© GAIDAR INSTITUTE FOR ECONOMIC POLICY
3–5, Gazetny pereulok, Moscow, 125 993, Russian Federation
Phone (495)629–67–36, fax (495)697–88–16, Email: lopatina@iep.ru
www.iep.ru

RUSSIAN ECONOMIC DEVELOPMENTS

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

K.Rogov

Socio-political Background: Struggling to Initiate Combat against Corruption

The socio-political situation in February was shaped by the escalating conflicts within this country's elite. The State Duma was shaken by scandals that resulted from the exposure of the ownership, by certain eminent representatives of the party in power, of real estate abroad that they had somehow neglected to report in their tax declarations. While some of these absent-minded politicians were forced to resign from their posts in response to the attacks of bloggers representing the opposition, others decided to give up their mandates in view of the course towards 'nationalization of the elite' announced by President Putin. The draft law (adopted in February at first reading) that is designed to prevent Russian officials from having any accounts with foreign banks smacks more of a populist measure than of any genuine ban on any foreign property (while mentioning bank accounts and stocks, the draft law is altogether silent about the existing more sophisticated products and legal forms of control over property).

It is evident that the Kremlin is striving to snatch the theme of struggle against corruption away from the opposition. The numerous criminal cases initiated over the course of February (in particular, the exposure of certain officials took place in the mayor's offices in St. Petersburg and Murmansk). The events associated with the dismissal of former Minister of Defense Anatoly Serdiukov demonstrated that any corruption-linked scandals at the top level are detrimental to the authority of the leaders of the State and the political regime as a whole. So, the spearhead of the anticorruption campaign is now aimed at regional-level officials, 3rd or 4th-tier executives, and businesses affiliated with the state system.

The second set of recent conflicts have to do with struggle for control over the 'energy' assets owned by the State. According to expert observers, this struggle goes on between the group headed by Prime Minister Medvedev and Igor Sechins's group, the latter aiming at concentrating control over those assets in the hands of Rosneftegaz, thus making it a 'second Rosimushchestvo'. However, it seems that the person benefitting the most from that conflict is Vladimir Putin, who can manipulate both parties by alternatively supporting one against the other.

Macroeconomic Background: Inflation Refuses to Slow Down, Markets Are Stagnating

As usual, in February the macroeconomic situation in Russia was strongly influenced by the situation on the world markets. While January was characterized by rapid strengthening of the Euro against the US dollar (from 1.30 to 1.37 USD per Euro), in February the US dollar fully reestablished its former position. A number of other indicators also demonstrated a reversal of their previous trends. Thus, the growth cycle of oil prices that began in early December gave way to an energetic downfall in the second half of February. As a result, oil prices returned to their level recorded at the very end of last year ($ 111.1 per barrel as of 28 February instead of $ 117–118 per barrel in the month's first half). However, there are no indications that this is indeed a major trend: for two years already – or, more precisely, since March 2011 – the price of Brent crude oil has been fluctuating around $ 110 per barrel, while Russia's Urals has been traded at a slightly lower level. The February futures for Brent initially rose as high as $ 103.5 per barrel, but then declined to $ 101.2 per barrel towards the month's end.

The movement of the world markets' conjuncture is reflected by the fluctuations of Russia's indicators. Thus, the ruble's strengthening against the US dollar in January coupled with its simultaneous decline against the Euro gave way to strictly reverse trends in February. As a result, the bi-currency basket's value has remained stable, with slight fluctuations around the Rb 34.75 mark. Over the course of February, the stock market lost everything that it had gained in the optimistic January: the MICEX Index plummeted from its record high –1,563 points as of 28 January – to 1,474 points as of 1 March, which is practically the same level as on the last trading day of December 2012. However, downward trends were observed in February also in the stock markets of the other developing economies (in contrast to US markets).

The most important phenomenon in February was the persistent trend towards acceleration of the inflation rate. Over February, inflation climbed by nearly 0.6% (against 0.4% in February 2012). Thus, the rate of acceleration, although lower than in January when it doubled against its last year's index, has remained at a significantly high level. As a result, the inflation rate in February became as high as 7.3% in per annum terms. Similarly to the situation in January, the growth rate of prices was significantly influenced by the rising prices of fruits, vegetables, and millet, as well as by the aftereffect of the January increase of the urban transport fares and the prices of excisable goods (thus, over February, the price of vodka rose by nearly 3%, while the overall rise of that product's prices on December 2012 amounted to 19%).

So – just as in January – the movement of the inflation rate was influenced by seasonal factors and the measures introduced by the regulator (increased excises and tariffs). The low rate of inflation in January – February 2012, in its turn, was determined by the political environment, when in the course of the presidential election campaign the influence of regulated prices and cartel markets (petroleum products) was deliberately and intentionally minimized. So, the inflation rate over the period of January through April 2012 remained at a level below 4% per annum, then in the summer it surged over 6%. This circumstance coupled with the trends observed early in 2013 is indicative of the fact that the government, most likely, will be unable to keep inflation within its target range of 5–6% – just as it had failed to do so last year.

Meanwhile, it was the impressive movement of the inflation rate resulting from a more intense redistribution of money flows towards the budgetary sphere and natural monopolies that has been referred to by the Bank of Russia as the main argument in the dispute concerning the possibility of softening its monetary policy. On 12 February, the Bank of Russia announced that the refinancing rate and interest rates on its main operations would be left unchanged. The RF Central Bank's position is based on the assumption that, at present, the Russian Federation is experiencing neither any significant deviation of output from its potential level, nor any discrepancy between the levels of demand for money and money supply; so, a tougher monetary policy cannot be justified because the current growth of inflation is caused by non-monetary factors.

In addition to keeping the interest rates on their previous level, the RF Central Bank, from 1 March onwards, established a unified norm of 4.25% for the size of required reserves for all types of liabilities. In late 2009, the norms for non-resident legal entities were established at a higher level than those for other types of liabilities. This differentiation resulted from the desire of monetary authorities to create negative incentives for banks to attract credits from abroad. However, more recently the importance of that issue has diminished due to the increased flexibility of the exchange rate policy pursued by the RF Central Bank.

January 2013 saw a seasonal shrinkage of the broad monetary base after its expansion towards the end of last year. The declining volume of currency in circulation coupled with a simultaneous increase of the volume of required reserves resulted, in January, in a parallel shrinkage of the narrow monetary base (cash plus required reserves) – by 8.6%. The volume of surplus reserves of commercial banks, after having doubled in December 2012, then dropped again in January 2013, thus returning to its level observed in November 2012. The volume of the RF Central Bank's repo operations with commercial banks over the period of January-February turned out to be significantly lower than in December 2012. However, this can only be regarded as a temporary trend, because the liquidity reserves (obtained by banks due to the substantial budget expenditure typical of a year's end) will gradually be exhausted.

According to the preliminary estimates released by the RF Ministry of Economic Development, net capital outflow in January amounted to $ 8–10bn, which is lower than in January 2012 ($ 15.3bn), but higher than its index for the entire period of Q4 2012. Thus, early this year, capital outflows from Russia visibly accelerated, thus reaching the level forecasted in the second annual development scenario (geared for the price of oil at the level of $ 97 per barrel) included in the RF Central Bank's Main Directions of Monetary Policy for the next three years.

The Real Sector of the Economy: Acceleration of Slowdown

In January, the main development in the real sector that determined its overall dynamics was the negative per annum growth rate in industry. The decline of industrial production by 0.8% was caused by a decline in the mineral resources extraction sector (by 98.2% on January 2012) and stagnation in *the processing sector (99.7% on January 2012). Our analysis of annual dynamics reveals that growth in industry halted as early as Q2 2012. Late 2012 saw a sharp slowdown in the growth rate of investment in fixed assets; later on, in January 2013, it increased by 1.4% on January 2012. The volume of output in the construction sector increased by 1.8%, while the production of construction materials dropped by 2.2%. The production of machinery and equipment had been declining (against the previous year's indices) since April 2012, and in January 2013 the volume of output in that sector amounted to 83.4% of its index for the same period of the previous year.*

January also saw a continuation of another trend that had emerged in late 2012 – a slowdown in the retail sector. The accelerated growth of real wages and real incomes of the population since late 2011 induced rapid growth of the retail market in the first half-year of 2012 – by 7.3% on the first half-year of 2011; in the half-year of 2012, however, its rate turned out to be significantly lower – 4.7%. This pattern may, in part, be explained by the base effect – the aftermath of the dynamic growth of retail turnover in the second half-year of 2011. In January 2013, retail turnover amounted to 103.5% of its volume recorded over the same period of the previous year (in January 2012 – to 107.4%). To a certain extent, this can be explained by the declining growth rate of real wages in late 2012, as well as by income redistribution: the growth rate of the volume of commercial services in January 2013 increased on January 2012 by 5.3% against 3.7% a year earlier. At the same time, the annual growth rate of loans to individuals remained practically unchanged, amounting to 39.0% as of 1 March 2013. All these circumstances make it possible to hope that retail turnover may at least in part recover over the next few months.

However, on the whole the development of the real sector observed over the period of December–January points to the probability of further slowdown in the economic growth by comparison with its rate observed over the second half-year of 2012. If the targets forecasted for the year 2013 (growth of GDP by 3.5%, of industrial production – by 3.6%, retail turnover – by 5.4%, and investment in fixed assets – by 6.5%) are indeed to be achieved, significant acceleration of the growth rate will be required.

Meanwhile, the business opinion surveys carried out by the Gaidar Institute have provided no evidence of a possible acceleration of growth. The composite indicator from these surveys shows that Russian industry's prospects continue to decline. As before, the main driver behind this downward trend has been a low demand for industrial products. In January 2013, only 40% of enterprises were satisfied with the level of demand for their products, whereas a year earlier this index amounted to 48%. The movement of output in January (when cleared of seasonal factors) was estimated by enterprises to be the same as a year earlier. At the same time, this year, an optimistic view of the expected movement of demand and output (traditional for January) was especially noticeable.

One rather alarming factor is, however, the growing balance of estimates of surplus finished stock, which points to the probability of output decline. The current pricing policy of enterprises is also indicative of their uncertainty as to the potential growth of demand in industry in 2013: the leap of producer prices in January is the lowest since 1999 (the only exception, of course, being January 2009). In this connection it should be reminded that, in November 2012, Russian industrial enterprises had to bring down their producer prices on a large scale, in hope for a revival of demand towards the year's end.

The investment plans of enterprises offer no promise of any revival over the next few months, either. This index failed to recover in January after its seasonal decline in December. The balance of these plans became negative as early as November 2012, then stabilized at that level, and the investment vector remained clearly downward in early 2013. The volume of investment is expected to increase only in the construction materials industry. The deepest investment downfall is observed in the food industry, light industry and ferrous metallurgy. It seems that there is no hope for any revival of the investment activity in 2013.

In January, the aggregate availability of credit in Russia's industry increased by only 4 points and now amounts to 71%. This figure falls well within the traditional range (66–72%) where the value of that index has remained for the last one-and-a-half years. However, the average minimum interest rate offered by banks increased to 12.9% (against 12.7% in December 2012). Interest rates grew for all size groups of enterprises. But this level of interest rates (and even their growth), according to enterprises' estimations, has a minimum negative influence on the dynamics of output in Russian industry. For eight months in a row, only 2 to 4% enterprises have been referring to shortage of credits as a factor that hinders their production growth.

THE POLITICAL AND ECONOMIC RESULTS OF FEBRUARY 2013

S.Zhavoronkov

February saw yet another flare-up in the ongoing turf war between economic clans, first of all between Ivan Sechin's and Arkady Dvorkovich's groups of influence. The latest flare-up was so strong that it even spilled over into Russia's state-owned TV channels. Thus, in one of its programs aired in February, the TV channel Russia showed some openly anti-Dvorkovich footage. Nevertheless, Dvorkovich still felt himself at ease, being in fact the main moderator speaking on behalf of those in the state apparatus who are displeased with Sechin's desire to take the reins of yet another company in addition to Rosneft and Rosneftegaz. As far as this turf war was concerned, Putin was able to keep himself above the fray: he aptly maneuvered, alternatively criticizing representatives of one and then the other of these groups, and signing directives in their favor. The President's policy was apparently aimed at maintaining the delicate balance of power within his inner circle. At the same time, the law-enforcement authorities increased pressure on the businesses deemed to be friendly to Dvorkovich. Also, Russia's mass media widely reported on the anti-corruption campaign, showing a confusing mixture of anti-opposition materials and documentaries aimed against some representatives of the party of power. In the process, they did their utmost to depict Putin and the power structures as objective and unbiased arbitrators. Apart from their positive PR impact, such campaigns usually have a palpably negative impact by increasing the number of conflicts within the 'vertical of power'.

February saw a flare-up in the turf war within the apparatus of the RF Government and, correspondingly, in the struggle between the heads of state companies, big businessmen etc. aligned with one or other government official.

On the one hand, Dmitry Medvedev signed a regulation to the effect that 40% of shares in *Irkutskenergo*, held by *InterRAO*, should be sold to *Rosneftegaz* at a price not lower than the market one, and that the proceeds from this transaction should be allocated to building the *Kambarata-1* hydroelectric power station in Kyrgyzstan (*InterRAO*'s management considered this decision to be wrong). At first glance, Medvedev's decision was a clear win for Ivan Sechin's *Rosneftegaz*, but in reality things were not as simple as they seemed: however profitable *Irkutskenergo* might be, 40% of shares in this company was not a big deal after all, because the controlling block of shares in *Irkutskenergo* had long been held by Oleg Deripaska's structures. Moreover, the fact that *InterRAO*'s position on that issue was not taken into account further tipped the balance against Sechin (the Management Board of *InterRAO* is chaired by one of Sechin's allies, Boris Kovalchuk). At the same time, it cannot be affirmed that the balance was tipped in favor of the State, because the aforesaid very expensive energy project (according to official sources, it is worth more than $ 2bn) is dubious for a number of reasons, including political ones. As a result, the management of *InteRAO* went so far as to put in doubt the necessity of implementing the directive in question, although it is likely that it will be obliged to tow the line, as it had been forced to do in the case of *RusGidro*. The list of candidates who would vie for seats on the Board of Directors of the *FSK* grid company has not been compiled as yet, and the company faces the risk of failing to hold its annual shareholder meeting for the second year in a row, because the relevant structures of the RF Government and the RF President's Executive Office are still engaged in lengthy correspondence on this matter.

This time trouble hit a group of persons known to be close to RF Deputy Prime Minister Arkady Dvorkovich. In fact, this story began in January with the sacking of Dagestan's head, Magomedsalam Magomedov, a very close ally of the oligarch Suleiman Kerimov. The new Government of Dagestan was formed by the provisional President of this republic, Ramazan

Abdulatipov, without any protégés of Kerimov[1], who used to be heavily represented in the republican Cabinet. February saw further reshuffle of top jobs: VTB Bank gave the sack to Alexander Budberg, a well known journalist and husband of Dmitry Medvedev's Press Secretary Natalya Timakova. In recent years, both Timakova and Budberg have played an important role, first as potential agents of Medvedev if he were to remain in office as the President of Russia, and then simply as integrators of the interests of those in the Russian elite who had gained promotion in the years of Medvedev's nominal presidency. Vladimir Putin ordered that the head of the state-owned joint-stock company *North Caucasus Resorts*, Ahmed Bilalov, should be dismissed, after criticizing him for delays in delivering a number of sports facilities for the 2014 Winter Olympic Games in Sochi and for a sharp rise in their price (although construction had been carried out not by *North Caucasus Resorts* but by a firm owned by the Bilalov family, it is still possible that, in fact, Ahmed Bilalov as a physical person can be held responsible for the afore-mentioned failures – and he paid for them dearly by being dismissed from a very important and lucrative government job). The *Summa* Group belonging to Bilalov's cousins Ziyavudin and Magomed Magomedov lost a lucrative contract for building the state-owned part of the Kyzyl – Kurakino railroad. The discontinuation of the contract was caused by the collapse of the entire legal base of the public-private partnership behind this project, resulting from the bankruptcy of *Yenisei Industrial Company* – the private contractor that had been responsible for building the second part of the railroad. By all indications, the new contract will be awarded without competition to a new investor, Ruslan Baisarov. However, as *Summa* has managed to get an advance payment, it can complain not of losses per se but of failing to achieve the expected amount of profit. To make matters worse, the management of *Transneft* demanded that *Summa*'s appointee, Rado Antolovich, General Director of the *Novorosiysk Commercial Sea Port* company co-owned by *Transneft* and *Summa*, be dismissed from his post for trading mistakes. If this conflict is not resolved amicably, Summa will be a big loser: as 25% of shares belong to various state-owned entities, *Transneft* can merge their respective holdings into one parcel and then, quite easily and absolutely legally, replace the management of the commercial sea port company. Last but not least, Vladimir Putin poured criticism on *RusGidro*'s head, Evgeny Dod, who had unexpectedly sided, in late 2012, with Arkady Dvorkovich in the conflict taking place in power engineering. Although Dod's future is still far from clear – he deftly parried Putin's accusations of condoning various irregularities in the company by pointing out that those irregularities had taken place before his appointment to the post of Chairman, and stating that the claims made by Putin that he somehow condoned those irregularities were based on speculations, not on facts – this public reprimand will definitely have an adverse effect on his future career prospects.

It is clear that this series of events – all taking place over the course of only one month – could not be casual, even if each of them, taken separately, could have been accidental. A number of commentators go further than that to affirm the existence of a conflict between Prime Minister Dmitry Medvedev, whose top economic adviser Dvorkovich had been for a number of years, and the powerful head of *Rosneft*, Ivan Sechin, known as a long-standing favorite of Putin, or even of a struggle between 'Medvedev's clan' and 'Putin's clan'. From our point of view, this is a gross exaggeration, because Medvedev has long ceased to be viewed by the elite as an independent decision-maker. On the other hand, Dvorkovich and his allies are influential persons in their own right. Thus, last year, Dvorkovich and the heads of some government departments and agencies (first of all, the RF Ministry of Energy and the Ministry of Natural Resources and Environment, frequently backed up by other departments) began a systemic conflict with Sechin, opposing practically each of his initiatives. In some cases they were forced to back down, as it happened in the event of TNK-BP merger, after Putin had clearly indicated his position. Sometimes they engaged in long, desperate and so far not victorious turf battles (as in the event of abolishing *Gazprom*'s and *Rosneft*'s monopoly of oil and natural gas exploration and exploitation on Russia's continental shelf). But in a number of cases they managed to totally frustrate Ivan Sechin's initiatives designed to consolidate the state-owned blocks of

1 Dagestan is not simply a region rich in various resources, but also a major recipient of Russian federal budget funds. That is why control over Dagestan's government is of vital importance for any group vying for power.

shares in energy companies in the hands of *Rosneftegaz*, an umbrella conglomerate through which the State holds the state-owned block of shares in *Rosneft*. Sechin tries to transform *Rosneftegaz* into a replica of the Federal Agency for State Property Management by vesting it, on various pretexts, with the right to manage the state-owned blocks of shares in large joint-stock companies. So far, he has failed to either consolidate the *FSK* grid company and *Holding MRSK* (a holding company comprising interregional distribution grid companies) on the basis of *Rosneftegaz,* or to 'additionally capitalize' *RusGidro* at the expense of *Rosneftegaz*, which should have been rewarded for its magnanimity by the gratis allotment of shares in RusGidro and the establishment of de-facto control over the latter. The policies of Sechin, who demands everything, everywhere, despite *Rosneft*'s failure to accomplish anything worth mentioning, raise serious doubts even from a corporate point of view – for example, having managed, so far, to frustrate, with *Gazprom*'s help, the recent attempts of private companies to gain access to continental shelf development, Sechin, almost immediately – in February – put forth a proposal that *Gazprom*'s monopoly on natural gas exports should be cancelled. Apparently, Sechin wants *Rosneft* to have equal rights with *Gazprom*, although it is clear that the latter will be less than forthcoming about this initiative.

In fact, Dvorkovich has found himself on the front line of resistance to Ivan Sechin's redistributive initiatives, which are disliked by many officials and many heads of state-owned companies (because any changes in these companies' legal status and jurisdiction create a formal reason for their replacement – even in absence of any complaints filed against them). This negative stance on Sechin's initiatives is shared by many influential oil industry bosses who are visibly displeased with the unprecedented privileges of *Rosneft*. Correspondingly, pressure on the business structures close to Dvorkovich may be something more than simply revenge – there is also probably a desire to force him to alter his position on a number of issues.

February saw the emergence of a grave threat to the existence of a large aviation asset – the *Red Wings Airlines* company. It should be reminded that in Russia, because of the prevalence of monopolies in the RF domestic air transport market, such assets are much more expensive than in Europe. Moreover, competition in this market is on a steady decline – for example, in recent years the State liquidated both the loss-making *Atlant-Soyuz* and the perfectly viable state unitary enterprise *GUP Kavminvodyavia*, and refused, in the crisis year 2009, to bail out the *KD avia* company. Recently, yet another large Russian airoperator, *Kubanavia*, declared bankruptcy. One must admit that the decisions behind these company closures had at least some degree of justification. This, however, cannot be said about the suspension, by the Federal Air Transport Agency, of *Red Wings*' air operator certificate, which apparently reflected the authorities' intention to create a problem for the owner of this air company – the eccentric billionaire Alexander Lebedev, the erstwhile sponsor of the *Novaya Gazeta* newspaper [The New Gazette] and a regular critic of the policies of the RF Central Bank and state-owned banks. Formally, the decision to suspend the certificate resulted from the disastrous crash landing of a TU-204 jet near Vnukovo at the end of last year (at the same time, TU-204 airplanes *per se* were spared official reprimand – in spite of having been criticized for a number of structural design flaws). Although, theoretically, *Red Wings* have some chances to get its air operator certificate restored (for example, if Lebedev should sell the company), in any case this scandalous development indicates that the State is not really interested in attracting investors even into the aircraft industry and the air transport sector (which are loudly declared to be 'breakthrough' and 'high technology').

Over the course of February, the official mass media continued to report on the anti-corruption campaign. This time, the most prominent victims of this campaign were two opposition members of the State Duma, who were stripped of parliamentary immunity. One of this duo was Oleg Mikheev, a big businessman and one of the leaders of the *Fair Russia* (he had been charged with violating the property interests of other juridical persons). The second outcast was CPRF MP Konstantin Shirshov, who had been charged with mediation in bribe-taking. At the same time, Chairman of the State Duma Commission on Ethics Vladimir Pekhtin, a well known activist of *United Russia*, voluntarily resigned from parliament after it was established that he owned property in Miami and had not declared it to the State Duma. Unfortunately for Pekhtin, it turned out that Miami real estate data are publicly available. In his case, these data were plainly scandalous, especially bearing in mind his own calls to combat American agents of influence and – by way of being patriotic – not to own foreign assets. Two more *United Russia* deputies followed suit and resigned from parliament. One of them was the billionaire businessman Anatoly Lomakin[1].

Also, criminal proceedings were initiated against Head of the RF Federal Fisheries Agency Andrei Krainiy for an offense under Article 292 of the RF Criminal Code (forgery by an official). According to the case materials, he ordered his subordinates to prepare a backdated order for dismissal of Sergei Muraviov, head of the Agency's North West District Territorial Administration, after the latter was arrested for bribe-taking. By so doing, Krainiy not only whitewashed his own reputation, but also made things easier for Muraviov – if the forgery had not been exposed, he could have been brought to criminal responsibility for felony swindling, a charge that carries a more lenient penalty, because in this case he would not have had the authority to fulfill his promises. Andrei Krainiy, who had headed the agency responsible for issuing commercial fishing and marine product licenses since 2007, had been considered a very powerful official. His fatal *faux pas* was to get into conflict with RF Minister of Agriculture Nikolai Fedorov. So far, Krainiy has denied any wrongdoing on his part. It should be noted that neither he nor Dod has been dismissed as yet.

A number of regional officials were dismissed, and some former and present officials were arrested – mainly in St Petersburg and in Murmansk Oblast. Information on their crimes of embezzlement was published against the background of Vladimir Putin's demand that the practice of sharp increases (up to 200%) in tariffs for housing and utilities services should be discontinued.

A number of administrators caught for plagiarism were stripped of their academic degrees, while the Chairman of the Russian Higher Attestation Commission (Russian degree-awarding regulator), Felix Shamkhalov, who had become a Full Member of the Russian Academy of Sciences at the age of forty, was dismissed and arrested. It turned out that his tempestuous academic career had proceeded hand in glove with his activities as manager of a number of commercial enterprises heavily indebted to the RF Bank for Development and Foreign Economic Affairs. It can be said that the current attempts to improve the image of the authorities and *United Russia*, and to hunt corruptioners within the ranks of the officialdom can yield both advantages and disadvantages. Thus, the vertical of power becomes increasingly uncontrollable, the number of people willing to work within it dwindles, while the opposition will undoubtedly claim that the ongoing events irreversibly prove the validity of their denunciation of United Russia as the 'party of crooks and thieves'.

In February, the lengthy parliamentary discussion of the draft law designed to impose a partial ban on the ownership of foreign assets by Russian lawmakers (it had been adopted in first reading in December 2012) came to an abrupt end. The State Duma dominated by *United Russia* was forced to hastily adopt, also in first reading, a new draft law on the same subject, personally introduced into parliament by President Vladimir Putin. It has already been announced that the new legislation will be a base law, and that the initial draft law will be adjusted to fit it. The 'base law' turned out to be even more toothless than it had been expected after Vladimir Putin's declaration, in December 2012, that officials (as well as MPs, judges, etc) should be permitted to own real estate abroad. The new version of the ban on foreign property ownership for officials envisages that civil servants, their spouses and minor children should be forbidden to keep 'deposit accounts and cash' at foreign banks outside Russia and to own foreign securities. Thus, even adult children (not to mention brothers, sisters, parents, etc) are exempt from the ban because 'they can be on bad terms with their parents, and the latter can be unable to influence them'. Also, the law does not mention other complex banking products that are neither 'cash' nor 'accounts'. Thus, any real ban on foreign property ownership for official is no longer on the agenda of the RF State Duma.

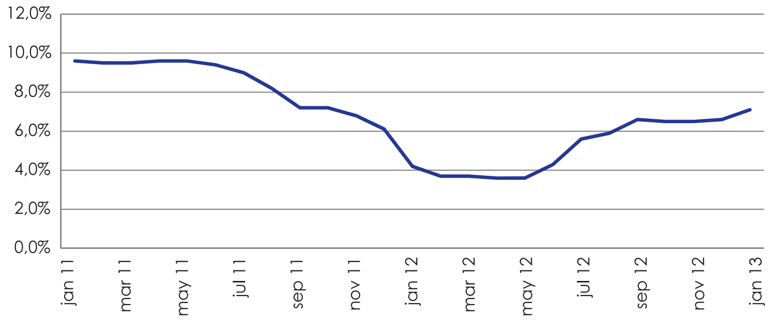
1 Approximately twenty members of the two chambers of Russia's parliament are included in the Forbes World's Billionaires List. The new Russian laws make their legal status rather complicated: they are denied the right to personally engage in entrepreneurial activities, but have the right to be beneficiaries of companies transferred into somebody else's management. So far as the notion of 'entrepreneurial activities' is concerned, it is also rather complicated: for example, it is not clear whether or not a lawmaker has the right to conduct commercial negotiations regarding his or her assets without signing the documents – as it was done by Oleg Mikheev (as a result, he was charged with other offenses).

INFLATION AND MONETARY POLICY IN JANUARY 2013

N.Luksha

In January 2013 the seasonal growth in prices for fruit and vegetables, as well as the planned increase in excise duties have contributed to inflation by two-fold, as compared with December 2012: CPI for the month made 1%. As a result, the inflation rate in annual terms has reached 7.1%. In February, the growth rate of consumer prices has slowed down: in 18 days of the month it made 0.3%. According to tentative estimates of the Ministry of Economic Development of Russia, the net outflow of capital from the country at the beginning of 2013 has accelerated, having reached in January $8-10bn. On February 12 the Bank of Russia has decided to establish a uniform rate for mandatory reserves for all categories of liabilities to credit institutions in the amount of 4.25%.

In January 2013 inflation has markedly accelerated, making twice as high as in the last month of 2012. As the result of the month, CPI reached 1% as compared with 0.5% in January 2012. Therefore, the inflation rate in annual terms has accelerated to 7.1% (*Fig. 1*). The utmost contribution to the increase in consumer prices made food products, which prices over the last month have grown by 1.8%. A significant contribution to the general growth in food prices has been made fruit and vegetable products (+7.4%). Increase in excise duties provoked a significant increase in alcohol price, which has grown in January by 4.9%. The only foodstuffs that have become cheaper in January were meat and poultry (-0.3%).



Source: RF Statistical Service.

Fig. 1. The Growth Rate of the CPI in 2011–2013 (% year to year)

The rate of growth in prices and tariffs for public commercial services in January continued to increase – from 0.4 to 0.6%. However, the rate of growth for commercial services service prices was much lower than, for example, two years ago, which is explained by the transfer of indexing the administratively regulated tariffs from January to July. Higher tariffs for passenger railway tickets and for public transport caused general rise in the cost of services of passenger transport (+2.4%). At the same time, in the first month of the year prices for foreign tourism and telecom services have insignificantly decreased (by 0.1%).

Growth rate of non-food products prices has slightly increased in January from 0.3% to 0.4%. Due to the increase of excise duties, the utmost growth in January prices was noted in tobacco products, which increased by 1%. Medicines were also growing in price nearly at the same rate (+0.8%), as well as detergents and cleaning agents (+0.7%). Gasoline in January gasoline has also significantly gained in price (+0.6%). Apparently, the reason was the administrative restriction of cost in the past year. In the coming months one can expect only the acceleration rate of growth in gasoline price, which will be due to both, the increase in excise duties, and to the beginning of the high season. There was no price reduction in any non-food products in January.

Like in the last year, the CCPI[1] in January made 0.5%.

In February inflation has markedly slowed down: within 18 days of the month prices rose by 0.3%, having repeated the dynamics of the same period of the last year. As a result, the cumulative inflation since the beginning of the year made 1.3% (versus 0.8% for the relevant period in 2012).

1 The core consumer price index reflects 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).

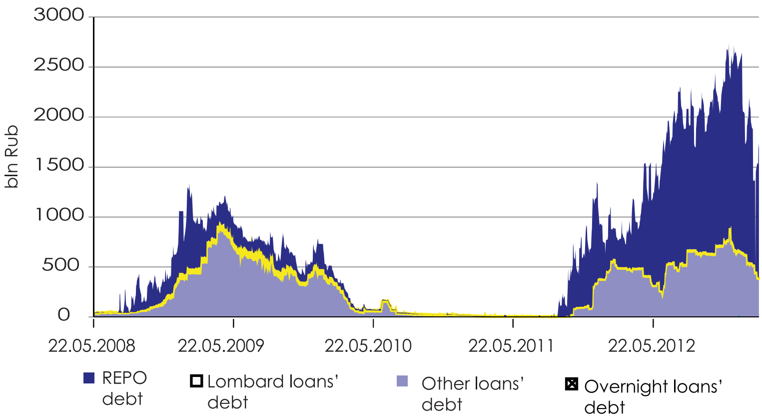


Fig. 2. Arrears of commercial banks with the Bank of Russia in 2008–2013

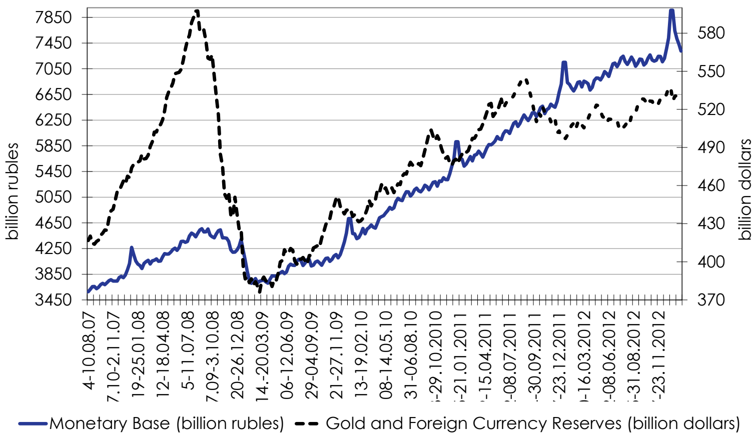
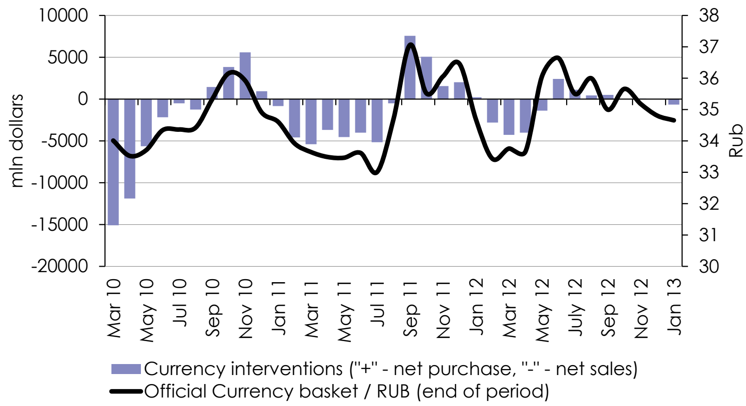


Fig. 3. Dynamics in the monetary base (in narrow definition) and in the RF gold and foreign currency (international) reserves in 2007–2013



Source: RF Central Bank, author's estimates.

Fig. 4. Central Bank of Russia currency interventions and ruble exchange rate vs. two-currency basket in March 2012 – January 2013

According to the estimates of the Ministry of Economic Development of Russia, the CPI in February amounts to 0.5-0.6%, higher than in 2012 (0.4%). The Bank of Russia expects in February the inflation in the range of 0.4–1%. Excess of inflation in early 2013 over the corresponding indicators of 2012 can be attributed to the low monetary base effect: in the first months of the last year the growth rate of consumer prices was much lower. In addition, at the beginning of the year prices for excisable goods, as well as for foodstuffs were rapidly growing.

In January 2013 there was a seasonal shrinkage of monetary base in broad definition after its expansion at the end of the year. As of the month result, it has decreased by 14.5% to Rb 8.4248bn (*Fig. 2*). Reduction of the monetary base in broad definition was associated with a simultaneous decrease in the volume of currency in circulation with regard to cash balances of credit institutions (-8.5%), correspondent accounts (1.7 times) and bank deposits with the Central Bank of Russia (2.6-fold). In January only mandatory reserves have increased by 3.6%.

Reduction of cash in circulation and the simultaneous growth of mandatory reserves in January led to a reduction in the monetary base in narrow definition (cash plus mandatory reserves) by 8.6% to Rb 7,454.5bn (*Fig. 3*).

After a two-fold increase in December 2012, the excessive reserves of commercial banks[1] in January 2013 declined, having returned to the level of the last November. Their volume at the end of the month reached Rb 970.3bn.

The volume of the Central Bank repo transactions with commercial banks in January–February was much lower than in December 2012. In early February the debt of banks under repo transactions has decreased below Rb 1 trillion (*Fig. 2*). However, this trend is temporary, as the banks' liquidity, obtained as a result of significant budget expenditures at the end of the year, will be gradually expired.

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.

After the December growth, in the first 1.5 months of 2013 the volume of net international reserves has decreased. As of February 15, they have declined by 1.5% to $529.5 bn. It was promoted by a negative revaluation of assets included in the portfolio of the RF Central Bank: the depreciation of the Euro and the British pound, as well as a drop in gold prices. Gold price at the end of February fell down to the minimum level since July 2012. After the December pause, in January 2013 the Bank of Russia has resumed foreign currency interventions, which were still insignificant. In the first month of this year the RF Central Bank has purchased $596m and Euro 48m (*Fig. 4*).

In January of this year, according to the tentative estimates of the Ministry of Economic Development of Russia, the net outflow of capital amounted to $ 8-10bn; this is lower than in January of the last year ($15.3bn), but higher than in the entire Q4 2012. Thus, in the current year, capital outflow has rapidly accelerated, having reached the 2nd version of the annual forecast (at the oil price of $97 doll/bbl.), estimated by the RF Central Bank in the Guidelines for monetary policy for the next three years.

In January of this year, the ruble real effective exchange rate continued its strengthening (+1.7%). As a result, the index of the real effective exchange rate has grown to 157.19[1] (*Fig. 4*).

In early February, the U.S. dollar continued to decrease against Russian ruble. The ruble was strengthening as a result of sustained high oil prices. The seasonal factor has also played its role: in Q1 exports traditionally exceeded imports, which also contributes to the growth rate of the national currency. By the third week of February there was a correction in the dollar-ruble pair: the U.S. currency has grown to $/Rb 29.93 on February 5 by 1% to $/Rb 30.23 on February 22.

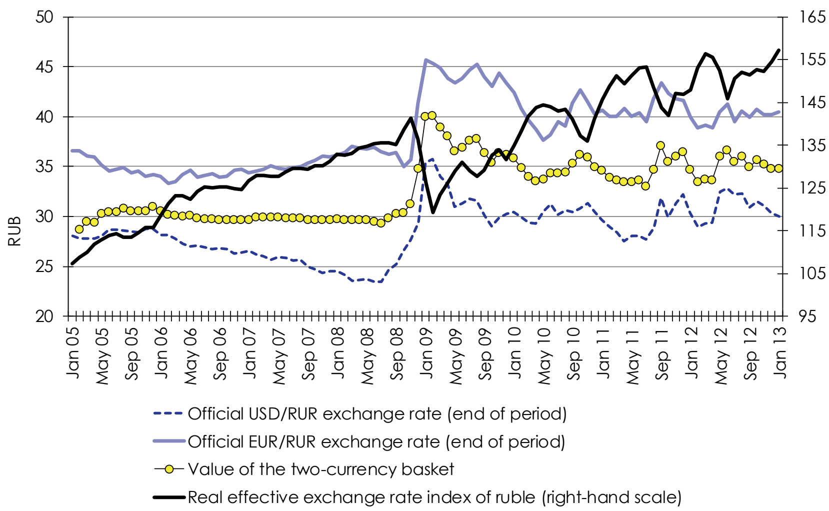
After the January strengthening, the European currency began to decrease in February. Over three weeks of February the Euro rate has declined by 1.6% to Rb 40.07 as of February 22. This trend reflects the dynamics of the Euro-dollar pair in the FOREX market, where the Euro over this period has decreased from 1.37 to 1.32. The internal problems of Europe continue to affect the rate of its currency: statistics on Eurozone GDP in the last quarter was worse than expected.

As a result of volatile dynamics of dollar and Euro rates, the two-currency basket in February changed slightly, amounting to Rb 34.66 on February 22 (-0.3%).

On February 12 the Bank of Russia announced that it remained unchanged the refinancing rate and interest rates on the main operations of the Bank of Russia. Note, that in early 2013 there was an active discussion, whether the Central Bank should mitigate its policy by reducing interest rates. In our view, the position of the Bank of Russia, announced in first published in the January 2013 "Report on Monetary Policy" is well-founded. Recall, that this paper shows, that at the present time any significant deviation from neither potential level of output level, nor the demand for money from the monetary supply is not typical for the Russian Federation. In this situation, mitigation of interest rate policy would affect primarily prices, rather than output.

At the same time, despite the acceleration of inflation, tightening of monetary policy is also unjustified, as the increase in the rate of prices growth is mainly based on non-monetary factors.

We believe that a key way to accelerate the economic dynamics in the Russian Federation should be institutional reforms, enhance-



*The level of January 2002 is accepted as 100%.
Source: RF Central Bank, author's estimates.
*Fig. 5. Indicators of Ruble Exchange Rate in January 2005 – January 2013**

1 The level of January 2002 is accepted as 100%.

ment of efficiency of still significant budgetary expenditures and government management. These measures can provide a significant incentive to economic development, while measures promoting aggregate demand provide only a short-term positive effect, which is further transforming in the acceleration of inflation.

Note, that in addition to keeping interest rates at the same level, the RF Central Bank has established from March 1 the unified mandatory reserve rate at 4.25% regardless of the types of liabilities. Recall, that up to November 2009 over a long period the rates of mandatory reserves were the same under all types of liabilities. However, later the regulations for the liabilities to legal entities-non-residents were increased more than under other liabilities. This differentiation was explained by the desire of the monetary regulation authorities to discourage involvement of foreign credits by banks. However, recently, due to the increased flexibility of the exchange rate policy of the RF Central Bank, the relevance of this issue has decreased. Moreover, we believe that the use of the instrument of monetary policy should be minimized on the one hand, due to its scale (it affects all banks), and on the other hand, due to the inflexibility (the same change in regulations provides different effects depending on the banks' size and structure of their liabilities).

FINANCIAL MARKETS IN FEBRUARY 2013

N.Andrievsky, E.Khudko

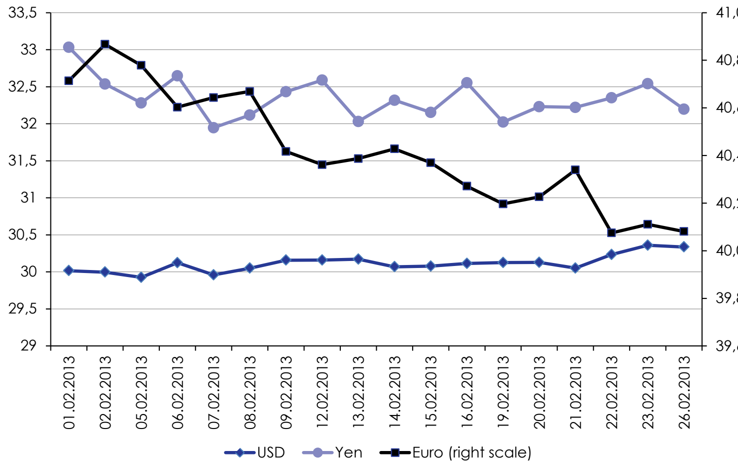
The Russian stock market in February was characterized by a minor correction in prices of majority of securities traded in the market, after growth in the previous two months. Oil futures have declined on average by 2.2%. Dollar exchange rate remained at the level below Rb/Dollar 30.35, while Euro decreased by 1.5%. "Blue chips" have lost 3% of their value. IPO in the Moscow stock exchange has occurred against the general negative dynamics, which led to a decrease in stock quotations from the start of trading values by 5.8%. Positive trend was demonstrated by the key market indicators of corporate bonds: the market volume and index, the average yield, the activity of investors in the primary and secondary market segments.

Russian stock market basic structural indices of the dynamics

In February the average price of Brent oil futures reached $103.5 per bbl, but at the end of the month it has declined to $101.2 per bbl. Herewith, the dollar was fluctuating at the level of Rb/USD 30.11, and only at the end of the month it has grown to Rb30.33. The European currency has declined within February 1.5% against the ruble.

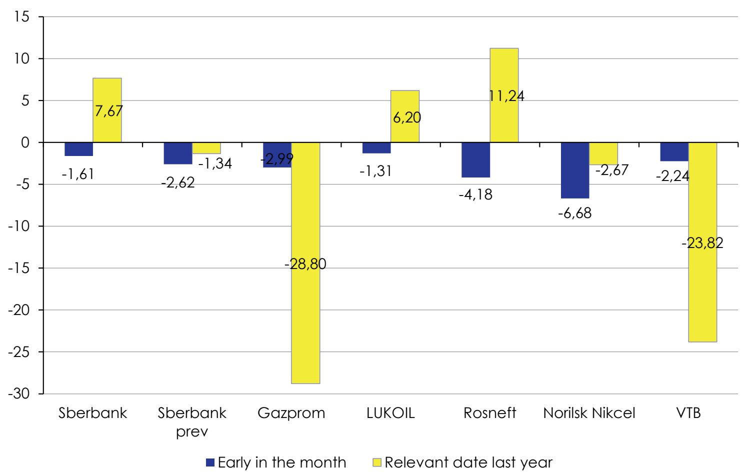
In general, the Russian stock market was affected by the negative expectations of the dynamics in the basic macroeconomic indicators of the USA and the Eurozone countries. As a result, a fairly steady decrease in quotations was observed in February. Thus, from February 1 to 25, the MICEX index has decreased by 2.82%, what can be regarded as a correction after the growth in the previous two months, what is confirmed by the same reducing dynamics in "blue chips" price.

Investments in shares of the most popular at the beginning of the month securities could result in 3.09% losses on average. Herewith, the greatest losses could suffer investments in Norilsk nickel securities – investing of Rb 1 at the beginning of the month on February 25 could result in 93 kopecks of loss. For the long-term investors the yields of securities were variable, and this dynamics is independent on the industry: over the year the shares of Gazprom have lost 28.8% of value, while shares of LUKOIL and Rosneft, by contrast, have grown by 6.2 and 11.2%, respectively.



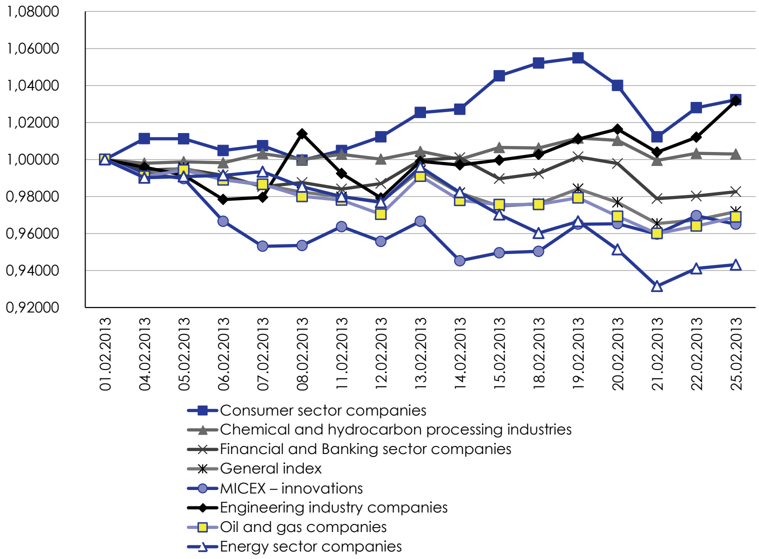
Source: RF Central Bank.

Fig. 1. Dynamics of the dollar, the Euro and the Japanese yen against the ruble



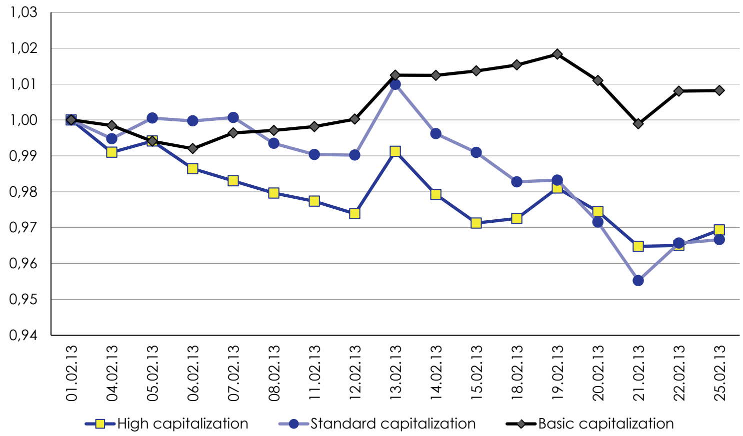
Source: Rosbusiness Consulting quote, authors' estimates.

Fig. 2. Growth rates of quotations of highly liquid securities at the Moscow Stock



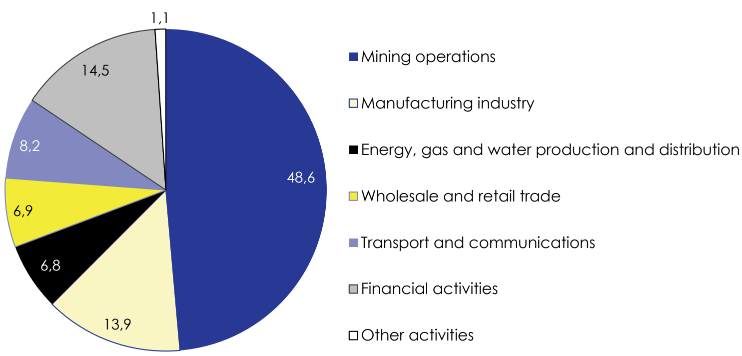
Source: Rosbusiness Consulting quote, authors' estimates.

Fig. 3. MICEX stock indices growth rates



Source: Rosbusiness Consulting quote, authors' estimates.

Fig. 4. Dynamics of MICEX capitalization index growth rates



Source: MICEX official web-site, author's estimates.

Fig. 5. The structure of the stock market capitalization as broken down by industries

VTB quotations have lost more than 20%, despite the growth of Sberbank securities (*Fig. 2*).

Most sectoral indices in February were also demonstrating reduction trend. Herewith the index of consumer sector companies by the middle of the month has reached the growth of 5.5%, but then the decrease in the shares of this sector has resulted in the growth only by 3% per month.

The "leaders" of decline were the stocks of the energy sector (-5.7% since the beginning of the month). It should be noted that in December 2012–January 2013 the index of companies in the energy sector increased by 3.6%, and growth dynamics was similar to the dynamics of the consumer industry and the banking sector, which index has also declined in February by 1.74 %. In late February the stock index of engineering industry companies, which was at a sustainable level over the month, has grown.

Overall negative dynamics has not affected the basic index of company capitalization, which maximum growth has reached 1.8%, what allowed to keep up the growth of 0.8% at the end of the month. For the companies with high and standard capitalization the decline made 3 and 3.3%, respectively.

The only public offering in February 2013 was MICEX IPO. Amount of funds raised totaled to Rb 14.9bn. However, with the opening of trading in securities, quotations decreased from Rb 58.15 to Rb 54.7, or by -5.8%. In terms of economic activities, the share of the financial companies' placements at the Moscow stock exchange increased to 14%, having leveled the capitalization of financial sector and manufacturing industry. Capitalization growth of financial sector, coupled with the overall dynamics of mineral mining companies quotations resulted in the decrease of the mining industry share in the structure of the stock market capitalization. However, this change is unstable because of its rather speculative nature.

Corporate bonds market

The volume of domestic corporate bond market in Russia (at par value of the securities in circulation, denominated in national currency) in February continued high growth rate and reached Rb 4241.5bn, which is by 2.3% more than its value at the end of January this year (in H2 of 2012 monthly growth averaged to 1.5%)[1]. The growth of market capacity is again is mainly based on an increased number of bond issues (914 corporate bonds registered in national currency against 894 emissions at the end of the preceding month), while the number of emitters recorded in the debt segment remains virtually unchanged for several months (338 issuers against 337 companies in January this year). There are bonds of several foreign companies among the issues placed in the Russian currency in circulation: the International Finance Corporation, the European Bank for Reconstruction and Development, the Uranium One Inc. In circulation there remain a number of bonds emissions issued in US dollars and one bonds issue in Japanese yen.

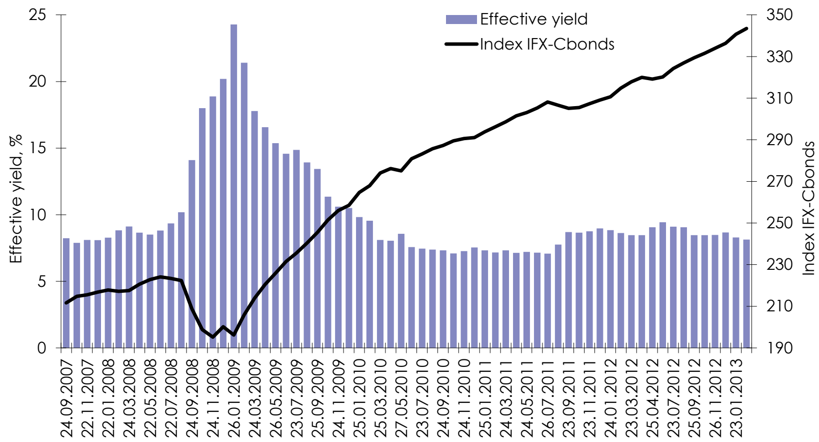
Investment activity in the secondary market for corporate bonds remained at a high level in February. Thus, from January 24 to February 22 this year, the total volume of transactions at the Moscow Stock Exchange totaled to Rb 147.4bn (as compared with the period from December 24, 2012 to January 23, 2013, when the turnover was Rb 146.5bn), and the number of transactions for the period rose to the record level in recent months – 30,000 (26.5m in the preceding period)[2].

Index of the Russian corporate bond market IFX-Cbonds continued a stable growth. By the end of February this year, its value increased by 2.8 points (or 0.8%) as compared with the value at the end of the previous month. The weighted average yield of corporate bonds continued to decline, from 8.29% at the end of January to 8.14% (*Fig. 6*)[3].

Favorable situation in the debt market is the result of positive forecast earlier in the year, while the situation in February, will hardly promote further positive dynamics. Among favorable news can only note the sustained high credit ratings of the largest issuers and a renewed interest of foreign investors in Russian securities. At the same time in this month there was an acceleration of inflation and revision of its value in annual terms. In the second month of the year a negative external news background has been aggravated, in particular, the yield of sovereign bonds of peripheral European countries has been upgraded and the outlook of the Netherlands rating has been decreased. Herewith, namely in February, many large Russian issuers (“Novolipetsk Steel”, “Russian Railways”, “Gazprombank”) made successful placements of Eurobonds[4].

Index of corporate bonds portfolio duration, as well as profitability, continued to decline. At the end of February duration made 552 days, which is 19 days less than the indicator of the end of January. With a decrease in the interest rates in the market the duration reduction reflects a decrease in duration of bonds circulation in the corporate segment.

The yield of the most liquid bond issues, despite its decline, was volatile. Growth of the yield on key issues in February typical to the bonds of production companies: “ALROSA”, “Gazprom”, “LUKOIL”, “ Magnitogorsk Steel Works”, “Norilsk Nickel”, “Severstal”, and a number of high-tech companies. Decline in the yield



Source: Cbonds Information Agency data.

Fig. 6. Dynamics of primary placement of corporate bonds and average weighted yield

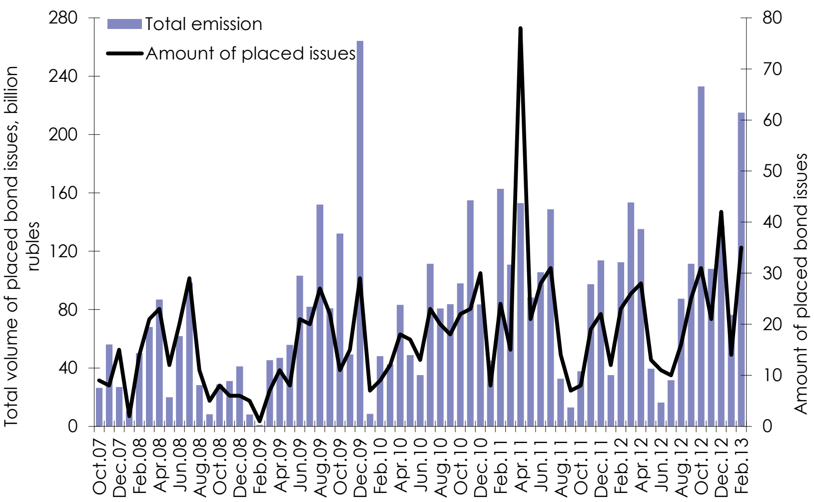
1 Rusbonds Information Agency data.
2 According to the “Finam” Investment Company.
3 Cbonds information.
4 Cbonds information.

was observed on the bonds of financial sector companies (average of 0.2-0.3 percentage points). The dynamics of the yield on energy companies bonds was volatile[1].

Activity of issuers was rather high, but the indicators of the bonds placements were several times lower than at the beginning of this year. Thus, over the period from January 24 to February 22, only seven issuers registered 24 issues with the aggregate nominal value Rb 82.6bn (whereas in the period from December 22, 2012 to January 23, 2013 there were 99 issues of bonds at par value Rb 793bn). Major issues were placed by OAO AKB "Rosbank" (4 series of stock bonds worth Rb 35bn) and OAO "Russian Agricultural Bank" (4 series of bonds worth Rb 30bn)[2]. More than half of registered issues were stock bonds.

In February of the current year the activity of issuers in regard to the bond issues has substantially declined as compared with IPOs. Thus, from January 24 to February 22, 23 issuers have placed 35 bond issues totaling to Rb 215bn (compared with the period from December 22, 2012 to January23, 2013 there were offered only 14 funded loans worth Rb 76.4bn) (*Fig. 7*). Stock bonds accounted for nearly half of all offered issues. Among the offered issues one should note two debut bond issues totaling Rb 10bn, offered by one of the largest agencies of development of Russia – OAO "State Transport Leasing Company" (the yield at placement was very high – 10.25%). In February only OAO "FGC UES" managed to increase funding for a sufficiently long term of 15 years. Probably, the number of long-term emissions will be significantly increased in future: proposals of OAO "Russian Railways" on investing the National Welfare Fund and the Pension Fund assets in infrastructure projects with payback periods of 15-20 years were generally supported by the government. It is assumed that the OAO "Russian Railways" will be granted benefits from these funds on these projects for the term of at least 20 years, and the OAO, in turn, will issue special non-marketable bonds with state guarantee – infrastructure bonds[3].

Despite the strong IPOs performance indicators, in the period under review – from January 24 to February 22 – FFMS of Russia has recognized as invalid nine issues of bond issues due to the non-placement of any securities, followed by rejection of state registration in previous months, eight bond issues were recognized invalid), and canceled their registration (in the previous period was invalidated sixteen bond issues)[4]. In a period of high investors' interest in bond issues such a large amount of invalidated issues is based on the changes of the issuers' plans to raise funds from the loan market, as in this case the major market participants – "Gazprom Neft", "GAS", "Glavnaya Doroga" are involved. In the near future the situation with the recognition of issues as invalid can dramatically improve, once the new amendments to the legislation come into effect. While now the maximum term of equity securities is one year from the date of registration of the issue (if at least one security was not placed, the issue was invalidated), in future this term is expected to be extended to three years. For this purpose the issuer must extend the placement term by making changes in the decision on placement[5].



Source: Rusbonds Information Agency data.

Fig. 7. Dynamics of primary placement of corporate bonds issues, denominated in national currency

From January 24 to February 22 this year all eleven issuers

1 Finmarket Information Agency data.
2 Rusbonds information.
3 Cbonds information.
4 FFMS of Russia data.
5 "Prime" Information Agency data.

have paid off twelve issues of bonds totaling to Rb 56.0bn in due time. Like in the previous period, there were no announcements of technical default, which is a positive indicator to investors. In March 2013 eleven corporate bond issues are expected to be paid off for the total amount of Rb 53.0bn[1].

The situation with the announcement of actual default (when the issuer is unable to pay return to securities holders even in a few days after the due date of liabilities) has changed to the better. Thus, in the period from January 24 to February 22, 2013, all issuers have fulfilled their current liabilities and repaid the nominal value of bonds, and early redemption of the securities on offer were accomplished by all issuers in due time or at least within the framework of a technical default (in the previous period only one issuer has declared of failure to repay the coupon yield)[2].

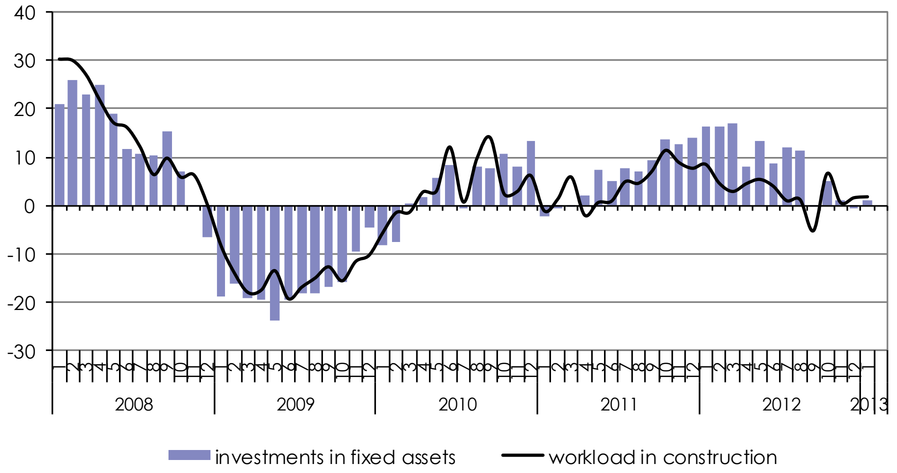
1 Rusbonds information.
2 Cbonds information.

RUSSIA'S REAL ECONOMY: TRENDS AND FACTORS

O.Izryadnova

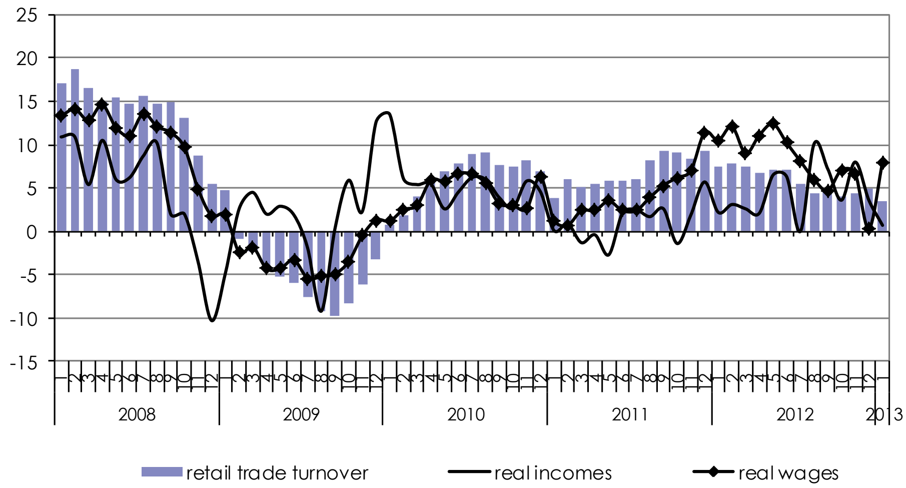
In January 2013 the macroeconomic development was determined by the influence of the factors formed in the second half of the previous year. The domestic market was considerably affected by both the drop in the industrial production by 0.8% versus last January and the abrupt slowdown of the consumer and investment demand as compared with January 2012.

Starting with September 2012 the trend towards the slowdown of growth rates of the investments in fixed assets and construction has been observed, which trend, as expected, has strengthened at the beginning of 2013. The growth rates of the investment in fixed assets made 1.4% in January 2013 as compared with the corresponding period of the previous year, the workload in construction – 1.8% while the construction materials production reduced by 2.2%.



Source: Federal State Statistics Service.

Fig. 1. Dynamics of Investments in Fixed Assets and Workload in Construction in 2008-2013, as Percentage to the Corresponding Period of the Previous Year



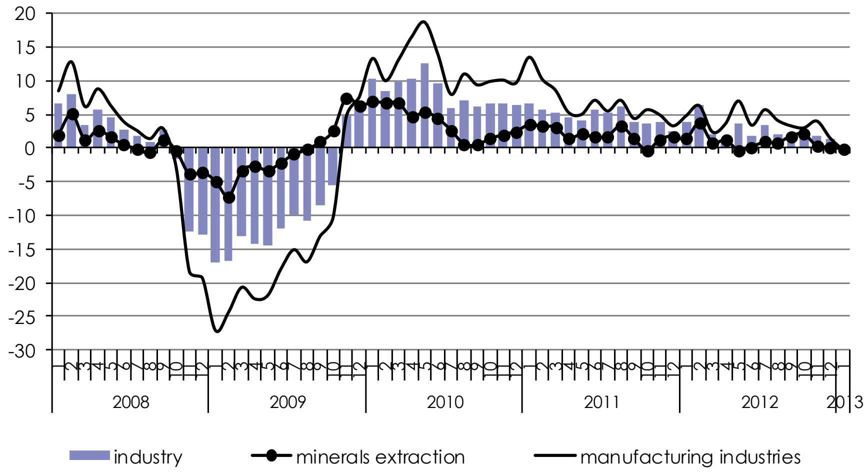
Source: Federal State Statistics Service.

Fig. 2. Dynamics of Retail Trade Turnover, Real Incomes of the Population and Real Wages in 2008–2013, as Percentages to the Corresponding Period of the Previous Year

In January 2013 the situation at the consumer market changed. It should be noted that the retail trade turnover and the real incomes of the population recovered to the pre-crisis level of 2010. From September 2011 to May 2012 the intensive growth of the wages and real incomes of the population has invigorating effect on the consumer market. Besides, the expansion of the demand in this period was connected with the slowdown of the growth of the prices for consumer goods, as well as with the increase in the volume of consumer crediting. Starting with H2 2012 the growth rates of the retail trade turnover have been slowing down gradually, even though the dynamics of the real wages and demands for the credits remained at the same level. In January 2013 the retail trade turnover index versus the corresponding period of the previous year made 103.5% (107.4% in January 2012), including that of foodstuffs – 100.9% (105.2%) and of non-food goods –

105.9% (109.4%). The volume of paid services rendered to the population went up by 5.3% in January 2013 as compared with January 2012, the real wages increasing by 8.0%. The slowdown of the retail trade growth rates reflects the decrease of the consumer security of the population, which demonstrates the lowered inclination towards savings and the increased expenses for foreign currency purchase.

In January 2013 the internal market was considerably influenced by the reduction of the industrial production by 0.8% versus January of the previous year. The slowdown of the industrial production growth rates has been observed since October 2011 and was accompanied by the slackening of the dynamics of the minerals extraction and manufacturing industries. As compared with January 2012 the index of minerals extraction made 98.8%, the index of manufacturing industries – 99.7%, the index of electricity, gas and water production and distribution – 101.8%.



Source: Federal State Statistics Service.

Fig. 3. Dynamics of Industrial Production as Broken by Types of Economic Activity in 2008-2013, as Percentage to the Corresponding Period of the Previous Year

The drop in the manufacturing industries production is mainly connected with the low demand for the investment goods and production of adjacent construction materials and production of metallurgy, chemistry and timber processing. The decrease in the machinery and equipment production versus the previous year has been observed since April 2012, and, as a result, the level of output made 83.4% versus the corresponding period of the previous year. It should be noted that the peculiar features of post-crisis recovery of the machine-building complex is connected with the anticipating growth of transport vehicles and equipment production which supported the demand for the production of machine-building complex. Growth rates of transport vehicles production slowing down, the dynamics and production of machinery and equipment as well as electronic, electric and optical equipment was observed to be unsteady.

Table 1

DYNAMICS OF PRODUCTION INDICES AS BROKEN BY TYPES OF MANUFACTURING INDUSTRIES, JANUARY ON JANUARY OF THE PREVIOUS YEAR, AS PERCENTAGE

	2009	2010	2011	2012	2013
Manufacturing industries	75.9	113.3	113.5	104.8	99.7
production of foodstuffs, including beverages and tobacco	96.4	101.8	104.1	105.6	102.8
textile and sewing industry	71.9	114.1	112.2	95.0	115.2
leather, leather goods and footwear production	74.0	137.6	111.8	90.5	107.8
timber processing and wooden goods production	66.6	109.8	114.9	96.3	106.1
pulp and paper industry; printing and publishing	78.9	113.1	94.2	108.0	89.7
coke and oil products production	95.7	106.7	107.0	100.9	102.6
chemistry industry	67.1	135.9	112.8	96.8	101.4
rubber and plastic goods production	73.3	127.1	126.2	104.6	113.7
other non-metal mineral products production	65.7	101.0	118.8	118.2	97.8
metallurgy industry and production of finished metal goods	69.9	120.9	113.2	105.7	97.0
machinery and equipment production	54.1	113.1	112.4	142.0	83.4
electric, electronic and optical equipment production	52.9	117.8	115.3	114.5	99.3
transport vehicles and equipment production	64.0	109.7	186.7	115.6	108.7
other industries	84.0	121.9	109.2	102.1	98.1

Source: Federal State Statistics Service.

Under the dynamics of main macroeconomic indices formed in January 2013 the possibility to reach the figures as forecast by the RF Ministry of Economic Development for 2013 which are 3.5% for GDP growth rates, 3.6% for industrial production, 5.4% for retail trade turnover and 6.5% for the investment in fixed assets depends on a significant acceleration of the production.

RUSSIAN INDUSTRY IN JANUARY 2013

S.Tsukhlo

According to the data of surveys of the Gaidar Institute[1], in January in industry the sharp but traditional growth in optimism of forecasts of demand, output and employment was combined with growth in excessive stocks of finished products, careful pricing policy and growing inhibitive effect of demand on the output dynamics. Enterprises' investment plans will increase slowdown of Russian industry in 2013.

The Industrial Optimism Index

The aggregate index of sentiments in Russian industry (*Fig. 1*) keeps decreasing and dipped ever deeper in the negative zone. The main driver behind a drop in that index is law demand in industrial products which is beyond the government's control.

THE IEP INDUSTRIAL OPTIMISM INDEX, 2005–2013

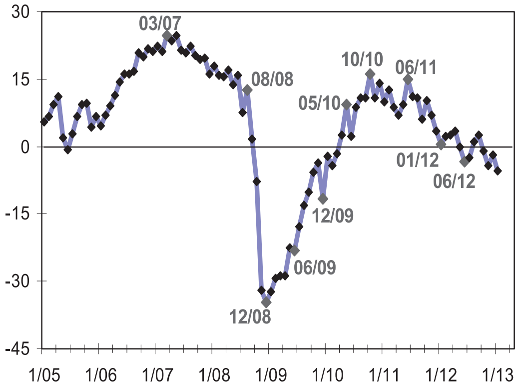


Fig. 1

Demand on Industrial Produce

In January, the actual dynamics of the demand in industrial produce experienced a traditional dramatic drop which was observed in the past few years (*Fig. 2*). The balance of answers dropped to –40 points. However, in 2012 the initial sales data showed a drop in the demand as early as from the beginning of the 3rd quarter, while in 2011 it began from the 4th quarter. As a result, the past year's time series cleared of the seasonal factor appears more pessimistic than its interval in 2011. The above pessimism contributed to a drop in satisfaction with demand in 2012: the average annual share of the "normal" answers fell to 51% after 60% in 2011. The output of the 4th quarter of 2012 was even worse: 47% after 60% in the same quarter of 2011. In January 2013, only 40% of enterprises was satisfied with the demand while a year ago it was 48% of enterprises which were satisfied with sales.

SOLVENT DEMAND CHANGES WHICH ARE NOT CLEARED OF A SEASONAL FACTOR (BALANCE=%GROWTH- %DECREASE)

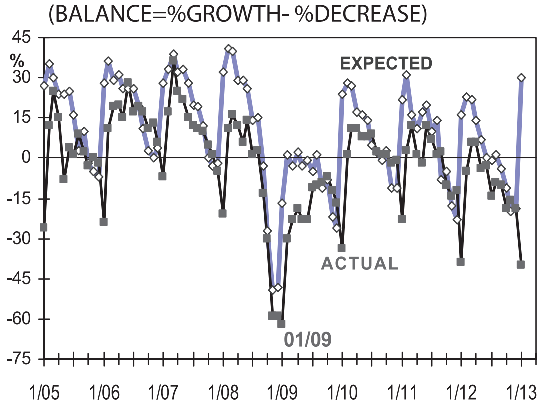


Fig. 2

However, the demand forecasts which rose dramatically in January as they used to do in the previous years showed that in industry there were still hopes for revival of sales. Within a month, the balance of the index rose by 49 points from -19 balance points to +30 balance points and became January's best value in the 2010–2013 period. With the seasonal factor cleared, the January result became the best value in the entire post-crisis period. If enterprises manage as usual to add a bit more optimism in February, the result of 2013 may happen to be higher.

1 Surveys of managers of industrial enterprises are carried out by the Gaidar Institute in accordance with the European harmonized methods on a monthly basis from September 1992 and cover the entire territory of the Russian Federation. The size of the panel includes about 1,100 enterprises with workforce exceeding 15% of workers employed in industry. The panel is shifted towards large enterprises by each sub-industry. The return of queries amounts to 65–70%.

The Output

In January, the output dynamics experienced a traditional drop estimated by enterprises at -39 balance points. The formal methods of clearing of the seasonal factor turned the above drop into the symbolic growth with an intensity of +3 points (*Fig. 3*). The above value does not go beyond the limits of the index for eight months running and is equal to the result of January 2012. However, the received output growth rates turned out to be better than all the values of the weak 4th quarter of 2012 and may soon infuse hope into consumers of a scarce set of the official statistics indicators.

The output plans which started to get better as early as December (which situation is quite an untypical one) gained another 44 points in January (that is typical) and, as a result, gained the best January value in the post-crisis period. With the seasonal factor cleared, the result of January 2013 became the best one in the past 17 months. So, in industry both forecasts of demand and output plans demonstrate high optimism of expectations whose realization seems not quite apparent to enterprises themselves.

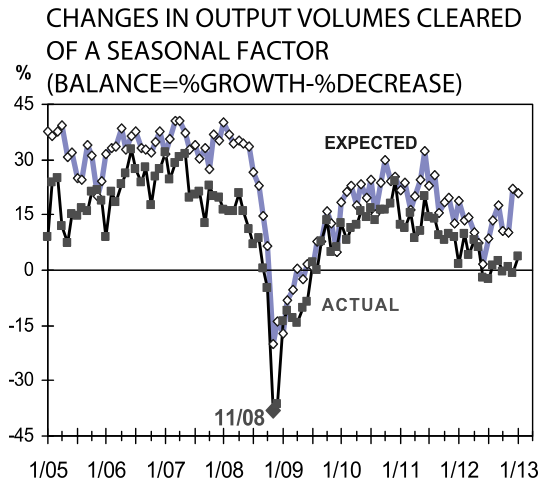


Fig. 3

Stocks of Finished Products

Manufacturers' doubts as regards growth in demand and output can be seen in their assessments of stocks of finished products (*Fig. 4*). In January, the balance of the index showed growth in excess of goods to the 40-month maximum. A similar result was received in May 2012 and it was followed by slowdown of output, a drop in investment plans and decrease in the IEP optimism index. At present, growth in excessive stocks takes place in a situation where their physical volumes decrease. However, even that factor does not help industry solve successfully the problem related to stocks of finished products. The above factor will definitely hinder growth in industrial production in the months to come.

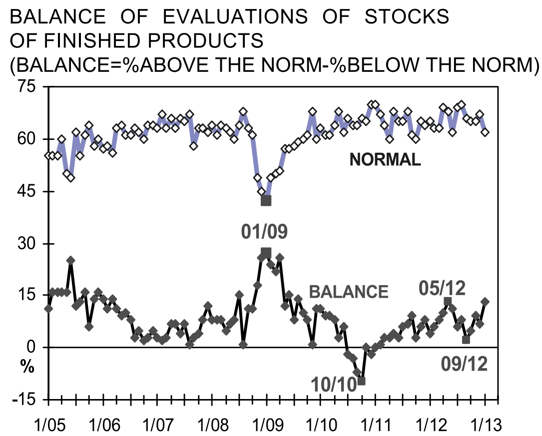


Fig. 4

Prices of Enterprises

Enterprises' pricing policy demonstrates the industry's uncertainty about potential growth in demand and output (*Fig. 5*). In January 2013, the most moderate jump in producers' prices in that month took place since 1999 (except for, certainly, January 2009), while two months earlier the most intense drop in prices since May 2009 was registered by the surveys. In November 2012, industry had to resort to a large-scale price reduction in an effort to revive the demand and save the output at the end of the year. At that time, it partially succeeded.

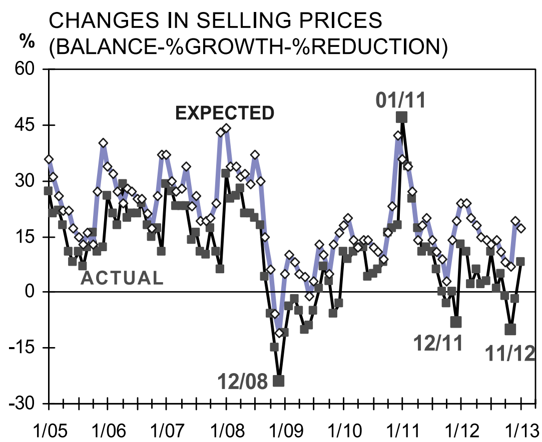


Fig. 5

The plans of change in selling prices point to the cautiousness of enterprises. In 2012, those plans kept decreasing till November, included, while in previous years the drop used to come to a halt earlier, while subsequent growth lasted for three months. At present, growth in pricing plans was registered only in December, while in January 2013 enterprises gave up the idea of further speed-up of growth in their prices.

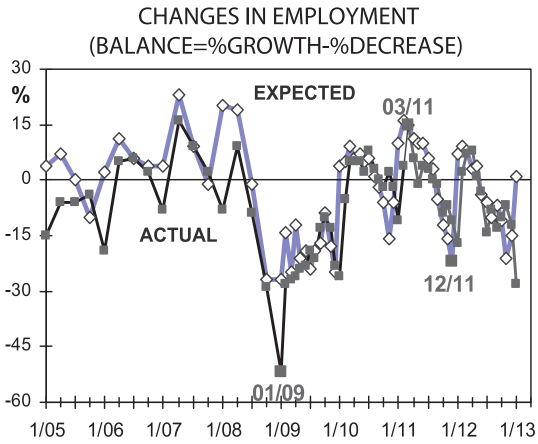


Fig. 6

Actual Dynamics and Lay-Off Plans

In January, Russian industry kept losing workers with intensity which was the record-high in the past four years (*Fig. 6*). Last time, a larger reduction in personnel in industry was registered by surveys in the crisis January 2009 when initiators of lay-offs were sooner enterprises, rather than workers. At present, the situation is quite the opposite.

Enterprises' Investment Plans

Investment plans of enterprises do not promise revival of output in the months to come, either. They failed to recover in January after normal (seasonal) decrease in December. The balance of those plans was negative as early as November, consolidated its position in the negative zone in December and remained in the zone of explicit reduction of investments early in 2013. Growth in investments is expected only in building materials industry. The most dramatic drop in investments is expected in food industry (-45 balance points), light industry (-36 balance points) and iron and steel industry (-26 balance points). It seems that no revival of investments should be expected in 2013.

Lending to Industry

In January, the total availability of loans ("above the norm" + "norm") rose by symbolic 4 points and amounts currently to 71% (*Fig. 7*). The above value does not go beyond the limits of the band (66–72%) in which the index has remained in the past year and a half. However, the average minimum rate offered by banks rose to 12.9% after 12.7% in December. Growth in the interest rate took place with all the size groups of enterprises. However, according to enterprises' evaluations such a level of interest rates and even their growth have the minimum negative effect on the dynamics of output in Russian industry. For eight (!) quarters running, only 2% to 4% of enterprises believes that a lack of loans is a barrier to output growth. As a result, in the rating of disadvantages the above factor is regarded by industry as the least important one.

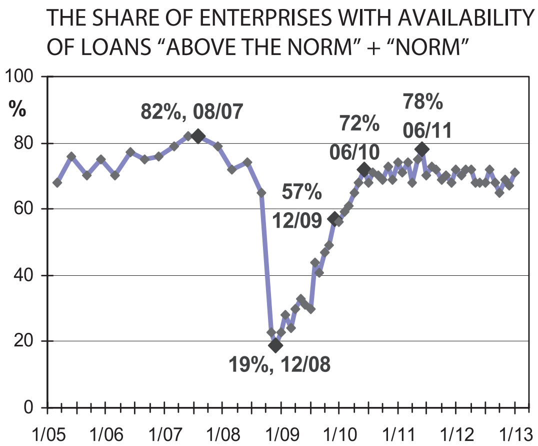


Fig. 7

RUSSIA'S FOREIGN TRADE IN DECEMBER 2012

N.Volovik, K.Kharina

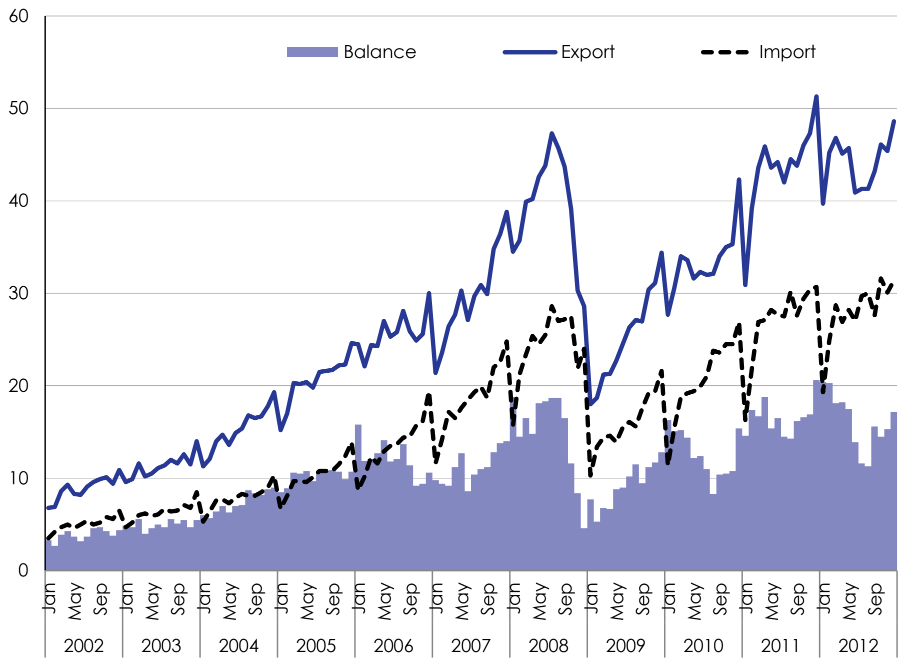
In December 2012, the Russian foreign trade was carried out in a situation of stabilized prices on the main export goods, as well as slow-down of domestic demand. In the Russian Federation, measures are being actively developed to protect domestic producers in a situation where Russia is a member of the World Trade Organization (WTO).

In December 2012, the Russian foreign trade turnover amounted to $80bn which is 5.9% higher and 2.5% lower than the last year index and the 2011 index, respectively. The export grew as well as compared to November 2012 (a 6.9% growth), but decreased by 5.4% as compared to December 2011. It is to be noted that $48.6bn worth of goods was sold abroad. Import showed positive dynamics as compared both to the previous month (a 4.5% growth) and the same month of the previous year (a 2.4% growth). It is to be noted that $31.4bn worth of goods was purchased from abroad which is merely 0.4% lower than in October 2012 when Russian import hit the record level in the entire period of observation.

The advanced import dynamics was behind a reduction of the trade balance surplus which in December 2012 fell by 17% to $17.1bn as compared to December 2011.

Throughout December 2012, global oil prices remained stable: positive macroeconomics data of China supported the prices, while the unstable situation in the euro area had a downturn effect on them. On December 6, the Brent oil price fell to the month's minimum level of $106.87 a barrel, while on December 26 rose to the maximum one of $111.19 a barrel. In December 2012, monthly average Brent oil price was $109.68 a barrel which is 1.6% higher than in December 2011. In December 2012, the Urals oil price remained at the level of the previous month and amounted to $108.3 a barrel which is 0.7% higher as compared to December 2011.

According to the data of monitoring of the Ministry of Finance of the Russian Federation, from January 15 till February 14, 2013, the average price on Urals oil was at the level of $114.38 a barrel. According to Resolution No.150 of February 25, 2013 of the Government of the Russian Federation, from March 1, 2013 the rate of the export duty on crude oil may amount to $420.6 a ton. From March 1, 2013, the single rate of the export duty on light and dark oil products, except for gasoline, calculated on the basis of the 60/66/90 method may amount to $277.6 a ton against $266.2 a ton a month earlier. It is to be noted that in March a duty on gasoline preserved at the level of 90% of the duty on oil may rise to $378.6 a ton against $363 a ton in the previous month.



Source: The Central Bank of the Russian Federation.

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

There were no dramatic fluctuations on the non-ferrous market, either. Growth in prices on non-ferrous metals was hindered by a complicated situation in the global economy. A large-scale drop in quotations was prevented by a smooth monetary policy of the US Federal Reserve and the European Central Bank. According to the data of the London Metals Exchange, in December 2012 prices on aluminum and copper increased by 3.2% and 5.2%, respectively, as compared to December 2011, while prices on nickel fell by 4.1%. As compared to November 2012, the price on aluminum, nickel and copper rose by 7.4%, 6.8% and 3.5%, respectively.

Table 1

MONTHLY AVERAGE GLOBAL PRICES IN DECEMBER OF THE RESPECTIVE YEAR

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Oil (Brent), USD a barrel	27.48	29.51	39.6	56.4	63.1	90.64	72.77	75.26	91.8	107.91	109.68
Natural gas*, USD/1m BTU	3.36	3.97	5.01	7.49	8.92	9.49	15.5	8.01	8.74	11.53	11.47
Gasoline, USD/a gallon	0.836	0.889	1.141	1.875	1.638	2.353	0.976	1.93	2.35	2.59	2.69
Copper, USD/a ton	1618.6	2187.3	3137.0	7578.0	6643.9	6580.5	3072	6982.0	9111	7565	7966.8
Aluminum, USD/a ton	1376.2	1553.8	1850.0	2248.0	2816.9	2380.2	1490.4	2179.7	2321.5	2022	2086.8
Nickel, USD/a ton	7255.0	14060	13792	13423	34578	26003	9686.4	17066	24946	18267	17449

* market of Europe, average contractual price, Franco-border.
Source: The London Metals Exchange, the Intercontinental Oil Exchange (London) and the World Bank.

In December 2012, the FAO index of food products fell by 1.1% (to 209 points) as compared to November. A drop in that index was observed for three months running; in December it was a result of a decrease in global prices on the main sorts of grain, as well as vegetable oils and fats. In December, due to large export deliveries from South America maize prices fell dramatically. Prices on rice fell as well because of good yield prospects. Wheat prices did not change much due to a decrease in the volume of trade in that product. In December, the FAO index of prices on vegetable oil and fats fell by 4 points as compared to November and amounted to 197 points; it is to be noted that it kept decreasing for four months running and hit to the lowest level since September 2010.

In 2012 in general, $529.2bn worth of goods was exported which figure is merely 1.4% higher than the same index of the previous year. Growth took place due to a 2% increase in export supplies to far abroad countries where $ 446.8bn worth of Russian goods was exported to. It is to be noted that $82.5bn worth of goods was exported to CIS countries which figure is 1.6% lower than in 2011. In the total volume of export, the unit weight of far abroad countries rose from 83.9% to 84.4%.

In the structure of the Russian export, the share of fuel and energy commodities remains very high, while the unit weight of machines, equipment and means of transportation is insignificant. On the basis of the results of 2012, in the structure of export the share of mineral commodities was at the level of 71.4% (including fuel and energy commodities – 70.4%). In 2012, in the structure of export the share of machines, equipment and means of transportation amounted to the mere 5% as in 2011.

In 2012, the Russian import increased by 3.6% to $335.4bn as compared to 2011; it is to be noted that that growth took place due to expansion of deliveries from far abroad countries from which $288.7bn worth of goods was imported which figure was 4.9% higher than the 2011 index. Import of goods from CIS countries decreased by 3.7% to $46.8bn. In the total volume of import, the unit weight of far abroad countries rose from 85.0% to 86.1%.

In 2012, the commodity pattern of import did not change much. The share of food products and agricultural primary products decreased by 1 p.p. as compared to 2011 and amounted to 12.9%. The share of machines, equipment and means of transportation rose by 1.9 p.p. to 50.5%.

Despite the fact that in 2012 in general the import of food decreased by 5.5%, in the 4th quarter of 2012 considerable growth in import of some food products was observed. So, in the past three months of 2012 the import of beef, pork and dairy products from far abroad countries rose by 13%, 32.6% and 12.2%, respectively, as compared to the same period of 2011. Such growth took place due to the fact that import duties were decreased in compliance with the terms of Russia's accession to the WTO: as regards pork supplies per quotas, import duties were reduced from 15% to 0%, while as regards those above the quotas, from 75% to 65%; import duties on live hogs and dairy products were cut from 40% to 5% and from 25% to 15%, respectively.

Further growth in import supplies may result in a reduction of the domestic production of meat and dairy products. It is to be noted that in accordance with obligations assumed by Russia import duties on dairy products are to be reduced by 2015, while those on some types of them (for instance, non-condensed unsweetened milk and cream), by 2016.

For the above reason, the Council of the Eurasian Economic Commission took a decision No.10 of February 27, 2013 on Imposition of Import Customs Rates of the Single Customs Tariff of the Customs Union in Respect of Butter, Dairy Spreads and other Fats and Oil Produced of Milk, As Well As Cottage Cheese and Some Sorts of Cheese. The duties on import of butter, dairy spreads and other fats and oils produced of milk, as well as cottage cheese were raised from 15% to 18% of the customs value. For instance, in respect of natural butter with a fat content of no more than 85% in immediate packages with the net weight of maximum 1 kg a rate of euro 18.3, but no less than euro 0.29 per 1 kg was imposed.

Due to growth in import of some types of food products, relevant agencies – primarily, Rospotrebnadzor – take measures to ensure control over the quality and safety of imported goods.

From February 4, 2013, Rosselkhoznadzor banned import of poultry meat, beef and pork to Russia from Germany. The Russian side is not satisfied with the work of Germany's vet service. The quality of actual products is guaranteed by the German Federal Vet Service which does not have strong contacts with the vet service subsidiaries in lands where the main control is carried out over the supplied meat. Due to the above situation, Rosselkhoznadzor has to carry out further laboratory research.

In the European Union, they believe that limitations imposed by Russia on the import of refrigerated meat from Germany are an unjustified and inadequate measure. The EU reinforced its opinion with a complaint submitted to the WTO. It says that food products exported by the EU countries meet quality standards, there are no grounds for such a ban to be imposed and, consequently, it must be abolished.

It was the first complaint submitted to the WTO against Russia. It is impossible to say how long the inquiry into that matter is going to last. In the meantime, Russian producers will have an opportunity to improve their position on the domestic market.

Due to the outbreak of the Newcastle disease in the Czech Republic, from February 6, 2013 Rosselkhoznadzor temporarily imposed limitations on import of poultry products to Russia from the Olomouc Region of the Czech Republic.

From February 11, 2013, Rosselkhoznadzor imposed a temporarily ban on import to Russia of US pork, beef, turkey, casings and by-products in which veterinary preparations were found, in particular, ractopamine. The US believes that the above restrictions are violation by Russia of its obligations which it took when joining the WTO. According to US officials, Russia does not take into consideration research findings of the Codex Alimentarius Commission, an international organization which controls the food standards; the above findings have proved that the feeding stuff with a ractopamine content is safe.

Exporters of meat products have already entered into a dialogue with the US government to secure from the US Department of Agriculture a certification of meat with a zero ractopamine content as required by the Russian legislation. However, the US authorities have taken no concrete measures so far.

From April 1, 2013, Russia will introduce limitations on import of planting materials and potted plants from nursery-gardens of the EU member-states, except for those of Poland, Hungary and Germany which were inspected earlier by experts of Rosselkhoznadzor.

STATE BUDGET IN JANUARY 2013

T.Tishchenko

According to tentative estimates of the Ministry of Finance of Russia, the federal budget for January 2013 was executed with a deficit of 1.8% of GDP, while in the same period of the last year the federal budget was executed with a surplus of 0.7% of GDP. A significant difference in the results of the budget execution in January as compared with January 2012 is a consequence of the introduction of fiscal rules, according to which a part of the oil and gas revenue is addressed to the Reserve Fund. Therefore, despite the stabilization of the global oil prices, oil and gas revenues to the federal budget in January 2013 have decreased by 3.5 p.p. of GDP as compared with January last year.

Analysis of key indicators of the federal budget execution in January 2012

Federal *budget* revenues with respect to the relevant period of 2012 have decreased by 3.5 p.p. of GDP (*Table 1*), while oil and gas revenues in relative terms have decreased by 0.1 p.p. of GDP. The federal budget deficit for the first month of the current year made 1.8% of GDP, which is by 2.5 p.p. of GDP lower than in the same period of the last year. The volume of non-oil deficit for January 2013 has decreased by 1.0 p.p. of GDP, as compared with January 2012.

Table 1

FEDERAL BUDGET EXECUTION IN JANUARY 2012 AND JANUARY 2013

	January 2013		January 2012		Change, p.p. of GDP
	Rb bn	GDP%	Rb bn	GDP%	
Revenue	1091.2	24.1	1059.6	27.6	-3.5
including oil and gas revenue	465.9	10.3	530.2	13.8	-3.5
Expenditures	1172.5	25.9	1032.4	26.9	-1.0
– including percentage expenditures	28.6	0.6	31.2	0.8	-0.2
non-percentage expenditures	1143.8	25.2	1001.2	26.1	-0.9
Deficit (–) /Surplus (+)	-81.3	-1.8	27.2	0.7	-2.5
Non-oil and gas deficit (–) /Surplus (+)	-547.2	-12.1	-503.0	-13.1	1.0
GDP estimates for reference, Rb bn	4533		3833		

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

The major decrease of federal budget revenues occurred due to the oil and gas revenues, which declined in absolute terms in January of this year against the previous year by 12.1%, or by 3.5 p.p. of GDP. At the same time, in January 2013 Rb 713.5bn of non-oil proceeds derived in 2012 was allocated to the Reserve Fund[1].

In terms of the budget lines, the dynamics of the federal budget in January 2012 and January 2013 was volatile. Expenditures for the "National Defense" increased by 2.8 p.p. of GDP, "Federal Issues" – by 0.7 p.p. of GDP, for "Education" and "Mass media" – by 0.1 p.p. of GDP each, as compared with the first month of the last year. Expenditures for items "Healthcare" got reduced by 2.8 p.p. of GDP, for "Social Policy" – by 2 p.p. of GDP, for "National Economy" – by 0.4 p.p. of GDP, for "Intergovernmental transfers" – by 0.3 p.p. of GDP, for "Public and Municipal Debt Servicing" – by 0.2 p.p. of GDP.

As of 01.02.2013, the value of domestic government debt has decreased by Rb 78.8bn to Rb 3,985.5bn; the total amount of the National Welfare Fund has been decreased by Rb 12bn to Rb 2,678.6 bn, the volume of the Reserve Fund has grown by Rb 703.8bn to Rb 2,589.5bn. In January of this year there were no revenue from the management of sovereign funds to the Reserve Fund and the National Welfare Fund. Currently, two issues remain relevant to the resources of budgetary funds: the possibility of investing oil surplus revenues of the Russian real economy sector and enhancement of return from management of the Stabilization Fund. The first issue is the lack of public "breakthrough" projects that

1 See the Order of the Ministry of Finance of Russia No. 14n of 30.01.2013.

provide a long-term economic growth. The second issue is provoked by the lack of effective mechanisms for the funds management, which would simultaneously expand the powers of management authorities for adequate responding to the changes in foreign exchange and stock markets in the situation of uncertainty and allowing for better control to prevent the funds from misuse or inefficient utilization thereof. Meanwhile, the draft federal law on the establishment of such a body[1], i.e., the Rosfinagency, proposed by the RF Government, is still under consideration in the State Duma.

Table 2

FEDERAL BUDGET EXPENDITURES IN JANUARY 2012 AND 2013

	January 2013		January 2012		Change, p.p. of GDP
	Rb bn	в GDP%	Rb bn	в GDP%	
Expenditures, total	1172.5	25.9	1032.4	26.9	-1.0
including					
Federal issues	77.5	1.7	39.0	1.0	0.7
National defense	269.2	5.9	120.0	3.1	2.8
National defense and law enforcement	111.5	2.5	90.7	2.4	0.1
National Economy	77.3	1.7	48.4	1.3	0.4
Housing and public utilities	1.0	<0.1	0.7	<0.1	0.0
Environmental protection	0.5	<0.1	2.2	<0.1	0.0
Education	80.3	1.8	66.1	1.7	0.1
Culture and cinematography	7.6	0.2	8.1	0.2	0.0
Healthcare	17.7	0.4	121.8	3.2	-2.8
Social policy	410.6	9.1	424.5	11.1	-2.0
Physical training and sports	1.9	<0.1	2.9	<0.1	0.0
Mass media	14.1	0.3	6.4	0.2	0.1
Public and municipal debt servicing	28.6	0.6	31.2	0.8	-0.2
Intergovernmental transfers	74.6	1.6	71.1	1.9	-0.3

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

Execution of the RF Subjects consolidated budget in 2011–2012

As of January–December 2012 results (*Table 3*), the consolidated budgets of the Subjects of the Russian Federation received Rb 8,064.3bn (13.2 % of GDP), which is by 0.5 p.p. of GDP less than the revenues in 2011 (13.7% of GDP).

Table 3

CONSOLIDATED BUDGET EXECUTION OF THE RF SUBJECTS IN 2011–2012

	2012		2011		Change, p.p. of GDP
	Rb bn	GDP%	Rb bn	GDP%	
Revenue	8064.3	13.2	7643.9	13.7	-0.5
including					
corporate profit tax	1979.9	3.2	1927.9	3.4	-0.2
individual income tax	2261.5	3.7	1995.8	3.5	0.2
domestic excise duties	441.8	0.7	372.1	0.7	0.0
aggregate income tax	271.7	0.4	215.2	0.4	00
property tax	785.5	1.3	678.0	1.2	0.1
non-repayable proceeds from other budgets of the RF fiscal system as broken down by the RF Subjects	1623.9	2.6	1644.0	2.9	-0.3
Expenditures	8342.7	13.6	7679.3	13.8	-0.2
including costs for the state and municipal debt servicing	47.6	0.1	75.7	0.1	0.0
Deficit (–) /Surplus (+)	-278.4	-0.4	-35.4	-0.6	0.2
GDP estimates for reference, Rb bn	61149		55798		

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

1 The draft Federal Law "On Amendments to the Budget Code of the Russian Federation and the establishment of requirements to the employees of a targeted financial institution to be established by the Government of the Russian Federation", submitted in September 2012, was considered by the State Duma in the first reading in January 2013 with the term of amendments provision before March 10, 2013.

As compared with the same period of the last year, revenues to the consolidated budget of the Subjects of the Russian Federation in 2012 have been reduced in from income tax by 0.2 p.p. of GDP and from the proceeds from other budgets of the budgetary system of the Russian Federation by 0.3 p.p. of GDP, from personal income tax revenues increased by 0.2 p.p. of GDP, and from the property tax by 0.1 p.p. of GDP. Revenues from domestic excise duties and taxes on the total revenue of the consolidated budgets of the Subjects of the Russian Federation as per results of 2012 remained at the level of the previous year.

Expenditures of the consolidated budget of the Russian Federation Subjects in 2012 have decreased by 0.2 p.p. of GDP (*Table 4*) in comparison with the previous year and amounted to Rb 8,342.7bn (13.6% of GDP).

Table 4

EXECUTION OF THE RF SUBJECTS CONSOLIDATED BUDGET EXPENDITURES IN 2011 AND 2012

Expendutures	2012		2011		Change, p.p. of GDP 2012 vs. 2011
	Rb bn	%GDP	Rb bn	GDP%	
Expenditures, total	8 342.7	13.6	7 679.3	13.8	-0.2
including					
Federal issues	510.4	8.3	468.8	8.3	0.0
National defense	4.0	<0.1	3.4	<0.1	0.0
National defense and law enforcement	94.6	0.1	282.0	0.5	-0.4
National Economy	1 605.8	2.6	1 316.4	2.3	0.3
Housing and public utilities	881.2	1.4	968.7	1.7	-0.3
Environmental protection	21.8	<0.1	21.8	<0.1	0.0
Education	2 047.1	3.3	1 728.4	3.1	0.2
Culture and cinematography	257.0	0.4	234.7	0.4	0.0
Healthcare	1 358.3	2.2	1 193.1	2.1	0.1
Social policy	1273.7	2.0	1 191.7	2.1	-0.1
Physical training and sports	156.3	0.2	144.7	0.2	0.0
Mass media	38.3	<0.1	34.3	<0.1	0.0
Public and municipal debt servicing	74.6	0.1	75.7	0.1	0.0
Intergovernmental transfers	19.4	<0.1	15.3	<0.1	0.0

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

In terms of consolidated regional budget lines of the RF Subjects consolidated budget, as per 2012 results against the previous year, there was a reduction of expenditures for items "National Security and Law Enforcement" by 0.4 p.p. of GDP, for "Social Policy" by 0.1 p.p. of GDP, expenditures were increased for "National economy" by 0.3 p.p. of GDP, "Education" by 0.3 p.p. of GDP, for "Healthcare" by 0.1 p.p. of GDP. For other budget lines expenditures in 2012 remained at the previous year level. In the entire year there were problems with regular execution of RF Subjects budgets. As a result, by the end 2012 cash execution of the consolidated budget of the Russian Federation Subjects in terms of expenditures made 90.8% of the approved budget, while by the results of 2011 it made 91.4% and 92.5% in 2010.

In 2012 the Government has granted a number of benefits to the regions in terms of the write-off of debts of the RF Subjects budgets to the federal budget. However, the problem of budgetary welfare of the regions will be probably growing due to the slower economic growth and create additional risks in the budget system. Therefore, management decisions should be made at the level of the RF government, which will allow to extend both, tax revenues of regional and municipal budgets and revenue from property income, promoting investment.

RUSSIAN BANKING SECTOR IN JANUARY 2013

M.Khromov

In January 2013, the Russian banking sector has entered a phase of a standstill, inherent to the first month of a year. The key indicators of credit activity and the dynamics of funds raised during the month have slowed down. In addition, the medium-term slowing-down trends were sustained in the dynamics of the assets and in certain segments of the loan and deposit markets.

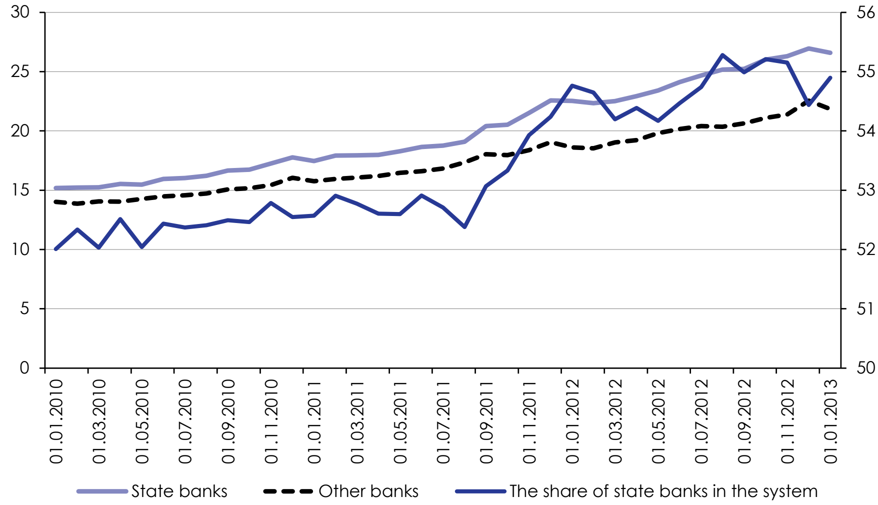


Fig. 1. Dynamics in the assets of the state and other banks, Rb trillion and the share of the state banks in total assets,% %, right scale

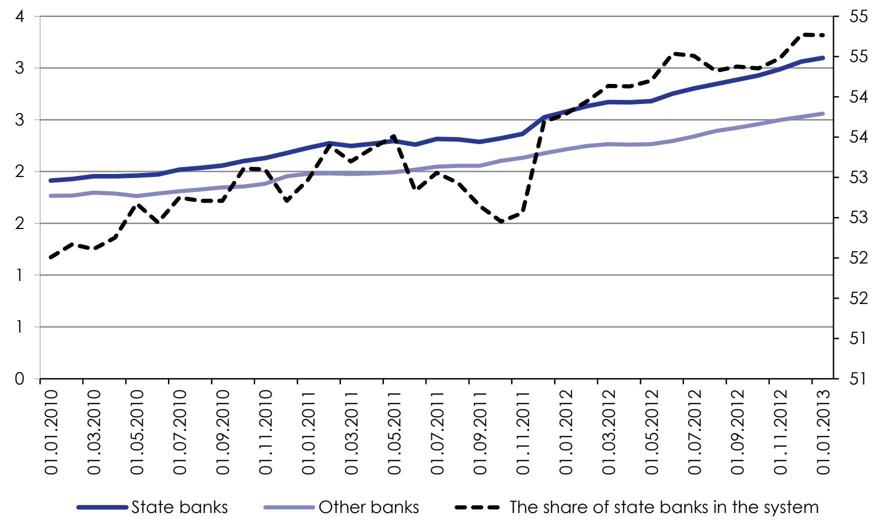


Fig. 2. The dynamics of the state and other banks equity, Rb trillion and the share of the state banks in capital,%%, right scale

2013 was started with the traditional shrinkage of the banking sector resource base after the December growth. Total assets of the banking sector have decreased[1] by 1.9%. Herewith, the annual growth rate was reduced from 20.4% to 18.1%, having returned to the level of H1 2011. The least affected was the resource base of the state banks[2]. Their assets have decreased only by 1.1%. This has led to an increase in the share of the state banks in the banking sector to 54.9%, which is close to the maximum historical values (55.3% as of August 1, 2012).

The growth rate of the banking sector equity in January remained positive, having made 1.1% for the month and 18% over twelve months, and the January reduction of the banks' assets was due to reduced funds raised. Equity of the state and other banks in January were demonstrating synchronous dynamics, the state share in the bank's equity over the month remained unchanged, staying at 54.8%.

1 Hereinafter growth rates of balance sheet are adjusted for exchange rate revaluation of foreign currency component, unless otherwise indicated.

2 This group of banks includes Sberbank, VTB Group banks, GazpromBank and Rosselkhozbank

The aggregate profit of the banking sector in January 2013 reached Rb 80bn. This corresponds to the return on banking assets of 2.0% per annum, and the return on equity of 17% in annual terms. These indicators are slightly below the average profitability of the banking sector in 2012 (2.3% and 19%, respectively). Noticeable effect on the final amount of profit was provided by operations on formation of banks' reserves for possible losses on loans and other assets. Their volume has increased over the month by Rb 45bn. Thus, banks' profits before reserves for a calendar month were the record ones over the last three years: Rb 125bn. Only formal deterioration in assets quality, recorded in reporting, has reduced the return on assets of the banking business.

Raised funds

The inflow of funds to the deposits of individuals with the banking sector has reduced in January by Rb 173bn or by 1/2%. This is the highest outflow of funds in January after the crisis of 2009. Annual growth rates of bank deposits of individuals remain at around 19%.

In terms of currency structure, the January outflow of deposits from banks was concentrated in the ruble segment. The volume of accounts in rubles has decreased by 1.8%, while the amount of foreign currency deposits, by contrast, has grown by 1.4% in dollar terms. This could mean that the reduction affected mainly current accounts, such as those to which salary for December was credited in advance at the end of the month. However, the volume of term savings deposits, which include foreign currency accounts, continued to grow. In particular, the volume of ruble deposits with the term exceeding one year increased by 1.7%.

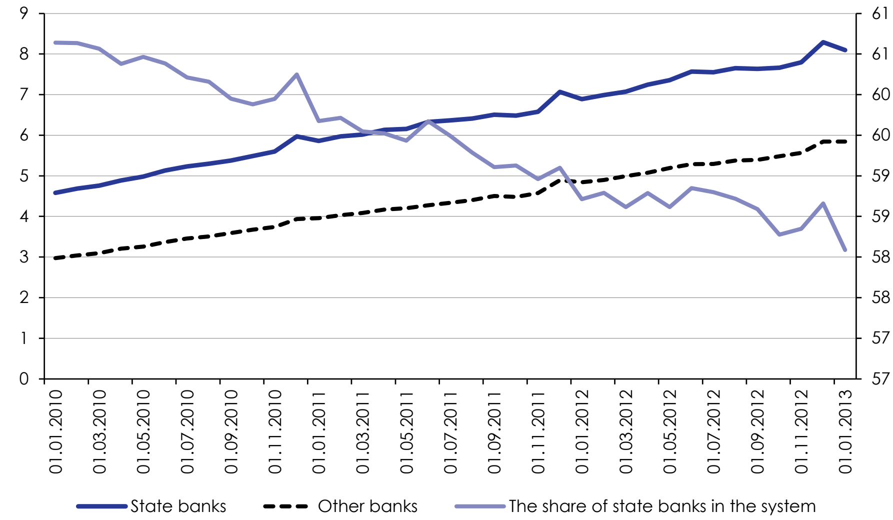


Fig. 3. Dynamics of individual deposits with the state and other banks, Rb trillion and the share of state banks in the deposits of individuals,%, right scale

The share of state banks in the segment of individual deposits continues to decline. January 2013 was no exception. With an overall reduction in individual deposits by 1.2%, savings deposits with Sberbank have decreased by 2.4%, and by 1.7% with the other state banks.

Funds in the accounts of corporate clients have also markedly decreased. Their volume decreased by 1.3%, while the annual growth rate fell down to 9.6%. The currency structure dynamics more clearly reflects the preference of corporate clients in favor of foreign currency, than that of

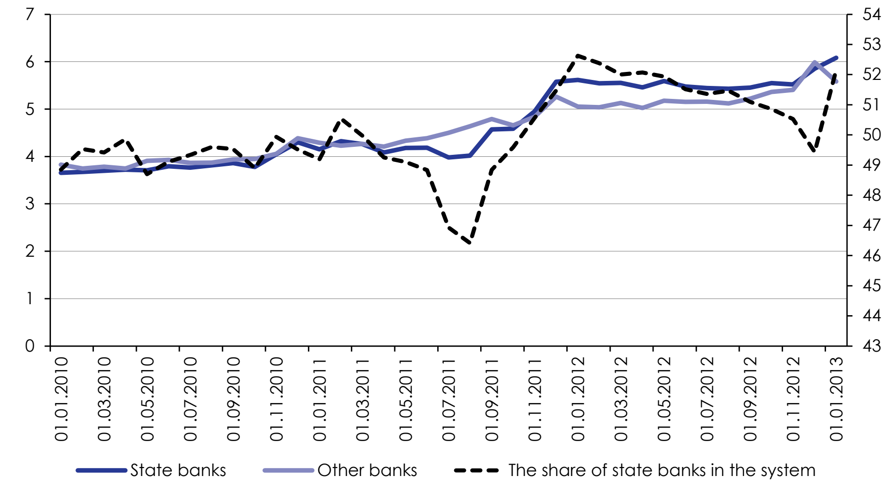


Fig. 4. Dynamics of corporate clients' deposits with the state and other banks, Rb trillion, %, right scale

individuals. Ruble accounts decreased over the month by 2.6%, the foreign currency accounts increased by 4.2% in dollar terms.

The difference in the market of corporate clients from the market of individual deposits is in the role of the state banks. The share of state banks in this market is more stable, but it was also reducing over the entire last year. However, in January 2013, the volume of corporate clients' funds with the Sberbank grew by 4.3%, with other state banks – by 3.1%, while the outflow of funds from private banks made 6.1% for the month. As a result, the share of state banks has grown from 49 to 52%.

Table 1

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

	12.07	12.08	12.09	12.10	12.11	03.12	06.12	09.12	10.12	11.12	12.12	01.13
Liabilities, Rb bn	20125	28022	29430	33805	41628	41533	44266	45861	47096	47669	49510	48429
Own assets	15.3	14.1	19.3	18.7	16.9	17.5	16.8	16.9	16.7	16.7	16.2	16.8
Loans of the Bank of Russia	0.2	12.0	4.8	1.0	2.9	3.5	5.1	5.1	5.4	6.0	5.4	4.5
Interbank operations	4.1	4.4	4.8	5.5	5.7	5.1	4.8	5.1	5.1	5.1	5.6	5.4
Foreign liabilities	18.1	16.4	12.1	11.8	11.1	10.2	11.3	11.0	11.1	10.9	10.8	10.5
Individual deposits	26.2	21.5	25.9	29.6	29.1	29.4	29.4	28.7	28.2	28.4	28.9	29.1
Corporate deposits	25.8	23.6	25.9	25.7	26.0	25.7	24.0	23.3	23.2	22.9	24	24.1
Accounts and deposits of state agencies and local authorities	1.5	1.0	1.0	1.5	2.3	1.4	1.5	2.5	2.7	2.4	1.6	1.1
Securities issued	5.8	4.1	4.1	4.0	3.7	4.8	4.5	4.8	5.0	5.0	4.9	5.2

Source: Central Bank of Russia, IEP estimates.

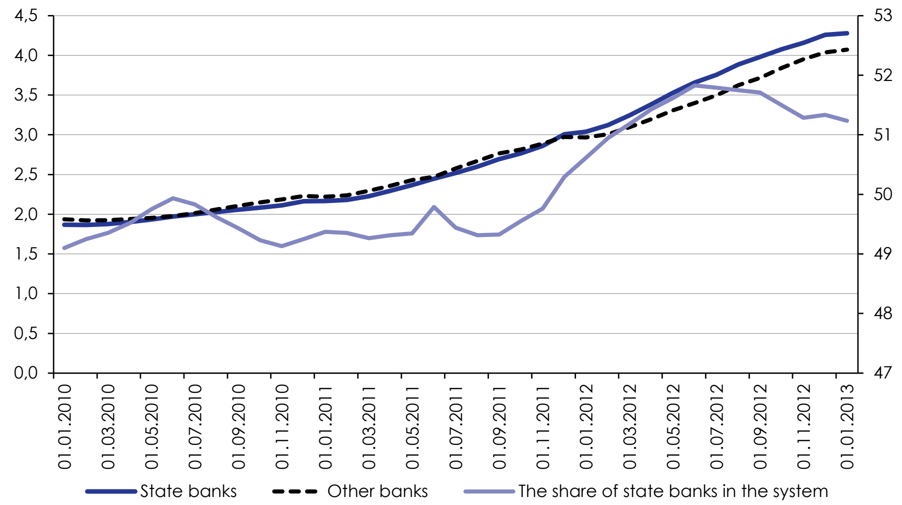


Fig. 5. Dynamics of loans to individuals in the state and other banks, Rb trillion and the share of state banks, %%, right scale

Investments

The volume of public debt to the banks in January 2013 increased by 0.6%, having demonstrated the traditional January slowdown. Annual growth rate of loans to individuals has remained unchanged and made 39.0% as of 02.01.2013.

Against the background of slowing growth in the overall public debt, the main indicators of quality of retail loan portfolio has worsened. The volume of overdue debt increased by 4.2%, while the value of reserves for possible losses on loans to individuals – by 5.4%. As a result, the share of overdue loans in the total debt of the population increased from 4.1 to 4.2%, and the ratio of reserves versus the total loan portfolio – from 6.1 to 6.4%.

In the market of retail loans between government and other banks parity was observed: the volume of credit debt in both groups is very similar. However, slowing growth in lending to individuals in H2 2012 has somewhat weakened the state-owned banks' position, or to be more precise, their share in this market ceased to grow. In January 2013 this parity was preserved, and the share of state banks remained unchanged at the level of 51%.

The volume of corporate clients' debt to banks in January 2013 was no exception, and like all the other major indicators described above, has decreased by 0.2%. The medium-term trend of annual growth rates downgrading of corporate lending was sustained: as of January results, it declined to 15.3% (vs. 21.9% in previous year).

The quality of loans to corporate borrowers in January 2013 proved to be more stable than that in the retail market. The amount of overdue liabilities has grown only by 1.3%, which resulted in an increase of its share in the total debt of corporate clients from 4.6% to 4.7%. The value of provisions for possible losses has remained virtually unchanged. The ratio of reserves versus the total loan portfolio also remained unchanged at the level of 7.5%.

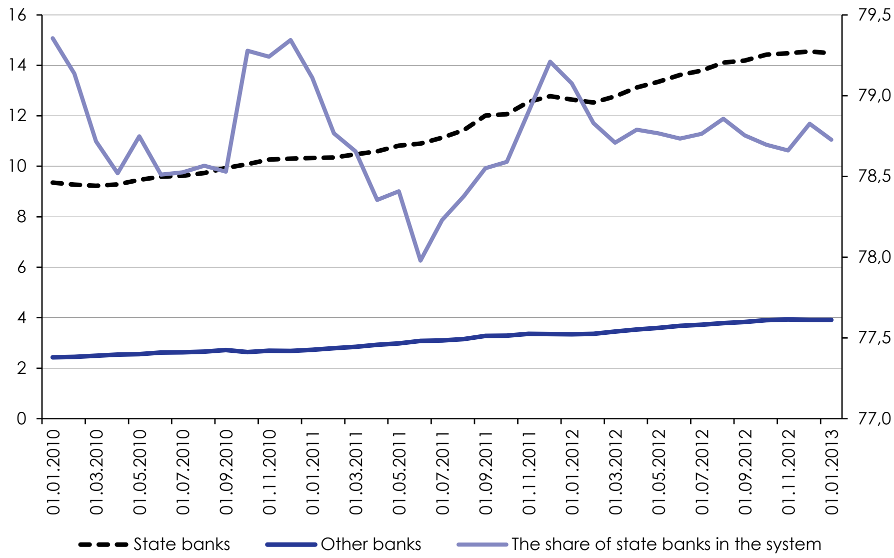


Fig. 6. Dynamics of loans to companies and organizations in the state and other banks, Rb trillion, and the share of state banks, %%, right scale

Table 2

STRUCTURE OF THE RUSSIAN BANKING SYSTEM ASSETS (END OF MONTH), AS% OF TOTAL

	12.07	12.08	12.09	12.10	12.11	03.12	06.12	09.12	10.12	11.12	12.12	01.13
Assets, Rb bn	20125	28022	29430	33805	41628	41533	44266	45861	47096	47669	49510	48429
Cash and precious metals	2.5	3.0	2.7	2.7	2.9	2.4	2.5	2.6	2.6	2.6	3.1	2.6
Deposits with the Bank of Russia	6.9	7.5	6.9	7.1	4.2	3.2	3.0	2.8	2.7	2.9	4.4	2.9
Interbank operations	5.4	5.2	5.4	6.5	6.4	6.2	5.8	5.8	6.1	6.1	6.8	6.7
Foreign assets	9.8	13.8	14.1	13.4	14.3	14.2	14.2	13.9	14.3	14.2	13.0	14.0
Individuals	16.1	15.5	13.1	13.0	14.4	15.3	16.0	16.8	16.8	17.0	16.8	17.3
Corporate sector	47.2	44.5	44.5	43.6	44.0	44.4	43.6	43.4	42.9	42.5	41.3	42.3
Government	4.1	2.0	4.2	5.1	5.0	4.9	3.8	3.3	3.2	3.0	3.2	3.7
Property	2.2	1.9	2.7	2.6	2.3	2.4	2.3	2.3	2.3	2.2	2.2	2.3

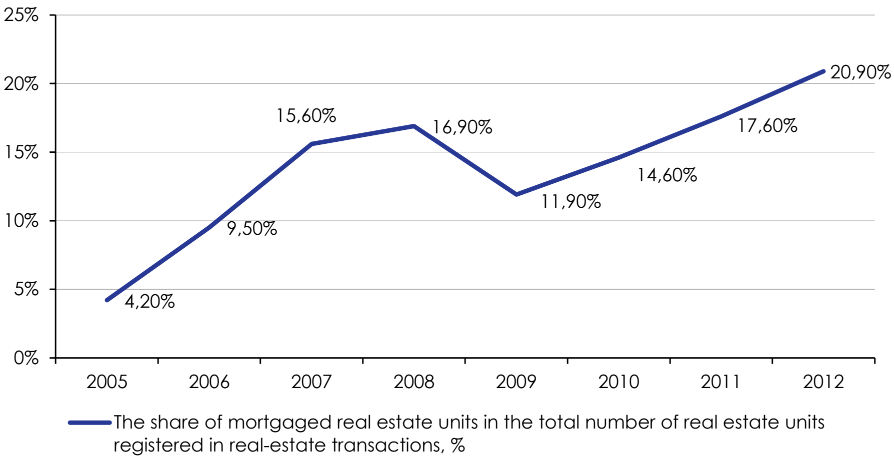
Source: Central Bank of Russia, IEP estimates.

MORTGAGE IN THE RUSSIAN FEDERATION IN 2012

G.Zadonsky

Though the lending rate on mortgage housing loans (MHL) in rubles increased from 11.4% as of December 1, 2011 to 12.7% as of January 1, 2013 the volume of mortgage housing lending in 2012 increased 32% and 44% as regards the number of loans (690,661 loans) and in money terms (Rb 1,029 trillion), respectively, as compared to 2011. As of January 1, 2013, the share of the debt on MHL without overdue payments as a percentage of the total amount of the debt on MHL increased by 1.87 p.p. as compared to January 1, 2012 and amounted to 95.93%. The share of MHL in foreign currency in the volume of the extended loans keeps decreasing and amounted to 1.42% in 2012.

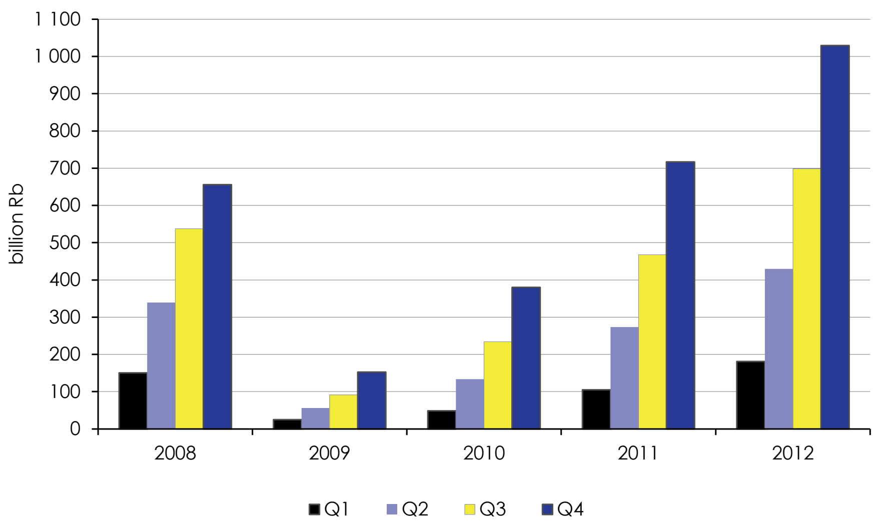
In 2012, the share of mortgaged real estate units in the total number of real estate units registered in real estate transactions kept growing and increased by 3.3 p.p. within a year (*Fig. 1*).



Source: OAO AHML (on the basis of the Rosreestr's data).

Fig. 1. Dynamics of the residential real property market

According to the data of the Central Bank of the Russian Federation, in 2012 the volumes of MHL kept growing: 690,661 loans for the total amount of Rb 1,029 trillion were extended, that is, 31.91% and 43.52% more as regards the number of loans and their value in money terms, respectively, as compared to 2011 (*Fig. 2*). As of January 1, 2013, the debt on MHL amounted to Rb 1,982 trillion. In 2012, the volume of housing loans (HL) amounted to Rb 1,072 trillion or 740,973 loans with the debt of Rb 2,112 trillion. As of January 2013, the overdue debt on MHL amounted Rb 41,655bn or 2.1% of the outstanding debt which figure is 0.96 p.p. lower than that as of January 1, 2012. As of January 1, 2013, the share of the overdue debt in the outstanding debt on MHL in rubles decreased by 0.5 p.p. to 1.48% as compared to that as of January



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

Fig. 2. Dynamics of mortgage housing lending with cumulative result from the beginning of the year

1, 2012 and increased by 0.15 p.p. to 11.91% on loans in foreign currency as compared to that as of January 1, 2012.

As of January 1, 2013, the number of credit institutions which extend housing loans decreased by 0.82% as compared to January 1, 2012, while that which extends MHL increased within the same period by 1.06%. In 2012, growth in the number of credit institutions which carry out refinancing of the earlier extended MHL amounted to 44.12% (*Table 1*).

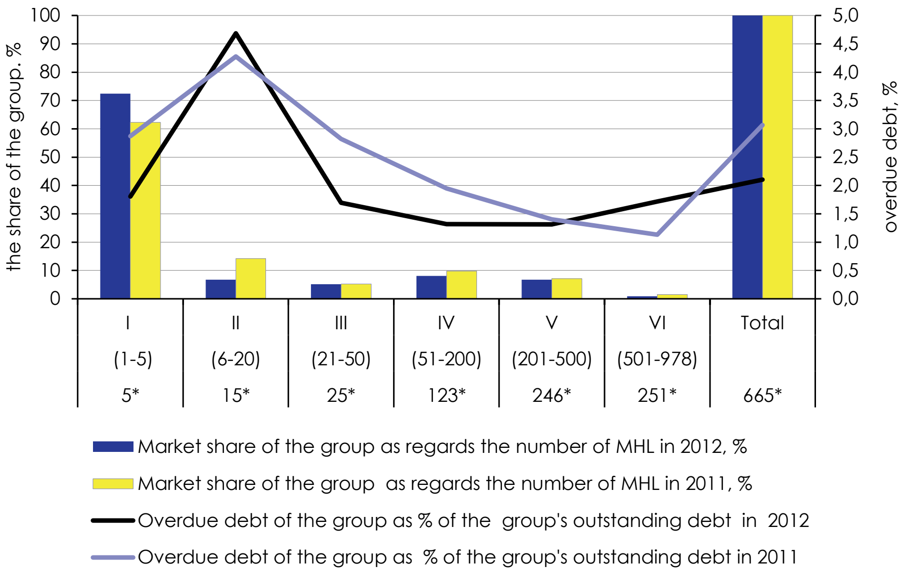
Table 1

NUMBER OF CREDIT INSTITUTIONS WHICH ARE PARTICIPANTS IN THE MARKET OF HOUSING (MORTGAGE HOUSING) LENDING

	Credit institutions					
	Existing ones	Those which extend housing loans	Those which extend MHL	Those buying the rights of claim under MHL	Those carrying out refinancing of the earlier extended MHL	Those attracting refinancing on the secondary MHL market
2010						
01.Jan.	1 058	699	584	117	5	167
01.Jul	1 038	692	588	120	12	131
2011						
01.Jan.	1 012	723	631	134	22	175
01.Jul.	1 000	718	638	137	17	145
2012						
01.Jan.	978	731	658	141	34	168
01.Jul.	965	723	659	142	40	149
2013						
01.Jan.	956	725	665	146	49	175

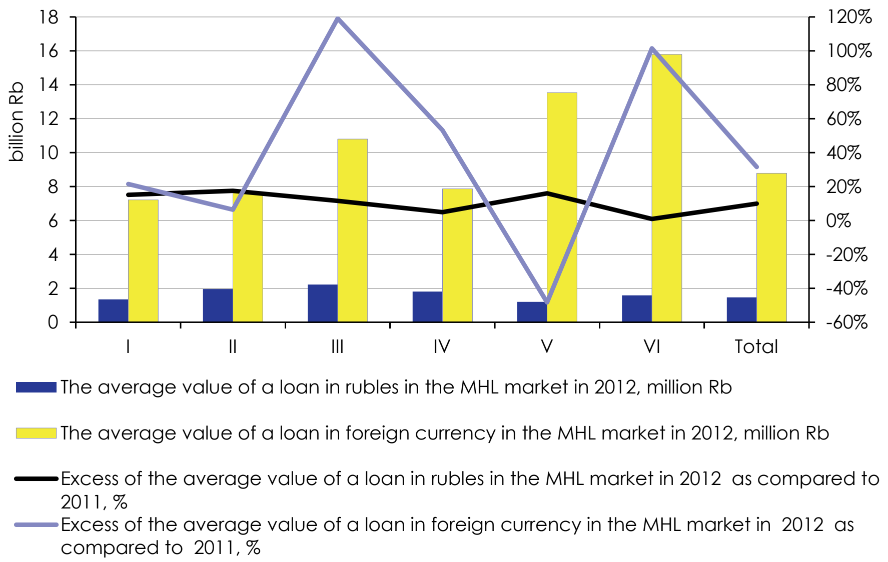
Source: the data of the Central Bank of the Russian Federation.

The share of MHL in foreign currency in the volume of loans extended in 2012 decreased by 1.3 p.p. to 1.42% as compared to 2011. As of January 1, 2013, the share of such loans in the outstanding debt fell by 5.16 p.p. to 5.97%, while the share of the overdue debt on MHL in foreign currency in the total overdue debt decreased by 8.89 p.p. and amounted to 33.87%.



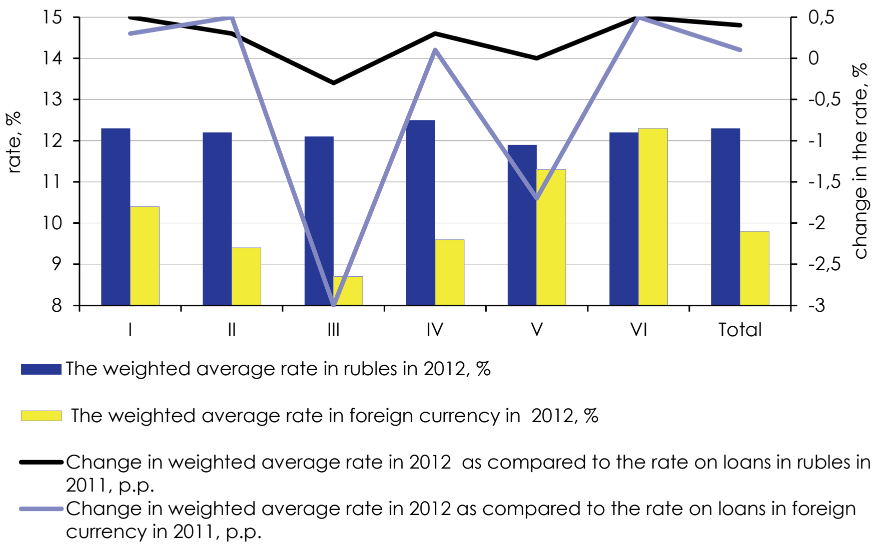
* number of credit institutions in the group as of January 1, 2013.
Source: on the basis of the data of the Central Bank of the Russian Federation.
Fig. 3. Dynamics of provision of MHL by the six groups of credit institutions ranged by the value of their assets (in a descending order)

According to the data of the Central Bank of the Russian Federation, as of January 1, 2013 the share of the debt on MHL without overdue payments as percentage of the total amount of the debt on MHL increased by 1.87 p.p. as compared to January 1, 2012 and amounted to 95.93%. Within the same period, the share of the debt on defaulted loans (with payments overdue for over 180 days) in the total amount of the debt on MHL decreased by 1.4 p.p. and amounted to 2.26%.



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

Fig. 4. Dynamics of the average value of MHL by the six groups of credit institutions ranged by the value of their assets (in a descending order)



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

Fig. 5. Dynamics of the weighted average rate on MHL by the six groups of credit institutions ranged by the value of their assets (in a descending order)

As regards the number of MHL extended, in 2012 Group I of the five largest credit institutions still accounted for over a half of the MHL market, that is, 72.42% (*Fig. 3*), which is 10.12 p.p. more than in 2011 with simultaneous growth in the average loan value. The quality of the groups' credit portfolios in terms of a ratio of the group's overdue debt to the group's outstanding debt got worse in 2012 with Group II and Group VI, while it improved with the rest of the groups. It is to be noted that the largest share (4.69%) of the overdue debt was still with Group II (*Fig. 3*).

In 2012, the lowest average amount of MHL in rubles (Rb 1,205m) was registered with Group V, while the largest average amount of MHL in foreign currency (Rb 15,789m), with Group VI (*Fig. 4*). As compared to 2011, the average value of MHL in rubles increased with all the groups. The highest growth of 100% in the average value of MHL in foreign currency was registered with Group VI, while a decrease in growth, with Group IV.

In 2012, the weighted average rate on MHL in rubles rose by 0.4 p.p. as compared to 2011 and amounted to 12.3%. Growth in interest rates on loans in rubles took place with all the groups, except for Group III (in which a decrease of 0.3 p.p. was registered) and Group V (where the interest rate remained unchanged). As regards MHL in foreign currency, the interest rate within a year grew by 0.1 p.p. and amounted to 9.8% (*Fig. 5*). As well as in case of loans in rubles, in 2012 weighted average rates on loans in foreign currency decreased by 3.0 p.p. and 1.7 p.p. only with Group III and Group IV, respectively (*Fig. 5*).

The weighted average rate on ruble loans extended in December 2012 increased by 0.2 p.p. as compared to December 2012 and amounted to 12.7%. In December, the respective rate on mortgages refinanced by OAO Agency for Housing Mortgage Lending (AHML) grew by 0.14 p.p. and amounted to 11.3%, while in January 2013 it rose by another 0.3 p.p. and amounted to 11.6%.

In 2012, the weighted average period of MHL lending by all the groups of credit institutions as regards MHL in rubles was at the level of 14.96 years, while that as regards loans in foreign currency amounted to 11.21 years. The largest weighted average period of lending as regards loans in rubles was registered with Group III (16.21 years), while that as regards loans in foreign currency, with Group I (17.9 years). The lowest weighted average period of lending was registered with Group V (10.89 years and 2.54 years for loans in rubles and loans in foreign currency, respectively).

According to the data of the Central Bank of the Russian Federation, in 2012 credit institutions bought Rb 81.76bn worth of rights of claim as regards MHL which is an increase of 5.53% on the 2011 figure. They bought Rb 63.24bn worth of rights of claim as regards loans in rubles (growth of 12.31%) and Rb 18.49bn worth of rights of claim as regards loans in foreign currency (a decrease of 12.54%). In 2012, the largest volume of the purchased rights of claim as regards both MHL in rubles and foreign currency was registered with Group IV of credit institutions.

In January 2013, the weighted average rate of OAO AHML (11.6%) gained 0.87 p.p. as compared to January 2012. In January 2013, the Agency refinanced Rb 2.84bn worth of 2,309 mortgages (standard products), which is 66% and 82% more as regards the number of mortgages and their value in money terms, respectively, than in January 2012.

Due to complaints of the Federal Antimonopoly Service of the Russian Federation as regards infringement by OAO AHML of competition on the real estate appraisal market, the Agency intends to give up accrediting of appraisers and carry out refinancing of those mortgages whose security has been apprised by any appraisal company which meets the requirements of the law.

ZAO Ipotechny Agent AHML 2010-1 carried out its obligations as regards A1-, A2- and B-class bonds placed on July 14, 2010; the borrowing volumes of A1- and A2-class bonds amounted to Rb 6,096bn each, while that of B-class bonds, to Rb 1,355bn; the maturity date of all the three issues is November 20, 2042. The company redeemed the entire A1-class issue (No. 4-01-72301-N of June 22, 2010) by paying the outstanding portion of the par value in the amount of Rb 282,611mn. The A2-class bond holders (issue No. 4-02-72301-N June 22, 2010) were paid a coupon income of 9% per annum with the total redemption amounting to Rb 138,257m. As regards B-class bonds (issue No. 4-03-72301-N of June 22, 2010), the total amount of income paid on the tenth coupon amounted to Rb 86,579m.

THE LIVING STANDARD IN RUSSIA IN 2012

S.Misikhina

In 2012, households' real disposable income rose by 4.2% which situation points to the fact that the trend of zero growth in households' income in 2011 was overcome. In January 2013, a decrease in households' income was justified by a seasonal factor, so, one may expect stable growth in households' real disposable cash income in this year in general. In 2012, growth in households' real income was justified by growth both in wages and salaries and pensions. Growth in households' income found expression in an insignificant increase in the income inequality index and decrease in poverty indices.

Households' income. In January 2012, nominal average per capita cash incomes amounted to Rb 17,233, while in December 2012, to Rb 34,993 (in 2012 in general they amounted to Rb 22,821). That was only 49.3% of the December level of income. A drop in average per capita incomes and, primarily, wages and salaries can be explained by a seasonal factor and is related to the fact that incomes in December included year-end bonuses (remunerations, bonuses, thirteenth salaries and other) and that resulted in a situation where the value of households' December incomes exceeds the value of that index in any other month of the year. So, for example, a year ago a drop in average per capita income in January as compared to the value of that index in December amounted to 49.4%. As compared to the level of January 2012, incomes in January 2013 amounted to 108%, while a year ago the January incomes amounted to 106.3% of the income level of January 2011.

It is to be noted that growth in average per capita cash income in December 2012 was somewhat lower than in 2011: in December 2011 nominal average per capita cash income rose by 48.2% as compared to November 2011, while in 2012, by 43.2%.

In 2012, households' real disposable cash income adjusted to the consumer price index, less mandatory payments and contributions rose by 4.2%, but in January 2013 returned virtually to the level of 2012 which situation was observed a year ago, too. So, the cash income situation late in 2012 and early in 2013 is virtually a repetition of that which was observed late in 2011 and early in 2013.

Growth in households' cash disposable income which virtually came to a halt in 2011 renewed in 2012 and amounted to 4.2%. However, growth rates of households' real disposable cash income failed to attain the level of the year 2010 when the value of that index was formed at the level of 5.9% and high growth rates of households' real disposable cash income were the result, among other things, of dramatic growth of 34.8% in pensions; such a situation was not observed in 2012.

Table 1

DYNAMICS OF REAL DISPOSABLE CASH INCOME, %

	percentage	
	Of the respective period of the previous year	Of the previous period
	2010	
December	104,4	138,3
Year	105,9	
	2011	
Q1	99,4	75,7
January	100,5	53,0
Q2	98,9	113,2
Q3	101,9	100,4
Q4	101,5	118,1
December	103,6	144,3

Table 1, cont'd

	percentage	
	Of the respective period of the previous year	Of the previous period
Year	100,4	
	2012	
QI	101,6	75,7
January	100,6	51,5
Q2	104,1	116
Q3	104,6	100,8
Q4	105,6	119,3
December	105,6	141,3
Year	104,2	
	2013	
January	100,7	49,1

Source: Rosstat's data.

In 2012, the average accrued wages and salaries of a worker increased in nominal terms by 13.3% and amounted to Rb 26,690, while the real wages and salaries in the same period rose by 7.8%.

In January 2013, the wages and salaries were at the level of Rb 27,340 which amounted to the three-fourths and 115.6% of wages and salaries in December 2012 and January 2012, respectively.

In January 2013, real average monthly wages and salaries fell by 25.7% as compared to December 2012, but increased by 8% as compared to January 2012.

In 2012, pensions were not raised so lavishly as in the 2008–2010 period, but the situation of the year 2011 when growth in real accrued pensions amounted to the mere 1% was overcome, as well.

In 2012, pensions were indexed twice:

- In February, labor pensions rose by 7%,
- In April:
  - – Labor pensions were indexed by another 3.41%,
  - – while social pensions, by 14.1%.

In 2012, the average amount of assigned pensions increased by 10.2%, while real growth amounted to 4.9%. In December 2012, the average amount of the assigned pensions amounted to Rb 9,161 a month, while in 2012 it was Rb 9,041 a month. It is to be noted that some pensioners have much lower pensions: according to the data of the Pension Fund after pension indexation in April 2012 recipients of survivor's benefit and social pensions received on average Rb 5,892 a month and Rb 5,938 a month, respectively.

Social and economic differentiation of households. If in 2011 a decrease in growth rates of households' cash income resulted in a small reduction of the social and economic inequality, growth in income in 2012 renewed the reverse trend: inequality indices grew, but failed to attain the values of the year 2010.

In 2012, changes in distribution of households' cash income found expression in:

- a drop of 0.1 p.p. in the income of the 2nd and 3rd quintiles of households,
- and growth of 0.2 p.p. in the income of the 5th quintile of better-off households.

As a result, in 2012 the Gini index rose from 0.417 in 2011 to 0.420, while the funds coefficient increased from 16.2 times to 16.4 times.

Table 2

DISTRIBUTION OF THE TOTAL VOLUME OF HOUSEHOLDS' CASH INCOME, %

	2010	2011	2012[1]
Cash income	100	100	100
Including that by 20 percent groups of households: the first one (with the lowest income)	5.2	5.2	5.2

1 The initial data.

Table 1, cont'd

	2010	2011	2012[1]
The second one	9.8	9.9	9.8
The third one	14.8	14.9	14.9
The fourth one	22.5	22.6	22.5
The fifth one (with the highest income)	47.7	47.4	47.6
Including 10% of households with the highest income	30.9	30.7	n/a
Gini coefficient (the income concentration index)	0.421	0.417	0.420
The funds coefficient, times	16.6	16.2	16.4
Decile coefficient, times	7.4	7.3	n/a

Source: the Rosstat's data.

Poverty. The data on poverty in the Russian Federation has been formed by Rosstat only for 9 months so far.

Taking into account the following facts:

- in 2012 growth was observed in households' income and it was accompanied by a very small increase in income inequality; the specifics of the above increase consisted in the fact that the share of income of the 1st quintile of the least well-off households was quite stable;
- the quarterly, half-yearly and nine-month data on poverty in Russia was below that of the year 2011.
- it can be supposed that in 2012 the poverty data will be lower than in 2011. Consequently, the trend towards reduction of poverty indices – the above trend was formed in the 2000s – will continue.

Table 3

THE POVERTY LEVEL

	2011				2012		
	Q1	1st half-year	9 months	year	Q1	1st half-year	9 months
Number of the population with cash income below subsistence level: million people	22.9	21.1	20.2	18.0	19.1	17.7	17.2
% of the total number of the population	16.1	14.9	14.3	12.7	13.5	12.5	12.1

Source: the Rosstat's data.

ECONOMIC GROWTH FACTORS IN 2011 – HI 2012

E.Astafieva

The results of decomposition of production growth rate indicate that in 2012 the increase in the gross value added (GVA) of the industry was achieved by increasing the extensive factors. According to the tentative estimates, the growth rates of total factor productivity (TFP) of industrial production were negative. In the cost structure of the main factors of the industrial sector in 2012, the cost of capital was dominating; the growth of labor cost in industrial production was implemented mainly due to increase in labor reserves (number of employees).

One approach to the study of the causes of the differentiation rate of development of various types of economic activity is the decomposition of economic growth. The basis of this approach is the evaluation of the differential form of the production function, whereby the output growth rates are presented as the sum of three components. The first two components determine the impact of the dynamics of the major cost factors: labor and capital (extensive growth components). The methodology implies that the factors costs are equal to the product of the stock of factors (the number of employees and the amount of capital assets) by the intensity of their utilization (hours worked by one employee, and production capacity utilization). The third component, defined as total factor productivity (TFP) is the major factors' balance, not explained by basic factors, which is regarded as an intensive component of growth. This assessment of total factor productivity reflects not only a change in the "technological" components, but also exogenous shocks, the impact of increasing the efficiency of production organization, management quality, as well as changes in demand and cost policy.

According to the Russian Statistical Service, in 2012 all types of industrial activities demonstrate growth of value added scope (*Table 1*). Compared with 2011, the gross value added (GVA) in the manufacturing sector increased by 3.2%, in mining – by 0.9%, in the production and distribution of electricity, gas and water – by 0.01%. Herewith, a slowdown of GVA growth rate was noted in all sectors as compared with preceding period. In manufacturing industry the growth rates of value added were by 2.1 p.p. below the level of 2011, in the mining sector – by 1.9 p.p. in the production and distribution of electricity, gas and water – by 0.5 p.p.

As before, the maximum growth rate of the value added is noted in manufacturing industry. Over the last years the companies of this type of economic activity managed in fact to restore the volume of value added reached before the recession, which began in 2008. In real terms, GVA in manufacturing sector in 2012 made 99% as compared with 2007.

According to the results of the decomposition (*Table 1*), in 2012, 91% of the growth rate of value added in manufacturing industry there were defined the costs of the basic factors. In com-parison with previous periods, this type of economic activity demonstrates a slowdown in fixed assets growth rate. However, in the cost structure of the basic factors the invested capital, as be-fore, remains the dominant component: their contribution to the GVA growth of manufacturing industry makes 77%. Labor costs define only 14% of GVA growth rates of this type of economic activity. In contrast to previous periods, the growth of labor costs in the manufacturing sector is implemented to a greater extent due to increasing the reserves of labor. Contribution to the growth of value added of this industrial sector, defined by employment growth (8%) is nearly 1.5 times exceeds the contribution made by the time worked (6%). It should be noted that the manufacturing industry is the only sector for which in 2012 hours worked by one employee has exceeded the level of 2008, but at the same time, this is the only industrial sector, where the number of employees has not reached the pre-crisis levels.

According to the tentative data, in 2012 the rate of TFP growth in manufacturing industry shifted are shifted to positive indicators, defining the 9% growth rate of GVA in this type of economic activity, although this estimate is likely to be biased, since it does not take into account changes in capacity utilization .

Table 1

DECOMPOSITION OF VALUE ADDED GROWTH RATES STRUCTURE IN 2011–2012*

	Mining		Manufacturing industry		Production and distribution of electricity, gas and water		Industrial production**			
	2011	2012	2011	2012	2011	2012	2011		2012	
GVA	2.9	0.9	5.3	3.2	0.5	0.0	3.8		2.0	
I. Factors costs	7.21	3.63	11.65	2.93	2.14	2.44	8.77	(8.85)	3.83	(3.13)
I.1.Labor***	0.28	0.75	0.56	0.44	0.03	0.47	0.40	(0.39)	1.29	(0.56)
Number of employees	0.22	0.75	0.23	0.25	0.09	0.35	0.19	(0.21)	0.76	(0.45)
Hours worked (by one employee)	0.06	0.00	0.33	0.18	-0.06	0.12	0.21	(0.18)	0.53	(0.11)
I.2.Capital	6.94	2.88	11.09	2.50	2.11	1.97	8.37	(8.46)	2.54	(2.58)
Capital assets capacity****	3.47	2.88	3.35	2.50	2.11	1.97	3.08	(3.24)	2.54	(2.58)
Production capacity utilization	3.47	-	7.74	-	0.00	0.00	5.29	(5.23)	-	(-)
II. TFP*****	-4.33	-2.69	-6.35	0.30	-1.65	-2.43	-4.94	(-5.03)	-1.82	(-1.13)

* For 2012 tentative estimates are provided.

** Estimates for industrial production are based on aggregation of baseline estimated indicators by the types of economic activity (the results of decomposition, obtained by consolidation of the estimates by the types of economic activities are given in parentheses).

*** Tentative assessment of the growth rate of the number of employees in the industrial sector is based on the data on the number of substituted jobs in 2012, in the assumption of a constant ratio of the number of employees by the types of economic activities vs. the number of substituted jobs.

**** Tentative estimates of the volume of fixed assets in 2012 are based on the assumption that the stable coefficient of disposal of fixed assets and the constancy of the share of investment allocated to upgrade them.

***** TFP assessment in 2012 in the mining sector, the manufacturing sector and in the industrial production is shifted entirely due to the lack of data needed to assess changes in the degree of production capacity utilization at the enterprises of the economic activity.

Despite the fact that in recent years the companies engaged in mining are inferior to manufacturing enterprises in terms of GVA growth, in 2012 the amount of GVA in mining sector in real terms has exceeded the pre-crisis level (by more than 6%).

The structure of the growth of value added in mining sector is different from that noted in manufacturing industries. As of the 2012 results, there was a reduction of TFP mining businesses. GVA growth in this economic activity is completely dependent on the basic factors costs, while the contribution of total factor productivity in the growth rates of production was negative.

The most significant factor in the growth rate of value added of enterprises in mining is the cost of capital: the contribution of GVA to growth rate, based on the fixed assets extension, has exceeded the contribution, based on labor costs, nearly four-fold. The extension of labor costs of this type of economic activity is completely dependent on the increase of the number of employees, while the time worked by one employee remained at the level of 2011.

As noted above, the TFP assessment is the balance, not explained by the basic factors. In particular, the use of the output and capital cost indicators can results in the biased estimates of TFP due to the uneven dynamics of output and fixed assets costs. TFP dynamics of mining sector to a greater extent depends on the prices of the global commodity markets, than industrial production. An econometric evaluation of the correlation between TFP growth rates and the growth rates of the global oil prices allows to break the TFP into two parts: market component (based on changes in the price situation in the global commodity markets) and “final balance”. It should be noted that the selection of mining sector component from the TFP indicator, defined by rising oil prices, does not lead to qualitative changes in the conclusions regarding the dynamics of total productivity: the “final balance” also demonstrates negative growth rates.

The lowest in the industry growth rate of value added demonstrate enterprises for the production and distribution of electricity, gas and water. According to the results of decomposition, this

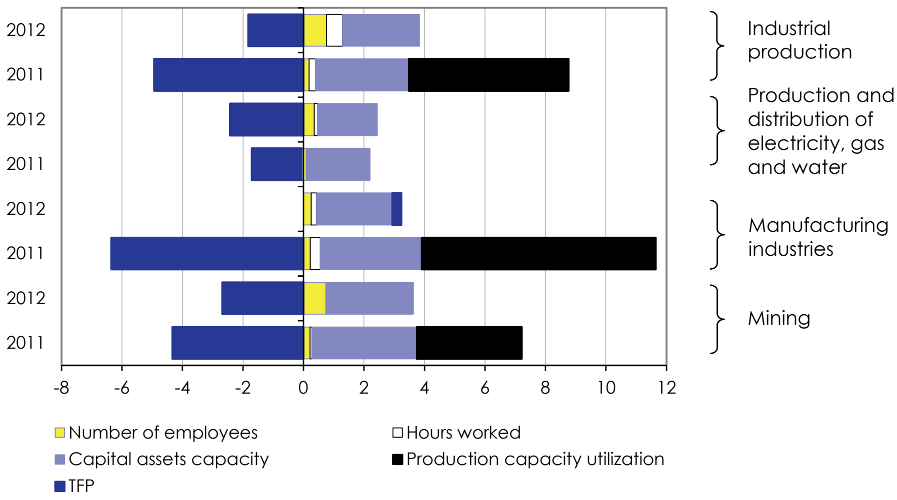


Fig. 1. Structure of gross value added growth in industrial production in 2011–2012

type of economic activity is characterized by a similar structure to the mining sector growth rates of value added: in the situation of TFP decline, growth rate of GVA in the production and distribution of electricity, gas and water are completely dependent on the increase in the cost of basic factors. The capital costs are dominating in the structure of the basic factors: their contribution to the growth rate of GVA of companies engaged in the production and distribution of electricity, gas and water exceeds by more than four times the contribution of labor input. The increase in labor costs in this economic activity is implemented to a greater extent at the expense of increasing their reserves: the contribution of employment in the growth rate of GVA of this type of economic activity exceeds by three times the contribution based on the working time of one employee.

The results of estimates obtained for the aggregated data as broken down by types of eco-nomic activity evidence that the overall growth rates of value added in industrial production in 2012 amounted to 2.0%, which is by 1.8 p.p. below the level of 2011.

According to the tentative results of the decomposition (in the absence of data on the degree of capacity utilization), in 2012 the growth rate of GVA in the industry is completely based on an increase in the costs of the basic factors. The industrial sector demonstrates growth of employment and hours worked by the employees, while fixed assets are characterized by the slowing down the growth rates, as compared with the previous periods. But in spite of this, the cost of capital remains the dominant factor in the growth of value added in industrial production: their contribution is exceeds the contribution of labor twice. TFP growth rates of industrial production in 2012 are negative. Allocation from TFP indicator of the component that reflects the redistribution of value added, labor and capital costs by types of economic activity results in an insignificant change in the contribution to productivity in GVA growth rate in industrial production. Herewith, the increase in the differences in the estimates of TFP, obtained from aggregated data and by sectors, proves an intensification of the process of redistribution of resources among economic activities in the industry in 2012 as compared with the previous period.

REVIEW OF THE MEETINGS OF THE GOVERNMENT OF THE RF IN FEBRUARY 2013

M.Goldin

At the meetings of the Presidium of the Government of the Russian Federation the following draft laws were approved: 1) a draft law which provides for liberalization of administrative responsibility for violation of rules of book-keeping and reporting; 2) a draft law which provides for higher amount of standard tax deductions for persons with child caring responsibilities.

On February 13, discussed at the meeting of the Government was draft federal law on Amendment of Article 15.11 of the Administrative Violations Code of the Russian Federation which provides for liberalization of administrative responsibility for violation of rules of book-keeping and reporting.

The wording of Article 15.11 of the Administrative Violations Code of the Russian Federation (AVC) which is currently in effect sets responsibility of officials for a gross violation of rules of book-keeping and reporting in the form of a fine. It is to be noted that deemed as a gross violation of rules of book-keeping and reporting is misstatement by at least 10% of both the amounts of accrued taxes and charges and any item (line) of the reporting form. At the same time, the Administrative Violations Code of the Russian Federation does not provide for any exemption from or mitigation of responsibility in case of correction of the errors made.

The draft law adds a provision to Article 15.11 of the Administrative Violations Code of the Russian Federation under which provision officials are exempted from responsibility for administrative violations provided for by the specified article in case of:

1. Correction of errors in accordance with the established procedure (including submission of the revised reporting) prior to approval of the accounting statements in accordance with the procedure set by the legislation of the Russian Federation;
2. Submission of the updated tax declaration and payment of deficient tax amount and relevant penalties subject to requirements provided for by Article 81 of the Tax Code of the Russian Federation.

It is to be reminded that provisions of the article in question envisage a number of terms of exemption from responsibility in case of submission of the updated tax declaration.

If the updated tax declaration has been submitted to tax authorities after the expiry of the deadline for submission of tax declarations, but prior to the deadline set for payment of taxes, the taxpayer will be exempted from responsibility provided that the updated tax declaration was submitted before the date when the taxpayer learnt about the fact that the tax authorities found the data which was not specified or partially specified in the tax declaration, as well as errors which result in understatement of the tax amount which is subject to payment or appointment of a field tax audit.

If the updated tax declaration is submitted to the tax authorities upon the expiry the deadline for submission of tax declarations and payment of taxes, the taxpayer is exempted from responsibility in case of:

1) submission of the updated tax declaration before the data when the taxpayer learnt about the fact that the tax authorities found the data which was not specified or was partially specified in the tax declaration, as well as errors which result in understatement of the tax amount which is subject to payment or appointment of the field tax audit in respect of that tax and that period provided that prior to submission of the updated tax declaration the taxpayer has paid the deficient tax amount and relevant penalties;
2) submission of the updated tax declaration after the field tax audit for the respective tax period was carried out and neither unspecified data or partially specified data in the tax declaration, nor errors resulting in understatement of the tax amount due were found.

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

On February 18, discussed at the meeting of the Government of the Russian Federation was federal draft law on Amendment of Article 218 of Part Two of the Tax Code of the Russian Federation which provides for higher standard tax deduction for each month of the taxable period for parents, a spouse of the parent, an adoptive parent and a spouse of the adoptive parent caring after children and in the following amounts :

- Rb 2000 for the second child;
- Rb 4000 for the third and each subsequent child;
- Rb 12000 for each disabled child.

So, the amount of deductions has increased by Rb 600, Rb 1,000 and Rb 9,000, respectively.

In addition to the above, the taxpayer's marginal income which a tax deduction can be applied to has increased.

At present, in provision of a standard tax deduction the amount of such a deduction is limited by the taxpayer's marginal income in the amount of Rb250,000 from the beginning of the taxable period. Due to growth in monthly average pay and for the purpose to make it possible for a taxpayer to receive such a deduction throughout the entire taxable period, it is proposed in the draft law to increase the amount of marginal income to Rb 350,000.

The draft federal law On Amendment of Article 218 of Part Two of the Tax Code of the Russian Federation was approved for submission to the State Duma.

REVIEW OF THE ECONOMIC LEGISLATION IN FEBRUARY 2013[1]

I.Tolmacheva, Ju.Grunina

In February, Article 212 of Part 1 of the Civil Code of the Russian Federation on associations and (unions) was revised and amendments to the legislation on the subsistence level in the Russian Federation were introduced.

I. Federal Laws of the Russian Federation

Federal Law No. 8-FZ of February 11, 2013 on AMENDMENT OF PART 1 OF THE CIVIL CODE OF THE RUSSIAN FEDERATION AND FEDERAL LAW ON NON-PROFIT ORGANISATIONS

According to amendments, associations (unions) can be established not only by commercial and non-profit organizations, but people, as well as jointly by legal entities and individuals.

A definition was given to an association (union) which is recognized as an assembly of legal entities or individuals based on a voluntary or – in some cases established by the law – mandatory membership and established for representation and upholding of common interests including professional ones and achievement of non-profit goals which are valuable to the community and do not contradict the law.

Established in the form of incorporation of associations (unions) are, in particular, associations of legal entities or individuals with the goal to coordinate their entrepreneurial activities and represent and protect their common property interests, professional associations of individuals which do not pursue the goal to protect labor rights and interests of their members, professional associations of individuals regardless of the fact whether they have or not labor relations with employers (associations of lawyers, notaries, people of creative walks of life and other) and associations of self-regulating entities.

It is established that the number of founders of an association (union) should be at least five. It is to be stated that laws which determine the specifics of the legal status of associations (unions) of some types may set other requirements to the minimum number of founders of such associations (unions).

The law provides for the specifics of management of an association (union), regulations as regards founders and the articles of association as well as the rights and obligations of a member of the association (union).

Article 12 on rights and obligations of members of associations and unions of Federal Law on Non-Profit Organizations has become null and void.

Founding documents of associations (unions) established before the Federal Law in question came into effect are to be brought in compliance with the norms of Part I of the Civil Code of the Russian Federation (in the wording of the Federal law) at the first amendment of founding documents of such associations (unions).

II. Resolutions of the Government of the Russian Federation

Resolution No.56 of January 29, 2013 ON APPROVEL OF THE RULES OF CALCULATION OF THE VALUE OF THE SUBSISTENCE LEVEL PER CAPITA AND BY THE MAIN SOCIAL AND DEMOGRAPHIC GROUPS OF THE POPULATION IN GENERAL IN THE RUSSIAN FEDERATION

The rules of calculation of the value of the subsistence level in general in Russia have been developed with taking into account the new approach to formation of the consumer goods basket.

From January 1, 2013, the Federal Law on the Subsistence Level in the Russian Federation as amended came into effect; the above law specifies the definition of the consumer goods basket and

[1] The review was prepared with assistance of the Konsultant-Plus legal system.

adjusts the procedure for formation of it both by the main social and demographic groups in general in Russia and constituent entities of the Russian Federation, in particular.

In pursuance of the legislation, the Government of the Russian Federation has approved the procedure for determination of:

- the cost of the consumer goods basket for the main social and demographic groups of the population (it includes the cost of food, non-foods and services);
- expenses related to mandatory payments and duties (they are determined for the working population only);
- values of the subsistence level both for the main social and demographic groups of the population and per capita (as regards the working population they include the cost of the consumer goods basket and expenses related to mandatory payments, while in case of pensioners and children, only the cost of the consumer goods basket).

The minimum package of food products has been set; it includes bread products, potatoes, fruits and vegetables, confectionery products, meat, fish products and other. Also, the procedure has been established for calculation of the cost of non-food products and services (now the calculation will be carried out on the basis of the percentage ratio of the food package and the cost of both non-food products and services will amount to 50% each of the cost of food products).

CONTROVERSIAL ISSUES ON MANAGEMENT OF THE PUBLIC DEBT AND STATE RESERVES

L.Anisimova

In the period under review, a major international event was the Moscow meeting of G20 finance ministers and heads of central banks. In Russia, a few developments took place. On January 31, 2013, Premier Dmitri Medvedev approved the Main Guidelines for the RF Government's Activities in the Period till 2018. The Ministry of Economic Development of the Russian Federation has prepared the Forecast of Long-Term Social and Economic Development of the Russian Federation in the Period till 2030. The prospect of a transfer of state reserves for placement on the domestic market and the public debt in management of a nongovernment company were largely discussed; also the Ministry of Finance of the Russian Federation and the Ministry of Economic Development of the Russian Federation debated the issue of reduction of the size of the National Welfare Fund and reallocation of thus available funds to the Development Fund.

It was stated in the final press-release on the results of the Moscow meeting of G20 finance ministers and heads of central banks that "growth rates of the world economy were still rather weak and major risks prevailed"[1]. At the G20 meeting, it was recognized that the Russian tax system complied in general with the market requirements and did not interfere with a free flow of capital and goods (work and services). The main conclusion of the above meeting was the abandonment of foreign exchange schemes as a means of solution of some countries' problems at the expense of the others ("refrain from competitive devaluation"), that is, a condemnation of speculative activities with the exchange rate of national currencies. The general impression is that financial and banking authorities are seeking to prevent disparities which may upset the balance maintained on the international market and aggravate the consequences of the financial crisis and shift it to the political and social area. In other words, some adjustments and fluctuations of national currencies are recognized as admissible, but the principle of market determination of the exchange rate should be maintained. Quantitative weakening, for example, of the Japanese yen is recognized as economically justified, however, apart from a large scale natural calamity which consequences Japan has been fighting with during the past two years the Japanese production has been ousted in the same period from the Chinese market on political (territorial) grounds.

The G20 decisions are quite expectable because the financial crisis is of a universal nature, it is not overcome yet and technical work is still being done to locate and drive out toxic assets from the market. It is expedient to carry out that work with utilization of insurance and hedging instruments in order to minimize the damage to the existing market infrastructure.

From the point of view of a layman, other provisions of the final press-release are not momentous, either. In particular, G20 countries intend to adopt "reliable mid-term fiscal strategies" for the sake of stable growth. The above means strengthening of the states' revenue base as it is the basis for maintaining of the current macroeconomic stability. The St. Petersburg G20 summit in September may become a more informative one.

The last G20 meeting showed that Russia is regarded as an important, quite a reliable and predictable part of the system of global market relations. The consequences related to Russia's accession to the WTO and the continued capital outflow did not result in any failures of the country's financial and economic policy. As regards the issue of promotion of international investments in Russia, it seems the result will be sooner produced by the economic policy of the Russian government, rather some foreign political decisions and arrangements.

1 A. Analbayeva, Currency Truce. The Financial G20 Decided to Give Up the Idea of Competitive Devaluation, Website vz.ru of February 16, 2013.

It is worth mentioning in the country's domestic life the following developments which do not directly concern taxation, but determine the general guidelines and conditions for further development of the country's economy, that is, form the infrastructure for functioning of the tax system. On January 31, 2013, Premier Dmitry Medvedev approved the Main Guidelines for the RF Government's Activities in the Period till 2018. In particular, it is declared that government intends to prevent advanced growth in consumer demand as compared to growth in labor efficiency (it is evident that consumer demand has failed so far to become a real economic incentive and in such conditions its advanced growth results in destabilization of production). It is supposed that in subsequent years growth rates of consumer demand and labor efficiency should narrow. Growth in households' consumption will be more balanced and slower, the document reads.

It is declared that it is important to cut the oil and gas deficit of the federal budget and pursue the policy of budget consolidation. As a result of the anti-crisis policy, budget expenditures sharply increased and the oil and gas deficit amounted to 10.5% of GDP[1]; the above figure exceeds by 100% the acceptable level and accounts for nearly a half of the budget. The Government of the Russian Federation warns that reduction of the deficit will result both in containment of the state demand and slowdown of economic growth. The Government of the Russian Federation is going to overcome the negative trends by means of creating stable and highly competitive markets and improving investment attractiveness of the economy.

It is worth mentioning the Forecast of the Long-Term Social and Economic Development of the Russian Federation in the Period till 2030 prepared by the Ministry of Economic Development of the Russian Federation. According to Premier D. Medvedev, it is that Forecast which is going to be used by the Government of the Russian Federation as the basis of the budget strategy of Russia[2]. The Forecast outlines the expected changes in the structure, composition and distribution of productive forces in the world economy, changes in the structure of industrial demand in the next 17 years, and consequently, includes the guidelines for formation of state programs of economic development of Russia in future.

In our view, taking into account the complexity of the goals the Government of the Russian Federation has to identify economic priorities in the mid-term and short-term prospects in order to exclude a fragmentary or conflicting nature of measures to be taken. In Russia, serious discussions have been held of late on many issues. As the results of such discussions may have a direct effect on the level of a tax burden, it would be important, in our view, to study those matters in detail.

The official representatives of the Ministry of Finance repeatedly stated that the large scale capital outflow which continued for several years was a technical phenomena and prevented overheating of the Russian economy, while the Head of the Central Bank of the Russian Federation said, on the contrary, that half of the annual capital outflow was ensured through highly doubtful operations or directly or indirectly by related companies[3], that is, it was a large scale organized and well-planned operation. Due to a considerable outflow of capital and insufficient budget resources for modernization and upgrading of production assets, the more burning debates took place on the issue of a possible transfer of state reserves for placement on the domestic market and the public debt in management of a nongovernment company. Deputies of a number of factions happened to be unprepared to assign in management of an open joint-stock company government liabilities which secured 8% of the income referring to the fact that during the crisis it would be highly problematic to find other assets which could yield such a high risk-free income. According to them, assignment of the public debt in management of an open joint-stock company on the market may in reality become a simple replacement of profitable and risk-free assets on the balance of the open joint-stock company by less profitable and higher risk assets, that is, assets of another quality.

In the meantime, there were debates between the Ministry of Finance of the Russian Federation and the Ministry of Economic Development of the Russian Federation on the issue of reduction of the size of the National Welfare Fund (NWF) and reallocation of thus available funds in the Development Fund (an analogue of the former Investment Fund). The negative stand of the Ministry of

1 S. Kulikov. The Russian debts have exceeded the gold and foreign exchange reserves. Each citizen owns nearly $4,200 to foreigners. Web-site: ng.ru of February 12, 2013.

2 Web-site: Kommersant.ru of February 19, 2013.

3 The CBR uncovered conspiracy in capital outflow from Russia, Web-site: lenta.ru of February 20, 2013.

Finance of the Russian Federation was commented by Finance Minister A. Siluanov[1]. According to him, establishment of the Development Fund will be accompanied by growth in budget expenditures and apart from that – as a result of reallocation of sources – revenues to the National Welfare Fund will decrease: at present extra oil and gas budget revenues are credited to the Reserve Fund until it amounts in total to 7% of GDP, while the funds in excess of that amount are allocated equally between the NWF and infrastructure projects. According to A. Siluanov, the reserve funds should be placed by Rosfinagentstvo.

As seen from the above, the debates take place simultaneously as regards placement in the market of both state reserves and government debts, but purposes of those deals are quite different: in one case the reserve funds are placed, while in the other the funds are attracted against debt obligations. Accumulation of the public debt with simultaneously growing risk of a loss of a portion of state reserves is fraught with strengthening of a tax burden and/or emission of the national currency. Let us illustrate this.

To start with, it is important to decide upon the composition of the reserves. Some economists associate international (gold and foreign exchange reserves) of the Central Bank of the Russian Federation with state reserves of the Russian Federation[2]. One should make a distinction between them. The international (gold and foreign exchange) reserves of the Central Bank of the Russian Federation are nongovernment reserves of the Russian Federation and they are needed for securing of a stable exchange rate of the national currency of the Russian Federation for the purpose of servicing international trade. One of the main objectives of the Central Bank of the Russian Federation as any central bank is to manage the exchange rate of the national currency. If state banks fail to maintain relatively stable mutual conditions of currency conversion, the international financial system will break down (completely or partially) and, as a consequence, trade relations will be obstructed. On the open world market, there is an exchange of goods (work and services) from different countries. The free market is based on the balance between the supply and demand on real assets – goods (work and services) whose physical quantity is limited, while correlation of prices and proportions of the exchange are carried out by means of establishment of the currency exchange rate. Currency reserves are mainly records in ledgers of foreign central banks – issuers of respective currencies[3]. So, the banking system of a sovereign state is a relatively independent and autonomous entity which rules of functioning are determined by the authority which is in charge of management of the national currency, including emissions.

1 The Ministry of Finance opposed revival of the Investment Fund, Web-site: lenta.ru of February 4, 2013.

2 For example, in the blog of prominent economist O.Dmitrieva, Deputy Head of the Just Russia Faction published on the Web-site of Ekho Moskvy on January 28, 2013 it was stated that: "first, the mechanism of formation of the Reserve Fund and the National Welfare Fund was initially wrong. The revenues received from export of primary products are not used in the country's economy, but invested into a foreign economy through gold and foreign exchange reserves".

3 Here is an example. Suppose, a Russian oil company sold oil to a foreign state. It means that on the market of that country where the deal was made a portion of the currency owned earlier by the resident-buyer of oil passed to the Russian oil company which in its turn sells the currency proceeds for rubles and the central bank of the country where the deal was done makes a record in its ledgers that that a portion of the currency is credited to the accounts of the Central Bank of the Russian Federation. By using the notion "accounts of the Central Bank of the Russian Federation", the complex system of correspondent banking relations inside the banking system of the Russian Federation is meant where operations are regulated by Regulation on Book-Keeping Rules approved by Order No. 385-P of July 16, 2012 of the Central Bank of the Russian Federation in respect of the rules of transacting operations with first order account No.301. At the same time, a record is made in the ledgers of the Central Bank of the Russian Federation that foreign currency was bought for rubles at the central bank of the country where the deal on sale of oil was made. The above funds can be later exchanged (sold) for rubles to an individual or importer-company which concluded a contract on import of goods (work and services) from the country where oil was sold to. Or if the importer (an individual or legal entity) intends to buy goods (work and services) in the third country, the Central Bank of the Russian Federation may sell the available currency for the currency of the third country, that is, open a currency account in that country and in the currency which the importer needs. As a result, the importer will buy goods (work and services) for currency at prices and on terms of the country where the trade deal is made. So, if the Central Bank of the Russian Federation fails to offer foreign currency in exchange for rubles, the exchange rate of the Russian national currency will collapse; such a collapse will be accompanied by growth in foreign currency prices and devaluation of savings and earnings in rubles. As the Russian economy does not produce many goods (work and services), the state has to take measures to buy them on the foreign market. For the above purpose, either the mechanism of borrowing or the mechanism of forced appreciation of the rate of the national currency by way of limitation of its supply on the domestic market will be used. A radical method of forced accumulation of funds in the budget is taxes.

The foreign debt, like any other debt is a temporary borrowing of a foreign property. If an entity whose property was borrowed would like to have it back, it (an individual or a state) may by judicial means or on the basis of arrangements with the debtor be in a position to confiscate it and demand payment of interest for utilization of it. So, when Russia encounters a situation where the volume of the foreign debt is higher than international (gold and foreign currency) reserves of the Central Bank of the Russian Federation, it should be remembered that such a situation may provoke property disputes, sanctions and imposition of attachments, while as regards state debts (including granted guarantees) of government agencies of the Russian Federation, constituent entities of the Russian Federation and state corporations any sanctions up to an attachment on the property of the Russian Federation may be applied[1].

The position of exporters – yes, the aggregate foreign debt of Russia is growing at an advanced rate and it has already exceeded the international (gold and foreign currency reserves) of the country, but it is not dangerous because in other countries the share of the debt as a percentage of GDP is higher than in Russia – causes concern. Aggregate foreign debts should be assessed with taking into account the limits of economic sovereignty and possible social consequences for each specific country.

The conflict begins when the government enters the market as a borrower of foreign currency, but later fails to repay its debts. In such a case, the following happens. Records on borrowings are made in the ledgers of the Central Bank of the Russian Federation and the central bank of the state where foreign currency was borrowed from. On the date of repayment of the debt, a reversing entry is to be made in the ledgers. If there is no currency in the account, it will be blocked. To prevent blocking of accounts, the Central Bank of the Russian Federation will probably transfer the available currency reserves from other accounts, while in case of need it may sell a portion of the gold reserve on the market. If there are insufficient funds for repayment of state foreign debts, the creditor may impose an attachment not only on the account, but also on the property of the state. As a result, all the proceeds which are paid in the course of trade and financial operations to the account of the Central Bank of the Russian Federation will be transferred to the creditor until the debt is repaid. Thus, the unpaid state foreign debt may result in the country's settlements on the world market being blocked.

Consequently, the Central Bank of the Russian Federation – though it is not the emitter of the state debt – has to determine the limits of state borrowings on foreign markets. Due to the above, it is evident that Rosfinagentsto which is to be established should not be independent as regards management of the state foreign debt and should toe the line of the Central Bank of the Russian Federation.

As regards advanced growth in debts of private entities (at present those debts exceed half of the total foreign debt[2]), in case of their bankruptcy social unrests may follow, so, as was stated above work collectives should have the right to be represented in governing bodies of state-run and private enterprises and demand the outside administration if decisions approved by the governing bodies come into conflict with the rules of standard collective bargaining agreements.

The following type of the reserves is state reserves. Those reserves should have high liquidity, that is, they can be easily converted any moment into the amount of funds which was reserved for servicing of technical reserves which arise in fulfillment of state obligations, primarily, the budget

1 F.Vertlib. Dissertation abstract: "Responsibility of the State for a Failure to Fulfill International Economic Obligations", PhD thesis in law, Moscow, 2009, Moscow University of the Ministry of the Interior of the Russian Federation, leading organization of the Russian Foreign Trade Academy of the Ministry of Economic Development of the Russian Federation. "An international agreement concluded between a Russian state corporation and the foreign state has characteristics of an international agreement of the Russian Federation even if its content deals with the rights and obligations of the specific economic entity. In some conditions, economic obligations specified in such an agreement can be regarded as obligations of the Russian Federation, while foreign states may be in a position to demand satisfaction for the failure to fulfill those obligations both from the corporation and the Russian Federation, which situation is in conflict with individual provisions of the laws on state corporations where immunity of the Russian Federation from obligations of a corporation is specified".

2 In 2012, the share of the private sector in the total foreign debt of the Russian Federation amounted to about 60%. The calculation was made on the basis of the data of the Web-site of the Central Bank of the Russian Federation (cbr.ru/statistics/data_standard/data_rus.htm; Item14 "The Foreign Debt of the Russian Federation", Other sectors (without participation in the capital)).

(it is the budget of the enlarged government that is meant in this context)[1], that is, state reserves are the funds reserved for fulfillment of state obligations. High liquidity and risk-free quality of state reserves are ensured by investments in government treasury bonds of economically developed countries with powerful competitive market economy. Using the technical apparatus of the Central Bank of the Russian Federation, the government like an ordinary customer (an exporter or importer) transfers state reserves into currency obligations of other countries.

According to the Ministry of Finance of the Russian Federation, Rosfinagentstvo should be assigned the function of management of state reserves. The above analysis showed that as regards ensuring of the uninterrupted execution of the budget the state reserves should be invested into highly liquid assets.

The topic of the state domestic debt is quite difficult for the Russian Federation, as well. Government borrowings should be made if the market margin from placement of the attracted funds is higher than the cost of servicing of the placed bonds. With the high cost of the state debt servicing and in conditions of the stagnating market (that is, in a situation of a weak revenue base of the budget), sooner or later the new obligations will inevitably be involved in servicing of the already accumulated debts, which situation is accompanied by growth in the budget deficit. The deficit can be reduced through cutting of expenditures and raising of taxes. In Russia, expenditures are reduced now and then by a simple novation of the debt (if the government unilaterally changes its obligations), which situation is unacceptable to creditors, or the deficit is eliminated through raising of a tax burden on taxpayers, which situation is unacceptable to taxpayers. By issuing state bonds at a high interest, the issuer actually sets the level of the inflation rate, that is, depreciats the national currency and prompts the Central Bank of the Russian Federation to push artificially upwards the rate of refinancing in order to maintain the national currency at the target level. The negative experience in issuing of high-yield GKO with a subsequent debt novation accompanied by a more than quadruple depreciation of the national currency has explicitly shown the risks of excessive overstating of the limits of borrowing and the cost of servicing of the domestic debt. It means that the limits of the state domestic debt, as well as those of the foreign debt should be determined not by the government bonds issuing center (the Government of the Russian Federation, the Ministry of Finance of the Russian Federation and the Ministries of Finance of constituent entities of the Russian Federation), but the national currency issuing center, that is, the Central Bank of the Russian Federation.

Due to the above stated, the stance of officials of the Ministry of Finance formulated by Deputy Minister S. Storchak requires explanations: "The Central Bank should not manage the country's debt because in such a situation a conflict of interests between the issuing center and the government borrowing agent arises"[2]. Probably, a technical overlap took place because under the effective legislation[3] the Central Bank of the Russian Federation is allowed to carry out such functions and the legislator does not see any conflict of interests.

It is believed that the debated issues of management of the state debt and state reserves can be narrowed down to the issue of utilization of the resources of the National Welfare Fund. So, the dispute between the Ministry of Finance of the Russian Federation and the Ministry of Economic Development of the Russian Federation, probably, boils down to the issue whether the NWF should remain a savings fund (that is, to be transferred to Rosfinagentstvo which is being established on the initiative of the Ministry of Finance of the Russian Federation and utilized entirely for carrying out operations on the financial market) or it can be partially transformed into an investment fund whose available resources can be spent beyond the limits of budget assignments (for example, on the terms of provision of returnable and paid borrowings). According to the Ministry of Finance, the saving status should be preserved, while the Ministry of Economic Development of the Rus-

1 For example, if oil prices fall, but payments are to be made in such an amount as was specified by the Law or in agreement and other.

2 S.Storchak, How to manage resources of the reserve funds, Web-site: vedomosti.ru of February 4, 2013.

3 Article 119 (2) of the Budget Code: "Fulfillment by the Central Bank of the Russian Federation, credit institution or other specialized financial institution of functions of the general agent (agent) of the Government of the Russian Federation as regards servicing of the debts of the Russian Federation, as well as debt placement, repurchasing, exchange and redemption is carried out on the basis of agency agreements concluded with the Ministry of Finance of the Russian Federation".

sian Federation believes that such a situation aggravates technical backwardness of Russia[1] and the Government of the Russian Federation should be assigned operating investment resources and allowed to spend them. The final decision on that issue, probably, depends on which strategy the Government of the Russian Federation prefers at the current stage of economic development: a passive (savings) strategy or an active one (an investment strategy).

In our view, in carrying out the debt policy it is important to take into account the European experience. At present, European partners deal with the consequences of the financial crisis. Support of the banking system is regarded in Europe as a priority objective for market recovery. At present, governments of the united Europe are developing a scheme of direct recapitalization of European banks. It is stated in the decision of the Council of Ministers of Finance of the Eurozone (Eurogroup) announced on February 11, 2012 by Jeroen Dijsselblom, Head of the Council that: until this June common rules of direct recapitalization of banks of the eurozone through the financial stabilization mechanism (FSM)[2] are to be formed. At present, FSM may extend loans for recapitalization of problem banks in accordance with the standard procedure, that is, through governments of the respective countries, which situation is accompanied by growth in state debts in the region where the debt crisis is not yet over. The Council sees its priority in ensuring of independence of the banking system of Europe from sovereign bonds of the member-states through restoration of the base market exchange relations and ensuring of the euro stability. The above should be taken into account in development of the Russian debt policy. Russia has to develop strategies which do not lead to growth in state debts. Putting of state debt management under complete control of the entity which is not a part of the banking system may actually result in growth in state debt-related liabilities and destabilization of the national currency. To cope with destabilization of the national currency, a tough anti-inflationary policy of the Central Bank of the Russian Federation (based on a high rate of refinancing to prevent flight from the ruble into a foreign currency) will be required, while to reduce liabilities related to the state debt and the interest accrued a tough fiscal policy is to be pursued. Considering the above, in our view, the issues related to control and management of the state debt should not be withdrawn from the banking system.

In the period under review, among technical tax issues it is important to single out, primarily, highest courts' decisions which fill gaps and explain application of the effective legislation, thus unifying the regulatory base of taxation developed in the Russian Federation.

1. Resolution No.11 of January 25, 2013 of the Plenum of the Supreme Arbitration Court of the Russian Federation determined the procedure for payment of VAT in realization of the property of the debtor who was recognized as bankrupt. In particular, the Plenum of the Supreme Arbitration Court of the Russian Federation explained that if the debtor is recognized as bankrupt it means that the fact was established that the debtor is no longer able to fulfill its obligations in a normal way and meet completely all the requirements of creditors, including those as regards mandatory payments (in accordance with Article 2 of Federal Law No. 127-FZ of October 26, 2002 on Insolvency (Bankruptcy)). After the debtor was recognized as bankrupt, liabilities related to payment of taxes, including VAT accrued on its property which is realized in the course of bankruptcy proceedings do not relate to current payments of the bankrupt-entity, but to the property which was left after payments to claimants were made. Due to the above, the amount of funds for which the property was sold in the course of bankruptcy proceedings is subject to payment in full by the buyer of the property (that is, without VAT withholding) to the bankrupt-entity or the organizer of the auction.

Another complex issue explained by the Plenum dealt with VAT taxation of the private entrepreneur's property in bankruptcy proceedings. In accordance with Article 143 of the Tax Code of the Russian Federation, VAT taxpayers are both entities and private entrepreneurs. However, as soon as the court of arbitration has passed a decision on bankruptcy of a private entrepreneur and open-

1 "The Ministry of Economic Development intends to use excess oil revenues on development of infrastructure. The above Ministry suggests that the Development Fund be established and replenished at the expense of oil and gas revenues after regulatory replenishment of the Reserve Fund", Web-site bfm.ru/finance of January 30, 2013.

2 Kommersant.ru of February 11, 2013.

ing of bankruptcy proceedings the state registration of a person as a private entrepreneur becomes null and void. The above factor entails respective tax consequences. With losing of the status of a private entrepreneur, the debtor ceases to be the payer of VAT, so, operations carried out by the receiver or the organizer of the auction on sale of his property in the course of bankruptcy proceedings are not subject to VAT taxation.

2. A bit earlier, in November 2012, by Resolution No. 9127/12 of November 6, 2012 of the Presidium of the Supreme Arbitration Court of the Russian Federation a principal decision was taken in respect of responsibilities of officials of companies which were recognized as bankrupt. In particular, the Presidium of the Supreme Arbitration Court of the Russian Federation explained on whom the burden of proof of responsibility rests in case of a claim being filed in accordance with Article 10 (5) of Federal Law No.127-FZ on Insolvency (Bankruptcy) to bring the former company manager to subsidiary responsibility for the company's liabilities.

In accordance with the above Article, the manager of the debtor is subsidiary responsible for the liabilities of the bankrupt party if by the time of rendering of ruling on establishment of oversight or passing of a decision on recognition of the debtor as bankrupt accounting and (or) reporting documents are unavailable or include no information on the property and liabilities of the debtor, or if the above information is falsified.

The Supreme Arbitration Court of the Russian Federation explained that the above norm cannot be regarded as the only evidence in solving of the issue of subsidiary responsibility of the manager and determined the following procedure for recognition of subsidiary responsibility.

The manager's responsibility arises not by virtue of Article 10 (5), but depending on the fact whether actions or instructions of that manager resulted in insolvency (bankruptcy) of the company by implication of the norm set out in Article 56 (3) (2) and Article 10 (4) of the Law on Bankruptcy.

To bring an official to subsidiary responsibility, it is required to establish: a) the fact of a failure to fulfill obligations as regards submission of the documents or the fact of absence of the relevant information in them; b) existence of the guilt of the entity of responsibility (that is, to establish whether all the required measures were taken by the manger of the debtor-company to ensure proper fulfillment of obligations as regards maintenance and submission of documents, in particular, the method of transfer of the documents from the former management, safekeeping of documents and other)); c) cause and effect relationship between unavailability of documents (lack or distortion of the information in documents) and infeasibility to meet creditors' claims.

For the above-stated reasons, despite the fact that in accordance with Article 10 (8) (2) of the Law on Bankruptcy subsidiary responsibility is established in the amount of both unsatisfied claims included in the creditors' register of claims and unsatisfied current claims, but if the person who is brought to responsibility proves that the amount of the damage caused by him to the creditors' property rights because of a lack of documents (lack or distortion of the information in the documents) is much lower than the amount of claims which are to be met the court has the right to reduce the extent of responsibility of such a person on the basis of Article 10 (4) (1) of the Law on Bankruptcy.

The Presidium explained that the above Resolution of the Supreme Arbitration Court of the Russian Federation constitutes grounds for revision of the earlier passed judicial acts on the basis of new facts. In other words, the manager of the bankrupt company is given an opportunity to reduce the amount of subsidiary responsibility to the level which is proportionate to his guilt.

3. An important document is the Concept of Development of Pre-Trial Settlement of Tax Disputes in the System of Tax Authorities of the Russian Federation in the 2013–2018 Period approved by Order No. MMV-7-9/78@ of February 13, 2013 of the Federal Tax Service of the Russian Federation.

4. It is worth mentioning Letter No. ID-4-3/1828@ of February 7, 2013 of the Federal Tax Service of the Russian Federation (together with Letter No. 03-08-13 of November 1, 2012 of the Ministry of Finance of the Russian Federation) which specifies the procedure for determination of the share

of real property in assets of a Russian entity for the purpose of taxation of the income of foreign entities from sources in the Russian Federation on application of Article 309 (1) (5) of the Tax Code of the Russian Federation. Referring to the Comments (Item 28.4 of the Comments) on the OECD Model Convention on Taxes on Income and Capital (Article 13 (4) of the Model), the Ministry of Finance of the Russian Federation and the Federal Tax Service of Russia explained that in order to determine the share of the real property it is necessary to proceed from the aggregate amount of all the assets of a Russian entity, whose shares (interests) were realized by a foreign entity. Calculation of the share of the real property can be carried out on the basis of the balance-sheet value of the assets of the Russian entity and the balance value of the real property specified both in the balance-sheet and calculation of the tax on property of the Russian issuer-entity.

CHANGES ON THE REGULATORY BASE OF THE BUDGETARY PROCESS IN FEBRUARY 2013

M.Goldin

In February 2013, the following events took place in the regulatory base of the budgetary process: the procedure for crediting to the Reserve Fund of oil and gas revenues received in the course of execution of the federal budget in 2012 has been determined; the amount of the cost of a sq. meter of residential housing provided to people within the frameworks of implementation of the regional target program of resettlement of people from hazardous housing fund was determined.

Resolution No. 68 of the Government of the Russian Federation of January 30, 2013 On the Procedure for Crediting to the Reserve Fund of Oil and Gas Revenues Received in the Course of Execution of the Federal Budget in 2012 determined the calculation formula in accordance with which the volume of oil and gas revenues subject to crediting to the Reserve Fund on the basis of execution of the federal budget in 2012 was determined.

The Government of the Russian Federation has approved that subject to crediting to the Reserve Fund are oil and gas revenues in the volume determined as a difference between the volume of oil and gas revenues received in the course of execution of the federal budget in 2012 in excess of Rb 5,553bn and the amount of the oil and gas revenues utilized in 2012 for substitution of volumes of public borrowings of the Russian Federation and (or) proceeds from sale of equities being in the ownership of the Russian Federation and other forms of participation in the capital.

The Ministry of Finance has been entrusted with carrying out the calculation.

In its **Order No. 14n of January 30, 2012** On the Volume of Oil and Gas Revenues Received in the Course of Execution of the Federal Budget in 2012 and Subject to Crediting to the Reserve Fund, the Ministry of Finance of the Russian Federation approved the following calculation – *Table 1*.

Name of the index	Amount (billion Rb)
Oil and gas revenues received in the course of execution of the federal budget in 2012	6,453.2
The volume of oil and gas revenues set by Federal Law No. 371-FZ of November 30, 2011 on the Federal Budget in 2012 and the 2013-2014 Planned Period	5, 553.0
Oil and gas revenues utilized for substitution of volumes of public borrowings of the Russian Federation	186.7
Oil and gas revenues utilized for substitution of proceeds from sale of equities owned by the Russian Federation and other forms of participation in the capital	0.0
Volume of oil and gas revenues subject to crediting to the Reserve Fund of the Russian Federation	713.5

Order No.554 of December 27, 2012 of the Ministry of Regional Development of the Russian Federation on The Cost of a Square Meter of Residential Housing Meant for Determination in 2013 of the Marginal Value of a Square Meter of Residential Housing Utilized in Purchasing of Housing Within the Frameworks of Implementation of Federal Law No. 185-FZ of July 21, 2007 on *the Fund for Assistance in Reforming Housing and Public Utilities* in 2013 with Breakdown by Each Constituent Entity of the Russian Federation specifies the value of a square meter of residential housing provided to people within the frameworks of implementation of the regional target program of resettlement of people from hazardous housing fund.

It is to be noted that in accordance with Article 16 (2) (5) of Federal Law No. 185-FZ of July 21, 2007 on The Fund for Assistance in Reforming Housing and Public Utilities the ultimate value of a square meter of residential housing provided to people within the frameworks of the specified program should not exceed the level determined by the Ministry of Regional Development of the Russian Federation for each constituent entity of the Russian Federation with the average cost of building of apartment houses taken into account.