.0% of GDP, which is by 3.1 p.p. of GDP above its level recorded in the same period of last year. The excess of federal budget expenditure over revenue receipts in the year's first two months may trigger a rise in government debt and a decline in the debt stability indices in face of a worsening international economic situation.

Analysis of the Main Parameters of Federal Budget Execution in January–February 2012

Over the period of January–February 2012, federal budget revenue amounted to Rb 1,865.8bn, or 23.2% of GDP, which is by 2.6 p.p. of GDP higher than the corresponding index for the same period of last year (*Table 1*). Oil and gas revenues increased by Rb 323.5bn, or 3.1 p.p. of GDP, on the first two months of 2011.

Early 2012 saw a certain slowdown in the revenue receipts: the execution of budget revenue in January–February amounted to 15.8% of the forecasted volume of federal budget revenue for the year, whereas in the same period of last year it amounted to 17.0%.

An analysis of the structure of federal budget revenue in January–February 2012 reveals a decline (as share of GDP) on the same period of last year in the receipts of the taxes and payments administered by the Federal Tax Service by 0.9 p.p. of GDP.

Budget revenue over January–February 2012 rose to 2,111.1bn Rb (26.2% of GDP), which is by 6.7 p.p. of GDP higher than in the same period of last year; growth of expenditure in absolute terms amounted to approximately Rb 600bn.

The federal budget for January–February 2012 was executed with a deficit of \$ 245.3bn, or 3.0% of GDP; the non-oil and gas deficit rose to 15.7% of GDP, which is by 7.3 p.p. of GDP above the level of deficit recorded in the same period of last year.

Table 1

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

	January–February 2012		January–February 2011		Deviation, p. p. GDP
	bn Rb	% of GDP	bn Rb	% of GDP	
Revenue, including:	1,865.8	23.2	1,505.6	20.6	+2.6
Oil and gas revenues	1,015.8	12.6	692.3	9.5	+3.1
Expenditure, including:	2,111.1	26.2	1427.1	19.5	+6.7
interest	62.6	0.8	49.9	0.7	+0.1
non-interest	2,048.6	25.4	1,377.2	18.8	+6.6
Federal budget surplus (deficit)	-245.3	-3.0	78.5	0.1	-3.1
Non-oil and gas deficit	-1261.1	-15.7	-613.8	-8.4	+7.3
GDP estimations	8,053.0		7,310.0		

Source: RF Ministry of Finance; RF Federal Treasury; IEP estimates.

The cash-based execution of federal budget expenditure amounted to 16.6% of the approved per annum targets, and that of federal budget revenue – to 15.8% (with regard to oil and gas revenues – 18.2%) of the forecasted volume of federal budget revenue for the year 2012.

One of the factors responsible for the accelerated growth of federal budget expenditure was the necessity to transfer subsidies to state-funded institutions in order to enable them to fulfill government assignments in accordance with the new arrangement that envisages lumpsum

transfers at the beginning of each quarter, whereas previously subsidies had been transferred on a monthly basis. Besides, there exist some other causes of the substantial growth of federal budget expenditure as seen by the results of the first two months of the year 2012. These have to do with the presidential election, which resulted in an uneven financial coverage of certain items and subitems of budget expenditure. As a result, in January–February 2012 the cash-based execution indices of the federal budget and budget expenditure volumes as share of GDP rose significantly above the previous three years' average levels (*Table 2*).

Table 2

FEDERAL BUDGET CASH-BASED EXECUTION AND EXPENDITURE VOLUMES,
JANUARY–FEBRUARY OF 2009–2012

	January–February 2009		January–February 2010		January–February 2011		January–February 2012	
	% of GDP	cash-based execution, %	% of GDP	cash-based execution, %	% of GDP	cash-based execution, %	% of GDP	cash-based execution, %
EXPENDITURE	20.1	11.9	23.5	14.9	19.5	11.3	26.2	16.7
Nationwide issues	1.4	8.7	0.9	8.3	0.8	7.0	1.1	10.3
National defense	2.3	9.2	2	10.2	2.5	12.3	5.9	25.9
National security and law- enforcement activity	2.5	12.2	2.2	13.0	2.1	12.8	2.8	12.3
National economy	2.8	12.6	1.1	5.3	1.6	6.9	1.6	7.2
Housing and utilities system	0.0	2.5	0.1	5.9	0.3	9.4	0.0	2.9
Environment protection	0.0	5.5	0.0	9.6	0.2	9.5	0.0	19.0
Education	0.6	7.9	0.6	10.3	0.6	8.5	1.2	16.5
Culture, cinematography and mass media	0.2	9.8	0.2	19.4	0.2	11.8	0.3	16.4
Health care and sports	0.5	7.7	0.3	6.4	1.2	16.0	2.0	25.3
Social policy	0.5	8.7	0.5	9.4	8.1	20.4	9.1	18.8
Interbudgetary transfers	8.6	15.9	14.8	24.9	1.2	15.4	1.4	19.7
Government debt servicing	0.5	14.5	0.6	11.8	0.7	12.8	0.8	16.1

Source: RF Ministry of Finance; Rosstat; IEP estimates.

Thus, in particular, the cash-based execution, as seen by the results of January – February 2012, of the Item “National Defense” amounted to 25.9% of the approved budget targets (5.9% of GDP), which is ten times higher than the average indices recorded in 2009–2011. The cash-based execution indices for some expenditure items rose above the half-year targets – for example, the Subitem “Youth Policy and Children’s Health” of the Item “Education” (60.6%); at the same time, the cash-based execution of some other items and subitems did not exceed 10% of the per annum targets (in particular, “National Economy” and “Housing and Utilities Sector”).

Federal budget expenditure indices as percentage share of GDP for the majority of budget items rose in January–February 2012 on the same period of last year, including “Nationwide Issues” by 0.3 p.p. of GDP; “National Defense” by 3.4 p.p. of GDP; “National Security and Law-enforcement Activity” by 0.7 p.p. of GDP; “Education” by 0.6 p.p. of GDP; “Culture, Cinematography...” by 0.1 p.p. of GDP; “Health Care” by 0.9 p.p. of GDP; “Social Policy” by 1.0 p.p. of GDP; “Interbudgetary Transfers” by 0.2 p.p. of GDP; and “Government Debt Servicing” by 0.1 p.p. of GDP.

The expenditure indices as percentage share of GDP for some other budget items, on the contrary, declined on the period of January–February 2011, including “Housing and Utilities Sector” by 0.3 p.p. of GDP; “Environment protection” by 0.3 p.p. of GDP; and “Physical Culture and Sports” by 0.1 p.p. of GDP. The percentage share of GDP indices for the other federal budget expenditure items remained at the same level as in January–February 2011.

The amount of oil and gas revenues transferred in January 2012 to the Reserve Fund¹ was 1,090.4bn Rb; in February, some these monies were allocated to purchases of foreign currencies in the amounts of \$ 16.3bn, € 12.4bn² and £ 2.3bn. The Reserve Fund’s residuals as of the end of February amounted to Rb 1,806.5bn. As for the National Welfare Fund, no operations were carried on its accounts in January–February 2012.

Among the main events that took place in March in the sphere of government finance was the final settlement, by the RF Ministry of Finance and the RF Ministry of Economic Development, of the issue of introducing the so-called floating rates of excises on fuel pegged to oil prices. Previously, the RF Ministry of Energy (Minenergo)³ had put forth the proposal to introduce a pricing formula for calculating the rates of excises on diesel fuel and motor gasoline. This formula, which takes into account the behavior of international oil prices, the movement of the exchange rate of the ruble and changes in export duty rates, is aimed at preventing, by lowering the excise rates, any excessive rise in prices on the domestic market above an established margin. In this connection, the RF Ministry of Finance⁴ argued that excise-generated revenues form the basis for the road funds, and a floating excise rate would undermine a steady cash flow in that direction; and the RF Ministry of Economic Development skeptically noted that, whenever taxes were lowered, the fuel prices, as a rule, never returned to their previous lower level. Thus, the issue of regulating the domestic motor gasoline prices became directly linked to that of revenue flow to the road fund. Evidently, the final decision on that issue will have to be made not by the present government but by its successor. ●

1 Decree of the RF Government of 19 January 2012, No 1 “On the Procedure for Transferring to the Reserve Fund of the Oil and Gas Revenues Received in Course of Federal Budget Cash-Based Execution in 2011”.

2 Thus, the parity of purchased foreign currency amounts within the euro-US dollar pair has been maintained.

3 <http://minenergo.gov.ru/press>.

4 <http://www.minfin.ru/>

THE RUSSIAN BANKING SECTOR

M.Khromov

In February 2012, the situation in the Russian banking sector was determined by the differently directed movement of the key indicators of Russia's two biggest state banks, the RF Savings Bank and VTB Group. While the RF Savings Bank was showing steady growth, the banks of VTB Group were experiencing an outflow of attracted funds and shrinkage of assets. As far as the sources of bank funds are concerned, the highest growth rates were shown by bank-issued securities – bonds and promissory notes.

In February 2012, the nominal volume of assets of Russia's banking system shrank for the second month in a row, by 0.7%. As in January, the drop was largely determined by the ongoing strengthening of the ruble against major foreign currencies, including the US dollar. After adjustment of the foreign exchange component of bank assets for changes in the ruble-to-US dollar exchange rate, the rise in the aggregate assets of Russian banks in February amounts to 0.3%, just like in January.

As in January, the locomotive of bank asset growth was Russia's biggest banking institution, the RF Savings Bank (*Sberbank*). The growth of its assets (Rb 90bn after adjustment for changes in the exchange rate of the ruble) amounted to more than half of the corresponding index for the entire banking system (Rb 135 bn), while the growth rate of its assets in February amounted to 2.6%. The aggregate growth of the assets of all the other banks was negative for the second month in a row. In February, the main contributors to decline in bank assets were the banks of *VTB Group*: *VTB*, *VTB24* and the Bank of Moscow, whose combined assets shrank over the course of the month by more than 4%. In real terms, this loss of assets exceeded the increment in the Savings Bank's assets (-Rb 229bn, *VTB Group* vs. +Rb 291bn, the Savings Bank).

In February, the regulatory capital of the banking sector¹ shrank by 0.2%, while the risk adjusted value of assets increased by 1.0%. Accordingly, capital adequacy (norm N1) declined from 14.9 to 14.7%. The RF Savings Bank's loss in capital adequacy was even more significant: from 15.2% to 14.7%. For the rest of Russia's banking system, capital adequacy remained unchanged, at the level of 14.7%.

The before-tax profit of the banking sector amounted to Rb 80bn, which corresponds to a 2.3% return on assets and to a 19.8% return on equity in annual terms. Almost one half of the banking sector's profit in February (Rb 37bn) was accounted for by the RF Savings Bank, whose ROA and ROE amounted to 3.9% and 33.2% in annual terms, respectively. Thus, if the RF Savings Bank's performance is not taken into account, the February 2012 ROA and ROE indicators of firm financial performance become significantly more modest: 1.7% and 14.5% in annual terms, respectively.

Attracted Funds

In February, *the bank accounts and deposits of the population* increased by 1.3% in nominal terms, or by 2.1% after adjustment for changes in the ruble-to-US dollar exchange rate. The household savings flow into banks over the course of that month amounted to Rb 240bn, or 8.4% of the money incomes of the population in February 2012. By comparison with February 2011, the savings rate for deposits with banks dropped by 0.6 p.p. as a result of a gap between the growth rate of nominal money incomes (7.7%) and the growth rate of final consumption (11.0%).

The annual growth rate of bank accounts and deposits of the population (over the course of 12 months since the corresponding date of the previous year) has been steadily declining for more than a year. From its autumn 2010 peak of 32%, this indicator dropped to 18.8% in February 2012.

The population's deposits denominated in foreign currencies were growing slightly faster than those denominated in the national currency. Thus, while the latter grew by 1.7% over the course of February, deposits denominated in foreign currencies grew by 3.8% in US dollar terms.

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

In February, *the bank accounts and deposits of enterprises* dropped by 0.8% in nominal terms, which means that they practically remained constant at the previous level after adjustment for changes in the exchange rate of the ruble (an increase by less than 0.1%). Their growth rate slightly declined in February (from 26% to 24%) as a result of growth in the bank accounts of corporate clients.

The behaviors of the bank accounts of enterprises denominated in foreign currencies and in Russian rubles were differently directed. While ruble-denominated accounts shrank by 0.3%, those denominated in foreign currencies grew by 1.6% in US dollar terms. Also, February saw a worsening in the settlement account to fixed-term deposit ratio with respect to enterprises: as of 1 February 2012, the volume of settlement accounts was 2% higher than that of fixed-term deposits, while as of 1 March 2012 these volumes were equal. This can be regarded as an indirect indication of a decline in the intensity of business activity: enterprises prefer to save funds rather than to keep them operationally ready for use in their business activities.

In February, banks' *foreign liabilities* shrank by \$ 0.5bn, or by 0.4%. Taking into account the behavior of foreign assets (according to our estimates, they grew by \$ 2.8bn over the course of February), banks continued to be a major channel for net capital outflow from the Russian economy. At the same time, it should be noted that, nevertheless, in February the intensity of capital outflow via the banking sector became lower than in January (a drop from \$ 13bn to \$ 3bn).

In February 2012, the banking sector's dependence on *resources received from Russia's financial regulatory bodies* – the Bank of Russia and the RF Ministry of Finance – became somewhat lower. The temporarily available funds of the federal budget placed with banks shrank from Rb 266.6bn as of 1 February 2012 to Rb 97.4bn as of 1 March 2012, or almost threefold. The volume of refinancing allotted to banks by the Bank of Russia with regard to REPO operations and other refinancing instruments also declined – from Rb 1,366bn to Rb 1,258bn. At the same time, the share of refinancing received by state banks remained very high – more than 75%, or 73% if the funds received from budgets of all levels are taken into account. Meanwhile, the aggregate volume of funds received by banks from Russia's financial regulatory bodies shrank, over the course of February, by almost Rb 280bn, or 17%.

Table 1

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

	12.06	12.07	12.08	12.09	06.10	12.10	06.11	09.11	12.11	01.12	02.12
Liabilities, bn Rb	13,963	20,125	28,022	29,430	30,417	33,805	35,237	38,443	41,628	41,150	40,874
Equity	14.3	15.3	14.1	19.3	19.7	18.7	18.5	17.3	16.9	17.3	17.6
Credits allotted by Bank of Russia	0.1	0.2	12.0	4.8	1.7	1.0	0.9	1.3	2.9	3.3	3.1
Interbank operations	3.4	4.1	4.4	4.8	5.1	5.5	5.2	5.4	5.7	5.7	5.3
Foreign liabilities	17.1	18.1	16.4	12.1	11.5	11.8	10.9	11.4	11.1	10.6	10.2
Physical persons' monies	27.6	26.2	21.5	25.9	28.3	29.6	30.4	29.0	29.1	28.7	29.4
Enterprises and organizations' monies	24.4	25.8	23.6	25.9	25.4	25.7	24.3	24.4	26.0	25.9	25.9
Accounts and deposits of state administrative bodies and local governments	2.2	1.5	1.0	1.0	1.8	1.5	3.5	4.9	2.3	1.8	1.4
Securities issued	7.2	5.8	4.1	4.1	4.2	4.0	4.0	3.8	3.7	3.8	4.4

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

Invested Monies

In February 2012, *corporate borrowers'* liabilities to banks declined by 0.6% in nominal terms. Even after adjustment for changes in the ruble-to-US dollar exchange rate, it rose only by 0.2%. The annual growth rate of credits granted to non-banking institutions dropped from 23% in early January to 20% as of the end of February.

For the second month in a row, the quality of the credit portfolio was affected by the ongoing decline in its growth rate. The growth rates of stale debt and the volume of reserves against potential credit losses remained higher than the growth rate of the credit portfolio, and their share in enterprises' credit liabilities correspondingly increased. Thus, the share of stale debt of enterprises increased to 5.1% in February, while the aggregate credit liability of enterprises rose to 8.5%.

Retail lending continued to be steadily on the rise. In February, the population's liabilities to banks rose by 2.1%, while their annual growth rate increased to 38.8%. As in the past, the main factor behind the activities in the retail lending market was the gap between the growth rate of incomes and the growth rate of final consumption. At the same time, the share of credits in the available resources of households continued to grow. Thus, according to the IEP's preliminary estimates, over the course of January and February 2012, the volume of credits newly allotted to the population amounted to 18% of its money incomes, representing a significant rise on the corresponding period of the previous year (12%) and on the year 2011 as a whole (15%). At present, bank credits account for more than 22% of households' final consumption expenditure vs. 15% one year earlier. Correspondingly, the debt-service load on households' incomes is also on the rise. According to the IEP's estimates, over the course of the first months of 2012, the aggregate sum of principal repayments and interest payments on credits allotted to the population amounted to more than 15% of the money incomes of the population (vs. less than 13% one year earlier).

At the same time, by contrast with the corporate lending market, the high growth rate of credit liabilities still manages to conceal the ongoing rise in problem credits. Over the course of February, the share of stale debt under credits allotted to physical persons dropped by 0.1 p.p. A similar decline was displayed by the ratio between reserves against potential credit losses and the aggregate volume of debt under retail credits.

In February, the volume of the liquid assets of banks continued its seasonal decline. The share of liquid assets in the aggregate assets of the banking sector dropped to 4.7%, thus approaching its lowest level registered in the autumn of 2011 (4.5%). Despite a reduction in state support to the banking sector, most of that sector's liquidity is still formed by the funds received from Russia's financial regulatory bodies. And this fact has made it possible for us to repeat the main conclusion of our banking overview for the previous month – that Russia's banking sector is heavily dependent on the parameters and instruments of state monetary policy.

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	06.10	12.10	06.11	09.11	12.11	01.12	02.12
Assets, bn Rb	13,9	20,1	28,0	29,4	30,4	33,8	35,2	38,443	41,628	41,150	40,874
Cash and precious metals	2.6	2.5	3.0	2.7	2.1	2.7	2.2	2.3	2.9	2.5	2.5
Monies placed with Bank of Russia	7.5	6.9	7.5	6.9	7.8	7.1	4.5	3.5	4.2	3.6	3.2
Interbank operations	5.8	5.4	5.2	5.4	6.2	6.5	6.4	6.2	6.4	6.6	6.3
Foreign assets	9.9	9.8	13.8	14.1	12.7	13.4	13.8	14.6	14.3	14.6	14.3
Population	14.7	16.1	15.5	13.1	13.0	13.0	14.0	14.2	14.4	14.6	15.0
Corporate sector	45.3	47.2	44.5	44.5	45.1	43.6	45.3	45.1	44.0	44.2	44.2
State	5.2	4.1	2.0	4.2	4.2	5.1	5.8	6.0	5.0	4.8	5.1
Property	2.4	2.2	1.9	2.7	2.7	2.6	2.5	2.4	2.3	2.4	2.4

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

THE REAL ESTATE MARKET IN THE RUSSIAN FEDERATION

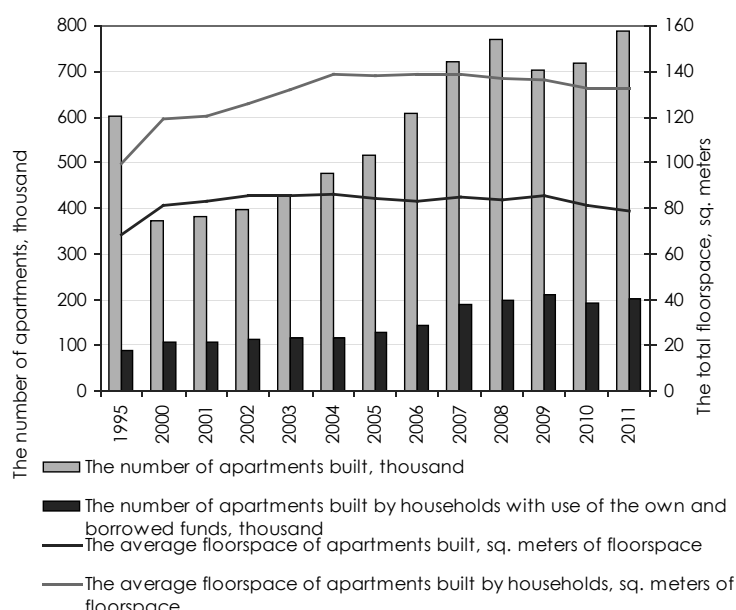
G.Zadonsky

According to the data of Rosstat, in January–February 2012 entities of all the forms of ownership built 5.9m of sq. meters of housing which figure was equal to 113.1% of the respective period of 2011. As of February 1, 2012, the share of the overdue debt on mortgage housing loans (MHL) in foreign currency in the outstanding debt increased by 1.87% as compared to that as of February 1, 2011 and amounted to 12.16%, while the share of the overdue debt in rubles in the same period decreased by 0.57% and was at the level of 1.97%.

According to the data of Rosstat, in January–February 2012 entities of all the forms of ownership built 5.9m sq. meters of housing which figure was equal to 113.1% of the corresponding period of 2011. In January 2012, 36,500 new apartments with the total floorspace of 3,127m sq. meters were built or 121.5% against January 2011. In January, individual developers commissioned 1,498m sq. meters of housing which is 10.6% more than in January 2011. The average floorspace of apartments built in 2011 decreased by 3.05% as compared to 2010 and amounted to 79 sq. meters (Fig. 1). The average floorspace (132.6 sq. meters) of apartments built by households in 2011 with use of the own and borrowed funds remained unchanged.

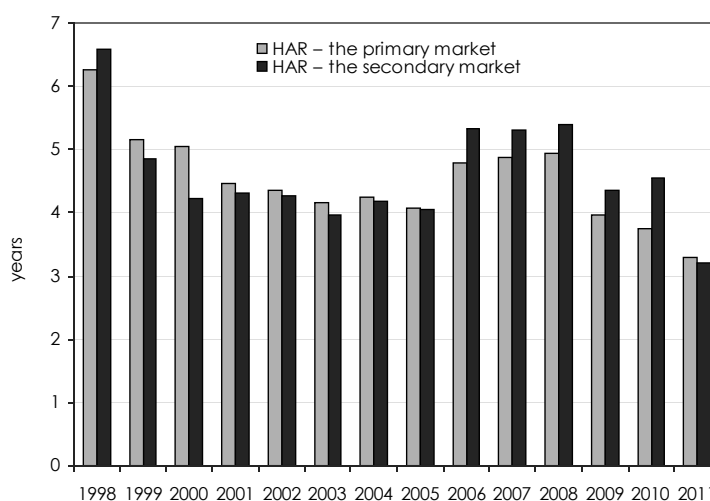
In 2011, due to realization of state housing certificates issued to persons dismissed from military service and law enforcement agencies and those made equal to them 734 apartments were bought. The total floorspace of purchased housing amounted to 40,200 sq. meters, and Rb 1,455.4m, including over Rb 1,399.2m worth of provided social payments was spent on that.

In 2011, the average actual cost of building of a sq. meter of residential housing was over 50% higher than the average nationwide level (Rb 33,007) and according to the data of Rosstat amounted to Rb 192,056 in the Chukotka Autonomous Area, Rb 69,829 in the Magadan Region, Rb 61,658 in the Chechen Republic, Rb 57,280 in Moscow, Rb 56,447 in the Kamchatka



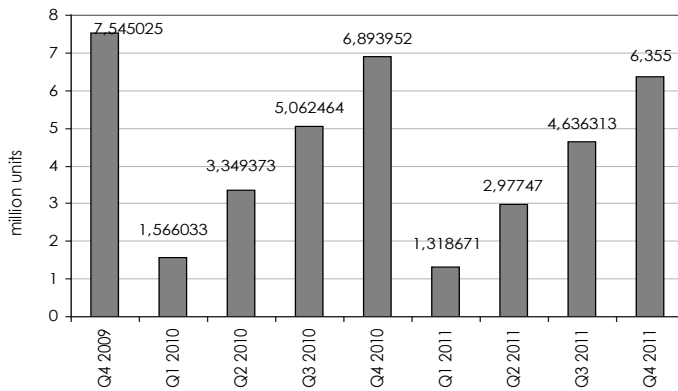
Source: on the basis of the data of Rosstat.

Fig. 1. The number of apartments built in the Russian Federation and their average floorspace



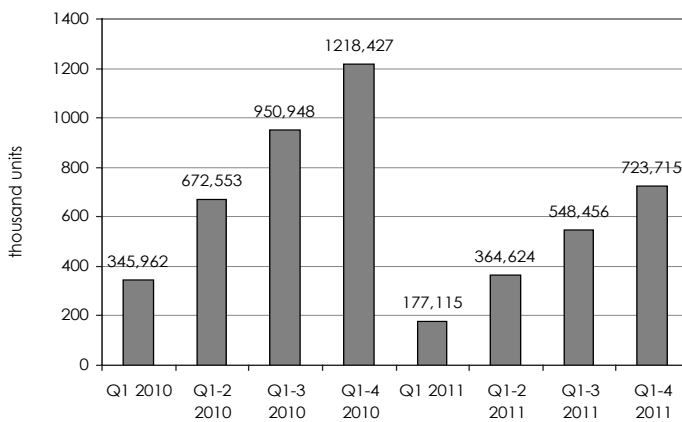
Source: on the basis of the data of the Central Bank of the Russian Federation.

Fig. 2. Housing affordability ratio (standard apartment)



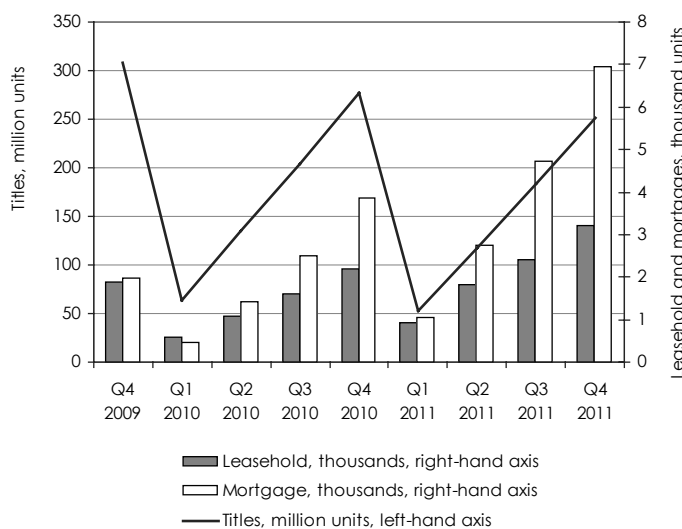
Source: Rosreestr's data.

Fig. 3. The volume of registered titles to land plots



Source: Rosreestr's data.

Fig. 4. The volume of registration of titles of individuals to land plots in accordance with a simplified procedure



Source: Rosreestr's data.

Fig. 5. Dynamics of registration of individuals' titles to land plots

Territory, Rb 55,557 in the Sakhalin Region and Rb 52,978 in the Nenets Autonomous Region; it was below the average nationwide level in 54 constituent entities of the Russian Federation with the lowest one registered in the Republic of Karachayevo-Cherkessia (Rb 17,571), the Republic of Ingushetia (Rb 16,988) and the Kursk Region (Rb 20,796).

The housing affordability ratio (HAR) (Fig. 2), that is, a ratio of the cost of a standard apartment with floorspace of 54 sq. meters to the annual income of a family of three members amounted as of January 1, 2012 to 3.24 years on the primary market and, to 3.19 years on the secondary market which figures are 14.31% and 30.56% lower, respectively, than the respective values of HAR as of January 1, 2011.

According to the data of Rosreestr, in 2011 the volume of registered titles to land plots fell by 7.82% and 15.77% as compared to 2010 and 2009, respectively (Fig. 3).

In 2011, the volume of titles registered by individuals in accordance with a simplified procedure ("a summer residence amnesty") to land plots – allocated before the Land Code of the Russian Federation was introduced – for keeping personal subsidiary husbandry, suburban husbandry, market gardening and orcharding and individual garage and housing building decreased by 40.6% as compared to 2010 (Fig. 4).

In 2011, the volume of state registration of individuals' titles to land plots amounted to 5.75m entries which is 9.29% less than in the corresponding period of 2010 (Fig. 5). In the same period, the volumes of registration by individuals of leasehold and mortgages of land plots amounted to 141,200 entries and 304,400 entries, respectively and rose by 47.05% and 80.0%, respectively, as compared to 2010 (Fig. 5).

According to the data of Rosreestr, in 2011 the volumes of state registration of legal entities' titles to and leasehold of land plots decreased by 3.16% and 51.78%, respectively, as compared to 2010, while the volume of registration of mortgages of land plots grew by 26.89% in the same period (Fig. 6).

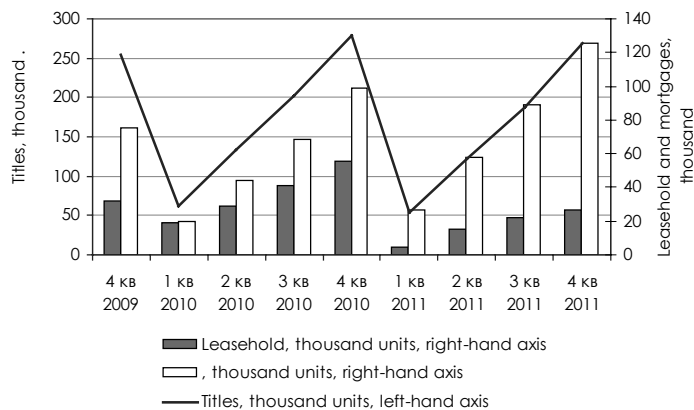
The Federal Service for State Registration, Cadastre and Cartography has launched a new version of the official internet-site: rosreestr.ru. The new version is aimed at upgrading the quality of public services and provision of such services in an electronic format thanks to, among other things, the public cadastral map.

According to the data of the Central Bank of the Russian Federation, in January 2012 35,406 housing loans for the amount of Rb 39,463bn were extended, including 33,308 mortgage housing loans for the amount of Rb 37,854bn which figure exceeds by 91% such a volume of mortgage housing loans in monetary terms as was extended in January 2011. As of February 1, 2012, the outstanding debt on mortgage housing loans in rubles grew by 37.4% as compared to February 1, 2011 and amounted to Rb 1,316 trillion, while that on loans in foreign currency, to Rb 152,858bn which is 12.5% less than that as of February 1, 2011.

As of February 2012, the overdue debt on MHL amounted to Rb 44,562bn (Rb 25,972bn on loans in rubles and Rb 18,590bn on loans in foreign currency (*Fig. 7*)). As of February 1, 2012, the share of the overdue debt on MHL in foreign currency in the outstanding debt increased by 1.87% as compared to February 1, 2011 and amounted to 12.16%, while the share of the overdue debt on MHL in rubles decreased in the same period by 0.57% and was at the level of 1.97% (*Fig. 7*). The aggregate overdue debt amounted to 3.03% of the total overdue debt which figure is 0.04% and 0.70% lower than that as of January 1, 2012 and January 1, 2011, respectively (*Fig. 7*).

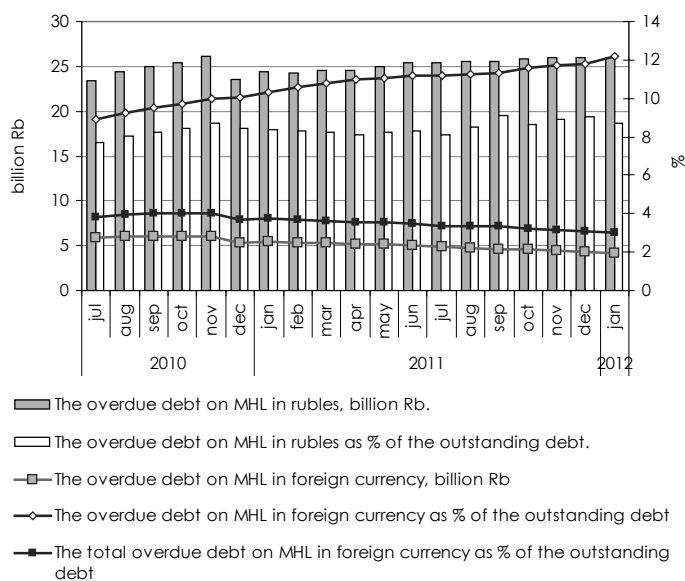
As of February 1, 2012, the debt on the defaulted MHL (with a period of delay of over 180 days) decreased to Rb 52,441bn or 3.57% of the total amount of the debt which figure is 0.09% and 1.18% lower than that as of January 1, 2012 and February 1, 2011, respectively. The share of the debt on MHL without overdue payments decreased as well by 0.81% to 93.25% as compared to January 1, 2012 and increased by 6.59% as compared to February 1, 2011.

In January 2012, the average value of MHL in rubles amounted to Rb 1,136m which is 13.3% lower than in January 2011, while the average loan in foreign



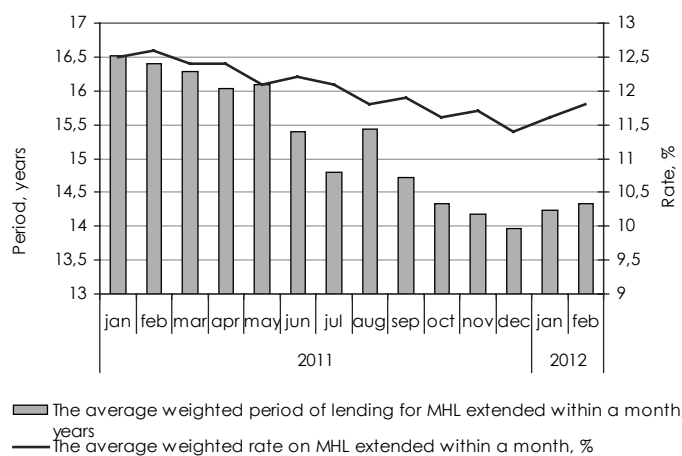
Source: Rosreestr's data.

Fig. 6. Dynamics of registration of legal entities' titles to land plots



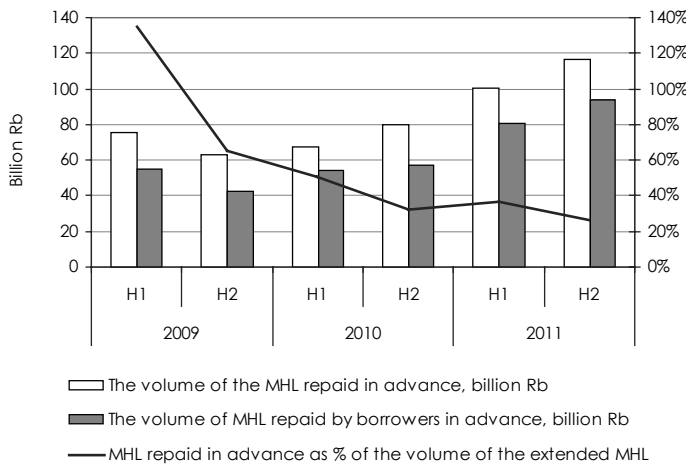
Source: on the basis of the data of the Central Bank of the Russian Federation

Fig. 7. Dynamics of the overdue debt



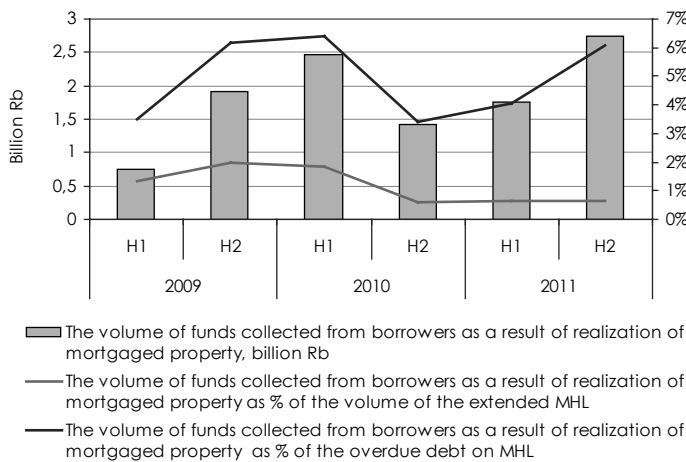
Source: on the basis of the data of the Central Bank of the Russian Federation.

Fig. 8. The average weighted periods and the average weighted interest rates on MHL in rubles extended within a month



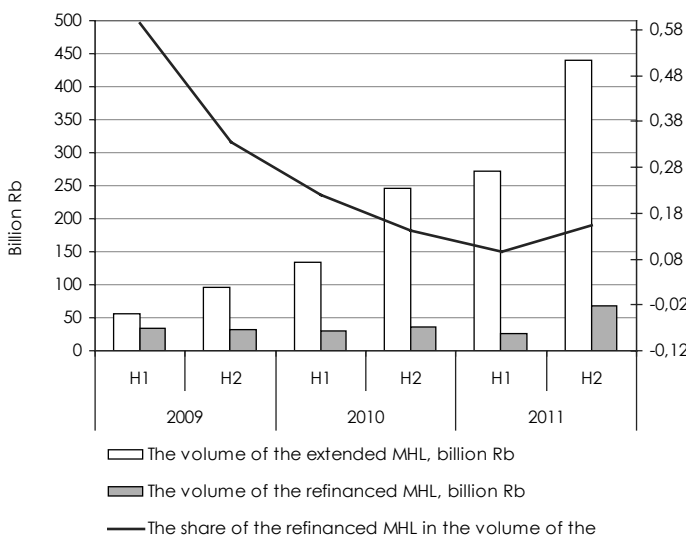
Source: on the basis of the data of the Central Bank of the Russian Federation.

Fig. 9. Dynamics of early repayment of MHL



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

Fig. 10. Dynamics of the volume of funds collected from borrowers as a result of realization of mortgaged property



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

Fig. 11. Dynamics of refinancing of MHL (rights of claim)

currency, to Rb 5,303m which is 27.7% more than in January 2011.

In January 2012, the average weighted rate on loans extended within a month amounted to 11.8% on MHL in rubles (Fig. 8) which figure is 0.4% higher than the similar index of December 2011 and, to 9.7% on MHL in foreign currency which figure is 1.3% lower than in January 2011. In January 2012, the average weighted period of lending for loans extended within a month amounted to 14.33 years as regards MHL in rubles which figure is 0.36 years more than that as of December 1, 2011 and, to 13.9 years as regards MHL in foreign currency which figure is 1.91 years more than that as of January 2011.

In January 2012, the share of MHL in foreign currency in the total volume of loans extended within a month amounted to the mere 0.91% against 2.68% in January 2011 which situation reflects a general trend towards a decrease in that share starting from November 2009. The debt on MHL in foreign currency as a percentage of the total debt on the extended loans keeps steadily declining and as of February 1 amounted to 10.41%.

In H2 2011, the volume of early repaid MHL in monetary terms amounted to Rb 116.47bn having exceeded by 46.2% the respective value in H2 2010 (Fig. 9). On the contrary, in the same period the volume of the early repaid MHL as a percentage of the volume of the extended MHL decreased by 5.82%.

In H2 2011, the volume of funds collected from borrowers as a result of realization of the mortgaged property amounted to Rb 2,749bn (Fig. 10) having exceeded by 100% the result of H2 2010. In the same period, the volume of funds collected from borrowers as a share of the overdue debt on MHL increased by 2.65% and amounted to 6.06% (Fig. 10).

According to the data of the Central Bank of the Russian Federation, in the second half of the year the volume of refinanced MHL amounted to Rb 67.77bn or 15.4% of the volume of MHL extended in that period (Fig. 11). Until H2 2011, the growth rates of refinancing of MHL in monetary terms lagged behind the rates of growth in the volume of the provided MHL

which situation resulted in a decrease to 9.5% in the share of the refinanced MHL in the volume of MHL extended in H1 2011 (*Fig. 11*).

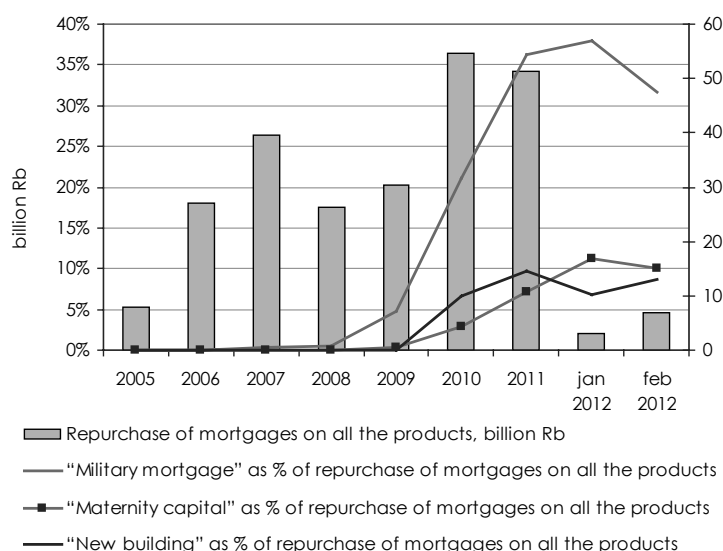
In February 2012, OAO AMHL repurchased Rb 6,906bn worth of mortgages on all the products which figure exceeds by 128% the volume of repurchase in January 2012 (*Fig. 12*). Among mortgage products realized by AMHL, in addition to the standard one the “military mortgage” demonstrated the most rapid growth on the 2012 figure; in 2011 the “military mortgage” accounted for 36.24% of the volume of repurchase of mortgages on all the products (*Fig. 12*).

In 2011, on the market of MHL the share of OAO AMHL amounted to 7.19% of the total number of the extended MHL having decreased considerably as compared to 19.85% in 2009 and 14.4% in 2010. In 2011, the average weighted rate on loans refinanced by AMHL amounted to 10.93% against 11.1% in 2010. As of February 1, 2012, in the course of realization of the Stimul program, AMHL refinanced loans for the amount of Rb 15,263bn extended by banks at the average rate of 12.3% to legal entities for housing development purposes at AMHL’s refinancing rate of 7.75%.

According to the forecast of AMHL, in 2012 619,000 to 770,000 housing loans for the amount of Rb 880bn to Rb 1,100bn, including 533,000 to 666,000 MHL for the amount of Rb 800bn to 1000bn will be extended. The volume of MHL on the primary market will amount to 117,000 to 146,000 loans for the amount of Rb 176bn to Rb 220bn, while on the secondary market, to 416,000 to 520,000 loans for the amount of Rb 624bn to Rb 780bn. The volume of floorspace purchased under MHL will amount to 20.79m to 28.32m sq. meters, including 4.77m to 5.96m sq. meters on the primary market. It is expected that the average weighted rate on MHL in rubles will amount to 12.2% to 12.6% per annum, while the share of mortgage encumbered property projects in the total number of property projects registered in operations with real estate amounts to 18% to 20%.

The Standart&Poor’s Rating Agency believes that in 2012 lending will grow at a higher rate than the economy as a whole: it will increase by 15% to 20% with the volume of loans to industries and individuals growing by 10% to 15% and 25% to 30%, respectively.

Powers of public notaries are largely expanded by Federal Law No. 405 FZ on Introduction of Amendments into Individual Statutory Acts of the Russian Federation as Regards Upgrading of the Procedure for Recovery of Mortgaged Property. In particular, earlier an agreement on the extrajudicial procedure for recovery of the real property was concluded as a supplementary one in case of occurrence of circumstances which required it. Now, a provision for extrajudicial recovery is to be specified in those agreements which are certified by a notary. ●



Source: on the basis of the data of OAO AMHL.
Figc. 12. Dynamics of repurchase of mortgages by OAO AMHL

THE OIL AND GAS SECTOR

Yu.Bobylev

The situation in the oil and gas sector was determined by a significant rise in the world prices of oil and natural gas, with the resulting substantial growth of the incomes of Russian oil and gas companies and state budget revenues. Oil and gas production continued to display an upward trend. Some additional measures designed to lower the tax load on the oil sector and to promote oil extraction were introduced in actual practice. At the same time, the tax load on the gas sector was significantly increased in order to achieve a more complete collection of the natural rent generated there.

The situation on the world oil market in 2011 and early 2012 was characterized by a significant rise in the international oil prices. The price of Brent in 2011 rose to the level of 111 USD/barrel, and in March 2012 – to 125 USD/barrel, which is far above the average per annum levels observed over several previous years (*Table 1*). The principal factors that determined price growth were as follows: an increasing demand for oil that resulted from growth of the world economy, and first of all the national economies of China, India and other Asian countries; the OPEC's conservative policy towards increasing the volumes of oil extraction in its member countries; the low rate of growth of oil production outside of the OPEC; and also the geopolitical risks that have lately arisen in connection with the possibility of shrinkage of oil supplies from Iran. From 1 January 2012, on the basis of an estimated demand on the international market for additional supplies of oil, the OPEC increased the aggregate quota for oil extraction by its member countries to 30m barrels per day (including Iraq, on whose extraction volumes no restrictions had been imposed previously, and Libya). The new quota effectively corresponded to the level of oil extraction achieved by the OPEC in 2011. That level, however, is still below the OPEC countries' oil extraction level in 2008. The movement of the price of Russian natural gas on the European market, which follows, with a certain lag, that of the international oil prices, also rose and in the first few months of 2012 reached the level of 440 USD/1,000 m³. At the same time, the prices of Russian natural gas were declining in response to the changing situation on the European gas market, namely the rising natural gas supply by other producers coupled with a lower level of natural gas spot prices by comparison with long-term contract prices.

Table 1

INTERNATIONAL PRICES OF OIL AND NATURAL GAS IN 2008–2012

	2008	2009	2010	2011	2012 January	2012 February	2012 March*
Price of Brent (UK), USD/barrel	97.7	61.9	79.6	111.0	111.0	119.7	125.0
Price of Urals (Russia), USD/ barrel	94.5	61.0	78.3	109.1	109.9	118.5	123.0
Price of Russian gas on the European market, USD/1,000 m ³	473.0	318.8	296.0	381.5	443.9	439.9	

* Estimated.

Source: IMF, OECD/IEA.

Against this background the growth of oil and gas output continued to display an upward trend. The growth rate of oil extraction in the first months of 2012 markedly increased. While in 2011 the volume of oil extraction rose by 0.8%, in January–February 2012 its growth rate was 3.9% (*Table 2*). This positive dynamics was determined by the putting in operation of several big oil fields in the north of the European Russia and in Eastern Siberia, as well as by some alterations introduced in taxation with the purpose of lowering the tax load on the oil sector, creating incentives for deeper oil extraction from existing oil fields and to encourage the development of new oil deposits in untapped regions. At the same time, the volume of oil refining in recent years continued to increase

at a faster rate than that of oil extraction, mainly due to a more rapid growth of RF exports of petroleum products. As a result, the share of the volume of oil refining in the volume of oil extraction rose from 42.5% in 2004 to 50.4% in 2011. However, Russia's oil refining efficiency over the last decade did not increase, and in 2011 it amounted to only 71%, which effectively corresponds to the level of 2000. If we consider this index in the framework of a longer period of time, it can be noted that, in spite of the strategic goal of improving the standards of Russia's oil refining efficiency set by the RF government, it still remains approximately at the same level as prior to the onset of reforms (in 1990, the oil refining efficiency in this country was 67%), which is far behind that the leading industrially developed countries (where oil refining efficiency is 90–95%).

Table 2

PRODUCTION OF OIL, PETROLEUM PRODUCTS AND NATURAL GAS IN 2005–2012,
AS A PERCENTAGE OF THE PREVIOUS YEAR

	2005	2006	2007	2008	2009	2010	2011	2012 January– February*
Oil, including natural gas condensate	102.2	102.1	102.1	99.3	101.2	102.1	100.8	103.9
Primary crude oil distillation	106.2	105.7	103.8	103.2	99.6	105.5	103.3	106.4
Motor gasoline	104.8	107.4	102.1	101.8	100.5	100.5	102.0	108.1
Diesel fuel	108.5	107.0	103.4	104.1	97.7	104.2	100.3	98.2
Furnace fuel oil	105.8	104.5	105.2	101.9	100.8	108.5	104.6	105.0
Natural gas	100.5	102.4	99.2	101.7	87.9	111.4	102.9	101.8

* As % of January–February 2011.

Source: RF Federal State Statistics Service.

Net exports of oil and petroleum products from Russia in 2011 amounted to 370.7m tons (*Table 3*). As before, the structure of oil exports was dominated by crude oil, which constituted 65.7% of total exports of oil and petroleum products. The bulk of exported petroleum products was constituted by furnace fuel oil (which in Europe is used as raw material for further refining) and diesel fuel. The share of exports in total oil output was 47.8%, in fuel oil output – 89.7%, in diesel fuel output – 56.1%, and in motor gasoline output – 10.6% (for reference: in 2005 the share of exports in motor gasoline production was 18.5%, in 2010 – 8.2%). At the same time, imports of petroleum products in 2011 markedly rose (by 1.5 times on 2010), as also did the share of imports in the domestic demand absorption structure (motor gasoline – to 2.7%; diesel fuel – to 1.1%). Exports of natural gas also increased in 2010–2011, but so far the value of this index has remained below its pre-crisis level. The share of net exports in total gas output somewhat declined – from 28.2% in 2008 to 26.3% in 2011.

Table 3

RELATIONSHIP BETWEEN THE PRODUCTION, CONSUMPTION AND EXPORTS OF OIL
AND NATURAL GAS IN 2005–2011

	2005	2006	2007	2008	2009	2010	2011
Oil, m tons							
Output	4,70.0	4,80.5	4,91.3	4,88.5	4,94.2	5,05.1	5,11.4
Exports, total	2,52.5	248.4	2,58.4	2,43.1	2,47.4	2,50.4	2,44.6
Exports to non-CIS countries	2,14.4	2,11.2	2,21.3	2,04.9	2,10.9	2,23.9	2,14.4
Exports to CIS countries	38.0	37.3	37.1	38.2	36.5	26.5	30.2
Net exports	2,50.1	2,46.1	2,55.7	2,40.6	2,45.6	2,49.3	2,43.5
Domestic consumption	1,23.1	1,31.2	1,24.1	1,30.4	1,25.3	1,25.9	1,40.7
Net exports, as % of output	53.2	51.2	52.0	49.3	49.7	49.4	47.6
Petroleum products, m tons							
Exports, total	97.0	1,03.5	1,11.8	1,17.9	1,24.4	1,32.2	1,30.6
Exports to non-CIS countries	93.1	97.7	1,05.1	1,07.6	1,15.4	1,26.6	1,20.0
Exports to CIS countries	3.9	5.8	6.7	10.3	9.0	5.6	10.6

Table 3, cont'd

	2005	2006	2007	2008	2009	2010	2011
Net exports	96.8	1,03.2	1,11.5	1,17.5	1,23.3	1,29.9	1,27.2
Oil and petroleum products, m tons							
Net exports of oil and petroleum products	3,46.9	3,49.3	3,67.2	3,58.1	3,68.9	3,79.2	3,70.7
Net exports of oil and petroleum products, as % of oil output	73.8	72.7	74.7	73.3	74.6	75.1	72.5
Natural gas, bn m ³							
Output	6,36.0	6,56.2	6,54.1	6,64.9	5,96.4	6,65.5	6,87.5
Exports, total	2,07.3	2,02.8	1,91.9	1,95.4	1,68.4	1,77.8	1,84.9
Exports to non-CIS countries	1,59.8	1,61.8	1,54.4	1,58.4	1,20.5	1,07.4	1,17.0
Exports to CIS countries	47.5	41.0	37.5	37.0	47.9	70.4	67.9
Net exports	1,99.6	1,95.3	1,84.5	1,87.5	1,60.1	1,73.5	1,80.6
Domestic consumption	4,36.4	4,60.9	4,69.6	4,77.4	4,36.3	4,92.0	5,06.9
Net exports, as % of output	31.4	29.8	28.2	28.2	26.8	26.1	26.3

Source: Federal State Statistics Service; RF Ministry of Energy, Federal Customs Service; the author's calculations.

An analysis of the indices of Russian oil exports over a long period demonstrates that the share of net exports of oil and petroleum products in oil output increased from 47.7% in 1990 to 72.5%. These data point to a significant strengthening of the oil sector's orientation towards exports by comparison with the pre-reform period. However, it should be remembered that this phenomenon has been associated not only with growth in the volume of exports in absolute terms, but also with a significant drop in the domestic oil consumption as a result of market transformation of the Russian economy.

The rising international oil prices triggered dramatic growth of incomes in the oil sector of Russia's economy (*Fig. 1, Table 4*). The aggregate revenues from exports of oil and the major types of petroleum products (motor gasoline, diesel fuel and fuel oil) in 2011 reached the level of \$ 259.5bn – a historic high for the entire post-reform period (for reference: the historic low of revenues from oil exports was observed in 1998, in response to the drop in the international oil prices, when proceeds from exports amounted to only \$ 14bn). In 2011, under the influence of rising international oil and gas prices, the share of fuel and energy products in Russian exports hit the level of 69.2%, including crude oil – 34.7%

Table 4

REVENUES FROM THE EXPORT OF OIL AND PETROLEUM PRODUCTS IN 2005 – 2011, BN USD

	2005	2006	2007	2008	2009	2010	2011
Revenues from export of oil and major types of petroleum products	112.4	140.0	164.9	228.9	141.2	193.9	259.5

Source: calculations based on data provided by the Federal State Statistics Service.

Table 5

RUSSIA'S REGIONS ELIGIBLE FOR AND THE PARAMETERS OF MRET TAX HOLIDAYS APPLIED TO OIL EXTRACTION

Region	Cumulative oil extraction per ring-fenced field, m tons	License period for exploration and extraction, years	License period for geological prospecting and extraction, years	Date of introduction
1. Republic of Sakha (Yakutia), Irkutsk Oblast, Krasnoyarsk Krai	25	10	15	01.01.2007
2. Continental shelf north of Arctic Circle от полярного круга	35	10	15	01.01.2009

Table 5, cont'd

Region	Cumulative oil extraction per ring-fenced field, m tons	License period for exploration and extraction, years	License period for geological prospecting and extraction, years	Date of introduction
3. Nenets AO, Yamal Peninsula	15	7	12	01.01.2009
4. Azov and Caspian Seas	10	7	12	01.01.2009
5. Black Sea	20	10	15	01.01.2012
6. Sea of Okhotsk	30	10	15	01.01.2012
7. Yamalo-Nenets AO north of 65°N	25	10	15	01.01.2012

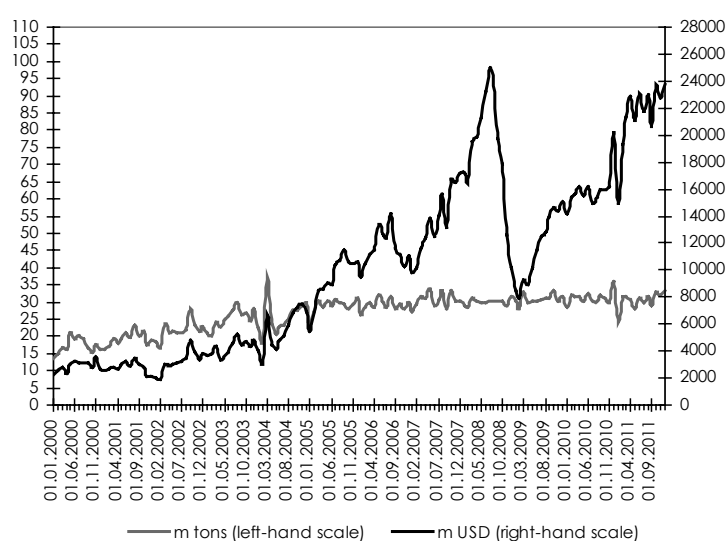
Source: RF Tax Code; Federal Law of 21 July 2011, No 258-FZ.

A positive influence on the oil sector was produced by alterations in the system of taxation designed to lower the tax load, create incentives for deeper oil extraction from existing oil fields and to encourage the development of new oil deposits in untapped regions and on the continental shelf. In order to stimulate the development of untapped basin provinces, tax holidays with regard to the Mineral Resources Extraction Tax (MRET) were established for the new oil fields situated in territories with no infrastructure. From 2012, the MRET holidays regime has been extended to the new oil fields situated in Yamalo-Nenets AO north of 65°N (with the exception of those in the Yamal Peninsula), as well as those situated in the Black Sea and the Sea of Okhotsk (Table 5).

These measures are designed to create the necessary economic conditions for developing oil fields in those regions where their operation under the generally applied tax regime is not cost-effective because of the huge capital inputs needed for building an appropriate infrastructure compatible with the local geographic and geological specificities.

In order to create incentives for developing small oil fields, from the year 2012 onwards a downward coefficient is to be applied to the rate of MRET levied on oil extraction, which specifies the size of oil reserves in a given ring-fenced field. That coefficient is computed by applying a special formula to ring-fenced fields with initial producible oil reserves of up to 5m tons and depletion of up to 5%. Prior to that, the procedure for computing MRET levied on oil extraction envisaged no gearing of the tax rate by the size of oil reserves, with the result that, as a rule, the development of smaller oil fields was not feasible due to the high per unit capital and exploitation costs. The introduction of the special downward coefficient for the rate of MRET is expected to create appropriate conditions for developing new small oil fields, thus tapping the additional resources hidden in those areas.

At the same time, from 2012, the rate of MRET on natural gas has been dramatically increased. Over the period of 2006 to 2010, its rate remained at the same level, while the wholesale prices of natural gas more than doubled. As a result, the rate of MRET on natural gas during those years significantly declined both in real and relative terms (as a percentage of its price). From 1 January 2011, as index of 1.61 was applied to the tax rate, which effectively corresponded to the cumulative



Source: calculations based on data provided by the Federal State Statistics Service.

Fig. 1. Exports of Oil and Petroleum Products (Physical Volume and Value) in 2000–2011, in m tons and m USD

inflation rate over the period of 2007–2010. However, the high profitability indices of the activities relating to the production, transmission and sale of natural gas were indicative of a considerably lower level of tax load on the Russian gas sector as compared to the oil sector, and thus of the existence of a potential for a further substantial increase of the rate of MRET. In this connection, from the year 2012 onwards the rate of MRET levied on natural gas was raised to 509 rubles per 1,000 cubic meters, or by 2.15 times on 2011. It is envisaged that in 2013–2014 the rate of MRET on natural gas will be raised somewhat further (*Table 6*). At the same, a downward coefficient is to be applied to those organizations that do not own any objects belonging to the Unified Gas Supply System of Russia, or in which the stakes owned by the owners of objects belonging to the Unified Gas Supply System of Russia are no more than 50%: in 2012 – 0.493; in 2013 – 0.455; and from 2014 onwards – 0.447.

Table 6

RATES OF MRET APPLIED TO OIL AND NATURAL GAS PRODUCTION IN 2010–2014

	2010	2011	2012	2013	2014
MRET on oil production, Rb/ton	419	419	446	470	470
MRET on natural oil production, Rb/1,000 m ³	147	237	509	582	622

Source: RF Tax Code (wording applied in 2010–2012).

Thus, the tax load on OJSC *Gazprom* – the company that owns the Unified Gas Supply System of Russia and derives the corresponding income from transmission and export of natural gas – has been significantly increased. For independent natural gas producers the rate of MRET is only indexed according to the inflation rate and thus remains at a relatively low level.

The increased tax load on the gas sector will result in a more complete withdrawal of the natural rent generated there, thus substantially increasing the size of state budget revenue. ●

PROFESSIONAL EDUCATION REFORM – WHAT IS NEW?

T.Klyachko

An analysis of the proposed Strategy-2020 measures aimed at reforming the professional education system has revealed that they envisage no innovations; rather, these measures represent an attempt to once again put on the agenda the issues that have remained unresolved for many years.

On 14 March 2012, the final report on the results of experts' estimation of the vital issues to be incorporated in Russia's socio-economic strategy for the period until 2020 was delivered. The document entitled *Strategy-2020: A New Growth Model – A New Social Policy*¹ is the product of joint efforts of twenty-one expert groups.

As can be seen from its title, the report deals at length with social policy issues, including those existing in the sphere of education, which are addressed by two chapters – Chapter 10 “Professional Education” and Chapter 11 “New School”.

*So, does Strategy-2020 really offer any significant innovations with regard to organizational and economic reforming of the **professional education** system?*

The period of 2005–2011 saw a steady rise in the volume of budget expenditure allocated to education, including professional education. The consolidated education budget over that period increased in nominal terms by 2.9 times, and even the economic crisis failed to reverse this trend – although it did bring down the growth rate of budget expenditures in that sphere. Coupled with the simultaneous decline in student numbers at all the level of the professional education system, thus change triggered a noticeable increase in nominal budget expenditure per student (Table 1).

Table 1

BUDGET EXPENDITURE PER STUDENT, BY PROFESSIONAL EDUCATION LEVEL,
IN 2005–2011 (THOUSAND RB)

Professional education level	2005	2006	2007	2008	2009	2010	2011*
Primary (PPE)	26.1	33.5	45.9	58.7	64.5	61.3	65.2
Secondary (SPE)	17.5	23.1	30.8	44.0	49.8	50.4	58.2
Higher (HPE)	42.7	58.0	82.5	101.9	121.8	134.4	153.9

*Preliminary data

Source: RF Federal Treasury; Rosstat.

The growth of expenditure volume was especially rapid in the system of higher education, which had to do with the government's decision that higher education establishments were to become a key locomotive of the innovation-oriented development across the Russian Federation. In 2011, the average sum allocated per budget-funded full-time student amounted to more than Rb 200,000. As a consequence, this index became effectively equal to that in the OECD countries (in US dollars, in terms of purchasing power parity)². However, this had no bearing on the quality of higher education in this country. Moreover, *The Times*, in the 2011 rating of universities³, no longer placed Moscow State University (MSU) in the top hundred (in 2010, MSU was 33rd). Thus, the efforts aimed at increasing the size of budget allocations to the sphere of higher education have so far failed to yield the expected results.

So, how do the authors of *Strategy-2020*'s chapter on *professional education* visualize the possible way out of such a situation?

1 <http://2020strategy.ru/documents/32710234.html>

2 See *Education at a Glance, 2011*. OECD, 2011.

3 www.timehighereducation.co.uk/world-university-rankings/2011-2012/reputation

Professional Education Development Issues, the Solutions Put Forth in *Strategy-2020*, and Their Estimated Effect (Implementability)

1) *Lack of compatibility between the structure of professional education and the labor market – primarily the “predominance” of low-quality higher education (85% of the age cohort 15–25 years). The suggested measures are as follows:*

- Abolition of the **outdated** government assignment mechanism with regard to baccalaureate/specialty; higher educational establishments are to be funded on the basis of the principle “money follows the student” within the limits set by their licenses; the right to budget funding is to be granted to students with “good” and “excellent” Unified State Examination (USE) scores on their core subjects (above 50 and 70 out of 100 points respectively).
- Creation of an institution of professional examination on the basis of governmental – non-governmental associations, which will exist independently of the educational system.
- Promotion of the switchover of 2nd and 3rd year students to applied baccalaureate curricula (3-year curricula that will retain their higher education status).

The estimated effect (implementability) of the suggested solutions to the first group of issues:

- In accordance with RF Federal Law No 83-FZ, the government assignment mechanism is to be introduced in budget-funded and autonomous institutions only from the year 2012 onwards, and so it can hardly be regarded to be “outdated” (it should be noted, however, that this mechanism, when applied to the higher education system, somewhat differs from the traditional system of control enrollment targets). The abolition of that mechanism of funding higher education establishments in favor of the “money follows the student” principle (i.e., orientation to the population’s demand) will, most probably, provide no final solution to the existing problem. In fact, 62% of students actually pay for their education out of their own pockets, and so they are “followed by money”, but the issue of “predominance” of low-quality higher education and its compatibility with the labor market’s demand is still there. It is more likely that an attempt to link the allocation of budget funding to students’ USE score will give rise to corruption rather than improve the quality of professional higher education. Another noteworthy fact is that at present the higher education system absorbs approximately 34% of the age cohort 17–25 years.
- In one form or another, this issue has been on the agenda since 2004, but no visible solution to it has been provided.
- The essence of the problem is that, in many instances, the available jobs appear to be unattractive for young people – and it does not matter whether they have the applied baccalaureate diplomas issued by higher educational establishments, or are graduates of SPEs.

2) *The issue of deteriorating quality of professional training:*

- The funding norm per student is increased so as to ensure a competitive level of remuneration to faculty members (up to 160% of a region’s average salary in 2015, to be further increased to 220% in 2020), in conjunction with regulation of the human resources policies of higher educational establishments in order to improve the quality of their teaching staff.
- Reorganization of the network of higher educational establishments and their affiliations; increasing the size of higher educational establishments by means of merging them with the leading universities.
- The introduction of an independent procedure for the intermediate and final State attestation of students (“USE for Bachelors”).

The estimated effect (implementability) of the suggested solutions to the second group of issues:

- The per student budget funding norms have not yet been introduced in the HPE system; however, it has already been suggested that these norms should be raised to levels that will be able to provide the faculty members of higher educational establishments with salaries amounting to 160% of a region’s average salary in 2015, and then be further increased to 220% in 2020. The requirement that the salaries of faculty members should be twice as high as the average

salary size in the national economy was first stipulated in Decree No 1 issued by President Boris Yeltsin; however, no solution to the remuneration problems has been provided in the two decades that have passed since the signing of that decree. It is very doubtful that it will indeed be solved in the next eight years (that is, in the period until 2020). Besides, as noted earlier, increased funding *per se* does not improve the quality of human resources. Indeed it is possible that these measures will put a stop to the so-called “negative selection” of cadres recruited in the HPE system. However, a low level of tuition is by no means the only cause of the lowering education quality; in fact, this is the outcome of higher education becoming increasingly widespread, and this process can be observed in any country that has switched over to “universal compulsory” higher education.

- The process of reorganization has been underway in the school network for the last 11 years but has not resulted as yet in an improvement of the quality of universal education. So, it can be assumed that the restructuring of the network of higher educational establishments will have no effect on the quality of professional training.
- The introduction of “USE for Bachelors” will once again “freeze” the problem posed by the low quality of training of the graduates of higher educational establishments (or baccalaureate programs) without providing any plausible solution to it. As is well known, the introduction of USE had little effect on the quality of secondary school education (which continues to decline); this is also true for those regions where the Unified State Examination was introduced more than 10 years ago.

3) The issue of insufficient scale and quality of training qualified “rank and file” cadres and low prestige of the corresponding curricula:

- The introduction of applied baccalaureate curricula in the majority of “rank and file” higher educational establishments (up to 50% of their student contingent) and on the basis of SPE. Incorporation of SPE in related-specialty higher educational establishments.
- Structural reform of the PPE/SPE system, its switchover to short-term (up to 6 months) applied curricula.
- Budget support to independent training centers and training centers established by technology producers.
- Applied curricula for training labor migrants.

The estimated effect (implementability) of the suggested solutions:

- As noted earlier, the positive effect of developing applied baccalaureate programs will depend not on whether certain SPEs are incorporated in related-specialty higher educational establishments or not, but on the structure of jobs across Russia’s economy (their quality and state-of-the-art attractiveness). It would be unrealistic to expect that, as families are oriented to providing their children with higher education, their attitude will automatically change once “secondary vocational training curricula” are renamed “applied baccalaureate curricula at higher educational establishments. At present, the population and employers alike first of all appreciate the “symbolic capital” accumulated by graduates. In this context it is the number of years of training that will be taken into consideration, and not the actually acquired applied knowledge and skills.
- The measure involving the switchover of the PPE/SPE system to short-term (up to 6 months) applied curricula follows the logic of cutting expenditures, not that of improving the quality of human resources. If, as it has been happening until now, the PPE system will train only 15–17 year olds, these teenagers will not be needed by contemporary industry: an innovation economy needs educated and, no less importantly, socially mature workers. An employer will not expect a responsible behavior on the part of a teenager, especially if that new employee in a few months will leave his job to become a conscript in the army. Consequently, the graduates of PPE/SPE will be able to find employment only at “backward” (“morally outdated”) enterprises. However, even now that contingent of the workforce is in demand only in that “regressive” segment of the Russian economy. This means that no solution can be provided to the existing problem in the framework of the suggested approach.

- It seems that budget support to applied curricula launched by independent training centers may indeed improve the professional qualification of employees of small and medium-sized companies. As for the introduction of that measure with regard to training centers established by technology producers, we believe it to be feasible only if these producers are small-sized innovation companies.
- Applied curricula for training labor migrants cannot be implemented without simultaneously introducing multiple measures in spheres beyond the professional training system: prevention of illegal labor migration; provision of adequate housing and wages to labor migrants; protection of their labor rights, etc. At present is it the lack of legal rights and lower earning requirements that make labor migrants more attractive in the eyes of employers by comparison with citizens of the Russian Federation, and not the level of their professional qualification.

4) The issue of low level of innovation activity at higher educational establishments and insufficient “production of innovators”:

- Expansion of research institutions by merging them with higher educational establishments in the fields of transport, agriculture and medical science.
- Funding of fundamental and applied research programs as part of projects aimed at developing research institutions, Moscow State University and St. Petersburg State University (up to 35% of their budget funding by 2020).

The estimated effect (implementability) of the suggested solutions:

- It is unlikely that the low scope of innovation activity at higher educational establishments is associated with the absence, in the structure of research institutions, of higher educational establishments specializing in the fields of transport, agriculture and medical science. It seems that the granting of that status to a university should be determined by whether or not that higher educational establishment is engaged in innovation activity, and not by its specialization.
- As demonstrated by the sociological surveys in recent years¹, higher educational establishments (even the leading ones) regard research and development (R&D) solely as an opportunity to get budget funding. While this kind approach may be more or less justified in case of fundamental research, applied R&D projects implemented by research institutions, Moscow State University and St. Petersburg State University must be funded independently and first of all by businesses. Thus, the established norm of budget funding for R&D at the aforesaid higher educational establishments at the level of 35% of the total volume of budget funding allocated to them is exclusively designed, in our opinion, to encourage their reliance on the state budget with the resulting low quality of their applied research.

5) The issue of availability of high-quality professional education to low-income families and families where the parents have a low educational level:

- Raising “social” scholarships to the subsistence level in a given region (for 30% of students).
- Development of education credits (up to 30% of “commercial” students by 2020).

The estimated effect (implementability) of the suggested solutions:

- A switchover to targeted allocation of scholarships and an increase of their size to a region’s subsistence level was first suggested in 1997. Since then, “social” scholarships were indeed introduced (in 2001), while the size of both “academic” and “social” scholarships has been continually on the rise. But these measures had no impact on the actual accessibility of high-quality professional education for children from low-income families, which once again made it necessary to place that goal on the agenda.
- The necessity to develop education credits is proclaimed in every official document that addresses the issue of modernizing Russia’s education system. In 2008, a pilot education loan project was launched. However, neither its results not the problems revealed in the course of

¹ See, e.g., *Prognoz razvitiia vyshego obrazovaniia v Rossii: 2009-2011* [A Forecast of the Development of Higher Education in Russia: 2009-2011]. Edited by T.L. Kliachko. Moscow: MAKSS Press, 2009.

its implementation have as yet been made known. Thus, it appears that this proposal will also remain only wishful thinking.

So, our analysis of the professional education reforming measures put forth in Strategy-2020 demonstrates that they contain no innovations; instead, they may be regarded as an attempt to once again put on the agenda the unresolved issues that have emerged many years ago. It would help if some efforts were to be made in order to understand why these seemingly reasonable proposals could never actually be implemented. Thus it will become possible to identify those barriers and groups of interests that in reality are shaping up the development of the professional education system in the Russian Federation. ●

ESTIMATION OF REFORM OF THE MONEY ALLOWANCE SYSTEM FOR MILITARY SERVICEMEN

A.Privetkin

In late 2011, RF President D. A. Medvedev signed Federal Law No 306-FZ “On Money Allowances and Some Types of Benefit Payments for Military Servicemen”, which laid the foundation for introducing a new system of money allowances for military servicemen.

The adoption of Federal Law No 306-FZ “On Money Allowances and Some Types of Benefit Payments for Military Servicemen” can be regarded as the final stage of reforming the money allowance system, which was started in 2002, by coordinating the procedure for remunerating the military with that for remunerating civil servants¹. The size of salaries in the army was increased by more than three- or fivefold (*Fig. 1, 2, 3*)², that of money allowances for servicemen – two- to threefold (*Fig. 4*)³, and the size of military pensions was raised by two-and-a-half to two times on 2011. Besides, supplementary payments to military servicemen were properly arranged to conform with a special system, and the size of money allowances was structured accordingly.

The process of preparation and adoption of the laws⁴ gave rise to some hot disputes in the mass media and discussions by non-governmental organizations. An in-depth analysis of the draft laws was performed by experts and then published⁵. On the basis of the experts’ estimation, the draft laws were significantly revised. Thus, in particular, Article 2 of Federal Law No 306-FZ was augmented by Paragraph 8, whereby equal rights were granted to the military conscripts and contractees involved in emergency situations.

One special achievement that resulted from the adoption of the laws designed to socially protect the two most vulnerable categories of citizens: the families of perished servicemen and the servicemen who became disabled as a result of performing their duties during military service.

1 See RF President’s Decree No 249 “On the Measures designed to Improve the Money Allowance System for Military Servicemen” (introduced in 2002); Decree No 537 “On Money Allowances for Military Servicemen” (introduced in 2004); and Decree No 1258 “Issues of Money Allowances for Military Servicemen”.

2 The estimations do not include the military posts of the RF Federal Security Service (FSS), because by the RF Government’s Decree No 992 (introduced in 2011) the corresponding rates of pay are to be established separately; the military posts of the RF Ministry of Emergency Situations (MES); and some other state departments, for which the previously established rates of pay have been left unchanged. The “gaps” (*Fig. 2 and 4*) in the sizes of the rates of pay for military post are determined by the altered composition of the model list of military posts.

3 The charts are based on mean values, because the structure of payments and their rates depend on the serviceman’s place of service, military occupation specialty and some other parameters. The estimated military occupation specialties pay rates within the Central Apparatus in 2012 do not include the supplementary payments for special achievements during service (up to 100% and higher).

4 Law No 306-FZ “On Money Allowances and Some Types of Benefit Payments for Military Servicemen” (introduced in 2011) and Law No 309-FZ “On Introducing Alterations in Some Legislative Acts of the RF and Recognizing As Null and Void Some of the Provisions of Legislative Acts of the RF in Connection with the Adoption of the Federal Law “On Money Allowances and Some Types of Benefit Payments for Military Servicemen” and the Federal Law “On the Social Guarantees for the Personnel of RF Internal Affairs Agencies and the Introduction of Alterations in Some Legislative Acts of the RF”.

5 See, for example, Koriakin V. M. Novaia sistema denezhnogo dovol’sstviia voennosluzhashchikh: priobretenii i poteri. [The New Money Allowance System for Military Servicemen: Gains and Losses.] *Pravo v Vooruzhennykh Silakh – Voenno-pravovoe obozrenie*. [Law in the Armed Forces – Military Legal Review]. 2011. No 7. (URL: <http://www.voennoepravo.ru/node/4356>); Gosudarstvo opredelilo tsenu ratnogo truda. [The State Has Determined the Price of the Warriors’ Labor.] *Voenno-promyshlennyi kur’er* [The Military-Industrial Messenger]. No 14 (380). 13.04.2011; Slivkov A. Sistemno-pravovoi analiz proekta Federal’nogo zakona “O denezhnom dovol’sstviia voennosluzhashchikh i predostavlenii im otdel’nykh vyplat”. [A Systemic Legal Analysis of the Draft Federal Law “On Money Allowances and Some Types of Benefit Payments for Military Servicemen”]. *Pravo v Vooruzhennykh Silakh*. [Law in the Armed Forces]. 2011. No 8. P. 15-22; Tsymbal V. I. Denezhnoe neodovol’sstvie. [Money Displeasure]. *Nezavisimoe voennoe obozrenie* [The Independent Military Review]. 24.06.11. No 21; Vorobiev E. A., Tsymbal V. I. Dorogaia rossiiskaia armia – deshevle ne stanet, stanet effektivnee. [The Expensive Russian Army – It Will Not Become Cheaper, It will Become More Efficient]. *Nezavisimoe voennoe obozrenie* [The Independent Military Review]. 11–17.03.11. No 9; Tsymbal V. I., Privetkin A.A. Proval strategii sotsial’nogo razvitiia na finansovom fronte. [Collapse of the Social Development Strategy on the Financial Front]. *Nezavisimoe voennoe obozrenie* [The Independent Military Review]. 3–9.06.11. No 20. etc.

Their allowances were substantially increased, as well as the size of insurance payments in the event of death or disability of a military serviceman.

At the same time, the law not only failed to eliminate the drawbacks of the formerly existing money allowance system, but also created some new problems. Thus, it introduced the notion of military servicemen's money allowance fund in the law enforcement practice. However, this year's budget contains no mention of such a fund, and the mechanism for its introduction is not clear. The first analysis of the size of payments has revealed the fact that the posts of the commander of an army and the commander of a military district stand out of the general trend describing changes in the size of money allowances. This can be explained by a marked increase in the rates of pay for military post and the rates of pay for military rank. The posts of a department head and a head of a group listed next to the first two belong to the rank categories of "Colonel" and "Lieutenant Colonel", the corresponding rates of pay for military rank being far below the rates of pay established for the military ranks of "general" and "admiral" (*Fig. 1*).

The problems whose emergence could be predicted already at the stage of elaboration and adoption of those laws¹ indeed appeared after the laws and other related normative legal acts had been introduced. In particular, they gave rise to a new type of legal suits². As before, conscripts into the army were overlooked.

Our legislation that had already been rather tricky was further complicated by the new laws. Now, the social guarantees for active and retired military servicemen are governed by three different "military law fields":

- the first one is for the RF Armed Forces and the RF Ministry of Internal Affairs' Internal Troops, which are subject to the laws and other normative legal acts;
- the second one is for the engineering-technical and road-construction military formations under the federal bodies of executive authority and the rescue military formations of the RF Ministry of Emergency Situations, the RF Foreign Intelligence Service, the RF Federal Security Service's agencies, federal agencies for state protection, the federal agency for ensuring the mobilization readiness of the RF bodies of state authority, and the military divisions of the Federal Fire Service³;
- the third one is for the judges of the Military Collegium of the RF Supreme Court and military courts, military procuracy bodies and the military investigation agencies of the RF Investigation Committee, whose rates of pay for military post are established by special laws and for whom different pension sizes are envisaged⁴.

The social guarantees in that sphere of military law differ from the social guarantees established for other categories of citizens. For example, the sharp rise in the rates of pay resulted in the correspondingly increased ruble-denominated supplementary payments calculated as a percentage of a rate of pay for military post. As a consequence, the RF Government decided that the per cent rates for these supplementary payments to servicemen should be lowered by comparison with the per cent rates established for other categories of citizens⁵. The abundance of references to other norms and lack of proper explanations in the laws and decrees resulted in different money allowance levels being established for servicemen subordinated to different departments. This applies, for example, to the size of per annum material aid (in the amount of one money allowance rate in the RF Armed Forces, and from one to five money allowance rates in the Internal Troops of the RF Ministry of Internal Affairs), the supplementary payment for special service conditions,

1 Privetkin A.A., Simonovskii K. V. *Pravovye osnovy denezhnogo dovol'stviia voennosluzhashchikh: nastoiashchee i budushchee*. [The Legal Foundation of the Money Allowance for Military Servicemen: the Present and the Future] *Pravo v Vooruzhennykh Silakh*. [Law in the Armed Forces]. 2011. No 11.

2 See, for example, *Pensionnye l'goty, svyazannye s radiatsiei i "khimiei"*. [The Pension Privileges Associated with Radiation and "Chemistry"] (URL: <http://voensud.ru/pensions-f12/pensionnie-lgoti-svyazannie-s-radiatsiei-i-khimiei-t1502-700.html/>)

3 See Item 2 of Article 7 of Federal Law No 306-FZ (introduced in 2011); Items 4, 5 of Article 12 of Federal Law No 309-FZ (introduced in 2011).

4 See Item 6 of Article 12 of Federal Law No 309-FZ (introduced in 2011).

5 See the RF Government's Decree No 60 (introduced in 2012) "On Altering and Recognizing As Null and Void Some Legislative Acts of the RF Government Concerning Issues of Money Allowance and Pension Provision For Military Servicemen and the Personnel of Some Federal Bodies of Executive Authority, And on Recognizing Some Acts of the Union of SSR As Null and Void in the Territory of the Russian Federation".

and some other payments¹. It should be noted that the RF Ministry of Defense's Order No 2700 "On the Approval of the Procedure for Providing Money Allowances to the Servicemen of the RF Armed Forces" had not been registered with the RF Ministry of Justice by mid-March 2012, which means that, for a long period of time, the servicemen had been paid their money allowances without any definite legal grounds².

Thus, the social policy with regard to the military has been sketchy and poorly grounded, in spite of the substantially increased money allowances, especially the military occupation specialties pay rates and military ranks pay rates in the categories of "general" and "admiral". Instead of stabilizing the situation in society, it gave rise to some new legal distortions and imbalances in the structure of rights and social guarantees established for different categories of citizens, and ultimately to further escalation of social tension.

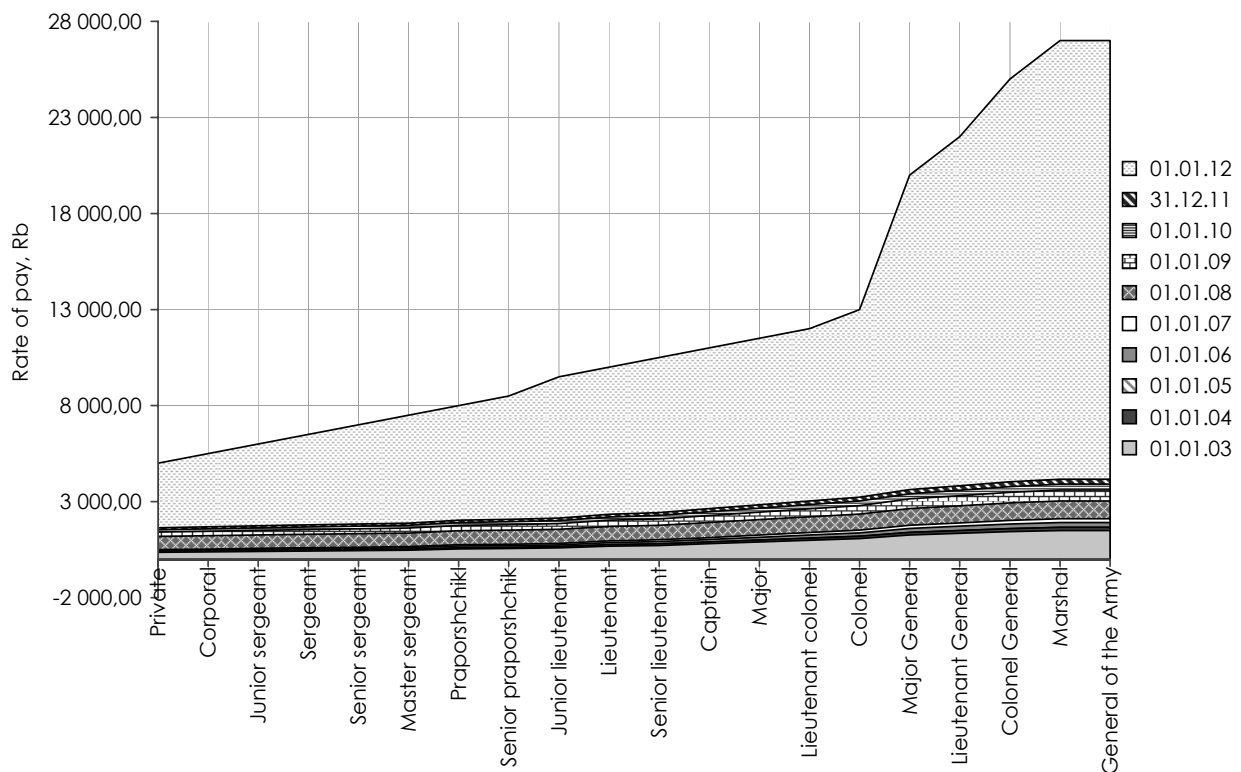


Fig.1. Movement of RF Military Ranks Pay Rates Over the Years of Reforming the Money Allowance stem

1 See: Order of the RF Ministry of Internal Affairs No 1265 (introduced in 2011) "On the Procedure for the Application, by the Contracted Servicemen of the RF MIA's Internal Troops, for Material Aid, and on the Size of that Aid"; Order of the RF Ministry of Internal Affairs No 1264 (introduced in 2011) "On the Approval of the Rules for the Issuance of the Monthly Supplementary Payment for Their Special Achievements"; Order of the RF Ministry of Internal Affairs No 2700 (introduced in 2011) "On the Approval of the Procedure for Providing Money Allowances to the Servicemen of the RF Armed Forces".

2 ConsultantPlus System (URL: <http://base.consultant.ru/cons/cgi/online.cgi?req=doc;base=LAW;n=126247>).

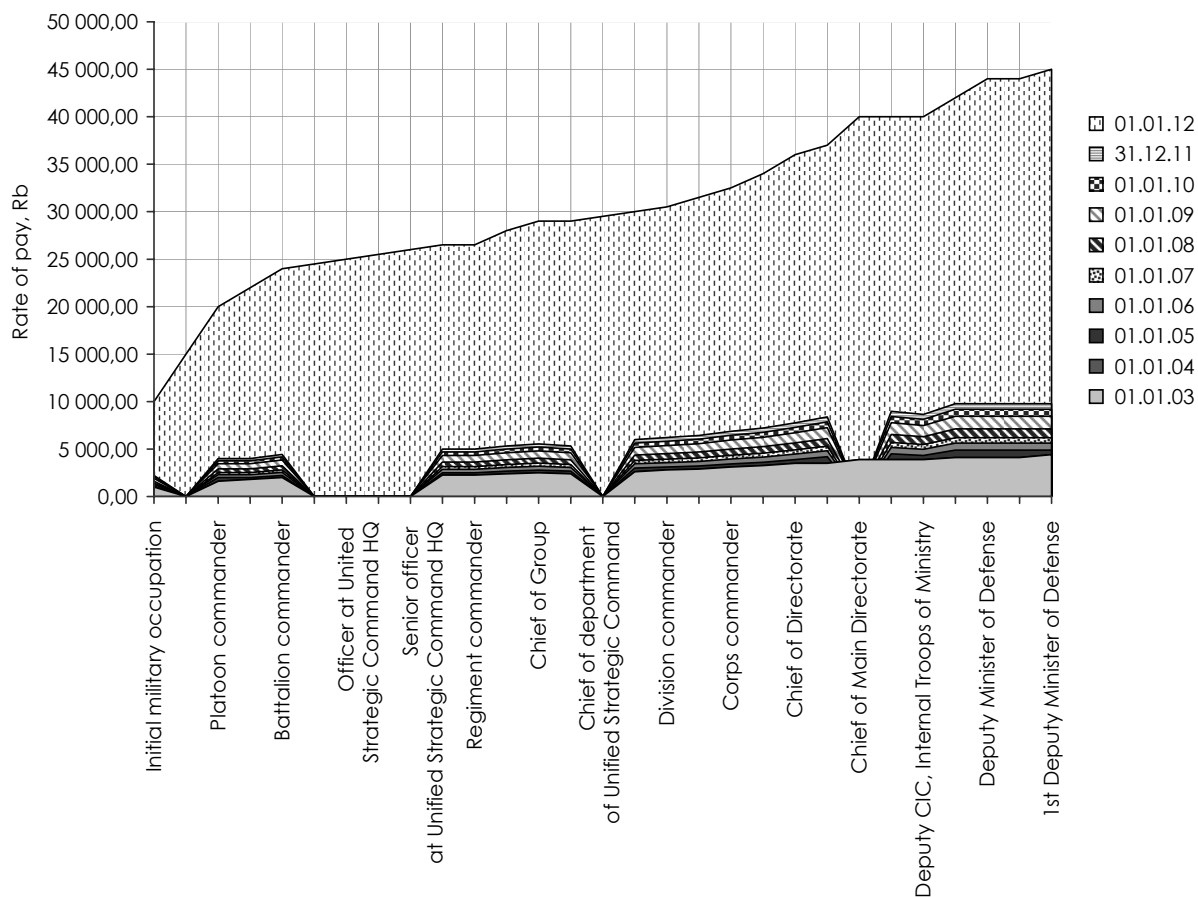


Fig.2. Movement of Military Occupation Specialties Pay Rates Over the Years of Reforming the Money Allowance System

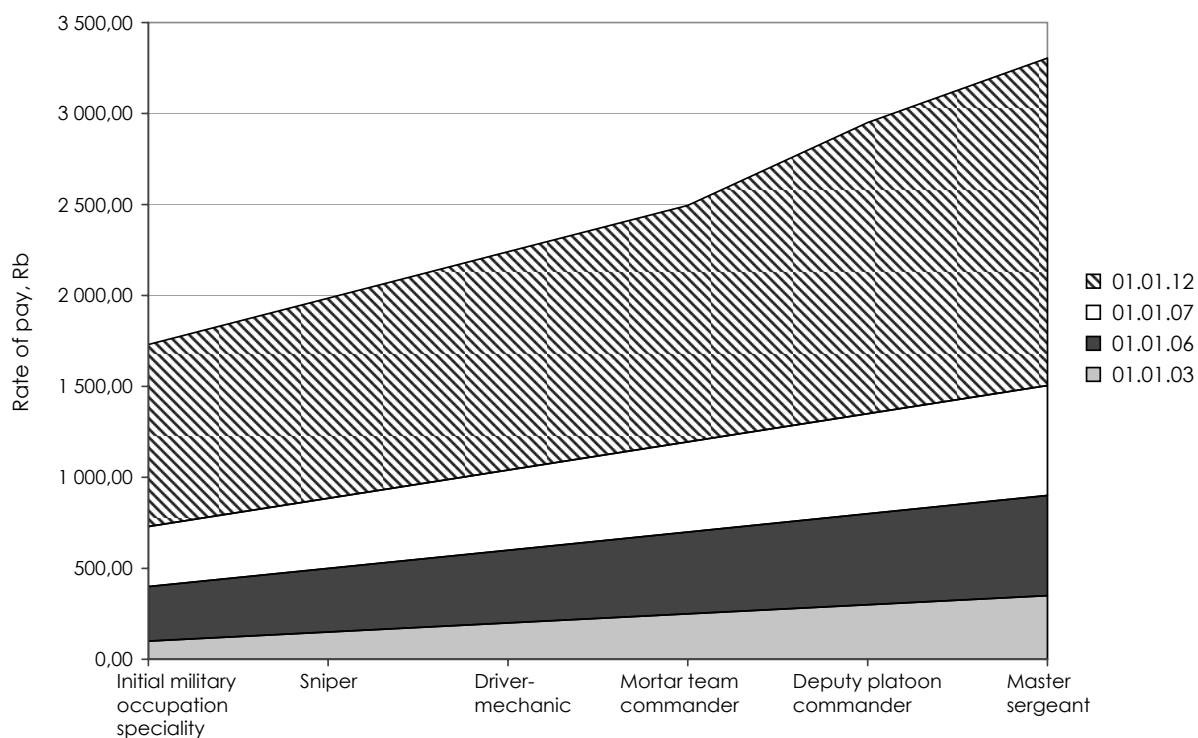


Fig.3. Movement of Military Occupation Specialties Pay Rates (for Conscripts) Over the Years of Reforming the Money Allowance System

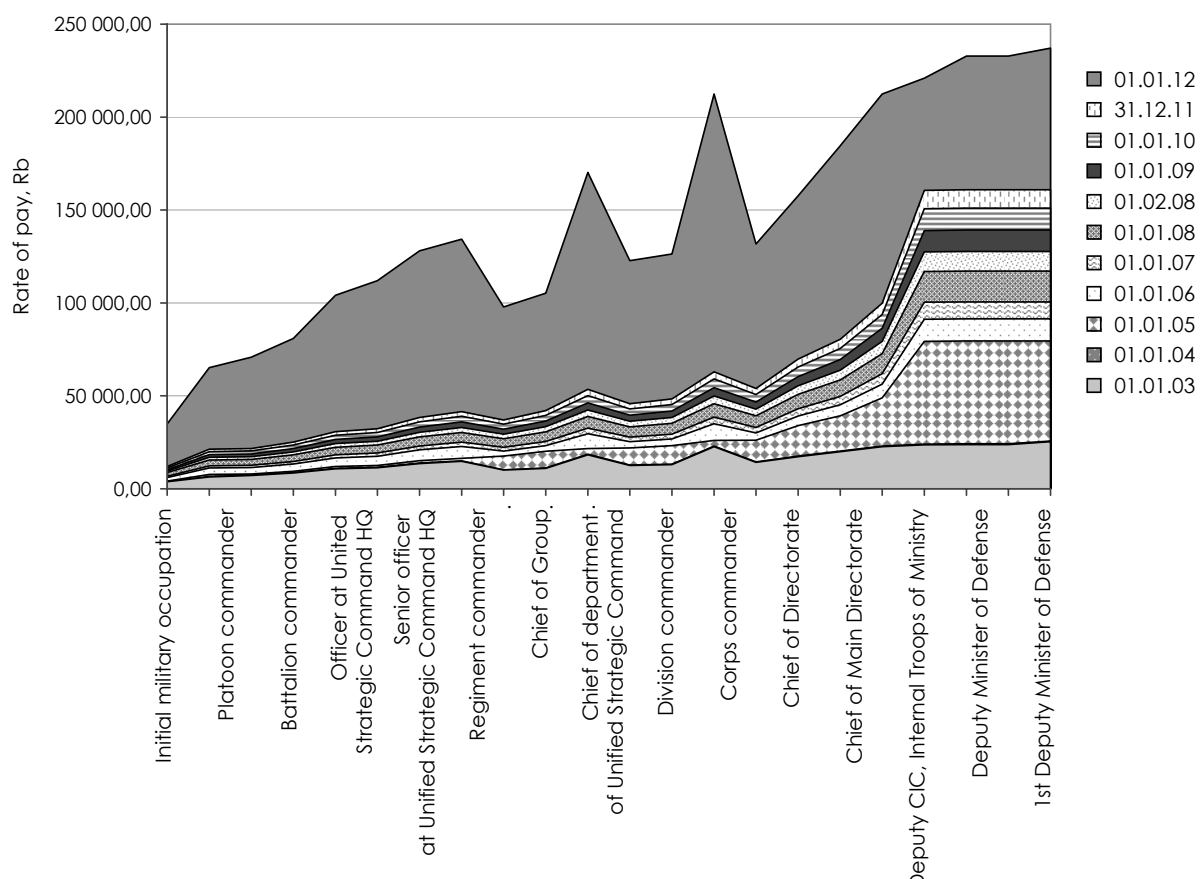


Fig.4. Movement of Money Allowance Size Over the Year of Reforming the System

AN OVERVIEW OF ECONOMIC LEGISLATION

I.Tolmacheva

In late February and March, a number of changes and amendments were introduced in Russian legislation. These were as follows: alterations concerning the creation, from 1 January 2013, of a specialized housing fund designed to provide housing for orphaned children and children without parental guardianship; alterations envisaging that the State should take upon itself the responsibility to provide assistance to citizens studying at non-state educational establishments at the expense of budget funds; alterations in the legal acts of the RF Government regulating the sale of state and municipal property; and alterations establishing criteria for the selection of recipients of government assistance, which is to be provided to socially or educationally important electronic mass media and to the mass media issuing publications for disabled persons.

I. Federal Laws of the Russian Federation

1. "ON THE INTRODUCTION OF ALTERATIONS IN SOME LEGISLATIVE ACTS OF THE RUSSIAN FEDERATION IN THE PART OF HOUSING PROVISION FOR ORPHANED CHILDREN AND CHILDREN LEFT WITHOUT PARENTAL GUARDIANSHIP" of 29 February 2012, No 15-FZ.

The Law establishes that the aforesaid categories of persons should be provided by regional authorities, on a one-time basis, with housing premises equipped with essential utilities, under a contract for renting a specialized housing premise for a 5-year term, in the procedure established in the legislation of the relevant subject of the Russian Federation. This provision should hold true for the aforesaid categories of persons on condition that they are not lessees, or members of the family of a lessee, or owners of a housing premise. It should also hold true in the event of the settlement of orphaned children in the housing premises previously occupied by them being impossible. In the event of exposure of some circumstances indicative of the necessity for these persons to be assisted in overcoming a difficult life situation, a rent contract for a new 5-year term may be concluded with the aforesaid persons on the basis of a decision made to this effect by the regional body of authority. The procedure for exposing such circumstances should be established by regional legislation.

Housing premises should be provided to the aforesaid categories of persons on their having attained the age of 18 years, and also in the event of their having acquired full legal capacity before having attained the age of majority. The Law establishes that housing facilities should be provided to the aforesaid persons in the form of dwelling houses or apartments fit for residence in accordance with the conditions of a given locality, in accordance with the norms established by regional legislation. The aforesaid persons are not to be evicted from specialized housing premises without being granted another housing premises equipped with essential utilities and situated within the boundaries of the same locality. The right to be provided with housing premises is to remain vested with the persons who have belonged to the category of orphaned children and children left without parental guardianship and have attained the age of 23 years until they are actually provided with housing premises.

2. "ON THE INTRODUCTION OF ALTERATIONS IN THE LAW OF THE RUSSIAN FEDERATION "ON EDUCATION" AND ARTICLE 26 OF THE FEDERAL LAW "ON THE GENERAL PRINCIPLES OF ORGANIZATION OF THE LEGISLATIVE (REPRESENTATIVE) AND LEGISLATIVE BODIES OF AUTHORITY OF SUBJECTS OF THE RUSSIAN FEDERATION" of 28 February 2012, No 10-FZ.

The newly adopted Law establishes the legal grounds for allocating funds, at the expense of relevant budgets, to non-state educational establishments for the purpose of covering their costs incurred to provide pre-primary-, primary general-, basic general-, and secondary general education. The Law envisages that funds should be allocated to cover their teaching personnel salary costs and the costs of acquiring textbooks, training aids, including visual aids, technical means of education, games, toys and other expendable materials. Funding is to be allocated in the

amount that should correspond to the rates set for the funding of state educational establishments. It is noteworthy that funds should be provided to non-state educational establishments irrespective of whether or not they have been granted State accreditation.

The adoption of the Law was determined by the necessity of creating equal opportunities in the provision of pre-primary and general education services for organizations and individual entrepreneurs engaged in rendering educational services to the population.

II. Decree of the Government of the Russian Federation

“ON THE INTRODUCTION OF ALTERATIONS IN SOME ACTS OF THE GOVERNMENTS OF THE RUSSIAN FEDERATION CONCERNING THE ISSUES OF PRIVATIZATION OF STATE-OWNED AND MUNICIPAL PROPERTY” of 3 March 2012, No 178.

The Decree introduces alterations to the acts of the RF Government regulating the sale of state-owned and municipal property via initial public offerings, sales without price announcement, tenders and auctions.

As the property complexes of unitary enterprises are excluded from the provisions regulating the above-listed methods of privatization, these provisions should not be extended to privatization of state-owned and municipal enterprises. It should be reminded that previously the Federal Law “On Privatization of State-Owned and Municipal Property” was amended by the inclusion therein of yet another method of privatization of small-sized state-owned and municipal enterprises – their transformation into limited-liability societies, which also has effects on the corresponding procedures.

Also, in accordance with the alterations introduced to the Federal Law “On Privatization of State-Owned and Municipal Property”, the timelines for the implementation of some procedures concerning the sale of state-owned and municipal property via auctions that were previously expressed in calendar days, now are to be expressed in working days. In some cases, the duration of these timelines is changed. Thus, for example, a contract with the winner of an auction should be concluded no earlier than 10 working days and no later than 15 working days after the day of summing up the auction, instead of within 5 working days after the day of summing up the auction, as it was previously established. The timelines for some procedures to be implemented within the frameworks of the other methods of privatization belonging to the aforesaid category; it is also established that these timelines are to be based on working days instead of calendar days (in some cases – the other way round).

The Decree introduces some clarifications with regard to the procedure for informing related persons on the forthcoming instances of privatization of state-owned and municipal property by means of posting the relevant announcements on the Internet.

III. Directions, Letters, Orders

1. Order of the RF Federal Agency on Press and Mass Communications (Rospechat) “ON THE CONFIRMATION OF CRITERIA FOR THE SELECTION OF RECIPIENTS OF GOVERNMENT ASSISTANCE IN THE FIELD OF MASS MEDIA” of 27 February 2012, No 42.

The Order establishes criteria for the selection of recipients of government assistance provided to socially or educationally important electronic mass media and to the mass media issuing publications for disabled persons. Some of the newly established criteria for electronic mass media are as follows:

- a foreign stake in an organization should not exceed 50 percent;
- an organization should have a state registration certificate for its mass media organ;
- an organization should submit, to a relevant authority, a thematic concept of the project organization, which must include a substantiation of its social importance, a characteristic of its planned targeted audience, and an indication as to the degree of the project’s readiness.

In order to be entitled to government assistance, mass media engaged in the issuance of publications for disabled persons should comply with a number of criteria, including:

- to be in circulation for no less than one calendar year;
- not to be an advertizing or erotic publication;
- not to have religious organizations and political movements among its founders;
- to be printed in a Russian printing house, and to be predominantly distributed in the territory of the Russian Federation. ●

REVIEW OF MEETINGS OF THE GOVERNMENT OF THE RF IN MARCH 2012

M.Goldin

In March 2012, discussed at meetings of the Government of the Russian Federation was the issue of amendment of the federal draft law on Amendment of the Federal Law on State Support of Youth and Children Public Associations which realize their right to exemption from payment of insurance contributions in favor of students of educational establishments for their work in student labor teams as well as a number of statutory acts which introduce the new institute of protection of the rights of minors – a social patronage.

On March 1, at the meeting of the Presidium of the Government of the Russian Federation the draft federal law on Amendment of the Federal Law on State Support of Youth and Children Public Associations was discussed.

By Federal Law No. 234-FZ of July 18, 2011 on Amendment of Article 9 of the Federal Law on Insurance Contributions to the Pension Fund of the Russian Federation, the Fund of Social Insurance of the Russian Federation, the Federal Fund of Mandatory Medical Insurance and Territorial Funds of Mandatory Medical Insurance, payments and other remunerations carried out in favor of students of educational establishments for their work in student labor teams included in the federal or regional register of youth and children associations that have state support are excluded from the insurance contributions base.

However, at present realization of the right to the above exemption is complicated due to the fact that regulatory statutory acts of the Russian Federation and constituent entities of the Russian Federation do not provide for the procedure for formation of regional registers of youth and children associations which have state support.

In addition to the above, the existing wording of Federal Law No. 98-FZ on State Support of Youth and Children Public Associations does not provide an unambiguous answer to the question to what youth and children public associations state support can be given in accordance with that law.

For that reason, the amendments introduced provide for a clear division of powers between the Russian Federation and constituent entities of the Russian Federation as regards the issues of state support of youth and children associations: state support to all-Russian and international youth and children associations is given in accordance with Federal Law No.98-FZ of June 28, 1995, while the issues of state support of interregional, regional and local associations and issues of maintaining of regional registers of youth and children associations that receive state support are regulated by the legislation of legal entities of the Russian Federation.

The draft law was approved and introduced in the State Duma of the Russian Federation.

On March 15, at the meeting of the Presidium of the Government of the Russian Federation the draft federal law on Introduction of Amendments to Individual Statutory Acts of the Russian Federation as Regards the Issues of Fulfillment of Social Patronage and Activities of Guardianship Agencies were discussed; the above amendments are to introduce a new institute of protection of the rights of minors – a social patronage. The purpose of establishment of the new institute consists in upgrading of the mechanisms of securing of the right of a child to live and be brought up in a family and prevention of a loss of parental care by children living in families which are in a socially dangerous situation.

In Federal Law No.120-FZ of June 24, 1999 on the Principles of the System of Prevention of Child Neglect and Juvenile Offense, the term of a “social patronage” is defined as a form of fulfillment by guardianship agencies of individual preventive measures aimed at prevention of a loss of parental care by means of rendering to a family which is in a socially dangerous situation social, pedagogic,

medical and psychological aid in upbringing, development, realization and protection of the rights of minors.

Also, amendments specify the term – “a family which is in a socially dangerous situation”. In addition to other evidence, the following was established: creation by parents or other legal representatives of minors through their actions (inaction) of conditions which prevent normal upbringing and development of minors.

A social patronage will be established by guardianship agencies provided that on the basis of the results of examination of conditions of living, upbringing and development of a minor it has been established that parents or other legal representatives of a minor who is in a socially dangerous situation create by their actions (inaction) conditions which prevent normal upbringing and development of a minor and (or) have an adverse effect on his/her behavior.

In addition to the above, a social patronage can be imposed by a court of law in considering of cases as regards limitation or deprivation of paternal rights if there is no sufficient evidence to limit or deprive parents (one of the parents) of parental rights.

The work on social patronage will be carried out by guardianship agencies on the basis of statements by those agencies on the need to impose a social patronage and plans for organization of a social patronage approved by the above agencies. As a social patronage is kind of interference in a family, it can be carried out only by agreement of parents (legal representatives) and with taking into account the opinion of a minor who reached the age of 10.

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

REVIEW OF REGULATORY DOCUMENTS ON TAXATION ISSUES IN FEBRUARY–MARCH 2012

L.Anisimova

After the elections of the President of the Russian Federation, the economic community faced the dilemma of defining of practical steps which needed to be taken in the near future in the sphere of public finances due to a need to optimize the system of mandatory payments. The time left before the inauguration of V. Putin, new President of the Russian Federation should be used as much efficiently as possible for development and approval of decisions whose accelerated realization will be carried out by the new President and Government of the Russian Federation.

At the meeting on economic issues held on March 6 by D. Medvedev, President of the Russian Federation with participation of the ministers of the economic and financial block, a principal decision on upgrading of the taxation system was taken: the rates on VAT, profit tax and individual income tax would not change. There is no final decision so far on the rate of insurance contributions. According to Presidential Aide A. Dvorkovich¹, such a decision may be taken by the new government. In addition to that, he explained that those decisions which were to be taken this year would be formed for the prospect of the next five to seven years.

In our view, it would be highly expedient to take into account in that work the conclusions of the Strategy-2020 developed by experts and made public in March 2012. The above Strategy proposes a well-defined plan of transformation of the Russian economy from the predominantly raw-material model which was formed in the past few years to the industrial and post-industrial one.

1. Strategy-2020 has determined the general lines of the required reforms which can shift the Russian economy towards a comprehensive investment development and formulated steps and actions which it is expedient to refrain from in order to achieve the Strategy's goals. In particular, such inadmissible decisions include raising of a tax burden on business. Though agreeing in general with the stance of the authors of the Strategy, as it was seen above government officials did not make a final decision on refusal to raise insurance contributions to state extrabudgetary funds despite the fact that that issue is of key importance to business. As long as that issue remains unsolved, investment uncertainty will prevail in the economy. Raising of the level of mandatory payments in the price of goods has become a main factor behind noncompetitiveness of the domestic economy which is not related to production and sale of hydrocarbons and withdrawal of business from the Russian jurisdiction abroad or in the shadow.

The architects of the Strategy and prominent economists advised the Government of the Russian Federation to take resolute measures to reduce the deficit of the Pension Fund of the Russian Federation not through higher taxation, but by means of raising of the pension age to 63 years, abandoning schemes of early retirement in a number of industries and jobs, giving up payment of pensions to working pensioners², introducing of an additional contribution in the amount of 10–15% with deduction of it directly from workers' wages and salaries³ and other. It is known that newly elected President of the Russian Federation V. Putin is against raising of the pension age⁴. However, according to experts, nothing can be done without radical reforms to preserve the macroeconomic stability which he (the newly elected President of the Russian Federation) defined as an "absolute priority"⁵ and put the economy on the path of evolutionary development. It would be very difficult to maintain the macroeconomic stability because it cannot depend entirely on the

1 O.Tanas. VAT Has Failed to Receive Addition, Web-site Gazeta.ru of March 6, 2012.

2 L.Polozov, E.Tropova How Russia can Escape a Trap of Old Age (preview of the article by A. Kudrin, E. Gurvich in the *Voprosy Ekonomiki* Journal), site bfm.ru of 13.03.2012.

3 "Yevgeny Yasin: It is important to introduce mandatory pension contributions in the amount of 10%–15% of the wages". Site: slon.ru, 21.03.2012.

4 "Peskov: Putin is against raising of the pension age and that is to be taken into account". Site ria.ru 26.03.2012.

5 "Putin: Compliance with macroeconomic indices remains a priority" 22.03.2012 site vz.ru

cost of hydrocarbons. With Russia's accession to WTO as it was shown in the previous review the Russian government's abilities to cover expenses by means of direct withholding of a portion of the natural resource rent by means of tariffs and regulation of prices are seriously limited. In addition to the above, difficulties will arise if market is influenced by means of administrative measures. As soon as the Ministry of Economic Development has announced as a measure of support of the domestic market an intention to carry out public procurement from Russian commodity producers, the counter reaction of the governments of developed countries (Russia's future WTO partners) was immediate; they informed that they were considering an option of special measures to be introduced to close an access to the system of their own public procurement for commodity producers from the countries where the above restrictions were applied. In such a situation, the Russian economy will manage to withstand the competition only in case there are long-term internal incentives for development. At present, the main competition on the global market is carried out for highly-skilled personnel which is capable of developing and employing new technologies. To ensure development of the Russian economy, it is important to shift the core of the socioeconomic budgetary policy towards support of younger generations: development of applied, modular and multistage education which permits to carry out fast retraining of labor resources and adapt them flexibly to those actual business conditions which they will face in the WTO frameworks. Simultaneously, it is necessary to ensure such a situation that investment capital would come to those places where skilled personnel can be found and not otherwise. That is a principal conclusion of the Strategy and one cannot, but agree with it. Unfortunately, in Russia the social policy of late has resulted in soaring growth in tax burden on the business which situation triggered a large-scale flight of capital. To change the situation, the government has to give up excessively high obligations as regards social protection of the population, restructure them and simultaneously reduce the tax burden on the business (primarily it concerns insurance contributions). The need to reform the system of pension insurance was discussed in the most explicit way in the article of A. Ulyukaev, First Deputy of the Central Bank of the Russian Federation who showed that in the present-day market economy the pension fund was actually integrated into the budget as an integral part of it, while the state pension which was accrued for decades could not become an equivalent to the lost earnings and a safety net against poverty due to unstable market situation and adverse demographical trends¹. The above conclusion can be confirmed by the following facts. The generations whose products of work were appropriated by the state for decades and to whom the state may actually have some paternalistic obligations as regards support of them in their old age are passing gradually away. The state has no individualized social obligations to people who work now as they do not necessarily work for the state – the may work for foreign companies and other people, run their own business both in Russia and abroad and at the same time employees of Russian companies may be foreign nationals and etc. All those factors point to the need that people themselves have to form more flexible schemes to ensure their well-being in the old-age. In addition to that, young generations will be prepared to ensure the current provision of senior generations only to such an extent as permits them to receive competitive income and wages. If due to high tax burden investments leave the country, so will do young people. Such is an objective reality.

2. Apart from global problems, in the sphere of reforming of mandatory payments there are topical issues which need to be solved or, otherwise, they may affect to a great extent budget revenues of different levels. One of such issues consists in ambiguity (in terms of taxation) of the definition "joint ownership" with regard to the individual property tax. Letter No. 03-05-01/05 of February 2, 2012 and Letter No. BS-4-11/2888 of February 21, 2012 provide an explanation on the issue of taxation of real property which is in joint ownership of spouses without assignment of shares. That issue is topical and controversial now, but it may become ever more burning in case of a transfer to the property tax and replacement of the BTI cost evaluation by a cadastral one (it is believed that due to such a transfer the cost of the real property will be much higher).

Documents regulating the legal frameworks of deal with real property are as follows: the Civil Code of the Russian Federation, the Family Code, Federal Law No. 122-FZ of June 21, 1997 on

1 A. Ulyukaev. What is the Pension, Site: vedomosti.ru of 11.03.2012.

State Registration of Title to Real Property and Transactions with It (as in force on December 7, 2011, No.417-FZ); Guidelines for the Procedure for State Registration of a Joint Ownership Title to Real Property (approved by Order No. 70 of March 25, 2003 of the Ministry of Justice) and Resolution No. 219 of February 18, 1998 of the Government of the Russian Federation (as in force on November 22, 2006) on Approval of Rules for Maintaining of the Unified State Register of Titles to Real Property and Transactions with It.

The problem consists in the fact that the common joint property is sometimes qualified by tax authorities for taxation purposes as a “private property”¹ of only one of the spouses. However, such a qualification does not comply with the legislation. Such a situation occurs due to technical failures in the process of registration of real property². In accordance with the Guidelines, in registration of the title to property all the possessors of the right should be listed in a specialized register; in such a case the tax authority receives the information on all the owners and is able to determine correctly tax liabilities and rights of each owner and calculate the amount of the tax. If for some reasons, for example, in case of a purchase of the joint property prior to coming into effect of above-mentioned Law No 122, only one person who directly entered into the agreement on purchase of the real property was specified in the register (the family legislation provides for conclusion of such an agreement on behalf of only one member of the family), tax officials will not simply “see” other owners of that property. If the “inexplicit” owner finds it advantageous to declare about himself as a taxpayer (for instance, in case of securing by an entrepreneur of a property tax deduction if the property has been registered in the name of his wife), he will assert his rights in court and, undoubtedly, succeed³. In a situation where the joint property is registered in the name of a person who has tax privileges for the purpose of reduction of the total tax burden, tax authorities will sooner use not quite a legitimate but proven scheme of recognition for taxation purposes of such a real property as a “private property” of the person who was specified in the registration certificate, rather than turn to offices of civil registration or notarial offices to find out the number of actual owners and determine their tax liabilities. As a result, budget revenues will turn out to be understated.

As it was stated above, the problem of tax evasion under the above scheme has existed not for a single year. Judging by the explanations provided by the Ministry of Finance of the Russian Federation and the Federal Tax Service of Russia, no solution has been found so far.

3. Letter No. ED-4-3/4543 of March 19, 2012 of the Federal Tax Service of the Russian Federation explains the procedure for reducing the cost of the patent by the amount of insurance contributions paid by payers of insurance contributions who do not make disbursements and other remunerations to individuals.

Amendments introduced into the Tax Code of the Russian Federation by Federal Law No. 338-FZ of November 28, 2011 permit taxpayers – individual entrepreneurs who do not pay remuneration to individuals – to reduce the cost of the purchased patent by the amount of insurance contributions which does not exceed the cost of the insurance year⁴. It is to be noted that the ultimate standard limitation on reduction of the tax (no more than 50%) set for all other payers of the patent is not applied to such individual entrepreneurs.

Though it is obvious that the ultimate size of the granted privilege – within the limits of the cost of the insurance year – is meant here, tax authorities refer in their explanations to the fact that within the limits of the same chapter (Chapter 26.2 of the Tax Code of the Russian Federation) the general procedure for a switchover to the patent form of taxation is established. With a switchover to the patent, the taxpayer has to pay 30% of the cost of the patent within 25 days after such a switchover and then pay the rest. It is to be noted that the general procedure

1 See Letter N BE-9-04/132 of October 13, 2006 of the Federal Tax Service of Russia.

2 See N. Artemeyeva Joint Ownership of Spouses: Topical Issues of Legal Regulation and Practice of Application. Published in KonsultantPlus.

3 See Resolution N 8184/07 of November 27, 2007 of the Higher Court of Arbitration.

4 Individual entrepreneurs pay insurance contributions on the basis of the cost of the insurance year determined as such a product of the minimum wage set by the federal law as of the beginning of a fiscal year for which insurance contributions are paid and the tariff of insurance contributions to the relevant state extrabudgetary fund as is increased 12 times over (Article 13 of Federal Law No. 212-FZ of July 24, 2009).

for a switchover to the patent provides for payment of insurance contributions out of the outstanding portion of the patent. Hence, it is inferred by tax authorities that once insurance contributions are paid out of the so-called “outstanding portion of the patent” then the privilege granted to individual entrepreneurs can be applied only to the same “outstanding portion of the patent”. So, they believe that as regards individual entrepreneurs who do not pay remuneration to individuals the granted privilege cannot exceed the minimum amount of the following two ones: either the cost of the insurance year or the two-thirds of the cost of the patent (that is, “the outstanding portion of the patent”).

It is possible to understand tax authorities: in situations where the legislation permits ambiguous interpretation of taxation issues they should be guided, primarily, by the interests of the budget, but it is believed that the final decision on that specific controversial issue will eventually be taken by a court of justice.

4. The issue of application of property tax deduction in respect of property bought by parents (guardians) in ownership of their non-adult children was positively solved by the Highest Court. By Resolution No. 6-P of March 1, 2012 of the Constitutional Court of the Russian Federation with regard to the case of checking compliance of Article 220 (2), (2) of the Tax Code of the Russian Federation with the Constitution in connection with the complaint of the Human Rights Commissioner, the right of a parent to a nonrecurring tax deduction was confirmed. Earlier, a similar decision was taken by the Constitutional Court of the Russian Federation in respect of the right to a property tax deduction in case of a purchase by parents of a real property in joint ownership with their children.

5. Record of December 7, 2010 on Amendment of the Agreement of December 5, 1998 between the Government of the Russian Federation and the Government of the Republic of Cyprus on Double Taxation with Regard to Taxes on Income and Capital was ratified by Federal Law No. 9-FZ of February 28.

The above Record sets such mirror rules for the Russian Federation and the Republic of Cyprus as would contribute to binding of tax revenues to the budget of that state whose territory is the actual source of origin of income and property of persons who are officially registered in the territory of the other state. In terms of the budget of the Russian Federation, terms of taxation as regards persons who take advantage either of activities in the Russian Federation or property situated in the Russian Federation and use the offshore territory as their place of residence are tightened.

Important novelties include an obligation to have a permanent representative office registered, that is, establishment a taxpayer within the frameworks of the jurisdiction of Russia if over 50% of the income of the person originates from activities in the territory of Russia.

Russia will be deemed too a source of origin of income if investments in property situated in Russia are mediated by agreements on trust management, participation in mutual funds and other forms of joint investments.

The notion of the “dividends” corresponds to that interpretation which is given in the tax legislation of the Russian Federation. Within the frameworks of the Agreement, made equal to dividends are payments on shares of mutual funds and other forms of joint investments. The income received from assignment of such shares and similar rights in which over 50% of the cost is represented by real property is taxable in the state where the real property is situated (that is a very important norm to the Russian Federation and it is aimed at prevention of a tax-free withdrawal of capital from its territory. By virtue of that norm, the cost of a share is specified with a market value of the real property).

In the Record, such obligations of the Parties are specified as are related to carrying out by competent authorities of both the countries of mutually conciliation procedures and negotiations, including those in controversial situations related to identification of the effective place of management of a legal entity and other technical issued as well.

6. In our opinion, the position of the Ministry of Finance of the Russian Federation as regards recognition as a taxable income the shares received by individuals-taxpayers at increase in the

authorized capital of a joint-stock company at the expense of the retained profit is a controversial one. That position was set out in Letter No. 03-04-05/3-227 of February 27, 2012 of the Ministry of Finance of the Russian Federation. According to the Ministry of Finance of the Russian Federation, only those incomes in the form of additional shares or other interests received as a result of reappraisal of fixed capital assets (funds) are regarded as incomes which are not subject to taxation because they are plainly specified in Article 217 (19) of the Tax Code of the Russian Federation. With an increase in the authorized capital of a company, the shares which were additionally distributed among shareholders through capitalization of the retained profit are qualified by the Ministry of Finance of the Russian Federation as income in kind which is subject to payment of the individual income tax.

In support of its position, the Ministry of Finance of the Russian Federation referred to Ruling No. 81-O of January 16, 2009 of the Constitutional Court of the Russian Federation. However, in the above Ruling the Constitutional Court of the Russian Federation did not set its goal to determine the size of the income which arose with receipt of shares as a result of capitalization of the retained profit, nor did it qualify the receipt of shares through such a capitalization as income in kind. The Constitutional Court of the Russian Federation considered a plaintiff's application as regards the issue of double taxation and did not agree with it. Other courts specified in the Ruling of the Constitutional Court of the Russian Federation (Vyborgsky District Court of St. Petersburg and its court of cassation) confirmed – according to the text of the Ruling of the Constitutional Court of the Russian Federation – the propriety of inclusion of the disputed amount (the nominal value of the increase in the authorized capital as a result of capitalization of the retained profit) into the income which was subject to payment of the individual income tax.

The problem consists in the fact that the cost of a share is determined on the basis of the value of the net assets of a joint-stock company per one share rather than on the basis of the par value of the share. So, in case of capitalization of the retained profit the income of individuals cannot be calculated on the basis of simple totaling of par values of new shares or growth in par values in case of replacement of shares. If in case of capitalization the value of the company's net assets has not changed no taxable income of an individual will arise. As regards entities, in accordance with Article 251 (1) (15) their income from capitalization of the retained profit is exempted from payment of the profit tax. A shareholder-entity's profit tax base is calculated as a difference between the purchase price and the selling price of a share. The shares received as a result of capitalization of the retained profit are accounted for in off-balance-sheet accounts of a shareholder-entity. ●

CHANGES IN THE REGULATORY STRUCTURE OF THE BUDGETARY PROCESS

M. Goldin

The rules for restructuring of debts by regional and municipal public institutions to the budgets of all the state extrabudgetary funds have been approved by the Resolution of the Government of the Russian Federation.

Resolution No. 176 of March 3, 2012 of the Government of the Russian Federation on Approval of the Rules for Restructuring of Debt which Arose Prior to January 1, 2001 with Public Institutions of Constituent Entities of the Russian Federation and Municipal Institutions as of January 1, 2010 as Regards Insurance Contributions to the Pension Fund of the Russian Federation, the Social Insurance Fund of the Russian Federation, the State Employment Fund of the Russian Federation, the Federal Compulsory Medical Insurance Fund and Territorial Funds of Compulsory Medical Insurance, as Well as Fines and Penalties Accrued on the Above Debt.

In accordance with Paragraph 2 of the Rules for Restructuring of the Debt, subject to restructuring are the following:

- debt on insurance contributions – no more than the size of the debt as of the first day of the month in which an application for restructuring of the debt on insurance contributions and accrued fines and penalties was submitted;

- debt on fines and penalties accrued on the debt on insurance contributions – on the basis of the accounting data of tax authorities as of the day of passing of the decision on debt restructuring.

In accordance with the above Rules, the right to debt restructuring is reserved with a legal successor (successors) of the restructured institution. It is to be noted that restructuring can be carried out only once.

In addition to the above, the amount which is subject to debt restructuring does not include the debt which is deferred for collection in accordance with the earlier made decision whose term of validity did not expire on the first day of the month in which an application for debt restructuring was submitted.

Restructuring of the debt is carried out by decision of tax authorities and provided that the entity has made current tax payments in full within two months which preceded the month in which an application for debt restructuring was submitted and insurance contribution payments to mandatory pension insurance, compulsory medical insurance and compulsory social insurance for disability and due to maternity for 2010 and 2011 target years and periods under review which preceded the month in which an application for debt restructuring was submitted.

Restructuring is carried out by installment payment of the debt on insurance contributions within the period of maximum six years and, by installment payment of the debt on fines and penalties within the period of four years after payment of the debt on insurance contributions (within ten years in total).

Restructuring of the debt is carried out in accordance with such a schedule approved in respect of each institution as provides for payment on a quarterly basis of equal portions to settle the restructured debt on insurance payments to each state extrabudgetary fund and the restructured debt on fines and penalties.

From the day of passing by a tax authority of a decision on restructuring of the debt, accrual of fines and penalties on the amount of the debt on insurance contributions is not carried out. ●