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RUSSIAN ECONOMIC DEVELOPMENTS

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

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Political Background: No Thaw Yet

Russia's political background in March appeared to be calm enough. Over recent months, the opposition's activity has been evidently on the decline; the trend displayed by Vladimir Putin' approval ratings, although still downward, is moving at a very slow rate; the deterioration, last autumn, of the general outlook of the current situation as reflected by opinion polls, early this year was no more visible. Meanwhile, the authorities stick to their policy of progressively 'tightening the screws' on political activists and civil organizations. In March, charges were brought against Yelena Kokhtareva, a pensioner, who became the 25th accused person in the so-called *Bolotnaya square case.* Besides, the police search the homes of political activists in Novosibirsk and St. Petersburg (while some of them had not even been in Moscow on 6 May 2012). And finally, in late March, the law enforcement agencies launched a series of checks of civil-society and human rights organizations, including *Human Rights Watch*, *Amnesty International*, and *Memorial*. In this connection, officials in the USA, the UK and Germany expressed their concerns with the political pressure on independent civil-society organizations in Russia.

In March 2013, the RF State Duma adopted the first reading of a draft law amending Russia's parliamentary election procedures. As was the case with gubernatorial elections, by doing so the Kremlin, in fact, returns to the model that existed prior to 2003: half of the parliament's seats will be subject to direct elections, and the other half will be put to party voting; the election threshold for party representation is to be lowered to 5%. The reestablishment of the 'old order' is a sign that the Kremlin has lost any hope for a revival, in the nearest future, of *United Russia*'s former popularity, and consequently the successful realization of its project of establishing an institutionalized authoritarian regime supported by a ruling party. The 'new old model' with strengthen the positions of the regional elites, enabling them to rather easier get their representatives into the State Duma – who will then be able to get rewarded for their support of the 'party in power' on relevant political issues by that party's benevolent 'understanding' of their specific or regional interests.

The Draft Law introduces a constitutionally dubious norm establishing a new electoral barrier in the form of a life-long ban on persons convicted of serious or exceptionally serious crimes (for a prison term of more than 5 years) standing for parliament. Thus the Kremlin expects to close access to public politics for some of the most charismatic and popular opposition figures. Besides, the Draft Law introduces new restrictions for election observers, who are now deprived of the right to make video recordings at polling stations. In this connection it the reader should be reminded of the new technology of falsification that became widespread during the December 2011 election, when fraudulent data (that differed drastically from those entered in the protocols of the corresponding election commissions verified by the commissions' members and observers) were fed into the State Automated System of the Russian Federation *GAS-Vybory*. It was the publication of the photographs of the genuine protocols in the Internet (when it was impossible to prove the fact of data falsification in a court) that helped reveal the frauds and thus stirred strong public resonance.

All these maneuvers in the political sphere are indicative of the orientation of Russia's leadership to a scenario of holding on to the power in a situation when the existing political regime will have to put up with only some tepid support in society – in fact, very different from what it had enjoyed in the 2000s.

The nomination of Elvira Nabiullina as head of the RF Central Bank may be interpreted as a rather clear sign on the part of the government. The appointment to this post of a former minister of economic affairs (whose most recent job was that of the President's economic adviser) instead of a financer points to its choice of a moderately expansionary monetary policy. On the one hand, the economic authorities evidently see no other method of boosting economic growth, while on the other they are well aware of the risks of such a maneuver and of excessive softening. The transfer to the Bank of Russia of the functions of a financial market regulator implies that government representatives are going to join its board of directors which (alongside Nabiullina' nomination) will result in an even closer integration between the RF Government and the RF Central Bank.

Macroeconomic Background: the Economy Is Stable – and Unattractive

In March, the per barrel price of oil (ICE.Brent) demonstrated slight fluctuations around the level of $ 109. The stability of world oil prices and the visible slowdown in the US dollar's strengthening against the euro determined a relative stability of the exchange rates of Russia's national currency; over March, the ruble to USD exchange rate slightly declined (no more than by 1.5%), while the ruble to Euro exchange rate demonstrated a rise – with minimum interference in the natural movement of currency exchange rates on the part of the Bank of Russia. As a result, the price of the bi-currency basket climbed from Rb 34.86 to Rb 35.

At the same time, the crisis in Cyprus – probably in conjunction with the downward movement of oil futures and the unfavorable outlooks for growth in Russian industry – had a serious impact on the dynamics of Russia's stock markets, whose indicators in the period from 15 through 26 March plummeted by 5 to 6% (it should be noted, however, that a decline was also a typical phenomenon for other exchanges operating in the developing markets). The leaders in the depth of decline were the companies in the raw materials and financial sectors. However, towards the month's end, when it had already become evident that the consequences of the Cyprus crisis for the Russian economy manifested themselves only on a rather moderate scale, the market quotations resumed their upward movement.

The inflation rate in March dropped to 0.3% (against 1% in January and 0.6% in February). As a result, the per annum inflation rate dropped to 7% (against 7.3% as recorded at the end of February), and the inflation accumulated since the year's beginning amounted to 1.9%. At the same time, the basic inflation rate remained at its February level (0.4%), while the decline of the Consumer Price Index (CPI) occurred in response to the slowdown in the growth of food prices (0.4% in March against 0.8% in February) and prices in the services sector (0.2% in March against 0.4% in February). Meanwhile, according to the forecasts released by the RF Ministry of Economic Development, the drop of consumer inflation to the upper margin of its target range (6%) may be expected no earlier than Q3 2013. The relevant factor in this connection will be the situation with crops (it should be reminded that the per annum inflation rate has already been staying above its upper target margin for 7 months). The factors moderating the strength of the inflationary pressure will be the continuing decline of domestic demand and the slowdown in the growth of money supply (the per annum growth rate of M2 dropped from 22.3% as of 1 February 2012 to 13.2% as of 1 February 2013). At the same time, the markets are looking forward to softening of the monetary policy in the nearest future.

The simultaneous growth, in February, of the volumes of cash in circulation and required reserves caused an expansion of the narrow monetary base by 0.8%. The shrinkage of the excess reserves of commercial banks was halted, and over February their volume rose by 2.3% – to Rb 992.3bn. The situation on the money market, which in February was very calm, began to deteriorate in March. This change manifests itself, on the one hand, by the increasing volume of banks' outstanding debt against REPO operations (in March, this indicator once again rose to nearly Rb 1.5 trillion), and on the other, by the rise of interbank rates to above 6% (*MosPrime*, one of the major indicators of Russia's market, in March amounted to 6.1–6.4%).

According to the data released by the Bank of Russia, net capital outflow in Q1 2013 amounted to $ 25.8bn. Thus, so far there has been no significant slowdown in capital outflow and the resulting trend reversal, long awaited by the RF Central Bank and the RF Ministry of Economic Development. The drop in the outflow volume on Q1 2012 ($ 33.6bn) can hardly be regarded as a positive development. At the same time, the Bank of Russia has no intention of revising its forecast annual outflow level of $ 10bn.

So, the macroeconomic situation in Russia remains stable thanks to the high oil prices, which ensure her high foreign trade surplus and high positive current account balance (27.9bn in Q1 2013). Meanwhile, Russia still appears to be unattractive for capital (the inflow of foreign investment in 2012 shrank to 7.7% of GDP against 10.0% in 2011). Besides, certain problems may arise in response to the faster than expected slowdown in the rate of economic growth that occurred in early 2013, which will result in a decline in budget revenues against the very tight expenditure plans. This will make the budget even more sensitive to the fluctuations of oil prices and their current downward movement coupled with shrinking natural gas supplies. Thus, the results of the period of January-February 2013 already demonstrated that federal budget revenue dropped by 2.3 pp. of GDP on the first two months of 2012, which produced a current federal budget deficit of 2.7% of GDP against the planned annual deficit level of of 0.8%.

The Real Sector of the Economy: Industry Betrayed by Natural Gas and Consumer Credits

In February 2013, for the first time since early 2009, Russian industry experienced a decline in output. In reality, the formerly noticeable growth rate of industrial production was halted as early as the end of 2011, shortly after it had risen above its record high of March 2008. However, periods of stagnation have already occurred earlier in the course of the economy's post-crisis recovery (in mid-2010 and in December 2010 – January 2011), but every time these gave was to growth surges. An upward trend also became visible in Q2 2012, but it was very weak, and so, from July 2012 through January 2013, industry was effectively stagnating. In February 2013, the industrial production decline in per annum terms amounted to -2.1%; the Processing Industry Index in per annum terms dropped to 99.9%, that of the mineral resources extraction – to 97.8%, and that of the production of electric energy, gas and water – to 90,0%. Thus, it can be concluded that the February slump was predetermined by the decline in the extracting industry against the backdrop of a warm winter and the stagnation in the processing industry. The most impressive decline was demonstrated by the volumes of natural gas production (-4.7% on February 2012) and petroleum production, including gas condensate (-2.2%).

The low investment demand resulted in a decline in the production of capital goods. In February 2013, the index of the production of machinery and equipment in per annum terms c amounted to 95.7%, that of the production of electrical, electronic and optical equipment – to 92.6%. After a long period of growth, late 2012 and early 2013 saw a decline in the production of transport vehicles – to 91.8% of the February 2012 level (while the output of passenger motor cars in January – February amounted to 109.1% in per annum terms).

In fact, output growth on January-February 2012 persisted only in the chemical industry, the production of rubber and plastic materials, as well as construction materials. A controversial situation emerged in the consumer goods industry. On the one hand, some sectors displayed growth (the textile and dressmaking industry, the production of leather goods and footwear), while on the other, the consumer goods industry on the whole was experiencing pressure from the demand constraints. For eight quarters in a row (from the second half of 2010 to mid-2012), the mean retail turnover growth rate stayed at the level of 7.3% per annum. In the second half of 2012, this index dropped to 4.6%, and then in January-February 2013 – to 3.0%. In fact, the period of growth in trade came to an end four months ago. It is noteworthy that the retail turnover slowdown coincided with the reversal of the trend displayed by consumer credits – their volume became significantly slower in per annum terms.

According to the entrepreneurial activity surveys conducted by Rosstat, the entrepreneurial confidence index in the processing industry (cleared of the seasonal factor) over the period of February-March was improving, while in the processing industry, on the contrary, it was indicative of an increasing pessimism. The data yielded in February by the business opinion surveys carried out by the Gaidar Institute are highly controversial. The evident sales and output growth occurred in face of high surplus finished stocks and the definitely dwindling optimism with regard to the prospects of demand, production and employment. The investment plans demonstrated that the traditional 'new year pause' was finally over, but their balance amounted to zero – that is, industry is planning no investment growth as yet.

Thus, for a period of no less than four months in a row, the Russian economy is experiencing stagnation which, nevertheless, is no obstacle to the continuing income growth, a stable employment rate and a high growth rate of prices.

THE POLITICAL AND ECONOMIC RESULTS OF MARCH 2013

S.Zhavoronkov

In March, Russia was faced with the unsavory prospect of a considerable loss of funds kept by Russian enterprises and individuals in Cyprus, traditionally one of the most attractive jurisdictions for Russian businesses A significant portion of those funds was frozen or seized by the Cypriot authorities in an attempt to mitigate the dire financial problems besetting their own country. It turned out that, in fact, Russia had no means of responding to that challenge – the credit previously extended by Russia to Cyprus had not resolved any of the problems that were plaguing that country, and furthermore, Russia did not have any prerogatives to control the domestic economic policy of an EU member country, and was clearly reluctant to directly negotiate with the EU in order to protect Russian deposits in Cypriot banks. Elvira Nabiullina was nominated as head of the RF Central Bank. Nabiullina' nomination was seen as a compromise in the intra-government struggle between the supporters and opponents of a tight monetary policy. The State Duma adopted the first reading of a draft law amending Russia's parliamentary election procedures. Introduced for consideration by the State Duma by Vladimir Putin, the draft law is designed to restore single-mandate electoral districts and to allocate 50% of State Duma seats to their representatives. It also reduces the existing election threshold to 5%. However, the Draft Law erects a new electoral barrier in the form of a ban on persons convicted of serious crimes standing for parliament. It should be noted that, among other things, the 'serious crime' category comprises numerous types of economic offences carrying sentences that can easily be used as a means of political persecution.

In March 2013, Russia (as well as the international financial system and the EU countries) was badly shaken by the crisis in Cyprus, a small country with a population of around 1 million people. Notwithstanding its small size, Cyprus is a member state of the EU and the Eurozone, with a considerable financial sector much in excess of its GDP (although it should be admitted that, for example, the banking sector's asset-to-GDP ratios of the UK and Switzerland are not much smaller than that of Cyprus), and a public debt approaching 100% of its GDP (comparable with the levels of public debt accumulated by the USA and the countries of southern Europe). Of course, the small size of Cyprus's economy was, on the one hand, an adverse factor (because the resources that could be obtained from the non-financial sector were small). On the other hand, the volume of financial support needed for the country's bailout was also relatively small. Thus, according to the EU's estimates, on the whole, Cyprus will need € 17bn in aid, and the first reimbursement tranche of Cyprus's debt, due in June, will amount to less than € 1.5bn (for reference: a year ago, Greece's creditors wrote off no less than € 100bn in debt). Also it should be noted that Cyprus, along with the Netherlands and Luxemburg, has long been the largest nominal foreign investor in Russia's economy. Much of this investment, however, is repatriated Russian capital, previously transferred out of Russia. For a long time, active attraction of foreign investments has been providing Cyprus with the means to pursue a rather irresponsible and reckless economic policy – to increase public debt and government expenditures, to shun privatization, and to actively invest in quasi-public corporations (it is noteworthy that the most serious problems were revealed at the local analogue to Russia's Savings Bank – the second largest Cypriot bank *Laiki*). On Saturday 16 March 2013, disaster struck – Cyprus and its European creditors announced the suspension of all banking transactions in the country (after being closed for almost two weeks, banks reopened only on 28 March). At first, the European authorities offered Cyprus a bailout solution which violated the EU's own laws – Cyprus was asked to make a gesture of solidarity by seizing part of the monies kept in all Cypriot banks (6 to 9% of deposits), both 'problematic' and otherwise, except for the deposits guaranteed up to € 100,000. For the obvious political reasons (the losses to be incurred by small depositors-citizens of Cyprus), the Cypriot government was unable to pass that decision through parliament. Russia refused to give Cyprus a new loan, and limited its aid to restructuring its $ 2.5bn credit extended to Cyprus in 2011. It is not clear whether or not Cyprus had offered Russia anything in exchange for a new loan (in fact, it could have offered a wide variety of assets, for example the state-owned assets in the profitable field of communications and telecommunications, the high-risk but potentially very profitable natural gas deposits on Cyprus's continental shelf, etc.). The negotiations were carried out behind closed doors, and in their aftermath some Russian officials hinted that the Cypriot proposals had not been interesting enough in their proposals. As a result, in exchange for the EU's € 10bn bailout for Cyprus, the Cypriot authorities announced the freezing and partial seizure of large deposits (over € 100,000) in the two largest Cypriot banks. (The formulae for implementing these measures have so far remained unclear.) It should be added that, in many respects, the Cyprus crisis is shrouded in mystery – for example, Cypriot banks had been calmly transacting business as usual right until the very day when the Cypriot and EU authorities made the announcement about 'freezing' their accounts (if the two biggest Cypriot banks had been as problem-ridden as the three Iceland's banks in a similar situation in 2008, they would have simply stopped returning deposits). Also, it is not clear whether the final beneficiary of the 'bailout' will be the banks or the Cypriot government – the latter otherwise having to face a default on sovereign debt in June (in this respect, the situation was more complicated than in Iceland which, unlike Cyprus, had had its own currency – the bankruptcy of Iceland's banks and the subsequent devaluation of its national currency, as well as the fact of the State of Iceland assuming the responsibility to compensate resident depositors, had had a limited impact on the situation in the EU).

In any case, Russian enterprises and citizens have apparently lost many billions of euro in the Cyprus crisis. And it is far from clear whether or not it is advisable to save their deposits at the expense of Russia's budget in conditions when the Russian authorities, unlike past centuries[1], are unable to enforce law in Cyprus. But it is crystal clear that similar problems with Russian assets can emerge in other EU countries, especially bearing in mind the eagerness of Europe's supranational monetary authorities, with their vaguely defined responsibilities, to *'plunder the loot'* (one of Dmitry Medvedev's quotes). In fact, the general deterioration of the situation in the EU, Russia's main trading partner, represents a serious challenge to the economic stability in Russia.

In March 2013, the RF State Duma adopted the first reading of a draft law amending Russia's parliamentary election procedures. The draft law had been introduced into parliament by Vladimir Putin, and it is noteworthy that a similar draft law introduced by Dmitry Medvedev one year ago has not been considered by the State Duma as yet. In the main, Putin's draft law reflects the promises given by the authorities in December 2011 in response to mass protests. To a certain extent, it follows in the footsteps of the previous (Medvedev's) draft law, but AT at the same time contains a number of important differences. Medvedev's draft law envisaged that parliament should be elected on a party-list basis, and that a proportional closed-list system in a single nationwide constituency with a 5% threshold should be established. Had Medvedev's bill passed into law, the so-called 'locomotive' method, when 'charismatic' candidates run at the head of all or many of their party lists, would have become a thing of the past. A candidate would have been able to run at the top of his or her party's list only in one region, and the concept of federal party candidates would have disappeared. To some extent, this innovation was intended to increase *United Russia*'s electoral advantage, because that party was (and is) capable of finding a charismatic ('locomotive') candidate in practically every electoral district, while the opposition had (and has) much fewer well-known candidates. On the other hand, it has become evident that such regional 'locomotive' candidates can sometimes be less effective than several persons with high approval ratings put at the top of the whole list. Also, the proposed new system contradicted the electoral interests of Vladimir Zhirinovsky, whose electoral campaigns have always been based on his egocentric propaganda – if Medvedev's draft law had passed, voters would have seen Zhirinovsky's name only on one of his party lists, and not on 225 lists (that is the number of Russia's electoral districts). In conditions when *United Russia* had lost its constitutional majority in parliament, and in some regions – for example, St. Petersburg – it had failed to win even a simple majority without the support of Zhirinovsky' party (his rhetoric in 2012 plainly indicated that the LDPR had become the main satellite of *United Russia*), the ruling party's bigwigs decided not to sacrifice the interests of their ally. Thus, the draft law recently adopted in its first reading, in fact, fully restores the rules that existed at the time of the 2003 parliamentary election – 50% of seats are allocated to party-list representatives, and 50% of seats – to single-mandate-district representatives elected in one round of voting. Although the ballot option of voting 'against all' is not to be restored and election blocs are not to be permitted, the signature threshold for candidate registration is lowered. Moreover, the Draft Law exempts political parties from the need to collect signatures in order to take part in parliamentary polls. However, the Draft Law introduces a new electoral barrier in the form of a life-long ban on persons convicted of serious or exceptionally serious crimes standing for parliament. In fact, this ban applies to all persons convicted for crimes punish-

1 In the past, the failure or refusal of the government of a sovereign state to pay back its debts to other states or private creditors was one of the main causes of war.

able by the deprivation of liberty for a term of more than 5 years – including, for example, Michael Khodorkovsky. If the new bill passes into law, the latter will not have the right to stand for parliament after having served his prison term. As far as the ballot counting standards are concerned, it should be noted that things will remain mostly unchanged – here and there some new barriers are to be introduced (for example, the Draft Law restricts the right of election observers to make video recordings at polling stations), while some barriers have been lowered (the Draft Law stipulates the right of election observers to watch the vote count from a distance close enough to make any markings in the ballots visible). It should be said, however, that the Draft Law will undoubtedly cause a lot of arguments in parliament. Thus, the parliamentary parties are actively trying to introduce mandatory collection of signatures for non-parliamentary parties. If their attempts succeed, the new parties and their candidates will face the risk of their lists being arbitrarily annulled on the pretext of containing 'invalid' signatures. Bearing in mind the current practices in Russia's regions, this abuse has all chances to spread all across Russia. At the same time, such a system will largely destroy the essence of the proposed liberalization of party legislation, and so will make senseless the very idea of creating new political parties. Moreover, it will stimulate the opposition to resort to the old and tested method of combating *United Russia* by voting for any party but the party in power. It should be added that, in this case, *United Russia* will not get the redistributed votes cast for the parties that have not passed the electoral threshold, and will not benefit from the dispersal of votes caused by voting for candidates in single-member districts. Thus, the outcome of the saga surrounding the new draft law is still unpredictable.

In March, the lengthy and furious tussle over leadership of *Rostelecom*, Russia's major telephony provider, finally came to an end. The struggle for the top job in that company had been going on between the supporters of two former Ministers of Telecommunications and Mass Media – Igor Shchegolev (2008–2012) and Leonid Reiman (2004–2008). *Rostelecom*'s former President Alexander Provotorov is said to be participant in many interesting business schemes – from the buy-out of shares in *Rostelecom* carried out in robust market conditions at the expense of the loans extended to *Rostelecom* against collateral of those same shares, to the attempt to push through a merger scheme between *Rostelecom* and *Sviazinvest* that would have resulted in the State (which owned the controlling blocks of shares in both companies) losing its control over the consolidated company, and in a subsequent rise in the price of shares held by minority shareholders. In 2012, the RF Government had initiated his resignations, but the RF President's Executive Office immediately blocked that move. At the same time, multiple criminal proceedings launched against Provotorov and his friends from the *Marshall Capital* company were being held both in Russia and abroad. As a result, *Rostelecom* got a new head, the well-known telecommunications manager Sergey Kalugin, a long-standing partner of both *Rostelecom* and various big businessmen, including Yuri Kovalchuk and Suleiman Kerimov. The largest and much contested block of shares held by *Rostelecom*'s minority shareholders was sold to Arcady Rotenberg's structures.

In March, the Russian authority nominated a successor to Sergey Ignatiev, who had completed his third and final term as head of the RF Central Bank – the post he had held since the early 2000s. The person nominated for that position was Elvira Nabiullina, a former RF Minister of Economic Development (2007–2012) and currently one of the advisors to President Putin. It should be noted that the post had been vigorously contested both on opportunistic and ideological grounds. The struggle had been accompanied by hectic media campaigns. The opponents of Sergey Ignatiev's policy had primarily criticized him for the following aspects of his course: support of the concept of stabilization funds (they believed that money should be invested in various projects inside Russia, and not in foreign assets); a tight money supply and high interest rates, which they saw as insufficient incentives for boosting economic growth (although, for example, in 2012 the growth rate of money supply was almost twice as high as the rate of inflation, and, according to many economists, the Central Bank extended credits to commercial banks far too liberally in conditions when the commercial banks themselves were reluctant to provide credits to the real sector of the economy). Moreover, the Bank of Russia had been criticized for various dubious situations involving big banks, namely for extending to them unsecured credits (the most scandalous cases being the *Mezhprombank* [International Industrial Bank] default and *Petroff-Bank*'s insolvency) and lax control over their activities (which had been clearly insufficient in some cases, which resulted in falsification of accounts and/or tolerance for the obvious absence of assets; in other cases, the Bank of Russia's control had been, on the contrary, too stringent, and some banks were, in fact, penalized for successful commercial activities aimed at attracting depositors). Ignatiev's followers had expected that his policy would be continued by such candidates for his post as Aleksey Kudrin, Aleksey Uliukaev, Oleg Viugin and Mikhail Zadornov, formerly of the conservative RF Ministry of Economic Development, while his opponent had hoped for the appointment of RF Presidential

Advisor Sergey Glaziev, economist and former politician, known as an avowed Leftist. As a result, a compromise candidate was nominated for head of the Central Bank, and it is obvious that Elvira Nabiullina' candidacy will be approved by a majority of votes in the State Duma. Sergey Ignatiev had the honor of being personally thanked by President Putin and of having been appointed advisor to the new head of the Central Bank. Whilst being Minister of Economic Development, Nabiullina became famous for her incessant debating with the RF Ministry of Finance about the necessity to increase government expenditure; besides, she is known as a compromise-seeking candidate, who tries to maintain a balance of forces among Putin's supporters. In fact, she lacks the same degree of self-confidence and readiness to do the unrewarding job of a 'treasury keeper' as had been typical of the former heads of the Ministry of Finance and the Central Bank.

In March, the State Duma adopted the second ('key') reading of the law 'On the Federal Contract System', which for more than a year had been a source of heated institutional disputes between several state departments. The proponents of the new law (represented, in fact, by the overwhelming majority of departments, state-companies, and government establishments) have been criticizing the existing law on government purchases for such flaws as the overestimation of the importance of price and the underestimation of the quality criteria applied to many types of goods and services whose properties cannot be easily translated into formalized principles; the existence of gaps in the law that enable dishonest market participants to resort to dumping tricks or fail to fulfill their contractual obligations, or simply sabotage the results of a tender. Also, the law was criticized for the extraordinary powers granted to the Federal Antimonopoly Service (FAS), which enable the latter to cancel a tender outside of the ordinary course of legal proceedings, leaving its winner with the option of disputing the FAS's decision in a court of justice. The proponents of the old law, led by the FAS's head and executive secretary of the government commission for foreign investments Igor Artemiev spoke of the necessity to eliminate the few drawbacks of the current good law. At the same time they insisted that the proposals put forth by the advocates of the new law were aimed at endowing the customer with unlimited powers, which would inevitably create a situation when any legal entity could be appointed winner in a tender under the pretext of its 'high qualifications', or the tender procedure could be altogether abolished and replaced by unspecified 'competitive negotiations' no matter with whom. Of course, the FAS was ready to fight tooth and nail to preserve all its prerogatives. And it did fight. The FAS was generally supported by the public at large (very often joined by the contractors, who are not prepared to initiate direct court proceedings), content that they could make use of their right to renounce the result of tenders. Meanwhile, the financial institutions servicing government contracts were fighting their own battles – for example, campaigning for the preservation – or exclusion of bank guarantees as a method of securing a contract. On the whole, the FAS has lost the argument, although many nuances will only become evident after the actual adoption of the reference norms mentioned in the law. Budget-funded institutions have been granted the right not to apply the procedure of a tender in a situation when the money in question is not allocated from the budget but is earned by a budget-funded institution on an independent basis (grants, commercial services, etc.). The timeline for a tender is shortened from 30 to 20 days. If no candidates have applied for the right to provide for the first purchase, the procedure for the second one is to be simplified. Tougher requirements are introduced for the participants in tenders. The banks have not been deprived of their right to grant bank guarantees, and the suppliers, if security is provided, are granted the right to derive interest from it. The rights of the FAS and the public to interfere with the course of a tender have been restricted, the right of 'public discussion' and the right of appellation can be applied only several years later, and in the period of 2014-2015 – only with regard to purchases to the value of above Rb 1bn.

RF President Vladimir Putin assigned to the RF Government the task of altering the regulations for the imputed social payments established for individual entrepreneurs. It should be reminded that in 2013 the amount of these payments was doubled – to more than Rb 35,000, and so in the first few months of the new year 2013 more than 300,000 Russians liquidated their individual businesses. It is important to note that these were real businesses (otherwise there would have been no point for their owners to pay half of that amount – just as it is not a problem for those who apply that regime only to optimize their financial schemes to pay twice that amount). This measure hit especially painfully the provincial entrepreneurs, because there to be an individual entrepreneur does not mean to be rich. Probably, the actual size of the 'gift to the people' – either a general reduction in the amount of payments, or its subdivision into categories (depending on the amount of profit, turnover, etc.) – will be announced later, maybe on the eve of the *All-Russia Popular Front*'s first congress, which is to be held in summer.

INFLATION AND MONETARY POLICY IN RUSSIA IN FEBRUARY 2013

N.Luksha

In February 2013 the consumer price index made 0.6% (as compared with 0.4% in February 2012), which is less than in January of the current year by 0.4 p.p. In March inflation has also increased: by the results of 18 days of the month, the CPI made 0.3%. As a result, the inflation rate in annual terms reached 7.3%. According to the tentative estimates of the Ministry of Economic Development of Russia, in February the net outflow of capital from the country amounted to about $6bn (against $14–16bn from the beginning of the year).

After the January upsurge in consumer prices, in February inflation has expressly slowed down: within the month the CPI has decreased from 1 to 0.6%, having exceeded the similar indicator of 2012 (+0.4%). As a result, inflation in annual terms has accelerated by 0.2 p.p. to 7.3% (*Fig. 1*). The core inflation[1] in February 2013 made like in the same month last year, 0.4% (against +0.5% in January 2013).

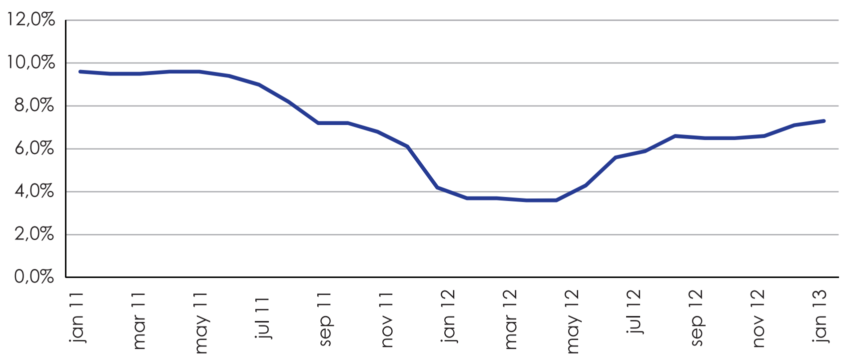
The CPI reduction was urged primarily by the slowdown in the growth rate of the price of food products by 2.3 times (from 1.8% in January to 0.8% in February). The reasons for this were the decrease in the growth rate of prices for fruit and vegetables (from 7.4 to 2.8%) and alcohol (from 4.9 to 2%) and lower prices for meat and poultry (- 0.9%), sugar (-0.3%) and eggs (-0.6%).

The rate of increase in prices and tariffs for commercial services in February after January upgrading to 0.2 p.p. has returned to the December level (+0.4%). At the same time, it should be recalled that in February 2012 the tariffs for commercial services were not growing. Like in January, the leaders of the increased costs were passenger transport tariffs, prices for which have grown by 0.8%: significantly increased were the rates for tickets in long-distance trains, as well as public transport tariffs. The abnormally warm February urged a decreased cost for heating.

In February the growth rate of non-food items prices remained unchanged as compared with January, having reached within the month 0.4% (vs. 0.3% in February 2012). There was noticed a growth in prices for tobacco products (+2.4%), medicines (+1%) and gasoline (+0.9%). The only goods that became cheaper in February were audio and video devices (-0.4%).

As of 18 days of March, the CPI made 0.3%. As a result, the cumulative inflation from the beginning of the year reached 1.8%, which is 1.5 times higher than in the same period of 2012. The inflation rate in annual terms on March 18 remained at the level of 7.3%.

The stable core inflation indicates that the overall inflation in the country is of monetary nature. Its main factors are rising foodstuffs prices due to the low monetary base effect and seasonal factors, increased duties on excisable goods and tariffs for transportation services at the beginning of the year. Some role in rising prices was also played by the February indexation of pensions. A decrease of the consumer prices inflation can be expected not earlier than in Q3 of this year, but the situation with harvest will be important. Inflationary factors



Source: RF Statistical Service.

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

1 The core consumer price index is the indicator reflecting the level of inflation in the consumer market after adjustment for the seasonal (prices of vegetable and fruit products) and administrative (regulated tariffs for certain types of services, etc.) factors, which is also calculated by the RF Statistical Service (Rosstat).

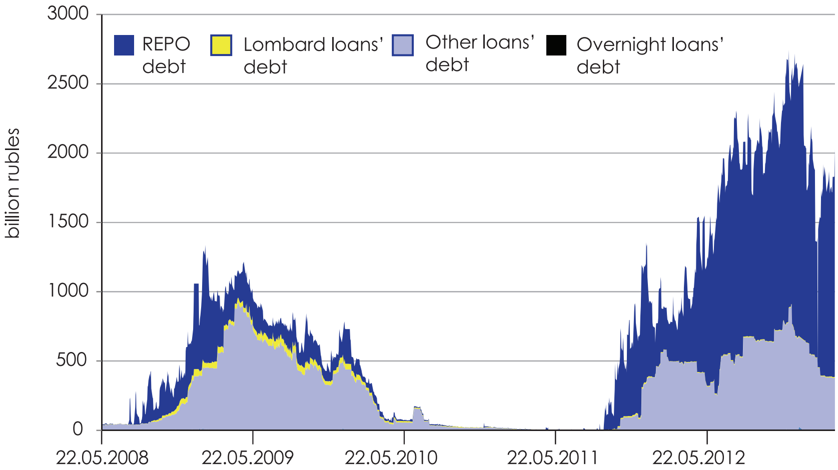


Fig. 2. Arrears of commercial banks with the Bank of Russia in 2008–2013

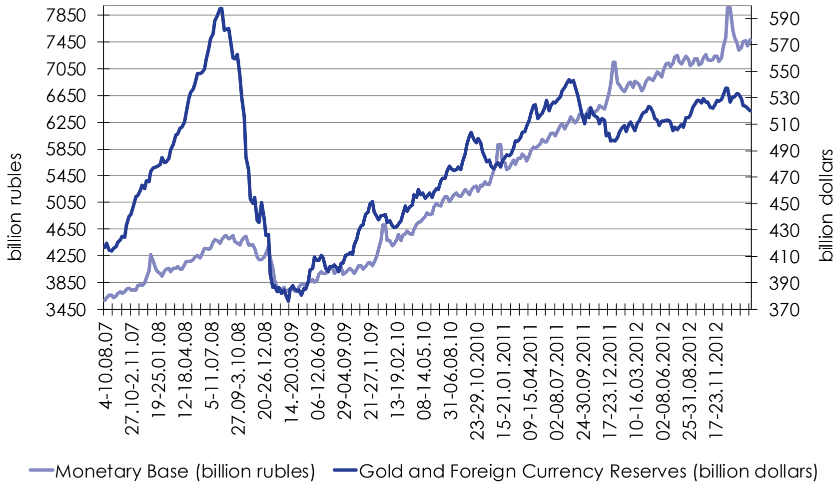
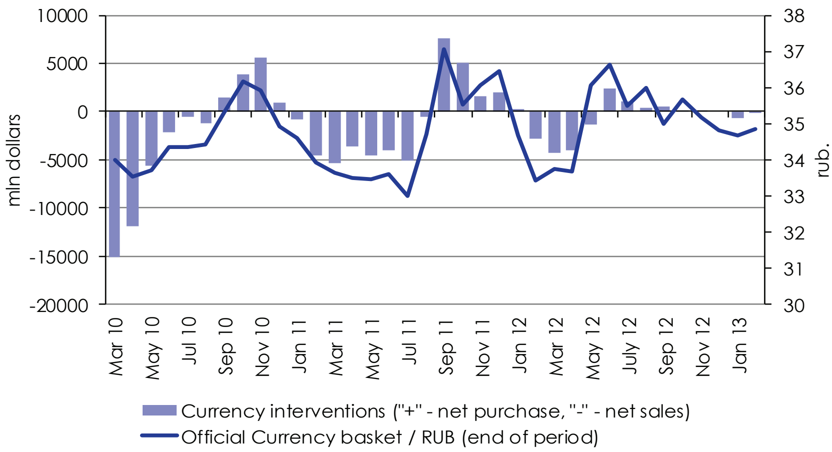


Fig. 3. Changes in the Monetary Base and in the Gold and Foreign Currency Reserves in 2007–2013



Source: RF Central Bank, author's estimates.

Fig. 4. Central Bank Currency Interventions and Dynamics of Ruble Exchange Rate in March 2010 – February 2013

can be restrained by the reduction in domestic demand and continued slowdown in monetary supply (M2 growth rate in annual terms has slowed down from 22.3% on February 1, 2012 to 13.2% as of February 1, 2013) .

In February 2013, after the January seasonal reduction of the monetary base in broad definition it has expanded. As of the end of the month, it has increased by 1% to Rb 8,506.7bn. (*Fig. 2*). All components of the monetary base in broad definition were growing: the amount of cash in circulation with regard to cash balances of credit institutions has increased by 0.8% to Rb 7,067.7bn, in correspondent accounts – by 0.4% to Rb 816.5bn, deposits of banks with the Central Bank – by 11.9% to Rb 175.8bn, mandatory reserves – by 1.3% to Rb 446.7bn.

Simultaneous extension in the volume of cash in circulation and mandatory reserves in February led to the expansion of the monetary base in narrow definition (cash plus mandatory reserves) by 0.8% to Rb 7,514.4bn (*Fig. 3*).

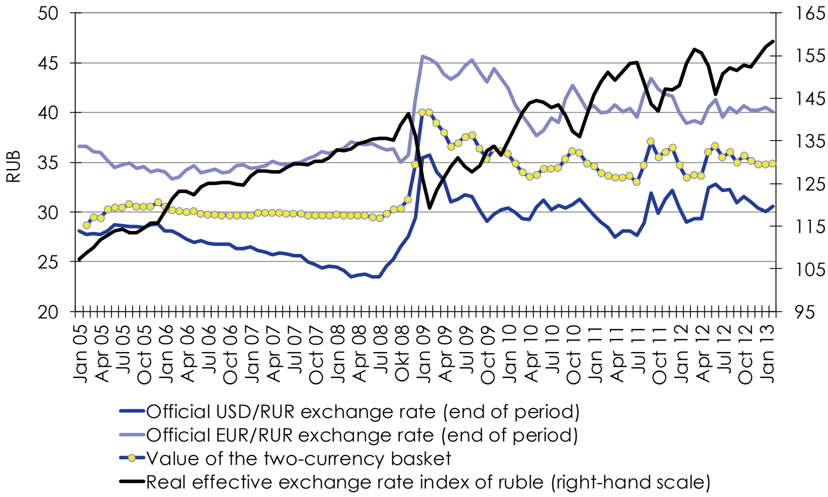
In February excessive reserves of commercial banks[1] stopped to decrease and their volume increased within the month by 2.3% to Rb 992.3bn. The situation in the monetary market at the beginning of the year remained relatively smooth. However, in March the situation in the monetary market started to deteriorate. This is evidenced, on the one hand, by the growth of the banks' indebtedness under repo agreements (in March it returned nearly Rb 1.5 trillion (*Fig. 2*), and on the other hand, by the increase in interbank rates above 6% (reference rate of Mosprime in March made 6.1–6.4%).

In mid-March 2013 the volume of international reserves of the Central Bank of Russia has

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.

reached the six-month minimum of $520bn, having decreased from the beginning of the year by 3.2%. Reduction of the Russian international reserves in dollar terms is due to the strengthening of the U.S. dollar against the Euro because of Cyprus problems in economy.

However, the volume of foreign exchange interventions of the RF Central Bank remained insignificant in February. Net purchases of foreign currency by the Bank of Russia amounted to $118.96m (which is 5 times lower than in January) and Euro 24.68m (two times lower than in January) (*Fig. 4*).



Source: RF Central Bank, author's estimates.

Fig. 5. Indicators of Ruble Exchange Rate in January 2005 – February 2013

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 about $6bn. Therefore, in the first two months of this year, it reached $14–16bn, which makes nearly half of the amount in the same period of 2012, when the outflow reached $ 27.8bn (*Fig.4*).

For the first three weeks of March the U.S. currency has grown by 1% to Rb 30.94. European currency, however, has decreased by 0.4% to Rb 39.88. As a result, the cost of the two-currency basket slightly increased, amounting to Rb 34.96 on March 21 (+0.3%).

The major global macroeconomic event in March was the situation in Cyprus, namely its negotiations with Russia and three international creditors – the European Commission, the ECB and the IMF – on a possibility of a loan under condition of a lumpsum tax on bank deposits. In view of Cyprus situation, Euro has declined in the world market: on March 19 it dropped to the indicator of Euro/$ 1.28. A decrease in the credit rating of Italy has also affected the Euro rate.

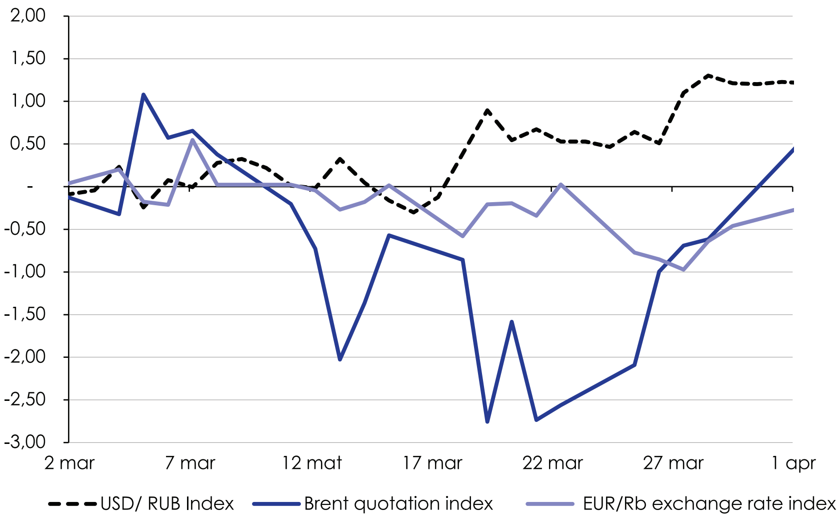
FINANCIAL MARKETS IN RUSSIA IN MARCH 2013

N.Andrievsky. E.Khudko

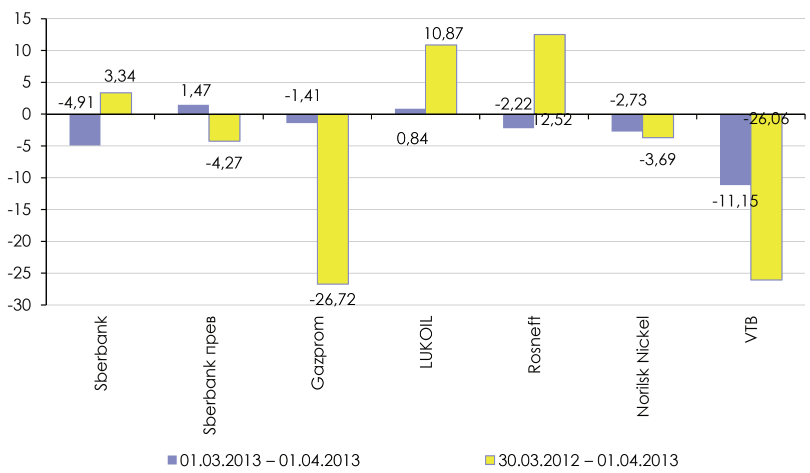
The stock market dynamics in March was affected by several developments, such as a decrease in oil futures prices and the crisis situation in Cyprus. From the beginning of the month the growth was replaced by a reverse trend. The dynamics of stock market indices has led to a decrease in capitalization by 4.66%. The situation in the Russian domestic corporate bond market remained stable. In general, in March the volume and market index were growing, and the activity of issuers and investors in the primary and secondary market segments remained at a high level. A negative factor was the increased weighted average yield and a record number of canceled bond issues because of non-placement of any security.

Russian stock market basic structural indices dynamics

In mid-March, the average futures price for Brent crude oil has decreased to $98.37/bbl, which is by 4.95% lower than the relevant indicator in February of the current year. Dollar exchange rate throughout the month remained negatively correlated with oil price index and remained at Rb/$ 30.61–31.10, and at the end of March has slightly grown (*Fig. 1*). It is also necessary to note the absence of intervention in the foreign exchange market by the Bank of Russia. The value of the European currency against the Russian ruble fluctuated around 1% of the level of Rb 40. Herewith, the depreciation of the Euro was provoked by the aggravation of the crisis situation in Cyprus, which provided a negative impact on the stock indices.



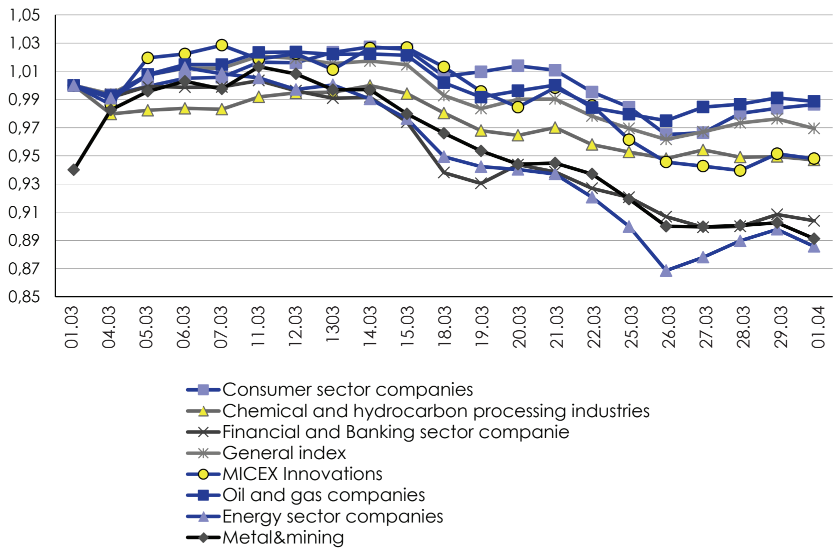
Source: RBC quote, authors' estimates.
Fig. 1. Dynamics of the dollar and Euro indices and Brent oil quotations



Source: RBC quote, authors' estimates.
Fig. 2. Growth rates of quotations of highly liquid securities at the MICEX in March of the current year (from March 1 to April 1) and from March 30, 2012 to April 1, 2013

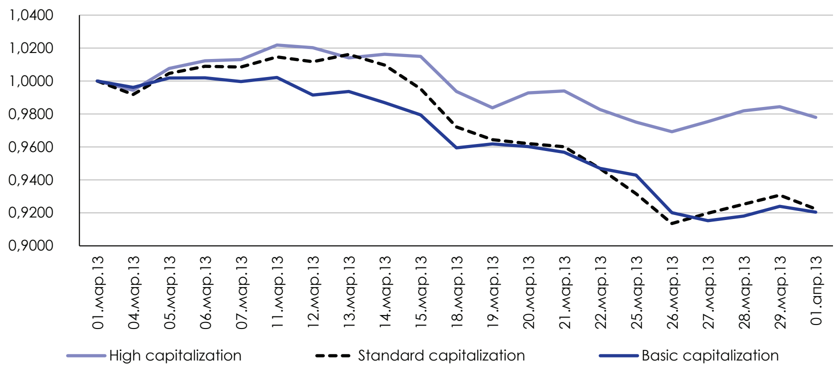
Since the beginning of the month, on March 12 the MICEX index has reached the maximum value of 2.07%. However, the last days of the month were characterized by the end of the «rally» in the banking sector and the power industry, as well as lower stock index of chemical and engineering sectors, and all these factors led to the negative dynamics (-3.06%), of the MICEX index in the monthly terms. In March, the leader of the rising cost among «blue chips» were the privileged shares of Sberbank (*Fig. 2*), at the end of the month the highest yield to investors on them was recorded at the level of 1.47%. On the contrary, the ordinary Sberbank and VTB shares became the "leaders" of the month in terms of downgrading, the decline rates were -4.91% and -11.15%, respectively. For investors who have invested in the "blue chips" a year ago, the most profitable were shares of Rosneft (+ 12.52% on the same date of the last year.). Positive annual yield was sustained by the shares of Sberbank and LUKOIL – the yield was 3.34% and 10.87%. In February, the annual yield on the shares of Sberbank was 7.67%, and 6.2% on those of LUKOIL. Note that during the month the quotations dynamics was extremely volatile. The leader of growth in the first decade of the month was the sector of innovations, which demonstrated a moderate decline in January-February. In addition, at the end of the month indices of power, financial and banking sectors continued their decline, as well as the index of the mining industry with a negative yield up to 13% in the last week of the month. Recall that in December and January there was noted an increase of 5-6% per month in these sectors, despite the fact that the MICEX index was growing at the rate of 3.2% per month.

The same situation as with the sectoral indices was observed in the index capitalization. Thus, the basic index capitalization[1] before March 11 was stable, but then it started to decrease and by March 18 has declined by 4%. This was mainly due to lower quotations of power sector companies' shares.



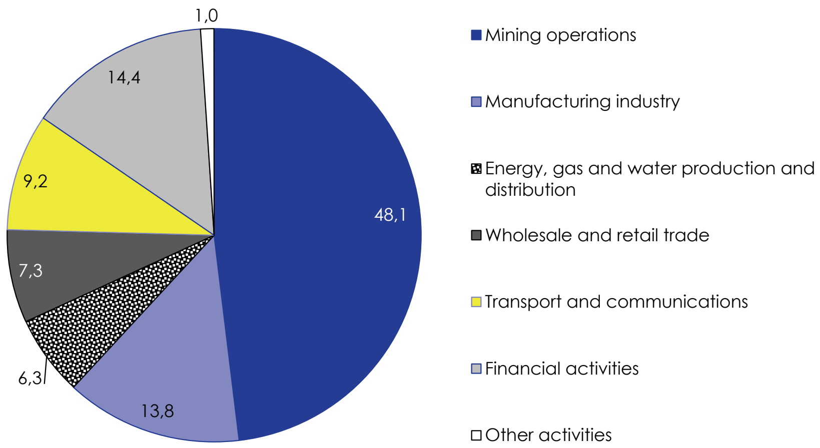
Source: RBC quote, author's estimates.

Fig. 3. MICEX stock indices growth rates



Source: RBC quote, authors' estimates.

Fig. 4. Dynamics of MICEX capitalization indices growth rates



Source: MICEX official web-site, authors' estimates.

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

1 Capitalization indices are price weighted by market capitalization indices of the most liquid stocks of the Russian issuers admitted to trading on ZAO "MICEX Stock Exchange", http://rts.micex.ru/s77

Standard capitalization index has grown by 1.6% as of March 13, but since it includes at most the companies of electric power and metallurgy industry producers, by the end of the month it declined to 92% of the March 1 indicator.

In March there were no offerings of any company, and capitalization of the stock exchange has decreased by 4.66% or Rb 1.17 trillion. Total capitalization of the Russian stock market on April 1, 2013 amounted to Rb 24.07 trillion or 40.48% of GDP. The volatile rate of the shares price led to the following changes in the structure of the stock market capitalization by businesses: in March, the capitalization share of the companies engaged in wholesale and retail trade has grown by 0.4%; the share of capitalization of transport and communication companies has increased by 1%. The growth was based on the reduction of the shares of the mining sector (-0.6%), production and distribution of power, gas and water (-0.5%), and the financial sector (-0.1%) in the stock market capitalization.

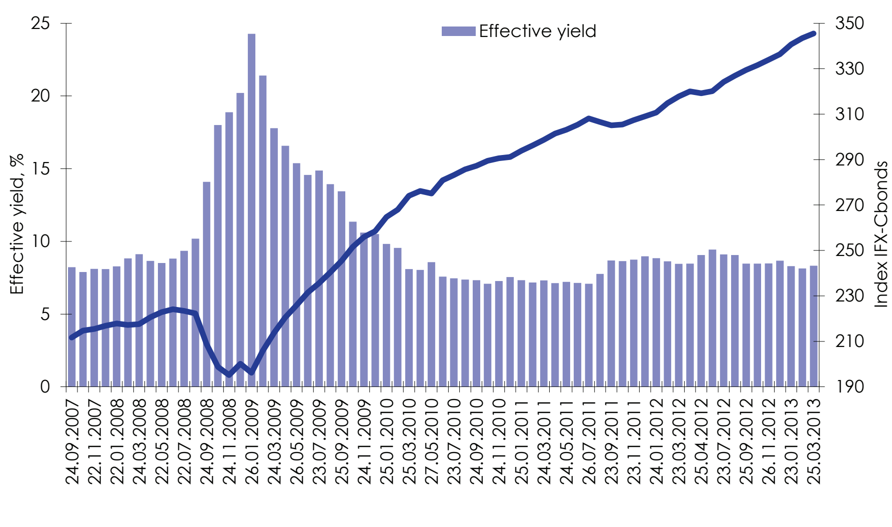
Corporate bonds market

In March the volume of domestic corporate bond market in Russia (at the nominal value of the securities in circulation, denominated in national currency) continued to grow at an accelerated rate and reached the level of Rb 4,408.3bn, which is by 3.9% more than its indicator at the end of February (in the last few months the growth rate averaged 1.5–2.0%)[1]. The growth of the market capacity once again was based on the number of bond loans (952 issues of corporate bonds registered in the national currency against 914 emissions at the end of the previous month), while the number of issuers represented in the debt segment for several months remained virtually unchanged (343 emitters against 338 emitters in February). There are also still several issues of bonds in U.S. dollars, and one issue in Japanese yen in circulation.

Investments in the secondary market for corporate bonds in March also significantly increased. Thus, from February 25 to March 25 the total volume of transactions on the Moscow stock exchange amounted to Rb 160.5bn (for comparison, in January-February the trade turnover was equal to about Rb 147bn), but the number of transactions for the period under review has slightly decreased to 26,100 while remaining at a high level (against 30,000 in the previous period)[2].

Index of the Russian corporate bond market IFX-Cbonds continued to grow, albeit at a lower rate than in the previous month. By the end of March this year its value has increased by 2.1 points (or by 0.6%) as compared with the value of the end of the previous month. The weighted average yield of corporate bonds ceased to decline and increased from 8.14% at the end of February to 8.32% by the end of March (*Fig. 6*)[3].

As was forecasted earlier, the change in the debt market trends occurred in the second half of March primarily because of the deteriorating economic situation in Eurozone and unfavorable oil prices dynamics in early March. The internal situation remained relatively stable, although it is worth noting the weakening of the ruble in late February – early March. Within the month there was observed negative statistics from the Eurozone – the



Source: Cbonds information agency data.

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

1 Rusbonds information agency data.
2 Finam investment company data.
3 Cbonds information agency materials.

growth of unemployment, the decline in GDP and finally, the crisis in Cyprus followed by the downgraded rating of the country. Another reminder of the debt crisis problem was the UK government bond rating downgrading[1].

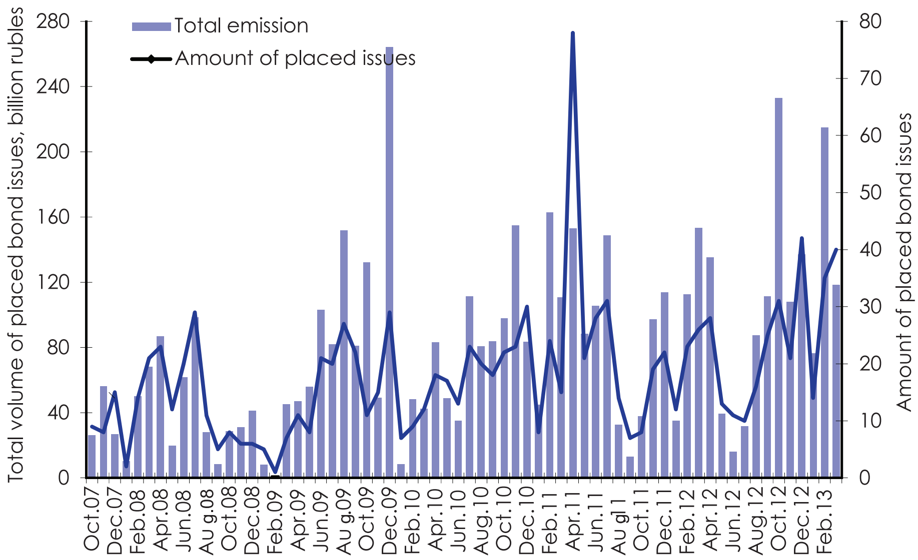
Index of portfolio duration corporate bonds after several months of reduction has sharply increased. At the end of March the portfolio duration made 720 days, which is by168 days longer than at the end of the previous month. Due to the increase in market interest rates a sharp increase in portfolio duration reflects the increase in circulation of bonds in the corporate segment.

The yield of the most liquid bond issues, despite a sharp increase in the average yield was volatile. Herewith, among the industrial and high-tech companies in March there were the most contradictory tendencies, although for most liquid issues of these segments in the previous month a growth was noted. There was instability in the dynamics of bonds yield of energy companies. The decline in the yield was observed in the financial sector, although on average it amounted to only 0.1–0.2 p.p.[2]

Activity of issuers in terms of registration of new issues of securities has increased as compared with the previous month. Thus, over the period from February 23 to March 25, fifteen issuers have registered 25 bond issues for the total value of Rb 118.8bn (for comparison, from January 24 to February 22, there were 24 series of bonds for the value of Rb 82.6bn). Major issues were registered by ZAO "VTB 24" (4 series of stock exchange bonds worth Rb 30bn), OAO "Mobile TeleSystems" (also 4 series of stock exchange bonds worth Rb 30bn), ZAO "ING Bank (Eurasia)" (3 series for the amount of Rb 15bn) [3]. About half of the registered issues were stock exchange bonds. There were also three debut issues among the registered bonds.

Activity of issuers in terms of the registration of bond issues in March of this year was significantly inferior to the IPO indicators, which is observed in the market very often. Thus, from February 23 to March 25, 26 issuers have placed 40 bond issues totaling to Rb 188.3bn (for comparison, from January 24 to February 22 there were placed 35 bond issues for the amount of Rb 215bn.) (*Fig. 7*). Stock exchange bonds have made a third of all offered issues. Among the outstanding issues there were several debut bonds, as well as long-term issues: "FOR A Mortgage Agency" managed to raise funds for 32 years, "Rosneft" and "MegaFon Finance" – for 10 years.

From February 23 to March 25, the FFMS of Russia has recognized as invalid 21 issues of bonds due to the failure to place any security, and their state registration was canceled[4]. This record number of canceled issues in the recent years (in recent months – an average of 10-15 issues) is related to changes in plans of the issuers in terms of raising funds from the debt market, as in this case the participants are the major market players (Vnesheconombank, Metalloinvest, VTB Capital Finance, "Razgulay" Group), and it is evident that the demand for such securities would be guaranteed.



Source: Rusbonds information agency data.

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

1 Cbonds information agency materials.
2 FInmarket information agency data.
3 Rusbonds information agency data.
4 Federal Service for Financial Markets data.

From February 23 to March 25, all 11 issuers have paid out 13 issues of bonds worth Rb 88bn in due time. Like in the previous two months, there were no announcements of technical default. In April 2013, there expected redemption of 16 corporate bond issues totaling to Rb 76.0bn[1].

The situation with the emitters' performance of their liabilities to the bond holders remains stable. In the period under review only one issuer announced the real default[2] on coupon yield payment (there were no defaults in the previous period). The face value of bonds redemption and the early redemption of the securities on offer, as well as in the previous months were performed by all issuers in due time, or at least within the framework of technical default[3].

1 Rusbonds data.
2 When the issuer is unable to pay return to securities holders even in a few days after the due date of liabilities.
3 Cbonds data.

REAL ECONOMY: TRENDS ANS FACTORS IN FEBRUARY 2013

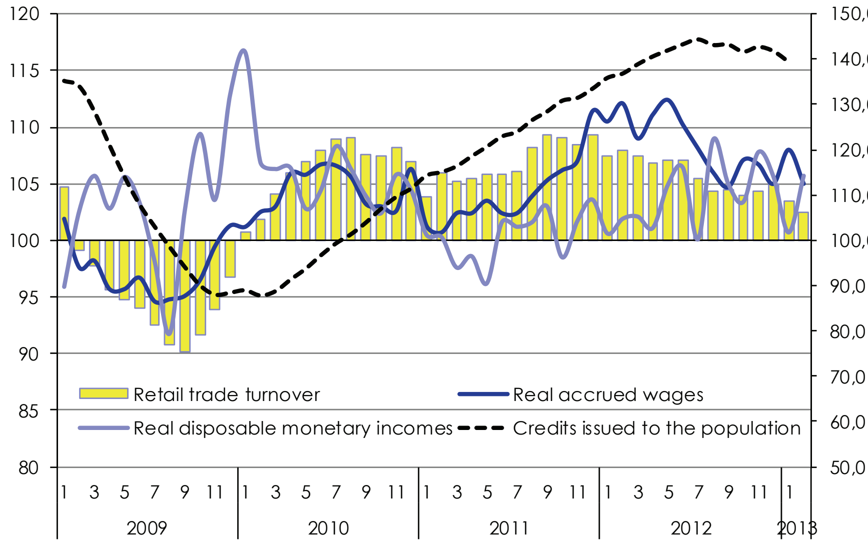
O.Izryadnova

At the beginning of 2013 the Russian economy was characterized by the slowdown of the internal and external demand. This year the domestic market was considerably influenced by the drop of production in February 2013 by 2.1% as compared with February 2012. The manufacturing industry index in annual terms made 99.9% versus February 2012 the deepest recession being observed in machine building complex. The total of the unemployed over January-February 2013 remained below the corresponding figure of the previous year, exceeding though the average figure of H2 2012.

This January-February the macroeconomic situation was defined by the influence of the factors formed in H4 2012 which contributed to the slowdown of economic activity. In February 2013 the situation at the internal market was determined by the simultaneous slowdown of the investment and consumer demand. In February 2013 the index of the investments in fixed assets in annual terms made 100.3% versus 116.3% a year ago. In annual terms in February 2013 the growth of the retail trade turnover made 102.5% versus 107.9% a year ago. The level of the inflation and the real incomes of the population influenced the consumer behavior. In February 2013 as compared with the corresponding period of the previous year the index of consumer prices went up to 107.3% versus 103.7% a year ago. The real wages versus January-February 2012 went up by 5.2% versus 11.2%. Despite the fact that real disposable monetary incomes went up by 2.5% (in annual terms) in February 2013 versus 1.3% a year ago, this was not reflected on the dynamics of the retail trade turnover. It is the slowdown of the credit issuing to the population was a more considerable factor in slackening of the consumer activity which has been observed since August 2012.

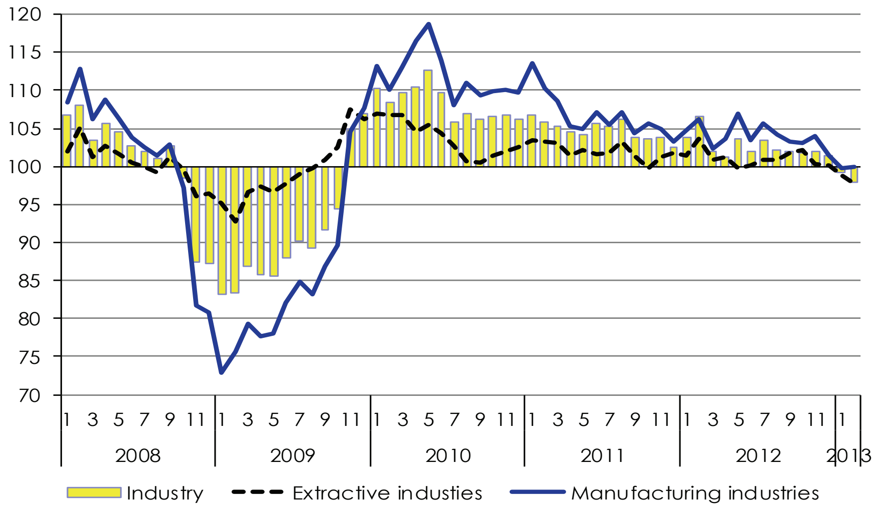
The drop in the industrial production had a considerable impact on the internal market at the beginning of the current year. The slowdown of the industrial growth has been observed since May 2010, when the growth rates were maximal versus the corresponding period of the previous year. In February and January-February 2013 the index of industrial growth made, correspondingly, 97.9% and 98.5% versus the corresponding periods of the previous year. In industry the simultaneous drop of both the processing industry and minerals extraction was observed. In February 2013 the index of processing industry in annual terms made 99.9% versus 106.3% a year ago, in minerals extraction – 97.8% versus 102.5%, in electricity, gas and water production – 90.0% versus 103.2%.

Low investment demand resulted in the decrease in the capital goods production. As compared with the corresponding period of the previous year, in February 2013 the production index in the complex of the machine-building production made 95.7%, in electric, electronic and optic equipment pro-



Source: Federal State Statistics Service.

Fig. 1 Dynamics of Retail Trade Turnover, Real Incomes of the Population and Credits Issued to the Population in 2009-2013, as Percentage to the Corresponding Periods of the Previous Year



Source: Federal State Statistics Service.

Fig. 2. Industrial Production Growth Rates by Types of Economic Activity in 2009–2013, as Percentage to the Corresponding Period of the Previous Year

duction – 92.6%. After a prolonged period of transportation vehicles and equipment production growth the drop in the production rates in this complex as compared with the previous year that was a specific feature of Q4 2012 and the first months of 2013. In February 2013 the production of transportation vehicles made 91.8% versus the figure of February 2012 and 100.2% of January-February 2012. At the same time the transportation vehicles production growth rates were considerably differentiated by separate types of production. In January-February the output of passenger cars made 109.1% versus the corresponding figure of 2012, of trucks – 85.8% and of rolling stock for railway transportation – 77.3%-84.0%.

The contraction of the production in machine building and construction complexes accounted for the contraction of the demand for construction materials. Metallurgy production and production of the finished metal goods reached 98.3% of the level of January-February 2012, construction materials production – 101.0%.

In the segment of the intermediate goods it is the slowdown of the oil products production down to 100.7% on February 2012 as compared with 107.4% a year ago that is notable. This is due to the contraction in the oil production by 2.2% and in oil supplies for processing – by 2.5% on February 2012. The indices for processing depth of the crude oil falling this February as compared with the corresponding period of the previous year, the production of car petrol remained at the level of February 2012.

In January-February 2013 and February 2013 the chemistry industry, production of rubber and plastic goods was characterized by the output growth as compared with the corresponding periods of the previous year. It should be noted that this year in the chemistry industry the positive dynamics is supported by the expansion of the output of the main chemical and agrochemical commodities; in February the pharmaceuticals production made 94% of the corresponding period of 2012.

In January-February 2013 the textile and sewing industry growth rates were observed to accelerate by 6.8%, leather, leather goods and footwear production rates – by 6.6%, household appliances production – by 14.2% as compared with the corresponding period of the previous year. In foodstuffs production the growth rates made 101.8% in January-February versus 106.8% a year ago.

Noting the significance of the internal market expansion as a dominating factor for the economy development, the peculiar features of the dynamics and structure of the import supplies as compared with domestic production should be considered. Starting with H2 2012 the trend for the anticipating growth of import as compared with export has recovered. In January-February 2013 the import has increased by 7.4% the export reducing by 6.9% as compared with the corresponding period of the previous year.

At the beginning of the current year the demand for the workforce continued to grow – the trend that was observed already in 2012. Due to the increase in the number of vacant positions declared to the employment agencies the tension coefficient at the labor market reduced to 88.0 per 100 of the declared vacant positions versus 117.4 a year ago. The number of the unemployed calculated according to the ILO methodology this February versus the corresponding period of the previous year reduced by 400,000 making 4.3mn (5.8% of the economically active population); 1.1 mn of the unemployed was registered at the employment agencies (1.4% of economically active population versus 1.8% a year ago). It should be noted that the increase in the number of the population employed in the economy, reduction of the general unemployment is occurring against the background of the economic development rates slowing down and wages rising significantly, which testifies that the efficiency of the labor force use is lowering and the production costs are increasing.

The balanced financial results of the organizations in January 2013 made 82.8% of the corresponding figure of the previous year (Rb 630.6 bn), in extractive industries – 124.7%, in manufacturing industries – 66.9%, in trade and transportation – 67%.

RUSSIAN INDUSTRY IN FEBRUARY 2013

S.Tsukhlo

The data of the Gaidar Institute's surveys[1] of industrial enterprises received in February presented a controversial pattern of the state of things in the industry: explicit growth in sales and output along with high redundancy of stocks of finished goods and a definite drop in optimism of forecasts of demand, output and employment. Investment plans finally overcome the traditional halt of the beginning of the year, but attained only the zero point which means that no growth in investments is planned by the industry so far.

The Industrial Optimism Index

The IEP Industrial Optimism Index which fell to the three-year minimum in January 2013 managed to recover in February from the dip of the beginning of the year (*Fig. 1*). The main factor behind improvement was the dynamics of demand which demonstrated – according to assessments of enterprises and the data cleared of the seasonal factor – growth in sales of industrial output.

THE IEP INDUSTRIAL OPTIMISM INDEX, 2005-2013 PERIOD

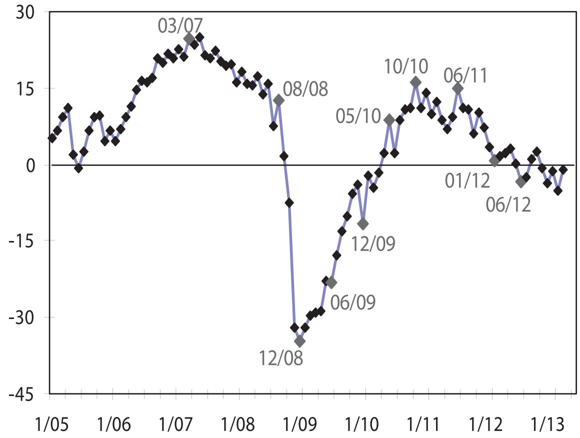


Fig. 1

Demand in Industrial Output

In February 2013, the dynamics of demand underwent principal changes. The initial rate of change in sales improved by 53 points by February and became substantially positive – the record one after the 2008-2009 crisis – after its value was a deeply negative one. Clearing of the seasonal factor showed a sudden change in the index, too (*Fig. 2*). If in the previous months (including January 2013) rates of decrease in sales were relatively stable and amounted on average to –10 points, in February the decline stopped and growth of +5 points was registered which value is the 18-month maximum of the index. The industry registered growth in demand in its output.

The above factor immediately improved satisfaction (to be precise, stopped it from getting worse) with sales which kept falling during the past nine months and amounted to 41% in January 2013. The latter value became the three-year minimum of the index. At present, the share of normal assessments of demand amounts to 44%. Small growth in satisfaction can sooner be explained by high redundancy of stocks of finished products.

CHANGES IN SOLVENT DEMAND CLEARED OF A SEASONAL FACTOR (BALANCE=%GROWTH-%DECREASE)

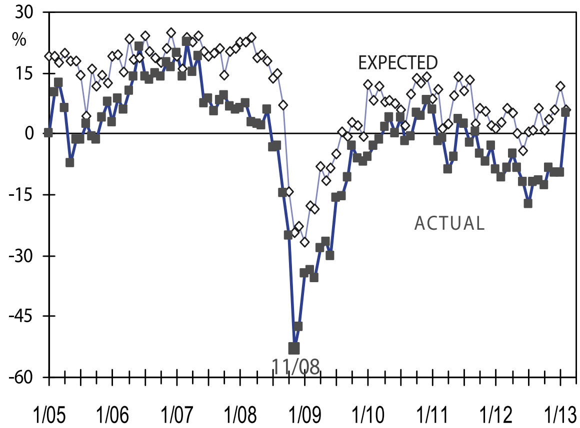


Fig.2

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%.

Stocks of Finished Products

In January, the stocks of finished products amounted to the record-high redundancy level and virtually did not change in February (*Fig. 3*). Early this year, 22% of enterprises regarded their warehouse stockpilings to be "above the norm" which value became the tree-year "anti-record" of the index. The above value could be even higher if not for the policy which was carried out deliberately by manufacturers. In the 4th quarter of 2012, 27% of enterprises reported that minimizing of stocks of finished products was one of the measures of their anti-crisis policy.

Output

In February, according to the data of surveys the output underwent dramatic positive changes. The initial balance (rate) of that index rose by 70 points and after a sudden fall in January demonstrated explicit growth in production. Clearing of the seasonal factor showed growth at the rate which had not been observed in the past year and a half (*Fig. 4*). However, such dynamics of output could contribute to preservation of the high level of redundancy of stocks of finished products.

On the contrary, the industry's industrial plans showed negative dynamics. With the seasonal factor cleared, they have been declining for two months running and lost 8 points in 2013 after attaining the 16-month maximum in December 2012. In the past few months, enterprises' plans coincided in 74–78% of cases with forecasts of output. That was a high level of harmonization between the expected changes in sales and output. The record-high values (83% and 88%) were received in November and December 2008.

Prices of Enterprises

In January and February 2013, growth rates of enterprises' selling prices were similar to the rates of their change in the first few months of the previous year: the highest growth in January and slowdown in February (*Fig. 5*). However, in 2013 the industry's pricing forecasts are more moderate. If in 2012 they attained the maximum of 24 points in January and February after 19 points in December, early in 2013 the maximum was equal to 19 points and did not differ from the result of December 2012.

The Actual Dynamics and Lay-Off Plans

In February, the rate of reduction of the number of personnel in the industry considerably slowed down as compared to January, but the negative values of the balance still point to the fact that lay-offs prevail over hiring of personnel (*Fig. 6*). Such a situation (where the number of lay-offs is higher than that of

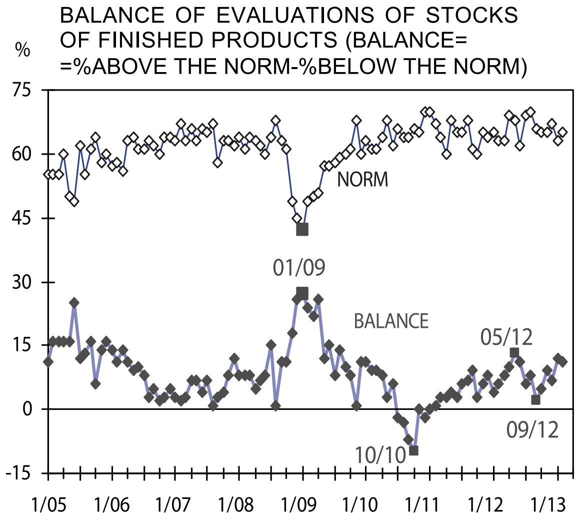


Fig.3

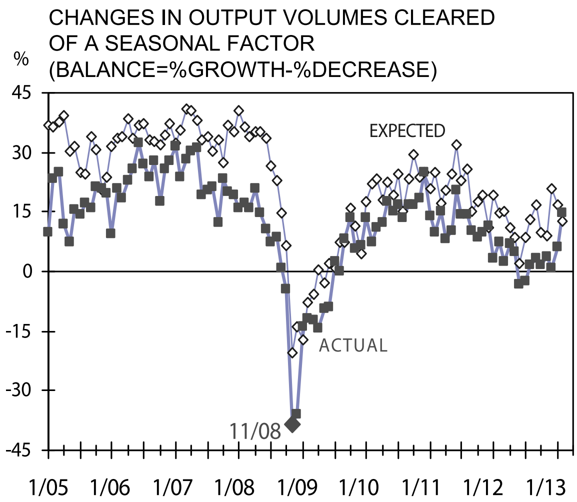


Fig.4

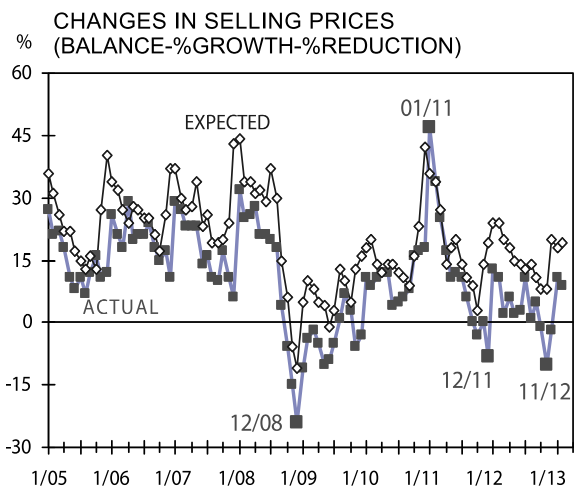


Fig.5

the recruited) has been registered in the Russian industry since the second half of 2012. It seems that the industry failed to overcome that negative trend in the beginning of 2013, though in the first few months of the previous post-crisis years hiring of workers did take place.

Forecasts of change in employment do not bring optimism, either. In January 2012, they managed to rise to the zero balance (that is, growth expectations were equal to the expectations of reduction of the number of the employed) though earlier the positive balance of January increased in February, too. This year, the February balance of expectations got worse by 5 points and demonstrated prevalence of forecasts of reduction of the employment in the industry.

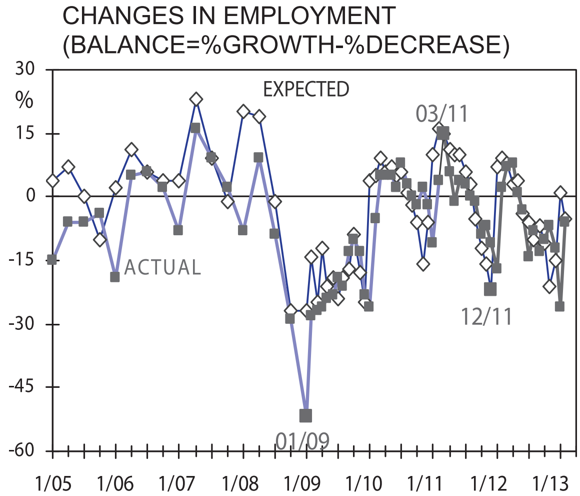


Fig.6

Enterprises' Investment Plans

In February, the industry's investment plans attained the zero point after staying in the negative zone during the past three months. So, the traditional investment break typical of the beginning of the year came to an end. However, its initial and ultimate levels do not appear optimistic. Only 4% of enterprises in the Russian industry assesses their capacities as insufficient ones due to the expected changes in demand which factor is definitely not an impetus for investments in expansion of capacities, while 66% of enterprises regard their current labor efficiency as normal which factor discourages investments in modernization of the existing capacities.

Lending to the Industry

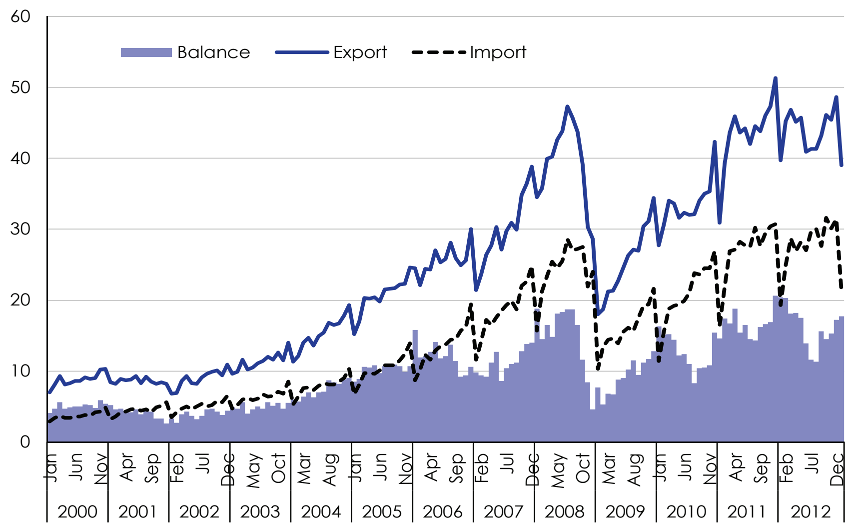
In February 2013, the terms of lending to the Russian industry did not undergo any changes. The aggregate availability of loans amounts to 69% and is equal to the average value of the index in the past 16 months. The average minimum rate offered by banks on ruble loans remained at the January level of 12.9%. The availability of loans is considered normal (according to evaluations of borrower-enterprises!) at the current rate of 12.3% per annum. Late in 2011, the level of such "normal" rate fell to 11%.

THE FOREIGN TRADE IN JANUARY 2013

N.Volovik, K.Kharina

In January 2013, the trend of reduction of Russian export continued. At the same time, Russia's accession to the WTO, liberalization of the Russian trade regime due to the above factor and appreciation of the ruble contributed to growth in purchases of goods from abroad.

In January 2013, Russia's foreign trade turnover calculated on the basis of the methods of the balance of payments grew by 2.1% to $60.3bn as compared to January 2012. Growth took place due to a 10.1% increase in the import to $21.3bn with a drop of 1.7% to $39bn in the volume of export supplies. As a result of the differently directed dynamics of the export and import, the surplus of the balance of trade decreased by 13% in January 2013 as compared to January 2012.



Source: The Central Bank of the Russian Federation

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

A decrease in the monetary volume of the export can be explained by reduction of export prices in a situation of stagnating physical volumes of the export. In January 2013, growth in the monetary volume of the Russian import took place due to the fact that both average import prices and physical volumes increased.

Table 1

INDICES OF THE PHYSICAL VOLUME AND FOREIGN TRADE PRICES IN JANUARY 2013 (JANUARY 2012 = 100)

	Physical volume index	Price index
Export	100.2	98.9
Import	101.6	101.4

Source: The Ministry of Economic Development of the Russian Federation.

Early in 2013, due to the fact that the prospects of recovery of the global economy improved and reports on reduction of oil production by OPEC states came in growth in prices was observed on the oil market. In January, the Organization of Petroleum Exporting Countries reduced oil production to the record-low volume within a year due to cuts in production in Iran and Saudi Arabia. Oil production fell to 30.53m barrel a day from 30.62m barrel a day in December.

In January 2013, the minimum value – to which the Brent oil price fell in January 2013 – amounted to $109.15 a barrel, while the maximum one, to $115.5 a barrel; the average price amounted to $112.97 a barrel which is 2.2% higher than the respective index of January 2012.

On February 9, 2013, the Brent oil price rose to the level of $118.92 a barrel which was the maximum price from the beginning of May 2012. However, late in February oil prices started to go down due to a new wave of concerns over the euro area's crisis caused by uncertainties over the situation in Cyprus. As a result, on March 21 the Brent oil price fell to the quarter's minimum level of $107.29 a barrel.

In January 2013, the monthly average Urals oil price amounted to $111.81 a barrel, having increased by 1.8% from January 2012.

According to the monitoring of oil prices in the period of from February 15 till March 14, 2013, the average Urals oil price amounted to $110.02 a barrel. So, in accordance with Resolution No. 261 of March 27, 2013 of the Government of the Russian Federation from April 1, 2013 the rate of export duty on the Urals oil will be reduced by 4.5% to amount to $401.5 a ton against $420.6 a ton in March 2013. From April 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, will amount to $265.0 a ton against $277.6 a ton a month earlier. In April, the duty on gasoline preserved at the level of 90% of the oil duty will go down by $17.2 a ton to amount to $361.4 a ton.

On the global market on non-ferrous metals, stability was observed. Though some improvement in the global economic situation supported prices on non-ferrous metals, there were no premises for tangible growth in prices, so far. In January 2013 as compared to the previous month, at the London Metal Exchange prices on copper and nickel increased by 1.1% and 0.3%, respectively, while prices on aluminum decreased by 2.3%. As compared to January 2012, prices on aluminum and nickel fell by 5.0% and 12%, respectively, while prices on copper rose by 0.08%.

Table 2

MONTHLY AVERAGE GLOBAL PRICES IN JANUARY OF THE RESPECTIVE YEAR

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Oil (Brent), USD/a barrel	28.1	31.3	42.9	62.5	54.8	92.4	45.7	76.2	96.29	111.16	112.97
Natural gas, USD/1m BTU	3.61	3.87	5.46	7.96	8.59	10.7	13.89	8.8	9.61	11.45	11.77
Gasoline, USD/a gallon	0,852	0,992	1,291	1,849	1.59	2.38	1,115	2.04	2.45	2.77	2.78
Copper, USD/a ton	1571.3	2441.9	3170	4734	5668.7	7061.6	3220.7	7385	9556	8040.5	8047.4
Aluminum, USD/a ton	1291.1	1608.2	1832	2378	2808.3	2445.5	1413.1	2234.5	2440	2144.2	2037.8
Nickel, USD/a ton	7643.9	14855	14505	14555	36795	27689	11307	18430	25646	19855	17473

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

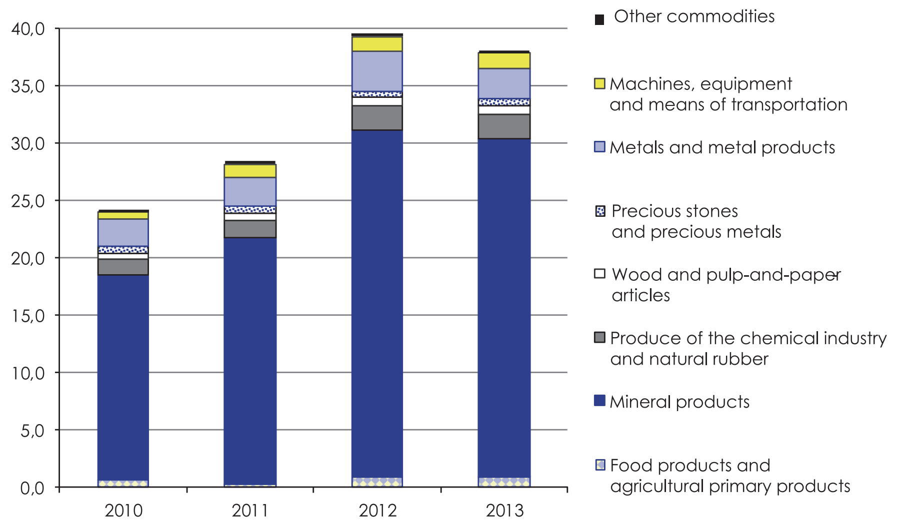
In January 2013, the index of global food prices calculated by FAO (the UN Food and Agricultural Organization) on the basis of the basket of food products which were sold on the world market did not change as compared to December 2012 and amounted to 210 points. It is to be noted that the FAO index was decreasing for the past three months.

In January, the FAO index of prices on grain amounted to 247 points which is almost 3 points lower as compared to the December value, vegetable oil and fats – 205 points (9 points higher than the December value), dairy products – 198.2 points (1.4 points higher than the December value) and meat – 176 points (1.8 points lower than the December value).

In January, the FAO index of prices on sugar fell by 6 points to 268 points as compared to December. A decrease in prices was caused both by the expected global overproduction of that commodity and high export potential during the sales season in the 2012-2013 period, particularly in Brazil and Thailand.

A decrease in the monetary volumes of the export in January 2013 as compared to January 2012 was observed virtually by all the commodity groups except for the produce of the chemical industry whose export increased by 3.2%. The most dramatic drop in export supplies took place in the following groups: metals and metal products (21.7%) and food products and agricultural primary products (12.7%).

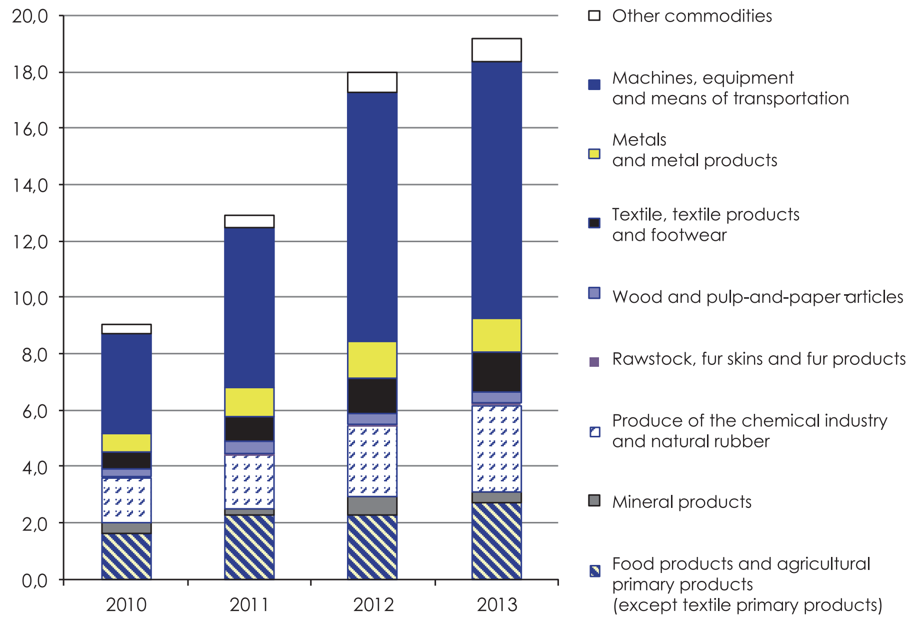
In January 2013, positive dynamics of the Russian import was ensured by growth in the import of food products (by 15.9% as compared to January 2012), the produce of the chemical industry (20.9%), textile goods (16.3%), machines and equipment (5.2%) with a decrease of 35.7% and 12.7% in import purchases of mineral products and metals and metal products, respectively.



Source: The Federal Customs Service.

Fig. 2. The Russian export pattern in January of the respective year (billion USD)

In the Russian foreign trade turnover, the share of far abroad countries continued to grow and amounted to 87% against 85.3% in January 2012. It is to be noted that EU countries accounted for over a half of Russia's entire volume of trade, that is, 50.4% (49.3%).



Source: The Federal Customs Service.

Fig. 3. The Russian import pattern in January of the respective year (billion USD)

In March 2013, the European Union published an annual report on the trade and investment barriers; according to the above report Russia was listed among the countries which impeded development of European companies by means of protectionist measures.

The European Union's main complaints to Russia concern the car utilization fee which is regarded as a new tax on foreign products. It was stated in the report that not all the technical regulations, sanitary and phytosanitary measures developed for the Customs Union of Russia, Belarus and Kazakhstan complied with the norms of the WTO which factor might seriously impede foreign companies' access to the markets of the member-states of the Customs Union.

The European Union called on Russia to speed up fulfillment of the terms of agreement on import of wood. According to the arrangements achieved during Russia's accession to the WTO, the export of pine and fir is currently carried out in accordance with tariff quotas. The EU may import from Russia 9.5m cubic meters of soft wood annually with the customs tariff of 13% and 3.6m cubic meters of pine wood with the customs tariff of 15%. Prior to Russian accession to the WTO, the rate of 25% was in effect. If pine and fir are imported beyond the established quotas, the export duty will amount to 80%, that is, it becomes so high that the import of soft wood and pine wood above the established quota becomes senseless from the economic point of view.

It was stated in the report that European countries were discontented with a delay in issuing of export licenses required for receipt of tariff quotas. The problem for the European side consists in the fact that in accordance with Resolution No. 779 of July 30, 2012 of the Government of the Russian Federation licenses for receipt of tariff quotas are issued in Russia to "participants in foreign economic activities who are lessees of timber lands, have the right to provision of pine and fir and have no leasehold-related debts or those who concluded purchase and sale agreements on delivery of pine and fir to such lessees". However, more often Russian companies do have such debts and for the above reason the Russian authorities exclude such debtors from the list of exporters though they are left with the right to carry out trade deals on the domestic market. Due to the above regulations, European companies cannot exercise their right of a choice of a partner on the Russian market.

INVESTMENTS IN FIXED ASSETS IN FEBRUARY 2013

O.Izryadnova

At the beginning of 2013 the economic activity continued to slow down – the process that started in 2012. In February 2013 the investments in fixed assets growth rates made only 100.3% in annual terms.

The Federal State Statistics Service published the updated data on the volumes of the investments in 2011-2012 and corrected indices for growth rates in comparable prices for 2001–2012. On the basis of the annual reports and final calculation of the investments volumes not observed by direct methods the growth rates of the physical volumes of the investments in fixed assets versus the previous year is estimated to be 86.5% in 2009 and 110.8% in 2011.

In concordance with the corrected indices the aftermaths of the deep investment crisis of 2009 were overcome in 2011 when the investments in fixed assets exceeded the pre-crisis level of 2008 by 1.9%.

In 2012 the investments in fixed assets growth rates being 106.6% versus the previous year and the GDP growth rates – 103.4%, the proportion of the investments in fixed assets in the GDP practically reached the level of 2007 making 20.2%.

The nature of the recovery from the crisis was considerably influenced by the policy of the institutional economic entities. It was only in 2011 that the growth rates of the investments in fixed assets of large and medium-sized enterprises exceeded the average throughout the economy. In 2012 investments in fixed assets at large and medium-sized enterprises made 96.4% of the pre-crisis level of 2008. In the segment of small enterprises the volume of investments in 2012 significantly exceeded the pre-crisis level.

Table 1

DYNAMICS OF PHYSICAL VOLUMES OF INVESTMENTS IN FIXED ASSETS, AS PERCENTAGE TO THE PREVIOUS YEAR

	2008	2009	2010	2011	2012
Investments in fixed assets (basing on the full circle of organizations including the correction for investments not observed by direct statistical methods)	109.9	86.6	106.0	110.8	106.6
Large and medium-sized organizations (investments in fixed assets not taking into account the subjects of small business and the volume of investments not observed by direct statistical methods)	105.6	82.5	105.1	110.4	100.7

Source: Federal State Statistics Service.

Slow rates of the internal market and incomes recovery accounted for the intensification of the orientation of the enterprises towards the use of their own funds to finance investment programs. As a result of 2012 the proportion of own funds in the structure of investments in fixed assets went up from 45.4% exceeding by 3.5% the figure of the previous year.

However, it is still the borrowed funds that are the main source of financing of investments in fixed assets in 2012, which proportion accounted for 54.6% of the total volume of the investments in the economy. The changes in the volume and proportion of the borrowed funds in the sources of financing were accompanied by the changes in their structure. In 2012 the proportion of the budget funds in the sources of financing made 17.9% versus 19.2% a year ago. The state demand for the production and services of the Russian enterprises was supported though the fulfillment of the planned investment projects in the sphere of transportation, telecommunication etc. fulfilled through FTP and FTIP. Budget funds used for the investments in fixed assets made 2.52% of the GDP in 2012 versus 2.80% in 2010 and 3.41% of the GDP in 2009, the funds from the federal budget making, correspondingly, 1.35% versus 1.43% and 1.78%.

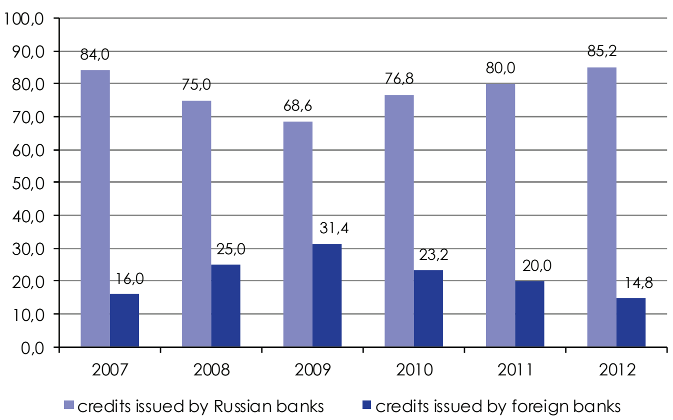
Starting with 2009 the proportion of banking and borrowed capital decreased in the structure of borrowed funds for financing of the investments in fixed assets. It should be noted at the same time that extremely slow recovery of the credit activity recovery of the Russian banks did not compensate the reduction of the volumes of foreign banks credits. In 2012 the proportion of the bank capital in the structure of the borrowed funds was maintained approximately at the level of 2011, the ratio of credits changing towards the increase of the Russian banks' share.

Table 2

STRUCTURE OF INVESTMENTS IN FIXED ASSETS AS BROKEN BY SOURCES OF FINANCING (NOT TAKING INTO ACCOUNT THE SMALL BUSINESS AND THE VOLUME OF INVESTMENTS NOT OBSERVED BY STATISTICS METHODS), AS PERCENTAGE TO THE TOTAL

	2007	2008	2009	2010	2011	2012
Investments in fixed assets – total	100	100	100	100	100	100
including by sources of financing:						
own funds	40.4	39.5	37.1	41.0	41.9	45.4
borrowed funds	59.6	60.5	62.9	59.0	58.1	54.6
of which:						
bank credits	10.4	11.8	10.3	9.0	8.6	7.9
of which foreign banks credits	1.7	3.0	3.2	2.3	1.8	1.2
borrowed funds of other organizations	7.1	6.2	7.4	6.1	5.8	5.4
budget funds	21.5	20.9	21.9	19.5	19.2	17.9
of which:						
out of federal budget	8.3	8.0	11.5	10.0	10.1	9.6
out of the budgets of regions of the Russian Federation	11.7	11.3	9.2	8.2	7.9	7.1
off-budget funds	0.4	0.3	0.3	0.2	0.2	0.2
other	20.1	21.2	23.0	24.1	24.3	23.1
including:						
funds of controlling entities	11.3	13.8	15.9	18.0	19.0	17.8
funds received from share participation in construction (from organizations and population)	3.7	3.5	2.6	1.9	2.0	2.0
including the funds of population	1.5	1.9	1.3	1.1	1.3	1.3
Foreign investments in the total amount of investments in fixed assets	5.4	4.3	4.3	3.8	3.1	2.7

Source: Federal State Statistics Service.

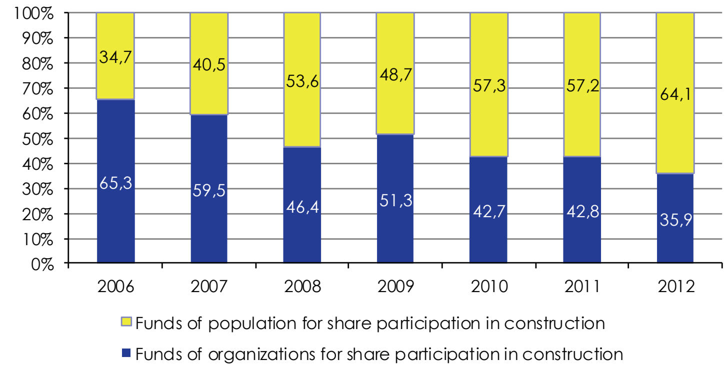


Source: Federal State Statistics Service.

Fig. 1. Structure of Banking Credits Issued for Financing of Investments in Fixed Assets in 2007–2012, as percentage to the total

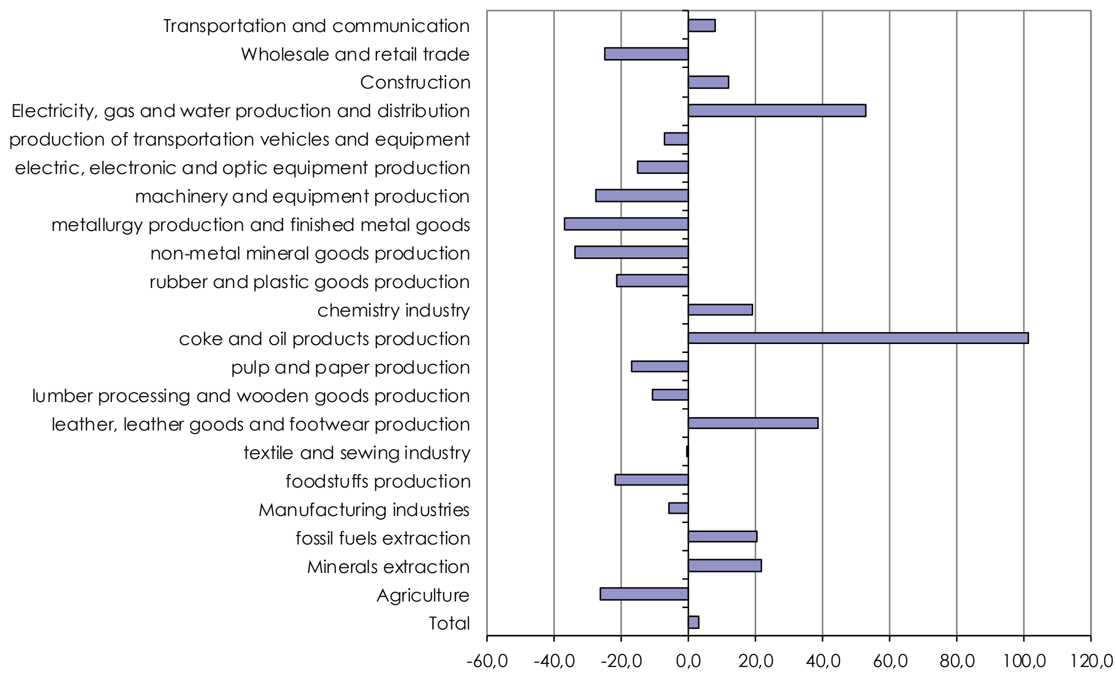
In 2012 the anticipating growth of the internal investments (106.6%) as compared with the direct foreign investments (101.4%) was maintained. As a result, the proportion of foreign investments in the total volume of investments in fixed assets in 2012 reduced to 2.7% versus 3.1% in 2011. Moderate participation of Russian and foreign bank and private capital in investments financing was accompanied by the withdrawal of the capital from the Russian economy. In 2012 the net outflow of the capital reached $56.8bn.

Analyzing the change in the structure of the financing of the investments in fixed assets it is to notice the specific features of housing construction. In 2011 the absolute decrease in the volume of investments directed to housing construction stopped, which determined the increase in the housing implementation by 4.7% in 2012 as compared with the previous year and by 1.7% as compared with the pre-crisis level of 2008. In 2012 as compared with the corresponding period of the previous year the expansion of the funds of population for share participation in construction made Rb 28.7bn. The upsurge of the investment activity of the population was supported by the growth of the demand for credits. The volumes of the housing credits issued in 2012 made Rb 1053.6bn versus Rb 746.0bn in 2011.

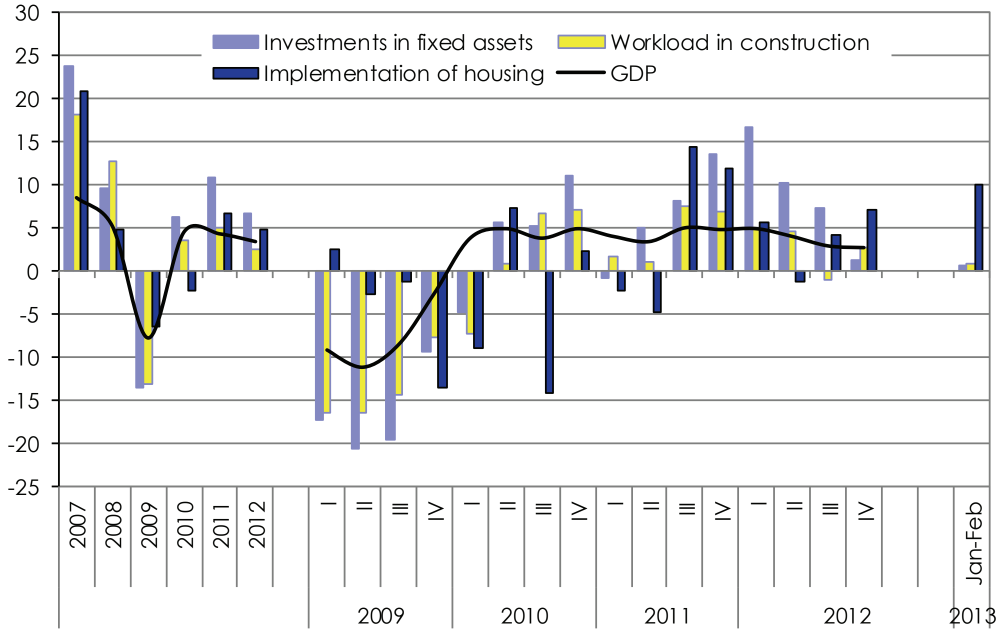


Source: Federal State Statistics Service.
Fig. 2. Structure of Funds Used for Financing of Share Participation in Construction in 2007–2012, as Percentage to the Total

In 2012 the proportion of the industry accounted for 45.3% of the investments in fixed assets throughout the economy versus 44.5% on average through 2010-2011. In 2012 investments in industry went up by 7.2% as compared with the previous year. At the same time a considerable differentiation of the investments growth rates by types of economic activities was observed. Surmounting the crisis was characterized both by high growth rates of fuel and energy and extractive complexes and the higher dynamics of the investments demand. As compared with 2008 in 2012 investments in fixed assets in extractive industries went up by 21.9%, in electricity, gas and water production and distribution – by 53.2%, in processing industries – made 94.5% of the pre-crisis level. In 2009-2012 it was the coke and oil products production, chemistry industry and leather, leather goods and footwear production that were characterized by the highest growth rates of investments in manufacturing industries. Investment activity in machinery and equipment production, transport vehicles production remained below the pre-crisis level of 2008. Among other types of economic activity the dynamic growth of the investments in pipeline transportation is of notice.



Source: Federal State Statistics Service.
Fig. 3. Investments in Fixed Assets Indices in 2012, as Percentage to 2008 (not taking into account the subjects of small business and the volume of investments not observed by the direct statistic methods)



Source: Federal State Statistics Service.

Fig. 4. Dynamics of Investments in Fixed Assets and GDP in 2007-2013, as Percentage to the Corresponding Period of the Previous Year

Maintenance of the existing structure of the investments in fixed assets by types of economic activities with high percentage of the fuel and energy complex and adjacent types of transportation seems to have exhausted itself. The acceleration of the investments growth, expansion of the investments proportion in the GDP, the GDP growth rates falling, was accompanied with the increase in capital intensity and was not supported by the growth of labor efficiency.

At the beginning of 2013 the trend towards the slowdown of the investments in fixed assets growth rates appearing in 2012 continued. In January-February 2013 the index of investments in fixed assets made 100.6% versus the corresponding period of the previous year.

FOREIGN INVESTMENTS IN RUSSIA IN 2012

I.Ilukhina

In 2012, a decline in foreign investors' activities in the Russian Federation was observed. The inflow of foreign investments as a share of GDP decreased by 2.3 p.p. as compared to 2011. Foreign investments concentrated mainly in the industry and the financial sector. In the industry, the leaders were manufacturing industries. As the geographic pattern of foreign investments is concerned, the largest volume of investments into the Russian Federation came from Switzerland, the Netherlands and Cyprus.

On the basis of the results of 2012, a decrease of 18.9% to $154.6bn in the aggregate foreign investments in the Russian economy as compared to 2011 was observed. The highest rates of decrease as compared to the same period of 2011 were registered in the 4th quarter of 2012 (-29.5%). The inflow of foreign investments as a share of GDP fell from 10.0% in 2011 to 7.7% in 2012.

Despite the decrease, in 2012 the volume foreign investments in the Russian economy was still above the pre-crisis level.

Table 1

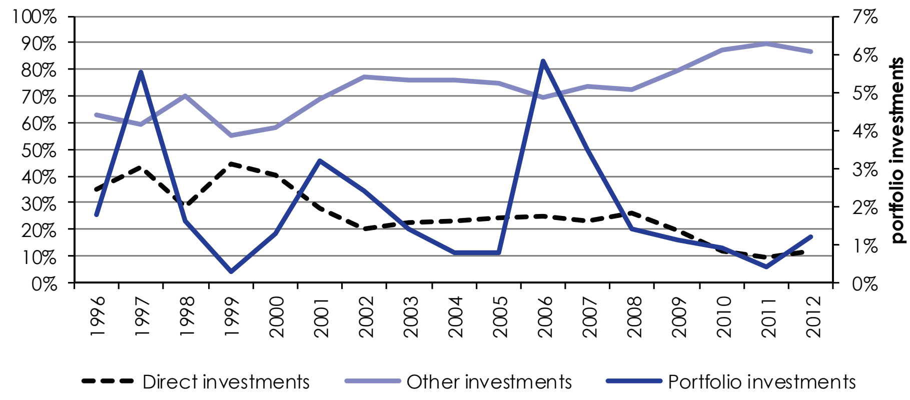
THE PATTERN OF FOREIGN INVESTMENTS IN THE RUSSIAN ECONOMY

	Million USD				as % of the previous year			
	Total	Direct	Portfolio	Other	Total	Direct	Portfolio	Other
2007	120 941	27 797	4 194	88 950	219,5	203,2	131,8	232,6
2008	103 769	27 027	1 415	75 327	85,8	97,2	33,7	84,7
2009	81 927	15 906	882	65 139	79,0	58,9	62,3	86,5
2010	114 746	13 810	1 076	99 860	140,1	86,8	121,9	153,3
2011	190 643	18 415	805	171 423	166,1	133,3	74,9	171,7
2012	154 570	18 666	1 816	134 088	81,1	101,4	в 2,3 раза	78,2

Source: Rosstat.

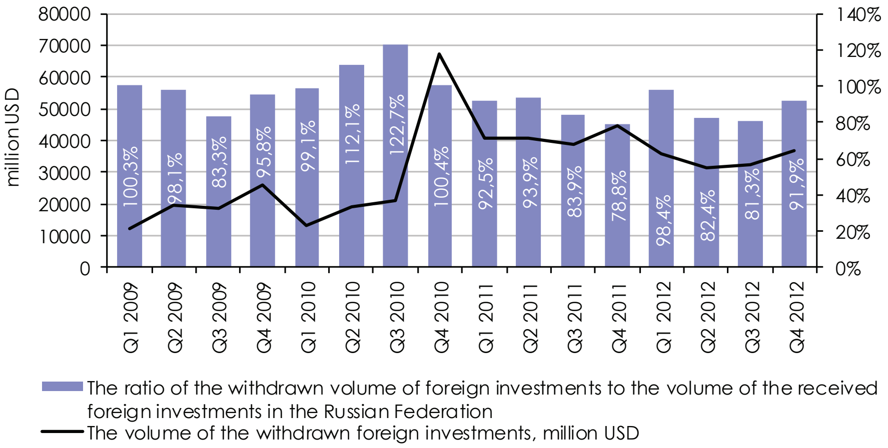
In the pattern of foreign investments in the Russian economy in 2012, the volume of "other investments" turned out to be lower than that of the previous year – a decrease of $37,3bn on a year-on-year basis. The share of trade credits in the structure of "other investments" rose from 16.2% in 2011 to 20.9% in 2012. As regards terms of borrowing, the share of loans with a maturity period of over six months rose to 39.5% as compared to 28.3% in 2011. The unit weight of loans extended for the period of less than six months dropped to 33.2% (53.4% in 2011).

In 2012, direct investments increased by $251m. Contributions to the charter capital and loans received from foreign co-owners of companies accounted for the main volume of direct foreign investments. On the basis of the results of 2012, contributions to the charter capital rose by 1.9% to $9.2bn. Loans received from foreign co-owners of companies increased



Source: Rosstat.

Fig. 1. The pattern of foreign investments in the Russian economy in the 1996–2012 period



Source: Rosstat.

Fig. 2. Withdrawal of foreign capital from the Russian economy in the 2009–2012 period

by 2.3% to $7.7bn. So, the unit weight of loans received from foreign co-owners of companies in the structure of direct foreign investments in the Russian Federation rose from 40.7% in 2011 to 41.1% in 2012, while the share of contributions to the charter capital remained at the level of the previous year and amounted to 49.5% (49.3% in 2011).

In 2012, in the segment of portfolio investments in the Russian economy growth of 130% as compared to 2011 was registered. It is to be noted that in the pattern of those investments growth of 170% in investments in shares and interests was registered and, as a result, their unit weight rose from 71.7% in 2011 to 84.4% in 2012.

On the basis of the results of 2012, $136.6bn worth of income of foreign investors and interest payments for utilization and repayment of loans was taken abroad which figure is 17.3% lower than the index of 2011. Generally, in 2012 88.3% of the volume of the received foreign investments was withdrawn (86.6% in 2011).

In 2012, priority areas to foreign investors were still the industry, financial sector and trade. The above sectors of the Russian economy accounted for 89.3% of the aggregate volume of the received foreign investments in the Russian Federation (90.5% in 2011). Investors' interest in industry, trade and real-estate operations rose with the continued decrease in investments in transport and communications and reduction of investments in the financial sector. Distribution of foreign investments by the main sectors of the Russian economy is shown in *Table 2*.

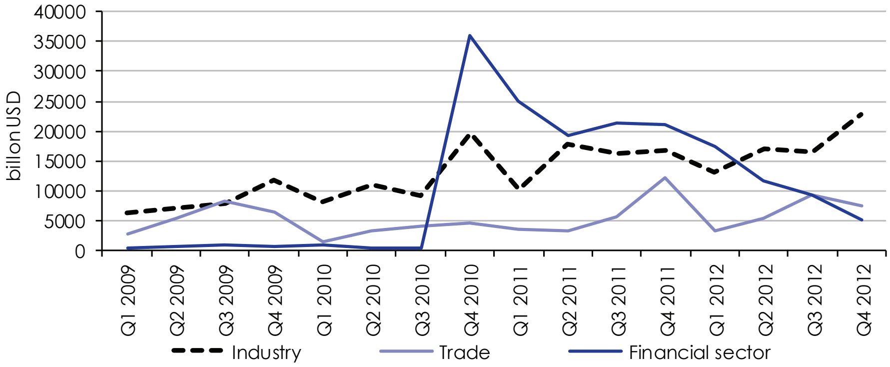
Table 2

SECTORIAL STRUCTURE OF FOREIGN INVESTMENTS IN THE RUSSIAN ECONOMY IN THE 2010–2012 PERIOD

	Million USD			Change, % of the previous year			% of the total		
	2010	2011	2012	2010	2011	2012	2010	2011	2012
Industry	47 558	61 145	69 201	144.2	128.6	113.2	41.4	32.1	44.8%
Transport and communications	6 576	5 943	4 622	47.8	90.4	77.8	5.7	3.1	3.0%
Wholesale and retail trade; repair of motor vehicles, motorcycles, household appliances and personal demand items	13 334	24 456	25 379	58.5	183.4	103.8	11.6	12.8	16.4%
Transactions with real estate, leasehold and rendering of services	7 341	9 237	10 035	92.5	125.8	108.6	6.4	4.8	6.5%
Financial activities	37 913	86 885	43 395	1426.3	229.2	49.9	33.0	45.6	28.1%
Other sectors	2 024	2 977	1 938	111.8	148.1	65.1	1.8	1.6	1.2%

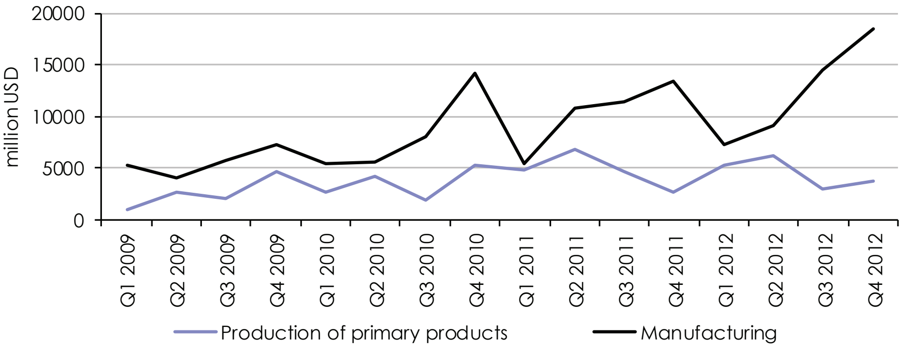
Source: Rosstat.

The analysis of the quarterly dynamics of foreign investments in industry in 2012 as compared to the same period of 2011 pointed to tangible growth in foreign investments during the 1st quarter and the 2nd quarter of 2012 where the volumes exceeded by 27.4% and 35.6%, respectively, the indices of the respective quarters of 2011.



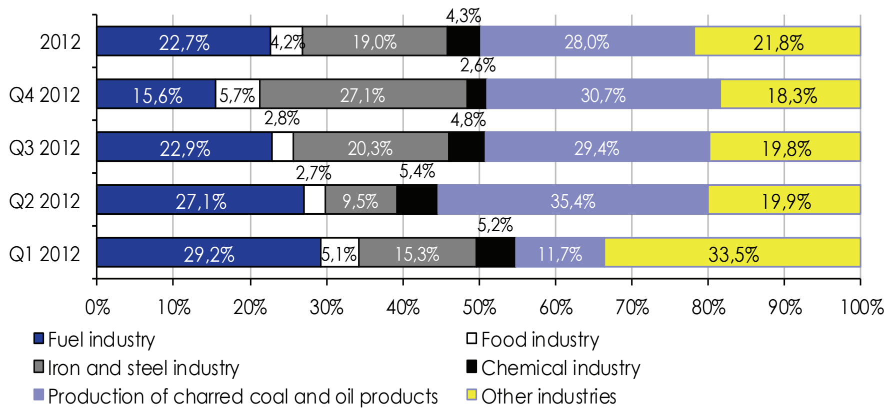
Source: Rosstat.

Fig. 3. Foreign investments in the industry, trade and financial sector in the 2009–2012 period



Source: Rosstat.

Fig. 4. Foreign investments in the primary sector and manufacturing in the 2009–2012 period



Source: Rosstat.

Fig. 5. Sectorial pattern of foreign investments in the industry in 2012

In 2012, foreign investments in trade in the 2nd quarter and the 3rd quarter kept growing having exceeded the respective indices of 2011 by 66.1% and 67.7%. In the 1st quarter and the 4th quarter of 2012, a decrease of 6.7% and 39.6%, respectively, was registered on the similar periods of 2011.

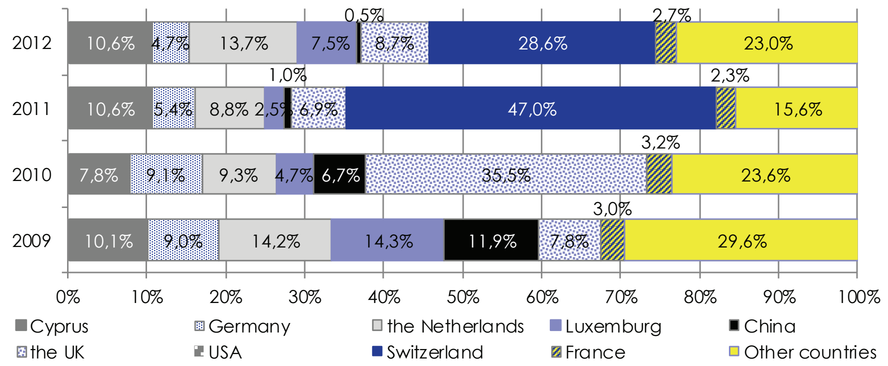
In 2012, investments in the financial sector kept steadily declining. If in the 1st quarter of 2012 the reduction amounted to 30.8% as compared to the 1st quarter of 2011, in the 4th quarter 2012 investments in the financial sector were 4.2 times lower than the index of the 4th quarter of 2011.

In 2012, in the pattern of foreign investments in the industry the leaders of growth were manufacturing industries. As compared to 2011, investments in manufacturing industries rose by 19.8% (in 2011 growth amounted to 23.9%). Foreign investments in production of primary products decreased by 2.6% (in 2011 growth amounted to 34.5%).

Late in 2012, foreign investments in production of primary products and manufacturing industries demonstrated tangible growth as compared to the respective indices of the end of 2011.

In the manufacturing sector, investments in production of charred coal and oil products increased by 22.4%, while those in the iron and steel industry, by 43.3% amounting to \$19.4bn and \$13.1bn, respectively (in 2011 investments in production of charred coal and oil products rose by 19.4%, while those in the iron and steel industry, by 21.1%). In 2012, foreign investments in the chemical industry and food industry decreased by 31.8% and 6.6% to \$3.0bn and \$2.9bn, respectively (in 2011 growth of 100% and 10.6% in investments in the above industries was registered, respectively).

In the 4th quarter of 2012, investments in the fuel industry and iron and steel industry rose by 80% and 100%, respectively, as compared to the same period of 2011, while investments in the



Source: Rosstat. The data on the investments from the USA in the 2009–2012 period, China – in 2008 and Switzerland – in the 2008–2010 period – is included in other investments.

Fig. 6. The geographic pattern of foreign investments in the Russian economy in the 2009–2012 period

chemical industry decreased by 19.2%. Such differences were reflected in a change in a quarterly sectorial pattern of foreign investments in industry within a year.

In 2012, portfolio and other investments in industry rose by 120% and 14.3%, respectively, as compared to 2011 (in 2011 portfolio investments in the industry increased by 39.9%, while other investments, by 26.4%). Direct investments in the industry did not virtually change; their growth rates amounted to 1.0% (in 2011 they were estimated at 40.6%). So, the unit weight of other investments in the industry rose from 83.5% in 2011 to 84.3% in 2012 , while that of portfolio investments increased from 0.9% to 1.8%; the share of direct investments in the above period decreased from 15.7% to 14.0%.

In the geographic pattern of foreign investments in the Russian Federation in 2012, there was a change in the order of countries in the list of large capital exporter to the Russian Federation. In 2012, the largest investment volumes of over $44bn and $21.1bn were received from Switzerland and the Netherlands, respectively. On the basis of the results of 2012, the top three leaders – providers of capital to the Russian Federation – included Cyprus whose investments in the Russian economy amounted to $16.5bn.

In 2012, the largest growth of 150% in investments from Luxemburg was registered as compared to 2011; investments from the Netherlands and the UK increased by 25.6% and 2.9%, respectively. Investments from China fell by 60.8%, while those from Cyprus, Germany and France decreased by 18.8%, 29.8% and 3.7%, respectively. Differences in the dynamics of investments resulted in a change in the geographic pattern of foreign investments in the Russian economy.

The geographic pattern of foreign investments by sectors which accounted for 97.6% of the aggregate foreign investments made in 2012 is shown in *Fig 7.*

As of the end of 2012, the accumulated foreign capital – without taking into account monetary authorities, commercial banks and savings banks – including the US dollar equivalent of ruble investments amounted to $362.4bn which is 4.4% higher than the respective index as of the beginning of the year. From the beginning of the year, direct accumulated investments decreased by 2.3%, while other investments increased by 9.8%.

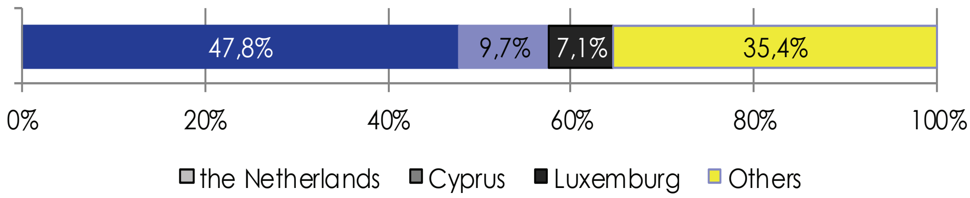
On the basis of the results of 2012, in the total volume of the accumulated foreign investments the leaders were Cyprus, the Netherlands, Luxemburg, China and the UK whose share amounted to 65.0% (63.5% in 2011). At the same time, the share of the top five investor countries in the segment of other investments is estimated at 69.1% (63.2% in 2011) while in the structure of direct investments and portfolio investments, at 58.9% and 59.5%, respectively (66.9% and 22.1% in 2011).

In the pattern of foreign investments accumulated as of the end of 2012, other investments prevail; they accounted for 60.1% (57.1% in 2011). A similar index for direct foreign investments amounted to 37.5% (40.1% in 2011).

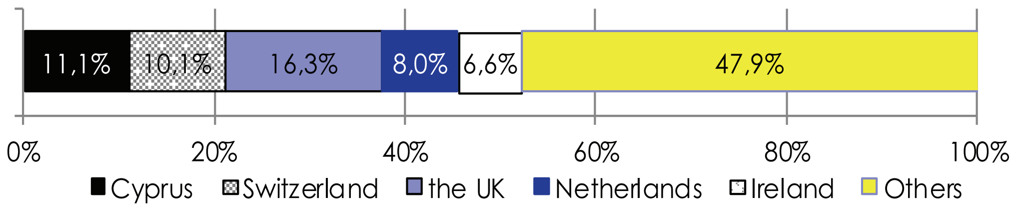
According to the World Investment Report 2012 of the UN Conference on Trade and Development (UNCTAD) published in July 2012, in 2011 the Russian Federation was rated the 8th in the world as regards the volume of the attracted direct foreign investments (according to the specified data in 2010 it was rated the 8th, while in the 2008-2009 period, the 6th). According to the data of the Report, in 2011 Russia accounted for 3.5% of the global direct foreign investments (3.3% in 2010, 3.0% in 2009 and 4.2% in 2008) and 6.8% of direct foreign investments in developing countries and countries with a transition economy (6.3% in 2010, 6.3% in 2009 and 9.7% in 2008).

Sector — **Geographic pattern of foreign investments in sector**

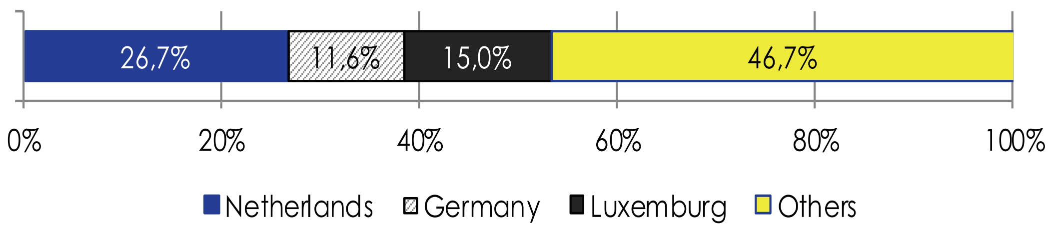
Production of primary products



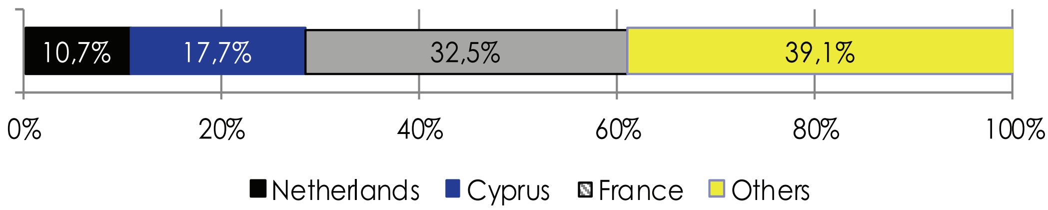
Manufacturing



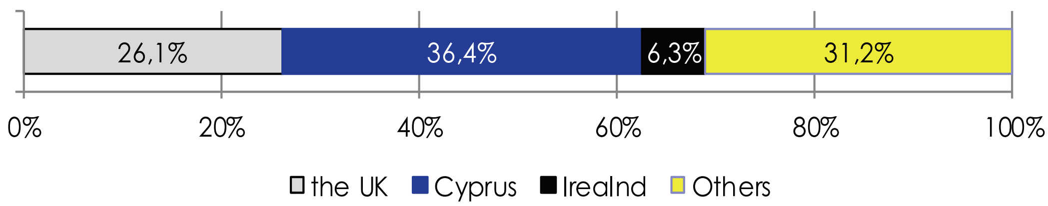
Trade



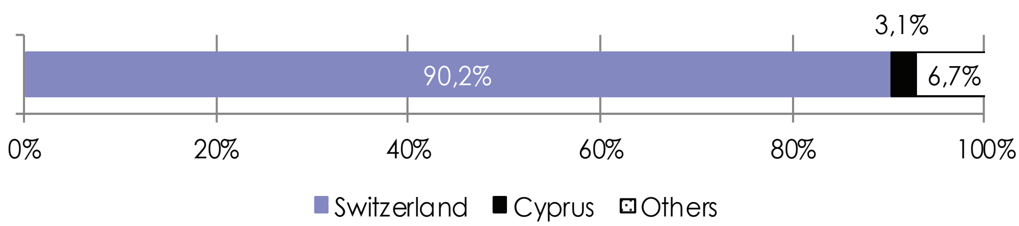
Transport and Communications



Real estate transactions



Financial sector



Source: Rosstat.

Fig. 7. The geographic pattern of foreign investments by sectors of the Russian economy in 2012

THE STATE BUDGET IN FEBRUARY 2013

T.Tishchenko

According to the data released by the RF Federal Treasury, over the period of January-February 2013 Russia's federal budget revenues amounted to Rb 1,980.0bn (a decline of 2.3 p.p. of GDP on the same period of 2012). Over that period, the federal budget's revenues from VAT, tax on mineral resources extraction and foreign trade, expressed as percentages of GDP, all dropped on the same period of last year. Over the period of January-February 2013, federal budget expenditures amounted to Rb 2,239.5bn, which is by 0.3 p.p. of GDP less than in the same period of last year; deficit amounted to 2.7% GDP, which is by 0.3 p.p. of GDP higher than its level in the same period of 2012.

Analysis of the Main Parameters of Federal Budget Execution in January-February 2013

As reported by the RF Ministry of Finance, federal budget revenues registered over the period of January-February 2013 amounted to Rb 1,980.0bn, which means that they dropped by 2.3 p.p. of GDP on the corresponding period of 2012; the decline in oil and gas revenues also amounted to 2.3 p.p. of GDP (*Table 1*). The shrinkage of federal budget revenues as a share of GDP as seen by the results of January-February 2013 against the same period of last year was noted with regard to all three main revenue sources – VAT, tax on mineral resources extraction, and foreign trade. The decline in federal budget revenues, which began as early as late Q3 2012 and then intensified over the first two months of 2013, can be seen as an alarming phenomenon – considering the necessity to maintain budget deficit at the level of 0.8% of GDP, as stipulated in the law on the RF federal budget for 2013. According to the RF Ministry of Finance's estimates, the loss of federal budget revenue in 2013 will amount to between Rb 80bn and Rb 130bn[1] , depending on the volume of imports, the average weighted rate of import duty and the ruble's exchange rate.

Additional risks for maintaining the planned level of deficit are associated with the fact that the main parameters of the 2013 federal budget are set in the framework of tough requirements to the level of budget expenditure and a ban on assuming any new spending obligations if they are not backed by appropriate additional revenues. Meanwhile, an additional sum of approximately Rb 40bn will be needed to execute the measures designed to protect orphaned children in accordance with the RF President's Edict. Besides, there exist some other areas where increased expenditures will have to be allocated, but it is still unclear from which sources of additional revenues these allocations will be covered.

Nevertheless, so far the RF Ministry of Finance is not intending to make any alterations to the main parameters of the 2013 federal budget, and it will attempt to lower the risks that threaten the budgetary system's sustainability by means of optimizing expenditure within their approved limits.

Budget expenditure over January-February 2013 also declined to 23.6% of GDP (Rb 2239.5bn), which is by 0.3 p.p. of GDP below the level recorded over the same period of last year.

The federal budget for the first two months of 2013 was executed with a deficit of 2.70% of GDP, which is by 0.3 p.p. of GDP above the index for the same period of 2012. The non-oil and gas deficit dropped by 2.1 p.p. of GDP and amounted to 13.0% of GDP.

The shrinkage of the revenue receipts in the federal budget over January-February 2013 was observed in the main with regard to revenues from foreign trade – by 1.1 p.p. of GDP on the first two months of last year (*Table* 2). When expressed as a share of GDP, the revenue receipts in the first two months of 2013 generated by tax on mineral resources extraction dropped by 0.4 p.p. of GDP, those generated by VAT on domestic goods and imports – by 0.3 p.p. of GDP each, and those generated by excises on imports – by 0.01 p.p. of GDP on the same period of 2012. Revenue growth

1 http://www1.minfin.ru/ru/press/speech/index.php?id4=18858

over the period of January-February 2013 was demonstrated by the receipts of excises on domestic goods – by 0.2 p.p. of GDP on the first two months of 2012. The receipts of tax profits in January-February 2013 remained at the same level as in the corresponding period of last year – 0.3% of GDP.

Table 1

MAIN PARAMETERS OF THE RF FEDERAL BUDGET IN JANUARY-FEBRUARY 2012-2013

	January-February 2013		January-February 2012		Deviation, pp. of GDP
	bn Rb	% of GDP	bn Rb	% of GDP	
Revenue, including:	1, 980.0	20.9	1, 866.0	23.2	-2.3
Oil and gas revenues	976.7	10.3	1, 015.8	12.6	-2.3
Expenditure, including:	2, 239.5	23.6	2, 065.6	25.6	-2.0
interest	66.8	0.7	62.6	0.7	0.0
non-interest	2, 172.7	22.9	2, 003.0	24.9	-2.0
Federal budget surplus (deficit)	-259.5	-2.7	-199.6	-2.4	-0.3
Non-oil and gas deficit	1, 236.2	-13.0	-1, 215.4	-15.1	+2.1
GDP estimate	9,466		8,053		

Source: RF Ministry of Finance; RF Federal Treasury.

Table 2

THE DYNAMICS OF THE RECEIPTS OF THE MAIN TAXES IN THE FEDERAL BUDGET IN JANUARY-FEBRUARY 2012-2013, IN ABSOLUTE TERMS AND AS P.P. OF GDP

	January-February 2013		January-February 2012		Deviation, pp. of GDP
	bn Rb	% of GDP	bn Rb	% of GDP	
1. Tax receipts, including:					
Tax on profits of organizations	31.9	0.3	23.7	0.3	0.0
VAT on goods sold in RF territory	250.0	2.6	241.0	2.9	-0.3
VAT on goods imported into RF territory	223.3	2.3	212.3	2.6	-0.3
Excises on goods produced in RF territory	75.2	0.8	50.0	0.6	0.2
Excises on goods imported into RF territory	7.0	0.07	7.1	0.08	-0.01
Tax on mineral resources extraction	422.9	4.5	399.0	4.9	-0.4
2. Revenues from foreign trade	720.6	7.6	704.6	8.7	-1.1

Source: RF Federal Treasury.

In the first two months of 2013, federal budget expenditure indices as a percentage of GDP to be spent under the 'Nationwide Issues' and 'National Defense' budget sections rose on the same period of last year by 0.4 p.p. of GDP each; under the 'National Economy' budget section – by 0.2 p.p. of GDP; and under the 'Physical Culture and Sports' budget section – by 0.01 p.p. of GDP (*Table* 3). At the same time, as far as the majority of budget sections are concerned, over the period of January-February 2013 this index significantly declined on the same period of 2012, including by 0.1 p.p. of GDP for the 'National Security and Law-enforcement Activity' budget section, by 0.01 p.p. of GDP for the 'Housing and Utilities Sector' budget section, by 0.2 p.p. of GDP for the 'Educ tion' budget section, by 0.1 p.p. of GDP for the 'Culture, Cinematography' budget section, by 0.9 p.p. of GDP for the 'Health Care' budget section; by 2.4 p.p. of GDP for the 'Social Policy' budget section, and by 0.1 p.p. of GDP for the Inter-budgetary Transfers' budget section. The percentage share of GDP indices for the other federal budget expenditure items remained at the same level as in January -February 2012.

Table 3

EXECUTION OF FEDERAL BUDGET EXPENDITURE IN JANUARY-FEBRUARY 2012 AND 2013

	January-February 2013		January-February 2012		Deviation, p.p. of GDP
	bn Rb	% of GDP	bn Rb	% of GDP	
Expenditure, total	2,239.5	23.6	2,065.6	25.6	-2.0
including					
Nationwide issues	131.2	1.4	82.5	1.0	0.4
National defense	566.3	6.0	450.3	5.6	0.4
National security and law-enforcement activity	242.6	2.5	214.5	2.6	-0.1
National economy	160.8	1.7	126.2	1.5	0.2
Housing and utilities sector	3.1	0.04	4.0	0.05	-0.01
Environment protection	4.6	0.05	4.1	0.05	0.0
Education	98.0	1.0	99.9	1.2	-0.2
Culture and cinematography	10.6	0.1	14.7	0.2	-0.1
Health care	96.8	1.0	151.0	1.9	-0.9
Social policy	716.1	7.6	728.8	9.0	-2.4
Physical culture and sports	7.3	0.08	5.9	0.07	0.01
Mass media	15.0	0.1	11.4	0.1	0.0
Government debt servicing	66.8	0.7	62.6	0.7	0.0
Interbudgetary transfers	119.8	1.2	109.6	1.3	-0.1

Source: RF Ministry of Finance; RF Federal Treasury.

In February 2013, no oil and gas revenues were transferred to the Reserve Fund; instead, their entire amount of Rb 713.5bn was spent on purchasing foreign currency. As for the National Welfare Fund, no operations were carried on its accounts in February 2013.

The volume of government foreign debt as of the end of February 2013 amounted to $ 50.6bn (a $ 0.13bn drop over the course February), the volume of government domestic debt – to Rb 3,932.3bn (a Rb 53.3bn drop over the course of February).

Execution of the Consolidated Budget of RF Subjects in January 2013

As reported by the RF Federal Treasury, the consolidated budget revenue of RF subjects in January 2013 amounted to 9.7% of GDP, which is by 0.6 pp. of GDP below its level recorded in the same period of 2012 (*Table 4*). A noticeable decline in the revenue receipts of regional budgets over the first month of 2013 (by 1.3 p.p. of GDP on January 2012) was demonstrated by gratis transfers from other budgets of the RF budgetary system. At the same time, significant growth was noted in January 2013 with regard to revenues generated by tax on profit – by 0.5 p.p. of GDP, and by tax on property – by 0.1 p.p. of GDP compared to January 2012.

Table 4

MAIN PARAMETERS OF THE CONSOLIDATED BUDGET OF RF SUBJECTS IN JANUARY 2013 AND JANUARY 2012

	January 2013		January 2012		Deviation, pp. of GDP
	bn Rb	% of GDP	bn Rb	% of GDP	
Revenue, including:	439.8	9.7	395.5	10.3	-0.6
tax on profits of organizations	95.7	2.1	62.2	1.6	0.5
PIT	126.2	2.8	106.2	2.8	0.0
excises, domestic	41.2	0.9	33.3	0.9	0.0
tax on aggregate income	26.1	0.6	21.4	0.6	0.0
tax on property	27.2	0.6	19.0	0.5	0.1
gratis transfers from other budgets of RF budgetary system	147.4	3.2	171.0	4.5	-1.3

Table 4, cont'd

	January 2013		January 2012		Deviation, pp. of GDP
	bn Rb	% of GDP	bn Rb	% of GDP	
Expenditure:	357.3	7.9	275.6	7.2	0.7
Budget surplus (deficit)	82.5	1.8	119.9	3.1	-1.3
GDP estimate	4,533		3,833		

Source: RF Federal Treasury.

The increased receipts of tax on profit are probably caused by the delayed transfer, in regional budgets, of the advance tax payments for December 2012.

The execution of the consolidated budget expenditure of RF subjects over January 2013 amounted to 7.9% of GDP, which is by 0.7 pp. of GDP above the level of January 2012. When broken up by budget section, the movement of budget expenditure of RF subjects over the first month of 2013 was multi-vectored (*Table 5*). Growth, in 2013, was demonstrated by the budget sections 'Education' – by 0.4 p.p. of GDP; 'National Economy' – by 0.3 p.p. of GDP; 'Culture, Cinematography' - by 0,1 p.p. of GDP; and 'Environment Protection' – by 0.01 p.p. of GDP on January 2012 respectively.

Table 5

EXECUTION OF THE CONSOLIDATED BUDGET EXPENDITURE OF RF SUBJECTS IN JANUARY 2013 AND JANUARY 2012

	January 2013		January 2012		Deviation, pp. of GDP
	bn Rb	% of GDP	bn Rb	% of GDP	
Expenditure, total	357.3	7.9	275.6	7.2	0.7
including					
Nationwide issues	20.5	0.4	16.6	0.5	-0.1
National defense	0.05	<0.01	0.03	<0.01	0.0
National security and law-enforcement activity	2.5	0.05	2.9	0.07	-0.02
National economy	36.0	0.8	18.9	0.5	0.3
Housing and utilities sector	20.0	0.4	18.1	0.5	-0.1
Environment protection	0.6	0.01	0.3	<0.01	0.01
Education	120.0	2.6	84.3	2.2	0.4
Culture and cinematography	16.4	0.4	9.4	0.3	0.1
Health care	66.7	1.5	57.3	1.5	0.0
Social policy	63.4	1.4	57.1	1.5	-0.1
Physical culture and sports	5.5	0.1	4.9	0.2	-0.1
Mass media	0.9	0.02	1.6	0.04	-0.02
Government debt servicing	4.4	0.1	2.8	0.07	0.03
Interbudgetary transfers	0.2	<0.01	1.9	0.05	-0.05

Source: RF Federal Treasury.

A decline of budget expenditure indices as percentage share of GDP in January 2013 on January 2012 was demonstrated by the budget sections 'Interbudgetary Transfers' – by 0.05 p.p. of GDP; 'Nationwide Issues', 'Housing and Utilities Sector', 'Social Policy' and 'Physical Culture and Sports' – by 0.1 p.p. of GDP each; 'National Security and Law-enforcement Activity' and 'Mass Media' – by 0.02 p.p. of GDP each; and 'Government Debt Servicing' – by 0.03 p.p. of GDP.

As shown by the results of the first month of 2013, the consolidated budget of RF subjects is executed with a surplus of Rb 82.5bn (1.8% of GDP), which is by 1.3 p.p. of GDP lower than the same index for January 2012. The amount of government debt owed by RF subjects in January 2013 was Rb 1,289.4bn, which is by Rb 127.3bn less than in January 2012.

On the whole, the state of the budgetary system today can be described as 'unstable equilibrium', and so the significant factors determining its sustainability will not be external factors; rather – and most likely – this effect will result from timely and well-coordinated acts of the RF Government, the RF Ministry of Finance, and the RF Central Bank, aimed at leveling down the negative influences of external and internal shocks.

RUSSIAN BANKING SECTOR IN FEBRUARY 2013

M.Khromov

In February 2013, after the January reduction, the growth of bank assets was resumed. Dynamics of loans remained rather moderate: the main growth of banks' assets was due to the increased inflow of foreign assets.

Total assets of the banking sector have decreased[1] in February 2013 by 1.1%. Herewith, the annual growth rate made 19.2%, which is by 1.1 p.p. more than in the preceding month. In our view, it is premature to speak about the turnover in the medium-term trend of slowing assets growth; it takes several months of observation over the acceleration of the annual growth rate indicators of bank assets to come to such an opinion.

The growth rate of the banking sector equity in February has decreased to 0.8%, the volume of statutory and additional capital has increased over the month by 0.3%. Therefore, the main sources of growth in assets in February were the banks' raised funds, the amount of which has increased by 1.6%.

In February the total profit of the banking sector amounted to only Rb 71bn. This corresponds to the return on banking assets of 1.7% per annum, and the return on equity of 15% in annual terms. Note that these values were much lower than the average performance indicators over

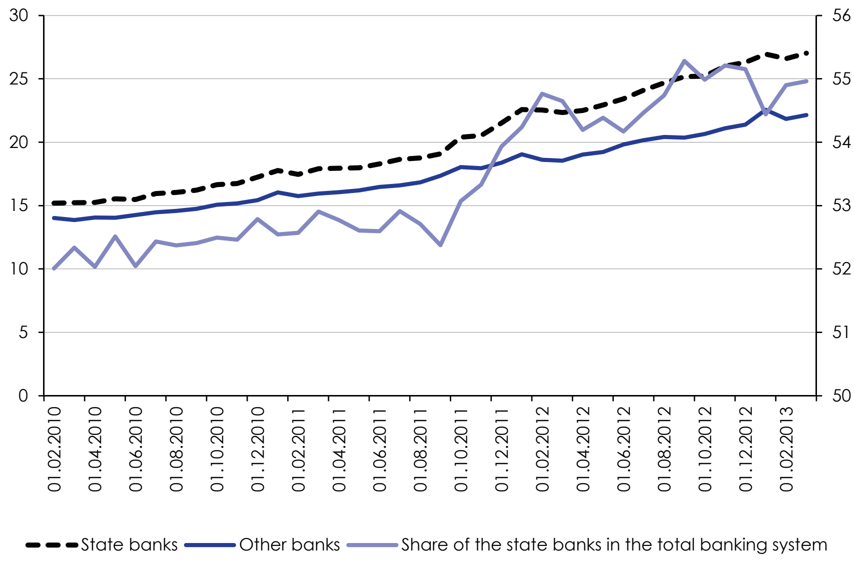


Fig. 1. Banks' assets dynamics

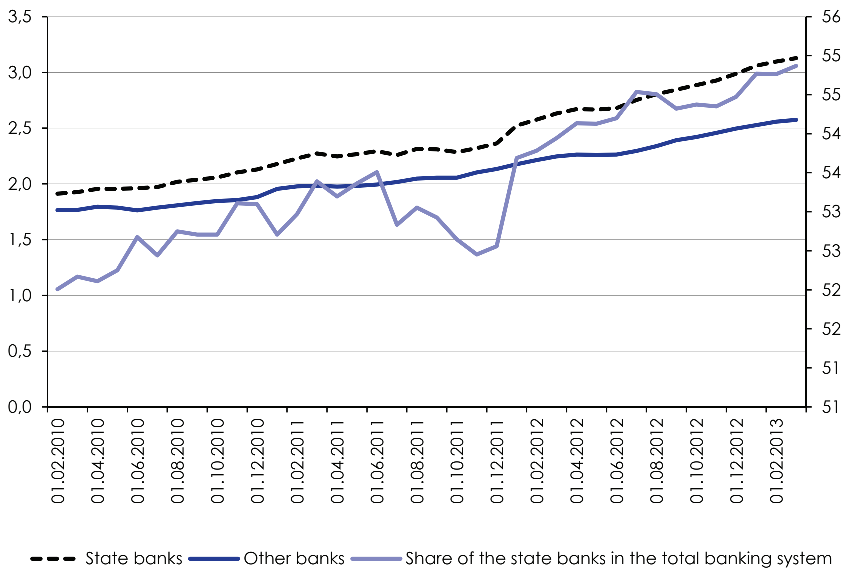


Fig. 2. Banks' equity dynamics

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

the past 12 months (ROA – 2.2%, ROE – 18.7%). Herewith, as in January, a significant share of the banking sector profit was allocated for the formation of reserves for possible losses, the value of which increased by Rb 35bn (against Rb 46bn in January). Reserves extension may be a consequence of both, general deterioration in the assets' quality, and tighter regulations on the part of the Bank of Russia. In both cases, if this trend is sustained, it will have a deterrent effect on the growth of lending to the real sector of the economy.

Raised funds

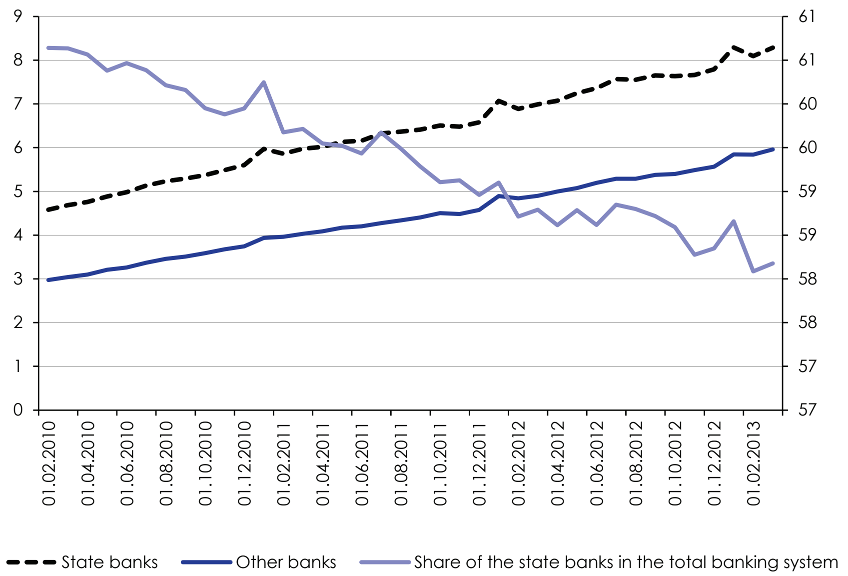


Fig. 3. Dynamics of individual deposits with the banks

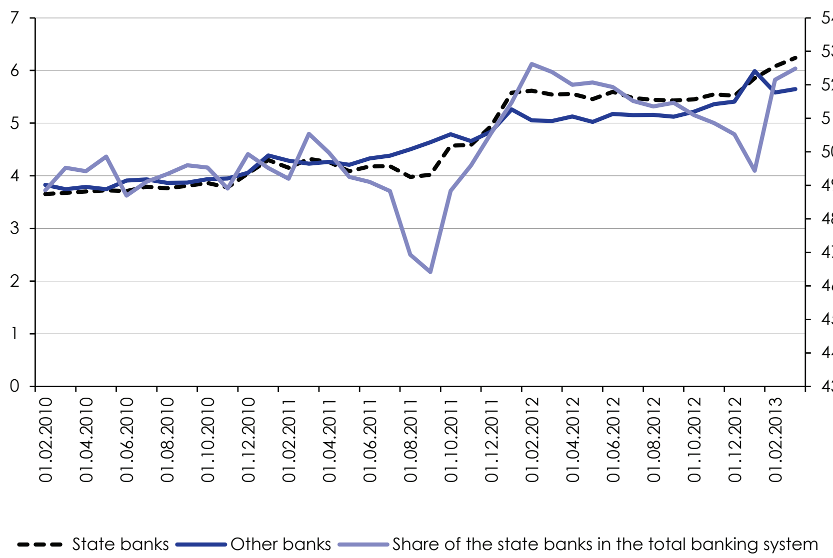


Fig. 4. Dynamics of corporate clients' deposits

Funds in accounts and deposits of individuals in February resumed their growth, having increased over the month by Rb 265bn or by 1.9%. The annual growth rate in the past three months remained stable at about 19%. The volume of ruble funds of individuals with the banks has increased in February by 2.3%. Funds denominated in foreign currency have remained almost unchanged, their dollar equivalent has declined by 0.3%.

The funds of corporate clients not belonging to the banking sector in the bank accounts in February increased by 1.6% (Rb 186bn). The annual growth rate has reached 11.4% as compared with 9.6% in February. Meanwhile, we can only note the failure of the January gap recovery: the amount of funds in the accounts of organizations on March 1 was only by 0.2% higher than at the beginning of the year. The annual growth rates still significantly lag behind even the fall of 2012, when they reached 15–17%, not to mention the earlier periods – in early 2012 they accounted for 24–26%.

In February the entire growth of the corporate clients' funds in the accounts was in the term deposit and accrued interest. As opposed to that, current accounts have somewhat decreased – by Rb 30bn. As a result, the share of term deposits in the total volume of corporate customers reached 52%. For more than a year the share of term deposits of enterprises and organizations makes more than a half of corporate clients' funds.

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	12.12	01.13	02.13
Liabilities, Rb bn	20125	28022	29430	33805	41628	41533	44266	45861	49510	48429	49165
Own assets	15.3	14.1	19.3	18.7	16.9	17.5	16.8	16.9	16.2	16.8	16.7
Loans of the Bank of Russia	0.2	12.0	4.8	1.0	2.9	3.5	5.1	5.1	5.4	4.5	4.5
Interbank operations	4.1	4.4	4.8	5.5	5.7	5.1	4.8	5.1	5.6	5.4	5.4
Foreign liabilities	18.1	16.4	12.1	11.8	11.1	10.2	11.3	11.0	10.8	10.5	10.6
Individual deposits	26.2	21.5	25.9	29.6	29.1	29.4	29.4	28.7	28.9	29.1	29.3
Corporate deposits	25.8	23.6	25.9	25.7	26.0	25.7	24.0	23.3	24	24.1	24.2
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	1.6	1.1	1.0
Securities issued	5.8	4.1	4.1	4.0	3.7	4.8	4.5	4.8	4.9	5.2	5.3

Source: Central Bank of Russia, IEP estimates.

Investments

The volume of the clients' debt to the banks has increased over the month by 1.6% (by Rb 134bn). Annual growth rate of loans started gradually to decrease and made as of February results 38.2% (against 38.7% as of 1.03.2012).

The main indicators of retail loans quality in February remained unchanged. Overdue debt remained at 4.2%, and the share of the formed provisions versus the total debt made 6.4%.

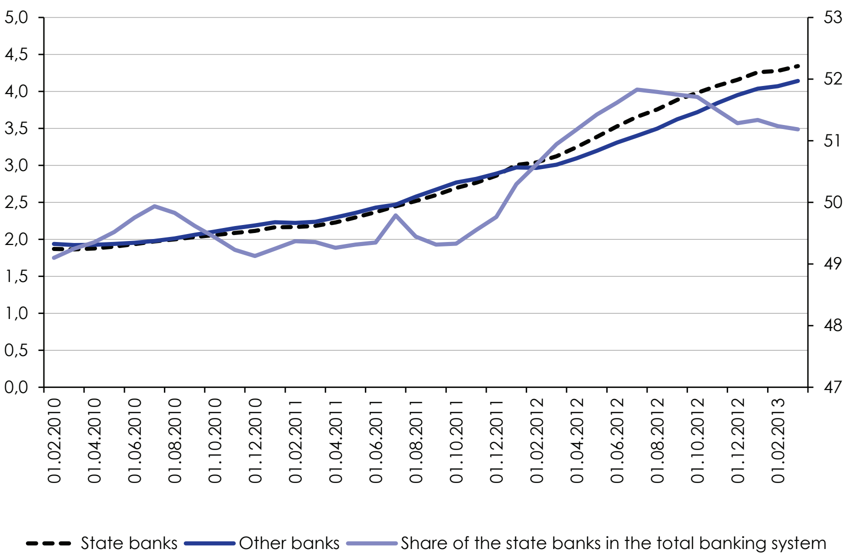


Fig. 6. Dynamics of clients' lending

Dynamics of corporate lending at the end of February is still rather moderate. Over the month, arrears of corporate clients have increased only by 0.3%, while the annual growth rates remain close to the level of 15%.

The quality of loan portfolio in corporate segment, like in the retail one, in February 2013 has remained unchanged. The amount of overdue liabilities remained at the level of 4.7%, and provisions for possible losses made 7.5% of the amount of the loan debt.

In February over Rb 300bn ($10bn) were invested by the banks in foreign assets. Herewith, the growth of foreign debt and other raised funds from non-residents amounted to only $2.5bn Therefore, the net foreign assets of banks have grown over the month by $7.5bn, having reached a record of $74bn.

The balance of the banks' internal foreign currency assets and liabilities (i.e., foreign currency funds invested within the country and raised from the residents of the Russian Federation) remained virtually unchanged in February. As a result, virtually all growth of the net foreign assets was demonstrated in foreign exchange policy of the banks, which has increased by $7.4bn, reflect-

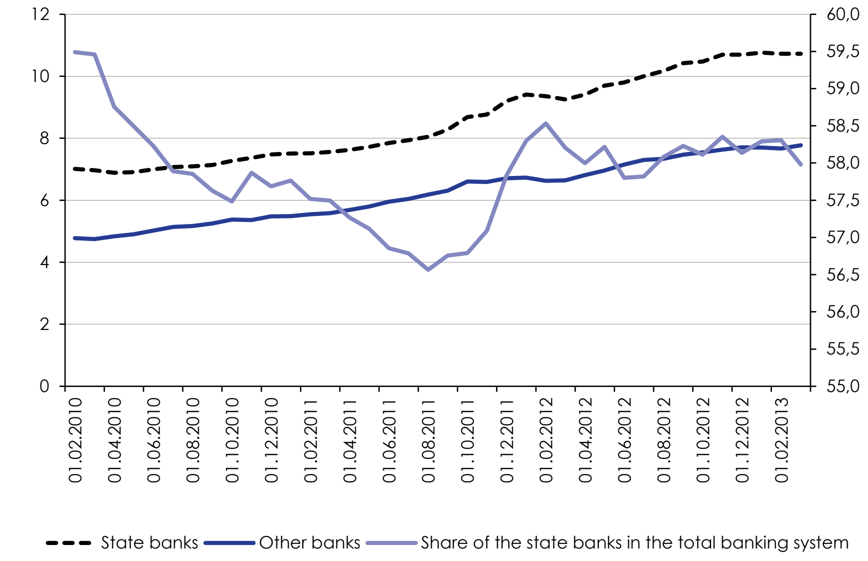


Fig. 7. Dynamics in loans to companies and organizations

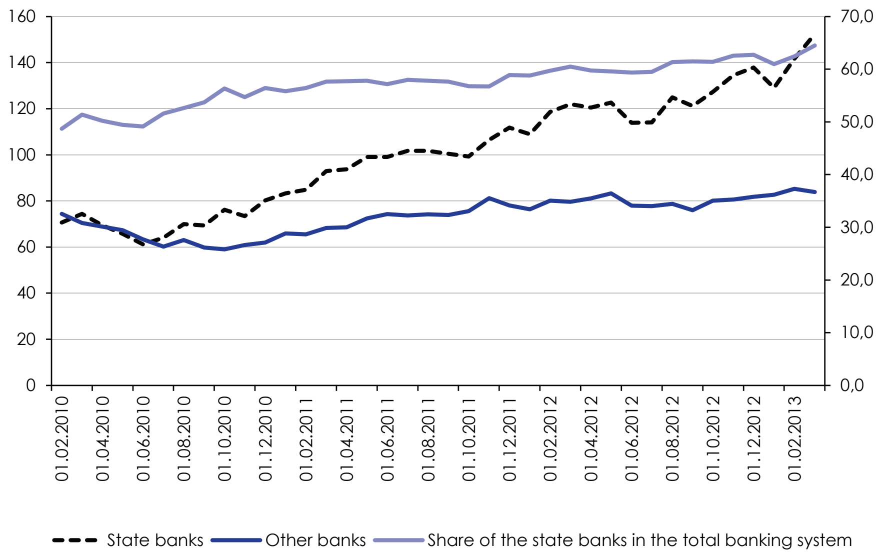


Fig. 8. Dynamics of the banks' foreign currency assets

ing the increased interest of the banks in foreign currency assets.

Capital outflow through the banking sector, which is exactly happens with the growth of foreign assets, was concentrated in the last few months only in the large state banks. Thus, only Sberbank net foreign assets have grown in February by more than $6bn. If we add the corresponding indicators of the other major state-owned banks (Gazprombank, VTB Group and Agricultural Bank), the total outflow of capital through all those banks in February has exceeded $8bn.

Despite the fact that all external loans of the last month were also made by the large state-owned banks, the growth of their foreign assets was higher than the growth of their foreign liabilities by several times.

Therefore, the cross-border capital flows, mediated by the banking sector, were mainly determined by the behavior of the largest state-owned banks.

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	01.13	02.13
Assets, Rb bn	20125	28022	29430	33805	41628	41533	44266	45861	47096	48429	49165
Cash and precious metals	2.5	3.0	2.7	2.7	2.9	2.4	2.5	2.6	2.6	2.6	2.5
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	3.1
Interbank operations	5.4	5.2	5.4	6.5	6.4	6.2	5.8	5.8	6.1	6.7	6.6
Foreign assets	9.8	13.8	14.1	13.4	14.3	14.2	14.2	13.9	14.3	14.0	14.6
Individuals	16.1	15.5	13.1	13.0	14.4	15.3	16.0	16.8	16.8	17.3	17.3
Corporate sector	47.2	44.5	44.5	43.6	44.0	44.4	43.6	43.4	42.9	42.3	42.1
Government	4.1	2.0	4.2	5.1	5.0	4.9	3.8	3.3	3.2	3.7	3.3
Property	2.2	1.9	2.7	2.6	2.3	2.4	2.3	2.3	2.3	2.3	2.3

Source: Central Bank of Russia, IEP estimates.

THE REAL ESTATE MARKET IN RUSSIA IN JANUARY 2013

G.Zadonsky

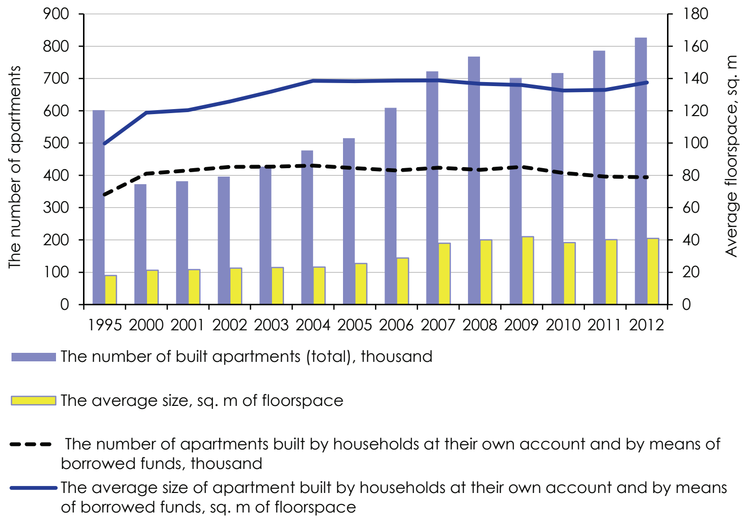
In January 2013, entities of all the forms of ownership built 45,800 new apartments with the total floorspace of 3.58m sq. meters or 114.7% as compared to January 2012. In January, individual developers commissioned 1,585m sq. meters of housing which is 6.2% more than in January 2012.

The average floorspace of apartments built in 2012 decreased by 0.56% as compared to 2011 and amounted to 78.9 sq. meters (*Fig. 1*). On the contrary, the average floorspace of apartments built by households in 2012 at their own account and by means of borrowed funds increased by 3.5% as compared to 2011 and amounted to 137.6 sq. meters.

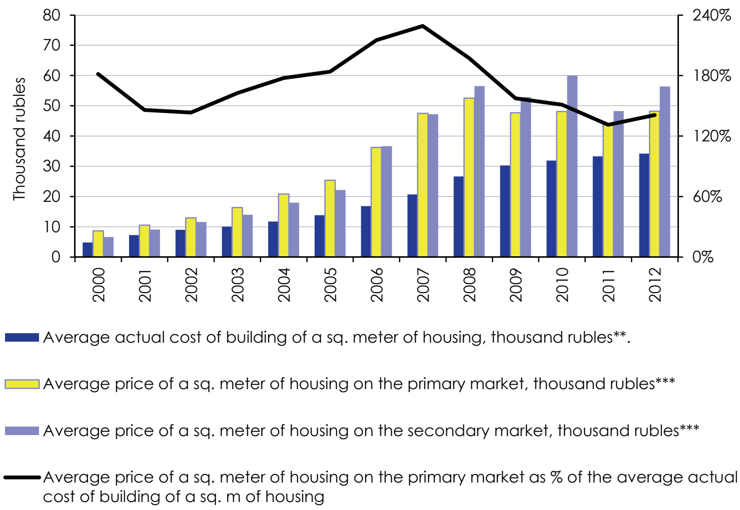
In 2012, the average actual cost of building of a sq. meter of housing in the Russian Federation increased by 2.62% as compared to 2011. Along with that, the average price of a sq. meter of housing (all the apartments) on the primary market increased by 10.25% in that period, while that on the secondary market, by 16.85%. Accordingly, the ratio of the average price of a sq. meter of housing on the primary market and the average actual cost of building of a sq. meter of housing amounted to 140.86% (*Fig. 2*).

According to the Rosstat, in 2012 the highest cost of building which exceeded by over 50% the average national level was observed in Moscow (Rb 63,317), the Sakhalin Region (Rb 58,940), the Yamal-Nenetsk Autonomous Region (Rb 54,762), the Nenetsk Autonomous Region (Rb 53,949) and the Kamchatka Territory (Rb 53,676). In 55 constituent entities of the Russian Federation that cost was below the average national level with the lowest one in the Kursk Region (Rb 22,000), the Republic of Adygeya (Rb 22,230) and Dagestan (Rb 22,491).

As of January 2013, the housing availability index (HAI) as a ratio of the cost of a standard apartment with floorspace of 54 sq. meters to the annual income of a family of three persons



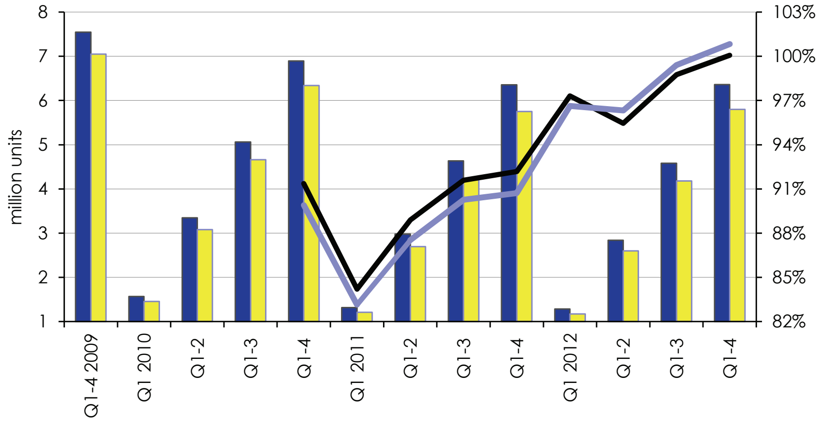
Source: On the basis of the data of Rosstat.
Fig. 1. The number of apartments built in the Russian Federation and their average floorspace



* The average actual cost of building of a sq. meter of floorspace of detached dwelling houses (all the apartments) without extensions, overstory and built-in premises in the Russian Federation (without those built by households at their own account and by means of borrowed funds);

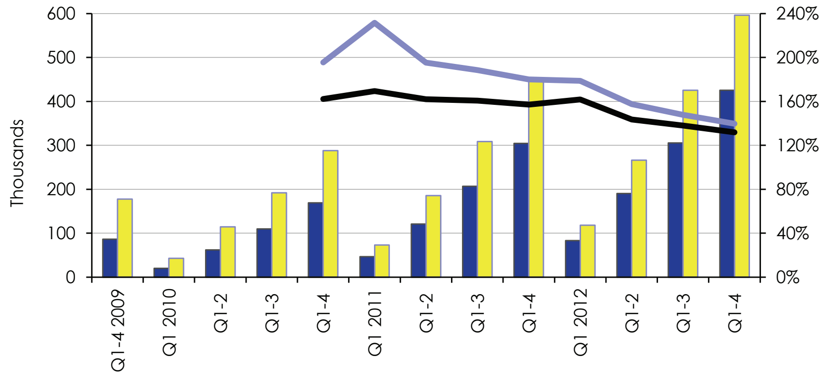
** All the apartments.

Source: On the basis of the Rosstat's data.
Fig. 2. Dynamics of the cost of building of housing and prices on the primary and secondary housing markets in 2012



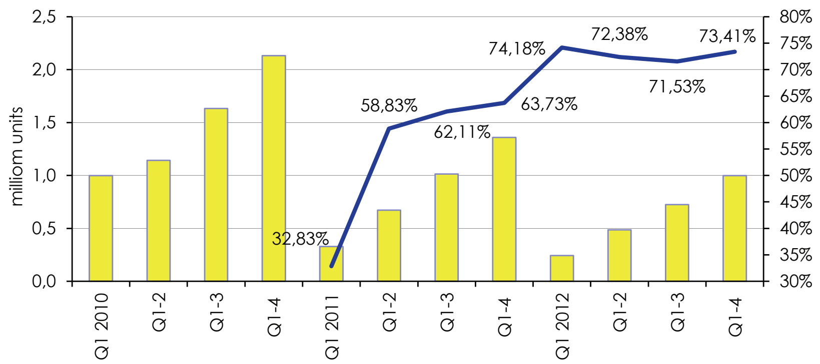
Source: Data of Rosreestr.

Fig. 3. Dynamics of registration of titles to land plots



Source: Data of Rosreestr.

Fig. 4. Dynamics of registration of land mortgages



Source: Data of the Rossreestr.

Fig. 5. The dynamics of registration of individuals' titles to some real property in accordance with the simplified procedure (the summer cottage amnesty)

amounted on the primary market and the secondary market to 3.28 years and 3.37 years, respectively, which is 1.3% and 5.99% higher than the respective HAI index as of January 1, 2012. The latter is evidence of a decrease in availability of housing in 2012 as compared to 2011; it is to be noted that the decrease on the secondary market was more rapid than on the primary one. Unlike the year 2012, in 2011 the HAI on the primary market and the secondary market was 12.65% and 29.22% lower, respectively, than in 2010.

According the data of Rosreestr, in 2012 the number of the registered titles to land plots, including those of individuals slightly exceeded the results of 2011, but was still below those of 2010 and 2009. In 2012, registration of individuals' titles to land plots amounted to 91.15% of the total volume of registration of titles to land plots or 5,796m certificates (*Fig. 3*).

The growth rates of the number of land mortgages by individuals exceed growth rates of land mortgages in general. In 2012, the volume of land mortgages by individuals exceeded by 40% the volume of 2011 and amounted to 71.34% of the total number of land mortgages or 425,125 certificates (*Fig. 4*).

In 2012, the volume of individuals' titles to some real property – the so-called " summer cottage amnesty" where titles were registered in accordance with a simplified procedure – amounted to 997,332 certificates which was 26.59% and 53.22% less than the volume of 2011 and 2010, respectively (*Fig. 5*).

From January 1, 2013, cadastral accounting of buildings, constructions and unaccomplished building projects is carried out entirely – in accordance with the law on the cadastral register of real property – by the Rosreestr represented by the Cadastral Chamber. In the transition period until January 1, 2014 the Technical Inventory Bureau will keep performing the function of development of technical plans which include the grid data on the location of the real property project and the location data on the premises inside the building.

According to the data of Rosreestr, under Federal Law No. 302-FZ of December 30, 2012 from March 1, 2013 no state registration of agreements on purchase and sale of housing, agreements on purchase and sale of an enterprise as a property complex, deeds of gift of real property and annuity agreements, including those with condition of permanent alimony with maintenance is required, but subject to state registration is assignment of the title to the alienated property as a result of such transactions. In entering into such agreements, the state duty is to be paid only for state registration of the title. Along with that, the President of the Russian Federation signed Federal Law No.21-FZ of March 4, 2013 by which an amendment was introduced in Law No.302-FZ; under the above amendment the rules of state registration of agreements on lease of real property were reestablished.

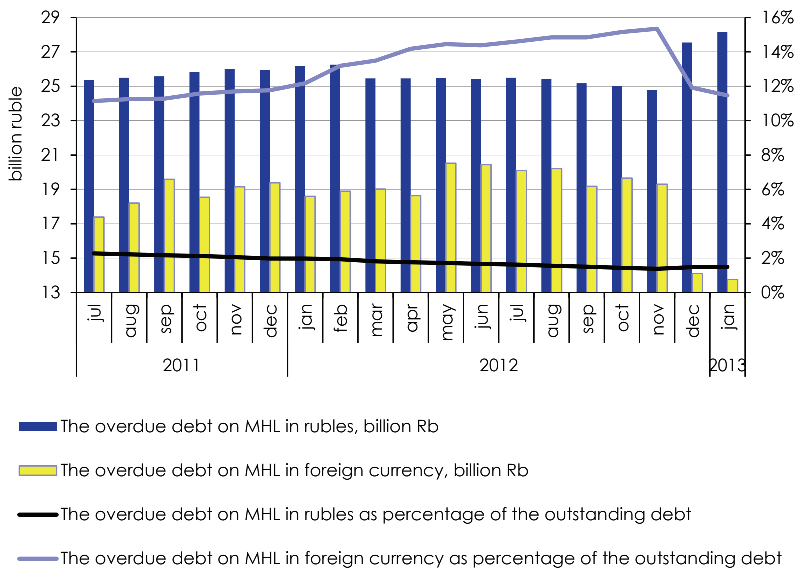
According to the data of the Central Bank of the Russian Federation, in January 2013 35,875 housing loans for the total amount of Rb 54,106bn, including 33,643 mortgage housing loans for the amount of Rb 52,213bn were extended. As compared to January 2012, the number of the extended MHL rose by 18.9%, while their volume in monetary terms, by 34.23%. As of February 1, 2013, the outstanding debt on MHL in rubles increased by 42.72% as compared to February 1, 2012 and amounted to Rb 1.89 trillion, while that on loans in foreign currency decreased by 21.45% and amounted to Rb 119,993bn.

As of February 1, 2013, the overdue debt on MHL amounted to Rb 41,912bn (Rb 28,159bn on loans in rubles and Rb 13,753bn on loans in foreign currency). As of the above date, the overdue debt on MHL in foreign currency as a percentage of the outstanding debt decreased by 0.71 p.p. as compared to February 1, 2012 and amounted to 11.46%, while the share of the overdue debt on MHL in rubles decreased within the same period by 0.49 p.p. and amounted to 1.49% (*Fig. 6*). As of February 1, 2013, the aggregate overdue debt amounted to 2.08% of the total debt which figure was 0.02 p.p. and 0.95 p.p. lower than that as of January 1, 2013 and February 1, 2012, respectively.

As of February 1, 2013, the amount of the debt on defaulted MHL (with a period of delay for over 180 days) decreased to Rb 29,957bn or 1.49% of the total amount of the debt which is 0.77 p.p. and 2.08 p.p. lower than that as of January 1, 2013 and February 1, 2012, respectively. The share of the debt on MHL without overdue payments decreased by 0.02 p.p. to 95.91% as compared to January 1, 2013 and increased by 2.66 p.p. as compared to February 1, 2012.

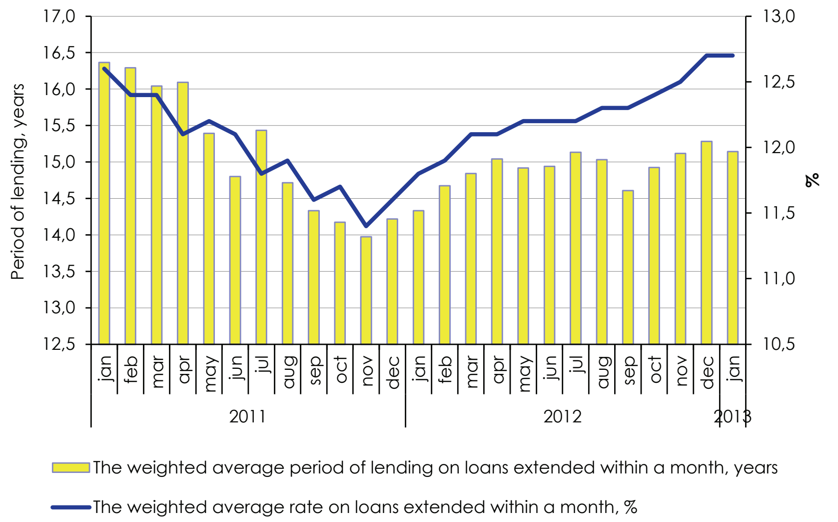
In January 2013, the average value of MHL in rubles amounted to Rb 1.53m which is 12.24% higher than that in January 2012; the average amount of MHL in foreign currency amounted to Rb 8.54m which is 61.06% higher than that in January 2012.

In January 2013, the weighted average rate on loans extended within a month amounted to 12.7% on MHL in rubles which figure was 0.9 p.p. higher than the value of the rate as of February 1, 2012 (*Fig. 7*), while that on MHL in foreign currency, to 9.0%, which was 0.7 p.p. lower than that in January 2012. In January 2013, the weighted average period of lending as regards MHL



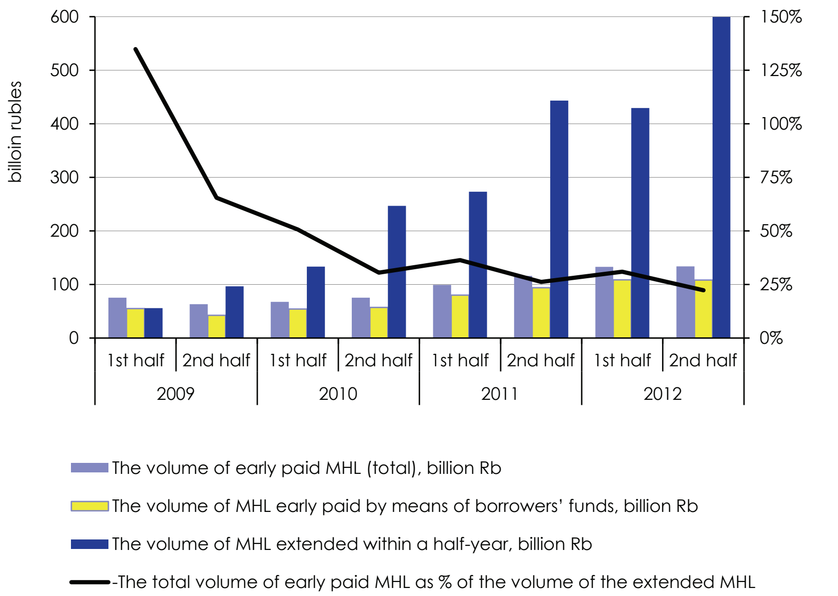
Source: The basis of the data of the Central Bank of the Russian Federation

Fig. 6. The dynamics of overdue debt on MHL



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

Fig. 7. The weighted average periods and weighted average interest rates on MHL in rubles extended within a month



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

Fig.8. Dynamics of early paid MHL

in rubles amounted to 15.14 years which was 0.81 year more than in January 2012, while that as regards MHL in foreign currency, to 9.66 years which was 4.24 years less than in January 2012.

In January 2013, the share of MHL in foreign currency in the total volume of loans extended within a month amounted in money terms to 1.49% against 0.9% in January 2012. The debt on MHL in foreign currency as percentage of the total debt on the extended loans was steadily decreasing and amounted to 5.97% as of February 1, 2013.

In the second half of 2012, the volume of MHL repaid before maturity amounted in money terms to Rb 133,667bn, having exceeded by 14.98% the respective value of the second half of 2011 (*Fig.8*).

In the second half of 2012, the volume of funds collected from borrowers as a result of realization of mortgaged property amounted to Rb 2,175bn (*Fig. 9*) which was 20.88% lower than that in the second half of 2011. Within the same period, the volume of funds collected from borrowers decreased by 0.84 p.p. to 5.22% and 0.26 p.p. to 0.36% in relation to the overdue debt on MHL and the volume of the extended MHL, respectively (*Fig.9*).

According to the data of the Central Bank of the Russian Federation, in the second half of 2012 the volume of refinanced MHL which included both a sale of the pool of loans and preservation of the asset on the balance of the credit institution[1] amounted to Rb 71.14bn or 11.87% of the volume of MHL extended within that period which figure was 14.53% lower in terms of the volume as compared to the second half of 2011 and 6.9 p.p. lower as percentage of the volume of MHL extended within that period (*Fig. 10*).

In January-February 2013, OAO AHML bought back 5.67 mortgages by all the products for the amount of Rb 7,564bn which is 9.53% higher than the volume of the repurchased mortgages in

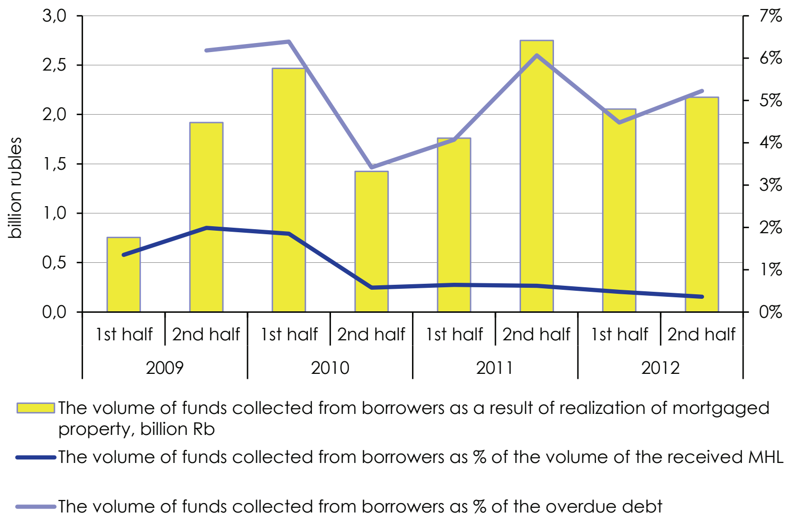
1 Refinancing of MHL is assignment of rights of claim to mortgage housing loans by virtue of an agreement on financing against such an assignment with preservation of the asset on the balance of the credit institution – on the basis of such an asset the credit institution creates derivative financial instruments, in particular, mortgage-backed securities. Refinancing of MHL (rights of claim to mortgage housing loans) with sale of a pool of MHL is based on the sale of the asset both without formation of an additional financial instrument and with further issuing of mortgage-backed securities.

money terms in January-February 2012.

According to the forecast provided by AHML, in 2013 it is expected to provide 707,000 to 808,000 HL for the amount of Rb 1,092bn to Rb 1,248bn, including 669,000 to 764,000 MHL for the total amount of Rb 1,050bn to Rb 1,200bn. The volume of MHL on the primary market will amount to 201,000 to 229,000 loans for the total amount of Rb 315,000bn to Rb 360,000bn, while that on the secondary market amounts to 468,000 to 535,000 loans for the total sum of Rb 735,000bn to Rb 840,000bn. The floorspace of housing bought under MHL will amount to 26m sq. m. to 28m sq, m., including that on the primary market in the volume of 8.7m sq. m. to 9.3m sq. m. It is expected that within a year the weighted average rate on MHL in rubles will not exceed 13.5%. Also, the share of mortgaged property projects in the total number of property projects registered in transactions with housing is expected to amount to 20% to 23%.

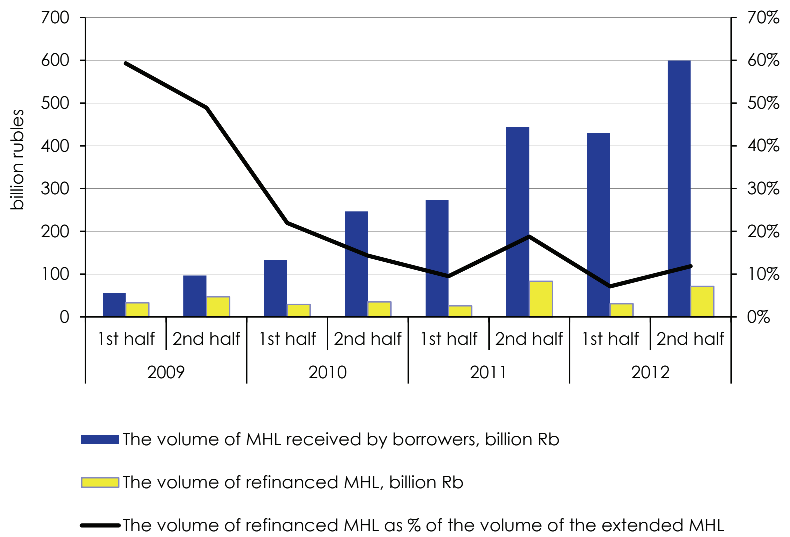
From January 1, 2013, the Law on Mortgage-Backed Securities as amended came into force; according to the amendments the mortgage agent which is registered as a joint-stock company is granted the right to raise funds by issuing mortgage-backed securities.

For the first time in Russia, a MHL securitization deal has been transacted by means of issuing by the Obrazovanie Bank and ZAO GFT Kapital Management Company of Rb 1,250bn worth of mortgage certificates of participation (MSP). Respective rules of trust management of the mortgage collateral of MSP were registered by the Federal Financial Markets Service in July 2012.



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

Fig.9. The dynamics of the volume of funds collected from borrowers as a result of realization of mortgaged property



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

Fig. 10. Dynamics of refinancing of MHL (rights of claim)

THE OIL AND GAS SECTOR IN Q1 2013

Yu.Bobylev

In 2012 and the 1st quarter of 2013, the situation on the global oil market was characterized by prevalence of high global prices on oil. In March, the deal on purchasing of TNK-BP Company by Rosneft, a state-owned oil company was completed. As a result, Rosneft has become one of the largest oil companies in the world, while the share of state-owned companies in the Russian oil sector has considerably increased. A negative impact on the Russian gas sector has been made by a change in the situation on the European gas market, namely, growth in gas supply from other gas-producing countries and a lower level of "spot" prices on gas as compared to the Gasprom's long-term contract prices. That situation resulted both in a decrease in the Russian gas export and the need to reduce gas selling prices on the international market.

In 2012 and the 1st quarter of 2013, the situation on the global oil market was characterized by prevalence of high oil prices. In 2012, the average Brent oil price amounted to $112.0 a barrel, while in the 1st quarter of 2013, to $112.6 a barrel (*Table 1*). The main factor behind high oil prices was growing demand in oil justified by global economic growth, primarily, in China, India and other Asian countries, rather restrained OPEC's policy as regards raising of oil production by its member-states, low growth in oil production beyond OPEC, as well as geopolitical risks. Despite the fact that OPEC countries exceeded to some extent the official quota of 30m barrel a day, the global oil market remained well balanced as a whole, while the average level of oil production by OPEC in 2012 and the 1st quarter of 2013 was below that of 2008.

Prices on Russian natural gas on the European market remained at a high level, too. At the same time, changes in the situation on the European gas market, namely, growth in supply of the natural gas on the part of other gas-producing countries (particularly, due to a considerable increase in condensed natural gas supplies) and lower spot prices on gas as compared to the Gasproms' long-term contract prices had a downturn effect on Russian natural gas prices.

Table 1

GLOBAL PRICES ON OIL AND NATURAL GAS IN THE 2005-2013 PERIOD, USD/A BARREL

	2005	2006	2007	2008	2009	2010	2011
Brent oil prices, The UK, USD/a barrel	54.4	65.2	72.5	97.7	61.9	79.6	111.0
Urals oil price, Russia, USD/a barrel	50.8	61.2	69.4	94.5	61.0	78.3	109.1
Prices on the natural gas on the European market, USD/thousand cubic m	212.9	295.7	293.1	473.0	318.8	296.0	381.5

Ending of Table 1

	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2012	2013 Q1
Brent oil price, The UK	118.5	108.9	110.0	110.4	112.0	112.6
Urals oil price, Russia	116.9	106.5	109.0	108.8	110.3	110.8
Price on Russian natural gas on the European market, USD/thousand cubic m	444,7	452,4	409,9	418,2	431,3	409,5*

* The average price in January-February 2013.
Source: IMF, OECD/IEA.

In 2012, in a situation of high global oil prices oil production in Russia amounted to 518.0m tons which is the maximum level since 1990. Commissioning in the past few years of a few new large oil deposits in Eastern Siberia and the North of the European part of Russia and changes in taxation aimed at reduction of the tax burden on the oil sector, motivation of extensive development of the exploited deposits and development of new regions of oil production had a favorable effect on the dynamics of oil production. It is to be noted that reduction in the growth rates of oil production which was observed can be mainly explained by objective worsening of oil production conditions. A large part of the exploited oil deposits entered the stage of declining production, while new deposits in most cases are characterized by worse mining-and-geological and geographical parameters and development of such deposits requires higher capital, operating and transport costs.

In January-February 2013, production of oil decreased by 0.7% as compared to the respective period of 2012 (*Table 2*). The above reduction is evidence of the fact that at present the Russian oil-producing industry is working at its maximum production capacity.

Table 2

PRODUCTION OF OIL, OIL PRODUCTS AND NATURAL GAS IN THE 2005–2013 PERIOD AS % OF THE PREVIOUS YEAR

	2005	2006	2007	2008	2009	2010	2011	2012	2013 Jan-Feb*
Oil, including, gas condensate	102.2	102.1	102.1	99.3	101.2	102.1	100.8	101.3	99.3
Initial oil refinery	106.2	105.7	103.8	103.2	99.6	105.5	103.3	104.9	99.2
Automobile gasoline	104.8	107.4	102.1	101.8	100.5	100.5	102.0	104.3	103.3
Diesel fuel	108.5	107.0	103.4	104.1	97.7	104.2	100.3	98.7	103.6
Residual oil	105.8	104.5	105.2	101.9	100.8	108.5	104.6	101.6	99.4
Natural gas	100.5	102.4	99.2	101.7	87.9	111.4	102.9	97.7	99.1

* % as of January-February 2012.
Source: The Federal State Statistics Service and the Ministry of Energy of the Russian Federation.

The largest volumes of oil are produced by Rosneft, LUKOIL, TNK-BP, Surgutneftegaz and Gasprom. In 2012, the above five companies accounted for 73.8% of the total production of oil in this country. Mid-sized oil companies – Tatneft, Slavneft, Bashneft and RussNeft – accounted for 14.3% of the total production of oil. Operators of production sharing agreements produced 2.7% of Russian oil. The share of other producers which included over 100 small oil-producing companies amounted to 8.5% (*Table 3*).

In March 2013, a deal was finalized on purchase by Rosneft, a state-owned oil company of TNK-BP, an oil company whose owners are AAR, a Russian consortium, and BP, a British company. The above deal was the largest in the Russian oil and gas sector. As a result of the deal, along with cash funds the BP company received 18.5% of equities in Rosneft, while the BP's share in the Rosneft's equity capital rose to 19.75%.

Table 3

THE STRUCTURE OF OIL PRODUCTION IN THE 2008–2012 PERIOD

	Production of oil in 2008, million tons	Share in the total production, %	Production of oil in 2010, million tons	Share in the total production, %	Production of oil in 2011, million tons	Share in the total production, %	Production of oil in 2012, million tons	Share in the total production, %
Russia, Total	488.5	100.0	505.1	100.0	511.4	100.0	518.0	100.0
Rosneft	113.8	23.3	112.4	22.3	114.5	22.4	117.5	22.7
LUKOIL	90.2	18.5	90.1	17.8	85.3	16.7	84.6	16.3
TNK-BP	68.8	14.1	71.7	14.2	72.6	14.2	72.5	14.0
Surgutneftegas	61.7	12.6	59.5	11.8	60.8	11.9	61.4	11.9
Gasprom + Gasprom Neft	43.4	8.9	43.3	8.6	44.8	8.8	46.1	8.9
including: Gasprom	12.7	2.6	13.5	2.7	14.5	2.8	14.5	2.8
Gasprom Neft	30.7	6.3	29.8	5.9	30.3	5.9	31.6	6.1
Tatneft	26.1	5.3	26.1	5.2	26.2	5.1	26.3	5.1
Slavneft	19.6	4.0	18.4	3.6	18.2	3.6	17.9	3.5

Table 3, cont'd

	Production of oil in 2008, million tons	Share in the total production, %	Production of oil in 2010, million tons	Share in the total production, %	Production of oil in 2011, million tons	Share in the total production, %	Production of oil in 2012, million tons	Share in the total production, %
Bashneft	11.7	2.4	14.1	2.8	15.1	3.0	15.4	3.0
Russneft	14.2	2.9	13.0	2.6	13.6	2.7	13.9	2.7
NOVATEK	2.7	0.6	3.8	0.8	4.1	0.8	4.2	0.8
Operators of production sharing agreements	12.0	2.5	14.4	2.9	15.1	3.0	14.1	2.7
Other producers	24.1	4.9	38.2	7.6	41.1	8.0	44.1	8.5

Source: The Ministry of Energy of the Russian Federation and the author's calculations.

As a result of take-over of TNK-BP which – together with its share in Slavneft – accounted for 15.7% of the Russian oil production, Rosneft has managed to consolidate significantly its positions in the Russian oil sector and become one of the world's largest oil companies. According to the data of 2012, the company's production of oil (with taking into account Rosneft's shares in other companies' production) will amount to over 200m tons a year or 38.7% of the Russian oil production.

As a result, the state sector has considerably expanded. With a take-over of TNK-BP by Rosneft, the share of state-owned companies in the Russian oil production rose to 48.1% (*Table 4*). It is worth mentioning that in 2003 – that is, prior to take-over by Rosneft and Gasprom of assets of private oil companies (YUKOS and Sibneft) and Gasprom's participation in the Sakhalin-2 project – the share of state-owned companies in the Russian oil production amounted to the mere 7.3%.

Table 4

THE SHARE OF OIL COMPANIES IN PRODUCTION OF OIL IN RUSSIA WITH TAKING INTO ACCOUNT THE TAKE-OVER BY ROSNEFT OF TNK-BP COMPANY *

	Production of oil, Million tons	Share in the total production of oil, %
Rosneft, including TNK-BP	190.0	36.7
The share of Rosneft and TNK-BP in production of other companies (Slavneft and Sakhalin-1)	10.4	2.0
Rosneft, including TNK-BP and the share of Rosneft and TNK-BP in production of other companies	200.4	38.7
Gasprom, including Gasprom Neft	46.1	8.9
The share of Gasprom in production of other companies (Sakhalin-2)	2.8	0.5
Gasprom, including Gasprom Neft and the share of Gasprom in production of other companies	48.9	9.4
State-owned companies, total	249.3	48.1

* On the basis of the 2012 data.

Source: The Ministry of Energy of the Russian Federation and the author's calculations.

REVIEW OF THE ECONOMIC LEGISLATION IN MARCH 2013[1]

I.Tolmacheva, Yu.Grunina

In March, the following amendments were introduced in the legislation: the list of federal state institutions of higher vocational training which independently set educational standards was supplemented; amendments concerning concession holders which manufacture goods, fulfill work and render services at regulated prices were introduced; the value of the subsistence level per capita in the 4th quarter of 2012 was determined.

I. Orders of the President of the Russian Federation

Order No. 209 of March 19, 2013 on AMENDMENT OF THE LIST OF FEDERAL STATE INSTITUTIONS OF HIGHER VOCATIONAL TRAINING WHICH INDEPENDANTLY SET EDUCATIONAL STANDARDS AND REQUIREMENTS TO EDUCATIONAL PROGRAMS OF HIGHER VOCATIONAL EDUCATION WHICH THEY CARRY OUT

An amendment was introduced into the list of federal state institutions of higher vocational education which independently set educational standards and requirements to educational programs of higher vocational education which they carry out; the above list includes seven federal professional state educational establishments: M.V. Lomonosov Moscow State University, St. Petersburg State University, N.E. Bauman Moscow State Technical University, St. Petersburg State Naval Technical University, Russian Presidential Academy of National Economy and Public Administration, Peoples' Friendship University of Russia and the Moscow State Institute of International Relations (University) under the Ministry of Foreign Affairs of the Russian Federation.

According to the amendment introduced, the above list was supplemented with item 8 which specifies that the Financial University under the Government of the Russian Federation will independently set educational standards and requirements to educational programs of higher vocational education which it carries out.

II. Resolutions of the Government of the Russian Federation

1. Resolution No. 231 of March 18, 2013 on AMENDMENT OF THE STANDARD CONCESSION AGREEMENT AS REGARDS PUBLIC UTILITIES INFRASTRUCTURE SYSTEMS AND OTHER PUBLIC UTILITIES PROJECTS, INCLUDING FACILITIES FOR WATER, HEAT, GAS AND POWER SUPPLY, WATER DISPOSAL, WASTE-WATER TREATMENT AND RECYCLING (DISPOSAL) OF DOMESTIC WASTE, INSTALLATIONS MEANT FOR LIGHTING OF AREAS OF URBAN AND RURAL SETTLEMENTS, PROJECTS MEANT FOR LANDSCAPING OF TERRITORIES, AS WELL AS SOCIAL AND DOMESTIC FACILITIES.

A concession holder of the public utilities infrastructure system and other public utilities projects is obligated to raise such a volume of investments for financing an investment program as is specified in the concession agreement even in case the investment program has been modified. With termination of the agreement, the concessor has to ensure a return of the investment capital to the concession holder within the period specified in the agreement, except for the investment capital whose return was taken into account in setting of tariffs on goods (jobs and services) of the entity which carries out hot water and cold water supply or water disposal.

A respective provision concerning concession holders which produce goods, fulfill jobs and render services at regulated prices is included in a standard concession agreement on granting into concession of the above facilities approved by Resolution No.748 of December 5, 2006 of the Government of the Russian Federation.

1 The review was prepared with assistance of the KonsultantPlus legal system.

2. Resolution No.227 of March 18, 2013 on SETTING OF THE VALUE OF THE SUBSISTENCE LEVEL PER CAPITA AND BY MAIN SOCIAL AND DEMOGRAPHIC GROUPS IN GENERAL IN THE 4TH QUARTER OF 2012 IN THE RUSSIAN FEDERATION

The value of the subsistence level is determined quarterly on the basis of the consumer goods basket and the data on the level of consumer prices of food products, non-food products and services and expenses related to mandatory payments and fees. In the 4th quarter of 2012, the value of the subsistence level per capita was determined in the amount of Rb 6,705, while that for the disabled, pensioners and children, in the amount of Rb 7,263, Rb 5,281 and Rb 6,432, respectively.

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

M.Goldin

In March 2013, discussed among other things at the meetings of the Presidium of the Government of the Russian Federation were the following issues: draft law on the Principles of Public-Private Partnership in the Russian Federation and draft law on Public Entities in the Russian Federation.

On ***March 7***, discussed at the meeting of the Government of the Russian Federation was the draft law on the Principles of Public-Private Partnership in the Russian Federation. It is to be noted that the draft law was developed by the Ministry of Economic Development of the Russian Federation in accordance with Instructions of December 23, 2011 and April 28, 2012 of the Government of the Russian Federation.

According to Article 1 of Part 2 of the draft law, after approval the document will set guidelines for state regulation of public-private partnership (PPP) and powers of the Russian Federation, constituent entities of the Russian Federation and municipal entities in fulfillment of agreements on public-private partnership. At the same time the provisions of the draft law in question will not apply to relations related to implementation of projects on the basis of a public-private partnership at the expense of investment funds' budget allocations. Such projects are likely to be carried out in accordance with the legislation on concessions. In addition to the above, in accordance with the draft law provisions of Federal Law No. 94-FZ of July 21, 2005 on Placement of Orders on Goods Supplies, Doing of Jobs and Rendering of Services for Public and Municipal Needs will not apply to conclusion and implementation of agreements on PPP.

The draft law provides a notion of the public-private partnership (PPP). PPP means such cooperation between the public partner on the one side and the private partner on the other side as is carried out on the basis of the agreement – concluded on the basis of the results of tender procedures – on public-private partnership aimed at upgrading the quality and better provision of services to people and attraction of private investments to the economy.

In accordance with the draft law, PPP's purpose consists in provision to the private partner of the property – which is required for carrying out activities provided for by the agreement on public-private partnership – in ownership and (or) use and (or) the right to use the outputs of intellectual activities or individualization funds required for fulfillment of the agreement on public-private partnership.

The specifics of implementation of individual forms of public-private partnership and individual types of agreements on public-private partnership should to be regulated by individual federal laws.

In PPP, private partners are not allowed to be:

- State-owned companies;
- State corporations;
- GUP and MUP;
- Public and municipal entities;
- business entities in whose charter capital 100% of shares or interests is owned by the Russian Federation, constituent entity of the Russian Federation or municipal entity.

The draft law removes a number of problems and differences which exist in the effective federal legislation on PPP. The draft law in question eliminates a discrepancy between the practice of implementation of PPP projects and the norm of Article 17 of Part 3 of Federal Law No. 135-FZ of July 26, 2006 on Protection of Competition under which it is prohibited in carrying out of auctions for placement of orders on goods supplies, doing of jobs and rendering of services for public and municipal needs to limit competition between participants in the auction by means of including in the composition of the lots the produce (goods, jobs and services) which is neither technologically nor functionally related to goods, jobs and services whose supplies, fulfillment and rendering are the subject of the auction. Application of the above norm of the Law on Protection of Competition could have resulted in a PPP project united by a common purpose being "torn" into multiple auctions with different bidders.

Also, the draft law introduces amendments into the Land Code of the Russian Federation; the above amendments provide for leasing of a land plot for activities specified in agreements on PPP without both holding of auctions (tenders) and preliminary approval of places for location of projects.

At the meeting of the Government of the Russian Federation, the draft law on the Principles of Public-Private Partnership in the Russian Federation was approved and submitted to the State Duma of the Russian Federation. In addition to the above, in preparation of the draft law for consideration by the State Duma in the second reading A. Belousov, Minister of Economic Development of the Russian Federation and A. Siluanov, Minister of Finance of the Russian Federation were instructed to specify provisions as regards introduction of amendments into the Land Code of the Russian Federation and the Federal Law on Placement of Orders on Goods Supplies, Doing of Jobs and Rendering of Services for Public and Municipal Needs.

On ***March 21***, the draft federal law on Public Entities in the Russian Federation and Amendment of Individual Statutory Acts of the Russian Federation was discussed at the meeting of the Government of the Russian Federation.

The draft law was developed by the Ministry of Economic Development of the Russian Federation within the framework of the reform of the civil legislation as regards forms of incorporation of entities in pursuance of Instructions No.Pr-1793 of July 17, 2012 of the President of the Russian Federation. It is to be noted that earlier in August 2011 the Ministry of Economic Development of the Russian Federation submitted for public debates the federal draft law on Public Entities in the Russian Federation. However, on the basis of the feed-back received it was decided that further development of the draft law was required.

After being approved as a federal law, the draft law provides for introduction into the legislation of the Russian Federation of a new form of incorporation of non-profit organizations – a public entity. The draft law sets a general approach both to the procedure of establishment, operation, management and liquidation of such companies, as well as a number of other issues.

Public entities are to replace the existing specialized forms of incorporation of non-profit organizations through which the government participates in civil law relations: state corporations and state-owned companies[1]. It originates from the following:

- first, the schedule plan of measures aimed at restructuring and liquidation of Rosavtodor, a state-owned company approved by Resolution No. 6793 n–13 of December 29, 2010 of the Premier of the Government of the Russian Federation;
- second, the close classification of the forms of incorporation of non-profit organizations specified in draft law No. 47538–6/2 on Amendment of Chapter 4 of Part 1 of the Civil Code of the Russian Federation, Article 1 of the Federal Law on Insolvency (Bankruptcy) and Recognition as Null and Void of Individual Provisions of Statutory Acts of the Russian Federation which concern exclusively public entities.

At the same time, there is a reservation in draft law No. 47538–6/2; under the above reservation provisions of the Civil Code of the Russian Federation as regards legal entities are applied to Rosavtodor, a state-owned company, as well as other legal entities established by the Russian Federation on the basis of special federal laws to the extent that otherwise is not provided for by a special federal law on a relevant legal entity. So, in Russia for an uncertain period of time there will be actually three specialized forms of incorporation of non-profit government organizations with almost the same status.

The draft law is meant to liquidate many disadvantages of the existing legal regulation of state corporations and state-owned companies which along with a high extent of their autonomy provide the government with inefficient instruments of control over their activities.

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

1 At present, there are seven state corporations: Rosatom, Rostekhnologia, Rosnano, the Agency for Insurance of Deposits, the Fund for Assistance in Restructuring of Housing and Public Utilities, The Bank for Development and Foreign Economic Affairs (Vneshekonombank), the State Corporation for Building of Olympic Projects and Development of the City of Sochi as a Mountain Resort and Rosavtodor, a state-owned company.

REVIEW OF REGULATORY DOCUMENTS AS REGARDS TAXATION ISSUES IN FEBRUARY–MARCH 2013

L.Anisimova

In the period under review, the most high-profile developments in the world economy were financial problems of Cyprus, visit of China's new leaders to the Russian Federation and the issues related to development of the principles of mutual relations with China in the sphere of economic cooperation. In the domestic economy, the issues of strengthening of the revenue base of regional and local budgets remained topical along with the issue of pseudo-taxes which kept emerging beyond the limits of the Tax Code of the Russian Federation, thus increasing compulsorily expenditures of goods manufacturers.

1. Cyprus is a country which joined both the European Union and the European Monetary Union and managed at the same time to transfer relations with Russia into a regime which was the most advantageous to it (not long ago Russia excluded Cyprus from the list of tax haven zones and concluded a double taxation treaty with Cyprus on standard terms which comply with standard procedures utilized in relations with countries with advanced market economies, that is, actually recognized low tax rates applied in Cyprus in respect of income received by Cyprian residents outside Cyprus as economically insignificant for development of effective market relations). Such an advantage has a logical explanation – Cyprus has become a EU member-state and Russia started to apply the same rules to it as to other EU member-states. As a result, Russian companies secured a strategically convenient financial settlements center directly in the territory of the European Union which permitted them to gain an easy access to the stock-exchange infrastructure. At the same time, the Russian business management center moved to the Cyprian offshore which situation ideally suited minimization of a tax burden on revenues[1]. To evade Russian taxation, Russian companies established in Cyprus their subsidiaries which became legal residents of that country. A change of the owner took place beyond the jurisdiction of the Russian Federation. Simultaneously, in Russia a Russian resident established a legal entity which a profitable business of the Russian company was assigned to and then the equities of that legal entity were bought for a large sum of money by the resident of the Cyprian offshore (Russian entities managed to secure in Russia exemption from taxation of income received from sale of equities of Russian companies, provided that the seller owned them for at least five years) and the Cyprian resident thus became an investor with a profitable subsidiary's business in Russia. Proceeds from sale of equities were also withdrawn from Russian on a legal basis – they bought a real property or established a trust. The above is not principally important for further analysis of the situation (it is just worth mentioning that the tax system of the Russian Federation helped some former compatriots become Europeans with preservation of the rent income received from Russia).

Financial offshore banks can exist and make money if settlement operations take place in their accounts all the time as a bank's revenues are a percentage difference between the attracted funds and deposited funds (in Cyprus the cost of bank assets exceed seven times over the country's GDP, so a constant turnover is vitally important to it). A partially financial business in Cyprus was based on circulation of funds in accordance with following scheme: a bank in Cyprus granted a Russian entity a loan out of funds placed by the Russian offshore company into deposits with that bank. The Russian offshore company (single-handedly or through an intermediary) would sell the produce of its subsidiary (in export of the produce VAT was not paid to the Russian budget)

1 The advantage of the Cyprian legislation consists in the fact that it complies with the English law. In carrying out transactions in Cyprus one receives protection of ownership rights within the frameworks of the English law, that is, beyond the Russian judicial system. The tax legislation for Cyprian residents is a favorable one: income from operations with securities and their derivatives (proceeds from sale of securities) is exempted from taxation (in Cyprus deemed as securities are shares, bonds and interests of company participants or other legal entities); the VAT rate amounts up to 15% (18% in the Russian Federation), dividends tax, to 5% (9% in the Russian Federation) and profit tax, to 10% (20% in the Russian Federation).

and repaid the loan on behalf of the borrower, thus replenishing its own deposit with the bank in Cyprus[1]. But during the crisis due to falling demand on the produce financial turnover through Cyprian banks slowed down. Demand in loans against a commodity collateral decreased and, as a result, profitability of banking operations dropped a great deal.

In our view, in order to prevent capital flight from the banks and ensure stable payment of interests on the attracted funds Cyprian banks agreed on the EU scheme under which they bought the Greek bonds in return for the liquidity required both for carrying out current bank operations and financing government expenditures[2]. The main problems of the two largest private Cyprian banks "emerged after the Greek bonds were written off by 50%"[3]. It seems that during the crisis other liquidity sources in the banking sector of Cyprus dried up. A condition for reciprocity between Cyprus and the European Union was probably a request that the former should cut the volume of its state expenditures: the European Union provided Cyprus with a fixed volume of liquidity and had no intensions to issue the euro in excess of the agreed upon volumes because stability of the euro ensured financial stability in Europe as a whole [4].

By 2013, the need in expenditures for financing increased and exceeded the limits of the earlier approved volume of assistance (euro 10bn). Cyprus turned to the EU governing authorities with a request for euro 17bn worth of assistance, but failed to secure it. The Cyprian government's application to Russia for a new euro 5bn loan – in a situation where Cyprus's euro 2.5bn debt to Russia was still outstanding – was turned down, too. In the third decade of March, the EU approved a decision to grant Cyprus euro 10bn, provided that the Cyprian banking sector was restructured, a tax of over 30% on some types of deposits of over euro 100,000 introduced and other limitations on banking operations imposed after unblocking of accounts. It remains to be seen to what extent the crisis is going to be destructive for the banking sector of Cyprus. The country has preserved tax privileges that make it attractive to some types of transactions, but its banking sector has been safely integrated into the unified banking system of the European Union, that is, it will have to comply with the requirements of the regulator and be subject to tight supervision.

It appears that it was, to some extent, a pre-emptive strike aimed not at the Russian business, but at prevention of utilization of Cyprus as a base for a possible unchecked injection of inexpensive US dollars into the European banking system. It is to be reminded that not long before the financial crisis broke out large-scale buying of real estate in Cyprus was started by representatives from South-East Asia. The influx of the Russian capital sent once prices up in Europe, while the

1 According to Moody's, a rating agency, Russian banks which carry out operations with Cyprus-based companies of Russian origin and Cyprian banks put at risk $43bn to $53bn in total in case of the island's default. It is to be noted that the volume of Russian banks' funds deposited with banks in Cyprus was estimated by the above agency at $12bn, while that of Russian companies' deposits in Cyprus, at $19bn. ("The Central Bank of the Russian Federation assures that the situation in Cyprus will not affect the Russian banking sector", Web-site of MK, March 19, 2013).

2 It originates from the comments of W. Schauble, German Finance Minister that Cyprus's two largest banks rely solely on the liquidity provided by the European Central Bank. "Somebody has to explain that to Cyprus", Mr. W. Schauble was quoted as saying by the Associated Press Agency (see Web-site of Kommersant.ru of March 20, 2013).

3 Interview of O. Viyugin, Chairman of the Board of Directors of the MDM Bank to the Ekho Moskvy Radio Station on March 27, 2013.

4 During the crisis, the structure of consumer demand undergoes changes due to the fact that capital is withdrawn from the business and hoarded. As a result, a part of the business becomes bankrupt and problems arise with realization of some products on the market – preference is given to the specific assortment of goods (basic goods, fuel and energy) – which situation is accompanied by growth in prices. Price-rises can be held in check only by way of limitation of solvent demand. As a result, people demand restoration of the former level of consumption, pay and pensions increase and other. It is obvious that in such a situation preservation of the EU agreed upon ultimate liquidity volumes provided to banks should be based on reduction of government expenditures and restructuring of the budget structure. The Cyprian government took another way in that situation: in 2011 it turned to Russia for help and was granted a state loan worth euro 2.5bn. The money was spent and an additional foreign debt was incurred. Non-monetary sources of repayment of that debt could be only taxes. Building up of state debts for repayment of the current state debt would just aggravate the risk of a necessary euro emission to the entire EU. Acquisition by Russia of property in return for the funds would, probably, have reduced automatically the quota of Cyprus in the European Union, but it would not have eventually solved that country's financial problems. In that situation, the decision of the Russian Federation to reject a new state loan to Cyprus was a well-balanced one. The proposal to convert (buy out) the Russian "frozen" deposits in Russian banks' interests in capital of Cyprian banks – as was suggested by M. Prokhorov (see: D. Nizhegorodtsev: "Mikhail Prokhorov Proposed a Salvation Plan for Cyprus", Web-site vz.ru, March 20, 2013) – was not endorsed by Russian banks as in the current situation it would be dangerous and inefficient to "freeze" the capital.

unchecked inflow of inexpensive US dollars can produce a more serious destructive effect both on the European economy and the euro exchange rate – it was for that reason Latvia was sent a warning by the EU not to accept funds transferred from Cyprus.

2. An important event in the period under review was the election of the new leaders in China and their visit to the Russian Federation. Taking into account the fact that during that visit major agreements in different sectors of the economy were concluded, it is worth paying attention to some nuances which are important for development by Russia's leading companies of a strategy of further cooperation with China in order to achieve mutually beneficial relations.

It is believed that in development of relations with China one has to be guided by the same rules which countries with developed market economy follow. In particular, it is the EU legislation that is meant here; according to that legislation in the EU territory foreign state corporations must work on the same free market principles that were established for private companies. In accordance with the document on establishment of the European Union, absolute priority is attached to the interests of private companies and protection of the free and competitive market is declared as the goal of the state administration in the economic sphere. Russian leaders stick to the same position as regards the priority of the competitive market.

It is believed that no exceptions from the above rules should be made no matter how benevolent such relations may be. With seemingly convenient and easy contracting and large-scale volumes of deals which are typical of state corporations, one should not underestimate the fact that any state corporation is virtually a monopoly which (with a direct or covert support of its government) is seeking primarily to control prices and terms of entering into contracts on the foreign market. For a competitive market economy, access of "foreign" state corporations on such terms is unwelcome as it inevitably results in destruction of the private business in the territory of the country where that "foreign" corporation was granted access to.

It was shown in previous reviews that in production of identical products – unlike an ordinary competitive market participant – state corporations have explicit advantages which permit them to keep operating costs below the market level. As a state corporation has no need to insure commercial risks and is in a position to attract inexpensive borrowed funds (its obligations are deemed to be guaranteed by the government) it can afford to offer its produce at prices of the very low market segment. As a result, financial flows will get re-orientated at the products of a foreign "state corporation", while market entities of the country where that foreign state corporation was granted access to become unprofitable and lose their market. With absence of the competitive market, virtually all the financial resources are transmitted into a "foreign" economy in the form of payment for goods (jobs and services) of a "foreign" state corporation. Production capacities of domestic market participants get exhausted: their products fail to be sold, costs are left uncompensated, they have no funds to pay wages to their employees, so the latter quit in search of a better job. The competitive market eventually breaks down – it gets under complete control of a "foreign" monopoly.

Due to financial problems in Europe and reduction of sales in that market as a result of shale gas revolution, Russia is seeking to diversify its sales markets by expanding its presence on the Asian markets, particularly in China. China has amassed vast experience in doing business on the free market, so Russia has to cooperate with it on the basis of correct and mutually beneficial terms. It is to be remembered that primary products are real assets which are always in high demand on the market. The consumer cost of hydrocarbons as primary products is all the more high as they make up a material base of a very large range of products (in the form of primary products, fuel and energy) and exclusion of the above products from the international commodity exchange process by virtue of the existing structure of global production is highly unlikely in the near future though some market fluctuations may take place. At the same time, the market price of goods in terms of money value depends not only on consumer demand, but also purchasing power of currencies which are present on the market. So, fluctuations of the purchasing power of currencies should be taken into account in international commodity transactions related to deliveries of primary products. For a number of years, the USA has repeatedly drawn China's attention to the need of strengthening of the yuan. Lately, the USA has been actively carrying out the policy of quantitative softening of the US dollar in order to get out of the crisis. As China has to maintain the parity of the exchange rate between the yuan and the US dollar buying the latter for the yuan, it seems that some surplus funds have been created in China's domestic economy which funds it finds difficult to absorb so far and has to carry out sterilization by means of tax measures[1]. Raising of taxes is an inefficient decision as taxes forcibly limit business activities and may frighten off investors. Further US dollar softening may result in unfavorable growth in prices on China's domestic market. In such a situation, the most intelligent decision is, undoubtedly, reinvestment of surplus inexpensive US dollars into real assets. It would be an optimal decision for China: to fix prices on Russian primary products in US dollars for a long period of time and simultaneously weaken the US dollar pressure on domestic market prices. Though Russia crucially needs investments, it is to be remembered that hydrocarbons are a special commodity which forms the material base of the output of the present-day manufacturing, so it would be inadvisable to fix such prices for a long period of time in overbought currencies: if depreciation of currencies continues, hydrocarbons will appreciate as compared to contractual prices.

China's policy is aimed at long-term fixing of prices on supplies of primary products and fuel from Russia at prices which are lower than those at which Russia supplied (and keeps supplying) fuel to Europe. The above policy will ensure China competitive advantages in production within a long period of time. In entering into agreements, Russia has to avoid the following unfavorable factors:

1) slowdown of development of the domestic production in Russia (which is uncompetitive so far) which may increase due to growth in supplies of inexpensive goods from Asian markets; it is to be noted that a factor behind low prices on such goods will be the cost of primary products bought from Russia in future[2];

2) subsidies may be charged from the Russian Federation on the markets of WTO-member states if the price on the domestic market happen to be lower than that on the European market.

3. In the period under review, the issue of expansion of the regions' tax base was keenly discussed in the mass media.

The property tax whose development was under way for almost 20 years is about to be introduced. S. Shatalov, First Deputy Minister of Finance of the Russian Federation informed the general public that "technical arrangements for introduction of a new individual property tax are virtually completed: Rosreestr has prepared cadastral registers of real property items being in ownership, including real property of individuals by all the constituent entities of the Russian Federation and large-scale evaluation of such property was carried out"[3]. Though verification of owners of real property has not been completed yet, the Deputy Minister of Finance believes that an actual transfer to the above tax can be started from 2014. Regions are in a position to take decision on introduction of the above tax until 2018. Until recently, the tax base of taxable real property items was calculated on the basis of the BTI inventory cost and happened to be 10-20 times lower than the market appraisal. As a result of the technical work done, instead of 30m–35m of taxable real property items the new registers now include 70m real property items which the individual

1 The boom on the building market was temporarily suspended – China does not need expensive real estate which cannot be sold due to the fact that the domestic demand on it was not formed and the country is not interested in raising wages and salaries because inexpensive skilled workforce is an important competitive advantage of the Chinese economy.

2 For example, negotiations with China on gas supplies have been dragging for a few years due to the fact that both the sides cannot agree on the price of gas. Gasprom wants China to pay for Russian gas supplies the same price it receives from Europe, while China is seeking a discount. In particular, it was earlier said that if Europe buys Russian gas at $400 per thousand cubic meters, China wants to buy it for $200 (see: *Both Oil and Gas. Major Agreements on Primary products Signed between Russia and China*, Web-site Vz.ru of March 22, 2013).

The Metropol Group found a partner – NFC, a Chinese company – for development of Ozernoe, a zinc deposit in Buryatia. Investments in the project are estimated at up to $1.5bn. If the project is implemented, the joint venture of Metropol and NFS with a capacity of 740,000 tons of zinc concentrate a year will become the largest Russian producer which surpasses UGMK (250,000 of zinc in 2012). However, analysts point out that in the past year and a half zinc prices did not appreciate due to the pressure on the part of China which became the largest zinc producer and manufacturer (A Dzhumailo: "They have found a Chinese Investor for Buryatsk zinc. Metropol has agreed with NFS on development of the Ozernoe deposit", Kommersant daily No. 51 (5082) of March 26, 2013).

3 O. Samofalova. "It is not enough, anyway. Even a six-fold increase in revenues from the property tax will hardly make Russian local governments richer", Web-site of vz.ru of March 5, 2013.

property tax is to be charged to. According to the Deputy Finance Minister, the maximum sum of those tax revenues which is expected to be received by local governments may amount to Rb 100bn to Rb 120bn as compared to Rb 20bn which is collected at present. The maximum tax rate will be set at the federal level and, allegedly, it is not to exceed 0.5%.

Experts estimate cautiously the consequences of introduction of the new tax.

At present, local budgets receive local taxes revenues and allocations from federal and regional tax revenues. There are only two local taxes: the land tax and the individual property tax. In 2012, with budget revenues of constituent entities of the Russian Federation amounting to Rb 8.0 trillion and the deficit, to Rb 0.4 trillion, the share of regional and local taxes accounted for the one-tenth, including Rb 160bn worth of local tax revenues. From 2013, transfer of revenues from special tax regimes to the local level was envisaged. The share of revenues from special tax regimes in the revenues of the regions' consolidated budgets is equal to 4.5–7%[1], so local governments will be handed over more than Rb 400bn, but the aggregate deficit of the regions justified by introduction on the federal level[2] of tax privileges as regards the profit tax and individual income tax will not eliminate the above reassignment of funds. With introduction of the property tax, the revenue base of municipal budgets may increase by another 75%. According to experts' evaluations, a strong factor limiting further growth in revenues of that tax will be a low solvency level of a larger part of the population (the profit tax and individual income tax are paid in the form of a share of current incomes, while the property tax is charged on the basis of the cost of the property and its volume does not directly depend on the income of the payer, that is, the financial standing of the population).

Thus, as seen from the above the approved decisions on transfer of revenues of special tax regimes to the municipal level and introduction of the property tax will hardly solve completely the problem of absence of own funds in regions.

4. Mandatory payments introduced beyond the Tax Code of the Russian Federation and tariffs of natural monopolies are still a major problem for the economy. Here are a few examples to support that thesis.

4.1. It is explained by Resolution No. 5-P of March 5, 2013 of the Constitutional Court of the Russian Federation that in accordance with Article 16 of the Federal Law on Protection of the Environment a negative effect (pollution) on the environment is to be paid for. Attributed to negative effects are the following: air emissions of pollutants, discharge of pollutants and microorganisms in water and water catchment areas, pollution of soil, disposal of industrial and consumer waste, pollution of the environment by noise, heat, electromagnetic and ionizing emissions and other. Such a fee is not provided for by the Tax Code of the Russian Federation, as it is not a tax and the procedure for calculation and charging of it is set by the Government of the Russian Federation.

As was repeatedly stated in the reviews, if setting of a mandatory payment is delegated by the law to the Government of the Russian Federation the economic nature of such payments happen normally to be vague – it is unclear whether such a fee should be attributed to the methods of administrative pressure or paid services, nor are its limits (amounts) and collection procedure specified. Uncertainty around such issues often makes the Constitutional Court of the Russian Federation to solve later on the issues of application of such fees.

Resolution No. 632 of August 28, 1992 of the Government of the Russian Federation approved such a procedure for determination of the fee and its ultimate amount as is applied to legal entities and individuals which carry out any types of activities related to use of natural resources; also, the above procedure envisages charging of a fee for negative effects on the environment, including disposal of waste and sets general rules of calculation of such a fee. In accordance with a scheme of interrelations provided for by the Resolution, in disposal of waste arbitration courts established, in particular, that by accepting under an agreement the urban ore (UO) from other entities for

1 Calculations were carried out on the basis of the data of the Administration of the Altai Territory (Web-site: altairegion22.ru); The Federal Tax Service Department of the Kurgansk Region (published in the section: inspection/174214 on the Web-site: klerk.ru); B.Kh.Aliev. "Development of Special Tax Regimes in the Economy of the Region" as regards the Republic of Dagestan (published on the Web-site: uristmoscow.ru)

2 For reference: the share of the individual income tax amounts to about 53% of regional budget, while that of profit tax, property tax and other revenues , including revenues from special tax regimes, to over 16%, about 23% and 8%, respectively.

burial at the landfill which is temporarily owned (leased) by the contractor entity the latter actually appropriated that UO (that is, the contractor entity was assigned the title to UO). As the fee is set on the basis of the level of the content of harmful substances (the level of pollution) in UO, the contractor entity which actually did not produce any harmful substances was recognized as the payer of a mandatory payment for a harmful effect on the environment. In addition to the above, as a small enterprise which carries out disposal of waste at the leased land plot did not develop a document – which was to be executed in accordance with the adopted procedure – on approval of both the norms of formation of the waste and the limits on disposal of such a waste, the specified fee for a negative effect on the environment is to be calculated with taking into account a five-fold multiplying factor.

OOO Topol, a small business enterprise disputed the above procedure at the Constitutional Court of the Russian Federation; it believed that the payment set by the abovementioned statutory acts did not comply with the Constitution of the Russian Federation. In particular, it was stated in a lawsuit that as the law did not specify liable persons (those who are obligated to make a payment) the payers of mandatory payments were designated by courts of arbitration. In addition to the above, as UO is created as a result of activities of other persons, contractors should not be obligated to make payments for the negative effect produced by those persons on the environment. The applicable legislation (the environment payment has the status of a mandatory payment) does not permit to include in tariffs on waste collection services (transportation and disposal) the amounts paid by contractors for exceeding of the norms by "the sellers" of the waste (according to the stance of the Supreme Commercial Court of the Russian Federation). The plaintiff pointed out that liquidation of landfills would result in violation of the Constitution as numerous unauthorized dumps emerged and people's constitutional right to satisfactory and healthy environment was infringed.

Having taken up the case, the Constitutional Court of the Russian Federation came to the conclusion that it was not so much the fiscal interest of the government to replenish the coffers as the common interest to preserve the environment and ensure environmental security that constituted the legal basis of ecological payments. Those payments were mandatory legal payments for the government's measures aimed at protection and recovery of the environment from the consequences of business and other activities which had a negative effect on the environment within the limits of the norms (set by the government) of such an admissible effect; those payments were of individual indemnification and compensating nature and according to their legal nature they were not a tax, but a fiscal fee. The Constitutional Court of the Russian Federation confirmed its position which was set out earlier in Ruling No.284-O of December 10, 2002 to the effect that payment for a negative effect on the environment was a form of indemnification of the economic damage from such an effect and it is charged from those business entities whose activities were actually related to the negative effect on the environment. The Constitutional Court of the Russian Federation came to a conclusion that legislators should eliminate loopholes in the legislation on protection of the environment and bring statutory acts in harmony with the Constitution of the Russian Federation.

Unfortunately, the economic meaning of the notion "legal payment" which is of an indemnifying and compensating nature is not quite clear. Let us explain that. As was shown above, the person who was allocated a duty to pay at its own account for restoring the environment to the original state may not necessarily be in a position to meet that requirement for financial reasons. One cannot but agree with the Constitutional Court of the Russian Federation that restoration of the environment is a government function. The above payment is sooner a fee (in the amount of complete or partial cost of the required work) which the government may collect for its services related to restoration and preservation of a favorable ecological situation. If the above service is carried out by somebody else and not by the government, such a payment in the volume of the service provided should be transferred to the person who actually fulfils that service. However, the "legal payment" formula set by the law as a mandatory payment with preset parameters does not permit to do that.

As it can be seen, introduction of mandatory payments in the legislation beyond the Tax Code of the Russian Federation actually results in compulsory growth in manufacturers' costs: though by its economic nature, the payment in question should be transferred to the government (that is, in the budget) less expenditures related to payment for the third persons' waste disposal services, it seems it will be allocated in the full amount (with a fivefold multiplying factor applied) to the after-tax profit (as a sanction for exceeding of the norms of utilization of natural resources).

4.2. The procedure for setting of tariffs on goods (jobs and services) of natural monopolies is by no means an easier problem for public justice. It is also a payment aimed at indemnification of expenditures related to provision of public services. In a conflict discussed below, the plaintiff appeals to the fact of absence of competitive conditions for formation of prices. According to the plaintiff, by virtue of that it incurs economically unjustified mandatory expenditures which reduce artificially its profitability.

In a lawsuit – filed by OOO AkvaReil – on recognition as null and void of provisions of Order No. 78-t/1 of May 4, 2012 of the Federal Service on Tariffs (FST) of Russia on Introduction of Amendments and Additions to Price List No.10-01 “Tariffs on Cargo Carriage and Infrastructure Services by Russian Railways”, it is stated that by the above Order tariffs discriminating the terms of access to OAO RZhD services were introduced. In particular, for light running of a grain carrier hopper wagon a fee is charged which largely exceeds the fee for light running of a low-sided car or flat wagon which situation puts the person which provides consumers with hopper wagons for transportation of grain in a position which is not equal to that of other business entities which provide low-sided cars for carriage of alumina and other cargo. The plaintiff believes that for the purpose of non-infringement of the norms of protection of competition determination of payments for light running of grain carrier wagons should be carried out on the basis of the same rules which determine the fee for light running of low-sided cars.

The issues of determination of tariffs on railway transportation were repeatedly considered by the Supreme Commercial Court of the Russian Federation (SCC RF).

In its decision No.VAS-17239/12 of March 7, 2013, the Supreme Commercial Court of the Russian Federation drew the plaintiff’s attention to the fact that the government of the Russian Federation approved the Plan of Structural Reform Measures on the Railway Transport. By means of the above Plan, the Government of the Russian Federation determined the creation of a special-purpose model of cargo railway carriage till the year 2015, which model had to envisage unification of tariffs on light running of the own (leased) freight wagons irrespective of the class of the earlier transported cargo with taking into account reduction of the size of cross-subsidy in tariffs on transportation of cargo of different tariff classes. It is to be noted that the program of structural reform of the railway transport and the special-purpose model of the market are also an integral part of implementation of the Transport Strategy of the Russian Federation till 2030 and the Strategy of Development of the Railway Transport in the Russian Federation till 2030 approved by the Government of the Russian Federation (within the frameworks of Instructions No. 1734-r of November 22, 2008 and Instructions No. 877-r of June 17, 2008).

The reform in question is meant to gradually divide the market into the owners of the railway transport infrastructure (the infrastructure includes railway lines, electrical facilities, communications, stations and other) and carriers (owners of rolling-stock and a fleet of locomotives). Before such a division is accomplished it is hardly possible to achieve equality in terms of operation of wagons as the plaintiff wants. The thing is that OAO RZHD is still the owner of not only the railway infrastructure, but also a large fleet of wagons and locomotives. As the fleet of wagons owned by OAO RZHD wears down, they expect to write them off and replace with private fleets of cars. At the next stage, it is planned to replace the fleet of locomotives of OAO RZHD for private ones. In such a situation, before the reforms are completed differentiation of tariffs is inevitable as the fleet of wagons of OAO RZHD needs to be gradually liquidated and tariffs paid by the fleet of wagons to be liquidated and those paid by fleets of private wagons do not enter into market competition with each other: a private company is charged a fee for utilization of the infrastructure –which fee is a market price – while empty mileage of RZhD cars is RZhD’s own expenses.

At present, the actual problem consists in the fact that during the crisis restructuring of the railway transport has slowed down. The danger of such a slowdown was repeatedly stated in the mass-media by the management of the railway transport. Carriers have raised for a long of time the issue of making railway carriage accessible to private fleets of locomotives, but it seems that during the crisis for OAO RZhD the utilization of its own fleet of wagons and locomotives remains the most reliable source of financing of expenditures related to maintenance and overhaul of the railway infrastructure.

The plaintiff is undoubtedly right in its approach, but its lawsuit is, unfortunately, premature. However, the above lawsuit reflects a principally different trend in development of the Russian business – the manufacturer of goods wants to know for what reasons the schedule of restructuring of OAO RZhD was upset due to which factor the manufacturer's business incurred losses and further business development was complicated. The Government of the Russian Federation should seriously handle those issues and develop the mechanism that prevents disruptions of the work schedule – because the above factor is a serious problem which makes the investment climate unfavorable in the Russian Federation.

4.3. Another problem consists in assignment of the right to determine the tariffs to the monopoly. The following example deals with prices on housing and public utilities services. In 2012, the annual growth in tariffs in some regions amounted to over 200% and reasons for such high growth were not justified enough. The danger of a monopoly consists in the fact that it first minimizes the price to ruin its competitors and then it includes a pseudo-tax in the price for its services in order to compensate the losses incurred. The most dangerous situation takes place when regional leaders are approached by persons who participate in the monopoly's income.

Such a situation cannot but become socially explosive.

Taking into account the fact that in the past few years tariffs on housing and public utilities services grew at the rates which exceeded twice as much the inflation rate and the quality of those services did not improve, a decision was taken to consider that situation at the meeting with the President of the Russian Federation. On the basis of the results of that meeting, a decision was taken on the ultimate increase of 6% in the tariffs in 2013; Instructions No. DK-P9-1327 of March 1, 2013 of the Government of the Russian Federation was prepared (it was signed by D. Kozak, Deputy Chairman of the Government of the Russian Federation). The outputs of fulfillment of the above Instructions were the guidelines developed by the Federal Tariff Service of Russia and dispatched by Letter No.SN-2164/5 of March 6, 2013 to executive authorities of constituent entities of the Russian Federation.

According to the above guidelines, a 6% growth in prices for public utilities services on the annual average basis with taking into account the fact that in the first half of 2013 prices were not increased means that in the second half of 2013 the maximum growth will amount to 12% (in municipal entities with domination of the aggregate payment of households for power and gas supply services growth in tariffs will not exceed 15%, while at garrisons the amount of the tariffs is determined by agreement with the Federal Tariff Service of Russia).

Among technical issues, it is worth mentioning the following:

5. Letter No. ED-4-3/4184@ of March 14, 2013 of the Federal Tariff Service of Russia explains application of reduced VAT rates in taking of goods manufactured in the territory of other member-states of the Customs Union (CU) to the Russian Federation. In accordance with Article 2 (5) of the Protocol of December 11, 2009 on the Procedure for Charging Indirect Taxes and the Mechanism of Supervision over Payment of Such Taxes in Export and Import of Goods to the Customs Union, the amount of indirect taxes liable to payment for goods imported to the territory of one member-state of the CU from the territory of another member-state of the CU is calculated by the taxpayer on the basis of tax rates set by the legislation of that member-state of the CU which territory the goods are imported to.

In import of goods to the territory of the Russian Federation, the VAT should be paid at rates set by the Tax Code of the Russian Federation. Reduced rates are applied if the name and the *Customs Union Commodity Classification of Foreign Economic Activities* code of imported goods comply in full with sub-positions provided for those goods in the Russian Federation (for example, as regards baby goods charged at a reduced VAT rate of 10% only juice in the package of 0.3L is acceptable). In other cases, the general VAT rate of 18% is applied.

6. Weakening of the institute of banking secrecy under the pressure of requirements of tax authorities is becoming more evident in the Russian Federation. Letter No.31-T of February 27, 2013 of the Central Bank of the Russian Federation and Letter No. AS-4-2/22679 of December 29, 2012 of the Federal Tax Service of the Russian Federation set out new requirements to disclosure of the information on bank accounts to tax authorities due to approval of Federal Law No.97-FZ of June 29, 2012 on Amendment of Part 1 and Part 2 of the Tax Code of the Russian Federation and Article 26 of Federal Law on Banks and Banking.

From January 1, 2013, banks (in addition to the information on accounts and electronic cash funds) have to provide tax authorities with information on deposits with banks and (or) balances in deposits, as well as deposit statements. The information is to be provided as per request: 1) certificates on accounts (special bank accounts); 2) certificates on account balances (balances on special bank accounts); 3) account statements (special bank account statements).

7. By Federal Law No. 29-FZ of March 14, 2013 on Amendment of Individual Statutory Acts of the Russian Federation, branches of foreign banks have been excluded from the banking system of the Russian Federation. Subsidiaries of foreign banks – independent legal entities under the Russian legislation – are allowed to carry out activities. The main factor behind that decision was the fact that a Russian bank is issued a Russian license, it is subordinate and accountable to the Central Bank of the Russian Federation and has a balance-sheet of its own. The Russian banking legislation is not applied in full to foreign banks' branches, their accounts show only those operations which they carry out, so the ratios and norms set by the Central Bank of the Russian Federation are not mandatory for them.

CHANGES IN THE REGULATORY BASE OF THE BUDGETARY PROCESS IN MARCH 2013

M.Goldin

In March 2013, by Resolution of the Government of the Russian Federation a number of amendments to the procedure for formation and payment of pension accruals was approved; criteria of innovation and high-tech produce were determined by the Order of the Ministry of Industry and Trade.

By **Resolution No. 213 of March 16, 2013** on Amendment of Some Acts of the Government of the Russian Federation as Regards Payments by Means of Pension Accruals, such amendments were introduced into a number of acts of the Government of the Russian Federation as modify the rules of investment of pension accruals into individual classes (categories) of assets.

Resolution No. 190 of April 2, 2003 of the Government of the Russian Federation specifies the authorities of the Ministry of Finance of the Russian Federation and the Federal Service for Financial Markets due to coming into effect in July 2012 of Federal Law No. 360-FZ of November 30, 2011 on the Procedure for Financing of Payments by Means of Pension Accruals which sets the procedure for payment of pension accruals in the form of "term pension benefit". Accordingly, the function of approval of the composition of the necessary expenditures of the asset manager as regards investment of pension accruals is assigned to the authorities of the Ministry of Finance, while that of approval of the procedure, form and the period for provision of reporting by the entities of the relations in formation and investment of funds of pension accruals as regards funds of the payable reserve and pension accruals of the insured persons in respect of which term pension benefit is determined, to the Federal Service for Financial Markets.

In Resolution No. 379 of June 30, 2003 of the Government of the Russian Federation, the following provisions have been amended.

Pension accruals can be invested not only in bonds issued on behalf of the Russian Federation, constituent entities of the Russian Federation and municipal entities, but also in bonds of other Russian issuers provided that the above bonds have not become mature. It is to be reminded that according to the Federal Law on the Securities Market the issuer is recognized a legal entity, executive state authority and local government which are responsible on their own behalf or on behalf of a public entity to securities holders for fulfillment of the rights vested by the above securities.

It was determined that the maximum share of funds in the national currency of the Russian Federation and foreign currency in accounts with credit institutions, as well as deposits in the national currency of the Russian Federation and foreign currency with credit institutions (aggregately) in the investment portfolio formed by means of funds transferred by the Pension Fund of the Russian Federation in trust management to asset managers (AM) and investment portfolio of a non-government pension fund which carries out mandatory pension insurance should amount maximum to 80%.

At the same time, excluded from Resolution No. 231 of the Government of the Russian Federation was a requirement to the maximum share in investment portfolios of asset managers and non-government pension funds of bonds of Russian issuers whose obligations are guaranteed by the Russian Federation, as well as bonds whose issuer was assigned the rating of long-term creditworthiness as regards obligations in the national currency of the Russian Federation or foreign currency by one of the following international rating agencies – Fitch-Ratings, Standard & Poor's and Moody's Investors Service – accredited in accordance with the procedure set by a federal executive authority in charge of financial markets; the level of the above rating should not be below the sovereign rating of the Russian Federation as regards obligations in the national currency of the Russian Federation or foreign currency (the relevant rating is be assigned by at least one of the above rating agencies):

By amendments to Resolution No.500 of May 21, 2012 of the Government of the Russian Federation, it was determined that the amount of payment, composition of the required costs related to investment of pension accruals of the insured persons in respect of whom a term pension benefit is established, as well as the amount of remuneration of a state asset manager under relevant agreements on trust management of the above funds are set by the same rules that regulate the above issues in respect of other pension resources which are accounted for in the payable reserve.

Order No. 1618 of November 1, 2012 of the Ministry of Industry and Trade on Approval of the Criteria of Attribution of Goods, Jobs and Services to the Innovation Produce and (or) High-Tech Produce by Sectors Related to the Sphere of Activities of the Ministry of Industry and Trade of the Russian Federation specifies the criteria of attribution of goods, jobs and services to the innovation produce and (or) high-tech produce.

The Order was registered under No. 27584 by the Ministry of Justice of the Russian Federation on March 11, 2013.

The Order was approved as a sublegislative act which ensures the effect of the norm of Article 4 (4) of Federal Law No. 223-FZ of July 18, 2011 on Purchases of Goods, Jobs and Services by Individual Types of Legal Entities under which norm the respective criteria are to be established for the purpose of formation of the plan of procurement of innovation and high-tech products.

The following parameters serve as criteria of attribution of goods, jobs and services to innovation products:

1. Consumer properties (including performance parameters) of goods are new ones and (or) excel those (including performance parameters) of goods that were produced earlier;
2. In manufacturing of a product, outputs of R&D were utilized for the first time;
3. Consumer properties of goods are the upgraded ones as compared to the exiting analogs or, in case of absence of such analogs, there are quality new consumer (functional) parameters, including those which upgrade the competitiveness of the product or a new application mode which permits to expand utilization of the product;
4. In manufacturing of the product, only new or upgraded technological equipment, operating processes or technologies which were not used before in production of that product or new materials permitting to upgrade technical, economic, competitive, ergonomic, consumer and other parameters of the product were used;
5. In carrying out of jobs and rendering of services, R&D outputs which were not used earlier in fulfillment of such jobs and rendering of services were utilized for the first time;
6. Fulfillment of jobs and rendering of services are related to changes in the production process and utilization of a new or state-of-the-art equipment and/or software and new technologies;
7. The job is done and the service is rendered in the area where similar jobs and services were not utilized before;
8. The job and service are the new ones and they were neither done, nor rendered before;
9. In manufacturing of the product, fulfillment of a job and rendering of services, such outputs of intellectual activities were utilized as are subject to legal protection;
10. In manufacturing of the product, fulfillment of a job and rendering of services, new R&D and technological decisions were utilized.

Goods, jobs and services are recognized as innovation products if they comply with one or more criteria specified in items 1-10.

The following parameters serve as criteria of attribution of goods, jobs and services to high-tech products:

1. Goods, jobs and services are produced, carried out and rendered, respectively, by enterprises of science-intensive industries;
2. Goods, jobs and services are produced, carried out and rendered, respectively, with utilization of state-of-the-art production equipment, operating procedures and technologies;
3. Goods, jobs and services are produced, carried out and rendered, respectively, with participation of skilled and specially trained personnel.

Goods, jobs and services are recognized as high-tech products if they comply with all the three criteria specified in items 1–3.