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## **RUSSIAN ECONOMIC DEVELOPMENTS**

### **No.6 2013**

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## RUSSIA'S ECONOMY IN MAY 2013: PRELIMINARY DATA AND MAJOR TRENDS

K.Rogov

### ***Political Background: The PM's Top Guns Are Put in the Cross Hairs***

*Russia's political background in May was determined by the mounting tension in the top echelons of the political bureaucracy. The sacking of Deputy Prime Minister Vladislav Surkov – one of the authors of the soft authoritarianism of the 2000s – was a manifestation of yet another personnel reshuffle in Russia's corridors of power.*

*Surkov's dismissal from his post was preceded by the activities of the Investigation Committee of the Russian Federation, which looked into the financial operations of the Skolkovo Foundation supervised by Surkov (the Foundation had been created on the then RF President Dmitry Medvedev's initiative), and a public polemic between the Deputy Prime Minister and representatives of the Investigation Committee. The information leaked on the incident with another of Medvedev's cronies – Deputy Prime Minister Arkady Dvorkovich, who for some time had been prevented by security personnel from attending a meeting at the Russian president's Sochi residence Bocharov Ruchei, was also viewed as a demonstration of mistrust towards the key figures in the Medvedev Government. Also in May, Vladimir Putin canceled Russia's joining the international Open Government Partnership (OGP). Like the Skolkovo Foundation, the idea of participating in the Open Government Partnership was one of Medvedev's major projects designed to create around him a specific political infrastructure.*

*And finally, in late May, rector of the Moscow New Economic School Sergei Guriev, one of the leading Russian economists, known to be close to Arkady Dvorkovich and Medvedev's Open Government, left Russia and declared that he was not coming back because of the pressure exerted on him by state prosecutors in connection with the Yukos affair. This investigation was launched against the panel of experts that had conducted an independent probe of the Mikhail Khodorkovsky affair on Dmitry Medvedev's order, and provided evidence that the charges brought against Khodorkovsky in the 'second Khodorkovsky case' had been unsubstantiated. The prosecution was trying to find evidence that would lead to obstruction of justice charges against the experts (the offence is covered by Article 294 of the Criminal Code of the Russian Federation), and so since January 2013 they had been interrogating the panel's members and confiscating documents from their offices.*

*All these events point to a major revision of the 'political legacy' of former RF President Dmitry Medvedev, who – at least verbally – proclaimed the necessity of liberalizing Russia's political and economic life, and also spoke of the final takeover of the initiative in the field of domestic politics by that part of the political bureaucracy which is usually called by experts 'the power structures'. Another manifestation of the same political course was Vladimir Putin's refusal to grant amnesty to businessmen imprisoned for the so-called 'economic crimes', and his rejection of the amnesty draft developed by the business community and put forth by Boris Titov, the Presidential Plenipotentiary for protecting businessmen's rights.*

*An important feature of the political background has remained the ongoing trial in Kirov against the opposition activist Alexei Navalny; another one is the opening of hearings into last year's Bolotnaya Square riots. Meanwhile, to mark the first anniversary of the riots, on 6 May the opposition held a 'meeting of solidarity with the 6 May prisoners' which drew approximately 30,000 people according to independent sources, or 8,000 according to the official police records – which points to a rather high level of opposition activist mobilization in Moscow.*

### ***Macroeconomic Background: Inflation against the Backdrop of Stagnation***

*After their April decline, in the first ten days of May the futures prices for oil began to rise, thus putting off the danger of their possible drop below \$ 100 per barrel; the current prices have stabilized within the interval of \$ 101–104 per barrel (ICE, Brent). On the one hand, this trend con-*

tributed to a revival of foreign investors' interest in short-term investment on the Russian market, which manifested itself in an inflow of money into the investment funds operating in Russia and in an upward adjustment of the stock indexes. On the other hand, this price level (below the oil price budget projection) put the ruble under pressure and pushed down its exchange rate; besides, given the slowdown in the rate of economic growth, it has made problematic the budget execution in 2013.

Over May, the ruble to USD exchange rate declined from Rb 31.26 as of 30 April to Rb 31.59 as of 31 May, while the ruble to Euro exchange rate changed only slightly (from Rb 40.84 to Rb 40.96). As a result, the price of the bi-currency basket climbed from Rb 35.57 (30 April) to 35.80 (31 May). Thus, since the beginning of April its value had increased by 2.26%.

The inflation rate in May amounted to 0.6% (as of 27 May) against 0.5% in May 2012, which in per annum terms corresponds to 7.33% and 6.52% (12 month moving average). As in April, the accelerating price growth was in the main contributed to by the prices of food and services. It is noteworthy that an accelerated inflation rate is observed against the backdrop of stagnating demand and prices in industry, as well as a slowdown in the growth of money supply (the per annum growth rate of M2 dropped from 21.2% as of 1 April 2012 to 14.6% as of 1 April 2013). Over the next few months, the price growth rate can be expected to be further pushed up by the upward adjustment of the housing and utilities tariffs from 1 July and the forecasts of low crop yields due to the unfavorable weather conditions in the spring of 2013. At the same time, the per annum price growth rate may decline due to the base effect – in June-July of 2012 the inflation rate rose to 1% per month.

In April, the volume of commercial banks' excess reserves shrank by 13.9%. At the same time, the volume of banks' outstanding debt against REPO operations increased by 32.9% – to the level of Rb 2.06 trillion, where it then remained until the end of May. The downward trend displayed by the banking sector's liquidity was made more pronounced by the need to transfer the quarterly tax payments and the increased share of cash in circulation in money mass on the eve of the May holidays. This phenomenon pushed up the rates on the interbank market from 6% in March to 6.2% in April, and then to 6.38% as of 20 May. The RF Central Bank, while leaving unchanged the refinancing rate, for a second time over the past month-and-a-half period decreased the interest rates on its long-term operations (by 0.25 pp.).

The decline in foreign trade revenues (by 1.6 pp. of GDP) and internal revenues (by 0.6 pp. of GDP) resulting from the slowdown in economic growth pushed down the amount of federal budget revenue over January–April by 2.2 pp. of GDP on the same period of 2012. However, this was not translated into an increase in budget deficit, thanks to the adequate and timely reduction in the amount of expenditure. Thus, the expenditures on social policy were decreased by -1.5 pp. of GDP, on health care – by -0.3 pp. of GDP, on education – by -0.2 pp., and on interbudgetary transfers – by -0.2 pp. In this connection, in May 2013, the RF government submitted to the State Duma a draft law on introducing alterations in the law on federal budget, whereby a redistribution of budget allocations in the amount of Rb 171.2bn was envisaged, including the additional allocation of Rb 4.3bn to the preparation for the Sochi 2014 Winter Olympics.

### **The Real Sector: The Economy Does Not Grow on Credit**

Although in March industrial production began to increase in volume after a two-month period of slump, the unsatisfactory April have provided yet another proof that the fundamental factors responsible for the economy's slowdown are here to stay.

The volume of investment in fixed assets in April amounted to 99.3%, and that over the period of January–April – to 99.8% of their previous year's levels respectively. The movement of the investment index was negatively influenced by the worsening financial situation faced by enterprises: the positive balance-sheet results stated in companies' financial reports in January amounted to 82.8%, in January–February – to 78.8%, and that for Q1 – to 70.9% of the corresponding figures for the same period of the previous year respectively (in Q1 2012 – 106.6%). As a result, in Q1 the share of loss-making enterprises rose on Q1 2012 from 35% to 36.5% of all the surveyed enterprises (in the extractive sector – from 41.0% to 45.6%; in the processing sector – from 33.6% to 36.3%). Besides, the downward trend in state capital investment has continued. The general decline in the investment volume could not be reversed by the positive trends in foreign investment, whose volume increased on Q1 2012 by 65%. This phenomenon resulted in the main from the increasing lending volume



(which amounted to 89% of the total foreign investment volume), but foreign direct investment also increased by 63% (this, however, also occurred due to the dramatically increasing volume of loans received from foreign stakeholders, while the share of investment in capital declined).

The population's consumer activity continued to be on the decline. The per annum growth rate of the retail turnover in April amounted to 4.1% against 7.0% a year earlier, and that of commercial services rendered to the population – to 1.7% against 3.5% respectively. On the one hand, personal real disposable money income in April increased as a result of the indexation of pensions and other types of social benefits – by 7.3% in per annum terms against 1.3% a year earlier. On the other hand, the pace of growth of real wages dropped to 104.2% against 111.1% in April 2012. Thus, personal income was being redistributed in favor of the poorer and socially less secure strata; such a situation evidently influenced the behavior of the most solvent groups of the population. The pace of growth of consumer loans continued to decline (to 36% in per annum terms, as seen by the results of April), while the growth of individual deposits with banks hit in April its record high for that time of year (+3.1%, or Rb 458bn).

The shrinkage in the growth rate of loans to individuals was in part contributed to by their increasing average weighted value (17.7% per annum in Q1 2013 against 16.5% a year earlier), as well as by the accumulated volume of individual debt to banks: in Q1, the planned household expenditures on the servicing of bank loans amounted to 12% of disposable income. As of 1 May, the size of outstanding debt against bank loans had increased, since the year's beginning, by 15%, while its growth over the entire period of last year had amounted to only 6%. All these factors have a negative influence on individual purchasing ability and limit promotional opportunities with regard to consumer demand.

In the current market situation, the government is pinning their hopes of stimulating economic growth primarily on the banking sector, which is urged to increase credit provision to industrial enterprises. However, both the banking sector and industry are beset by a number of problems having an adverse effect on the dynamics of economic growth. The most noteworthy problem is the outflow of capital. Thus, in Q1 2013 Russia lost \$ 25bn in capital flight, almost all of which, unlike last year, was accounted for by the export of banking capital. On the other hand, industry's low demand for raw materials and industrial purpose products and the worsening financial situation of industrial enterprises have reduced – and will further reduce – their demand for credits. Thus, April saw yet another shift in the capital structure legal entities: the amount of financial resources kept by them on their settlement and current accounts dropped by 3.1%, while the volume of their deposits grew by 2.5%. As a result, the share of fixed-term deposits rose to 55% of the total amount of funds kept by enterprises in banks. Having stagnated at the beginning of the year, growth in credits to enterprises resumed in the spring. Nevertheless, the annual credit growth rate continues to dwindle: in April, credits rose by 1.7% (Rb 311bn), but the annual credit growth rate declined to 13.4%, which corresponds to its level in early 2011.

In annual terms, industrial production expanded by 2.3% in April (March 2013: by 2.6% year-on-year). This means that the acceleration in March was not sustained in April. Much of the blame for this should be pinned on the dynamics of the manufacturing industry, where the growth rate of production, in annual terms, amounted to 1.2%. Thus, the economy is still very far from resuming its upward trend, characterized by accelerated growth of the manufacturing industry. Machine building, the key sector of the manufacturing industry, continues to slump: in April, the production index for machinery and equipment manufacturing amounted to 98%; the production index for electrical, electronic and optical equipment manufacturing amounted to 96% compared to last year. In April, the production of means of transportation and transport equipment increased by 4.0% in annual terms, which could not compensate for the slump of the previous several months (a 97.5% drop on January–April 2012).

The business opinion surveys carried out by the Gaidar Institute have revealed pessimism widespread among the surveyed enterprises. The enterprises' estimates of the current demand pointed to a sharp decline in demand comparable with the drop registered in July 2012. As far as the stocks of finished products are concerned, in March and April 2013 the proportion of responses 'above the norm' had grown to its record high since September 2009, when industry had just got rid of its crisis-time excess inventory. The balance of changes in output (the pace of output growth) declined

to +6 points, although in the previous post-crisis years it had never dropped below +20 points, and even in the crisis year 2009 the balance of changes in output had amounted to +9 points. In fact, April data represented the worst result since June 2009 when Russia's industry began to exit the acute phase of the latest crisis. Having

Having briefly entered the positive zone in March after a long seasonal pause, the investment plans of the surveyed enterprises failed to remain in a positive trend and once again returned to zero, with 50% of enterprises planning to increase investment and another 50% planning to reduce it. A downward adjustment of the investment trend took place in machine-building, the timber industry, the chemical industry and light industry. Positive changes in investment plans were registered only in the food industry. In April 2013, the aggregate ('above the norm' + 'within the norm') credit availability remained practically unchanged. At the same time, the mean minimum rate on ruble-denominated credits offered by banks to enterprises dropped to 12.9% per annum, thus having shed 0.2 p.p. over the course of two months. ●

## THE POLITICAL AND ECONOMIC RESULTS OF MAY 2013

S.Zhavoronkov

*In May 2013, RF President Putin continued his criticism of the government, which took the form of a well-planned media campaign designed to shift the blame for every adversity and failure in the country onto the Cabinet of Ministers. It is expected that this campaign will culminate in the dismissal of the entire government. Dmitry Medvedev himself has confirmed that the dismissal of his government will take place – the only question is when. May saw the sacking of Deputy Prime Minister and head of the government apparatus Vladislav Surkov, previously a long-term curator of Russia's internal politics. Although he had made it clear that he was ready to take over that job once again, he was dismissed without being appointed to a new position. Surkov was replaced at his post of deputy prime minister by Sergey Prikhodko. The long-rumored business amnesty was indefinitely postponed.*

May saw a continuation of the PR campaign around Vladimir Putin's ongoing criticism of the RF Government (the most important feature of his criticism being perhaps that it has been widely disseminated through every state-controlled TV channel). Putin chose to focus his criticism of the Government on its 'failure to properly implement the President's executive orders'. In fact, the case in point was his May 2012 executive orders and election promises, some of which had been purely declarative, while the rest of them could not be implemented within the available budget (Putin was able to give a number of convincing examples of the Government's lack of fiscal realism, including the fact that the Government had approved a program of development of Russia's Far East with a budget of Rb 3.8 trillion, while the federal budget had earmarked only Rb 296bn for its implementation. However, the same can be said of his own promises). In particular, Vladimir Putin said: '[...] *Against the backdrop of a difficult global economic situation, we are looking together for new incentives to support growth. By the way, we do find them. However, the earlier decisions taken and the money allocated (and we did find some money – it was difficult, but the Government did so nevertheless) with the goal of supporting development are either functioning at limited capacity or not at all.*' He illustrated his words with the following example: out of the 192 billion rubles of additional budget allocations to specific activities directly arising from the executive orders, only 17 billion had actually been paid out in Q1 2013. Putin went on to enumerate the Government's mistakes: it had failed to adopt the roadmaps on enhancing the quality of state regulation and on improving the access of small and medium-sized businesses to the procurement orders of state-owned companies; the mechanism of state guarantees for loans to medium-sized businesses did not work because it was almost impossible to get those guarantees; the Government had failed to introduce into parliament a draft law designed to stimulate the growth of housing construction, etc. Frankly speaking, the exact proportion of Putin's executive orders implemented by the Government – be it 70% or 40% – does not really matter in the least. The very fact that they were not implemented in full implies that the persons in charge had lacked the political will to do so, and had apparently doubted the importance of the aforesaid matters. Moreover, Putin himself admitted that Russia's economic growth was on the decline, and that her budgetary problems were aggravating. Thus, the real reason for Putin's criticism of the Medvedev government is that the President is irritated by that government in general and – maybe – by Dmitry Medvedev in particular.

Prime Minister Dmitry Medvedev confirmed that his government would indeed be dismissed. His announcement was made in a humorous manner usually not associated with government officials. *'The Government's resignation will necessarily take place, the question is only when. And this issue will be of interest to our political sphere so long as our Government and President represent two different components of authority, when the President is the guarantor of the Constitution and the Government exercises supreme executive power. [...] I am a more seasoned soldier than many of my colleagues. I told them: guys, you hold still and work, because sooner or later you will all be*

sacked anyway. *This is life.*' In this interview Medvedev also confessed that he was keeping his post only because his relations with Putin were 'friendly' (!): '[...] *Otherwise, maybe, there would have been another government today.*' When asked about the legal aspects of the authorities' onslaught on Russia's non-commercial organizations, Medvedev gave no answer, but, for some reasons, referred to himself as 'Dimon' (a pejorative nickname used by his adversaries): '*I want to be clear. I'm not here to speak as a lawyer. Or, for example, to be addressed as Dimon. Or rather, yes, I am Dimon, but I am not a lawyer – I am, after all, the head of a government and the chairman of a political party. Therefore I cannot argue simply as a lawyer. Because it is impossible to tear oneself into components and say that as a lawyer I categorically disagree with you, but as a politician I am ready to support you. This would have been simply dishonest.*' Such statements alone severely undermine the standing of both the Prime Minister and his supporters in the eyes of people from all walks of life, including politics and commerce. Moreover, such revelations deprive them of any legitimacy apart from that of being on 'friendly terms' with Putin. But, as we see, this friendship is no longer bulletproof and is starting to crumble.

Also, May witnessed a major personnel reshuffle in Russia's corridors of power. Deputy Prime Minister and head of the government apparatus Vladislav Surkov, more famous for his previous role as curator of Russia's internal politics in the rank of deputy head of the RF President's Executive Office in 2004–2011 (in 2008–2011 – in the rank of first deputy head of that office), was abruptly dismissed. He was replaced by Sergey Prikhodko, a long-term curator of Russia's external politics in the rank of assistant to the RF President and then, since 2012, a deputy head of the government apparatus. Prikhodko is universally regarded as an agreeable and not very active person.

It is a noteworthy fact that Surkov was not offered any new post. Moreover, he was ostracized by the media. Surkov's protégés, expelled *en masse* from the corridors of power and the top positions in United Russia by the new curator of Russia's politics, Viacheslav Volodin, have immediately begun to position themselves as 'enlightened politicians' under whose leadership, as they claim, things had been much better.

In reality, it was under Surkov (although not without Putin's blessing) that Russia's political system took a clearly authoritarian turn: in September 2004, under the pretext of struggle against terror, the Kremlin abolished direct gubernatorial elections and single-member district elections for Parliament, drastically increased the membership threshold for political parties (from 10,000 to 50,000) and presided over the liquidation of scores of political parties (including such veterans of the Russian political scene as the Union of Right Forces, *Rodina* [Fatherland], the Agrarian Party, and the Pensioners' Party). By early 2009, Russia had only seven political parties. New political parties were denied registration, scores of political activists became political prisoners or political emigrants, and anti-extremism legislation began to be widely misused. In late 2008 – early 2009, behind a smokescreen of some empty talk about liberalization and freedom, election deposits were abolished, thus making it impossible for regime-opponents to become candidates even at regional and municipal elections. At the same time, nearly all the city mayors who had not run as *United Russia* candidates were either forced to join its ranks, or were forced out of office, prosecuted on trumped-up charges. To make a long story short, Vladislav Surkov tried to build a semi-party system that would include *United Russia* and the political parties led by Stalinist Gennady Ziuganov and the eclectic part-time nationalist Vladimir Zhirinovskiy (both parties were – and are – equally repulsive to the civilized voter). In accordance with the express wishes of Vladimir Putin, the list of those parties was extended to include Sergey Mironov's *Fair Russia*. Surkov was adamantly opposed to that decision and did his best to erase *Fair Russia* from the political arena. He was apparently vexed by the fact that, although *Fair Russia's* approval rating was negligible, it was not negative, which made it possible for that party, from time to time, to do extremely well in regional elections<sup>1</sup>. Any criticism of Vladimir Putin was an absolute taboo for the so-called 'systemic opposition'. Its freedom of criticism was limited to toothless protests against the activities of one or other minister, and to lamentations about one or other negative event.

1 In the 2007 elections to the State Duma of Stavropol Krai, the Fair Russia list headed by Stavropol Mayor Dmitry Kuzmin even managed to outperform United Russia, by winning 37% of the votes cast. Half a year later, Kuzmin was put on the international wanted list and was granted political asylum in Austria.



Thus, the authorities developed a model that, as they hoped, precluded the main element of an 'orange revolution' – the opposition's victory or near-victory in elections – because the opposition was effectively denied access to any elections. After abolishing the voter turnout threshold for elections and the ballot option 'Vote against all', the authorities were sure that they had the country firmly under their thumb. The 2007–2008 election cycle rewarded *United Russia* with a succession of victories, achieved due to – among other things – the dissemination of rumors that Medvedev was a liberal, or was going to be a liberal. Such rumors sapped dry society's will to act independently of the government. However, in December 2011, Surkov's methods suffered a crushing defeat at the hands of the opposition, who had managed to find a brilliant counter-method – the strategy of voting for any political party but *United Russia*, that had been designed to turn the oncoming general election into a referendum. The adoption of that strategy by the opposition made it possible for it to ignore the drawbacks of the 'systemic parties'. By relying exclusively on brute force and blatant falsification of electoral results, the Surkov administration heavily degraded both morally and politically. Thus, it was unscrupulous enough to launch a scandalous project like the notorious hooliganism-prone youth movement *Nashi* [Ours] and to stream online hidden-camera sex videos targeting opposition figures. Surkov and Co totally lacked any positive agenda. To make matters worse, the mass replacement of elected governors by appointed, locally unknown outsiders had literally thrown a monkey wrench into the administrative mechanism: it turned out that the employees of budget-funded institutions, including those patronized by the authorities, that had been expected to willingly and adroitly falsify electoral results were not eager to do so, especially in the presence of numerous election supervisors. As a result, *United Russia* bagged only 49% of the vote. This 'victory' was marred by massive vote fraud scandals – thus, figures were clearly plucked out of thin air at about one-quarter of Moscow polling stations.

In the aftermath of that general election, Surkov was removed from office and replaced by Vyacheslav Volodin, who thus became the supervisor of March 2012 presidential election. Volodin quickly proved that he was worth his salt. He tarnished the public image of some rather unpopular protest rally speakers like Boris Nemtsov and Ksenia Sobchak by contrasting their records with those of Vladimir Putin. He abstained from crude falsification of electoral results and resorted instead to more ingenious methods of achieving election victory, such as the use of 'additional lists' and other practices, although not illegal but dubious. Also, he liberally used the method of 'merry-go-round voting, when groups of voters vote more than once at different polling stations. This type of election fraud is extremely difficult to expose. Volodin's tactics proved to be successful. Putin won 64% of the vote, while *United Russia* had scored only 49%. The number of scandals sharply dropped. After the presidential election, the 'stick' of repressions against the Bolotnaya Square activists involved in clashes with police on 6 May 2012<sup>1</sup> was supplemented by the 'carrot' of easing the registration of new political parties, and they (although with some exceptions) began to be registered *en masse*. Single-mandate electoral districts were restored, and opposition figures once again began to be registered for election. To a large extent, the authorities' attempt at redirecting the energy of street protests to conventional political struggle was a success. The scale of opposition rallies considerably declined. (And now a few words about the further disruption of Vladislav Surkov's career. Instead of trying to prove themselves at their new jobs in the government apparatus, Surkov and his team continued their intrigues against the new curators of Russia's internal politics. They literally begged to be taken back and made contradictory about the policies of their successors. It was even unclear whether they considered those policies too liberal or too rigid).

Public prosecutors continued their search for compromising materials against RF Minister of Education Dmitry Livanov, who is widely believed to be a protégé of Medvedev. He had apparently been chosen as the scapegoat in the ongoing struggle to improve the government's performance. Livanov had indeed managed to antagonize a lot of powerful institutions and persons. Before the

1 It should be noted that the number of political prisoners in Russia has remained almost unchanged since 2004-2005. It amounts to just several scores (not taking into account the businessmen and officials imprisoned on politically motivated charges). The number of people facing criminal charges over their alleged participation in the Bolotnaya Square riots (29 so far) does not exceed the average number of defendants in the criminal cases of the 1990s. And in the most famous politically-motivated cases of the 1990s initiated against a number of members of Edward Limonov's National Bolshevik Party the number of persons sent to prison was even higher than that average.



beginning of the Russian Academy of Sciences presidential campaign, Dmitry Livanov, fully aware of the traditionally complicated relations between the Government and the Academy of Sciences, had publicly – and justly – criticized the latter for a number of unresolved problems, including *the issue of ageing membership*. The Academy answered in kind by unleashing a barrage of criticism on the Government and Livanov. The computer program for finding plagiarism in dissertations – introduced on his initiative (by the way, not on the basis of a public tender) – has undermined the reputations of many well-known persons, including St. Petersburg Governor Georgy Poltavchenko, *United Russia* MPs Vladimir Burmatov and Olga Batalina (a protégé of Deputy Head of the RF President's Executive Office Vyacheslav Volodin), and the leader of the Liberal Democratic Party, Vladimir Zhirinovskiy, exposed as dissertation plagiarizers. To make matters worse for Livanov, this program is being vociferously lauded by opposition figures, some of whom allegedly rub shoulders with him (by being members of the Public Council under the auspices of the Minister of Education or his co-authors). Hence he was accused of political disloyalty. Yet another headache for Livanov was the continuation of the Unified State Examination test-cheating scandals. It should be noted that region-by-region statistics for this examination is classified, apparently in order to hide the outrageously high level of test-cheating in Russia's national republics. But, as the saying goes, the truth always outs. Livanov's attempt to place a number of prominent higher education establishments, including Moscow State Mining University (it was forcibly merged with National University of Science and Technology ('MISIS') formerly headed by Dmitry Livanov) and Russian State University for the Humanities, caused an uproar. Both the Ministry and Livanov were accused of trying to seize valuable real estate in the center of Moscow under false pretense, while paying absolutely no attention to the efficiency of the higher education establishments situated in areas like, for example, the North Caucasus. This scandal resulted in the retirement of Deputy Minister of Education Igor Fedyukin, who had been also in charge of the checks of dissertations, which had caused so much anger on the part of the elite. Livanov's subsequent comments that he would possibly quit his job if faced with the impossibility of materializing his ideas have confirmed that his retirement is indeed very likely.

Andrei Dyachkov retired as President of the United Shipbuilding Corporation (USC). For many years in a row, this corporation had been giving rise to a lot of domestic and international scandals by its failure to observe delivery dates and by the poor build quality of its civilian and military ships. It should be said that Dyachkov's appointment as USC President had raised a few eyebrows among experts, because he had previously headed the notoriously problem-ridden OJSC *PO Sev-mash* [Industrial Association 'Northern Machine Building Enterprise']. All the same, he had been given that job due to the insistence of the state corporation *Rostekhnologii* [Russian Technologies]. Dyachkov was replaced as USC President by the former First Deputy Director General of the rather successful OJSC *NPK Uralvagonzavod* [Research and Industrial Corporation 'Ural Rolling Stock Plant], Vladimir Shmakov. Apparently, one of his top priorities will be to speed up the construction of new dockyards for building ships and equipment for the offshore oil and gas projects of *Gazprom* and *Rosneft*.

Sergey Vereshchagin was appointed Director General of the state corporation *Kurorty Severnogo Kavkaza* [Health Resorts of the North Caucasus], who had been its acting director general for a number of months, since the retirement of Akhmed Bilalov. Vereshchagin had worked for many years in Krasnoyarsk Krai under the leadership of Deputy Prime Minister Aleksandr Khloponin. Having become Director General, Vereshchagin demonstratively appointed Khloponin's son-in-law to the position of his deputy. Thus, no changes should be expected in the dubious aims of this corporation – organization of large-scale construction of tourism infrastructure at the expense of the state budget in an environment characterized by serious security problems and a lack of demand for such services. The only thing that has changed is the administrative clan that controls the project.

Two major events took place in academic sphere: plasma physicist Vladimir Fortov was elected as President of the Russian Academy of Sciences. He achieved victory in the first round of voting by winning more than 50% of the vote. In 1996-1997, he had been Russia's minister of science and technology. Fortov had lost the previous election at the Academy of Sciences, being defeated in the second round of voting by Yuri Osipov. Having held the position of President of the Russian Acad-

emy of Sciences for more than twenty years in a row, Yuri Osipov did not stand for President this time. Nobel prize winner and CPRF member of the State Duma Zhores Alferov came second (apart from being an octogenarian, he was prevented from winning by rumors of his closeness to Director of the Kurchatov Institute Mikhail Kovalchuk, detested by the academic community), while Vice President of the RAS and member of the Board of Directors of OJSC *Rosneft* Alexander Nekipelov came third (he was hampered by his being a member of Osipov's team and his two lackluster terms in office as Vice President of the RAS, as well as by a nasty scandal over alleged instances of plagiarism in one of his books). In his program, Fortov had assiduously followed the golden mean: had scolded the Ministry of Education and Science – but without any fanaticism; had promised his audience composed of not-too-young academicians to increase their pension allowances to 70% of pre-retirement salary; had promised his reform-minded colleagues to introduce performance-based financing, etc. Life will show whether Fortov will manage to achieve anything, or will simply prefer to go with the flow: in order to materialize one's program, it is not enough to simply compose it – one should also have the will to materialize it and the knowledge of the 'administrative vertical to push the program through. Concurrently with his electoral defeat of the Academy of Sciences, the aforementioned Mikhail Kovalchuk lost his re-election bid for Director of the Institute of Crystallography of the RAS by a majority of votes in a secret ballot at a meeting of the Physical Sciences Division of the Russian Academy of Sciences.

In May, Vladimir Putin refused to grant amnesty to businessmen, and turned down the amnesty draft put forth and much spoken about by Boris Titov, the Presidential Plenipotentiary for protecting businessmen's rights. Business amnesty was indefinitely postponed on the pretext that the issue had not been properly worked through. In particular, Vladimir Putin pointed out that the draft, in fact, suggested pardoning counterfeiters and 'people sentenced for the illegal export of dual-purpose materials that can be used for the production of weapons and even weapons of mass destruction', etc. Thus, Titov suffered yet another public defeat, for which he should blame, at least partly, only himself. The crux of the problem is that the RF Criminal Code does not contain an 'entrepreneurial article' as such. Most often, this term is applied to Article 159 of the RF Criminal Code ('Fraud'). However, fraud is also a very real and widespread crime. It is very difficult to distinguish between fraud, which is a deliberate action that takes place with intention to cause harm, and trivial commercial miscalculations. The same is true of Article 160 ('Misappropriation and Embezzlement') and Articles 198 and 199, which address non-payment of taxes by individuals and legal entities respectively. Mr. Titov could have put forth some more reasonable and specific demands – for example, to release persons sentenced under Article 159 of the RF Tax Code in criminal cases where a specific victim of fraud cannot be identified (thanks to the recent amendments, at present such criminal cases cannot be launched, but people sentenced before the amendments went into effect are still serving their sentences); or persons sentenced for tax evasion, if they have paid the taxes that they owed, or first-time offenders, or those who have served more than one half of their sentences, etc. However, this is not what he actually did. Instead, he tried to give freedom to more than 100,000 people – one-eighth of Russia's total prison population. As a result, he gave freedom to none of them. However, Titov's debacle can be seen as yet another indication of the Russian authorities' not too benevolent attitude toward the business community in general. ●

## INFLATION AND MONETARY POLICY IN APRIL 2013

A.Bozhechkova

*In April 2013 the consumer price index made 0.5% (versus 0.3% in April 2012), which is by 0.2 p.p. higher than in March of this year. In May inflation was also growing: in the 20 days of the month the CPI reached 0.4%. As a result, the inflation rate in annual terms has exceeded 7.2%. In Q1 2013, according to the tentative estimates of the Bank of Russia, the net outflow of capital from the country amounted to \$25.8bn, which is by \$7.8bn less than in 2012*

In April consumer price inflation accelerated in Russia: the index of consumer prices for the month results has grown from 0.3% in March to 0.5%, having increased the indicator of 2012 by 0.2 p.p. As a result, the inflation rate in annual terms has reached 7.2% (against 7.0% in April of the last year) (See *Fig. 1*). The core inflation<sup>1</sup> in April 2013 made 0.4%, which coincides with the relevant indicator of the last year

The CPI growth was contributed, first of all, by an increased rates of food prices (from 0.4% in March to 0.7% in April). The reasons for this were an increase in the rate of prices for fruit and vegetables (from 0.1% in March to 3.6%), eggs (from 0.2% in March to 3.4%), and sugar (from -0.8% in March to 1.7%). Prices for the foods, such as meat and poultry, as well as sunflower oil, compared with the previous month, were lower respectively by 0.9% and 0.2%. At the same time, there was continued a decline in the rate of growth in prices for alcoholic beverages from 2% in February and 1.4% in March to 1.0% in April, bread and bakery products from 1.4% in February and March to 0.8% in April and pasta from 1.7% in February and 1% in March to 0.6% in April.

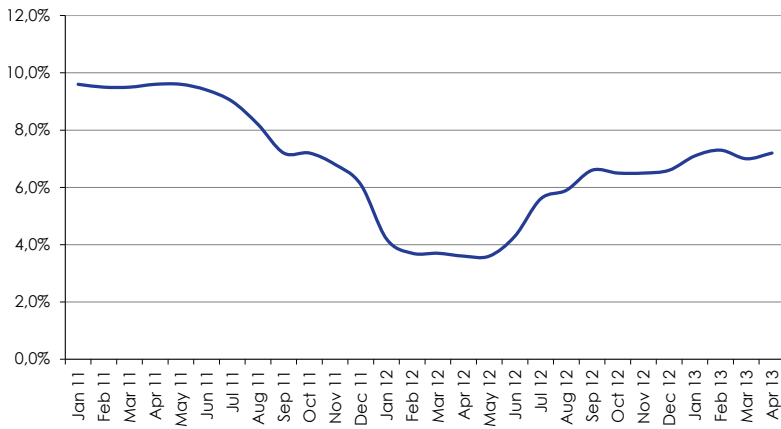
The growth rate of prices and tariffs for commercial services to the population in April made 0.5%, being higher than in March (0.2%). The cost of pre-school education services in April has grown by 2%. Services of foreign travel have grown, the price of which increased by 1.6%, as well as passenger transport services, the prices of which rose by 1%: it he cost of fixed-route taxi-vans, subway, compartment cars of branded long-distance trains, as well as prices for air transport services have been increased. Growing dynamics was observed also in prices for household services (+0.9%), health care (+0.9%) and insurance services (+0.8%).

In April the rate of price growth for non-food products as compared with March and April of the last year has not changed, making for the month 0.4%.The greatest growth in this product group made prices (by +4.3%), medicines (by 1.0%) and footwear (by +0.4%). Among the non-food items reduction was observed in April for video and audio goods (by -0.4%) and gasoline (by -0.3%).

As of 20 days of May, the CPI made 0.4%. As a result, the accumulated since the beginning of the year inflation reached 2.8%, which is by 1.3 p.p. higher than at the same period of 2012. The annual inflation rate for May 20 made 7.2%

We would like to note that the acceleration of inflation at the beginning of the year seems to have a monetary nature and is a consequence of the seasonal growth in prices for food products, increase of the excise tax on excisable goods and tariffs for transportation services at the beginning of the year. Some role in rising prices was also played the February indexation of pensions. Decline in consumer inflation began in February and continued in March, but in April the trend of price growth, associated with the rising costs of some food staffs and the dynamics of tariffs and prices for certain types of services was noted. Further pressure on prices in terms of their growth will be provided by indexing of housing utility tariffs from July 1 and expectations of a poor harvest due to the difficult weather conditions in spring. The constraining factors in inflation will be a decline in domestic demand, which is observed since through-out the whole year, and the continued slowdown in monetary supply (M2 growth rate has been slowed down in the annual terms from

<sup>1</sup> The core consumer price index is the indicator reflecting the level of inflation in 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, which is also calculated by the RF Statistical Service (*Rosstat*).



Source: RF Statistical Service.  
Fig. 1. The Growth Rate of CPI in 2011–2013 (% year to year)

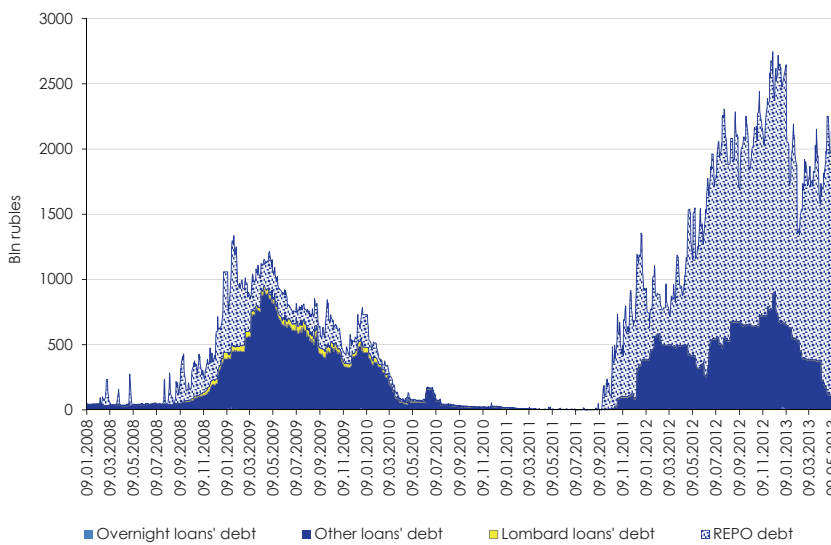


Fig. 2. Arrears of commercial banks with the Bank of Russia in 2008–2013.

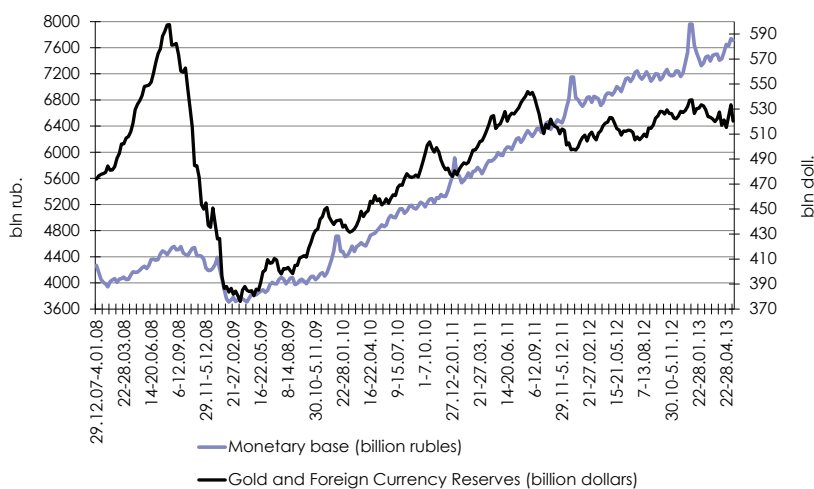


Fig. 3. Dynamics of the monetary base (in narrow definition) and gold (international) reserves of the Russian Federation in 2007–2013

21.2% on 1 April 2012 to 14.6 % on April 1, 2013).

In April 2013, the expansion of the broad monetary base was continued. As of the month results, it increased by 2.1% to Rb 8.8109 trillion (Fig. 2). The growth of the monetary base in broad terms is due to the increase in the volume of cash in circulation with regard to the cash balances of credit institutions by 4.3% to Rb 7,410.3 trillion and required reserves by Rb 5.4% to Rb 473.7bn. Herewith, the correspondent accounts decreased by 4.8% to Rb 814.9bn, banks' deposits with the Central Bank – by 49.1% to Rb 112.1bn.

The simultaneous growth of cash in circulation and mandatory reserves in April has resulted in the expansion of the monetary base in narrow definition (cash plus mandatory reserves) by 4.4% to Rb 7,884 trillion (Fig. 3).

In April the volume of excessive reserves of commercial banks<sup>1</sup> has decreased by 13.9% to Rb 927bn. Herewith, the debt of banks under repo agreements in April has increased by 32.9% to Rb 2.06 trillion, remaining at that level until the end of May (Fig. 2). Lower liquidity in the banking sector have contributed to the quarterly tax payments and the increase in the share of cash in the monetary supply on the eve of May Day, which has provoked an upward pressure on the interbank rates<sup>2</sup> from 6% in March to 6.2% in April. From May 6 to 20 this rate made 6.38% on average.

On May 1, 2013 the volume of international reserves of the RF Central Bank amounted to \$533bn, having decreased from the beginning of the year by 0.8%. Reduction of the Russian foreign reserves in dollar terms was due

1 Under the excessive reserves of commercial banks with the RF Central Bank is understood the sum of correspondent accounts of commercial banks, their deposits with the RF CB and the RF CB bonds of commercial banks.

2 Interbank rate is an average MIACR rate of 1-day interbank loans in rubles.

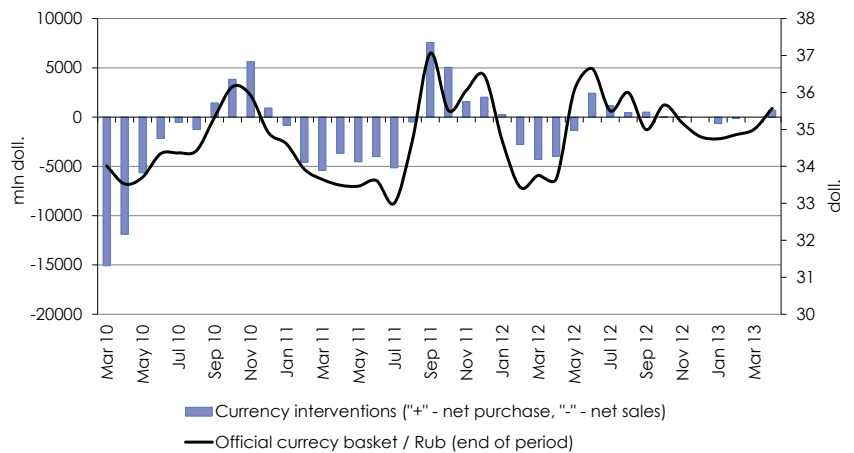


to the strengthening of the dollar against the Euro due to the problems in the economy of Cyprus. Note, that in April the RF Central Bank was performing foreign exchange interventions: the Bank of Russia has sold \$663.06m and Euro 45.05m to decline volatility of the exchange rate during periods of its rapid reduction (Fig. 4).

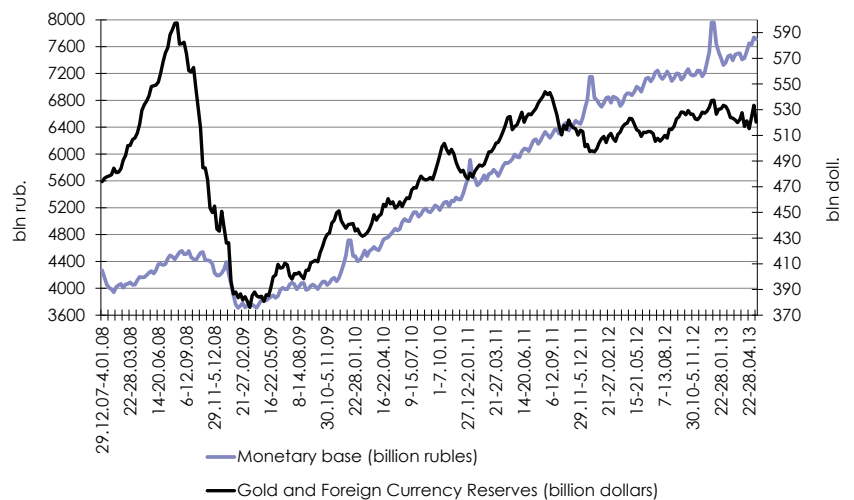
According to the tentative estimates of the Bank of Russia, the net outflow of capital in QI of 2013 amounted to \$25.8bn, which is by 23.2% less than in 2012, when the outflow reached \$33.6bn. The slowing down of capital outflow is due primarily to the decline of the surplus balance of the current account of payments: a stable ruble nominal exchange rate with minimal interventions of the RF Central Bank indicates the balance of supply and demand in the foreign exchange market, at which the surplus on the current account offsets the negative balance in the financial account of balance of payments.

In April the ruble real effective exchange rate has decreased against foreign currencies by 1.5% (Fig. 4). At the same time, in as of the four months of the year, the ruble real effective exchange rate has increased by 2.9%.

Due to the economic recession in the European Union, as well as reports on a possible tightening of the Federal Reserve System policy and mitigating the ECB policy, the Euro rate in the world currency market declined on May 21 to the level of \$1.28 against \$. During the first half of May the U.S. currency has grown up by 1.2% to Rb 31.4; however, in the second half of May, there was a decline in its rate to Rb 31.1. Euro exchange rate has decreased WHEN? by 1.1% to Rb 40.2. As a result, the value of the currency basket has been decreased and on May 22 made Rb 35.2 (-0.3%).



Source: RF Central Bank, author's estimates.  
 Fig. 4. Central bank interventions and dynamics of ruble exchange in March 2010 – March 2013



Source: RF Central Bank, author's estimates.  
 Fig. 5. Indicators of Ruble Exchange Rate in January 2005 – March 2013

## FINANCIAL MARKETS IN MAY 2013

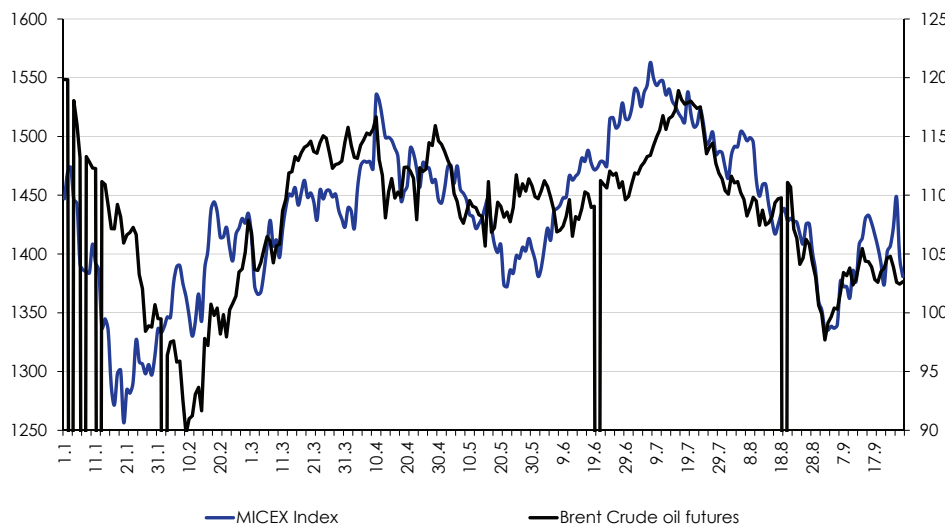
N.Andrievsky, E.Khudko

*The growth of the MICEX Index over the course of May, briefly interrupted by its small incursion into negative territory in mid-May, was caused by the rise in oil futures prices and the inflow of foreign portfolio investments. However, it was not sufficient to reverse the downward trend in the stock market's capitalization. The most noteworthy events in Russia's stock market were Sberbank's shares climbing to their historic high of Rb 110.74 per share and VTB's secondary public offering, which pushed down the prices of its shares. On the whole, the key indices of the Russian domestic corporate bond market, including the market volume and the market index, the weighted average effective yield on corporate bonds, and the activity of the market's biggest bond emitters in registering their new issues, showed a positive trend. The emitters were punctually fulfilling their obligations to their bond holders.*

### The Movement of the Russian Stock Market's Main Structural Indices

The rise in the futures prices of Brent crude oil had a positive effect on the behavior of the MICEX Index. Over the course of May, oil futures prices, although fluctuating slightly from time to time, were generally on the rise. As of 25 May, they had climbed by 3.8% on the month's beginning. As a result, over the course of May (as of 25 May), the MICEX Index grew by 2.5%. The highest average<sup>1</sup> oil price of 105.5 USD per barrel was recorded on 6 May. On 8 May, the MICEX Index rose to 1,432.9 points (which represented a 4.1% rise on the month's beginning). Then oil prices dropped, and the MICEX Index followed suit. It should also be noted that for two weeks in a row – from 13 through 24 May – foreign portfolio investors pumped huge amounts of money into funds investing in Russian securities. As that money was invested mainly in Blue Chips, the MICEX Index resumed its upward trend. On 22 May it rose to 1,450 points.

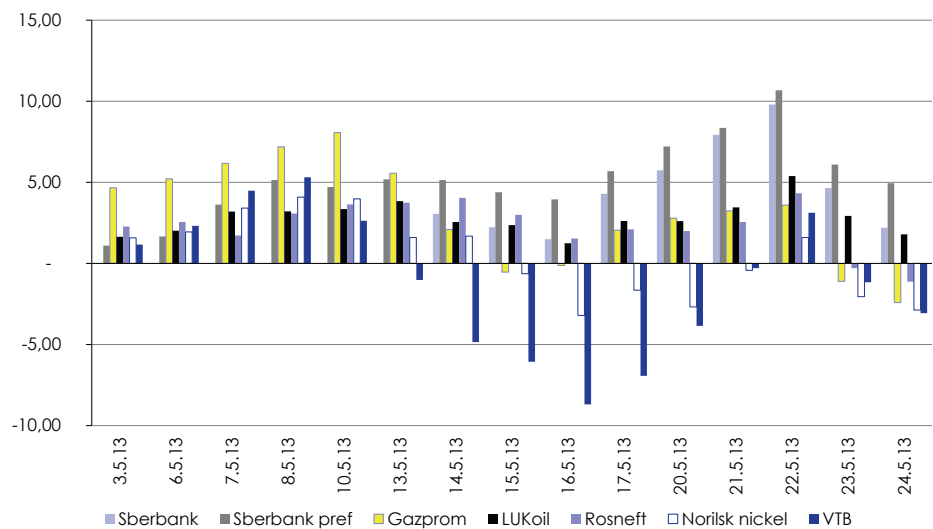
For investors, the movement of the main Blue Chip stocks during the period of 'May holidays' generated positive returns. The leaders in growth were shares in *Gazprom*, which demonstrated the highest yield since the month's beginning thorough 10 May – 8.07%. On average, over the course



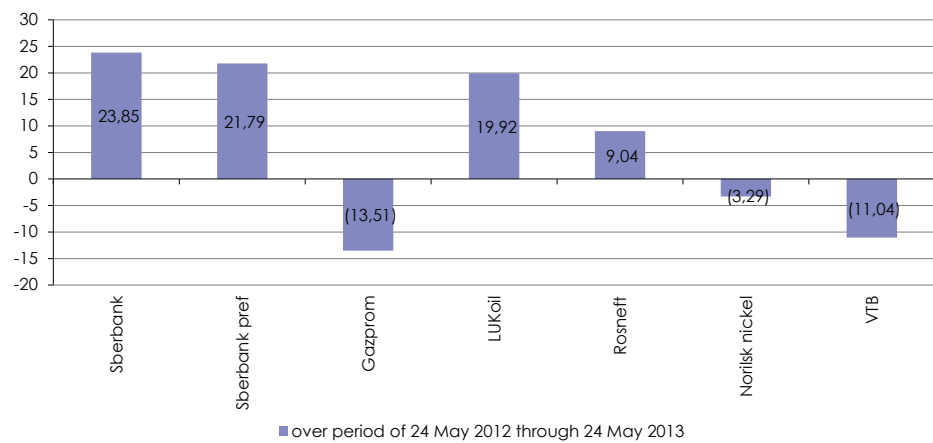
tors who had invested in Blue Chips one year ago, May 2013 was a highly profitable month. Thus, investments in common shares in *Sberbank*, made on 24 May 2012, generated an annual yield of 23.85%; investments in preference shares in *Sberbank* – an annual yield of 21.8%; while shares in *LUKoil* came third with an annual yield of 19.9%. At the same time, over the period from 24 May 2012 through 24 May 2013, shares in *Gazprom* and *VTB* had become cheaper by 13.5% and 11% respectively.

The dynamics of the quotations of sectoral indices was determined by the continuation of an upward trend in share prices in the consumer sector, the banking and finance sector, and the oil and gas sector (*Fig. 4*). While early in the month the quotations were on the rise in all sectors (from 2<sup>nd</sup> through 7<sup>th</sup> May, the prices of shares grew, on the average, by 1.4%), the post-holiday period saw a decline in the prices of shares in the energy sector (by 16 May it dropped by 6.2% on the month's beginning). As a result, by 24 May, all sectoral indices had dropped, on the average, by 1.8% on the month's beginning, with the exception of three indices<sup>1</sup> that had grown, on the average, by 2.7%.

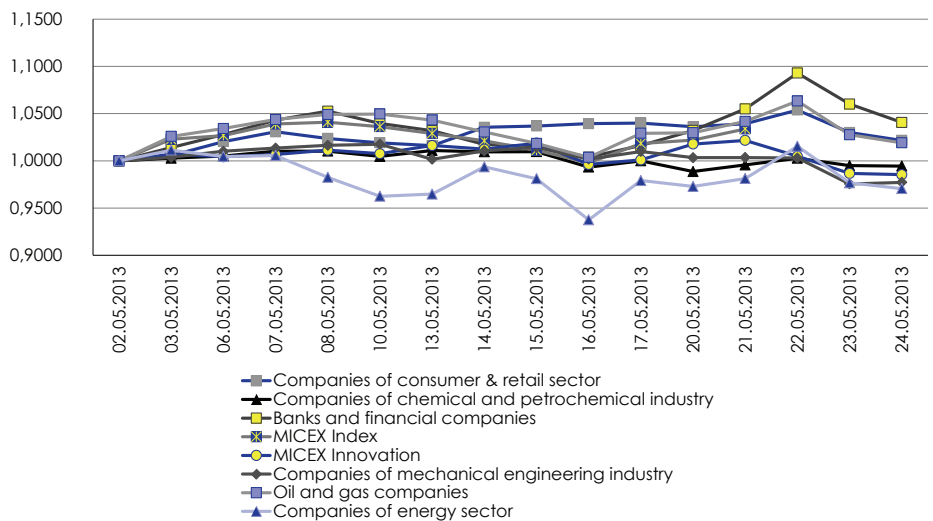
According to the official website of the MICEX, since 20 May 2013, the



Source: Quote.rbc.ru, the author's calculations.  
 Fig. 2. Growth Rate of the Quotations of Highly Liquid Stocks on the Moscow Exchange

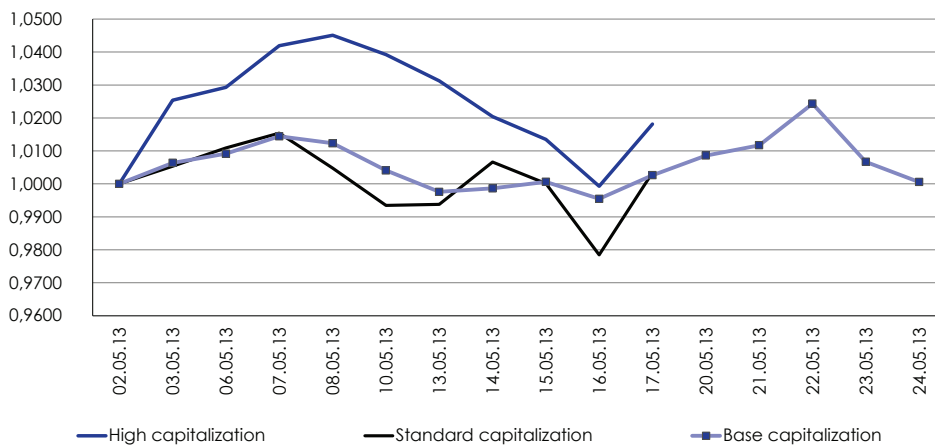


Source: Quote.rbc.ru; the author's calculations.  
 Fig. 3. Growth Rate of the Quotations of Highly Liquid Stocks on the Moscow Exchange from 24 May 2012 through 24 May 2013



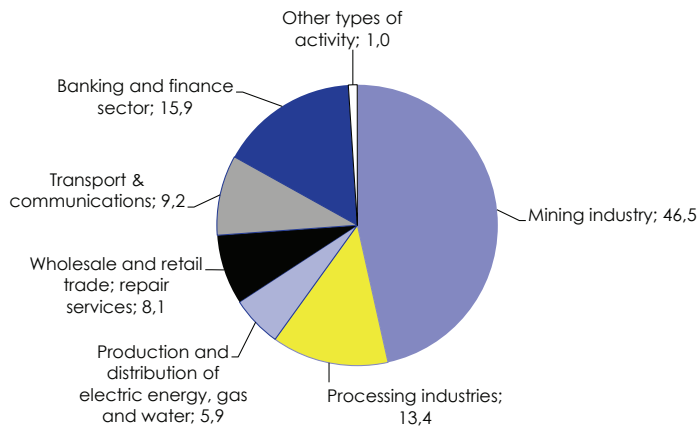
Source: Quote.rbc.ru; the author's calculations.  
 Fig. 4. Growth Rates of Different Stock Indices on the Moscow Exchange

1 The banking and finance index, the oil and gas index, and the consumer sector index.



Source: Quote.rbc.ru; the authors' calculations.

Fig. 5. Changes in the Growth Rates of Capitalization Indices on the Moscow Exchange



Source: the MICEX's official website; the authors' calculations.

Fig. 5. Structure of Capitalization of the MICEX Stock Market, by Type of Economic Activity

MICEX LC Index (high capitalization) and the MICEX MC Index (standard capitalization) have been abolished, while the MICEX SC Index (base capitalization)<sup>1</sup> has been calculated in accordance with the calculation methodology for the second-tier indices<sup>2</sup>. However, available statistics point to a rise in the price of shares in companies with high capitalization in early May. It should be noted that the growth rate of the MICEX LC Index was 3.65% higher than the growth rates of the other indices.

VTB's additional share placement in mid-May did not change the stock market's capitalization structure by type of economic activity. The capitalization share of the companies belonging to the banking and finance sector dropped by 0.26%, while that of the companies operating in the wholesale and retail trade sector dwindled by

0.63%. The share of the extractive industry companies increased by 0.55%, and that of the processing industry companies grew by 0.26%. Russia's stock market total capitalization as of 24 May 2013 amounted to Rb 23.40 trillion, or 37.47% of GDP, which was by Rb 60bn less than on 2 May.

### The Corporate Bond Market

In May 2013, the volume of Russia's domestic corporate bond market (by the nominal value of ruble-denominated securities in circulation) continued to grow at a slow pace. By the end of the month, this indicator had climbed to the level of Rb 4,497.5bn, which represented a 1.0% rise on the end of April 2013 (in Q1, its average growth rate had amounted to 1.5–2.0% per month)<sup>3</sup>. The stabilization of the volume of the market was caused by the fact that both the number of issued bond loans (969 ruble-denominated corporate bond issues vs. 962 issues as of the end of April) and the number of emitters represented in the debt segment (348 in May vs. 346 in April) had remained almost unchanged since the end of April. As before, eight U.S.

1 The Cap Indices are price indices with constituents weighed according to their market capitalization. The Indices consist of the most liquid stocks of Russian issuers admitted to trading in MICEX Stock Exchange.

2 The second-tier indices of the Moscow Stock Exchange comprise the securities, which form the basis of the Broad Market Index's basket, but are not included in the main indices of the Moscow Exchange (the MICEX Index and the RTS Index).

3 According to data released by the Rusbonds information agency.



dollar-denominated bond issues and one yen-denominated bond issue placed by Russian emitters remained in circulation.

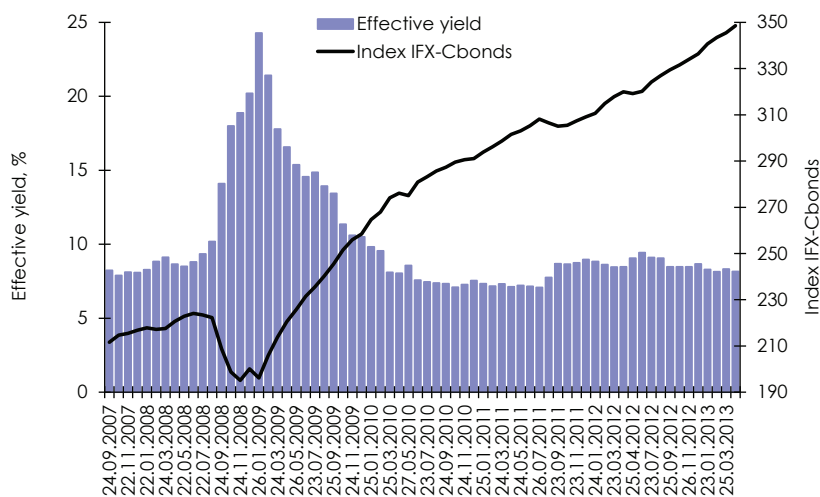
May 2013 saw the traditional seasonal decline in the investment activity on the secondary corporate bond market, although, formally, the MIXEX stock exchange was open for trading even during the May holidays. Thus, in the period from 23 April through 24 May, the combined volume of exchange transactions carried out on the Moscow Exchange amounted to Rb 110.2bn (for reference: in the period from 26 March through 22 April the trade turnover was Rb 172.0bn), while the number of transactions carried out over the period under consideration dropped to 22.9 thousand (from 27.6 thousand in the previous period)<sup>1</sup>.

The IFX-Cbonds index of the Russian corporate bond market continued to rise at a stable pace. By the end of May 2013, it had climbed up by 2.8 points (or 0.8%) from the end of the previous month. The weighted average effective yield on corporate bonds dropped to an almost two-year low, dwindling from 8.16% as of the end of April to 8.11% as of the end of May (*Fig. 6*)<sup>2</sup>.

The upward trend displayed by the corporate bond market in May 2013 was determined by the relative stabilization of the financial sector. First of all, it should be noted that the international rating agencies confirmed most of the ratings of Russia's biggest issuers, and assigned them a positive outlook. The rating outlooks for the production companies *Norilsk Nickel*, *Bashneft* [Bashkir Oil] and *Polyus Gold Int* (which comprises the assets of JSC *Polyus Gold*) were upgraded, while in late March and early April, the ratings and rating outlooks of many production companies had been downgraded. The optimistic mood displayed by the participants of the debt market emerged against the background of unprecedentedly hectic activity in the foreign exchange market. Thus, in the last few days of April, the trading indicators of the Moscow Exchange's foreign exchange market rose to their historic highs. The decline in the effective yield on corporate bonds was also to some extent facilitated by the fact that, having left the refinancing rate unchanged, the RF Central Bank had reduced (by 0.25%) rates on long-term liquidity operations for the second time in one and a half months. However, the macroeconomic background remained moderately negative. Thus, in early May, the European Bank for Reconstruction and Development almost halved its forecast for Russia's GDP growth in 2013 (to 1.8%).

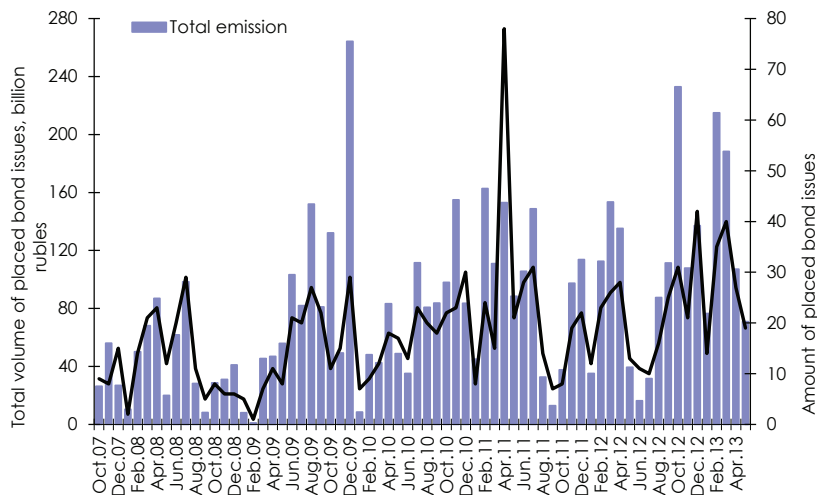
The corporate bond portfolio duration index continued on a downward trend. As of the end of April, this index amounted to 677 days, which represented a 22-day drop on the end of the previous month. Taking into account the aforesaid interest rate cuts in the market, that drop in the corporate bond portfolio duration index reflected a reduction in bond loans' periods of circulation in the corporate segment.

As the drop in the average effective yield on corporate bonds was insignificant, the volatility of rates on the most liquid bond issues was also low. The downward trend was most clearly visible in the production and energy segments of the market (where rates dropped, on the average, by 0.2 p.p.). The movement of effective yield rates in the financial and Hi-Tech segments was multi-vectored even with regard to different issues of one and the same emitter. Significant yield gains (by 0.6 to 0.7 p.p.) were demonstrated only by the securities issued by OJSC *Bank ZENIT* and OJSC *Bashneft*<sup>3</sup>.



Source: According to data released by the Cbonds information agency.  
Fig. 6. 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 Finam investment company.
- 2 According to data released by Cbonds information agency.
- 3 According to data released by the Finmarket information agency.



Source: According to data released by the Rusbonds company.  
 Fig. 7. Dynamics of the Primary Placements of Issues  
 of Ruble-Denominated Corporate Bonds

In May, the number of new securities issues registered by Russian emitters at the Moscow Stock Exchange climbed to its highest level seen so far in 2013. Thus, in the period from 23 April through 24 May, 16 emitters registered 64 bond issues with a total face value of Rb 531.0bn (for reference: in the period from 26 March through 22 April, a total of 61 bond issues were registered, with a total face value of Rb 226.9bn). More than two-thirds of the registered bond issues were exchange-traded bonds. Besides, among the newly registered bonds there were several large inaugural issues.

However, the activity on the primary market continued to be subdued by comparison with the scale on which the registration of new issues was carried on. Moreover, its indices dropped to a several-month low, having been pulled down by the seasonality factor. Thus, in the period from 23 April through 24 May, 16 emitters placed 19 bond loans with a total nominal value of Rb 70.9bn (for reference: in the period from 26 March through 22 April, a total of 27 bond loans with a total nominal value of Rb 107.1bn were placed) (Fig. 7). Exchange-traded bonds constituted almost half of the placed issues. In spite of the declining placement indices in the primary market, two emitters (*Bank VTB-24* and *AIZhK*) managed to attract finance in the form of a 31-year loan and 13-year loan respectively.

Unlike previous months, when the Federal Financial Markets Service (FFMS) had monthly annulled from ten to fifteen, sometimes even up to twenty bond issues due to failure to place even a single security, the period from 23 April through 24 May saw only one bond issue being annulled; its State registration was also annulled<sup>1</sup>.

In the period from 23 April through 24 May, 14 emitters were expected to redeem their bond issues with a total face value of Rb 29.5bn. However, two emitters failed to fulfill their obligations to bondholders in due time. This came as a shock, since for several months in a row the debt market had been witnessing no technical defaults. In June 2013, the redemption of 16 issues of corporate bonds with a total face value of Rb 60.4bn is expected<sup>2</sup>.

Nevertheless, the situation with regard to the fulfillment, by emitters, of their obligations to bond holders remains positive. Over the period under consideration, no real defaults (when an emitter is unable to fulfill current obligations against a bond loan even in the next few days after the planned redemption date) were observed. As in the previous period, no emitters defaulted on the payment of the coupons to the holders of their securities, the redemption of the face value of their bond loans, or the buyback offers to the current holders of securities before their maturity in due time – or at least within the framework of a technical default<sup>3</sup>.

1 According to data released by the FFMS of Russia.

2 According to data released by the Rusbonds company.

3 According to data released by the Rusbonds company.

## REAL ECONOMY: TRENDS AND FACTORS IN APRIL 2013

O.Izryadnova

*The slowdown of the economic growth in April 2013 was determined by the slackening of the investment demand dynamics. In April 2013 the investments in fixed assets made 99.3%, in January–April – 99.8% of the corresponding indices of the previous year. However, the indices of the industrial production in March–April 2013 in annual terms demonstrate some growth after the recession of January–February. The growth rates of the industrial production this April in annual terms made 2.3%.*

According to the preliminary estimation of the Federal State Statistics Service, in Q1 2013 the growth of the GDP made 1.6% in annual terms as compared with 4.8% in the corresponding period of the previous year. The slowdown of the economic growth was determined by the simultaneous decrease in the demand at the internal and the external markets. Starting with Q2 2012 the absolute volumes of the Russian export have been observed to contract in terms of value. As a result during the last three quarters of 2012 and Q1 2013 the positive trade balance has been decreasing.

Starting with December 2012 the internal market has been considerably influenced by the decrease in the investments in fixed assets. In April 2013 the investments in fixed assets made 99.3% and in January–April 99.8% of the corresponding figures of the previous year.

In Q1 2013 the trends towards the contraction of the public investments formed in 2012 was maintained. The diminishing of the public investments was accompanied by the decrease in the activity of the major infrastructure companies in connection with the finishing of several investment projects and corrections in the plans taking into account the changes in the situation at the market. The contraction of the incomes of the enterprises has intensified the trend towards the investments in fixed assets decrease in January–April 2013. The decrease in the investment activity in the investment sector is also connected with the intensification of the capital outflow in Q1 of the current year up to USD 25.8bn versus USD 7.9bn in Q4 2012<sup>1</sup>. In contrast to Q1 2012 in 2013 the capital outflow was practically completely accounted for by the export of the banking capital, which weakened considerably the participation of the banks in the financing of the investments in the fixed assets in the Russian economy.

Table 1

NET IMPORT/EXPORT OF THE CAPITAL BY THE PRIVATE SECTOR IN 2012 AND IN Q1 2013, AS USD BILLION

	Net capital import/export by the private sector	Net import/export by the banks	Net import/export by other sectors
2012	-54.1	18.5	-72.7
Q1	-33.6	-9.7	-23.8
Q2	-5.3	11.6	-16.9
Q3	-7.4	7.7	-15.1
Q4	-7.9	8.9	-16.9
2013.			
Q1 (estimation)	-25.8	-24	-1.8

Source: RF Central Bank.

As compared with the corresponding period of the previous year in Q1 2013 the inflow of the foreign investments in the Russian economy went up by 1.65 times, the direct foreign investments making \$6.3bn. In contrast to the previous year in Q1 2013 the growth of the direct invest-

<sup>1</sup> It should be noted that according to the forecast of the RF Ministry of Economic Development the net capital outflow is estimated to be at the level of \$30bn.

ments was due to the sharp increase in the volume of credits received from the foreign co-owners of the organizations, the proportion of the investments in the capital contracting.

Starting with the H2 2013 the situation in the Russian economy was complicated with the sharp slowdown of the consumer demand. In April 2013 the annual growth rates of the retail trade turnover made 4.1% versus 7.1% a year ago and the rates of the paid services rendered to the population – 1.7% versus 3.5%, correspondingly. It was the level of inflation and the real incomes of the population that have affected the consumer behavior. As compared with the corresponding period of the previous year, in April 2013 the consumer prices index went up to 107.2% versus 103.6% a year ago. The growth rates of the real wages slowed down to 104.2% in April 2013 versus 111.1% in the corresponding period of the previous year. In spite of the fact that as a result of pensions and other types of social payments indexation the real disposable monetary incomes of the population went up by 7.3% in April 2013 (in annual terms), this has not influenced the dynamics of the retail trade turnover. Besides, it was the decrease in the growth rates of credits issuing to the population observed since August 2012 was a factor contributing to the weakening of the consumer activity of the population.

Table 2

## INFLOW OF FOREIGN INVESTMENTS IN Q1 2010–2013, AS BROKEN BY TYPES

	USD million			As percentage to the total			As percentage on the corresponding period of the previous year		
	2011	2012	2013	2011	2012	2013	2011	2012	2013
Investments	44349	36534	60436	100	100	100	340.0	82.4	165.4
of which:									
direct	3890	3863	6304	8.8	10.6	10.4	148.3	99.3	163.2
portfolio	122	1007	119	0.3	2.8	0.2	41.8	820.0	11.8
other	40337	31664	54013	90.9	86.6	89.4	390.0	78.5	170.6

Source: Federal State Statistics Service.

Table 3

## GROWTH RATES OF THE MAIN ECONOMIC INDICES IN APRIL 2008–2013, AS PERCENTAGE TO THE CORRESPONDING PERIOD OF THE PREVIOUS YEAR

	2008	2009	2010	2011	2012	2013
Output volume by basic types of economic activities	109.6	85.1	107.7	103.3	103.9	102.0*
Industry	105.7	85.8	110.4	104.5	101.3	102.3
Minerals extraction	102.7	97.3	104.6	101.4	101.5	102.6
Manufacturing industries	108.8	77.6	116.5	105.3	103.6	101.2
Investments in fixed assets	125.0	80.4	101.7	102.2	107.8	99.3
Workload in construction	121.8	86.5	94.5	98.1	103.8	96.3
Retail trade turnover	114.9	95.6	105.9	105.5	107.0	104.1
of foodstuffs	108.4	101.7	104.8	101.0	104.6	101.6
of non-food goods	120.4	90.2	106.9	110.1	109.0	106.2
Volume of paid services	107.2	96.2	100.7	104.1	103.5	101.7
Foreign trade turnover	149.5	54.5	147.2	138.6	98.6	100.0*
Export	148.0	52.3	149.2	137.0	98.3	95.2*
Import	152.0	58.0	130.1	141.5	99.2	108.1*
Real disposable incomes of the population	109.1	102.4	105.7	98.1	101.3	107.3
Real accrued wages	114.6	95.7	105.9	102.4	111.1	104.2
Total number of the unemployed	94.4	148.6	91.8	88.1	79.3	99.4

\* preliminary data

Source: Federal State Statistics Service.

This year the industrial production is characterized by a highly unsteady dynamics. The decrease in the volumes of the industrial production in January–February 2013 by 1.8% versus the corresponding period of 2012 was replaced by the recovery of the of the industrial growth in the following two months, which resulted in stabilization of the output approximately at the level of



January–April 2012. This April the growth of the industrial production in annual terms made 102.3%, the figures being 102.6% in minerals extraction, 101.2% in manufacturing industries, 102.8% – in electricity, gas and water production and distribution. The manufacturing industry is no longer the driving force of the industrial development. Besides, in this sector of the economy the differentiation of the development rates by the types of the economic activities has become more pronounced.

Starting with December 2012 the contraction of the production in machine-building complex negatively influences the dynamics of the manufacturing industries. In April 2013 as compared with the corresponding period of the previous year in machine-building complex machinery and equipment production index made 98.5%, electric, electronic and optic equipment production index – 96.0%. In April 2013 the production of the transport vehicles and equipment went up by 4.0% on April 2012 figure, but on the whole over January–April the production made 97.5% of the corresponding figure of the previous year.

The RF Ministry of Economic Development has published the forecast for the scenario conditions of the socio-economic development in 2014 and in the planning period of 2015–2016, prepared on the basis of the single hypothesis of the external conditions and different variants of the government policy and private sector development<sup>1</sup>.

It is the moderately optimistic variant (2) that is suggested as the basis for the elaboration of the budget for 2014–2016 and that is focused on the stimulation of the economic growth modernization in the environment of the invigorating government policy on the improvement of the investment climate and growing efficiency of budget expenditures. Variant (2) based on the fulfillment of the measures reflected in the government programs on the development of the education, health care, science and technology, transportation infrastructure as well as the traditional sector of the economy implies additional financing.

Basing on the existing dynamics in January–April 2013 the attainment of the target indices of the forecast involves the turn of the negative trends in the industry and the recovery of the investment and the external demand in Q2 2103.

According to variant 2 the expected growth of the GDP in 2013 is 102.4%, investments in fixed assets – 104.6%, retail trade turnover – 104.3% versus the previous year. In 2013 it is forecast that the export slows down to 95.6% versus the figure of 2012, import growing by 5.7%. The forecast growth of the industrial production in 2013 is estimated to be 102.0%. The minerals extraction stabilizing at the level of the previous year, the increase in manufacturing industries will make 2.9%. Thus, the dynamics of the internal market given the forecast investment and consumer demand growth rates in 2013 will be formed in the environment of the anticipating growth of the import compared to the domestic production.

According to the forecast the growth rates of the real wages will slow down from 108.4% in 2012 to 104.5% in 2013 (103.7% in the previous version of the forecast) which is due to the effect of high base, caused by the growth in the wages in the budget sector throughout 2012. The growth rates of the real disposable incomes of the population was lowered to 3% in 2013 (3.7% in the previous version of the forecast), which is due to the increase in the liabilities of the population connected with the interest payment for the received credits. Real wages will be maintained by the general decrease in the level of inflation from 7.1% in Q1 2013 to 6.0–6.5% in H2 2013.

Throughout the decade before 2009 crisis, the growth rates of the Russian economy made on average 7% annually, mainly due to the increase in the aggregated factor efficiency of labor and the level of facilities load.

In 2013 it is forecast that the trend for the anticipating growth of wages versus the dynamics of the labor efficiency will be maintained (102,5%). The ratio of these two indices is influenced by the complex situation at the labor market: the demand exceeds the offer, the number of vacant

<sup>1</sup> According to the conservative variant (1) the inertial process of the H1 2013 are to be maintained and the budget policy is to become stricter; the GDP growth rates will slow down to 101.7%. The accelerated variant (3) is characterized by the GDP growth rates at the level of 103.2%, investments in fixed assets growth rates – 106.5%; the structural transformations are based on the considerable increase in private capital accumulation and renewal of the net capital inflow. The additional variants differ by the prices for oil: variant A assumes the worsening of the situation in the world economy and the decrease in the oil prices down to \$90 per barrel; variant C – maintenance of the oil prices in 2013 at the level of 2012, the price increasing to \$120 per barrel by 2016.

positions declared to the employment agencies is growing, and the substitution coefficient is rising. Despite the slowdown of the economic growth rates, the unemployment does not cease to lower. In April 2013 the unemployment made 4.2 m or 5.6% of the economically active population (based on the ILO methodology). Taking into account the existing trends at the labor market, the level of the unemployment by the end of the year will remain at the same level, the number of the employed being 67.7m. ●

## RUSSIAN INDUSTRY IN APRIL 2013

S.Tsukhlo

*The business surveys carried out by the Gaidar Institute in April 2013<sup>1</sup> pointed to a worsening situation for Russian industrial enterprises. The ongoing drop in demand increased the share of excess inventory and forced the surveyed enterprises to refrain from price rising both in April and in the months to come. The enterprises saw the major obstacle to output growth not in the high interest rates on credits, but in the low demand for their products and in the uncertainty of the current economic situation.*

### Demand for Industrial Products

Judging from the surveys, the demand for industrial products continued to dwindle in April, as implied by both the initial data and the data cleared of seasonality. In April, the initial data pointed to a negative sales balance – the first negative sales balance since the beginning of the post-crisis recovery: in 2010–2012, this indicator had always been positive, periodically climbing to +11 points. In April, it amounted to -6 points with regard to the initial data, and to -14 with regard to the data cleared of seasonality (*Fig. 1*). A record post-crisis low had been registered by the surveyed enterprises in July 2012. When cleared of seasonality, it had amounted to -17 points.

Sales forecasts had been on the decline for third month in a row. With regard to the data cleared of seasonality, the April 2013 sales forecasts were worse than the April sales forecasts in 2010–2012, while with regard to the initial data they were close to slipping into the minus range. Expectations of a revival in demand were at an all-time low.

### Stocks of Finished Products

The surveyed enterprises' estimates of their stocks of finished products confirmed the weakness of the current demand and the enterprises' uncertainty that it may actually become more robust in the next few months. In March–April 2013, the proportion of responses 'above the norm' had grown to its record high since September 2009, when industry had just got rid of its crisis-time excess inventory and the proportion of responses 'above the norm' hovered around 35 to 40%. In April, the proportion of such responses amounted to 25% (*Fig. 2*).

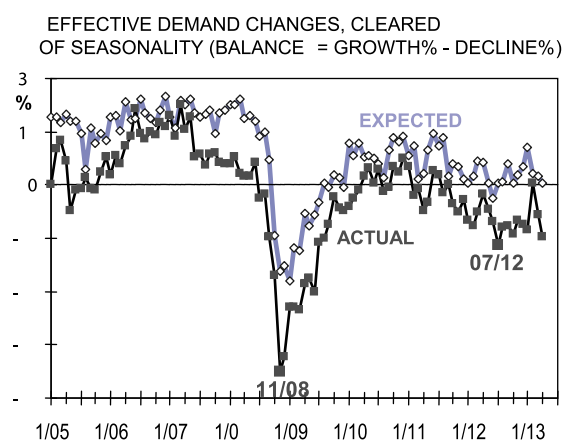


Fig. 1

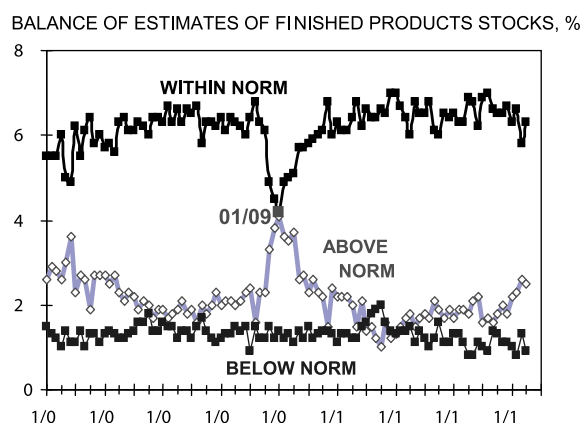


Fig. 2

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.

**Output**

The existing data on the volume of industrial output in April 2013 have all chances to once again cause discord within the RF Government’s ‘economic bloc’ – the latter being accustomed to deal only with a very modest range of statistical indicators adopted by Russia’s statistical agencies. For example, such a discord erupted in March, when the RF Ministry of Economic Development publicly accused *Rosstat* [RF Federal State Statistics Service] of having used improper methods for cleaning initial data of seasonality. It should be noted that, when the industrial output index changes only insignificantly, the final result becomes hostage to the formal methods and so fails to adequately reflect the actual processes taking place in industry. At present it has become evident that the data on a growth or decline in output, when taken alone, no longer suffice for adequately describing and understanding these processes.

In April, Russian industry showed a growth rate extremely low for that month: the balance of changes in output (the pace of output growth) declined to +6 points, although in the previous post-crisis years it had never dropped below +20 points, and even in the crisis year 2009 the balance of changes in output had amounted to +9 points. When the first April 2013 data were cleared of seasonality, the balance declined to -5 points, which represented the worst result since June 2009 when Russia’s industry began to exit the acute phase of the latest crisis (*Fig. 3*).

Having reached their traditional seasonal peak in January–February, the output plans of enterprises began their traditional decline. By April, they had lost 21 points with regard to the initial data and 9 points with regard to the data cleared of seasonality. As a result, the plans of the past few months stabilized at the level of +12 points, which corresponds to the level of the same months of 2012. At the same time, their correspondence with producers’ demand forecasts for 2013 increased, rising to 78% (vs. 69% last year). Such a high result had been rarely recorded in the Gaidar Institute’s surveys (as a rule, during the periods of turmoil in Russian industry), while a higher degree of ‘match’ between output plans and demand forecasts had been achieved only in November–December 2008. Thus, at present, the situation in Russia’s industry is definitely complicated (pre-crisis?), and industrial enterprises are trying to alleviate the ‘looming’ crisis by composing their plans in such a way as to minimize their excess inventory.

**Producer Prices**

The pricing policy of industrial enterprises indicates that they are faced with serious sale problems. Having traditionally peaked at the beginning of 2013, in March–April the growth rate of producer selling prices dropped by 10 points to a virtual standstill (*Fig. 4*). A similar situation, in fact, had been observed in early 2012. However, at that time, a modest actual growth in producer prices had been accompanied by forecasts of their substantial growth in the nearest future. In 2013, the situation became different: the balance of pricing plans dropped from +20 points in January–February to +4 in April.

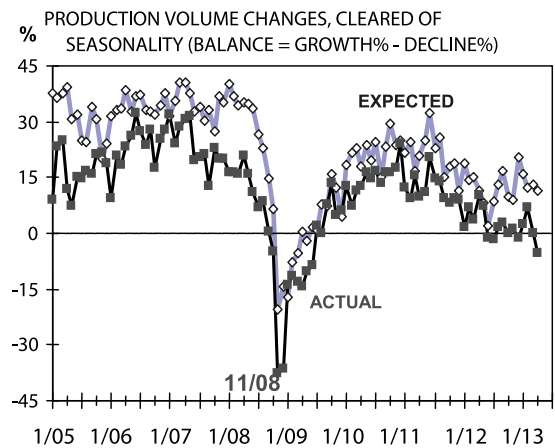


Fig. 3

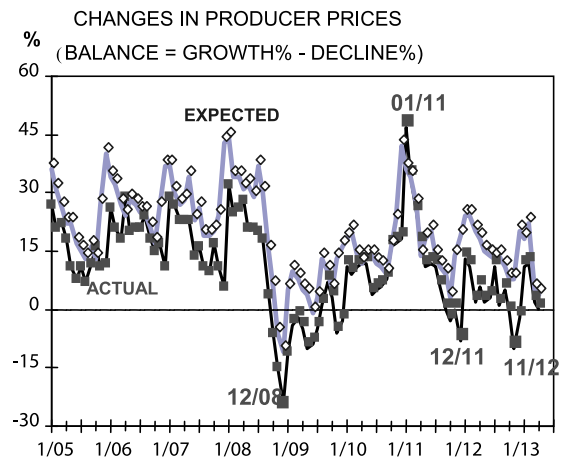


Fig. 4



### Actual and Planned Job Cuts

In February–April, industry saw a continuation of dismissals of workforce. Although the intensity of this process was lower than in January, the proportion of respondent stating recruitment never exceeded the proportion of respondents stating dismissals of workforce. In other words, while in 2010–2012 the number of workers in industry had demonstrated a small increase at the end of Q1 and the beginning of Q2, this did not happen in 2013. We can even say that, in 2013, the industrial worker’s readiness to quit matches the employer’s readiness to dismiss workforce. Workers are quitting their jobs because of the insufficient wages offered in industry, lured by the rising wages in other sectors of the economy. Their employers are not trying to stop them from quitting, because the ongoing negative changes in demand and production clearly necessitate further job cuts in industry. Recent experience indicates that, if an acute crisis comes, the authorities at all levels will not permit the employers to resort to massive dismissals of workforce. As a result, the proportion of respondents stating that their workforce was ‘above the norm’ practically equaled the proportion of respondents stating that their workforce was ‘below the norm’, while the proportion of respondents stating that their workforce was ‘within the norm’ was absolutely dominant (hovering around 75 to 80%).

### The Investment Plans of Enterprises

Having briefly entered the positive zone in March after a very long seasonal pause at the end of 2012 and the beginning of 2013, the investment plans of enterprises failed to remain in a positive trend in April and once again returned to zero, with 50% of enterprises planning to increase investment and another 50% planning to reduce it (Fig. 5). A downward adjustment of the investment trend took place in machine-building (to -5 points from +7 points in March), the timber industry (to -12 points from -3 in March), the chemical industry (to +7 points from +14 points in March), and light industry (to -21 points from -6 points in March). Positive changes in investment plans were registered in the food industry (+13 points in April vs. -30 points in March).

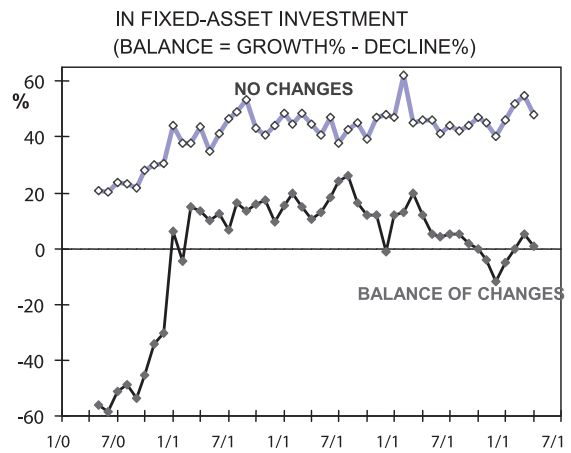


Fig. 5

### Crediting of Industry

In April 2013, the aggregate (‘above the norm’ + ‘within the norm’) credit availability remained practically unchanged (Fig. 6). As a result, this indicator had been hovering around 67 to 72% for twenty-second month in a row (since July 2011). Having climbed to 13% (its thirty-month high) in February 2013, the mean minimum rate on ruble-denominated credits offered by banks to enterprises dropped to 12.9% per annum, thus having shed 0.2 p.p. over the course of two months. In April, the lowest rates we are offered to ferrous metallurgy (11.1%) and the chemical industry (11.2%); the highest rates – to light industry (13.4%) and the construction industry (14.5%). ●

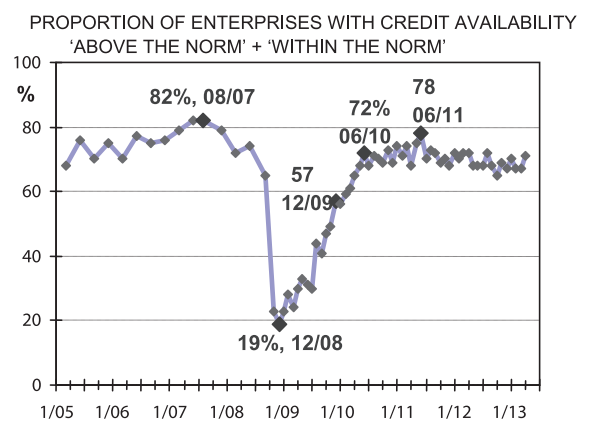
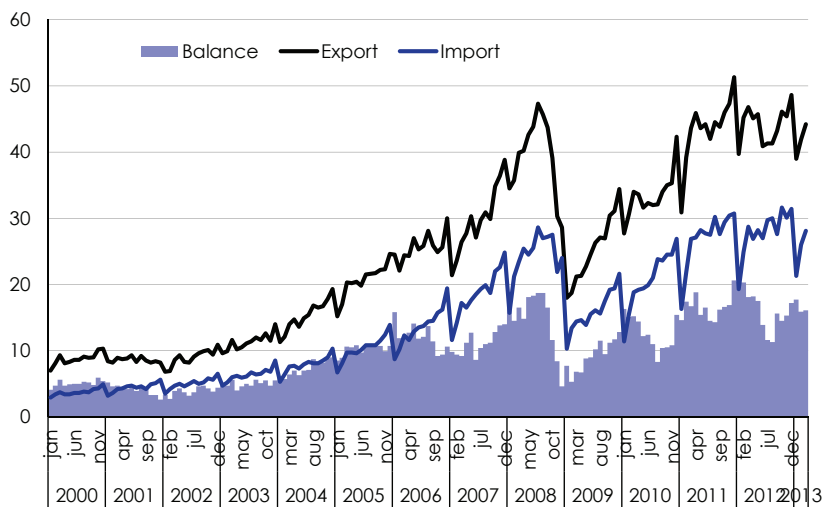


Fig. 6

## FOREIGN TRADE IN MARCH 2013

N.Volovik, K.Kharina

*In March 2013, a decrease in prices on the main commodities of the Russian export and slow-down of growth in the solvent demand as compared to March 2012 resulted in a reduction of the main indices of the Russian foreign trade. The Customs Union states have started to use more often the mechanisms of protection – which are not in conflict with the WTO rules – of domestic manufacturers from unfair foreign competition.*



Source: The Central Bank of the Russian Federation.

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

In March 2013, Russia's foreign trade turnover calculated on the basis of the methods of the balance of payments amounted to \$72.4bn which is 4.2% lower than the index of March 2012. The negative dynamics was observed over all the indices of the Russian foreign trade. As compared to March 2012, the Russian export of goods decreased by 5.6% to \$44.2bn, while Russian import, by 2.1% to \$28.1bn. In March 2013, the foreign trade surplus of the Russian Federation decreased by 11.2% as compared to the same period of 2012 (to \$16.1bn).

In the 1<sup>st</sup> quarter of 2013, the situation on the global commodity markets was characterized by

negative dynamics due to weak economic growth rates of developed countries and worsening of the economic development indices of China.

In March 2013, the range of global oil price fluctuations was insignificant: within that month the maximum Brent oil price of \$111.7 a barrel and the minimum price of \$107.29 a barrel were registered on March 5 and March 21, respectively. The monthly average price was formed in the amount of \$109.23 a barrel which is 6.2% and 12.6% lower than in February 2013 and March 2012, respectively.

In March 2013, prices on Urals oil fell 6.8% as compared to the previous month and amounted to \$106.7 a barrel which is 13% lower than in March 2012. In the 1<sup>st</sup> quarter of 2013, Urals oil price amounted to \$111.0 a barrel or 94.7% of the respective period of the previous year.

According to the data of the monitoring from April 15, 2013 till May 14, 2013, the average price on Urals oil amounted to \$100.4 a barrel. As a result, from June 1, 2013 the export duty on crude oil will go down 5% from \$378.4 a ton in May to \$359.3 a ton. From June 1, 2013, the reduced rate of the export duty will amount to \$165.5 a ton against \$179.8 a ton a month earlier. From June 1, 2013, the reduced rate on high-viscosity oil – approved in the amount of 10% of the overall oil duty – will be reduced to \$35.9 a ton against \$37.8 a ton in May.

From June 1, 2013, the single rate of the export duty on light and dark oil products, except for petrol, will amount to \$237.1 a ton (\$249.7 a ton a month earlier). It is to be noted that in June 2013 the duty on petrol preserved at the level of 90% of the duty on oil will be reduced to \$323.3 a ton against \$340.6 a ton in May. From June 1, 2013, the duty on liquefied hydrocarbon gas will be at the level of \$72.2 a ton (\$71.5 a ton in the previous month).

According to the data of the London Metal Exchange, in March 2013 as compared to March 2012 prices on aluminum, copper and nickel fell by 12.6%, 9.7% and 10.6%, respectively. As compared to February 2013, prices on aluminum, copper and nickel fell by 6.8%, 5.1% and 5.7%, respectively. In the 1<sup>st</sup> quarter of 2013, aluminum, copper and nickel were traded 8.1%, 4.6% and 12.0% lower, respectively, as compared to the same period of the previous year.

Table 1

## MONTHLY AVERAGE GLOBAL PRICES IN MARCH OF THE RESPECTIVE YEAR

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Oil (Brent), USD/a ton	25.5	24.1	29.1	33.6	53.7	60.9	62.05	102.3	47.42	79.8	114.44	124.93	109.2
Natural gas*, USD/1000 m <sup>3</sup>	4.57	2.97	3.74	3.86	5.52	7.99	8.37	11.04	10.9	8.93	9.37	11.97	11.87
Petrol, USD/a gallon	0.890	0.783	1,005	1.12	1,581	1.7	1.91	2,672	1,414	2.25	2.99	3.29	2.79
Copper, USD/a ton	1780.3	1605	1681.6	3018.0	3254.4	5103	6452.5	8421.9	3749.8	7462.8	9530.7	8470.8	7645.6
Aluminum, USD/a ton	1511.2	1403.2	1393.1	1660.0	1988.6	2429	2761.7	2986.8	1335.8	2205.6	2552.6	2184.2	1909.6
Nickel, USD/a ton	6140.3	6503.3	8402.4	13730	16190	14897	46324.8	31005.7	9696.4	22461.3	26811.7	18660.8	16724.9

\* Market of Europe, average contract price, Franco-border.

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

In March 2013, the average value of the FAO food price index amounted to 213.2 points which is 2.3 points higher than the February value. Growth took place due to an increase in prices on dairy products and sugar. Prices on meat, butter and fats and grain decreased a little.

In the 1<sup>st</sup> quarter of 2013, as compared to the 1<sup>st</sup> quarter of 2012 the Russian export of goods fell by 4.9% and amounted to \$125.2bn. A reduction in the monetary volume of the export took place due to a decrease both in physical volumes of the export of goods (a reduction of 1%) and average contractual prices (a reduction of 1.1%).

The negative dynamics of physical volumes of the exported Russian commodities became the consequence of a drop in export of fuel and energy commodities whose share accounted for 72.6% in the export structure in the 1<sup>st</sup> quarter of 2013. It is to be noted that the physical volume of export supplies of crude oil, oil products and natural gas decreased by 2.9%, 6.4% and 2.9%, respectively. It is to be noted that the effect of the price factor was multidirectional, however, a 3.8% reduction in contractual prices on oil was not made up for insignificant growth in prices on natural gas (a 0.8% increase) and oil products (a 0.6% increase).

As regards other items of the aggregate commodity nomenclature, the monetary volume of export decreased as well: metals and metal products (by 4.8%), chemical products (2.2%), wood and pulp and paper products (2.1%), machines, equipment and means of transportation (1.8%) and food products and agricultural primary products (14.8%).

In the first quarter of 2013, the import of goods amounted to \$75.4bn which is 3.4% higher than the same index of the previous year. Growth in the imports was caused by an increase in import purchases of chemical products (growth of 9.6%), textile products and footwear (7.3%) and food products and agricultural primary products (5.9%). The import of machines, equipment and means of transportation increased by the mere 0.1% due to growth in the import of wire and wireless telephones (18.6%) and receiving equipment (16.3%). It is to be noted that in January–March 2013 the import of cars fell by 8.7% to 208,600 cars as compared to the same period of 2012.

In the 1<sup>st</sup> quarter of 2013, Russia's foreign trade surplus amounted to \$49.8bn which is 15.2% lower than the index of the same period of 2012.

In the 1<sup>st</sup> quarter of 2013, in the geographic structure of the Russian foreign trade the share of the EU countries rose to 50% (against 49.4% in the 1<sup>st</sup> quarter of 2012). Also, the share of APEC countries rose from 23.2% to 24.4%. It is to be noted that the share of CIS countries keeps decreas-

ing: in the 1<sup>st</sup> quarter of 2013 it amounted to the mere 12.7% against 14.8% in the 1<sup>st</sup> quarter of 2012.

For the first time since the 2009 crisis, the volume of mutual trade between the countries of the Customs Union has decreased. In the 1<sup>st</sup> quarter of 2013, it amounted to \$15bn which is 18.1% lower than in the 1<sup>st</sup> quarter of 2012. A decrease in the mutual trade volume can be explained by substantial reduction of supplies of oil products from the Russian Federation to Belarus. Without taking into account fuel and energy commodities, the volume of mutual trade of member-states of the Customs Union increased by 1.3% as compared to the 1<sup>st</sup> quarter of 2012.

The member – states of the Customs Union use more often non-tariff measures of protection of their domestic market. By Decision No. 133 of May 14, 2013 of the Eurasian Economic Commission (EEC), antidumping duties on light commercial vehicles (LCV) imported from Germany, Turkey and Italy to the territory of the Customs Union were introduced for the term of five years. The decision comes into effect 30 calendar days after the day it was officially published, that is, on June 16, 2013.

The antidumping investigation was initiated by OOO Sollers-Elabuga. The analysis of the Russian market of LCV from 2008 till 2011 showed that with a 29.1% reduction of the total volume of import of light commercial vehicles to the Customs Union the import of LCV from Germany, Italy and Turkey increased by over 23%. It is to be noted that the share of the dumping import of LCV was growing steadily. According to the data of the EEC, in 2011 the share of the dumping import in the total volume of import amounted to 95.4%, having increased by 40.5% as compared to 2008. In 2011, the weighted average price on light commercial vehicles from Germany, Italy and Turkey fell by 9.5% as compared to 2008.

In 2011, the demand in LCV in the member-states of the Customs Union rose 3.7 times over as compared to 2009, but the share of such cars manufactured in the Customs Union in the consumption volume decreased by 20.1 p.p. in the 2009–2011 period; in 2010 the profit of enterprises manufacturing LCV in the territory of the Customs Union fell by 17% as compared to 2009, while in 2011 that industry of the Customs Union's economy sustained losses and production profitability became negative. So, the cost of production rose by 42.7%, while due to efforts to preserve competitive edge in a situation of the growing dumping import selling prices rose by the mere 6.4%. The investigation established the fact of the dumping import from Germany, Italy and Turkey and the material damage it caused to the industry of the member-states of the Customs Union.

The antidumping duty for all the German manufacturers and Sevel S.P.A. Italian plant (owned by PSA Peugeot Citroen) and other Italian manufactures will amount to 29.6% and 23% of the customs value, respectively, while that for Turkish manufacturers, including Ford Otosan Sanayi Anonim Sirketi amounts to 11.1%. The antidumping duty is added to the current rate of 10%.

According to the data of the European Business Association, in 2012 the sales of LCV in Russia rose by 7% to 188,095 units. It is to be noted that the leader was the GAZ Group (90,247 units). Among foreign brands, the leading positions were occupied by Volkswagen (16,161 units), Ford (12,962 units) and Peugeot (9,933 units).

Imposition of antidumping duties on the import of LCV will sooner result in reduction of the import. To preserve their positions on the Russian market, foreign car manufacturers will have to locate their production of LCV in the Russian Federation. So, Ford together with Sollers-Elabuga Company has started production of some LCV models in Tatarstan. Fiat, Peugeot-Citroen and Renault are considering the opportunity of launching production of LCV at ZiL. Mercedes is planning production of LCV Sprinter this year on the basis of capacities of the Gaz Group. However, organization of the assembly production will require quite a lot of time and due to that domestic manufacturers will manage to increase their share on the market of the member-states of the Customs Union.

It is to be noted that German car manufacturers do not agree with introduction of anti-dumping duties on LCV and intend to appeal against that decision in accordance with the adopted procedures. French manufacturers are considering the possibility of making a request to change or cancel that decision. Companies have the right to appeal against the decision at the WTO Arbitration Court or the Court of the Eurasian Economic Community. In a year, they may refer to the EEC with a request to carry out a duplicative investigation and on the basis of the results of that in-



investigation change or cancel those measures. It is to be noted that they will have to show that the market situation for the industry has improved.

In April 2013, the EEC completed a duplicative investigation as regards the import of caramel from Ukraine; the above investigation was carried out due to a request of Ukrainian producers: DP Konditerskaya Korporatsia ROSHEN, PAO Kharkovskaya Biskvitnaya Fabrika and PAO Konditerskaya Fabrika Kharkovchanka.

A special protective measure in respect of caramel was introduced in the Russian Federation by Resolution No. 445 of June 3, 2011 of the Government of the Russian Federation for the period of three years as a special duty in the amount of \$294.1 a ton and was applied in the Russian Federation from July 8, 2011. In accordance with the Agreement of November 19, 2010 on the Procedure for Application of Special Protective, Anti-Dumping and Compensating Measures During the Transition Period, the Russian measure was applied to the single customs territory of the Customs Union.

In the course of the investigation, it was established that in the first half of 2012 as compared to the first half of 2011 in a situation of a 4.1% reduction of the volume of caramel consumption in the Customs Union production of caramel in the member-states of the Customs Union remained virtually unchanged, while sales volumes increased. It is to be noted that a 30.7% reduction of the import volume of caramel permitted to increase by 5.1 p.p. the share of goods of the member-states of the Customs Union.

In the same period, the weighted average selling price fell by 1.3 % with a 11.4% decrease in the cost of production; the above factor permitted enterprises to increase the level of profitability to 4.4%, while in the first half year of 2011 enterprises sustained losses. So, special protective measures in respect of the import of caramel had a positive effect on the industry in question. As a result, the Collegium of the EEC made a decision to reduce the effective rate of the special duty on caramel.

The reduction will take place in two stages: from June 15, 2013 to \$283.8 a ton and from December 15, 2013 to \$273.5 a ton.

In the course of the investigation, it was established that the share of the import of caramel from Brazil exceeded the threshold point of 3% of the total import volume of caramel and the above special protective measure would now be applied to it, as well. ●

## STATE BUDGET IN JANUARY–APRIL 2013

T.Tishchenko

According to the Federal Treasury, in January–April 2013, the federal budget revenues have been decreased by 2.2 p.p. of GDP as compared with the same period of the last year due to a reduction of oil and gas revenues by 1.7 p.p. of GDP, as well as non-oil revenues decline by 0.5 p.p. of GDP. The consolidated budget of RF Subjects revenues have also decreased with Januar–March 2013 by 1.8 p.p. of GDP against the three months of 2012. In May of this year, the Government of the Russian Federation has submitted to the State Duma a bill<sup>1</sup> on amendments to the law on the federal budget, providing for reallocation of budgetary allocations within the limit of total expenditures of the federal budget for 2013 in the amount of Rb 171.2bn, including about Rb 4.3bn of budget expenditures to be addressed to additional funding in the Olympic Games “Sochi-2014”.

### Analysis of key indicators of the federal budget execution in January–April 2013

Over January–April 2013 revenues of the federal budget amounted to Rb 4223.4bn, or to 20.9% of GDP, which is by 2.2 p.p. of GDP lower than the relevant period of the previous year (*Table 1*). Oil and gas revenues have been decreased by 1.7 p.p. of GDP against the first four months of 2012. Budget expenditures for January – April 2013 amounted to Rb 2087.6bn. (21.2% of GDP), which is by 2.3 p.p. of GDP lower than the expenses for the same period of the previous year.

As of the results of 2013 four months, the federal budget was executed with a deficit of Rb 74.8bn (0.4% of GDP), which corresponds to the deficit as a GDP share in January–April of the previous year. Non-oil deficit has decreased by 1.6 p.p. of GDP (10.7% of GDP) as compared with the corresponding period of the previous year.

Table 1

KEY INDICATORS OF THE RF FEDERAL BUDGET WITHIN JANUARY APRIL 2012–2013

	January–April 2013		January–April 2012		Change, p.p. of GDP
	Rb bn	GDP%	Rb bn	GDP%	
Revenue, including:	4223.4	20.9	4065.7	23,1	-2,2
Oil-an-gas revenue	2087.6	10.3	2104.8	12,0	-1,7
Expenditures, including:	4298.2	21.2	4129.2	23,5	-2,3
Percentage expenditures	140.5	0.7	122.7	0,7	0,0
Non-percentage expenditures	4157.7	20.5	4006.5	22,8	-2,3
Federal budget surplus (deficit)	-74.8	- 0.4	-63.5	- 0,4	0,0
Non-oil and gas deficit	-2162.4	-10.7	-2168.3	-12,3	1,6
GDP estimates	20220		17577		

Source: Ministry of Finance of Russia, RF Federal Treasury, Gaidar Institute assessments.

Within four months of the current year revenues to the federal budget from income tax remained at the level of 2012, 0.5% of GDP (*Table 2*). Revenue from domestic VAT in January–April 2013 has decreased both, in absolute and in relative terms (Rb 22.4bn, i.e., by 0.6 p.p. of GDP) as compared with the relevant period of the last year. Herewith, revenues to the federal budget in terms of domestic VAT in the GDP share are declining within three months. Thus, as of February and March of this year results, revenue from this tax has decreased by 0.3 p.p. of GDP as compared with the same period of the last year. Revenues from the import VAT in January–April of 2013 have decreased by 0.2 p.p. of GDP against the same period of the last year.

In terms of domestic and import excise taxes, revenues of the federal budget over the four months of 2013 have increased by 0.2 p.p. of GDP and 0.01 p.p. of GDP as compared with January–April 2012, accordingly. Revenues to the federal budget over four months of the current year from MET

and foreign trade have decreased by 0.6 p.p. of GDP and 0.9 p.p. of GDP, respectively, as compared to January–April of 2012.

Table 2

DYNAMICS OF FEDERAL BUDGET REVENUES FROM BASIC TAXES IN JANUARY–APRIL 2012–2013  
IN ABSOLUTE TERMS AND GDP %

	January–April 2013		January–April 2012		Change, p.p. of GDP
	Rb bn	GDP%	Rb bn	GDP%	
1. Revenue, including:					
corporate profit tax	112.2	0.5	99.6	0.5	0.0
VAT on goods sold in the RF territory	636.7	3.1	659.1	3.7	-0.6
VAT on goods imported to the RF territory	520.1	2.5	471.2	2.7	-0.2
Excise duties on goods manufactured in the RF territory	136.1	0.7	96.2	0.5	0.2
Excise duties on goods imported to the RF territory	17.4	0.09	15.7	0.08	0.01
MET	832.2	4.1	828.7	4.7	-0.6
2. Revenue from external economic activities	1592.8	7.9	1544.0	8.8	-0.9

Source: Federal Treasury, Gaidar Institute assessments.

Table 3

FEDERAL BUDGET EXPENDITURES IN JANUARY–APRIL 2012–2013

	January–April 2013		January–April 2012		Change, p.p. of GDP
	Rb bn	GDP%	Rb bn	GDP%	
Expenditures, total	4298.2	21.2	4129.2	23.5	-2.3
Federal issues	252.9	1.2	218.8	1.2	0.0
National defense	901.9	4.5	777.9	4.4	0.1
National defense and law enforcement	552.6	2.7	474.9	2.7	0.0
National Economy	461.2	2.3	426.0	2.4	-0.1
Housing and public utilities	10.7	0.05	16.0	0.09	-0.04
Environmental protection	9.1	0.04	8.1	0.05	-0.01
Education	268.5	1.3	260.0	1.5	-0.2
Culture and cinematography	21.7	0.1	27.7	0.1	0.0
Healthcare	191.6	0.9	216.9	1.2	-0.3
Social policy	1226.9	6.0	1320.8	7.5	-1.5
Physical training and sports	16.4	0.08	15.4	0.08	0.0
Mass media	30.6	0.1	27.7	0.1	0.0
Public and municipal debt servicing	140.5	0.7	122.7	0.7	0.0
Intergovernmental transfers	213.3	1.0	216.3	1.2	-0.2

Source: Federal Treasury, Gaidar Institute assessments.

The growth of federal budget expenditures over four months of this year against January–April 2012 in terms of GDP share was noted only under the “National Defense” budget line by 0.1 p.p. of GDP. Under the other lines of the federal budget expenditures in terms of GDP share in the four months of the year remained at the level of January–April 2012.

Cash execution of the federal budget expenditures in January–April 2013 amounted to 32.0% of the annual volume; herewith, under the section of “Housing and public utilities” it is performed by 7.1%, under “Culture and cinematography” – by 22.3%, under “National economy” – by 25.4% of the annual target, while under the lines “Water resources policy” and “Road system policy” it was executed January–April 2013 only by 12.6% and 14.1% of the federal budget respectively.

The problem of the use of the Road Fund the Subjects of the Russian Federation was announced within the framework of the “straight line” by the President of Russia<sup>1</sup>. In particular, Vladimir Putin said that the governors repeatedly applied to the government to allow them to readdress budgetary funds allocated for road construction in view of the lack of capacity to implement projects in

1 <http://kremlin.ru>

road construction, but the Head of state noted, that the Road Fund must be completely focused on the development of the transport network. Nevertheless, the Government of the Russian Federation has been instructed<sup>1</sup> before September 1, 2013 to make amendments to the Russian legislation, providing for the use of regional and municipal road funds for roads, connecting settlements and areas of forest exploitation and wood processing to the public roads. Such decisions raise concerns in regard to expediency of allocation of the budget in a lack of technical capacities not on the public roads, but and solely in the interest of timber manufacturers and tentative development of corruption schemes used for the roads construction for local elite cottage settlements. The situation with road funds demonstrates, that the problems of the industry development are provoked not only by the lack of budget funding, but also organizational and technical factors.

The volume of the Reserve Fund as of 01.05.2013 amounted to Rb2652.9bn (+Rb44.35bn as of April 2013), the National Welfare Fund made Rb2727.8bn (+Rb31.3bn. against April 2013).

### Execution of the consolidated budget of the RF Subjects in Januar–March 2013

According to the Federal Treasury, the *consolidated revenues of RF Subjects* for Januar–March 2013 amounted to Rb1736.8bn, or 11.6% of GDP, which is by 1.8 p.p. of GDP lower than in the same period of 2012 (*Table 4*).

Table 4

KEY INDICATORS OF THE RF SUBJECTS CONSOLIDATED BUDGET EXECUTION  
IN JANUAR–MARCH 2012–2013

	Januar–March 2013		Januar–March 2012		Change p.p. of GDP
	Rb bn	GDP%	Rb bn	GDP%	
Revenues, including:	1736.8	11.6	1736.0	13,4	-1,8
Corporate profit tax	474.7	3.2	502.4	3,9	-0,7
Individual income tax	506.8	3.4	457.7	3,5	-0,1
VAT, domestic	109.1	0.7	95.8	0,7	0,0
Excise duties in the RF territory	66.5	0.4	57.8	0,4	0,0
Aggregate income tax	127.3	0.8	121.7	0,9	-0,1
Property tax	383.5	2.6	425.6	3,3	-0,7
Non-repayable proceeds from other budgets of the RF fiscal system	1543.0	10.4	1449.2	11,2	-0,8
Expenditures, including:	193.8	1.3	286.8	2,2	0,9
Surplus/Deficit of the RF Subjects consolidated budget	14889		12942		
GDP estimates					

Source: Federal Treasury, Gaidar Institute assessments.

Expenditures of the consolidated budget of the Russian Federation Subjects in the three months of the current year have decreased relative to the same period of the last year by 0.8 p.p. of GDP and accounted to 10.4% of GDP, or Rb1543.0bn. As of January–March 2013, the RF Subjects' budgets were executed with a surplus in the amount of Rb193.8 bn, or for 1.3% of GDP, which is by 0.9 p.p. of GDP below the level of the corresponding period of the previous year.

The reduction of consolidated RF Subjects' budgets over three months in 2013as compared with the same period of 2012 was based on the reduced revenues from income tax by 0.7 p.p. of GDP, personal income tax – by 0.1 p.p. of GDP, property tax – by 0.1 p.p. of GDP, and from revenues from other budget system of the Russian Federation – by 0.7 p.p. of GDP

Revenue to the consolidated budget of the Russian Federation Subjects from domestic excise tax and from the tax on total income for Januar–March 2013 in terms of GDP share has remained at the level of the corresponding period of the previous year.

Expenditures of the consolidated budget of the Russian Federation Subjects (*Table 5*) in the first three months of this year have been reduced by most of the sections against to the same period of 2012, including: “National Economy”, “Health Care”, “Social Policy” by 0.3 p.p. of GDP each, for “Housing and public utilities” by 0.2 p.p. of GDP, for “Intergovernmental transfers” by 0.027 p.p.

1 <http://kremlin.ru/assignments>



of GDP. Within Januar–March 2013 there were increased expenditures in terms of GDP against the three months of the previous year for the budget line “Education” (by 0.2 p.p. of GDP). In the other sections of the budget of the Russian Federation expenditures of the RF Subjects in terms of the GDP share remained at the level of the corresponding period of 2012.

Table 5

RF SUBJECTS CONSOLIDATED BUDGET EXECUTION IN TERMS OF EXPENDITURES  
IN JANUAR–MARCH 2012–2013

	Januar–March 2013		Januar–March 2012		Change, p.p. of GDP
	Rb bn	GDP%	Rb bn	GDP%	
Expenditures, total	1543.0	10.4	1449.2	11.2	-0.8
<i>including:</i>					
Federal issues	98.5	0.7	93.1	0.7	0.0
National defense	0.6	0.004	0.5	0.004	0.0
National defense and law enforcement	14.6	0.1	14.8	0.1	0.0
National Economy	223.4	1.5	231.5	1.8	-0.3
Housing and public utilities	111.4	0.7	116.2	0.9	-0.2
Environmental protection	3.6	0.02	3.2	0.02	0.0
Education, total:	475.5	3.2	386.8	3.0	0.2
Culture and Cinematography	51.5	0.3	46.0	0.3	0.0
Healthcare	240.8	1.6	240.9	1.9	-0.3
Social policy	271.3	1.8	266.9	2.1	-0.3
Physical training and sports	26.6	0.2	24.4	0.2	0.0
Mass media	8.0	0.05	7.0	0.05	0.0
Public and municipal debt servicing	16.7	0.1	13.3	0.1	0.0
Intergovernmental transfers	0.5	0.003	4.3	0.03	-0.27

Source: Federal Treasury, Gaidar Institute assessments.

Therefore, the dynamics of the revenue part of the federal budget and the consolidated budgets of the Subjects of the Russian Federation demonstrates a tendency to a reduction of from the major tax and non-tax proceeds; however, the expenditures are also getting reduced, so the deficit is not greatly changed. ●

## RUSSIAN BANKING SECTOR IN APRIL 2013

M.Khromov

*In April 2013, the Russian banking sector was driven by the same principal trends that were observed in the first quarter of the year. Real sector lending kept slowing down in spite of higher growth rates in household savings. In addition, allowances for provisions for losses on loans and other assets began to have an increasingly inhibitory effect on the financial efficiency of the Russian banking sector.*

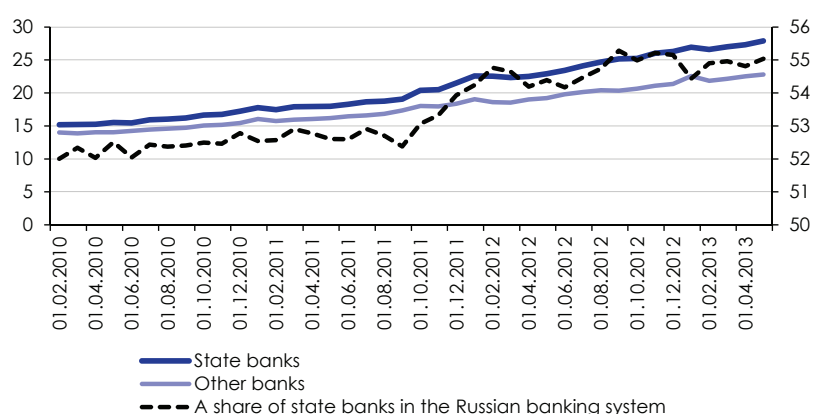


Fig. 1. Dynamics in state and other banks' assets (Rb trillion), and a share of state banks in the assets (%), right-hand grid

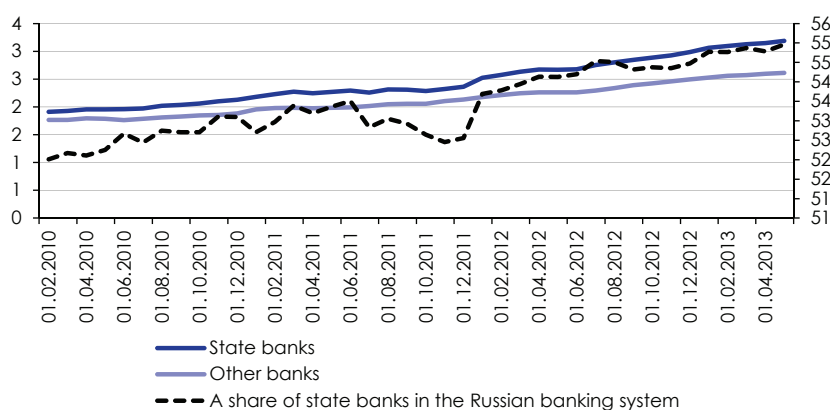


Fig. 2. Dynamics in state and other banks' equity capital (Rb trillion), and a share of state banks in capital (%), right-hand grid

### Fundraising

The growth in household bank deposits which was reported in the previous review continued in April 2013. Household bank deposits reached their highest growth value of 3.1% (Rb 458bn) during the month. Ignoring year-end peak gains, it was the highest growth rates in bank deposits since the spring of 2010. Annual growth rates reached 21.0%, thereby resuming the values of the fall of 2011.

Balances of corporate accounts were reduced by 0.4% (-Rb 51bn) in response to seasonal tax payments to the federal budget during the month. Nevertheless, annual growth rates in this type of liabilities increased up to 12.1%. However, it is too soon to speak about any steady growth dy-

Total assets in the Russian banking sector increased 1.7% in April 2013, gaining Rb 870bn in absolute terms and reaching Rb 50.7 trillion in total volume. The assets in the Russian banking system increased 19.0% over the past 12 months. Annual growth rates ranged within 18 to 19% over the first four months of the year. This means that early in the year the Russian banking system saw approximately the same growth rates as in the preceding year.

Banks' equity capital increased 1.0% in April 2013. Profit remained the principal source of equity growth. Given capitalized profits of previous periods, banks' profit increased 1.5% during the month, whereas capital and surplus increased no more than 0.5%.

Russian banking sector's profit amounted to Rb 84bn in April 2013, being equal to the average value during the past six months. However, banks' net allowances for provisions for losses on loans and other assets kept growing. They grew up to Rb 50bn in volumes in April 2013, being highest over the past year and a half.

namics in corporate accounts and deposits.

A shift from current accounts in favor of term deposits was observed in the term structure of corporate accounts and deposits in April 2013. Balances of settlement and current accounts contracted 3.1% (Rb 359bn), whereas deposits increased 2.5% (Rb 296bn). As a result, term deposits accounted for more than 55% of total corporate accounts and deposits at banks, reaching a new highest.

Annual growth rate in bank retail loans in arrears dropped to 36% at the end of April 2013. Unsecured loans declined faster than others, falling from their 2012 summertime peak values of more than 60% down to 47% at the end of the first quarter of 2013.

Slowed down bank lending in the retail market was followed by growth in borrowing costs. For example, weighted average cost of retail loans was 16.5% p.a. in Q1 2012 against 17.7% p.a. in Q1 2013, being higher than the pre-crisis values, despite a markedly lower inflation.

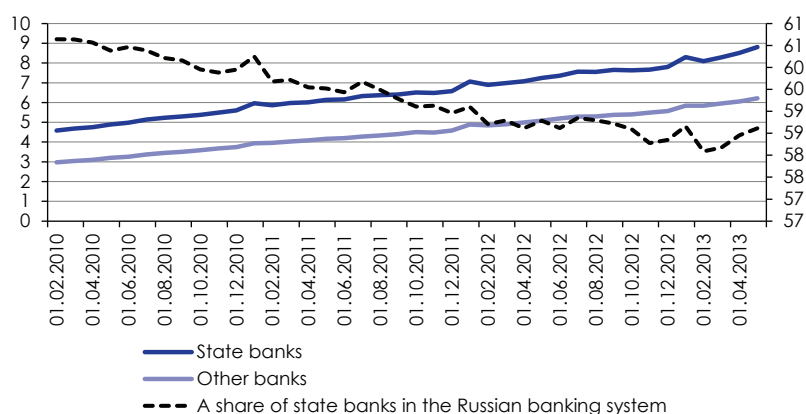


Fig. 3. Dynamics in state and other banks' retail deposits (Rb trillion), and a share of state banks in the retail deposit market (%; right-hand grid)

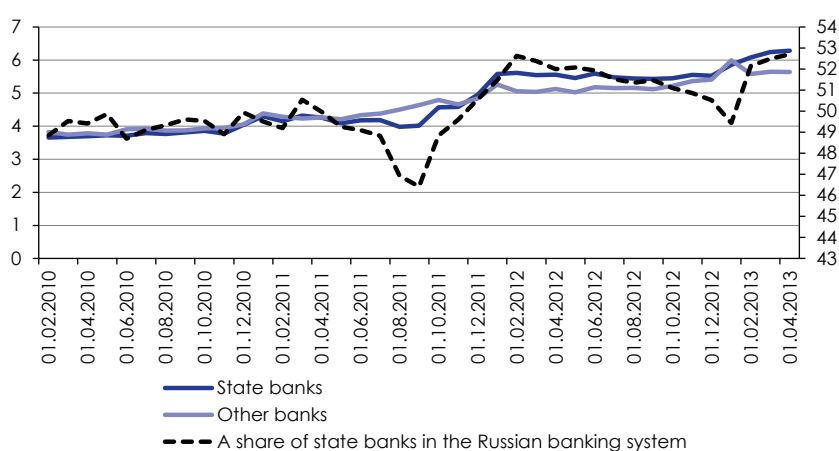


Fig. 4. Dynamics in corporate accounts with state and other banks (Rb trillion), and a share of state banks in the corporate account market (%; right-hand grid)

Table 1

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

	12.08	12.09	12.10	12.11	03.12	06.12	09.12	12.12	01.13	02.13	03.13	04.13
Liabilities, Rb trillion	28022	29430	33805	41628	41533	44266	45861	49510	48429	49165	49839	50693
Equity	14.1	19.3	18.7	16.9	17.5	16.8	16.9	16.2	16.8	16.7	16.7	16.6
Loans from the Bank of Russia	12.0	4.8	1.0	2.9	3.5	5.1	5.1	5.4	4.5	4.5	4.5	4.4
Interbank operations	4.4	4.8	5.5	5.7	5.1	4.8	5.1	5.6	5.4	5.4	5.4	5.0
Foreign liabilities	16.4	12.1	11.8	11.1	10.2	11.3	11.0	10.8	10.5	10.6	10.4	10.8
Retail accounts and deposits	21.5	25.9	29.6	29.1	29.4	29.4	28.7	28.9	29.1	29.3	29.6	30.0
Corporate accounts and deposits	23.6	25.9	25.7	26.0	25.7	24.0	23.3	24	24.1	24.2	23.9	23.4
Accounts and deposits of government agencies and local government authorities	1.0	1.0	1.5	2.3	1.4	1.5	2.5	1.6	1.1	1.0	1.4	1.9
Outstanding securities	4.1	4.1	4.0	3.7	4.8	4.5	4.8	4.9	5.2	5.3	5.2	5.2

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

## Loans issued

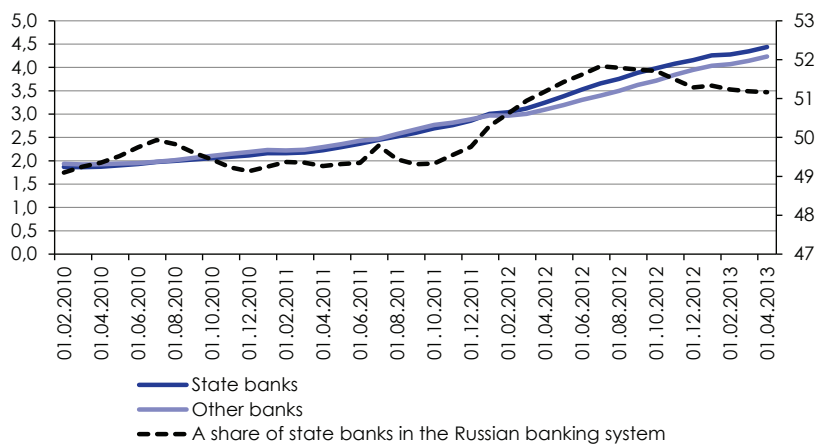


Fig. 5. Dynamics in state and other banks' retail loans, (Rb trillion), and a share of state banks in the retail loan market (% , right-hand grid)

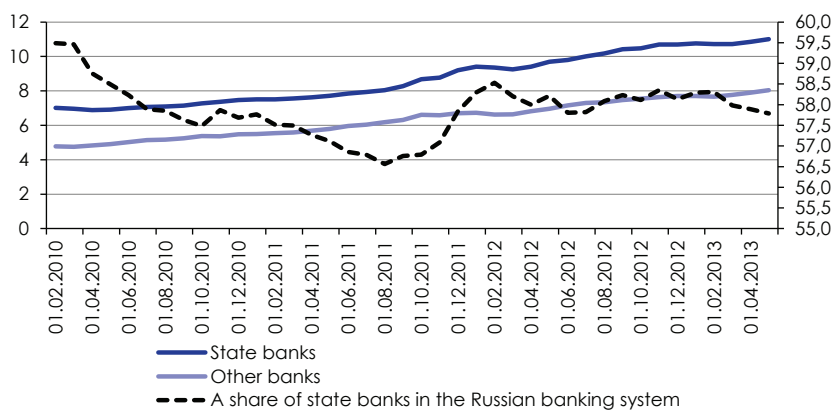


Fig. 6. Dynamics in state and other banks' corporate loans (Rb trillion), and a share of state banks in the corporate loan market (% , right-hand grid)

Lending to corporate customers kept slowing down. Loans in arrears increased 1.7% (Rb 311bn) in April, whereas annual growth rates in loans in arrears declined to 13.4%, being equal to the value observed early in 2011. Nevertheless, the quality of credit portfolio remained stable in the corporate segment of the market. Loans in arrears remained at 4.4%, while loan loss provisions accounted for 7.2% of total credit portfolio.

A combination of high interest rates and a substantial nominal volume of indebtedness entailed a heavier debt burden upon household income. In Q1 2013, scheduled (according to loan repayment schedules) household expenditures on bank loan service accounted for 12% of disposable household income (Rb 976bn) against 9% (Rb 473bn) at the height of the crisis in Q1 2009.

Higher debt burden upon household income degraded the quality of retail credit portfolio. A share of retail loans in arrears and volume of provisions for losses on retail loans began to grow early in the year. These values grew up in response to a higher growth rate in values of the loans in arrears and the provisions rather than slower growth in total credit portfolio. For example, the value of loans in arrears increased 15% since May 1, 2013 against just 6% during the preceding year.

The retail credit portfolio might grow at slower rates with gradual deterioration of its quality by the end of year. The occurrence of a large-scale bad debt crisis in this loan market segment will depend on the dynamics in household income and financial ability to timely discharge obligations to banks.

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

Table 2

	12.08	12.09	12.10	12.11	03.12	06.12	09.12	10.12	01.13	02.13	03.13	04.13
Assets, Rb trillion	28022	29430	33805	41628	41533	44266	45861	47096	48429	49165	49839	50 693
Cash and precious metals	3.0	2.7	2.7	2.9	2.4	2.5	2.6	2.6	2.6	2.5	2.5	2.7
Deposits in the Bank of Russia	7.5	6.9	7.1	4.2	3.2	3.0	2.8	2.7	2.9	3.1	3.3	3.0
Interbank operations	5.2	5.4	6.5	6.4	6.2	5.8	5.8	6.1	6.7	6.6	6.4	6.1
Foreign assets	13.8	14.1	13.4	14.3	14.2	14.2	13.9	14.3	14.0	14.6	14.5	15.0



Table 2, cont'd

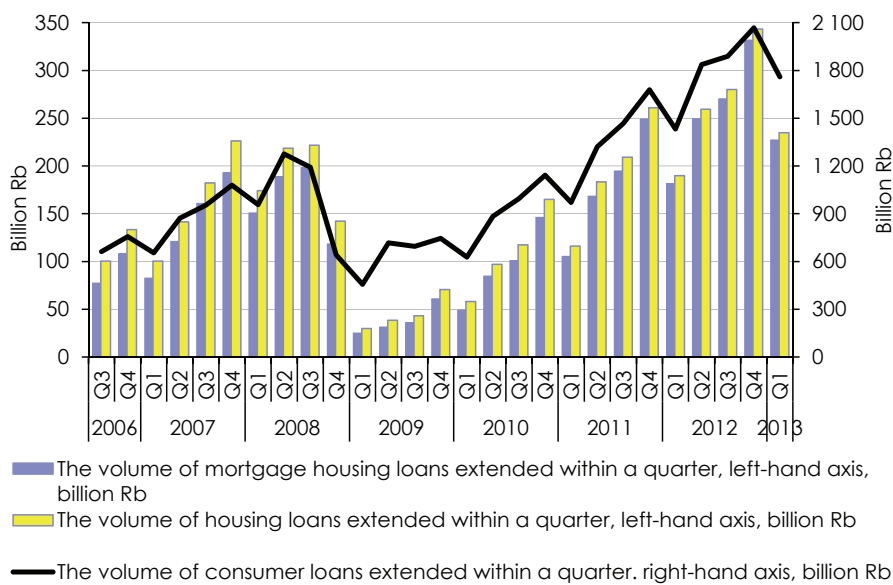
	12.08	12.09	12.10	12.11	03.12	06.12	09.12	10.12	01.13	02.13	03.13	04.13
Households	15.5	13.1	13.0	14.4	15.3	16.0	16.8	16.8	17.3	17.3	17.4	17.7
Corporate sector	44.5	44.5	43.6	44.0	44.4	43.6	43.4	42.9	42.3	42.1	41.9	41.5
State	2.0	4.2	5.1	5.0	4.9	3.8	3.3	3.2	3.7	3.3	3.2	2.9
Property	1.9	2.7	2.6	2.3	2.4	2.3	2.3	2.3	2.3	2.3	2.2	2.2

Source: Central Bank of Russia, IET's estimates. ●

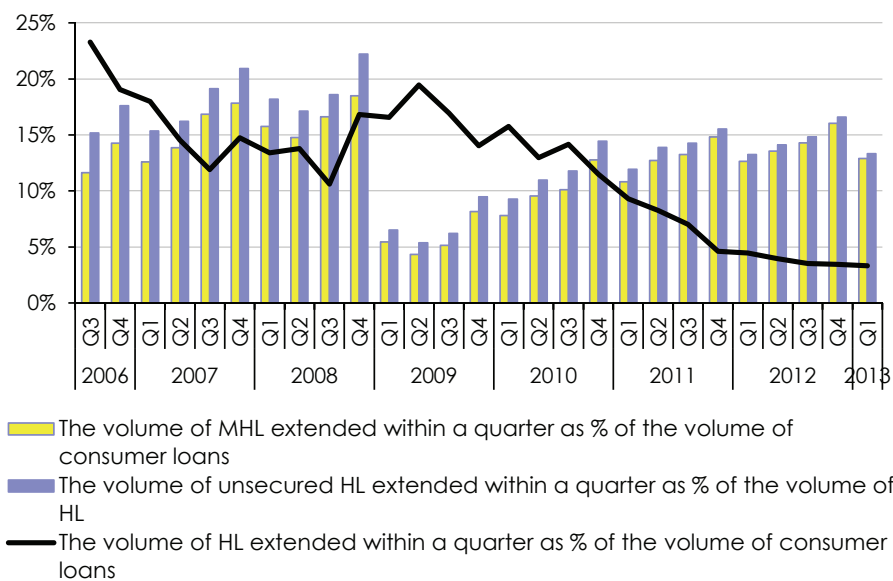
## MORTGAGE IN THE RUSSIAN FEDERATION IN Q1 2013

G.Zadonsky

Despite growth in interest rates on MHL in rubles in the first quarter of 2013, the total volume of the extended MHL exceeded by 25.18% (142,393 loans worth Rb 226.94bn during the quarter) the volume of loans extended in the 1<sup>st</sup> quarter 2012. As of April 1, 2013, the share of the overdue debt in rubles in relation to the outstanding debt decreased to 1.41%. The total debt on MHL without overdue payments increased up to 96.19%. In the 1<sup>st</sup> quarter of 2013, the weighted average rate on MHL in rubles extended from the beginning of the year kept growing and increased by 0.9 p.p. to 12.9% as compared to the minimum value of the 4<sup>th</sup> quarter of 2011.



Source: on the basis of the data of the Central bank of the Russian Federation.  
Fig. 1. Dynamics of lending within a quarter



Source: on the basis of the data of the Central Bank of the Russian Federation.  
Fig. 2. Dynamics of correlation between the volumes of consumer lending and housing lending

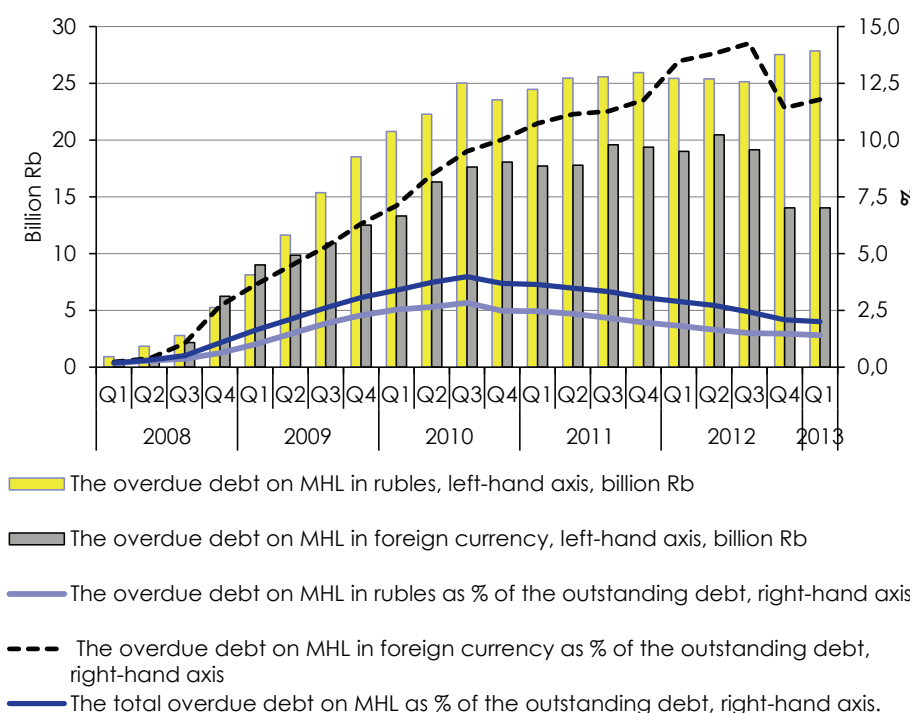
According to the data of the Central Bank of the Russian Federation, in the 1<sup>st</sup> quarter of 2013 credit institutions extended 151,205 housing loans (HL), including Rb 226.94bn worth of 142,393 mortgage housing loans (MHL) and Rb 7.79bn worth of 8,812 unsecured housing loans (UHL) as a difference between HL and MHL (Fig. 1). In the 1<sup>st</sup> quarter of 2013, the total volume of the extended MHL exceeded by 25.18% that of loans extended in the 1<sup>st</sup> quarter of 2012 (Fig. 1). As of April 1, 2013, the outstanding debt on MHL increased by 36.01% as compared to April 1, 2012 and amounted to Rb 2.09 trillion. In the 1<sup>st</sup> quarter of 2013, the share of MHL in foreign currency as a percentage of the total volume of mortgage lending increased by 0.05 p.p. as compared to that of the 1<sup>st</sup> quarter of 2012 and amounted to 1.23%.

From the 2<sup>nd</sup> quarter of 2009 to the 1<sup>st</sup> quarter of 2013, the share of unsecured HL in the total volume of HL decreased by 16.16 p.p. and amounted to 3.32% (Fig. 2). In the 1<sup>st</sup> quarter of 2013, the share of HL in the volume of consumer loans

(CL) amounted to 13.33% which is 0.06 p.p. higher and 3.28 p.p. lower than in the 1<sup>st</sup> quarter of 2012 and the 4<sup>th</sup> quarter of 2012, respectively. The share of HL in the volume of consumer loans increased as compared to a drop early in 2009, but is still lower than in the pre-crisis 2008 (*Fig. 2*).

According to the data of the Central Bank of the Russian Federation, as of April 1, 2013 the overdue debt on MHL amounted to Rb 41,907bn or Rb 27,862bn on loans in rubles and Rb 14,045bn on loans in foreign currency (*Fig. 3*). As of the end of the 1<sup>st</sup> quarter of 2013, the total overdue debt was 0.84% higher than that as of January 1, 2013. It is to be noted that the overdue debt on MHL in rubles increased in monetary terms and decreased as a percentage of the outstanding debt as compared to the end of the 4<sup>th</sup> quarter of 2012, that is, from 1.47% as of January 1, 2013 to 1.41% as of April 1, 2013. Within the same period, the overdue debt on MHL in foreign currency increased both in volume and as a percentage of the outstanding debt: from 11.42% to 11.79% (*Fig. 3*).

According to the data of the Central Bank of the Russian Federation, the amount of the debt on MHL without overdue payments increased from Rb 1,965.02bn as of March 1, 2013 to Rb 2,014.54bn as of April 1, 2013, while as a percentage of the total debt within that period (96.19%) growth amounted to 0.46 p.p. (*Table 1*). Within the same period, the volume of the debt on defaulted MHL – loans with payments overdue for over 180 days – increased from Rb 28.94bn to Rb 30.16bn, but as a percentage of the total debt, by 0.04 p.p. to 1.44% (*Table 1*).



Source: on the basis of the data of the Central Bank of the Russian Federation.  
 Fig. 3. Dynamics of the overdue debt on mortgage housing loans as of the end of the quarter

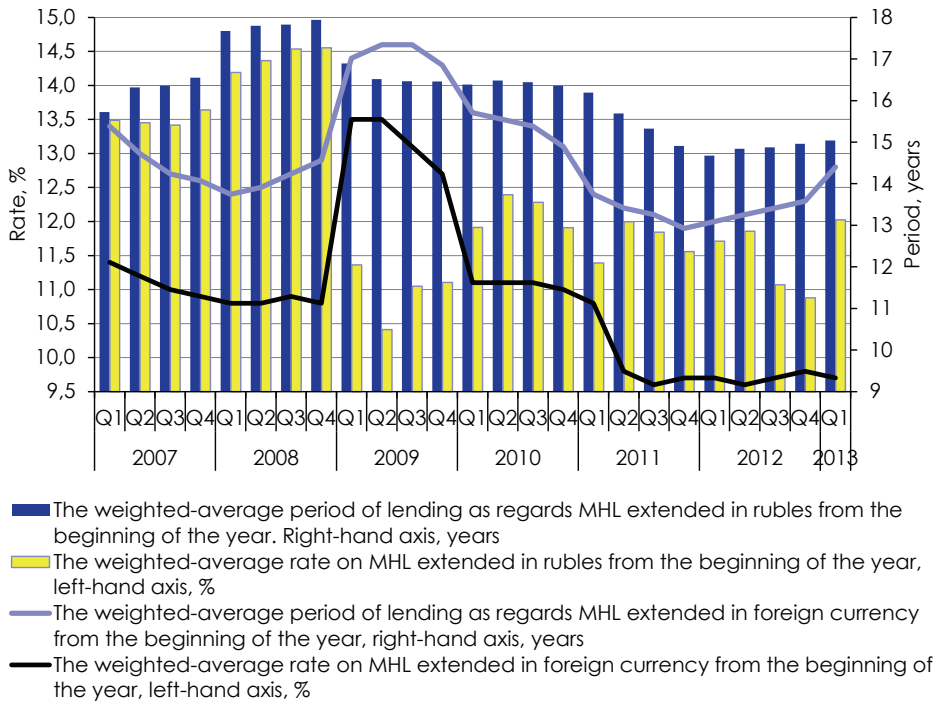
GROUPING OF THE DEBT ON MHL BY A PERIOD OF DELAY IN PAYMENTS IN 2013

	Total amount of the debt on MHL	including							
		Without overdue payments		With overdue payments					
				From 1 day till 90 days		From 91 days till 180 days		over 180 days	
Million Rb	Million Rb	%*	Million Rb	%*	Million Rb	%*	Million Rb	%*	
01 Jan.	1 997 204	1 915 917	95.93	30 957	1.55	5 193	0.26	45 137	2.26
01 Feb.	2 010 589	1 928 355	95.91	47 048	2.34	5 228	0.26	29 958	1.49
01 Mar.	2 052 669	1 965 020	95.73	53 164	2.59	5 542	0.27	28 943	1.41
01 Apr.	2 094 336	2 014 542	96.19	43 981	2.10	5 655	0.27	30 158	1.44

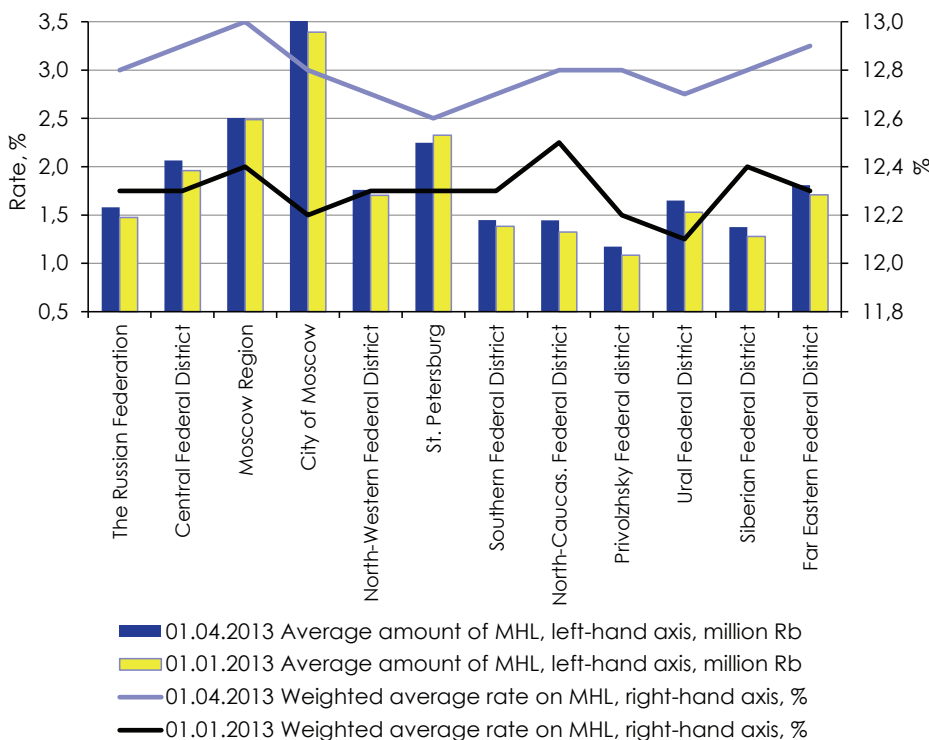
\* as percentage of the total amount of the debt.

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

According to the data of the Central Bank of the Russian Federation, in the 1<sup>st</sup> quarter of 2013 the weighted-average rate on MHL in rubles extended from the beginning of the year kept growing and increased by 0.9 p.p., to 12.8% as compared to the minimum value of the 4<sup>th</sup> quarter of 2011.



Source: on the basis of the data of the Central Bank of the Russian Federation.  
 Fig. 4. The weighted-average data on MHL extended from the beginning of the year



Source: on the basis of the data of the Central Bank of the Russian Federation.  
 Fig. 5. Weighted average data on MHL extended in rubles from the beginning of the year by the region

In the 1<sup>st</sup> quarter of 2013, the monthly weighted average rate on MHL in rubles rose to 12.9%. In the 1<sup>st</sup> quarter of 2013, the weighted average rate on MHL in foreign currency extended from the beginning of the year amounted to 9.7% (Fig. 4).

In the 1<sup>st</sup> quarter of 2013, the weighted-average period of lending as regards MHL in rubles extended from the beginning of the year amounted to 15.04 years having continued growth in the period of lending which took place throughout 2012. The weighted-average period of lending as regards loans in foreign currency does not have an explicit long-term trend and in the 1<sup>st</sup> quarter of 2013 amounted to 13.13 years (Fig. 4).

In March 2013, the monthly weighted-average rate on MHL refinanced by AHML on such products as Standard, Novostroika and Molyde Uchitelya – Standard (Young Teachers – Standard) amounted to 11.61%, which is 0.92 p.p. higher than in March 2012, while the weighted-average period of lending as regards the above products was 17.6 years.

As of April 1, 2013, the average amount of the loan as regards MHL extended in rubles from the beginning of the year rose overall, except St. Petersburg, as compared to January 1, 2013. The rate on the mortgage loan is determined with taking into account such



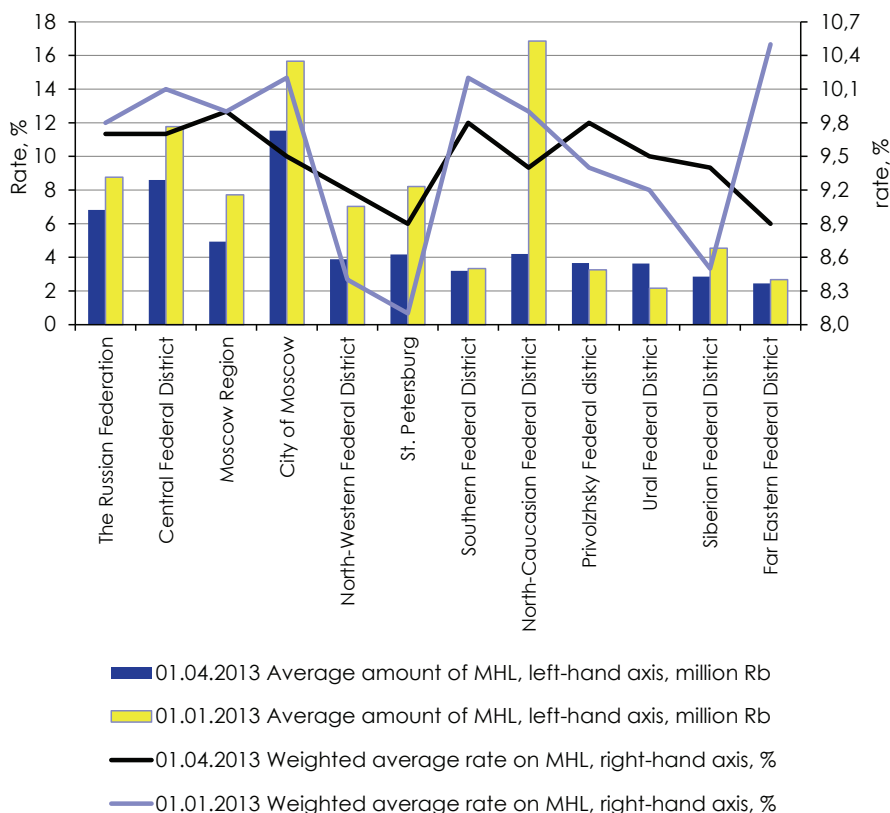
factors as the long-term specifics of a loan, the cost of the attracted funds and risks of lending including the inflation forecasts for 10 to 15 years.

The average amount of the loan in the Russian Federation amounted to Rb 1,579m having gained 7.08% as compared to January 1, 2013. As of April 1, 2013, the largest average amount of the loan (Rb 3,507m) was registered in Moscow, while the lowest one, with the Privolzhsky Federal District (Rb 1,173m). In the 1<sup>st</sup> quarter of 2013, interest rates on MHL in rubles rose by 0.3 p.p. to 0.6 p.p. in all the regions. As of April 1, 2013, the minimum rate on MHL (12.6%) was registered in St. Petersburg (Fig. 5).

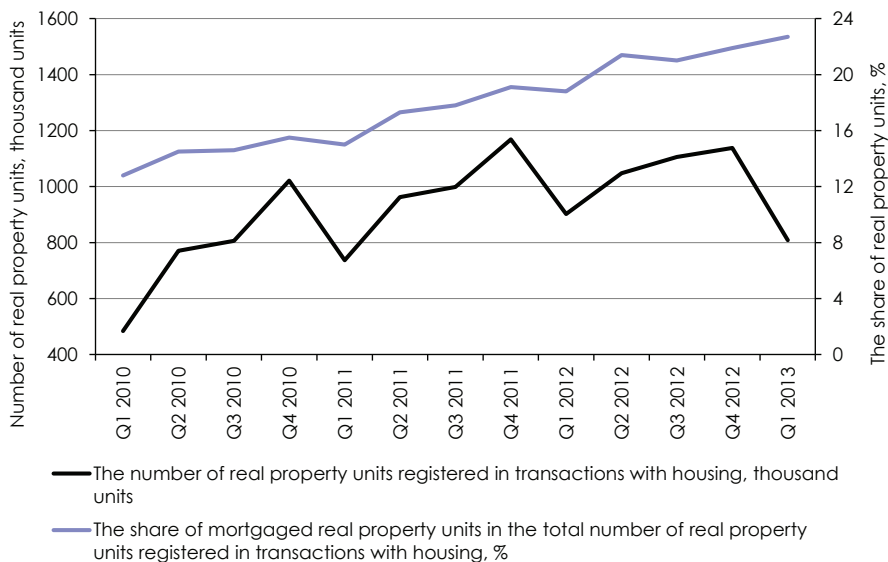
Except for the Privolzhsky Federal District and the Urals Federal District, as of April 1, 2013 the average amount of the loan as regards MHL extended in foreign currency from the beginning of the year decreased as opposed to loans in rubles as compared to January 1, 2013. The average nationwide amount of the loan in a foreign currency fell by 22.19% as compared to January 1, 2013 and amounted to Rb 6,822m. As of April 1, 2013, the largest average amount of the loan (Rb 11,532m) was registered in Moscow, while the lowest one (Rb 2,455m), in the Far Eastern Federal District.

As of April 1, 2013, the minimum rate (8.9%) on MHL in foreign currency was registered in St. Petersburg and the Far Eastern Federal District (Fig. 6).

In the 1<sup>st</sup> quarter of 2013, the share of mortgaged real property units kept growing in the total number of real property units registered in transactions with housing. In the 1<sup>st</sup> quarter of 2013, such a share amounted to 22.7%, which was 3.9 p.p. and 7.7 p.p. higher than in the 1<sup>st</sup> quarter of



Source: on the basis of the data of the Central Bank of the Russian Federation. Fig. 6. The weighted-average data on MHL extended in foreign currency from the beginning of the year by the region



Source: Rosreestr and calculations of OAO AHML. Fig. 7. Dynamics of the number of mortgaged real property units in transactions with housing

2012 and the 1<sup>st</sup> quarter of 2011, respectively (*Fig. 7*). In the 1<sup>st</sup> quarter of 2013, OAO AHML refinanced Rb 11,163bn worth of 7,804 mortgages which was 10.45% and 1.93% lower in the quantitative terms and monetary terms, respectively as compared to the 1<sup>st</sup> quarter of 2012. In April 2013, AHML refinanced Rb 3,814bn worth of 2,600 mortgages which is 21.26% and 7.9% lower in the quantitative terms and monetary terms than in April 2012. The share of AHML-refinanced mortgage loans in the total number of mortgage loans extended in the 1<sup>st</sup> quarter of 2013 amounted to 4.2%, while in 2012, it was 5.9%.

As of May 1, 2013, having carried out 94.05% of the program participants in the Vneshekonombank's program of investment into affordable housing projects extended Rb 141.1bn worth of mortgage loans. The Vneshekonombank turned to the Government of the Russian Federation with a proposal to extend the mortgage program.

From May 31, 2013, AHML intends to reduce mortgage rates by 1.0% to 1.2% on its main programs. Also, VTB24 has announced a 1.0% reduction of mortgage rates on ruble loans. ●

## THE LIVING STANDARDS OF RUSSIA'S POPULATION IN Q1 2013

S.Misikhina

*Over the first 4 months of 2013, the population's real disposable income over the first 4 months of 2013 rose by 5.9% on the corresponding period of 2012, which happened due to an increase in the size of both wages and pensions. The inequality indices on Q1 2013 remained practically the same as in the corresponding period of last year. The poverty indices in 2012 were the lowest of the entire period of 1992–2012.*

In April 2013, the population's nominal per-capita money income amounted to Rb 25,439 per month; in Q1 2013 it was at the level of Rb 21,204.0; in March – Rb 23,462.3. Nominal money income growth in April 2013 amounted to 8.4%; over the period of January–April 2013 it rose to 113.2% on the corresponding period of 2012; while over the first four months of 2012 the population's nominal money income increased on the same period of 2011 by 6.3%.

Over the course of Q1 2013, the real disposable money income of the population dropped by 24.3% on Q4 2012, which is quite compatible with the seasonal downward movement of that index after the traditional payment of bonuses, additional remunerations, etc. at the end of a year (in Q1 2012 this drop amounted to 24%). By comparison with Q1 2012, the growth of real disposable money income of the population in Q1 2013 was higher by 5.3% (over the same period a year earlier this figure amounted to 1.6%). In April, the population's real disposable money income was still on the rise, and so its index increased on March by 7.4%.

Table 1

### CHANGES IN REAL DISPOSABLE MONEY INCOME, %

	as percentage of	
	corresponding period of previous year	of previous period
2011		
Q1	99.4	76.0
Q2	98.9	113.2
Q3	101.9	100.4
Q4	101.5	118.1
Год	100.4	
2012		
Q1	101.6	75.7
April	101.3	108.3
January–April	101.5	
Q2	104.4	115.9
Q3	104.9	100.9
Q4	105.8	119.0
Year	104.4	
2013		
Q1	105.3	75.7
April	107.3	107.4
January–April	105.9	

Source: data released by Rosstat.

In April 2013, the average monthly charged wage of a worker rose to Rb 28,836. Taking the first four months of 2013 together, the real average monthly charged wage was Rb 27,714. As a percentage of the previous period, the nominal monthly charged wage of a worker in April 2013 was

100.5% compared to March 2013; in Q1 2013 as a whole it was 90.4% compared to Q4 2012 (in the corresponding periods of 2012 it had been 101.2% and 90.7% respectively). By comparison with the corresponding periods of last year, the nominal monthly charged wage of a worker in Q1 2013 rose to 111.9%; in April – to 111.7%; and over the first 4 months of 2013 – to 111.8%.

The real average monthly charged wage in April 2013 remained at the same level as in March. The value of that index for Q1 2013 dropped on Q4 2012 by 11.3% (over the corresponding period of 2012 its decline had amounted to 10.5%). By comparison with the corresponding period of 2012, in Q1 2013 the real average monthly charged wage increased by 4.5% (over the period of January–April – by 4.3%).

The downward trend that has been displayed by wages in arrears since 2009–2010 seems to have disappeared by 2013: from February onwards, this index has been higher than its value over the corresponding period of last year. Practically always the presence of wages in arrears could be explained by the relevant organizations' lack of their own resources, mainly caused by difficulties in attracting loans and the low profitability of one or other organization. The volume of wages in arrears as of the beginning of May amounted to approximately 1.2% of companies' total monthly wages fund (as seen by data for the types of economic activity under consideration).

Table 2

## WAGES IN ARREARS (AS OF YEAR'S END, MILLIONS OF RUBLES)

	2007	2008	2009	2010	2011	2012
Total, for types of economic activity under consideration	2,668	4,674	3,565	2,400	1,766	1,560

Source: data released by Rosstat.

Table 3

## WAGES IN ARREARS, MILLIONS OF RUBLES (AS OF MONTH'S BEGINNING)

	January	February	March	April	May
2012	1,766	1,954	1,805	2,030	1,915
2013	1,560	2,296	2,404	2,568	2,517

Source: data released by Rosstat.

From 1 February 2013, labor pensions were upwardly adjusted: the indexation amounted to 6.6%.

From 1 April 2013:

- an additional indexation of labor pensions was introduced due to the increasing income of the RF Pension Fund, which resulted in the amount of pensions increasing by 3.3%,
- an upward index was applied to state pensions, including social pensions; those increased by 1.81%.

In March 2013, the average size of pension amounted to Rb 9,859. As a percentage of the previous period, in Q1 2013 this index was 102.4% compared to Q4 2012 and 102.9% compared to Q1 2012.

The population's socio-economic differentiation in Q1 2013 remained practically at the same level as a year earlier.

Table 4

## POPULATION DISTRIBUTION BY AVERAGE PER CAPITA INCOME, %

	Q1 2013	Q1 2012
Money income,	100	100
including by population quintiles		
first quintile (lowest incomes)	5.5	5.5
second quintile	10.3	10.3
third quintile	15.2	15.2
fourth quintile	22.7	22.7
fifth quintile (highest incomes)	46.3	46.3
Gini coefficient (income concentration index)	0.404	0.403
R/P 10%	14.7	14.5

Source: data released by Rosstat.

The data pointing to a stable upward movement of the index of inequality in the distribution of the population's money incomes is confirmed by the positive changes in the average per-capita money income distribution: the share of population in the low-income groups was declining, while in the higher-income groups it was on the rise.

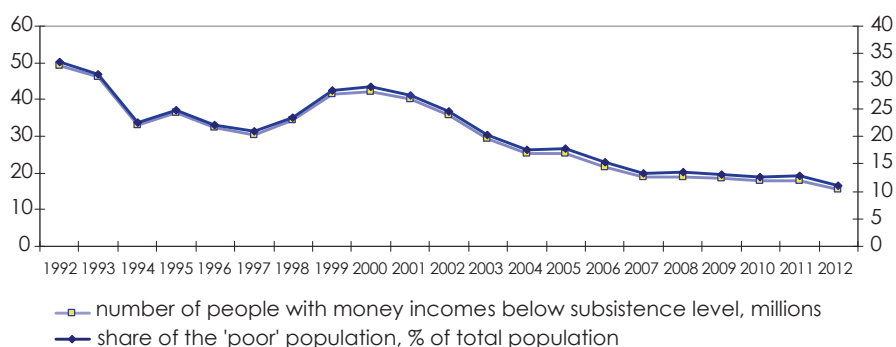
Table 5

POPULATION DISTRIBUTION BY AVERAGE PER CAPITA INCOME, %		
	Q1 2013	Q1 2012
Total population	100	100
Including with average per capita income per month, rubles under 5,000.0	6.0	7.9
5,000.1–7,000.0	7.4	8.9
7,000.1–10,000.0	13.0	14.6
10,000.1–14,000.0	16.4	17.3
14,000.1–19,000.0	16.2	16.0
19,000.1–27,000.0	16.7	15.5
27,000.1–45,000.0	15.9	13.6
over 45,000.0	8.4	6.2

Source: data released by Rosstat.

**Poverty.** As we forecasted in our previous publications, the poverty indices for 2012 declined to a lower level than in 2011. Moreover, it should be noted that the poverty indices for 2012 represent a

historic low of the entire period of 1990–2011. The positive trends in the movement of poverty indices in the late 2000s and early 2010s were caused both by the increasing income of the population coupled with negligible changes in the inequality index and by the increased social transfers (when pensions were increased and upwardly adjusted, and some other welfare benefits were increased as well).



Source: data released by Rosstat.

Fig. 1. The Movement of the Poverty Indices in Russia



## RESEARCH PERSONNEL SETIFICATION: WHAT “DISSERGATE” HAS REVEALED

I.Dezhina

*At present, there is a discussion under way that centers around the ways of reorganizing the system for training highly qualified personnel, including the dissertation defense procedure. These issues have become the focus of increased attention as a result of recently revealed dissertation fraud cases which, in their turn, produced a tidal wave of further fraud exposures – the so-called Dissergate. The suggested innovations may affect all the aspects of the dissertation preparation process and the procedure of granting academic degrees. However, the opinions with regard to many of the parameters under discussion vary greatly – sometimes they are even mutually exclusive. At the same time, new measures must be planned with due regard for the level of human resources potential available to Russian science, while the issue of the changing role of dissertations is becoming increasingly important not only for Russia.*

Over recent months, the academic community and Russia’s government have been dealing with the issues of dishonesty in the preparation of dissertations, plagiarism, fraudulent study results published in scientific articles, and the general decline in dissertation quality. It appears that the onset of the discussion was in the autumn of 2012, when evidence was produced of the existence of a sort of an ‘assembly line’ for mass-scale production of fraudulent studies in the field of history at Moscow State Pedagogical University<sup>1</sup>. This was followed by a wave of exposures of dissertation frauds known as *Dissergate*, which is not expected to subside as yet. It was bloggers on the Internet who were the first to push forward the campaign, and only then the government also reacted to the newly publicized facts. The development of a new strategy for the RF Supreme Attestation Commission (VAK) was launched, and the RF Ministry of Education and Science set up ten task forces in different fields of science for elaborating recommendations on the creation of dissertation councils, estimation of their members’ qualification levels, and the determination of criteria for the organization applying for permissions to establish their own postgraduate departments and doctorate programs.

It should be noted that the focus of discussion has gradually shifted from the situation in field of social and humanities studies towards more general issues of academic certification – so, in fact, it moved in the right direction. Although the degree of deterioration of dissertation quality varies among different disciplines (it is believed that the natural sciences may boast of a lower overall percentage of faulty studies by comparison with the social sciences), but if one looks at the trends in number of citations from Russian authors, it becomes obvious that general worsening can be observed in all fields. Many scientists agree that dissertation quality has indeed become lower in many different fields of science<sup>2</sup>. At the same time, social sciences represent a separate problem because, essentially, government officials and public figures prefer to gain academic degrees in economics, political science, sociology, or law – and not in natural sciences or, say, engineering. As shown by statistics, over the last decade the number of approved dissertations defended by applicants for the degree of Candidate of Sciences in the fields of natural sciences and technology slightly decreased (with the exception of chemistry, which displayed a growth of 15.5%), while an

1 I. Usov, P. Kotliar, N. Podorvaniuk. Dissertatsii poluchili novye stepeni zashchity [Dissertations now have higher levels of protection]. [http://www.gazeta.ru/science/2013/04/03\\_a\\_5242549.shtml](http://www.gazeta.ru/science/2013/04/03_a_5242549.shtml) 3 April 2013.

2 Thus, Academician Alexei Khokhlov noted that an unspoken rule used to be applied in the natural sciences – that an applicant for a Doctor of Sciences degree had to publish 20 articles in leading scientific journals prior to defending his dissertation; but now this rule is no longer observed. Source: A. Gorbatova. *Sistemnost’ i posledovatel’nost’*. [Systematicity and Consecitivity]. [http://www.strf.ru/material.aspx?CatalogId=221&d\\_no=53547](http://www.strf.ru/material.aspx?CatalogId=221&d_no=53547) 11 April 2013.

Academician Sergey Lukianov speaks along the same lines about medical sciences: ‘... in medicine, many works do not answer the main requirement – they offer no new scientific knowledge. Rather, they demonstrate man’s ability to apply some new medical techniques and then analyze the result’. Source: M. Muravyova. *Personal’naiia otvetstvennost’* [Personal responsibility]. [http://www.strf.ru/material.aspx?CatalogId=221&d\\_no=53548](http://www.strf.ru/material.aspx?CatalogId=221&d_no=53548) 11 April 2013.

opposite trend was observed in some social sciences. Political sciences clearly stand apart from all the other fields, as the number of defended dissertations there doubled over the period of 2000–2011; economics comes second, with growth by nearly 1.5 times (*Table 1*).

Table 1

DISSERTATIONS DEFENDED BY APPLICANTS FOR THE DEGREE OF CANDIDATE OF SCIENCES AND APPROVED BY THE SUPREME ATTESTATION COMMISSION (VAK) (NUMBER)

Field of science	2011	2000	1995	2011/2000, %
Physics & Mathematics	1,233	1,354	1,059	91.0
Chemistry	767	664	1,056	115.5
Biology	1,242	1,333	811	93.2
Technology	3,930	4,781	2,563	82.2
History	628	829	144	81.2
Philosophy	486	550	301	88.3
Economics	3,893	2,709	870	143.7
Political science	410	202	56	203.0
Social science	342	421	144	81.2

Source: Indikatory nauki: 2013 [Science Indicators: 2013]. Statisticheskii sbornik [HSE Data Book]. M.: NRU HSE, 2013. P. 63.

On the average, the past decade saw only a slight decline in the number of approved dissertations defended by applicants for the degree of Candidate of Sciences (by 2.8% on 2000); its peak was observed in 2005–2007, when approximately 30,000 dissertations per annum were approved (at present this number is 22,000 – 23,000 per annum). But if we set these figures against the index for 1995 (*Table 1*), it becomes obvious that the number of defended dissertations has nearly doubled since then. However, it should be remembered that in 1995 this country was experiencing a rapid outflow of cadres from all fields of science, and so it would be erroneous to draw a comparison between the current situation with one of the most disastrous periods in the history of Russian science.

In mid-April of 2013, the draft of the *Concept of Modernization of the Certification System for Highly Qualified Research Personnel in the Russian Federation*<sup>1</sup> was prepared and offered for public discussion. It suggests many innovations and newly elaborated details. The following proposals deserve to be specifically pointed out.

The *first* newly introduced measure – the possibility of shifting the responsibility for dissertation quality from the VAK to relevant higher educational establishments and research institutes – at a first glance appears to be reasonable; moreover, it replicates the certification systems typical of the developed countries. However, it does not seem worthwhile to implement it immediately, because such a switchover may, most likely, result only in a further lowering of the quality level. The existing dissertation councils vary greatly in their degree of competence, and few of them can be regarded as truly competent. If the responsibility should lie with them, it will become more difficult to verify the results. One of the possible solutions to this problem could be the inclusion of foreign scientists in the dissertation councils – an option that is also being discussed. However, it is not an easy task to gather a sufficient number of foreign participants for achieving a critical mass in a situation when the dissertation defense procedure is conducted in the Russian language, and dissertations are also written in Russian.

The idea of testing this approach in a pilot mode (suggested by the RF Ministry of Education and Science) hardly makes any sense, either – because, most probably, the ‘strongest’ higher educational establishments will be selected to be the test sites. However, from this assumption it by no means follows that similar results can indeed be achieved at ‘weaker’ organizations.

At the same time, the accusations currently brought against the VAK are really well-justified because, until the issue of plagiarism and dissertation fraud was made public, the Supreme Attestation Commission had been quietly registering all defended dissertations – and not only those

1 <http://минобрнауки.рф/новости/3308>

submitted for a Candidate of Sciences degree (which the VAK only ‘approves’), but also doctoral dissertations which must be carefully considered and discussed by the VAK’s expert councils.

However, those who criticize the idea of transferring the responsibility for the quality level of dissertations from the VAK to research institutions and higher educational establishments believe that the core problem is not the way the VAK performs, but the corruptness of the academic community itself. Its chronic problem is the propensity for mutual cover-up. The proposal that not only the texts of dissertations, but also the names of the official opponents and the texts of their reports, as well as the estimations by the core organizations should be made public may urge all the related parties to value their reputation more and so abstain from doing favors for their friends and colleagues. It is indeed a question that often troubles honest scientists who are forced to make a choice between maintaining their reputation on the one hand, and fulfilling their moral duties or following personal preferences. At the same time, some arguments have been voiced against the principle of openness and transparency. Thus, President of the Russian Academy of Sciences Yuri Osipov thinks that *[the Academy] is, first of all, a professional community, and it cannot be open too much, by definition. There have already appeared the really mad suggestions that even the dissertations submitted for a Candidate of Sciences degree must be discussed on the Internet. But this is absurd!*<sup>1</sup>

Interestingly, it has already been pointed out in the course of the current discussion that, if people are to be made personally responsible for their estimations, many scientists would prefer not to participate in the work of dissertation councils<sup>2</sup>. If true, this fact is indicative of an extreme weakness of the academic and scientific community. The option suggested by the Rector of St. Petersburg State University – that a clause that scientists must participate in dissertation councils must be included in their contracts<sup>3</sup> – seems to be a dead-end solution. Like any coercive measure based on administrative authority, it will probably be rather easily evaded on some equally formal grounds. Or it may result in other consequences – say, in an excessive bureaucratization of the dissertation defense process, when the council members will be afraid to approve an ‘insufficiently good’ scholarly work and be punished for it.

The *second* important proposal – to establish united councils (especially in the regions) in order to increase the level of objectivity and dissolve the existing dissertation councils at ‘weak’ research institutions and higher educational establishments. This may also conduce to the realization of other plans, such as allowing scientists to participate in only two councils (now they may simultaneously be members of four dissertation councils). On the whole, if the qualification requirements to the members of dissertation councils are to be made stricter, the actual number of such councils will inevitable drop. In fact, the first thing to do it to elaborate new requirements to the participants in dissertation councils, and this will later on give rise to other issues like the need to dissolve some councils, create instead united councils, and implement other organizational measures. A council should not be, however, dissolved for the simple reason that it considers only a small number of scholarly works every year.

And the *third* consideration: the discussion centers around the qualification requirements to the members of dissertation councils (based, in the main, on quantitative parameters) – such as the publication of no less than 5 articles over the past 5 years in the academic journals included in the VAK’s renewed list; or no less than 2 publications in academic journals with an impact factor (IF) of at least 0.3, and so on. The discussion largely addresses the quantitative criteria of academic publications – a factor that is relevant for the natural sciences, but is evidently insufficient – or even disorienting if used in the estimation of studies in the fields of social and humanities sciences, and also some technologies (classified, applied).

As so much attention is paid to the parameters of quantitative estimation, the VAK’s list of academic journals becomes an issue in its own right. At present the composition of that list is subject

1 See Yuri Osipov. *Uzhe i kandidatskie predlagaiut obsuzhdat’ v Internete [It is already suggested that dissertations submitted for a Candidate of Sciences degree must be discussed on the Internet]*. An interview with the President of the Russian Academy of Sciences // V. Gubarev. 6 May 2013. *Stoletie* [Sentennial] [http://www.stoletie.ru/obschestvo/jurij\\_osipov\\_uzhe\\_i\\_kandidatskije\\_predlagajut\\_obsuzhdat\\_v\\_internete\\_879.htm](http://www.stoletie.ru/obschestvo/jurij_osipov_uzhe_i_kandidatskije_predlagajut_obsuzhdat_v_internete_879.htm)

2 T. Vozovikova. *Na grani riskov. ‘Zakruchivanie gaek mozhet otpugnut’ uchenykh ot raboty v dissovetaakh* [On the verge of triggering a high risk warning. ‘The ‘tightening of the screws’ may scare scientists away from working in dissertation councils] // *Poisk* [Quest], No 17, 26 April 2013. <http://www.poisknews.ru/theme/science-politic/5925/>

3 Ibid.

to severe criticism, because it has been recently extended to include, among other things, some academically insignificant publications. At the same time, it evidently overlooks some acclaimed foreign academic journals.

Is there really a need for a list of academic journals approved by the *VAK*, and what must it be like? This issue has given rise to polarity in opinions – some suggest that the list of journals ought to be abolished altogether, while others argue in favor of introducing tough criteria for journal selection. Meanwhile, the possibility of a diversified approach is also being discussed: that the *VAK* list must no longer be mandatory for a number of highly reputed dissertation councils (at Moscow State University, national research universities and the Russian Academy of Sciences' research institutes), while all the other dissertation councils must comply with the requirement concerning publications in the journals put on the *VAK* list. It is also suggested that the quality standards applied to the scholarly publications to be submitted to the journals on the *VAK* list and to the peer reviews of these publications should be equally raised; and that, in order to eliminate the corruption component, the authors of scholarly publications must be changed no fee.

Thus, the proposals concerning the *VAK* list of academic journals can be grouped into two main categories. The first category relies on promoting the reputation of the academic community, which implies confidence in the expert estimations of the quality of scholarly publications made by the specialists charged with the task of considering dissertations. The second category relies on instruments of formalized control and quantitative estimation criteria – such as publications and the activity of the editorial boards of academic journals included in the *VAK* list. Strict formalization, in our opinion, is not conducive to better quality of certification. This is confirmed by the experience of foreign countries where priority is given to estimating the quality of publications related to dissertation themes.

Given the current situation in Russia, it appears worthwhile to elaborate several groups of estimation criteria, to be applied depending on the specific field of science. In the humanities and the social sciences it is indeed feasible to apply certain quantitative parameters; these may not necessarily be universal – instead, they can address the specific problems of a given field, for example the close character of an academic group.

Russia's *Dissergate* has put to the fore some long-standing problems that are well known to those who work in the field of science. However, it is illustrative that the situation in Russia with regard to research personnel is by no means unique. The downward trend in the level of dissertation quality and devaluation of academic degrees is a worldwide process that manifests itself in Europe and even in the USA.

In part this has happened due to the altering status of an academic degree. It used to be a common practice that somebody who defended a dissertation would stay in the field of science (being involved in either fundamental or applied studies). Nowadays an academic degree is an equivalent of a second diploma, a marker of a certain competence level of its bearer – something that can enable him or her claim a certain respectable position in one or other sphere of economic activity. Consequently, the number of those who leaves the field of science after defending a dissertation is on the rise. So, the problem faced by Russia has deeper roots and cannot be simply reduced to the issue of overlooked fraudulent dissertations, incompetent organization and insufficient control. The scale of values within the educational system and the attitudes to the purpose of defending a dissertation are undergoing a fundamental change. ●



## THE NORTH CAUCASUS IN JANUARY–MAY 2013: THE KEY RISKS

K.Kazenin

*In the first few months of 2013, the North Caucasus continued to be plagued by the same core unresolved issues that are the main source of tension in that region. Thus, in particular, no systemic solution has yet been provided to the ongoing conflicts in the land sphere, which are further aggravated by the persisting controversies in the Islamic community and a high level of extremist crime. The most serious currently existing risks associated with these unresolved issues have to do with land development in the framework of health resort construction projects, as well as with the increasing interconnection between extremist crime and the so-called 'economic conflicts'.*

### Health Resorts: The Land Issue

In the North Caucasus, the implementation of the ski resort 'tourism cluster' is continuing. The principal operator of that project is OJSC *Kurorty Severnogo Kavkaza* [Health Resorts of the North Caucasus] (KSK), whose controlling block of shares is held by the State. In accordance with the project's blueprint presented in 2010 and adjusted in 2011, the cluster is to include 6 state-of-the-art alpine ski resorts: Matlas (Dagestan), Armkhi (Ingushetia), Mamison (North Osetia), Elbrus-Bezengi (Kabardino-Balkaria), Arkhyz (Karachaevo-Cherkessia), and Lago-Naki (Adygea). The main 'image-making' news from the tourism cluster over the first 5 months of 2013 has become the opening of the first alpine ski track at Armkhi in February<sup>1</sup>. However, Armkhi can hardly be regarded, in economic terms, as the cluster's core component. Firstly, this health resort complex is situated at the altitude of approximately 1,500 m where the snow cover is unstable even in winter (it is typical that the date of the opening ceremony was moved because of absence of snow). Secondly, the complicated general situation (including the level of crime) in Ingushetia coupled with the fact that the new health resort lacks a recognizable brand name leave little reason to hope for any more or less significant inflow of tourists from other regions. Evidently it was with this circumstance in view that the region's head Yunus-bek Yevkurov had said prior to the opening of Armkhi that the health resort would 'first of all, make it possible to satisfy the domestic demand'<sup>2</sup>.

In the other areas (with better economic prospects) included in the alpine ski cluster – the health resorts situated in the West Caucasus, where the snow cover is more stable and stays for a longer period, and so it had been regularly visited by tourists from different regions all over Russia even before the onset of the cluster's construction, no new facilities were put in operation in the first 5 months of 2013.

However, it appears to be more important that the serious controversies which arose in connection with the impending implementation of new health resort projects have never been properly dealt with. Thus, for example, in Karachaevo-Cherkessia, where the first hotels at the Arkhyz health resort capable of receiving a total of 25,000 tourists will already be opened this summer, no clarity has been achieved with regard to the protection of the business interests of the Dombai health resort, which is faced with the risk of losing a substantial part of its tourist inflow after Arkhyz is put in operation. As shown in the Gaidar Institute's annual economic overview<sup>3</sup>, any serious drop in the inflow of tourists to Dombai is fraught with the risk of significant upsurge in social – and perhaps also political tension, because Dombai is a key source of employment for a greater part of the Karachaevo city district and Karachaevo municipal raion, while many of the

1 *Otkrytie kurorta Armkhi v Ingushetii pereneseno na 5 fevralia* [The opening of the Armkhi health resort is postponed until 5 February] // Kavkazskii uzal [The Caucasian Knot], 25 January 2013 (<http://www.kavkaz-uzel.ru/articles/219158/>).

2 *V kontse 2012 goda kurort Armkhi primet pervykh turistov* [In late 2012, the Armkhi health resort will receive the first tourists] // ITAR-TASS, 27 February 2012 (<http://www.itar-tass.com/c30/353166.html>).

3 *Russian Economy in 2012. Trends and Outlooks*. (Issue 34) – M.: Gaidar Institute Publishers, 2013. Section 6.7.



hotel-owning families in this health resort also enjoy a considerable political influence in the republic.

Another unresolved issue associated with health resorts in the West Caucasus has to do with land relations. This issue is most acutely felt in Kabardino-Balkaria, where it is planned to open health resorts in the vicinity of land that have been traditionally used by local residents for their traditional farming needs. The events of the last few months have demonstrated that the absence of a transparent and clearly defined procedure for coordinating the land-related decision-making process with the local residents is a manifestation of the existing systemic problem, and not the result of a faulty preparation of one or other administrative decision. It should be reminded that the first alarm bells were sounded in connection with the situation in the mountain village of Bezengi in Cherek raion, where in the autumn of 2012 five deputies of the local self-government body gave up their mandates in response to the unlawful (in their opinion) alienation of land for the planned health resort construction that had always historically belonged to Bezengi. At the very end of 2012, another news came from the same area – now the deputies of one of the villages situated in Zolsky raion were also protesting against the seizures of land by resort developers. It is true that the situation there was less acute than at Bezengi: the deputies did not go as far as giving up their mandates, and later on they even renounced their own declarations that a ban should be imposed on any land being handed over to the construction projects<sup>1</sup>. Nevertheless, according to available data, in the winter and spring of 2013 the communities of those rural settlements situated in Zolsky raion whose lands are to be covered by the future construction projects, similarly to the residents of the village of Bezengi, were still expecting the specific information to be released by OJSC *Kurorty Severnogo Kavkaza (KSK)* concerning the exact boundaries of the planned health resort areas. According to them, they have so far received no more or less coherent explanations as to the health resort boundaries or the amount of compensation for the potential loss of their lands.

At present, the core problem in health resort construction is the noticeable opposition on the part of local residents coupled with lack of any procedures for carrying on a dialogue on land issues. Given the acuteness of the land-related conflicts in different regions across the North Caucasus, it is evidently dangerous to continue to make any plans concerning the earmarking of territories for future health resorts in a non-transparent mode. In May, information was released that the government of Kabardino-Balkaria was coordinating ‘the issue of implementing cadastre and land development work, as well as elaborating the draft plan for outlining the territory of the special economic zone for OJSC *KSK*<sup>2</sup>. So far, it has remained unknown just how the interaction with the related rural communities is going to be organized in the course of these planned activities. It seems that the practical approaches of the management of OJSC *KSK* (where changes currently are under way after Akhmed Bilalov, chairman of its board of directors, has left his post) will actually determine whether the new alpine ski cluster is going to become a serious catalyst of tension in that region.

### **Islam: Stagnation in the Dialogue and ‘Fragmentation’ of Conflicts**

Islam plays a prominent role in all the regions of the North Caucasus, but we in our overview will limit the discussion to the situation in Dagestan, where Islam not only determines spiritual life, but is a factor that regulates the existing social relations and ongoing conflicts. The split inside Dagestan’s Muslim community that had become visible in the second half of the 1990s, gave rise to a tough competition between different Islamic centers for informal control over many facets of the region’s life. As part of their response to the increasing confrontation, the Dagestan authorities in 2010 put forth a number of initiatives aimed at starting an intra-Islamic dialogue, which marked a departure of their former orientation to the support of only one branch of Islam (Sufism) as a ‘traditional’ one for Dagestan. When, in late January 2013, Ramazan Abdulatipov was appointed

1 *Deputaty Zol’skogo raiona Kabardino-Balkarii ne zapreshchali stroitel’stvo turklastera* [The deputies of Zolsky raion of Kabardino-Balkaria did not ban the construction of a tourism cluster] // IA REGNUM, 4 December 2012 (<http://regnum.ru/news/1600606.html>).

2 *V Kabardino-Balkarii pristupili k planirovke territorii osoboi ekonomicheskoi zony* [In Kabardino-Balkaria, the planning of the territory of a special economic zone has started] // IA REGNUM, 14 May 2013 (<http://regnum.ru/news/1658306.html>).

acting president of Dagestan, it became essential to understand which approach to Islamic issues the region's new authority would actually choose.

On the whole, it can be said that so far no choice has been made – at least, on a public level. Such a conclusion may be drawn on the basis of Abdulatipov's very controversial statements on this subject. Thus, at one of the government meetings in March, he declared that it was necessary to carry out a certification of the imams of all mosques in the region<sup>1</sup>. Such a procedure (which has already been announced in some other RF republics) is invariably perceived as a measure designed to ensure the government's active involvement in religious teachings. However, less than two months after that declaration, Abdulatipov puts forth another principle as a basis for the interaction between the republic's authorities and the Muslim community, this time rejecting the possibility of such interference: 'We are not going to ban various branches [of Islam]. The most important thing for us is that they must abide by the Russian laws. If all this is done within the framework of Russia's laws, it will be none of our business which way one or other person prays, or which traditions and rites he observes. The essential thing for us is that religion must not be applied as a means in the struggle against the State'<sup>2</sup>.

It should be noted that the uncertain standpoint of the republic's authorities with regard to Islamic issues is observed against the backdrop of the loss of human resources that occurred, for various reasons, in all the main schools and branches of Islam in Dagestan in the course of last year (2012)<sup>3</sup>. This circumstance – even if the region's authority will indeed decide to revive the dialogue – makes it doubtful that the government will be actually capable of forming efficient 'dialogue teams' whose authority can be unquestionably accepted by all Islamic believers.

Alongside the uncertain prospects of the revival of a dialogue between different legally established 'centers' of the local branches of Islam, the region is now faced with an increasing scale of extremist crime. Some already existing trends in that sphere have become more prominent. We mean the strengthening of the sources of tension in some villages, which are also sites of some serious 'economic' conflicts.

For example, in March and April tension was on the rise at the village of Gymry in Untsukul raion: in the course of a special operation in Makhachkala launched on 19–22 March, leader of the so-called *Gymry Jamia* Ibragim Gadjidadaev was killed<sup>4</sup>, and then in April a large-scale special operation was launched at Gymry itself, during which several activists of the local *bandit underground* who were actively resisting the law enforcement teams were also killed. The escalation of violence at Gymry takes place against the backdrop of other, no less acute problems that have to do with the payment of compensation to local residents for the loss of lands and houses as a result of the creation of a reservoir near the village<sup>5</sup>.

One more example is the situation at the village of Khadjalmakhi in Levasha raion, where the spring of 2013 saw an extreme conflict between the village's religious groups, with murders and mutual accusations of murders<sup>6</sup>. Simultaneously, the village was shaken by another grave conflict connected with a financial pyramid organized by some of its residents, who had accumulated billions of rubles in the form of contributions collected in various raions of Dagestan<sup>7</sup>. The situation is indeed explosive because, according to available data, the creators of the financial pyramid are known as the adepts of one of the schools of Islam that has its followers amongst

1 *Ramazan Abdulatipov: Nado provesti attestatsiiu imamov mechetei* [Ramazan Abdulatipov: It is necessary to conduct a certification of the imams of mosques] // RGVK [Russian Television Broadcasting Channel] Dagestan, 1 March 2013 (<http://www.rgvktv.ru/news/18404>).

2 *Ramazan Abdulatipov, i. o. prezidenta Dagestana: 'Vsekh moikh predshestvennikov sozhrali klany'* [Ramazan Abdulatipov, Acting President of Dagestan: 'All my predecessors were devoured by the clans'] // Komsomol'skaia pravda [The Komsomol Truth], 30 April 2013.

3 *Russian Economy in 2012. Trends and Outlooks*. (Issue 34) – M.: Gaidar Institute Publishers, 2013. Section 6.7.

4 *Ubit odin iz liderov Dagestanskogo bandpodpol'ia?* [One of the leader of Dagestan bandit underground has been killed?] // IA REGNUM, 21 March 2013 (<http://regnum.ru/news/1638637.html>).

5 See I. V. Starodubrovskaya, D. V. Sokolov. *Istoki konfliktov na Severnom Kavkaze* [The Sources of conflicts in the North Caucasus]. M: Delo. 2013. P. 150–173.

6 *Dagestanskije vlasti oprovergaiut informatsiiu o rasstrel'nykh spiskakh* [The Dagestan authorities disprove information on the existence of 'shooting lists'] // IA REGNUM, 13 May 2013 (<http://regnum.ru/news/1657849.html>).

7 *Khadjalmakhinskie piramidy. Pervaia krov'* [The Khadjalmakhi pyramids. The first blood] // Kavkazskaia politika [The Caucasus Policy], 6 April 2013 (<http://kavpolit.com/xadzhalmaxinskie-piramidy-pervaya-krov/>).

the villagers. So, it is evident that the situation is heated up by the combined effect of religious and economic factors.

The ‘parallelism’ of religious and economic conflicts can also be observed in other villages and towns across the territory of Dagestan. The evolvement of this trend results in a ‘territorial fragmentation’ of the initial conflict that has originated between different branches of Islam, in it being adjusted to the versatile specific features typical of the different parts of that North Caucasus region. As this trend becomes stronger, the dialogue-oriented regulatory measures that were practiced in Dagestan in the period of 2010–2012 and envisaged in the main the organization of consultations between the republic-level religious leaders, may no longer work. In order to bring down the level of tension in the religious sphere, some other measures may be needed that will be ‘tuned’ to the specificities of each relevant village and/or raion and oriented to providing solutions to their existing urgent economic problems. ●

## REVIEW OF THE MEETINGS OF THE GOVERNMENT OF THE RF IN MAY 2013

M. Goldin

*In May 2013, at the meetings of the Government of the Russian Federation, the draft law which assigns the state authorities of constituent entities of the Russian Federation the right to set the criteria of need of individual categories of people in social support with the principle of target orientation taken into account was discussed among other issues.*

On **May 16**, at the meeting of the Government of the Russian Federation, federal draft law on Amendment of Article 26.3 and Article 26.3.1 of the Federal Law on the General Principles of Organization of Legislative (Representative) and Executive State Authorities of Constituent Entities of the Russian Federation was discussed.

By the above draft law, in Federal Law No. 184-FZ of October 6, 1999 on The General Principles of Organization of Legislative (Representative) and Executive State Authorities of Constituent Entities of the Russian Federation the right is granted to state authorities of constituent entities of the Russian Federation to set the criteria of need of individual categories of people in social support with the principle of target orientation taken into account.

At present, state authorities of the Russian Federation are vested with powers to organize provision of social support to the following categories of people:

- elderly people and disabled persons;
- people who are in a difficult life situation;
- orphan children;
- neglected children;
- children left without parents' care (except for children who study at federal educational establishments);
- labor veterans;
- persons who worked in the rear during the Great Patriotic War of 1941–1945;
- families with children (including large families and single parents);
- victims of political reprisals;
- low-income people, including that at the expense of provision of target-oriented subsidies to local budgets for payment of public transport allowances.

Also, social support can materialize in compensation of costs of municipal entities in connection with provision under laws of a constituent entity of the Russian Federation of privileges to individual categories of people, including privileges as regards payment of communication services and organization of provision to people of subsidies for payment of housing and utilities services.

In addition to the above, in accordance with Article 26.3.1. (5) state authorities of a constituent entity of the Russian Federation are in a position to provide at the expense of the budget of the constituent entity of the Russian Federation additional measures of social support and social assistance to individual categories of people no matter whether provisions which establish the above right exist in federal laws.

As constituent entities of the Russian Federation have already been granted vast authorities as regards rendering of assistance to different categories of people, it seems logical to supplement those authorities with a possibility to provide that aid with a target orientation factor taken into account.

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

## REVIEW OF THE ECONOMIC LEGISLATION IN MAY 2013<sup>1</sup>

I.Tolmacheva, Yu.Grunina

*In May, the following amendments were introduced in the legislation: from September 2013 amendments to Cl.4 and Cl.5 of Section I of Part I and Article 1153 of Part III of the Civil Code of the Russian Federation will be in effect; the specifics of carrying out of labor activities by high-skilled experts-foreign nationals was updated; procedure for identification of a foreign national who has no valid document was specified and definition of “the state support of innovation activities” was provided.*

### Federal Laws of the Russian Federation

#### 1. Federal Law No.100-FZ of May 7, 2013 on INTRODUCTION OF AMENDMENTS INTO CL.4 AND CL.5 OF SECTION I OF PART I AND ARTICLE 1153 OF PART III OF THE CIVIL CODE OF THE RUSSIAN FEDERATION

Numerous amendments were introduced as regards transactions, including grounds and consequences of invalidity thereof, limitation periods and rules of calculation thereof and meetings in respect of which the law relates civil and legal consequences for all the persons who have the right to participate in such a meeting, as well as other persons.

In particular, new Article 157.1 “Consent on the Deal” was introduced. If for the deal to be carried out by virtue of the law a consent of the third person, a legal entity or a public authority or a local authority is required, the third person or a respective authority will inform of its consent or refusal the person who requested such a consent or other interested party within a reasonable period after receipt of the request of the person who requested the consent. In the preliminary consent on the deal, the subject of the deal to which the consent is given is to be determined. In case of further consent (approval) the deal to which the consent was given is to be specified. It is pointed out that silence is not regarded as consent on the deal, except for cases provided for by the law.

New Article 165.1 “Legally Important Messages” was introduced: statements, notifications, notices, requests or other legally important messages to which the law or deal relate civil and legal consequences for another person imply for that person the above consequences from the day of delivery of the respective message to that person or his/her representative. The message is deemed delivered also in cases if it was delivered to the person whom it was sent to (the addressee), but due to circumstances depending on that person it was not served, nor did the addressee get acquainted with it. Those rules are applied unless otherwise is provided for by the law or the terms of the deal, nor result from the rule or practice adopted in the relationship between the parties. Actually, it means that if any legally important messages were sent to the addressee, but for reasons which depended on the addressee they were not served, nor did the addressee get acquainted with them the message is deemed delivered.

Significant amendments were introduced in Cl.2 on invalidity of deals. So, a deal carried out with violation of the law is now recognized as voidable (reasons for voidability of the deal are specified in full in the Civil Code) rather than void. The deal may be recognized as void provided that the following three conditions are simultaneously in place: the deal does not violate the requirements of the law or other statutory act and at the same time infringes upon public interests or rights and law-protected interests of the third parties and in addition to that there is no reference in the law to the fact that such a deal is voidable and other consequences of violation which are not related to invalidity of the deal should be applied.

The period of limitation as regards claims for application of consequences of invalidity of the void deal and recognition of such a deal as invalid amounts to three years. It is to be noted that the legislator introduced an important detail that the period of limitation as regards the above claims begins from the day of fulfillment of the void deal while in case of filing of a suit by the person which is not a

<sup>1</sup> The review was prepared with assistance of the KonsultantPlus legal system.



party to the deal, from the day that person learnt or was to learn about the beginning of fulfillment of the deal. It is to be noted that the period of limitation for the person which is not a party to the deal must in no case exceed ten years from the day of beginning of fulfillment of the deal.

New Chapter 9.1. "Resolutions of Meetings" was introduced; now the norms of the above Chapter are applied by default to any general meetings such as: decisions of collegial governing bodies of a legal entity; decisions of meetings of creditors in case of bankruptcy and other.

So, a resolution of a meeting to which the law relates civil and legal consequences gives rise to legal consequences which the resolution of the meeting is aimed at for all the persons who had the right to participate in that meeting (participants in a legal entity, owners and creditors in case of bankruptcy and other participants in the civil and legal community), as well as other persons if it was established by the law or results from the subject of the relations. Resolution of the meeting is deemed approved if a majority of participants voted for it and it is to be noted that at least fifty percent of the total number of participants in the respective civil and legal community took part in that meeting. Resolution of a meeting can be passed by absentee voting. Common rules of taking of minutes are envisaged.

An important amendment was introduced into Article 186 as regards power of attorney; limitation of the power of attorney's maximum period of validity of three years has been eliminated. Now, it is determined that if the period of validity is not specified in the power of attorney it remains in force within a year from the day of execution thereof.

It is worth mentioning introduction of new Article 188.1 "Irrevocable Power of Attorney" which is issued for the purpose of fulfillment or securing of fulfillment of obligation to a representative or persons on whose behalf or in whose interests the representative acts. If such an obligation is related to fulfillment of entrepreneurial activities, the principal may specify in the power of attorney issued to the representative that that power of attorney cannot be revoked before the expiry date or it can be revoked only in cases provided for in the power of attorney. In any case, such a power of attorney can be revoked after termination of the obligation for which fulfillment or securing of fulfillment it was issued, as well as any time in case of abuse of power by the representative and in case of emergence of circumstances which explicitly point to the fact that such an abuse can take place. An irrevocable power of attorney should be notary certified.

The amendments will become effective from September 1, 2013, except for individual provisions in respect of which another effective date is set.

## 2. Federal Law No. 82-FZ of May 7, 2013 on INTRODUCTION OF AMENDMENTS IN THE FEDERAL LAW ON THE LEGAL STATUS OF FOREIGN NATIONALS IN THE RUSSIAN FEDERATION

It is established that the employer or customer of jobs (services) is not in a position to hire foreign nationals as high-skilled experts for commercial client service in retail trade in consumer goods (including pharmaceutical goods) irrespective of the assortment of salable goods, sales premises and forms of client service, except for workers who carry out management and coordination of activities related to trade. The list of professions (job positions and qualifications) of workers who carry out management and coordination of activities related to trade and qualification requirements to such workers are approved by federal executive authorities which carry out functions related to development and implementation of the state policy and statutory regulation in the sphere of employment and unemployment.

By resolutions of the Government of the Russian Federation, limitations were earlier introduced on hiring of foreign nationals as high skilled experts for work in the Russian Federation in customer service of retail trade in consumer goods (including pharmaceutical goods) irrespective of assortment of salable goods, sales premises and forms of customer service.

## 3. Federal Law no. 8-FZ of May 7, 2013 on INTRODUCTION OF AMENDMENTS INTO THE FEDERAL LAW ON THE LEGAL STATUS OF FOREIGN NATIONALS IN THE RUSSIAN FEDERATION

Other amendments introduced in the Law deal with identification of a foreign national who stays illegally in the territory of the Russian Federation and has no valid identification document.

Identification of a foreign national is carried out on the basis of a decision of the head of the federal executive authority in the sphere of migration or its territorial unit. In the identification statement, a foreign national specifies his/her personal data (second name, first name, patronymic name and the date and place of birth), as well as the purpose, circumstances and the date of arrival in the Russian Federation.

For the purpose of identification of a foreign national, a territorial unit of the federal executive authority in the sphere of migration has the right, in particular, to:

- request submission from a foreign national of the information in writing required for identification of that person;
- carry out relevant checks, interview persons specified by a foreign national as witnesses at the place of residence or the place of stay of a foreign national, as well as carry out identification on the basis of a report of witness;
- use fingerprint information received in carrying out of the state fingerprint registration.

If on the basis of checks, interviews of witnesses and identification the authenticity of the personal data stated by the foreign national is proved, a territorial unit of the federal executive authority in the sphere of migration prepares a conclusion on the identification of the foreign national. A copy of the conclusion on the identification of the foreign national prepared by the territorial unit of the federal executive authority in the sphere of migration is handed over to the foreign national at his/her request.

The period of identification of a foreign national should not exceed three months.

#### 4. Federal Law No. 93-FZ of May 7, 2013 on INTRODUCTION OF AMENDMENTS INTO ARTICLE 16.1 OF FEDERAL LAW ON SCIENCE AND STATE R&D POLICY

The definition of “the state support of innovation activities” has been provided.

The state support of innovation activities includes a collection of measures taken by public authorities of the Russian Federation in accordance with the legislation of the Russian Federation and legislation of constituent entities of the Russian Federation for the purpose of establishment of the required legal, economic and organizational conditions, as well as motivation for legal entities and individuals engaged in innovation activities. ●

## REVIEW OF REGULATORY DOCUMENTS ON TAXATION ISSUES IN APRIL–MAY 2013

L. Anisimova

*In the period under review, a struggle for the budget funds of the next fiscal year took place. On April 30, 2013, the Ministry of Finance of the Russian Federation submitted for consideration by the Government of the Russian Federation the draft Main Guidelines of the Tax Policy in 2014 and the 2015-2016 planned period. According to experts' estimates, the Government does not intend to change the structure of the tax system in the 2014–2016 period and introduce new taxes, except for those which has already been submitted to the State Duma. However, the Ministry of Finance has found reserves for tax revenues growth, that is, raising of rates, changing of rules of calculation and payment of some taxes and specification of procedures for collection of those taxes<sup>1</sup>. In their turn, entrepreneurs insist on easing of the tax policy. On May 23, 2013, at the meeting in Voronezh – dedicated to the issues of development of the domestic entrepreneurship – President Vladimir Putin promised to consider the business community's proposal on the tax maneuver; however he pointed out that proposals regarding tax amnesty and tax holidays at newly established small business enterprises were not developed sufficiently, nor were convincing enough.*

Late in April and May 2013, the Government of the Russian Federation had to take a number of decisions on adjustment of the 2013 budget expenditures in a situation of the unexpected shrinkage of opportunities as regards mobilization of additional budget resources due to a drop in oil prices to \$100–\$104 per standard barrel and a lack of non-oil revenues as a result of a decrease in GDP growth rates in the 1<sup>st</sup> quarter. In our view, the most dangerous thing in the existing situation is preservation of the exceedingly large public and para-public (social) sectors in the economy. In conditions of the crisis, maintenance at the expense of budget funds of a large number of able-bodied people in public service, military and law-enforcement structures and state corporations in combination with the liability to support as well at the account of the government persons of a pensionable age which begins in Russia 15 to 20 years earlier than in other countries draws over all the resources of the economy to servicing the interests and objectives of the state, prevents development of the free market and distorts the structure of prices. As a result, a distribution economy, not a market one is being reproduced in Russia.

In conditions of a crisis, countries with market economies cut state spendings and get rid of the redundant workforce in the public sector, that is, create conditions for reduction of the market cost of the workforce, redistribute it between different spheres of activities which factor is a prerequisite of qualitative changes in the structure of workforce and determination of the required level of qualification for further development of a competitive market of one or another country. Such developments are, certainly, accompanied by social protests, but the lower the share of the state in the economy, the smaller the extent of such protests. Having decided to switch over to a competitive market, the Russian state, unfortunately, permitted the public sector to become exceedingly large. It will be too difficult to overcome the consequences of a paternalistic state and social policy in a situation of limited financial resources and crisis developments.

As was stated above, in Russia the government first determines plans and programs and then looks for funds to implement them. In a situation of a developing market, the government, on the contrary, has to adopt plans and programs only within the limits of resources it can mobilize without damaging development of the private business in order to form a free market.

The difference between a monopoly market and free market consists in the fact that the latter originates from “chance” exchanges when optimal consumer properties and quantitative param-

<sup>1</sup> A. Mikhailov and E. Karpenko. There will be No New Taxes. The Old Ones will be Increased. Web-site of Gazeta.ru of May 5, 2013.

eters of exchangeable goods meet. However, that chance (in other words – the freedom of choice) is a prerequisite of origination of new trends in development and optimization of production forces.

In a crisis situation, requests for a reduction of a tax burden with simultaneous growth in needs of state finances intensify. Governments start raising taxes on luxury (as they do it in Russia) and individuals' income which exceeds the average nationwide level of income (for instance, in France) and consider the prospect of introducing higher taxes on consumption (at the beginning of the financial crisis in Germany the issue of a higher VAT rate was considered). In Russia, unfortunately, one should not expect high efficiency from mobilization tax measures proposed in the Main Guidelines of the Tax Policy: the most better-off people work at government institutions or state corporations, so higher taxes will mean a simple transfer of federal budget funds (in the form of a portion of wages and salaries paid them from the budget) to regional and local budgets (in the form of the individual income tax, luxury tax, corporate property tax, land use fees, property tax and other). As regards tax privileges for business as entrepreneurs propose, apart from such proposals' controversial nature which is discussed below in Russia privileges result in an additional burden on the federal budget due to a need to use federal budget funds to pay for losses of regional and local budgets. Conclusion: with a financial and mobilization allotment it is impossible to get out of the present crisis; it is necessary to cut public spendings.

In carrying out of the tax policy during the crisis, it is particularly important to observe the principle of justice and neutrality of the tax load. The main market taxes (VAT, profit tax, individual income tax, excises and rental payments) represent withholding of a certain portion (share) of the newly created value in accordance with one or another scheme. The ultimate aggregate tax burden by all the types of such taxes is finally determined as a share of the newly created value of goods (jobs and services) sold on the market. With absence of exchange transactions in goods (jobs and services), there are no taxes. Any request for exemption from market taxes stems from a misunderstanding of the principle of their operation. The market tax system is neutral: it neither creates an incentive, nor hinders the functioning of the market. Exceptions from the general scheme are taxes on property and the real-estate: they are established as shares of the accumulated value and serve as a burden which gets real estate and other property involved in the current market turnover. Taxes on costs resulting in forced deformation of the cost of production of goods by domestic manufacturers as compared to their competitors do not comply at all with the market system – it is for that reason the business community actively insists on reduction of insurance contributions. Analyzing the application of the Constitution of the Russian Federation in setting of the rates of mandatory payments (it concerns primarily the proposed rates of the property tax which is going to have an impact on a large number of people), it is important to take into account the formula developed by the Constitutional Court of the Russian Federation (CC RF) which limits the possibility of establishment of mandatory payments: “Taxation which paralyses the exercise by people of their constitutional rights is to be recognized as inadequate. For that reason, with taxes and duties becoming excessive the issue of diversification of them in order to ensure the principles of justice and equality is getting of a particular importance”<sup>1</sup>. It is believed that the above formula is of a comprehensive nature and is to be taken into account in taking by the Government of the Russian Federation of decisions as regards any mandatory payments, particularly, in a situation of a shrinking market.

A common mistake which is made by initiators of financial changes and financial authorities consists in an intention to replace a reduction of the general level of the tax burden by individual privileges or special privilege tax regimes, that is, target tax regulation. The above moves distort the existing market relations. For example, the National Association of Stock Market Participants informs that the Ministry of Finance is considering a proposal to total the profit (losses) of nonnegotiable securities with operation results of marketable securities on the regulated securities market and the results of investors' main activities<sup>2</sup>. In our view, approval of such a decision would be inexpedient.

1 See Resolution No.9-P of April 4, 1996 of the Constitutional Court of the Russian Federation.

2 M. Papchenkova. The Stock Market Loss will Permit Companies to Reduce Taxes. Web-site of vedomosti.ru of May 05, 2013. The Ministry of Finance of the Russian Federation is prepared to permit companies to save on taxes in case of losses on securities transactions: the total pretax profit can be reduced by the value of those losses. The proposal of the Ministry of Finance of the Russian Federation is included in the draft Main Guidelines of the Tax Policy in the 2014–2016 Period sent to the Government on April 30. The Ministry of Finance is prepared to permit companies to combine losses on operations with marketable securities with the results of their main activities.



It is to be reminded that professional participants in the stock market are already permitted to total the results both on marketable and nonnegotiable securities on the organized securities and financial instruments market for taxation purposes. In addition to that, dealers (not brokers!) are permitted to create reserves against depreciation of securities by withdrawing a portion of funds from taxation. The above is a violation of the equal conditions of the competition: for example, in respect of their main profile business banks, insurance institutions and non-government pension funds are permitted to form reserves from the pre-tax profit against depreciation and writing-off of customers' debts in order to prevent a collapse of a bank (an insurance institution and non-government pension fund) and protect the interests of other customers. Dealers, on the contrary, form the fund out of the pre-tax profit and that is what other market participants dream about.

To make it clear, let's explain: for example, manufacturers of goods received profit, paid the tax, then incurred losses and wrote off those losses to future profit (provided that they receive it, of course). If a manufacturer of goods failed to receive profit, got bankrupt and quitted the business, not all the losses would be written off. Dealers, on the contrary, form the reserve out of the profit for taxation purpose. It is to be noted that until that reserve (it is replenished with purchasing of new securities) has not been completely utilized the profit tax is not charged. As it can be seen, for professional stock market dealers a tax regime which provides unjustified competitive advantages is established in the Russian Federation. For the above reason, it becomes disadvantageous to grant loans, insure and invest funds of non-government pension funds' customers, while dealings in securities in one's own interests (as a dealer) is the most profitable business.

Allocation of losses related to transactions with securities which are not traded on the organized market to profit received from ordinary investors' main activities – as proposed by the National Association of Stock Market Participants – is highly undesirable. Here is an example. Russia is a member of the Geneva Bill of Exchange Convention. It is an international agreement which means an unconditional right of claim of a drawee in respect of the bill. Suppose, an oil (or gas) company shipped oil or gas to a foreign company in exchange for a bill of the third person. Unconditional right of claim under the bill means that a certain amount will be debited unconditionally from the account (including a foreign one) of the drawer in favor of the drawee (that is, without legal recourse – simply on the basis of presentation of the bill to the notary). But the drawer (suppose, it is a Cyprian off-shore company) got suddenly bankrupt and failed to pay the bill. In case of approval of the amendment proposed by the National Association of Stock Market Participants, for Russian tax authorities the losses related to that bill will be set off as a reduction of the tax base on supplies of hydrocarbons (revenues from sales of hydrocarbons = 100 units, losses from writing off of the bill = -100 units, the tax base on the profit tax = 0). It is believed, however, that it is not worthwhile to liberalize the Russian tax legislation to such an extent of the financial freedom. With the existing tax system, the profit from sales (export abroad) of hydrocarbons for taxation purposes in Russia will be taken into account without the set-off of the losses related to the failure of the bill, that is, the Russian budget will not lose anything extra.

In our view, introduction of a special regime of taxation for dealers has resulted in the fact that all the financial entities took to stock market dealings. Even banks started to operate mainly as financial market participants leaving behind lending operations (for example, A. Lebedev, owner of the NRB said that if he failed to sell the bank he was prepared to return the banking license to the Central Bank of Russia because the bank had no customers and carried out operations mostly on the financial market)<sup>1</sup>.

1 D. Ushakova. Lebedev will turn NRB into an investment company. According to the businessman, he was prompted to do that because of absence of customers and buyers. Web-site of Izvestia.ru of May 17, 2013.

"Alexander Lebedev complained that due to constant inspections his bank (NRB) lost over Rb 6bn worth of customers' funds and they had to lay off about 1,000 employees. The businessman explains the supervising authorities' higher attention to the NRB by the Novaya Gazeta's investigations into corrupt practices in the banking sector ... According to Lebedev, only Rb 300m to Rb 400m worth of customers' funds (individuals and legal entities) without taking into account related parties are left with the NRB whose assets and capital amount to Rb 27bn and Rb 16.5bn, respectively ... According to the NRB reporting, as of April 1, the credit portfolio amounted to Rb 5.5bn, but according to Lebedev, the number of real customers amounts to about 50....According to the official statements, investments in securities make up the main portion of the bank's assets (over Rb 15bn)".



Lending which envisages checking of the customer's provisions and ongoing control over solvency and fulfillment by the customer of its obligations are replaced by issuing of securities. In issuing of bonds, there is no independent control over purpose utilization of the attracted funds, nor is there a need to make provisions for the borrowed funds and pay higher interests in case the return of funds becomes overdue (refinancing is needed, that is, bonds are to be issued to redeem the previous issues with interest), so, bond borrowing has plenty technical advantages as compared to traditional bank lending though a large number (dispersity) of bondholder-creditors may complicate the situation if a bondholder who was not paid timely takes suddenly a legal action.

In the draft Main Guidelines of the Tax Policy in 2014 and the 2015–2016 Period, the Ministry of Finance of the Russian Federation agreed with the position of the State Duma's Committee on Budget and Taxes as regards exemption from taxation of the interest income payable to foreign bondholders on so-called Eurobonds placed by corporations through foreign intermediaries<sup>1</sup>. It concerns nominee shareholders (holders of packages belonging to anonymous owners of Eurobonds) who are to be recognized as recipients of the interest income. But as soon as those nominee intermediaries have been recognized as recipients of interest income they become in their countries the sources of income for actual bondholders, that is, they are subject to tax regulation at the place of their tax residency. For the above reasons, intermediaries reject such transactions and are prepared to act as broker-intermediaries, that is, pay the tax on commissions only at their residency. Strictly speaking, the issuer has to keep record of its bondholders, identify them and apply the double taxation agreement with a respective country as regards each recipient of interests or pay extra for that work of a broker-intermediary. In Russia, they found it rather difficult and decided that the money mattered more, so it would be easier to grant a tax privilege. It is unclear, why the Government of the Russian Federation encourages such schemes of borrowing under which the beneficiary of the income is not identified neither with the Central Depository of the Russian Federation, nor with the issuer (the source of income payment), while the anonymous owner of bonds (a recipient of the income) is granted a full tax exemption. It seems the Ministry of Finance has supported legalization of another channel of tax evasion.

Privileges related to withdrawal of funds from Russia in the form of the interest income payable to nominee holders of corporate bonds are still less clear as other government agencies and supervising authorities in their turn propose tough economic measures to prevent capital flight abroad. So, A.V. Bastrykin, Head of the Investigation Committee proposes to introduce in the legislation the criminal liability of a legal entity for capital flight<sup>2</sup> and the Accounts Chamber of the Russian Federation has turned to the State Duma with a proposal to introduce an offshore tax on foreign trade operations of Russian manufacturers with companies situated in offshore zones. According to the Accounts Chamber of the Russian Federation, such a measure will permit to raise \$48bn to the budget on an annual basis<sup>3</sup>. The Accounts Chamber of the Russian Federation was prompted

1 The Ministry of Finance suggests that taxation of interest income on Eurobonds be abandoned. Web-site of *Kommersant.ru* of May 13, 2013. "The Ministry of Finance proposes that taxes should not be charged from interest payments on Eurobonds of Russian issuers which they pay to foreign holders of those bonds, said Anton Siluanov, Minister of Finance delivering the draft Main Guidelines of the Tax Policy at the State Duma. ...Earlier, the Ministry of Finance proposed to make the rules of placement of debt securities via SPV-structures of Russian companies and the Central Depository equal as regards, among other things, taxation of interest income on securities".

2 Alexander Bastrykin proposed to introduce a criminal responsibility of legal entities for flight of capital. Web-site of *Kommersant.ru* of May 23, 2013, [sledcom.ru/actual/299222/](http://sledcom.ru/actual/299222/) of May 23, 2013. At the Meeting of the Scientific Council of the Institute for Legislation and Comparative Legal Science under the Government of the Russian Federation, the Chairman of the Investigation Committee pointed out that capital flight was justified to a great extent by active processes of transnational legalization of criminal incomes. A larger portion of the Russian capital is withdrawn to offshore jurisdictions with a low level of transparency of capital movement". In 2012, over \$35bn out of \$56.8bn was withdrawn through so-called doubtful operations. The Chairman of the Investigation Committee explained that "solution of the problem of repatriation of capital which was illegally taken abroad was impossible without introduction of a criminal responsibility of legal entities". It seems the Investigation Committee has decided with assistance of legal science to look into conditions of capital repatriation. However, repatriation of capital will be feasible only in case Russia has joined international agreements and not through introduction of criminal responsibility into the domestic legislation.

3 T. Shirmanova and M. Kunle. Implementation of the measure will help raise annually up to \$48bn to the budget, according to auditors' calculations. Web-site of *Izvestia.ru* of May 15, 2013. However, experts say that such straightforward formulae do not help solve the problem as capital flight schemes involve entities established in countries which are not included in the offshore list.

to make such a proposal due to the fact that the Cyprian authorities did not provide the required information on Russian beneficiaries of Cyprus-based companies<sup>1</sup>. The above facts are explicit evidence of the lack of apprehension of free market regulation rules with various public authorities.

In our view, granting of tax privileges as regards interest income on corporate Eurobonds gives impetus to placement of bond issues abroad, upsets justice of a tax burden on banking operations, income from insurance activities and borrowing operations on the domestic market, that is, willfully violates the principle of justice and neutrality of taxation established by the Tax Code of the Russian Federation and undermines the market of traditional banking and insurance services in the Russian Federation. At the same time, it is to be noted that with introduction in Russia from 2012 of the mandatory consolidated reporting by the issuer on its marketable securities traded on foreign organized markets the issue<sup>2</sup> of control over the issuer's financial situation and activities is solved to some extent as the ultimate amounts of the issuer's obligations can be detected and, if necessary, domestic regulation measures can be applied to that issuer as a pre-emptive measure to prevent formation of financial bubbles.

A return of the Ministry of Finance and the State Duma Committee on Budget and Taxes in draft Main Guidelines of the Tax Policy in 2014 and the 2015–2016 Planned Period to the issue of a tax privilege in respect of corporate Eurobonds is allegedly caused by the fact that if such a tax privilege is unavailable corporate issuers will have to redeem bonds, while taxpayers' funds are apparently insufficient for those purposes (though a tax moratorium in respect of such interests was granted, that is, a tax privilege as regards the fact of identification of such violations was actually legalized). The present decision on introduction on a permanent basis of a tax privilege in respect of interest income on corporate Eurobonds for nonresidents (including offshore zones) is likely aimed at refinancing of obligations which were taken earlier; a failure to fulfill the above obligations would mean bankruptcy to some issuers. According to experts' estimates, the funds borrowed by Russian corporations through Eurobonds are not accompanied by actual investments – those funds are used mainly for financial operations: repurchasing of own equities and long-term refinancing at lower interests, that is, sources of debt repayment have not been created<sup>3</sup>. In a situation of falling prices on hydrocarbons and economic recession, risks from non-investment borrowings to Russian unemployment growth due to sudden bankruptcy of issuers increase. It is believed that it would be better to extend the tax privilege for the required period approved by the Government of the Russian Federation for the purpose of redemption of the existing liabilities, rather than to introduce it on a permanent basis to the Tax Code of the Russian Federation. To prevent complicated financial situations which may be related to a sudden failure of the issuer on foreign markets with all the financial and social consequences to the government, it is important to develop sectors of traditional banking and insurance services on the domestic market.

Unfortunately, domination of state-owned banks on the domestic market prevents development of market bank lending and free goods market. According to experts, state-owned banks –

1 T. Shirmanova. The Accounts Chamber: Cyprus does not disclose Russian offshore owners. Auditors found out that the Cyprian authorities did not provide to Russian tax authorities the information requested by the latter on beneficiaries of Cyprus-based companies. Web-site of Izvestia.ru of May 14, 2013. Besides, it was repeatedly stated that in addition to intergovernmental agreements governments are guided by their own Constitution. That is a real obstacle to provision of answers to some queries initiated by partners under international agreements, including those on taxation.

2 By the Information Letter of April 24, 2013 of the Financial Federal Markets Service (FFMS): "In the volume, in accordance with the procedure, within the deadlines and in the format approved for preparation and (or) provision to the FFMS of Russia in an electronic format of the 2012 consolidated annual financial (accounting) reporting in accordance with the International Standards of Financial Reporting (ISFR) and (or) the general principles of US accounting (US GAAP), Russian issuers whose securities (including bonds) are included in quotation lists are obligated to submit to the FFMS consolidated reporting prepared in accordance with international rules" the procedure for provision consolidated reporting in an electronic format to the FFMS is specified. Issuers of marketable securities traded on foreign organized (exchange) markets have to submit consolidated reporting in an electronic format to the FFMS. In accordance with Article 5 of the Law on Consolidated Financial Reporting annual consolidated financial reporting is subject to mandatory audit.

3 V. Buzoverya. Why do Russian companies borrow if they do not build up investments? Web-site of vedomosti.ru of May 20, 2013 "...Russian corporations set records as regards the volumes of placement of Eurobonds on international capital markets. So, from the beginning of the year Russian borrowers placed \$25.4bn worth of securities, thus taking Russia to the top line among all the developing countries as regards borrowings. Russia is followed by China with \$24.4bn worth of new debts on the international public debt market".

being a state financial monopoly – support weak entities many of which are actually bankrupt in order to prevent unemployment and later withdraw their profit in the form of payments on loans<sup>1</sup>. The New leadership of the Central Bank of the Russian Federation will face quite a complicated task, that is, to carry out a transfer of the state-owned banking system to market relations. For that purpose, it is necessary to carry out a gradual securitization of debtors' debts and selective buyout from banks of securitized debts of debtors if they were recognized as backbone entities, including buying up of bonds of such debtors on the foreign market, bankruptcy of other hopeless debtors and mandatory writing off of their debts at the expense of reserves of state-owned banks.

A refusal of the financial agency from budget revenues in the form of a tax on the interest income of corporate Eurobonds also raises questions because according to experts' estimates in regions the financial situation got worse a great deal in the past year. According to the estimates of the Ministry of Economic Development of the Russian Federation, in 2-3 years the public debt of constituent entities of the Russian Federation may increase more than 100% from Rb 1.4 trillion as of January 1, 2013 to Rb 3 trillion 2015<sup>2</sup>. Investors buying bonds of state-owned corporations or bonds of governments of constituent entities of the Russian Federation do not run risks: in case of a default on such bonds the Russian Federation will be answerable for its obligations with its property. However, bonds of constituent entities are more attractive to foreign companies than corporate bonds. The Euroclear and the Clearstream which came to the Russian market were not interested in securities of corporations and equities of state-owned corporations (as the Government of the Russian Federation hoped for in order to increase state revenues from privatization)<sup>3</sup>, but they get actively engaged in federal bonds trading and took interest in trade in bonds of constituent entities of the Russian Federation. There is nothing strange in that approach. As compared to bonds of other states, the above bonds are, probably, better secured and ensure high yield (despite the fact that yield on OFZ (federal loan bonds) fell from 7% to 6%)<sup>4</sup>. Taking into account the fact that the financial situation of constituent entities of the Russian Federation is constantly deteriorating, but their obligations are guaranteed anyway by federal property, such a situation can be called with a certain degree of irony “a growing market”<sup>5</sup>. As it is shown below, the new amendments to the Budget Code of the Russian Federation do not, unfortunately, limit further growth in debts of constituent entities of the Russian Federation.

The number of other documents which a particular attention is to be paid to includes the following:

1 D. Kushaev. State financing distorts the balance on the market of shares and debts and motivation of companies' owners. Web-site of vedomosti.ru of May 16, 2013. According to the expert, in Russia many companies which are formally owned by private shareholders have belonged de facto for a long time to state-owned banks. “They do not repay loans for years. Representatives of banks are members of their governing bodies and all the profit is spent on payment of interests. Not surprisingly, many leading businessmen see no problem in assigning their business to banks and the state. Particularly during the crisis, the government provided banks with long-term liquidity which the latter used for lending and refinancing of large companies in strategic and socially important areas. There were no cases of large-scale bankruptcy though many corporations operated beyond the limits of an acceptable debt burden”. The expert concludes that: “The crisis did not carry out any cleaning, nor did it make enterprises bankrupt and redistribute property from inefficient owners to efficient ones. It extended the status quo and got the government involved even to a greater extent in fulfillment of lending and proprietary functions which are not proper to it. High credit risks in the economy will sooner or later result in squeezing of that spirale, mass bankruptcies, writings off of loans and a new crisis in the banking sector”.

2 O. Bukharova. On The Report of D.F. Medvedev at the State Duma. Web-site: rg.ru of April 23, 2013.

3 M. Papechkova. The Ministry of Finance requests to speed up access of Clearstream and Euroclear to the Russian securities market Euroclear. Web-site of vedomosti.ru of May 15, 2013.

4 M. Papchinkova. Regions will manage to borrow at a lower cost. The cost of borrowings for regions and municipal governments may decrease. Foreign investors will get an opportunity to buy their debts through large clearing institutions: Clearstream and Euroclear. The analysis of views of experts E. Shilenkova, A. Lifshits, K. Vartapetova and A. Klepach. Web-site of vedomosti.ru of May 8, 2013.

5 K. Sugrobov. Loans to a hometown. How are debts of Russian regions made up. Web-site of Lenta.ru of May 15, 2013. With the share of the federal budget on the debt market amounting to 52%, regional and municipal (sub-sovereign) bonds accounted for 5%. At present, there are Rb 425bn worth of outstanding sub-sovereign securities on the market; there are outstanding bonds of 30 Russian regions and 10 municipal governments. According to forecasts of the Standard & Poors, by 2015 the deficit of regional budgets will increase to Rb 800bn, while their aggregate debt, to Rb 3 trillion. “The rate of debt growth will exceed by one-third the rate of income growth of Russian regions. The Standard & Poors points out that to stabilize the situation the government will have either increase the volumes of federal support or carry out redistribution of funds between constituent entities. Otherwise, regions and municipal governments will face bankruptcies”.



1. By Federal Law No.88-FZ of May 7, 2013, the important amendments were introduced into Federal Law No. 196-FZ of December 27, 2005 on Parliamentary Investigation by Federal Assembly of the Russian Federation. In particular, Article 4 (1) was supplemented with Cl.4 to the effect that subject to parliamentary investigation are “such facts of gross violation of financial discipline as found expression in untimely execution of revenue and (or) expenditure items of the federal budget or budgets of state extra-budgetary funds of the Russian Federation as regards the volume, structure and purpose, inefficient spending of funds of the federal budget and funds of state extra-budgetary funds of the Russian Federation and disposition of federal property”.

Investigations can be initiated by a group of members of the Council of the Federation or deputies of the State Duma whose number is no less than 20% of the total number of the members of the Council of the Federation or the State Duma by way of submitting of a written request addressed to the Chairman of the Council of the Federation or the Chairman of the State Duma for initiation of a parliamentary investigation into the facts stated in the above request. It is believed that the right to carry out independent parliamentary investigations into execution of budgets is a key point in establishment of the efficient and prompt system which would prevent corrupt practices and identify shadow schemes of allocation of public funds.

2. Of particular importance are amendments in accordance with Federal Law No.104-FZ of May 7, 2013 on Amendment of the Budgetary Code of the Russian Federation and Individual Legislative acts of the Russian Federation in Connection with Upgrading of the Budgetary Process . . .

It is to be noted that the new wording does not prevent the possibility of building up foreign currency debt of constituent entities of the Russian Federation at the expense of recapitalization of interests. In particular, the new wording of Article 104 includes the following terms of attraction of foreign debt: absence of the overdue debt and assignment of a rating by at least two rating agencies. As obligations of a constituent entity of the Russian Federation are in any case obligations guaranteed by the Russian Federation there is no doubt that positive ratings are assigned, while the absence of overdue debt as of the beginning of the year is ensured by re-financing at the end of the year with capitalization of the interests on the debtor's obligations with the creditor<sup>1</sup>.

A similar scheme was introduced by Article 104.1 for external foreign currency borrowings by means of securities of constituent entities of the Russian Federation outside the Russian Federation.

The Budget Code of the Russian Federation sets the goals of borrowing, that is, ensuring of repayment of the existing state foreign debt of a constituent entity of the Russian Federation and (or) financing of the deficit of the budget of a constituent entity of the Russian Federation.

Among other innovations, the most important one is the norm introduced into Article 40 of the Budget Code of the Russian Federation; under the above norm at the request of financial authorities of constituent entities of the Russian Federation and municipalities the Federal Treasury authorities provide the information from the accounting documents on payments received from legal entities which payments are sources of formation of revenues of a respective budget (including a consolidated budget of a constituent entity of the Russian Federation and a consolidated budget of a municipal district). In other words, the law permits the Federal Treasury represented by its territorial agencies to provide information to constituent entities of the Russian Federation and municipalities on the received federal taxes so that constituent entities of the Russian Federation and municipal authorities could check whether the correct volume of funds was credited to accounts of their budgets.

Article 96.9 (9) determines the procedure for utilization in the current financial year of resources of the Reserve Fund due to shortfalls of the planned revenues required for financing of current budgetary spending and the budget deficit.

3. By Federal Law No.94-FZ of May 7, 2013, a number of amendments were introduced into the Tax Code of the Russian Federation. In particular, a responsibility was established for local

<sup>1</sup> For example, according to Article 104 of the Budget Code of the Russian Federation: “...In the current financial year the volume of specified foreign borrowings cannot exceed the volume of obligations as regards repayment in the current year of the outstanding foreign debt of a constituent entity of the Russian Federation as of the beginning of the year without taking into account obligations on guarantees in foreign currency”.

authorities to provide on an annual basis until February 1 to tax authorities at the place of their location the information on all the land plots which were recognized as a tax base of the land tax, including land plots assigned in ownership by decisions of local governments until the day Federal Law No. 122-FZ of July 21, 1997 on State Registration of Titles to Real Property and Transactions with It becomes effective. Thus, gaps will be filled in charging of the land tax on land plots which were not registered by owners of those land plots at Rosreestr; also the data of the Cadastre will be verified for the purpose of introduction of the real estate tax.

The same law sets in respect of agricultural producers and fish-farming organizations tax rates at the amount of 0% on activities related to sales of agricultural products produced by them, as well as sales of own agricultural products produced and processed by them. It is to be noted that the list of agricultural products was expanded; they include yields of water biological resources, fish and other products including those produced (caught) beyond the limits of the exclusive economic zone of the Russian Federation in accordance with international agreements of the Russian Federation in the sphere of fishery and preservation of water biological resources.

4. One cannot but mention enormous work carried out by developers of amendments and supplements to the Federal Law on Concession Agreements. Amendments introduced by Federal Law No. 103-FZ of May 7, 2013 form a comprehensive scheme of transfer of heat-supply projects, centralized systems of hot water and cold water supply and or water disposal, as well as individual units of such systems under concession agreements or leasehold agreements concluded in accordance with the procedure set by the Government of the Russian Federation with executive authorities or local authorities which carry out regulation of prices (tariffs) in accordance with the legislation of the Russian federation in the sphere of regulation of prices (tariffs).

In a nutshell, the scheme will operate as follows. Heat supply projects, water supply projects and systems of such projects will be assigned on a tender basis for development and maintenance to concessionaries; the results of the tender are published in the Internet.

For the purpose of entering into a concession agreement, the concessor sets for the bidders the following:

1) an assignment and the minimum admissible planned values of the concessionary's operating rate;

2) requests as regards specification in their bids by participants in the tender of measures aimed at establishment and (or) reconstruction of the project of the concession agreements and attainment of the goals envisaged in the assignment and the minimum admissible planned values of the concessionary's operating rate with description of the main parameters of those measures.

The assignment is formed on the basis of the approved schemes of heat supply, water supply and water removal of settlements and urban districts as regards fulfillment of tasks and attainment of target indices of development of the systems of heat supply, and (or) water supply and water removal of settlements and urban districts, zones with centralized and non-centralized water supply, boundaries of the planned zones of location of projects of heat supply and (or) projects of centralized systems of hot water supply, cold water supply and (or) water removal, as well the data of the forecast of consumption of heat, heat carriers and (or) hot water, potable water, utility water and the volume and content of waste water. The assignment has to include the values of the required heat power, the required capacity (loads) of water supply systems, sewage systems and facilities installed in those systems at certain points of supply, points of connection (technological connections), input points, feed points and disposal points and deadlines of commissioning and removal from service of the above units.

The scheme of assignment by the concessor of projects under the concession agreement suggests forward execution by the concessor of a nonnegotiable irrevocable bank guarantee.

In the Law in question, requirements to the concession documentation and the content of a concession agreement are specified in detail; in addition to the requirements specified in the bid documentation a concession agreement is to include the following:

a) the volume of useful supply of heat (capacity) and (or) heat carrier or the volume of water supply and (or) water removal within a year preceding the first year of the concession agreement, as



well as the forecast of the volume of useful supply of heat (capacity) and (or) heat carrier and the forecast of the volume of water supply and (or) water removal during the period of validity of the concession agreement;

b) prices on energy resources during the year preceding the first year of the concession agreement and the forecast of prices on energy resources during the period of validity of the concession agreement;

c) losses and unit consumption of energy resources per unit of the volume of useful supply of heat (capacity) and (or) heat carrier and per unit of the volume of water supply and (or) water removal during the year preceding the first year of the concession agreement (by each type of the utilized energy resource);

d) a value of expenditures beyond control determined in accordance with statutory acts of the Russian Federation in the sphere of heat supply, water supply and water removal (except for expenditures on energy resources, concession fee and corporate profit tax);

e) ultimate (maximum) growth of the required gross revenues of the concessionary from carrying out of regulated types of activities in the sphere of water supply and water removal as compared to the previous year and other.

As of the date of entering into a concession agreement (on a tender basis), the current discounted value of gross revenues during the period of validity of the agreement and standard profitability will be calculated. If the concessionary fails to meet the terms of activities accepted on the tender basis, the concession agreement is terminated, but the customer has to return to the concessionary the investment funds with a fixed (standard) norm of profit. To indemnify the public customer from losses in case of termination of the concession agreement, a bank guarantee will be provided. So, a bank (or the banking community) by way of guaranteeing the obligations of the concessionary will have to request an indemnification from the latter or otherwise protect itself from losses in case of early termination of the concession agreement.

Such a scheme of organization and maintenance of utilities and projects of natural monopolies can be actually recognized as a transparent and efficient one. It suggests replacement of an inefficient concessionary with indemnification to it of costs and a certain rate of profit, involves a bank guarantee, that is, ensures banking control over the solvency of the concessionary which such an irrevocable guarantee was granted to and protects the budget from losses (they are indemnified by means of a bank guarantee). Perhaps, it can be stated that the developed scheme involves a real market mechanism of containment of growth in tariffs on services of public utilities and natural monopolies.

Also, a reduction of tariffs for the next financial year in case the concessionary or the tenant failed to achieve the approved planned values of reliability indices of heat supply utilities can be regarded as a subtle decision.

To protect the interests of the concessionary, the law includes a “grandfathering clause” under which setting, changing and adjustment of regulated prices (tariffs) on goods produced and sold and services rendered by the concessionary are carried out till the end of validity of the concession agreement in accordance with the rules which are in effect as of the date of setting, changing and adjustment of prices (tariffs).

At the same time, such a scheme will work only if actual profitability under the concession agreement will be higher than the normative profitability, while the latter meets the level of interest rates on bank loans and bank guarantees.

At present, by Resolution No. 406 of May 13, 2013 of the Government of the Russian Federation documents in the sphere of water supply and water removal were approved (The Principles of price Setting; The Rules of Regulation; The Rules of Determination of the Size of the Investment Capital and The Rules of Calculation of the Rate of Return on Investment Capital). The normative profit as regards water supply and water removal is set at 7% of the amount included in the gross proceeds of costs. Expenses related to capital investments, funds used on repayment of loans, interests on loans and investment programs are to be paid at the expense of the normative profit. In addition to the above, other expenses related to the social needs of the personnel will be paid at the expense of the normative profit (that is, the sooner such programs start paying

off, the higher the share of other expenses on the social needs of the personnel in the normative profit will be).

The scheme is quite transparent and clear. The only condition for introduction of the above scheme is reduction of profitability on state borrowings as the same 7% (or a bit less) per annum a bank may receive without any risk by simply buying OFZ on the market. ●

## CHANGES IN THE REGULATORY BASE OF THE BUDGETARY PROCESS IN MAY 2013

M. Goldin

*In May 2013, Resolution of the Government of the Russian Federation introducing from the beginning of 2014 the procedure for carrying out of open technological and pricing audit of large investment projects with state participation was published.*

By Resolution No.382 of April 30, 2013 of the Government of the Russian Federation on Carrying Out of Open Technological and Pricing Audit of Large Investment Projects with State Participation and Amendment of Some Statutory Acts of the Government of the Russian Federation, the Statute was approved as regards regulation of procedures for open technological and pricing audit of large investment projects with participation of the state in respect of capital development projects whose financing of building, modernization or technological overhaul is planned to be carried out completely or partially at the expense of federal budget funds with utilization of the mechanism of federal target investment program, as well as budget allocations of the Investment Fund of the Russian Federation. Also, by the above Resolution of the Government of the Russian Federation a number of amendments to statutory acts of the Russian Federation was approved in connection with introduction of new procedures.

Instructions to the Government of the Russian Federation to ensure starting from 2013 organization of mandatory open technological and pricing audit of all the large investment projects with state participation were approved by Order No.596 of May 7, 2012 of the president of the Russian Federation on the Long-Term State Economic Policy. In addition to the above, late in March 2012 V. Putin, Chairman of the Government of the Russian Federation approved instructions to the Ministry of Economic Development of the Russian Federation to submit by July 1, 2012 the proposals on organization of mandatory open technological and pricing audit of all the large investment projects with state participation from 2012.

At the same time, in the above documents no explanation of “the open technological and pricing audit” was provided nor were the methods of such an audit specified; it is not explained either what “the state participation in investment projects and forms of state participation in investment projects” in respect of which open technological and pricing audit is expected to be introduced mean. In particular, it was not clear if the “openness” of such an audit suggests carrying out of the debates (expert review) of planned investment projects with the public.

An open technological audit of an investment project is determined by the Statute as an expert evaluation of justification of compliance of the selection of design technological and construction solutions as regards creation within the frameworks of the investment project of a capital development project to the best domestic and international building technologies, technological and structural design, modern building materials and equipment used in development with taking into account the requirements of modern production technologies required for functioning of the capital development project, as well as maintenance costs on realization of the investment project during the life cycle for the purpose of raising efficiency of utilization of budget funds, reduction of the costs and the period of development and increasing of competitiveness of production.

The pricing audit of the investment project is determined as an expert evaluation of the cost of the capital development project with taking into account of the outputs of the open technological audit of the investment project.

The Statute sets the lower limit of the project cost of capital development projects; with project costs exceeding that limit the open technological and pricing audit of investment projects is mandatory. It is to be noted that in 2014 that limit will amount to Rb 8bn and more, while from 2015, to Rb 1.5bn and more.

An open technological and pricing audit will be carried out in implementation of the following types of investment projects:

a) capital investment projects which were included in federal target programs and those which were not;

b) investment programs which are planned to be funded at the expense of budget allocations from the Investment Fund of the Russian Federation.

Open technological and pricing audit is carried out in two stages:

The 1<sup>st</sup> stage – at the stage of development of a decision on allocation of federal budget funds for implementation of the investment project or taking of a decision on consolidation of investment projects;

The 2<sup>nd</sup> stage – at the stage of approval of the project documentation as regards the volume of capital development created in the course of implementation of the project.

The right to carry out an open technological and pricing audit of investment projects will be granted to independent expert entities and individuals included in the list of expert entities and individuals (experts) which can be engaged in carrying out of the open technological and pricing audit of investment projects; the above list is to be approved by the document of the Federal Agency for Building and Public Utilities. By the same document, the procedure for formation of the above list will be approved.

Though the above list and procedure for formation thereof are still to be approved, a number of criteria for selection of expert entities and experts has been secured by the Statute.

In selection of an expert entity, one should be guided by the following criteria:

a) work experience of at least 7 years including in respect of at least 5 investment projects worth Rb 1.5bn and more in the sphere of technological and pricing audit of investment projects as regards design and building of capital development projects by lines of implementation of investment projects;

b) mandatory participation of at least 5 experts with specialized education and at least 5-year work experience in that sphere in fulfillment of jobs (rendering of services) as regards technological and pricing audit of investment projects;

c) knowledge by experts of the expert organization of the legislation of the Russian Federation in the sphere of urban planning activities and legislation on technical regulation (including requirements to safe operation of projects) as regards fulfillment of engineering survey for the purpose of design, building and operation of capital development projects, as well as design, building and operation of capital development projects by lines of implementation of investment project;

d) knowledge by experts of the expert organization of the Russian building market, including building materials, structures and construction engineering, cargo transportation market and labor market, including knowledge of their pricing parameters.

In selection of experts, one should be guided by the following criteria:

a) vocational training of the respective profile;

b) record of service of at least 5 years in the sphere of preparation of design documentation and (or) fulfillment of engineering surveys by lines of implementation of investment projects worth Rb 1.5bn or the record of service of at least 3 years at relevant offices at public authorities or entities carrying out due diligence of the design documentation and (or) the one of the outputs of engineering surveys;

c) lack of unquashed or outstanding conviction for commitment of intentional crime;

d) knowledge which meets relevant requirements set to experts of expert organizations which bid for participation in open technological and pricing audit of investment projects.

For carrying out of the first stage of the open technological and pricing audit and the second stage of the open technological audit of investment projects under which the design documentation is to be prepared in respect of capital development projects, a fee will be charged in favor of expert organizations and individuals in the amount not exceeding 0.2% and 0.38%, respectively of the total cost of preparation of the design documentation and engineering survey materials.

For carrying out of an open technological and pricing audit of investment projects under which the design documentation in respect of capital development projects was developed, expert organizations and individuals charge a fee in the amount not exceeding 0.58% of the total cost of preparation of project documentation and engineering survey materials. ●