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3–5, Gazetny pereulok, Moscow, 125 993, Russian Federation

Phone (495)629–67–36, fax (495)697–88–16, Email: lopatina@iep.ru

www.iep.ru

RUSSIAN ECONOMIC DEVELOPMENTS

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RUSSIA'S ECONOMY IN NOVEMBER 2013: PRELIMINARY DATA AND TRENDS

K.Rogov

Political and economic environment: a strong-arm approach

Russia's diplomatic and information efforts on the eve of signing a Euro-Ukrainian association agreement should be considered the key topic of the political and economic environment in November 2013. Russia's representatives repeatedly stated that if the association agreement is signed, the Russian-Ukrainian trade terms would deteriorate. Ukraine's President Victor Yanukovich met up with the Russia's President on November 9, 2013 during his "secret" visit to Russia, and on November 21, 2013 Yanukovich unexpectedly announced that Ukraine is going to unilaterally terminate the negotiations on the association agreement with the European Union which took two years to prepare and was scheduled for signing on November 28, 2013. However, no content of the Kremlin's alternative proposals which made the Ukrainian party change its mind was disclosed. In the Russian perspective these events should be treated as a new round of mounting tension between Russia and the European Union. Diplomatic maneuvers were accompanied by stronger anti-EU rhetoric in the Russia's public mass media.

A non-face-to-face dispute between Vladimir Putin and Dmitri Medvedev concerning the Russian Investigative Committee's initiatives seeking to at least regain the Committee's right to launch criminal cases without having to obtain tax authorities' consent has become the main public news. Law enforcement agencies were deforced of the foregoing right in 2009 as part of Then-President Dmitri Medvedev's initiatives aimed at improving business environment in Russia and restricting law enforcement agencies' intervention into the economy. However, the initiatives were subject to orderly revision by Vladimir Putin after he regained the presidential office. President Putin took the liberty of criticizing in the harshest (for the first time ever in the "tandem" history) terms the Prime Minister who opposed such a revision, having suggested that Medvedev should resign if he remains in disagreement over the issue.

Furthermore, in November 2013 the State Duma approved in a very quick manner a law on the abolishment of the Supreme Arbitration Court (SAC). The law was strongly opposed by the business community and experts; no well-defined objectives of the reform which requires amendments to the Constitution were

formulated. There is a common unofficial explanation which is restricted to that Dmitri Medvedev is going to be appointed the Chairman of the United Supreme Court after his resignation as Prime Minister.

In November 2013, Astrakhan Mayor Mikhail Stolyarov was arrested on suspicion of bribery. It was the fourth arrest of a duly elected mayor since the beginning of 2013; some of the previous headline-making arrests concerned Yaroslavl Mayor Yevgeny Urlashov and Makhachkala Mayor Said Amirov. Such a practice creates a conflict of laws: as duly elected heads mayors are virtually stripped of immunity vs., for instance, federal assembly members, thereby making the former depend largely on the federal and regional authorities and actually disowning their status of elected officials.

In November 2013, Vnesheconombank announced build-up of a loan depreciation provision of Rb 215,3bn. This implies that preparations for anticipated defaults of companies involved in the construction of venues for the upcoming Winter Olympic Games in Sochi have been launched, in which case their debts under respective agreements will be directly paid off with budget funds. According to market participants, it is these extra expenditures imbedded into the Olympic construction financing scheme that have triggered unexpected transfer of money from non-governmental pension funds to the budget.

Finally, on November 20, 2013, the Central Bank of Russia revoked the banking license of Master Bank in Moscow on the ground of claims ranging from violation of the anti money laundry law to a balance-sheet "hole" of Rb 2bn arising from additional assessment of provisions for Rb 20bn loans issued to persons affiliated with the bank's managers. In the meantime, the bank has Rb 30bn of ensured deposits which are to be repaid.

Macroeconomic background:

Oil prices fail to support the ruble

Oil prices began to grow since the second week in November 2013 after two months of fall as the US dollar weakened vs. the Euro. This, however, had no effect on the dynamics of Russia's stock market indices. International funds were leaving the Russian market: cash outflow amounted to \$408m in the period of October 31, 2013 thru November 20, 2013, as reported by the Emerging Portfolio Fund Research (EPFR).

A weakening ruble remains the key factor governing the macroeconomic situation in Russia. Throughout the entire November 2013 the Bank of Russia allowed the ruble weaken by 3%: the dual currency basket value increased from Rb 37,38 as of October 30, 2013 to Rb 38,58 as of November 30, 2013. Furthermore, the Bank of Russia spent \$2,96bn in support of the national currency in the period of November 1, 2013 thru November 26, 2013. The ruble is effected by fundamental factors, namely the positive current account balance in Q3 2013 dropped to a record-low \$1,1bn (no such values have been reported since 1998). A weaker ruble position is also reflected through changes in the foreign exchange structure of retail and corporate bank accounts. For instance, the amount of retail ruble-denominated bank accounts increased 0.6% (Rb 83bn), whereas USD accounts went up 2.0% (\$1,8bn) in October 2013, having reached a new highest of \$93bn. The amount of corporate bank accounts dropped 1.3%, the amount of bank accounts denominated in foreign currencies increased 1.1% in US dollar terms, whereas the amount of ruble-denominated bank accounts declined 2.0% (see Russia's banking sector).

According to the data available as of November 27, 2013, banks' debt on repro transactions exceeded Rb 2,5 trillion. In November 2013, credit institutions' debt under other loans secured by non-market assets and guarantees increased 10.8%, having exceeded Rb 957,7bn. The interest rate in the interbank lending market averaged 6.15% (6.06% in October 2013 and 5.4% in January 2013). The decline in the interbank interest rate observed in October 2013 is partially related to Rb 500bn of loans placed by the Bank of Russia at 5.76% at the 3-month auction of loans secured by non-market assets at a floating interest rate. In November 2013, interest rates increased in response to mounting tensions in the interbank lending market due to the revocation of Master Bank's banking license (see Inflation and monetary policy section for details).

Inflation background which accelerated in October 2013, remained the same in November 2013: like in October, the consumer price index gained 0.6% during the month (against 0.3% in November 2012), thereby annual inflation rate increased up to 6.5% (5.9% since the beginning of the year). Inflationary pressure was related to increased prices of food products (a 0.9% growth) despite a good crop. Under the circumstances the Russian Government had to officially admit that inflation will be 6% above the target value at 2013 year-end. However, inflation is likely to reach 6.5% at the year-end (the consumer price index stood at 0.2% over a week, October 26, 2013 thru December 2, 2013) and is not going to differ as compared to the previous year (6.6%).

At 10-month period-end federal budget revenues contracted 1.5 p.p. of GDP, which is better than in August 2013 when the revenues contracted 2.2 p.p. year over year. However, cost cutback (which was 1.7 p.p. in August 2013) fell down to 1.1 p.p. Oil and gas deficit kept shrinking to 8.6% at 10-month period-end against 8.9% in January–August and 9.1% in January–October 2012, whereas the consolidated budget went into the red (0.1%) at November month-end.

Real sector: Stagnation gets steady

The main event at the beginning of the fall is that economic recovery anticipated at the end of 2013 by many experts has not yet begun. Such anticipations were partly related to the base effect: in Q3–Q4 2012 the Russian economy slowed down after successful Q1–Q2 and partly due to expected investment recovery. However, the dynamics are not encouraging. According to preliminary data, GDP in Q3 2013 gained 1.2% (similar to Q2 2013) as compared to Q3 2012. There were a few factors which determined the unfavorable dynamics, namely 1) the aforementioned weakening of fundamental macroeconomic indicators, 2) further decline in investment activity, 3) steady slowdown in consumer demand growth rates.

Like in the previous periods, the mineral extraction sector dynamics remain steadily positive (101.8% in October 2013 against October 2012). Note accelerating multidirectional trends within the sector. In January–September 2013, the oil sector total drill footage accounted for 105.6% and capital investments in current values for 103.9% of the level observed in the corresponding period of 2012, whereas the gas sector total drill footage dropped to 81% against the level observed in 2012, while investments in current values declined 32% (see Real sector of the economy: factors and trends section for details).

In October 2013 the manufacturing industry demonstrated negative growth rates for six consecutive months (98.1% in October 2013 against October 2012); average slowdown rate was -1.7% in year-over-year terms. Preliminary data on transport dynamics (106.3% against October 2012) look unexpectedly optimistic; statistically they have a positive effect on GDP final dynamics, but can hardly reflect actual economic trends.

Investment and construction growth rates have been showing negative values for three consecutive months (98.1% and 96.4% respectively against the level of October 2012), with an average 3-month contraction of -2.5% and -3.2%. Given negative dynamics in construction works, housing commissioning has been growing for three consecutive months (with an annual gain of 21.9% in October 2013).

Slowdown in consumer demand growth rates was caused by less intensive gains in consumer lending. For the first time since August 2011 annual growth rates in households' loan debt to banks were found to be below 30% in October 2013 (29.4% at October month-end). In January–October 2013, food market and non-food market turnover stood at 2.4% and 4.8% respectively against 4.0% and 8.9% in the corresponding period in 2012. Growth rates in real disposable income during 10 months in 2013 remained at the same level which was observed in the previous year (103.9% against 103.8% in January–October 2012). However, both growth rates in real wages (+5.5% against +9.0%) and actual amount of accrued pensions (+2.5% against +5.1%) slowed down visibly during the 10-month period. Note that it is the state that now plays the key role in the consumer demand growth: the public sector demonstrated the highest

growth rates in wages in response to the famous Presidential Decrees dated May 7, 2012. As a result, wages dynamics are detached from fundamental economic trends.

Business surveys in the fall of 2013 show no optimism. Enterprises are making attempts to adapt to new, untoward conditions, in particular through cost optimization. For instance, since the end of 2010 not more than one third of industrial enterprises assessed their efficiency as low ("below standard"), whereas in October 2013 the share of such assessments increased up to 41%. This determines the transition to a head-count optimization policy at enterprises. Enterprises' investment plans have been showing the lowest level for three consecutive months since the beginning of 2010. Machine-building and metallurgy industries show the most severe situation with anticipated decline in investments. ●

THE POLITICAL AND ECONOMIC RESULTS OF NOVEMBER 2013

S.Zhavoronkov

The top news story of November was the indirect polemical dispute between Vladimir Putin and Dmitry Medvedev, centered on the RF Investigative Committee's attempt to restore at least one of its previous established powers – the right of investigators to open tax fraud cases without a request from the tax authorities. So far, Putin has promised to take into account the business community's views on that matter. However, much depends on whether or not both society and businessmen are able to be outspoken on that matter, because experience has shown that the authorities seldom implement their agreements concluded behind the scenes. Also, November saw a steady rise in anxiety over the numerous challenges that Russia's financial system is faced with. Thus, a lot of worry was caused by the new losses suffered by Vneshekonombank (which is forced to increasingly abandon its role of a development institution, and to become instead a source of politically-motivated irretrievable loans designed to finance gigantic and wasteful vanity projects), the cancellation of the license of Master Bank, one of Russia's top 100 banks, etc.

November saw a relatively fascinating turn of events in ex-Defense Minister Anatoly Serdyukov's saga, when a criminal case was at long last opened against him. Serdyukov was charged with abuse of power – a somewhat minor offence, bearing in mind the torrent of recrimination poured on him for almost a year on TV channels. The case in point was Serdyukov's order to build a road to a private holiday residence belonging to his acquaintances at the expense of the RF Ministry of Defense. Having kept silence throughout the year, Serdyukov and his allies immediately counterattacked: Serdyukov was demonstratively appointed head of a relatively small enterprise, Rostechologies (rumors of his forthcoming appointment to this post had been circulating for almost a year; when this decision was finally announced it came as no surprise to anyone, bearing in mind that Serdyukov and Rostechologies Director General Sergei Chemezov had always been on excellent terms). At the same time, Serdyukov's close associate Yevgenia Vasilyeva, former head of the Ministry of Defense property department and a former senior official of Oboronservice, charged with much graver offences than Serdyukov, issued a number of statements insisting on her innocence, rather convincingly. Vasilyeva pointed out that investigators had simply 'invented' the 'true' market value of the surplus Ministry of Defense property sold off by her, in order to charge her with selling it at prices below its market value. She stated that most of the auctions conducted by her had failed because of absence of buyers – that is, because the bidding prices had been set too high. She insisted that witnesses in her case had been intimidated into testifying falsely against her. And she affirmed that her elite real estate had been bought by her father, a wealthy businessman who had never

had any connection with the Ministry of Defense. Although Vasilyeva's statement about the 'true value' is fairly disputable, as regards the other two charges the prosecution has indeed presented a weak case. The tug of war between Serdyukov's adversaries and supporters vying for influence over Vladimir Putin makes the situation precariously balanced, which is highly detrimental to the reputation of the regime: it should be borne in mind that the authorities themselves have focused public attention on the issue of corruption in high places, while at the same time failing to understand whether or not the facts of corruption actually took place, and whether or not such deeds ought be punished, and if the answer is yes – what should the specific punishment be for one or other instance of corruption.

In November 2013, the RF State Duma unanimously passed the first reading of a draft law designed to make it illegal for federal officials to buy cars worth more than Rb 3m. Formally, the draft law had been introduced into the State Duma by a *United Russia* MP. Thus, the authorities partially succumbed to the Opposition's long-standing demand that the price of limousines for officials should be capped at Rb 1.5m (Russian opposition leader Aleksey Navalny had collected 100 thousand verifiable signatures on the Internet in support of that demand). This decision can only be welcomed, although it is regrettable that it took so long for the authorities to make it. However, it should be noted that the first reading version of the draft law contains a number of legal loopholes.

Vladimir Putin checked Sochi's readiness for the Winter Olympic Games (this ceremony took place in late November under pouring rain, which came as a reminder of the climate risks faced by winter sports in

the subtropical climate of Sochi). Problems continued to crop up in the financial field: Vneshekonombank announced that it had been forced to form reserves, in the amount of Rb 215.3bn, for possible losses on loans issued to VEB borrowers. In the likely event that these borrowers default on their loans, their debts, according to Russia's existing legislation, will have to be repaid directly from the federal budget. This explains the government's recent decision to 'improve the situation' in the market of non-state pension funds – that is, to liquidate, for one year, the cumulative component of the labor pension. However, according to experts, the actual volume of bad credits is two to three times larger than the cumulative pension cost for one year: the owners do not need the sport venues and other infrastructure objects built for the Olympics because the money spent on them will never be recovered – the initial cost estimates were hugely exceeded, which means that the credit takers, in the first place, had never intended to pay back the loans issued to them for purely political reasons. They had never had any doubt that the credits would be written off by VEB, thus yielding them the greatest profit.

On 20 November 2013, the Central Bank of Russia revoked the license of Master Bank, citing its failure to abide by Russian legislation on money laundering and its 'large-scale suspicious operations'. Central Bank officials also said that there was also a 2 billion ruble hole in Master Bank's balance sheet generated by loans made to companies affiliated to the bank's owners. It turned out that Russia's Deposit Insurance Agency's liability to Master Bank depositors amounted to Rb 30bn, or by Rb 10bn more than to the depositors of the recently declared bankrupt Pushkino Bank. It should be noted, however, that Pushkino Bank's license was revoked after the bank had stopped making payments. The situation of Master Bank was quite different, and its managers – who have not had any criminal charges filed against them so far – hinted that the matter at issue was the struggle over the re-division of the market.

The revocation of Master Bank's license created a panic in the market: experts, public relations gurus and other 'specialists' rushed to compile their lists of banks whose licenses would certainly be revoked 'tomorrow'. The panic was additionally fuelled by the incautious statement of Central Bank Head Elvira Nabiullina that Master Bank would not be the last bank to lose its license. Her remark was understood by the depositors not as meaning that 'Master Bank will not be the last crooked bank to be punished by the regulator', but that 'Master Bank will not be the last very large bank to collapse'. With Master Bank's primary documentation being unavailable, it is hard to say who

is right in this matter: the bank or the regulator. However, one thing is certainly clear: it is absolutely unacceptable that currently bank clients are deprived of any information on the alarming orders and directions, including warnings, restrictions on acceptance of deposits and on creation of reserves, which are sent to their bank by the regulator, and that the banks are not obliged to publicly comment on such alarming signals. Although the desired information transparency is not a universal panacea, it is strange that Russia's financial authorities usually explain the lack of this transparency by the old *cliché* that the banking sector bears responsibility for the economy as a whole, which means that the clients themselves (that is, economic agents) and the real economy (not the one defined in private law systems) will be informed on one or other bank's failures only *post factum*, after the bank is already 'dead', while during its life time, the regulator continues to publish that bank's official reports and nothing else. So, what was the point in vesting the RF Central Bank with dictatorial powers over Russia's banks? As far as the banking sector is concerned, the CB combines the functions of a lawmaker, a law enforcer and a service provider (by issuing instructions to the banking sector, by overseeing compliance with these instructions, and by granting credits to banks).

November saw a hot indirect dispute, without any mention of the names of the parties involved, between Vladimir Putin and Dmitry Medvedev. The bone of contention was the draft law designed to eliminate the current procedure for initiating criminal proceedings for tax-related offences, unexpectedly introduced into parliament by Putin. The existing procedure was introduced several years ago as one of the government's measures aiming at eradication of 'tax terrorism'. Its introduction put an end to the RF Ministry of Internal Affairs' right to unilaterally initiate criminal proceedings for tax-related offences. From then onwards, it was able to do so only in tandem with the RF Tax Service (that is, only after obtaining permission from the taxmen – people usually professionally well-trained enough to see whether or not a tax-related offence has actually been committed). The reform has proved successful, as shown by the fact that the number of tax-related criminal cases has dropped six-fold because the costs of opening such cases have shot up – for a criminal case aimed at the seizure of someone's property to be opened, the raider must now control two administrative units instead of one. In this respect, Putin's legal initiative is a counter-reform. However, it should be admitted that, in any case, the compact Investigative Committee – which will be granted the right to open criminal cases alone, without the consent of the Tax Service, once the draft law becomes law – will become less dangerous to Rus-

sian business than the giant Ministry of Internal Affairs. The current version of the draft law has already been criticized by Russia's business associations and even by a number of top officials, including Dmitry Medvedev, who – maybe for the first time since 2008 – has recalled his responsibility for that glorious reform. In response, Putin advised the dissident officials to quit their jobs and join the ranks of the experts' community. The mavericks promptly put their tails between their legs and meekly went back to their normal duties. As far as the business community's objections were concerned, Putin suggested discussing the draft law with businessmen. Bearing in mind that the draft law will inevitably become law, the business community is keenly interested that the Ministry of Internal Affairs should indeed restore its previous established powers. Unfortunately, there are some signs that the Interior Ministry and its head, Vladimir Kolokoltsev, are intensifying their efforts to reclaim their former prerogatives.

The possible future course of events in Russia can be illustrated by the following example. In November, the RF State Duma hastily passed a constitutional law whereby the Supreme Arbitration Court (SAC) was to be abolished. The reason for this legislative decision was simple – it was necessary to carry out the re-certification of the judges of Russia's two supreme courts without reducing their numbers. The judges' community as a whole abstained from public protests. As a result, Russia's judges are now forced to deal with the following amazing situation: all judges of two supreme courts will be re-examined by certain collegiums, mainly to be composed of judges of the Russian Federation's subjects. Such a collegium can be rightly called a qualification commission turned upside down! It should be added that the principle of the irremovability of judges has never been followed to the hilt in contemporary Russia, where the judges' community, being at the beck and call of the executive authorities, can arbitrarily remove from office any judge. Now this principle is openly ignored.

But at the same time, we should not overestimate the merits of Russian supreme courts, even those of the Supreme Arbitration Court. It is common knowledge that the SAC has always upheld even the most controversial rulings passed by Russian courts of justice (for example, the outrageous court decisions that *Telenor* should be fined \$ 1bn – reputedly to cover the 'losses' suffered by the owner of a tiny block of shares in *Vympelkom* as a result of *Telenor's* actions in Ukraine (in order to have that shareholder's claim withdrawn, *Telenor* was forced to tap diplomatic channels).

There happened yet another deadly aviation disaster, when an old airplane owned by the quasi-state-owned company *Tatarstan* crashed and burst into flames while attempting to land at Kazan International Airport, killing everyone on board, including the son of the President of Tatarstan. The air crash immediately triggered a hot debate as to whether or not this one and other similar disasters had been caused by the venerable age of Russia's passenger air fleet (each of the perished planes was 20-plus-year-old), the scandalously low qualification of the pilots (for example, the pilots of the airliner crashed at Kazan had been trained hastily and thus inadequately), or by poor maintenance and repair. Apparently the disaster was caused by a combination of all those factors. In any case, society is well aware of the fact that the air crash rate in Russia is four times the world average (which included many backward countries). Although Russians travel by air much less frequently than citizens of some other countries, aviation disasters occur in Russia almost every year. The main culprit is the awful state of Russia's aircraft industry, comparable with that of her automotive industry ten years ago. Unfortunately, the Russian authorities are still refusing to acknowledge this fact. Instead, they continue to put the blame on pilot errors and to ignore the host of other possible reasons for aviation accidents. ●

INFLATION AND MONETARY POLICY IN OCTOBER 2013

A.Bozhechkova

The consumer price index stood at 0.6% in October 2013 (against 0.5% in October 2012), having shown a 0.4 p.p. increase as compared to September 2013. Therefore inflation increased more than 6.3% on a year-over-year basis at the end of the 10-month period. In the first 18 days of November 2013 the consumer price index stood at 0.3%. The Central Bank of Russia is still retaining the target interest rate despite a decline in the economic activity.

The Russian Federation saw accelerated inflation in October 2013: the consumer price index stood at 0.6% at month-end (against 0.2% in September 2013), having shown an increase of 0.1 p.p. over the corresponding value observed in 2012. As a result, inflation reached 6.3% on a year-on-year basis (Fig. 1). Core inflation¹ stood at 0.6% in October 2013, being equal to the corresponding value observed in the previous year.

Prices of food products increased 1.1% in October 2013 against September 2013 (Fig. 2). Growth rate in prices of bread and flour products slowed down (from 0.5% in September 2013 to 0.3% in October 2013), fish and seafood products (from 1.2% in September 2013 to 0.8% in October 2013), milk and dairy products (from 2.7% in September 2013 to 2.1% in October 2013). Prices of meat and poultry didn't grow in October 2013 (against a 0.3% growth in September 2013). Prices of cereal and bean products declined by 0.2% in October 2013 (against a 0.6% growth in September 2013). Prices of sugar and granulated sugar fell 2.6% (against a 1.1% growth in September 2013). In general, prices of food products increased due to increased growth rates in prices of fruit and vegetable products (from -7.6% in September 2013 to 3.6%) and eggs (from 6.5% in September 2013 to 18.2%).

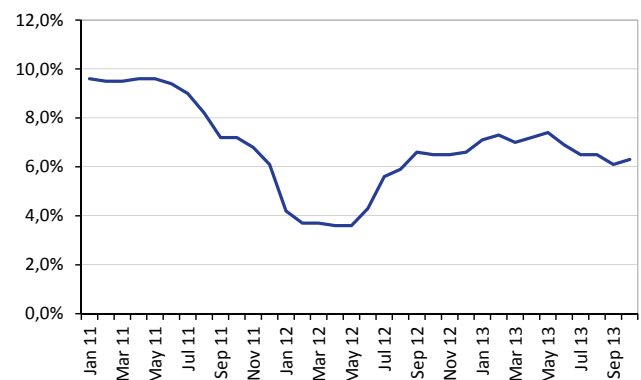
Prices and tariffs of retail paid services declined 0.1% in October 2013, whereas in September 2013 they increased 0.1%. Tariffs of housing and public utility services grew at a rate of 0.5% in October 2013. Prices of culture organizations increased by 0.8%, physical culture and sports services by 0.5%, personal services by 0.4%, medical services by 0.4%. Prices of passenger transport services and international travel services contracted 2.6% and 1.5% respectively. Growth rates of prices of education services, preschool education, and insurance services slowed down by 0.5%, 1.3%, and 0.1% respectively.

¹ The reference consumer price index is an indicator which describes the level of inflation in the consumer market, net of seasonal (prices of fruit and vegetable products) and administrative (tariffs of regulated types of service, etc.) factors which is also calculated by the Federal State Statistic Service of Russia (Rosstat).

In October 2013, prices of non-food products grew at the same rate as in September 2013 and stood at 0.5%. Prices of the following products increased most in this group of products: medicaments by 1.0% (against +0.5% in September 2013), footwear by 0.9% (against 0.7% in September 2013), washing and cleaning products by 0.6% (against 0.3% in September 2013). Growth rates in prices of tobacco products slowed down from 3.0% in September 2013 to 1.9% in October 2013, motor gasoline from 1.4% in September 2013 to 0.4% in October 2013.

In November 2013, inflation kept growing mainly due to cessation of seasonal contraction of prices of fruit and vegetable products. The consumer price index stood at 0.3% after the first 18 days in November 2013 (0.3% in the corresponding period of 2012). As a result, accumulated since the beginning of the year inflation reached 5.6%, (against 6.0% in the corresponding period of 2012). It should be noted that increased growth rates of prices observed in October 2013 and November 2013 ensures a more than 6% increase in inflation at the year-end. No marked pressure upon prices on the demand side, as well as relatively favorable situation with basic crops is the key factor than is constraining inflation.

Broad money dropped 1.8% to Rb 8952bn in volume in October 2013 (Fig. 3). Banks' correspondent



Source: Rosstat.

Fig. 1. CPI growth rate in 2011–2013 (% year over year)

accounts (a contraction of 12.5% to Rb 960,1bn) and banks' deposits (a contraction of 39.0% to Rb 87,6bn) can be distinguished among the broad money's components whose volume shrank. The obligatory reserves increased 0.6% to Rb 508,9bn in volume. The volume of cash in circulation, including cash on hand at credit institutions, rose 0.4% to Rb 7395,4bn.

Narrow money (cash plus obligatory reserves) increased 0.4% to Rb 7904,3bn (Fig. 4) in October 2013.

In October 2013 the volume of excess reserves at commercial banks¹ dropped 15.6% to Rb 1047,7bn, while banks' debt under repo transactions contracted 5.7% to Rb 2,3 trillion. According to the data as of November 27, 2013, banks' debt under repo transactions exceeded Rb 2,5 trillion. It should be noted that growth in the debt due by credit institutions under other loans secured by non-market assets and guarantees amounted to 68.6% (Rb 864,7bn) in October 2013 due to a new instrument for bank liquidity provision – 3-month credit auction secured by non-market asset at a floating interest rate – which the Bank of Russia introduced in September 2013. This indicator increased 10.8% to more than Rb 957,7bn in November 2013. Given the persisting liquidity structural deficit in the banking sector, the interest rate in the interbank lending market² was at an average level of 6.06% in October 2013 (against 6.25% in September 2013), having exceeded 12.9% the corresponding value observed in January 2013 (5.4%). The interest rate averaged 6.15% (Fig. 5) in the period of November 1, 2013 thru November 25, 2013. It should be noted that the decline in the interbank interest rate which was observed in October 2013 is partially related to Rb 500bn of loans placed by the Bank of Russia at 5.76% at the 3-month auction of loans secured by non-market assets at a floating interest rate. In November 2013 interest rates increased in response to escalating tensions in the interbank lending market due to the revocation of the Master Bank's banking license.

A major part of banks' borrowings from monetary authorities remains at credit institutions' correspondent accounts with the Bank of Russia, which implies slowdown in growth rates of lending to the non-financial sector amid stagnation of the Russian economy.

Central Bank's international reserves totaled \$524,3bn as of November 1, 2013, having declined 2.5% year to date (Fig. 4). At the same time, the mon-

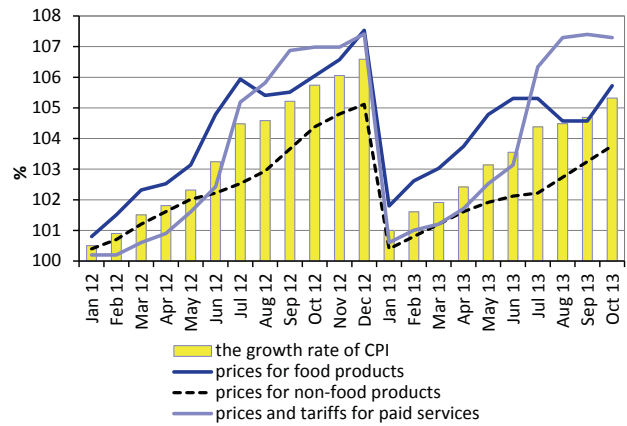


Fig. 2. Consumer price index growth rate in 2012–2013 (% of December previous year)

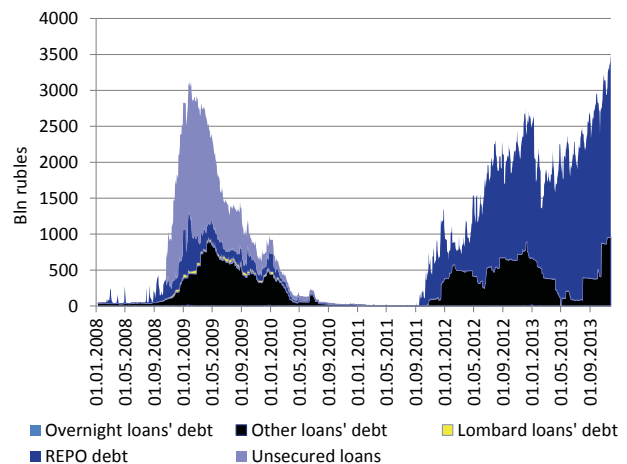


Fig. 3. Commercial banks' debt owed to the Bank of Russia in 2008–2013

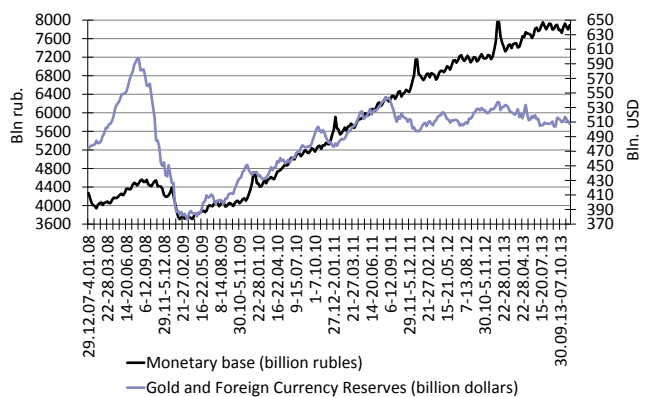


Fig. 4. Dynamics of narrow money and gold and foreign currency (international) reserves of the Russian Federation in 2007–2013

1 Commercial banks' excess reserves with the Central Bank are referred to the amount of commercial banks' correspondent accounts, their deposits with the Central Bank, as well as Central Bank bonds held by commercial banks.

2 Interbank interest rate is the monthly average MIACR, an interest rate on ruble overnight interbank loans.

etary gold reserves increased \$0,9bn in October 2013 in response to a positive revaluation of assets.

Bank of Russia's currency interventions through selling foreign currencies amounted to \$2298m at the end of October 2013 and were aimed at flattening volatility of the ruble exchange rate (Fig. 6), the volume of foreign currencies purchased by the regulator in connection with the Federal Treasury replenishing or spending foreign currency resources of sovereign funds amounted to \$308m. A one-time increase of 5 kopeks of the borders of the dual-currency corridor in October 2013 pushed them to a level of Rb 32,35–Rb 39,35. The regulator more than once shifted by 5 kopeks the borders of the dual-currency corridor in the period of November 1, 2013 thru November 27, 2013. As of November 27, 2013, the dual currency basket corridor's borders ranged between Rb 32,65 and Rb 39,65. In the period of November 1, 2013 thru November 26, 2013 Bank of Russia's foreign currency sales volumes amounted to \$2956m, and the regulator made no currency interventions in connection with the Federal Treasury replenishing or spending foreign currency resources of sovereign funds.

According to the Bank of Russia's preliminary estimates, net capital outflow from the country reached \$12,9bn in Q3 2013 and \$48,1bn during the first nine months, having exceeded by \$1,7bn the corresponding value observed during the first nine months in 2012. In the period of January 2013 thru September 2013 banks' and other sectors' net capital export reached \$10,1bn and \$38,2bn respectively.

In October 2013 the real effective ruble exchange rate vs. foreign currencies increased 2.3% (against 1.3% in September 2013) (Fig. 7). At the end of the first three quarters in 2013 the real effective ruble exchange rate dropped 2.6%.

The USD/RUB exchange rate dropped from 1.3% to Rb 32,1 in October 2013. The euro exchange rate stood at 0.6% (Rb 44,1) in October 2013. The EUR/USD exchange rate averaged 1.36 in October 2013. The value of the dual currency basket dropped 0.33% to Rb 37,46 in October 2013. The USD exchange rate gained 2.84% and reached Rb 33,0, while the euro exchange rate gained 1.6% and amounted to Rb 44,6 on the 27th day in November 2013. Therefore the value of the dual currency basket gained 2.2% to Rb 38,2. The EUR/USD exchange rate averaged 1.35 in November 2013. The ruble strengthened against USD in October 2013 in response to investors' lowered concerns about upcoming discontinuation of the U.S. FRS quantitative easing program, as well as uncertainty about an increase in the US foreign debt ceiling. It should be noted that the euro strengthened in response to the Euro-zone recovering from recession. The ruble

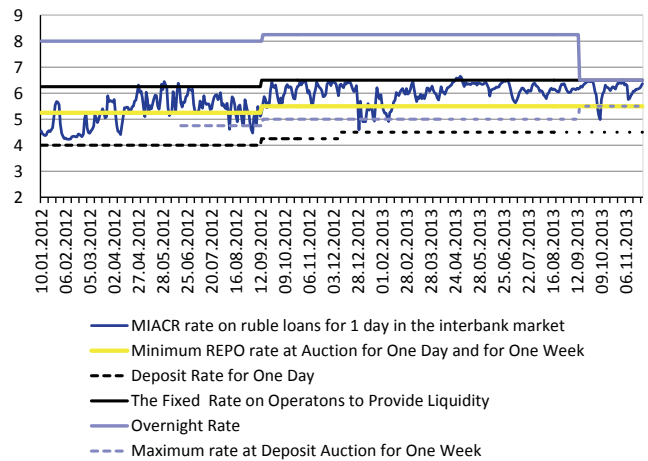
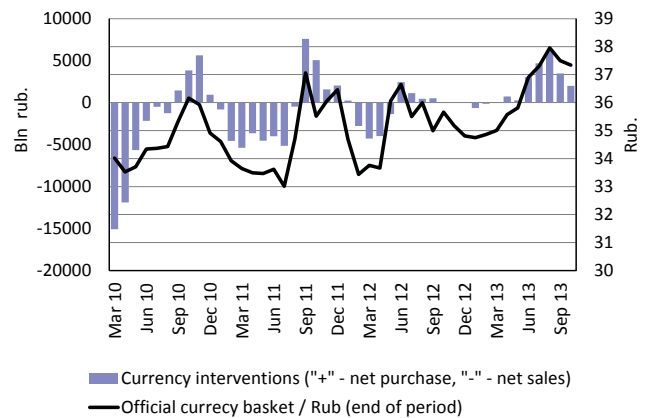
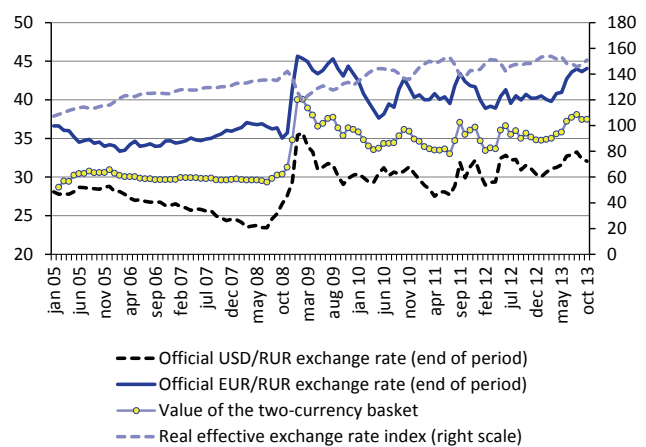


Fig. 5. Bank of Russia's interest rates corridor and dynamics of the interbank lending market in the period of 2012 thru 2013 (% p.a.)



Source: the Central Bank of Russia, author's estimates.

Fig. 6. Bank of Russia's currency interventions and ruble exchange rate vs. the currency basket in March 2010 – October 2013



Source: the Central Bank of Russia, author's estimates.

Fig. 7. Ruble exchange rate indicators in January 2005 thru October 2013

weakened against the US dollar in November 2013 mainly after the announcement that the FRS quantitative easing program will be discontinued within a few months, provided that positive statistical data on the U.S. economy are presented.

Central Bank's monetary policy decisions in October 2013 were basically aimed at enhancing flexibility of the exchange-rate regime. Since October 1, 2013 the Bank of Russia has adjusted its exchange rate formation mechanism so that parameters of Bank of Russia's foreign exchange purchase and sell operations in the domestic foreign exchange market be determined with due regard to Federal Treasury's operations aimed at replenishing or spending foreign currency resources of sovereign funds. In particular, volumes of Bank of Russia's foreign exchange purchase and sell operations in the domestic foreign exchange market, which are established with the aim of flattening volatility of the ruble exchange rate, will increase or contract by a value equal to the volume of Federal Treasury's operations of purchase (sell) of foreign exchange from/to the Bank of Russia, aimed at replenishing (spending) foreign currency resources of sovereign funds.

The foregoing adjustment to the exchange rate policy mechanism is a stage of the process towards creating conditions for the transition to the floating exchange rate regime. This measure will facilitate mitigation of the effect of Federal Treasury's operations aimed replenishing or spending foreign currency resources of sovereign funds on the banking sector liquidity.

On October 7, 2013, the Bank of Russia performed a symmetric expansion from Rb 1 to Rb 3,10 of the "neutral" range of floating operational interval of the dual currency basket acceptable ruble values. Furthermore, the total width of floating operational interval remained unchanged (Rb 7).

It is to be recalled that the "neutral" range is inside the dual currency basket operational interval. Exchange rate fluctuations within the range don't result in foreign exchange interventions by the regulator. Should the exchange rate go outside the "neutral" range, the Bank of Russia will conduct foreign exchange purchase and sell operations whose volume increases as the exchange rate approaches the operational interval borders.

The decision made will result in reduction of volumes of Central Bank's interventions given insignificant fluctuations of the dual currency basket. In general, the decision complies with the task of gradually increasing flexibility of the foreign exchange rate in order to enhance the effectiveness of the interest rate policy used to ensure price stability.

Since October 21, 2013 the Bank of Russia has lowered the volume of target foreign currency interventions down to \$60m daily. This adjustment will make the dual currency basket operational interval borders more sensitive to volumes of Bank of Russia's interventions aimed at flattening excessive volatility of the ruble foreign exchange rate. All things being equal, such changes will ensure less frequent direct presence of the Bank of Russia in the domestic foreign exchange market. ●

FINANCIAL MARKET IN NOVEMBER 2013

N.Andrievsky, E.Khudko

The MICEX index was declining in the first decade in November 2013 until the middle of the month when the stock market saw the beginning of insignificant uptrend in response to oil price recovery. The stock market capitalization reached Rb 24,68 trillion (38.05% of GDP) as of November 26, 2013. The domestic corporate bond market saw a downtrend determined by adverse trends in the Russian economy. Investment activity was deteriorating, although market trading indicators still remained at a high-priced level.

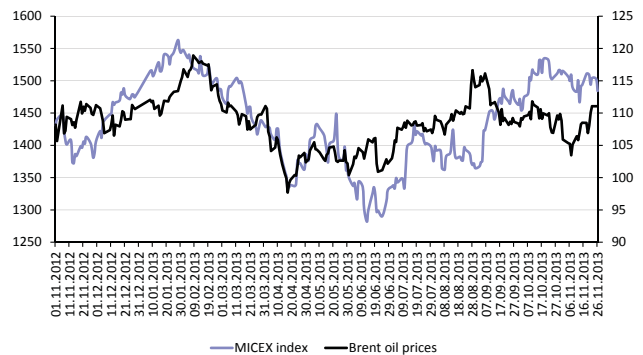
Dynamics of Russian stock market basic structural indices

The November was characterized by a downtrend of \$103,8 per barrel in prices of Brent crude oil early in November 2013 and a growth of \$111 per barrel by the end of the month. The MICEX index varied around 1500 points at that period, the monthly lowest (1466.82 points) was reached on November 13, 2013, followed by a growth of 3.02%, and the monthly highest (1511.19 points) was reached on November 19, 2013 which gave way to a decline by the end November 2013 (1484.37 points as of 26.11.2013).

Blue chips demonstrated mostly a downtrend in November 2013. Specifically, Gazprom stocks lost 4.93% between the beginning of the month and November 13, 2013, followed by an insignificant growth which had no effect on the total monthly dynamics – the stocks lost 4.76% in the period of November 1 thru November 26, 2013. Rosneft stocks saw a similar negative dynamics, having lost 4.45%. At the same time, banks' stocks saw positive dynamics in November 2013 – VTB stocks gained 5.15% since the beginning of the month while Sberbank preferred stocks gained 1.85% at the same period.

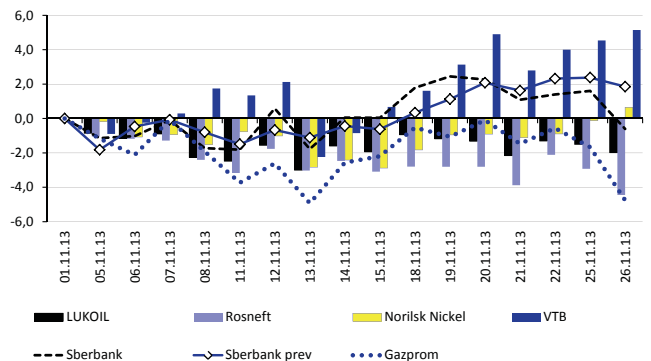
The positive dynamics of VTB stocks had no effect on the bank's stocks annual yield – the stocks lost 9.23% in the period of November 27, 2012 thru November 26, 2013. It was Sberbank preferred stocks that showed the highest annual yield (30.83%), the bank's common stocks also gained 15.49% during the year. Other blue chips also demonstrated a positive annual yield, but Rosneft stocks gained as little as 0.46%, Gazprom and Lukoil gained 3.6% and 8.24% respectively, and Norilsk Nickel stocks gained 6.93%.

It was the financial & banking sector index that was leading as gainer among the sector indices, having gained 5.1% in the period of since the beginning thru November 26, 2013. The consumer sector index gained 1.8% by the end of the month. It was the energy sector index that was leading as loser among the sector indices, having lost 10.46% since the beginning



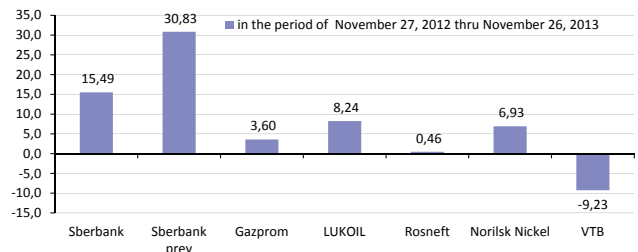
Source: RBK Quote.

Fig. 1. Dynamics of the MICEX index and futures Brent oil prices in the period of November 1, 2013 thru November 26, 2013



Source: RBK Quote, author's estimates.

Fig. 2. Blue chips growth rates in the Moscow Stock Exchange in August 2013 (over a period since the beginning of the month)



Source: RBK Quote, author's estimates.

Fig. 3. Blue chips growth rates in the Moscow Stock Exchange in the period of November 27, 2012 thru November 26, 2013

of the month. The innovative sector index also lost 6.77% since the beginning of the month. Other sector indices lost from 1.2 to 3.2% since the beginning of November 2013.

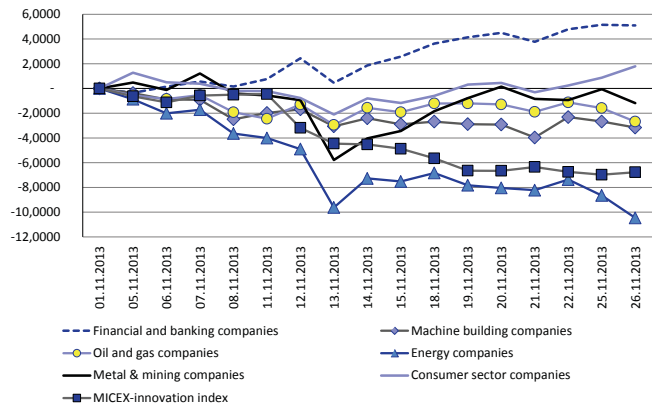
According to the Emerging Portfolio Fund Research (EPFR), Russian market-oriented foundations saw a capital inflow of \$408m in the period of October 31, 2013 thru November 20, 2013. Russia's stock market (MICEX) capitalization totaled Rb 24,68 trillion (38.05% of GDP) as of November 26, 2013, having shown a decline of Rb 677bn (2.7%) against the value observed as of November 1, 2013. The sector indices' negative dynamics had an adverse effect on energy companies which lost 0.2% of their share of capitalization. Mineral extracting companies and transport and communication companies also saw a decline in their share of 0.3% and 0.32% respectively. At the same time, the banking sector and extracting industry saw an increase in their share of 0.34% and 0.33% respectively.

Corporate bond market

The domestic corporate bond market in Russia (measured by the par value of outstanding securities denominated in the national currency, including those issued by non-residents) kept growing in November 2013 at an annual growth rate, having reached its new historical highest. The indicator reached Rb 5,026,7bn by the end of the month, having shown an increase of 1.6% against the value observed by the end of October 2013¹. The increase in the market capacity was determined by both increase in the number of bond issues (1039 corporate bond issues registered in the national currency against 1022 issues at the previous month end) and increase in the number of issuers in the bond segment (354 issuers against 346 companies at the end of October 2013). In addition, there are outstanding 12 USD-denominated bond issues of Russian issuers (a total of more than \$1.8bn), and a JPY-denominated bond issue.

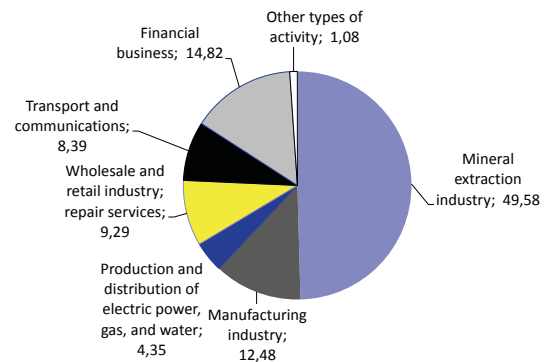
Although investment activity in the corporate bond secondary market deteriorated in November 2013 followed by a few months of growth, it still remains at a very high level. For instance, in the period of October 24, 2013 thru November 25, 2013, total volume of market transactions in the Moscow Stock Market amounted to Rb 148,8bn (to compare, the corresponding volume amounted to Rb 184,9bn in the period of September 24, 2013 thru October 23, 2013) while the number of transactions increased up to 29,500 (against 28,700 in the previous period)². It implies that relatively minor investors show more interest in corporate bonds.

1 According to Rusbonds information agency.
2 According to Finam Investment Company.



Source: RBK Quote, author's estimates.

Fig. 4. Growth rates in various sector stock indices at the Moscow Stock Exchange (over a period since the beginning of the month)



Source: The Moscow Stock Exchange's official website, authors' estimates.

Fig. 5. Stock market capitalization structure by type of economic activity

The Russia corporate bond market index (IFX-Cbonds) kept growing. Its value increased 2.4 points (or 0.6%) by October 2013 as compared to the value observed at the previous month end. The corporate bond average weighted yield remained unchanged (8.05%) by the end of November 2013 against 8.02% at the end of October 2013 (Fig. 6), however, the interest rate dropped lower than 8% in the period under review, having shown the lowest value over the last two years³.

The corporate market key indicators' positive dynamics slowed down in response to adverse processes in the country. Specifically, an increase in the inflation rate was observed for the first time since July 2013, thereby having resulted in upgrading (from 6% to 6.3%) the forecast for inflation at year-end. Negative trends in the market are related to slowdown in economic growth rates too.

Market players' activity is tempered to a certain extent by measures of the Central Bank of Russia, in-

3 According to Cbonds Information Agency.

cluding but not limited to revoking the banking license of large banks, introducing from 2015 a stock market obligation to participate in all derivatives transactions, plans for revision of broker capital requirements.

The corporate bond portfolio duration value kept declining. The duration was 663 days as of the end of November 2013, being 28 days beyond the value observed as of the previous month end. Smaller duration value due to stabilization of market interest rates reflects contraction of maturity of flow of payments on bonds and, therefore, maturity of outstanding bond issues in the corporate segment.

The most liquid segment of the corporate bond market saw a feebly marked uptrend with regard to bonds' yield. Like in the previous month, it was financial corporate issuers that experienced most significant changes in their bond yield (more than 1 p.p.). Most liquid bond issues of high-tech companies saw a downtrend for the second straight month, being indicative of high demand for the securities issued by such companies. The energy sector saw mixed trends again¹.

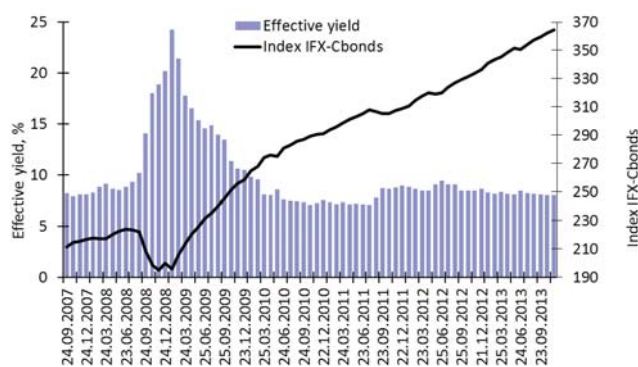
In spite of the market slump in November 2013, Russian bond issues showed a record-high activity in terms bond issue registration. For instance, 15 issuers placed 72 bond issues denominated in rubles at an aggregate par value of Rb 669,3bn in the period of October 24, 2013 thru November 25, 2013 (to compare, 38 bond issues denominated in rubles at Rb 123,3bn were registered in the period of September 24, 2013 thru October 23, 2013). Major issues were registered by OJSC NK Rosneft (Rb 300bn), OJSC Federal Grid Company of United Energy Systems (Rb 145bn), LLC INTER RAO Finance (Rb 60bn), OJSC VEBLEASING (Rb 50bn)². Listed bonds accounted for more than two thirds of the registered issues.

Unlike bond issue registration values, investment activity in the primary market was governed by total downtrends in the market. Therefore, the flotation value in the corporate bond segment halved but remained at a fairly high level in 2013. For instance, 23 issuers placed 28 bond issues at an aggregate par value of Rb 116,4bn in the period of September 24, 2013 thru October 25, 2013 (to compare, 40 series of bonds at Rb 248,3bn were placed in the period of September 24, 2013 thru October 23, 2013) (Fig. 7). Major bond issues were placed by OJSC Russian Railways (Rb 25bn), OJSC Raiffeisen Bank (Rb 10bn), OJSC Alfa-Bank (Rb 10bn) OJSC Moscow Credit Bank (Rb 10bn), OJSC VEBLEASING (Rb 10bn)³. One issuer, a mortgage agent, managed to borrow for a period of 33 years,

1 According to Finam Investment Company.

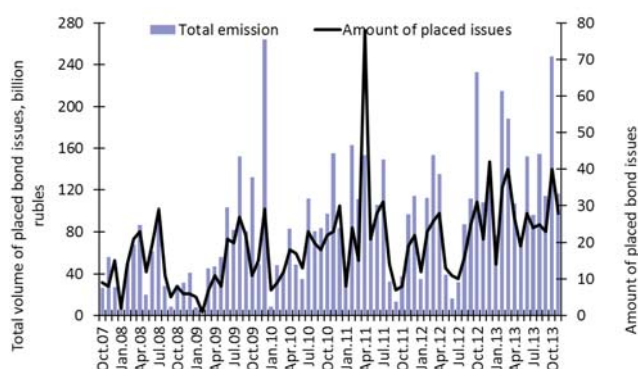
2 According to Rusbonds information agency.

3 According to Rusbonds information agency.



Source: According to Cbonds Information Agency.

Fig. 6. Dynamics of the Russian corporate bond market index and average weighted yield



Source: According to Rusbonds information agency.

Fig. 7. Dynamics of initial public offerings of corporate bonds denominated in the national currency

OJSC Russian Railways for 25 years, while a few other issuers borrowed for 10 years.

In spite of wakened investment activity in November 2013, no bond issues were declared void by the Bank of Russia Financial Markets Service for non-placement of a single bond (to compare, from 10 to 15 series of bonds were declared void in the previous months)⁴.

In the period of October 24, 2013 thru November 25, 2013, all of the 13 issuers redeemed their bond issues at an aggregate value of Rb 57,3bn in the due date (to compare, one issuer failed to discharge its obligations and declared a technical default in the preceding period). Fifteen corporate bond issues at a total of Rb 52,3bn are to be redeemed in December 2013⁵.

Furthermore, like in the previous period, no real default(s) on coupon yield payment and early redemption(s) of securities on put date were reported in the market in the period of 24 October 24, 2013 thru November 25, 2013⁶.

4 According to the Bank of Russia Financial Markets Service.

5 According to Rusbonds company.

6 According to Rusbonds company.

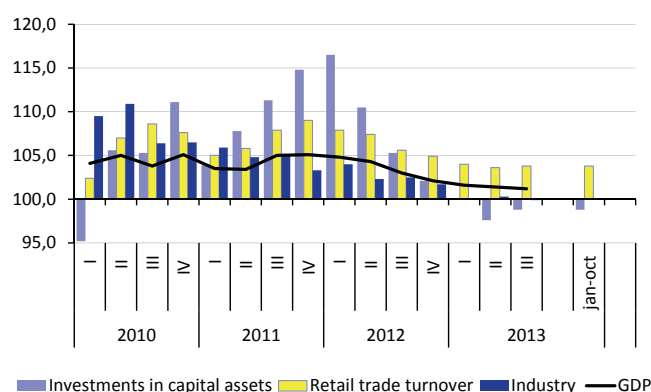
RUSSIA'S REAL SECTOR OF THE ECONOMY: FACTORS AND TRENDS IN JANUARY–OCTOBER 2013

O.Izryadnova

In January–October 2013, business activities were determined by a decrease in the consumer and investment demand. A drop of 1.2% in investments in capital assets and stagnation in manufacturing industries as compared to January–October 2012 had a negative effect on the domestic market. A factor which supported the GDP dynamics at the level of 101.4% against January–February 2012 was growth of 5.3% in the agricultural output as compared to the respective period of the previous year. From June 2013, growth in the total number of the unemployed year-on-year was registered; it is to be noted that in October growth in the unemployment sped up and its level (in accordance with the ILO methods) amounted to 5.5% of the gainfully occupied population with 5.2% on average in the 3rd quarter of 2013. A drop in the demand in the workforce resulted in a reduction of the number of vacant jobs declared by the employment service from 2.1m vacant jobs in May to 1.6m in October 2013.

According to the preliminary estimate of the Rosstat, the index of the physical volume of GDP in the 3rd quarter amounted to 101.2% on the previous period, while in January–September 2013, to 101.3% on the respective period of 2012. The rates of economic development have kept falling for the past eight quarters. In January–October 2013, investments in capital assets amounted to 98.1% on the respective period of the previous year and the volume of work in building, to 98.6%. Unlike the dynamics of the total volume of work, commissioning of new housing keeps growing for three months running. In October, growth in commissioning of new housing on the respective period of the previous year amounted to 21.9%, while in January–October the rates of commissioning of new housing were 13.2% higher than in the same period of 2012. High rates of housing development were accompanied by a speed-up in volumes of mortgage housing lending to the population.

Financial performance of entities and enterprises has kept falling throughout this year. So, in January–September 2013 the balance of profits and losses amounted to 83.3%, including 68.3% in the manufacturing industry on January–September 2012, which situation dramatically reduced the possibilities to fund investment programs by means of enterprises' and entities' own funds. Investments in capital assets mainly rely on state financing as the inflow of foreign investments is still at a low level. Growth of 15.7% in foreign investments in the Russian economy during nine months of 2013 only made up for a drop in that index in the same period of the previous year. Prevalence of the share of direct foreign investments at the level of 14.1% in the pattern of funds received from abroad against 26.0% in the 2008 pre-crisis period points to a low investment attractiveness of the domestic economy. Export of capital is growing: in January–September



Source: Rosstat.

Fig. 1. Dynamics of the main macroeconomic indices in 2010–2013 as % of the respective quarter of the previous year

2013 the outflow of capital amounted to \$48.1bn and exceeded by 1.7bn the index of the respective period of 2012. Russian companies invest funds more willingly abroad, that is, in January–September 2013 investments in the Russian economy amounted to \$132.4bn, while Russian investments abroad, to \$162.3bn.

A drop in the net export had a negative effect on economic growth in January–October 2013; according to the preliminary data of the Ministry of Economic Development of the Russian Federation that drop amounted to 8.8% on the respective period of the previous year. A drop in growth rates of monetary volumes of the export year-on-year has been registered during the past five quarters. Slowdown of growth rates of import supplies has been registered from the 1st quarter 2013: 6.5% – in the 1st quarter, 3.7% – in the 2nd quarter and 0.4% in the 3rd quarter of 2013 on the respective period of the previous year. Despite the slowdown, the role of import in formation of the economy's resources with stagnation of the output by the base type of economic activities did not become

less important. The pattern of GDP utilization changed towards growth in the expenditures on ultimate consumption with a decrease in the share of gross savings and the net export.

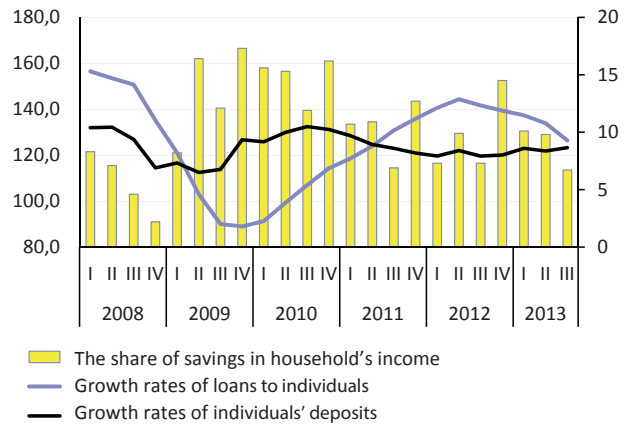
Weak growth of the domestic market was maintained by means of growth in retail trade volumes (2.3%) and paid services to households (2.3%) as compared to January–October 2013. In January–October 2013, growth in the volumes of the food market and non-food market amounted to 2.4% and 4.8%, respectively, against 4.0% and 8.9%, respectively a year earlier. In October 2013, growth of 104.9% year-on-year in households' real disposable cash income against 103.8% in 2012 had a considerable effect on the dynamics of consumer demand.

Changes in households' consumer behavior take place, as well: households' disposition to savings got weaker from 10.1% of households' cash income in the 1st quarter to 9.8% and 6.7% in the 2nd quarter of 2013 and the 3rd quarter of 2013, respectively. In households' income, the share of expenditures on purchasing of goods and services keeps growing.

Stagnation in industry is the result of slowdown of economic growth. From the 2nd quarter of 2013, a change in trends in industry is observed, that is, growth in production of primary products and a drop in output of the manufacturing industry. In October, production of primary products and the output of the manufacturing industry amounted to 101.8% and 98.1%, respectively, on the index of October 2012.

In January–October 2013, production of the main types of primary fuel and energy resources increased by 1.2%: the output of oil and gas rose by 0.8% and 2.6%, respectively, as compared to the respective period of 2012. It is worth mentioning mixed trends in development of oil and gas production. According to the data of the CDU TEK of the Ministry of Energy of the Russian Federation, in January–September 2013 in the oil sector the total volume of drilling rose by 5.6% on the level of January–September 2012, including production drilling (by 5.6%) with investments in capital assets at current prices rising by 3.9%. In January–September 2012, in the gas sector the total volume of drilling (in meters) fell by 19.0% on the respective period of 2012, including production drilling of gas wells by 25.9%, while investments in production of gas at current prices decreased by 31.9% (the data of OAO Gazprom).

A drop in the output of the manufacturing industry is justified by a reduction in the solvent demand, non-competitiveness of domestic goods as compared to import analogs, as well as low efficiency of production. A drop in the annual growth rates of development of manufacturing industry was observed for six months



Source: Rosstat.

Fig. 2. Dynamics of individuals' loans and deposits (as % of the respective period of the previous year) and the share of savings in households' income (%)

from May 2013. In the economy, a decrease in the output both of the engineering complex and related production of construction materials was registered. In January–October 2013, production of machines and equipment fell by 6.6%, power equipment – by 4.0%, transport means – by 1.3% and metallurgical output – by 2.0% as compared to the respective period of the previous year. The positive dynamics prevail in the chemical industry (104.1% on January–October 2012), production of rubber and plastic articles (106.0%), production of charred coal and oil products (102.1%) and production of food products (101.6%). The Ministry of Economic Development of the Russian Federation carried out the update of the indices of the 2014–2016 forecast, as well as the long-term forecast till 2030.

Changes in the 2014–2016 forecast as compared to the long-term forecast approved by the Government of the Russian Federation in March 2013 are mainly related to worsening of dynamics of the economic development, as well as new decisions as regards indexation of the regulated tariffs and application of the budget rule. If in the long-term forecast approved by the Government of the Russian Federation as a base one the innovation scenario of development was considered (Option No.2), in the presented version of the long-term forecast it was a conservative scenario (Option No.1) that was considered as a base one. The above is justified by more pessimistic assumptions about growth in competitiveness of domestic products and public and private investments in development of the infrastructure, science and human capital.

As a result, the baseline path of economic growth in 2013–2030 is reduced from 4.0% (Option # 2, March 2013) to 2.8% in the forecast's current version. The ultimate adjustment of the forecast's indices is related to the dynamics of the investment demand: average

Table 1

**AVERAGE ANNUAL RATES OF THE MAIN MACROECONOMIC PARAMETERS IN THE 2011–2015 PERIOD
AND THE 2013–2030 PERIOD (FORECAST)**

	The 2011–2015 period		The 2013–2030 period	
	Options			
	1	2	1	2
GDP	103.1	104.0	102.5	104.0
Investments in capital assets	105.8	107.8	104.3	105.9
Industry	102.5	103.7	102.1	103.2
Retail trade volumes	105.2	106.0	103.2	104.6
Households' real income	102.9	103.5	103.0	104.4
Real wages and salaries	105.0	109.1	103.6	107.4
Export	100.2	100.6	101.2	103.5
Import	106.3	109.0	102.8	105.0
Labor efficiency	103.2	104.0	102.9	103.9
Electric capacity of GDP	98.6	98.5	98.2	97.0

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

annual growth in investments in the 2013–2030 period in the current version of the forecast was revised downward to 4.3% against 5.9%, while the volume of public capital investments was estimated at the level of 2.2% of GDP against 3.5% of GDP earlier.

Downward revision of the forecast of growth in wages and salaries from 7.4% to 3.6% is mainly related to slowdown of average annual growth in labor remuneration of public sector workers in real terms to 3.7% against 5.3%. With the assumption of changes in the ratio between wages and salaries and growth in pension payments the parameters of average annual growth in households' real disposable income decrease from 4.4% to 3.0%. With low-key dynamics of households' income, in the 2013–2030 period the average annual growth in lending to households goes down as well from 18% to 15% with households' total debts estimated at 50% of GDP in 2030. Downward revision of the estimates of growth in households' income and consumer lending determined in general a lower path of retail trade volumes, that is, 3.5% against 4.6%.

A conservative scenario is based on rather low-key estimates of competitiveness of Russian goods with a high extent of reprocessing on external markets which situation determined adjustment of the dynamics of growth rates of the commodity exports from 3.5% to 1.9% on average in the forecast period.

Substantial adjustment of the estimates of the import dynamics in 2013 and lower parameters of the internal demand in the period till 2030 determined a downward revision from 5.0% to 3.4% as compared to the previous version of the forecast of average annual growth rates of the commodity imports.

With the forecast logic of development, the economy operates in the established reproduction model, that is, advanced growth in import as compared to the dynamics of the domestic market and modest development of the engineering complex as compared to imports and investments in capital assets with rather conservative estimates of growth in efficient utilization of labor, capital and electric power. ●

RUSSIAN INDUSTRY IN OCTOBER 2013

S.Tsukhlo

According to the data of business surveys of the Gaidar Institute¹, in October there were no principal changes neither in the dynamics of the demand, nor in the dynamics of the output of the Russian industry. The above situation caused growth in dissatisfaction about the volumes of current sales and made enterprises switch over again to reduction of prices in a hope to revive the demand. The continued outflow of workers from enterprises, worsening of forecasts as regards changes in the number of workers and negative investment plans supplement the gloomy situation of the beginning of the 4th quarter.

Demand on Industrial Produce

As in the previous month, weak dynamics of the main economic indices was observed in October. As before, by the end of the year demand demonstrates a growing slowdown which is adjusted by formal methods of season clearing. As a result, growth rates of a decrease in sales remain virtually unchanged for three months running (Fig. 1), but generally somewhat better than a year ago. However, lack of positive changes in the dynamics of the demand does not suit the industry any longer. After a three-month prevalence of "normal" answers in evaluation of the current volumes of the demand, in October "below the norm" answers increased by 2 p.p. In August, the correlation was a reverse one and the difference amounted to 9 points.

Demand forecasts, as well as its actual dynamics get worse by the end of the year. In October, the balance of initial forecasts (which is interpreted as the rate of change of the index) fell by to -12 points, while at the beginning of the year it amounted to +28 points. The above index went down during the past months of 2013, except for May, when a single rise of 7 points was registered. Within ten months of 2012, the loss of optimism of the demand forecast amounted to 33 points with the same result of October. With the seasonal factor cleared, all the 2013 forecasts are reduced to a narrow interval of +1 point to +8 points with constant fluctuations within the limits.

Stocks of Finished Products

In October, estimates of stocks of finished products showed that the share of "above the norm" answers surprisingly remained at the same level of 21%

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%.

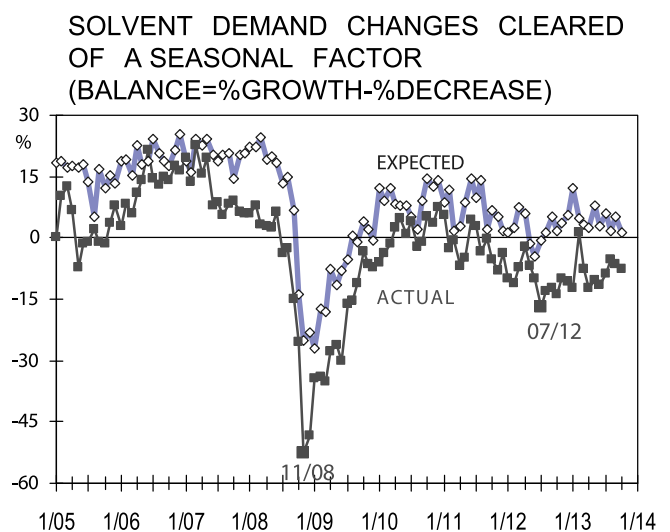


Fig. 1

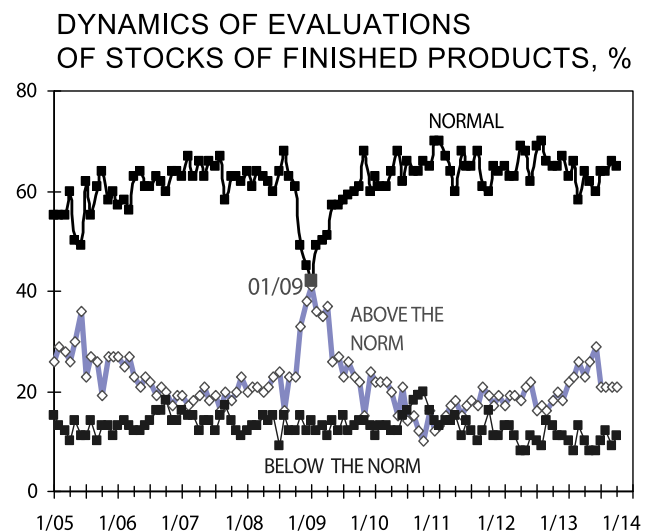


Fig. 2

which was set in the industry after a rise in that index to the four-year maximum in June. So, changes in the balance of evaluation of stocks of finished products were determined by fluctuations of the share of “below the norm” answers in the interval of 9 to 12%. As usual from the beginning of 2000s, the share of “normal” answers prevailed and remained in the past few months in the interval of 64% to 66% (Fig. 2). So, from the beginning of the 3rd quarter the industry in general effectively controls its stocks of finished products preventing both dramatic changes in their volumes and a sudden revision of the ideas about the normal level. It is to be noted that enterprises of iron and steel industry (88% of “normal” answers), chemical industry (76%) and nonferrous industry (74%) are more successful in that regard.

The Output

The output demonstrates a stable weak positive dynamics as regards the data cleared of the seasonal factor (Fig. 3). The balance of the index (growth rates) for five months running remains in the interval of +3 points to +6 points. The above results are better than those of the beginning of the year and the respective period of 2012. However, the initial data show that growth in the output is close to zero again as in July and April. Similarly to demand forecasts, the initial plans of the output have a stable negative dynamics from the beginning of the year, except for May when they rose by 9 points. However, within 10 months of the year the total drop in optimism amounted to 32 points: from +36 in January to +4 points in October.

Prices of Enterprises

In October, growth in enterprises’ factory prices stopped. The negative dynamics of the demand, weak output growth and lower expectations of their revival affect again enterprises’ pricing policy. Within a month, rates of actual growth in prices fell from +5 points to -3 points (Fig. 4). Pricing forecasts lost 7 points and fell to the four-year minimum. Such modest price intensions in the industry have not been observed since the mid-2009.

It is to be noted in accordance with the data of a three-year monitoring in 2013 the readiness to resort to an anti-crisis pricing policy has reached the maximum level of prevalence. In case of occurrence of a crisis slump in demand, 36% of enterprises are prepared at present to reduce prices even further, against 27% of enterprises earlier.

Actual Dynamics and Lay-Off Plans

In October, the outflow of workers from industrial enterprises continued. The balance of changes in the

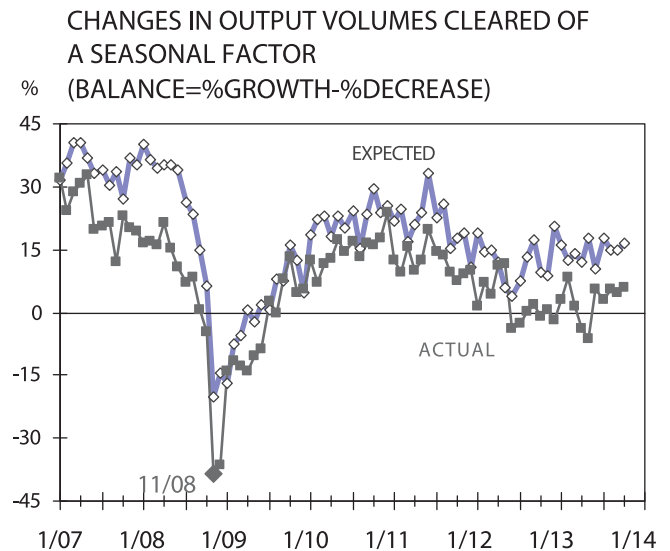


Fig. 3

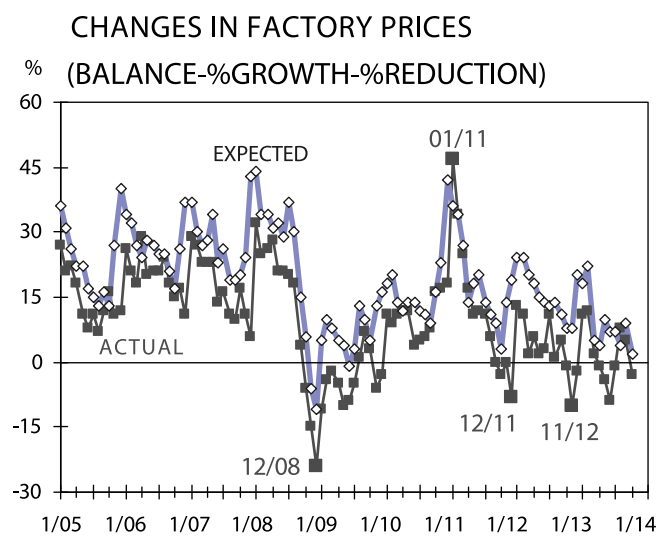


Fig. 4

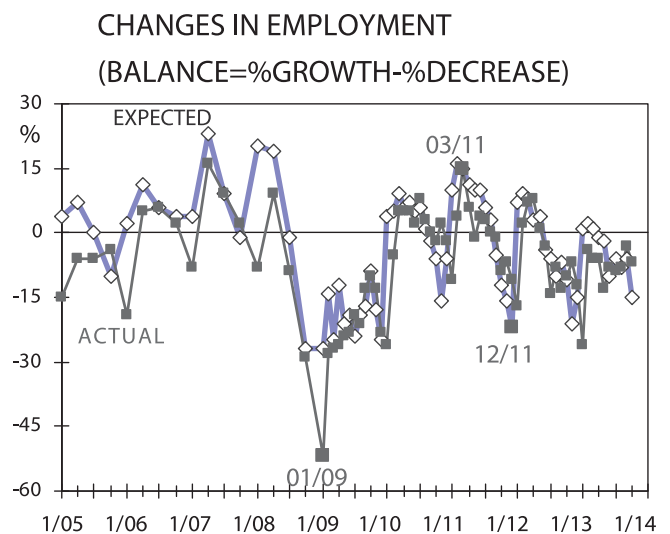


Fig. 5

index (the rate) fell to -7 points, but remained in the interval within which limits it stayed unvaryingly from February 201 (Fig. 5). Thus, the industry is not able (does not want?) to overcome that negative (?) trend of lay-offs. Forecasts of changes in employment show that such a situation will remain in the next months, too. It is to be noted that according to surveys the largest “drop” in employment forecasts in the past three years was registered in October. Probably, it can be justified by the effect produced by the official statement of the head of the government that the authorities would not deal with lay-offs in case of a new crisis.

The outflow of workers from enterprises in stagnation conditions may solve a topical issue of the Russian economy, that is, the problem of low labor efficiency. According to the long-term monitoring, from the end of 2010 maximum one-third of industrial enterprises estimated their actual labor efficiency as a low one (“below the norm”) which was a factor of weak motivation for its growth. But in October 2013 the share of such evaluations rose to 41%. As a result, it seems the number of supporters of higher labor efficiency in industry has become larger.

Enterprises’ Investment Plans

For three months running, enterprises’ investment plans has remained at the minimum level since the beginning of 2010 (Fig. 6). Completion of the year 2013 with striking investment plans is hardly feasible, at least by means of non-government investments. The industry refuses more explicitly to invest in production which prospects are not clear to anyone, including leaders of the Government of the Russian Federation and the Ministry of Economic Development of the Russian Federation.

Positive balances of investment plans remained in the electric power industry and the fuel industry which

EXPECTED CHANGES IN INVESTMENTS IN CAPITAL ASSETS AS COMPARED TO THE PREVIOUS YEAR (BALANCE=%GROWTH-%DECREASE)

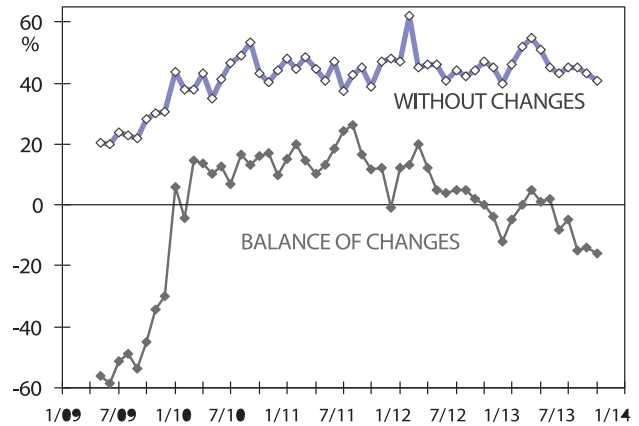


Fig. 6

factor confirms the fact that the above industries are in a privileged position. The chemical industry, light industry and food industry showed zero balances of investment intensions. With completion of the summer building season, the building materials industry scaled down its investment plans from explicit growth to an explicit drop (-11 points after +14 points). A less important as regards the extent but more dangerous “investment change” was registered in the engineering industry which changed the expected symbolic reduction (-3 points) in the mid-year by the forecast of a dramatic drop (-14 points) in investments. However, the largest drop in investments should be expected in metallurgy. Enterprises of that industry lowered their balances of expectations to -57 points and -28 points in ferrous industry and nonferrous industry, respectively. ●

RUSSIA'S STATE BUDGET IN JANUARY–OCTOBER 2013

T.Tishchenko

According to the Federal Treasury, federal budget revenues contracted 1.5 p.p. of GDP year-over-year in the period of January thru October 2013, including oil & gas revenues which dropped 0.9 p.p. of GDP. In the period of January thru September 2013 consolidated budget revenues of the constituent territories of the Russian Federation contracted by 1.3 p.p. of GDP against the first nine months in 2012. At the end of the first 10 months in 2013 Russia managed to run its federal budget with surplus, which however dropped 0.3 p.p. of GDP year over year. In anticipation of State Duma's approval of the draft federal budget for 2014–2016, it becomes increasingly important to launch a broad discussion about the rationale for the introduction of the budgetary rule and expediency of transferring a part of federal budget revenues to stabilization funds amid an economic recession.

Analysis of federal budget implementation basic parameters in January–October 2013

In the period of January thru October 2013, federal budget revenues amounted to Rb 10739,7bn or 19.5% of GDP, having contracted by 1.5 p.p. of GDP against the corresponding period of the previous year (Table 1). Federal budget oil-and-gas revenues contracted by 0.9 p.p. of GDP compared to the corresponding 10-month period in 2012. In the period of January thru October 2013, federal budget expenditures amounted to Rb 10131,0bn (18.4% of GDP), having declined 1.1 p.p. of GDP compared to the corresponding period of the previous year.

At the 10-month period end in 2013 Russia ran its federal budget with a surplus of Rb 608,7bn (1.1% of GDP), having shown a declined of 0.3 p.p. of GDP against the surplus in January-October 2012. In absolute terms oil-and-gas deficit fell 0.5 p.p. of GDP (8.6% of GDP) as compared to the value observed in the corresponding period of the previous year.

Over the 10-month period in 2013 federal budget revenues contracted for most of tax and non-tax reve-

nues including a decline of 0.1 p.p. of GDP for profit tax, 0.4 p.p. of GDP for domestic VAT, 0.2 p.p. of GDP for VAT on imports, 0.2 p.p. of GDP for mineral extraction tax, and 0.8 p.p. of GDP for foreign trade revenues against the corresponding period in 2012 (Table 2). Federal budget revenues from internal excises increased 0.2 p.p. of GDP in the period of January thru October 2013 as compared to the corresponding period of the previous year, whereas they remained at the 2012 level, 0.09 p.p. of GDP.

At the end of the period of January thru October 2013 the share of federal budget expenditures in GDP remained at the same level observed during the corresponding 10-month period in 2012 for most budget items (Table 3). The following three budget items saw a gain as percentage of GDP in the period of January-October 2013. 'National Defense' and 'National Security and Law Enforcement' gained 0.1 p.p. of GDP each while 'Physical Culture and Sports' gained 0.02 p.p. of GDP as compared to the corresponding period in 2012; some of the budget items saw reduced financing with federal budget resources during the 10-month period as com-

Table 1

RUSSIA'S FEDERAL BUDGET BASIC PARAMETERS IN JANUARY–OCTOBER 2012–2013

	January–October 2013		January–October 2012		Deviations, p.p. of GDP
	billions of rubles	as % of GDP	billions of rubles	as % of GDP	
Revenues, including:	10739.7	19.5	10455.4	21.0	-1.5
Oil and gas revenues	5359.6	9.7	5276.2	10.6	-0.9
Expenditures, including:	10131.0	18.4	9735.8	19.5	-1.1
interest expense	321.5	0.6	293.3	0.6	0.0
non-interest expense	9809.5	17.8	9442.5	18.9	-1.1
Federal budget surplus (deficit)	608.7	1.1	719.6	1.4	-0.3
Oil and gas deficit	-4750.9	-8.6	-4556.6	-9.1	0.5
GDP evaluation	55003		49799		

Source: Ministry of Finance of Russia, Federal Treasury of the Russian Federation, Gaidar Institute's estimates.

Table 2

FEDERAL BUDGET BASIC TAX REVENUES IN JANUARY–OCTOBER 2012–2013

	January–October 2013		January–October 2012		Deviation as p.p. of GDP
	billions of rubles	as % of GDP	billions of rubles	as % of GDP	
1. Tax revenues, including:					
corporate profit tax	303.6	0.5	322.5	0.6	-0.1
VAT on goods sold on the territory of the Russian Federation	1553.9	2.8	1602.8	3.2	-0.4
VAT on goods imported to the Russian Federation	1366.0	2.5	1360.5	2.7	-0.2
excises on goods manufactured on the territory of the Russian Federation	374.7	0.7	277.3	0.5	0.2
excises on goods imported to the Russian Federation	48.6	0.09	42.2	0.09	0.0
Mineral extraction tax	2090.8	3.8	2016.7	4.0	-0.2
2. Revenues from foreign trade	4070.9	7.4	4036.5	8.2	-0.8

Source: Federal Treasury of the Russian Federation, Gaidar Institute's estimates.

Table 3

FEDERAL BUDGET EXPENDITURES IN JANUARY–OCTOBER 2012–2013

	January–October 2013		January–October 2012		Deviation as p.p. of GDP
	billions of rubles	as % of GDP	billions of rubles	as % of GDP	
Total expenditures,	10131.0	18.4	9735.8	19.5	-1.1
including:					
Nationwide Issues	649.6	1.2	609.7	1.2	0.0
National Defense	1552.7	2.8	1345.7	2.7	0.1
National Security and Law Enforcement	1493.1	2.7	1283.5	2.6	0.1
National Economy	1247.1	2.3	1271.0	2.5	-0.2
Public Utilities Sector	97.4	0.2	87.1	0.2	0.0
Environmental Protection	20.8	0.04	18.6	0.04	0.0
Education	567.5	1.0	515.3	1.0	0.0
Culture and Cinematography	64.1	0.1	65.3	0.1	0.0
Healthcare	340.4	0.6	444.4	0.9	-0.3
Social Policy	3139.3	5.7	3228.2	6.5	-0.8
Physical Culture and Sports	48.2	0.09	36.0	0.07	0.02
Mass Media	66.8	0.1	63.4	0.1	0.0
Sovereign Debt Servicing	321.5	0.6	293.3	0.6	0.0
Intergovernmental Transfers	522.1	0.9	474.2	0.9	0.0

Source: Federal Treasury of the Russian Federation, Gaidar Institute's estimates.

pared to January–October 2012, namely 'National Economy' (0.2 p.p. of GDP), 'Healthcare' (0.3 p.p. of GDP), and 'Social Policy' (0.8 p.p. of GDP).

As of November 1, 2013, a total amount of resources in the Federal Reserve Fund and the National Wealth Fund amounted to Rb 2794,0bn and Rb 2845,2bn respectively in rubles equivalent.

Consolidated budget implementation in the constituent territories of the RF in the period of January thru September 2013

According to the Federal Treasury, in January–September 2013 consolidated budget revenues in the con-

stituent territories of the Russian Federation amounted to Rb 5686,8bn, or 11.6% of GDP, having contracted by 1.3 p.p. of GDP against the corresponding period in 2012 (Table 4).

Within the 9-month period in 2013 consolidated budget expenditures of the constituent territories of the Russian Federation contracted by 0.5 p.p. of GDP and accounted for 11.8% of GDP or Rb 5760,4bn against the corresponding period of the previous year. At the end of January–September 2013, the constituent territories of the Russian Federation ran their budget with a deficit of Rb 73,6bn or 0.1 % of GDP, having shown a decline

Table 4

**BASIC PARAMETERS OF CONSOLIDATED BUDGET OF CONSTITUENT TERRITORIES OF THE RUSSIAN FEDERATION
IN JANUARY–SEPTEMBER 2012– 2013**

	January–September 2013		January–September 2012		Deviation as p.p. of GDP
	billions of rubles	as % of GDP	billions of rubles	as % of GDP	
Revenues, including:	5686.8	11.6	5688.5	12.9	-1.3
– corporate profit tax	1196.2	2.4	1445.1	3.3	-0.9
– mineral extraction tax	1735.0	3.5	1566.2	3.5	0.0
– domestic excises	367.4	0.7	331.3	0.7	0.0
– aggregate income tax	224.2	0.4	205.7	0.5	-0.1
– property tax	637.9	1.3	554.2	1.2	0.1
– non-repayable revenues from other budgets of the budgetary system of Russia	1049.1	2.1	1126.4	2.5	-0.4
Expenditures, including:	5760.4	11.8	5437.3	12.3	-0.5
Consolidated budget surplus (deficit) of constituent territories	-73.6	-0.1	251.2	0.6	-0.7
GDP evaluation	48869		44077		

Source: Federal Treasury of the Russian Federation, Gaidar Institute's estimates.

of 0.7 p.p. of GDP against the values observed during the corresponding period of the previous year.

Within the 9-month period in 2013 consolidated budget expenditures of the constituent territories of the Russian Federation contracted by 0.9 p.p. of GDP for profit tax, 0.1 p.p. of GDP for lumpsum tax, and 0.4 p.p. of GDP for uncompensated receipts from other budgets within the budget system of Russia against the corresponding

period in 2012. In the period of January thru September 2013 the consolidated budget revenues of the constituent territories of the Russian Federation increased 0.1 p.p. of GDP for property tax against the 9-month period in the previous year, whereas the share of personal income tax revenues and internal excises revenues in GDP remained at the same level observed in the corresponding period of the previous year.

Table 5

**CONSOLIDATED BUDGET EXPENDITURES OF THE CONSTITUENT TERRITORIES OF THE RUSSIAN FEDERATION IN
JANUARY–SEPTEMBER, 2012–2013**

	January–September 2013		January–September 2012		Deviation as p.p. of GDP
	billions of rubles	as % of GDP	billions of rubles	as % of GDP	
Total expenditures, including	5760.4	11.8	5437.3	12.3	-0.5
Nationwide Issues	369.2	0.7	342.5	0.8	0.1
National Defense	2.6	0.005	2.5	0.006	-0.001
National Security and Law Enforcement	62.5	0.1	57.0	0.1	0.0
National Economy	1033.5	2.1	962.2	2.2	-0.1
Public Utilities Sector	518.2	1.1	536.5	1.2	-0.1
Environmental Protection	15.2	0.03	11.9	0.03	0.0
Education	1593.2	3.2	1391.5	3.1	0.1
Culture and Cinematography	192.5	0.4	173.2	0.4	0.0
Healthcare	873.4	1.8	890.6	2.0	-0.2
Social Policy	908.1	1.8	892.6	2.0	-0.2
Physical Culture and Sports	104.2	0.2	90.6	0.2	0.0
Mass Media	27.9	0.06	24.9	0.06	0.0
Sovereign and Municipal Debt Servicing	55.7	0.1	48.8	0.1	0.0
Intergovernmental Transfers	4.1	0.01	12.4	0.03	-0.02

Source: Federal Treasury of the Russian Federation, Gaidar Institute's estimates.

Six items of the consolidated budget expenditures of the constituent territories of the Russian Federation (see Table 5) saw a decline at the 9-month period-end in 2013 against the corresponding period of 2012, namely a decline of 0.001 p.p. of GDP for 'National Defense', 0.1 p.p. of GDP for 'National Economy' and 'Public Utilities Sector', 0.2 p.p. of GDP for 'Healthcare' and 'Social Policy', 0.02 p.p. of GDP for 'Intergovernmental Transfers'. During the same period in 2013 the share of expenditures in GDP increased 0.1 p.p. of GDP for each of as 'Nationwide Issues' and 'Education' budget items against the 9-month period in the previous year. The share of the constituent territories' other budget expenditure items in GDP at the end of January–September 2013 remained at the same level observed during the corresponding period in 2012.

Despite a lower forecast (down to 1.8%) for economy annual growth rates¹, the dynamics of budget

system revenues has shown some positive changes over the last three months in 2013. In particular, while budget revenues contracted 2.2 p.p. of GDP at the 8-month period-end federal in 2013 vs. the corresponding period in the previous year, at the end of January–September and January–October 2013 the revenues contracted 1.7 and 1.5 p.p. of GDP as compared to the corresponding period in 2012.

At the end of H1 2013 consolidated budget revenues of the constituent territories of the Russian Federation contracted 1.4 p.p. of GDP, including 1.2 p.p. of GDP for profit tax, whereas in the period of January thru September 2013 consolidated budget revenues of the constituent territories and profit tax revenues decreased as little as 0.9 p.p. of GDP against the corresponding periods of the previous year. ●

¹ As estimated by the Ministry of Economic Development of Russia.

RUSSIA'S BANKING SECTOR IN OCTOBER 2013

M.Khromov

Growth rate in banks' assets in October 2013 was accelerated with the resources of the Bank of Russia and the Ministry of Finance of Russia. Credit portfolio's quality has deteriorated in both the retail and corporate segments of the lending market. Banking business keeps losing its cost-effectiveness.

In October 2013, banks' assets saw a growth rate¹ of 1.5%, having reached the lowest value over the last four months, as compared to a 1.1% monthly growth rate in Q3 2013. However, banks' assets growth rates kept slowing down in the mid run: at October month-end annual growth rates slowed down to 16.1%, the lowest since the beginning of 2011.

Like in the previous months, money authorities' resources were responsible for the growth in banks' assets in October 2013. Without considering these resources, banks' assets increased 1.1% during the month, and 13.8% during 12 months, the lowest as early as the beginning of 2010².

In October 2013, the banking sector's equity gained 1.4% and risk-weighted assets 1.9%. This made capital adequacy lower from 13.4% to 13.3%. Over more than year the capital adequacy value has been remaining within a range of 13.1% to 13.7% at a threshold of 10%, which means that the owners of banks still manage to maintain the capital dynamics at an adequate level to be able to compensate for risk growth. However, capital adequacy is lower than it was prior to the crisis in 2008, when it was kept at a 14% or higher level³.

In October 2013, the banking sector's profit amounted to Rb 69bn (in Q3 2013, an average monthly profit amounted to Rb 87bn) and visibly declined against the previous months due to both growth in the contributions paid to supply reserves (Rb 50bn against an average of Rb 45bn in Q3 2013) and lower profit from reserve-supplying operations (118 against 132). The return on banking sector's equity dropped to 13% on a year-over-year basis in October 2013. Furthermore, at 10-month end in 2013 the banking sector generated less profit than it made during the corresponding period in 2012: Rb 820bn against Rb 833bn in the preceding year.

1 Hereinafter, unless otherwise indicated, growth rates in balance sheet figures are presented with allowance for revaluation of the foreign currency component.

2 In the second half of 2009, and in 2010, the banking system cut back its liabilities to the regulator. Therefore, without consideration for the resources of the Bank of Russia and the Ministry of Finance, growth rates were higher than the growth rate in total assets.

3 Calculated according to balance-sheet accounts (form No. 101).

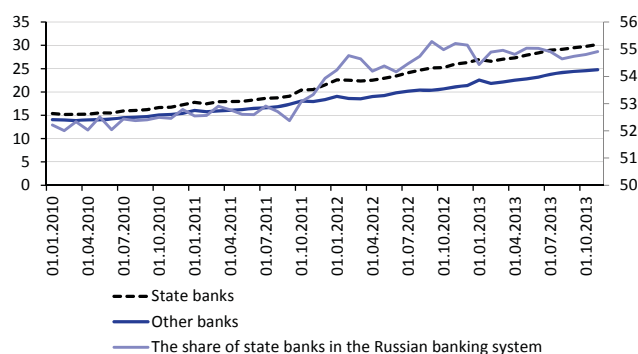


Fig. 1. Dynamics of state banks' and other banks' assets (trillions of rubles), and the share of state banks in the assets (% , right-hand scale)

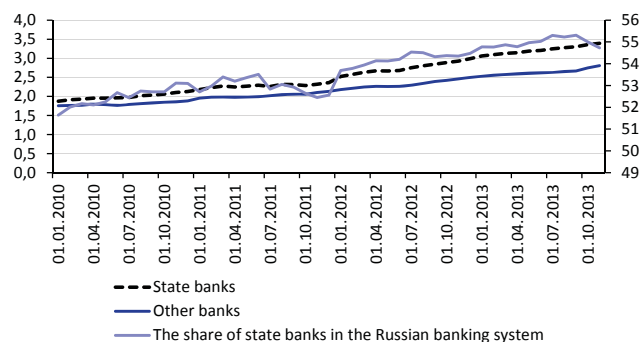


Fig. 2. Dynamics of state banks' and other banks' equity capital³ (trillions of rubles), and the share of state banks in the capital (% , right-hand scale)

Fundraising

Retail bank accounts and deposits increased 0.9% (Rb 141bn) during the month, annual growth rate remained around a level of 20% (20.1% at October month-end).

Like in the previous months, retail foreign-currency denominated bank accounts and deposits were growing at a faster rate than ruble-denominated ones. For instance, the amount of retail ruble-denominated bank accounts increased 0.6% (Rb 83bn), whereas USD accounts 2.0% (\$1,8bn) in October 2013.

At October month-end, the amount of retail bank accounts denominated in foreign currencies reached

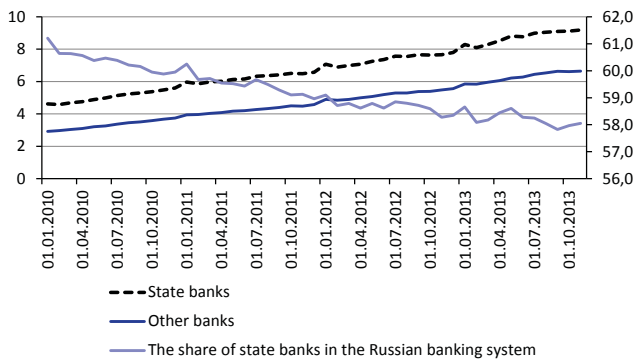


Fig. 3. Dynamics of state banks' and other banks' retail deposits (trillions of rubles), and the share of state banks in the retail deposit market (% , right-hand scale)

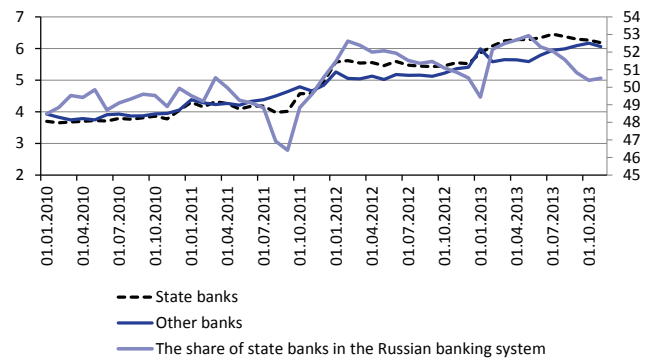


Fig. 4. Dynamics of corporate accounts with state and other banks (trillions of rubles), and the share of state banks in the corporate account market (% , right-hand scale)

another highest level of \$93bn and total retail bank deposits exceeded Rb 16 trillion for the first time.

We forecast that dynamics of retail bank deposits will slow down in November 2013 in response to the revocation of the banking license of Master Bank and a few smaller banks and depositors' mounting concerns about their savings in the banking sector. This also may result in growth in the share of state banks in the saving market. In October 2013, the amount of corporate bank accounts dropped 1.3% and annual growth rates fell to 11.7%. Like retail customers, in October 2013 corporate customers also preferred bank accounts denominated in foreign currencies whose volume increased 1.1% in US dollars terms, whereas the amount of ruble-denominated bank accounts declined 2.0%.

The October reduction of corporate bank accounts had an adverse effect on both current accounts and fixed-term deposits. However, cash outflows from bank accounts was more intensive: 2.1% (Rb 117bn) against 0.6% (Rb 37bn) of fixed-term deposits of non-bank legal entities. Therefore, fixed-term deposits still

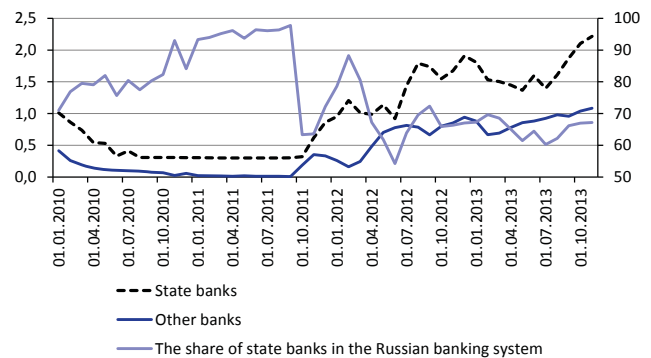


Fig. 5. Dynamics of Bank of Russia's loans extended to state and other banks (trillions of rubles), and the share of state banks in Bank of Russia's loans (% , right-hand scale)

account for a major part (54%) of the structure of corporate customers' bank accounts.

Banks' debt owed to the Bank of Russia and the Ministry of Finance of Russia increased Rb 208bn in October 2013, having reached another record in nominal terms (Rb 4,23 trillion). Money authorities' resources accounted for 7.7% of the banking sector's

Table 1

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

	12.08	12.09	12.10	12.11	06.12	12.12	03.13	05.13	06.13	07.13	08.13	09.13	10.13
Liabilities, billions of rubles	28022	29430	33805	41628	44266	49510	49839	51587	52744	53353	53876	54348	54981
Equity	14.1	19.3	18.7	16.9	16.8	16.2	16.7	16.5	16.3	16.3	16.3	16.5	16.5
Loans from the Bank of Russia	12.0	4.8	1.0	2.9	5.1	5.4	4.5	4.8	4.4	4.9	5.3	5.8	6.0
Interbank operations	4.4	4.8	5.5	5.7	4.8	5.6	5.4	4.9	5.2	5.1	5.1	5.1	5.2
Foreign liabilities	16.4	12.1	11.8	11.1	11.3	10.8	10.4	10.7	10.8	10.6	10.4	10.1	10.0
Retail accounts and deposits	21.5	25.9	29.6	29.1	29.4	28.9	29.6	29.5	29.6	29.6	29.6	29.3	29.2
Corporate accounts and deposits	23.6	25.9	25.7	26.0	24.0	24	23.9	23.5	23.5	23.2	23.0	22.9	22.3
Accounts and deposits of government agencies and local government authorities	1.0	1.0	1.5	2.3	1.5	1.6	1.4	2.0	2.4	2.6	2.7	2.9	3.2
Outstanding securities	4.1	4.1	4.0	3.7	4.5	4.9	5.2	5.1	5.1	4.9	4.9	4.7	4.8

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

total assets, having returned to the level observed in the summer of 2009.

Repo operations have gradually been replaced with loans secured by non-market assets in the structure of borrowings from the Bank of Russia, which reflects a new refinancing system in the banking sector. For instance, in mid-October banks borrowed Rb 500bn of such loans for a 3-month term at 5.76% p.a. As of 1.11.2013, banks' loan debt to the Bank of Russia totaled Rb 818bn (net of Sberbank's Rb 300bn subordinated loan), and Rb 2,1 trillion under repo operations.

Loans issued

Households' loan debt to banks increased 2.2% (Rb 222bn) in October 2013. This indicator's annual growth rates dropped below 30% (29.4% at October month-end) for the first time since August 2011. The quality of credit portfolio kept deteriorating. Overdue debt increased 3.2% in nominal terms during the month, and provisions for losses shrank 2.5%. As a result, the share of overdue debt increased from 4.5 to 4.6% while the ratio of provisions for losses to total loans from 7.1 to 7.2%. Furthermore, the volume of loans with overdue payments for longer than 90 days was growing fast, 4.4% during the month and 58.8% since the beginning of the year. As of 1.11.2013, the amount of such loans reached Rb 531bn, accounting for 5.8% of the total retail loans.

The amount of loans extended to corporate borrowers increased 1.4% during the month. Annual growth rates in corporate loans remained stable within a range of 13.0–14.0% since the spring 2013. In October 2013, the quality of the credit portfolio's corporate segment stopped deteriorating for the first

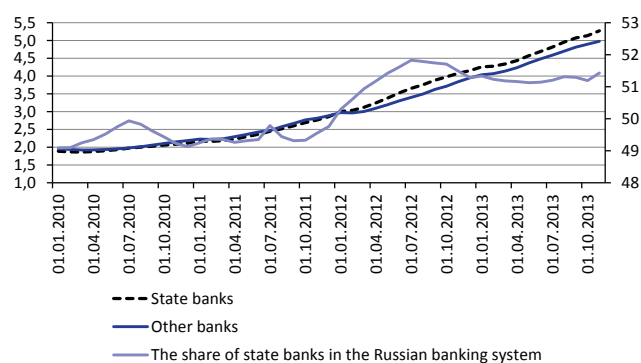


Fig. 6. Dynamics of state banks' and other banks' retail loans, (trillions of rubles), and the share of state banks in the retail loan market (% , right-hand scale)

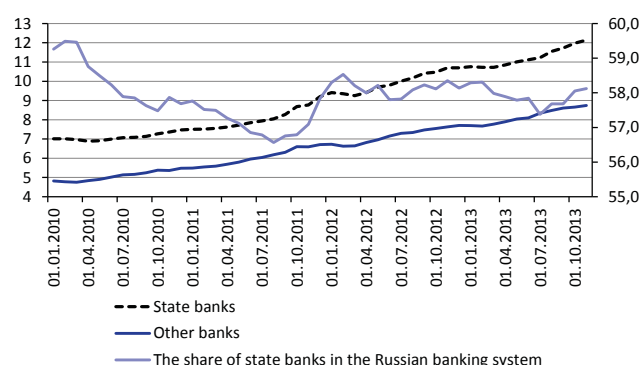


Fig. 7. Dynamics of state banks' and other banks' corporate loans (trillions of rubles), and the share of state banks in the corporate loan market (% , right-hand scale)

time over a long period (since the beginning of 2012). On the contrary, the key indicators of bad loans such as the share of overdue debt and provisions for losses against loan volumes increased 0.1 p.p. to 4.3% and 7.1% respectively, during the month.

Table 2

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

	12.08	12.09	12.10	12.11	06.12	12.12	04.13	05.13	06.13	07.13	08.13	09.13	10.13
Assets, billions of rubles	28022	29430	33805	41628	44266	49510	50 693	51587	52744	53353	53876	54348	59481
Cash and precious metals	3.0	2.7	2.7	2.9	2.5	3.1	2.7	2.4	2.4	2.3	2.3	2.3	2.3
Deposits in the Bank of Russia	7.5	6.9	7.1	4.2	3.0	4.4	3.0	3.1	3.3	3.0	2.9	3.5	3.1
Interbank operations	5.2	5.4	6.5	6.4	5.8	6.8	6.1	6.0	6.0	5.9	5.8	5.8	6.0
Foreign assets	13.8	14.1	13.4	14.3	14.2	13.0	15.0	15.6	15.1	15.0	14.5	13.6	13.4
Retail sector	15.5	13.1	13.0	14.4	16.0	16.8	17.7	17.8	17.9	18.1	18.4	18.5	18.7
Corporate sector	44.5	44.5	43.6	44.0	43.6	41.3	41.5	40.9	40.9	41.0	41.1	41.2	41.5
State	2.0	4.2	5.1	5.0	3.8	3.2	2.9	2.8	3.2	3.4	3.0	2.9	3.1
Property	1.9	2.7	2.6	2.3	2.3	2.2	2.2	2.2	2.2	2.1	2.1	2.1	2.1

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

MORTGAGE IN THE RUSSIAN FEDERATION IN Q3 2013

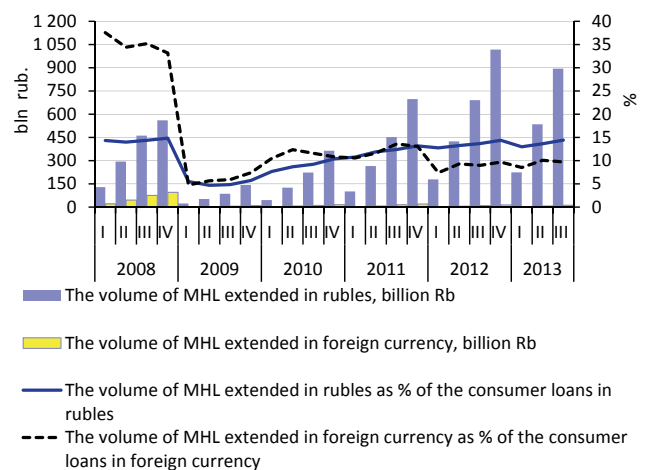
G.Zadonsky

The volume of MHL (Rb 905,935bn) extended within three quarters of 2013 exceeded by 29% the volume of loans extended in the respective period of 2012. With growth in lending volumes, a decrease in the overdue debt on MHL extended in rubles to 1.15% of the outstanding debt as of October 1, 2013 against the overdue debt on MHL in foreign currency being equal to 12.31% of the outstanding debt in foreign currency points to a gap in the quality of MHL in rubles and foreign currency.

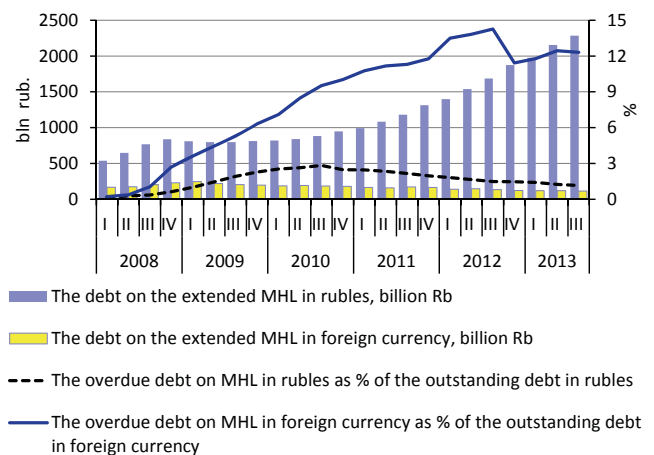
According to the data of the Central Bank of the Russian Federation, in three quarters of 2013 credit institutions extended Rb 939,554bn worth of 595,423 housing loans (HL), including Rb 905,935bn worth of 557,325 mortgage housing loans of which Rb 894,414bn worth of 555,890 MHL were extended in rubles and Rb 11,521bn worth of 1,435 MHL in foreign currency (Fig. 1). As of October 1, 2013, the volume of MHL in rubles as a percentage of the respective volumes of consumer loans in rubles amounted to 14.42% which is 0.75 p.p. higher than that as of October 1, 2012, while as regards MHL in foreign currency it amounted to 9.75%, which is also 0.75 p.p. higher than in the respective period of 2012 (Fig. 1). The volume of MHL extended within three quarters of 2013 in monetary terms exceeded by 29% the volume of loans extended in the respective period of 2012.

As of October 1, 2013, the outstanding debt on MHL amounted to Rb 2,399 trillion (in Q1 2013 – Rb 2,094 trillion, while in H1 2013 – Rb 2,275 trillion), including Rb 2,283 trillion on loans in rubles (Fig. 2). As of the end of Q3 2013, the outstanding debt on MHL in rubles rose by 35.41% as compared to the respective period of 2012, while the overdue debt increased within the same period by 4.66% and amounted to Rb 26,319bn or 1.15% of the outstanding debt (Fig. 2), which is 0.34 p.p. lower than in the respective period of 2012.

As of October 1, 2013, the outstanding debt on loans in foreign currency (Rb 115.62bn) decreased by 13.92% as compared to the end of Q3 2012. As of October 1, 2013, the volume of MHL extended in foreign currency as a percentage of the total volume of the extended MHL fell to 1.27% against 1.38% as of October 1, 2012. The share of the debt on MHL in foreign currency in the total debt fell from 7.38% as of October 1, 2012 to 4.82% as of October 1, 2013; it is to be noted that within the same period the share of the overdue debt on MHL in foreign currency in the total overdue debt fell by 8.16 p.p. to 35.09%. Within the same period, the overdue debt decreased by 25.75% and



Source: on the basis of the data of the Central Bank of Russia.
Fig. 1. Dynamics of lending to individuals within a quarter with a cumulative result



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

Fig. 2. Dynamics of the outstanding and overdue debt on mortgage housing loans

amounted to Rb 14,228bn or 12.31% of the outstanding debt on loans in foreign currency which is 1.96 p.p. lower than in the respective period of 2012 (Fig. 2).

As of October 1, 2013, the total overdue debt on MHL amounted to Rb 40,547bn or 1.69% of the out-

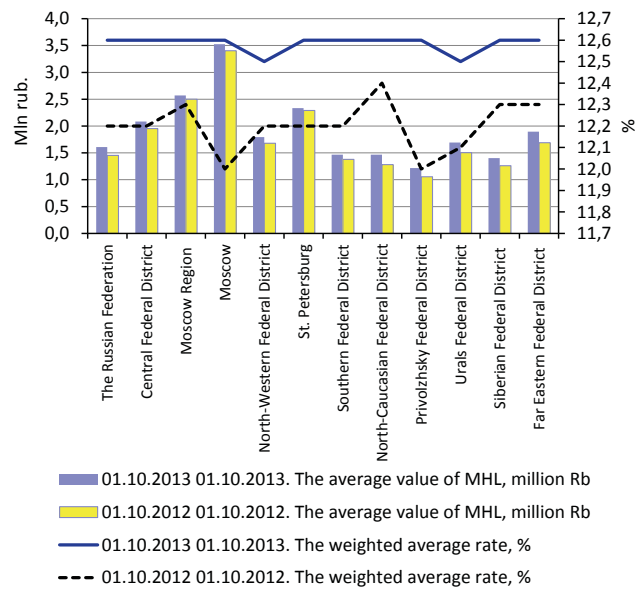
standing debt which is 0.74 p.p. lower than that as of October 1, 2012 (Fig. 3). According to the data of the Central Bank of the Russian Federation, as of the end of Q3 2013 the debt on MHL with payment overdue from 1 day and more as a percentage of the total debt decreased by 0.1 p.p. as compared to the respective period of 2012 and amounted to 4.98%. The share of the debt on MHL with payments overdue for over 180 days (defaulted loans) as a percentage of the total debt decreased within that period by 0.72 p.p. and amounted to 2.04%.

As October 1, 2013, the weighted average rate on MHL in rubles extended from the beginning of the year amounted in general to 12.6% which is 0.4 p.p. higher than in the same period of 2012. The growth in the rate as compared to 2012 took place by all the regions (Fig. 3). On loans extended within a month, the weighted average rate in the Russian Federation amounted to the maximum value of 12.9% as of April 1, 2013 and fell to 12.4% as of October 1, 2013.

The average value of the loan in the Russian Federation rose from Rb 1.45m as of October 1, 2012 to Rb 1.61m as of October 1, 2013. Growth in the average value of a loan took place in all the regions (Fig. 5). The average value of a loan in Moscow (Rb 3.52m) still largely exceeds that in other regions. In particular, as of October 1, 2013 it exceeded 2.19 times over the average value of a loan in the Russian Federation. The lowest value of the average loan (Rb 1.22m) was registered in the Privolzhsky Federal District (Fig. 4).

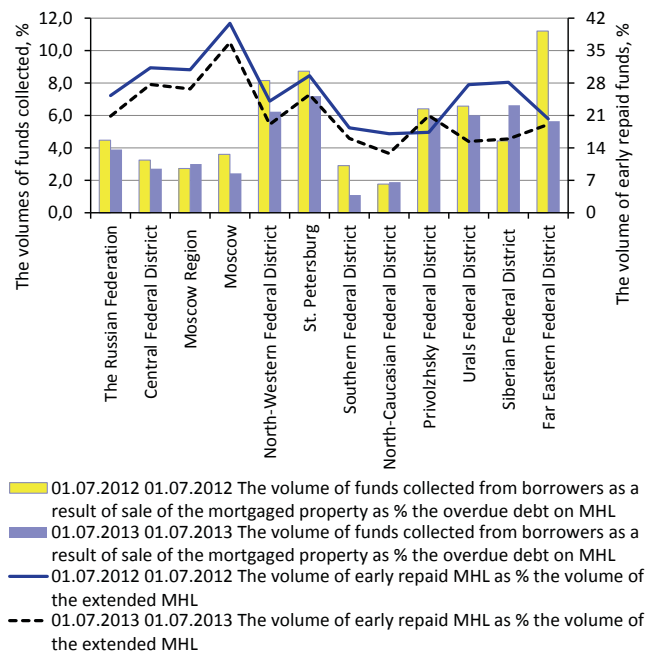
According to the data of the Central Bank of the Russian Federation, as of October 1, 2013 the weighted average period of lending as regards MHL in rubles extended from the beginning of the year decreased as compared to Q1 (15.04 years) and H1 2012 (14.88 years) and amounted to 14.78 years. As of October 1, 2013, the weighted average period of lending as regards MHL in foreign currency extended from the beginning of the year amounted to 13 years (13.03 years and 13.18 years in Q1 and H1, respectively).

According to the data of the Central bank of the Russian Federation, as of July 1, 2013 the volume of the early repaid MHL in the Russian Federation in general in monetary terms rose by 4.06% as compared to July 1, 2012. Within the same period, the volume of early repaid MHL as a percentage of the volume of the extended MHL decreased by 4.46 p.p. and amounted to 20.84% (Fig. 4). Reduction of a relative volume of early repaid loans is typical of all the regions of the Russian Federation, except for the Privolzhsky Federal District in which the volume both in monetary terms and as a percentage of the volume of the extended loans increased (Fig. 4). Moscow is still the leader as regards the relative



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

Fig. 3. The weighted average data on mortgage housing loans in rubles extended from the beginning of the year



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

Fig. 4. Dynamics of early repayment of MHL and the volume of funds collected from the borrower as a result of sale of the mortgaged property by the region

volume of early repaid MHL which amounted to 36.75% as of July 1, 2013 (Fig. 5).

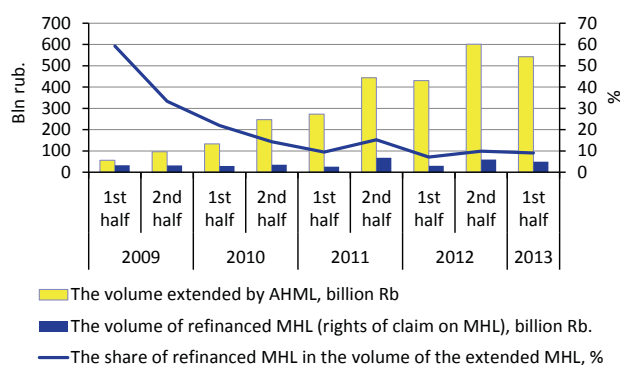
As of July 1, 2013, the volume of funds collected from borrowers as a result of realization mortgaged property in monetary terms in the Russian Federation in general decreased by 20.5% as compared to July 1, 2012. A re-

duction in the volume in monetary terms took place in all the regions of the Russian Federation, except for the Central Federal District and the Siberian Federal District. As of July 1, 2013, the volume of funds collected from borrowers as a percentage of the overdue debt in the Russian Federation in general amounted to 3.91%, which is 0.57 p.p. lower than that as of July 1, 2012. If as of July 1, 2012 the highest value (11.21%) of that index was registered with the Far Eastern Federal District, as of July 1, 2013 the highest value (7.19%) was registered with St. Petersburg (Fig. 4).

In H1 2013, the volume of refinancing of MHL with a sale of a pool of loans (rights of claim on MHL) amounted to Rb 40.9bn which is 60.2% more than in H1 2012 (Fig. 5). Within the same period, the share of refinanced loans in the volume of the extended MHL rose by 1.93 p.p. and amounted to 9.07% (Fig. 5).

As of October 1, 2013, OAO AHML bought back by all the products Rb 32,983bn worth of 22,821 mortgages which is 29.56% and 23.33% lower as regards the number and in monetary terms, respectively, than as of October 1, 2012. In January–October 2013, OAO AHML bought back Rb 37,451bn worth of 25,775 mortgages.

For the purpose of making equal the standards under which MHL is extended for the Agency's products with the requirements of other mortgage creditors, AHML abandons the requirement that borrowers are obligated to provide a 2-NDFL certificate, that is, an official confirmation of their "white" income. Also, until December 31, 2013 AHML intends to write off automatically all the accrued penalty fees in the full volume to those borrowers who manage to repay the overdue debt on the principal and the accrued interests before December 20, 2013.



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

Fig. 6. Refinancing of MHL with a sale of a pool of loans (rights of claim on MHL) without formation of an additional financial instrument and with further issuing of mortgage-backed securities

The Financial Markets Service of the Central Bank of the Russian Federation registered the issues and prospectus of A1/13-class and A2/13-class of mortgage-backed housing bonds of ZAO Ipotechny Agent AHML 2011-1 with the total volume of Rb 4.9bn whose complete repayment is scheduled for 2046. The Central Bank of the Russian Federation established a working group to develop mechanisms permitting to make housing loans less expensive.

The draft federal law on mortgage insurance was approved in the first reading. It is proposed to set the minimum amount of the insured sum in mortgage insurance at 10% of the amount of the mortgage-backed obligation, while the maximum amount of the insured sum, at 50% of the principal. ●

RUSSIAN'S FOREIGN TRADE IN SEPTEMBER 2013

N.Volovik

In September 2013, the main indices of the Russian foreign trade did not virtually change, which situation was justified by slowdown of the growth rates of the global economy, worsening of the global market situation for Russian commodities, as well as reduction of the aggregate demand on the domestic market. In November 2013, the first investigation initiated by the European Union against Russia within the WTO frameworks began.

In October 2013, the World Trade Organization had the collected volume: The 2013 International Trade Statistics published in which the main indices which characterize the current trends in the international trade in goods and services are included¹. In 2012, the global export in goods rose by 2.5% as the global GDP.

The world's main trader is still the United States whose foreign trade turnover amounted to \$3,881.2bn in 2012. It is to be noted the US still has a large trade balance deficit: in 2012 it increased by 0.5% as compared to 2011 and amounted to \$789.8bn (4.9% of GDP).

The US is followed by China with a foreign trade turnover of \$3,867.1bn; it is to be noted that China remains the largest exporter of goods. From 1994, China's foreign trade surplus has been a positive one; in 2012 it amounted to \$230bn (2.8% of GDP).

Germany is still in the 3rd place despite a decrease in the foreign trader turnover from \$2,728.9bn in 2011 to \$2,574.3bn in 2012. The positive trade balance surplus amounted to \$240bn (7.0% of GDP). Due to structural problems in the euro area, in most EU countries the foreign trade turnover decreased, as well.

The Russian Federation with an export volume of \$529bn moved upwards from the 9th place in 2011 to the 8th place. The share of the Russian export in the total volume of the global commodities export amounted to 2.9%. As regards the volume of import, Russia moved from the 17th place in 2011 to the 16th place having purchased \$335bn worth of goods abroad. The share of the Russian import in the total volume of the global import amounted to 1.8%.

In September 2013, the Russian foreign trade turnover calculated on the basis of the methods of the balance of payments amounted to \$73.4bn which is 4% higher than the respective index of the previous year. It is to be noted that in September 2013 the export of goods from Russia increased by 3.3% to \$44.5bn. In September 2013, the import in Russia increased by 5.3% to \$28.8bn on the same period of 2012. In Sep-

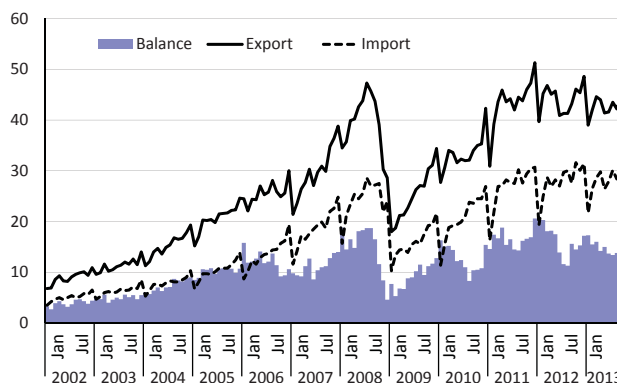


Fig. 1. The main indices of russian foreign trade (billion \$)

tember 2013, the trade balance surplus decreased by 0.3% to \$15.7bn as compared to September 2012.

On the global oil market, the situation remains quite favorable for Russian exporters. In September, for five months running growth in Brent oil prices was observed which situation can be explained, among other things, by the continued repair of oil wells in the North Sea. In September, the average cost of the Brent oil amounted to \$111.62 a barrel which is 0.6% higher than in August.

It is to be noted that as regards WTI oil and Urals oil a slight decrease in prices was observed which situation was largely justified both by easing of geopolitical tensions in the Middle East as a result of the international settlement of the chemical weapons issue in Syria and active renewal of oil production in Libya.

In September 2013, the WTI oil depreciated by 0.3% as compared to the previous month, while Urals oil, by 0.2% and amounted to \$110.9 a barrel (the average price according to the data of the Agrus and Plats Agencies); as compared to September 2012 the Urals oil price depreciated by 0.6%. In January–September 2013, Urals oil price amounted to \$107.7 a barrel or 97.0% of the respective period of the previous year.

According to the monitoring of oil prices by the Ministry of Finance, in the period from October 15, 2013 till November 14, 2013 included the average oil price amounted to \$776.8 a ton. As a result, in Decem-

1 http://www.wto.org/english/res_e/statis_e/its2013_e/its2013_e.pdf

Table 1

MONTHLY AVERAGE GLOBAL PRICES IN SEPTEMBER OF THE RESPECTIVE YEAR

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Oil (Brent), USD/a barrel	28.26	27.1	42.68	61.7	62.1	75.9	104.7	68.64	77.76	109.97	113.4	111.6
Natural gas, USD/1m BTU	3.08	3.97	4.41	6.58	8.77	8.54	14.85	7.13	8.28	10.85	11.08	11.6
Copper, USD/a ton	1498.3	1816.4	2892.6	3858.0	7602	7656.5	6990.9	6195	7709.3	8314.8	8087.7	7159.3
Aluminum, USD/a ton	1294.7	1415.0	1726.0	1840.0	2473	2392.9	2525.8	1833	2202.4	2296.7	2064.1	1761.3
Nickel, USD/a ton	6592.5	9996.1	13298	14228	30131	29605	17795	17462	22643	20392	17288	13801

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

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

ber the possible rates of customs duties on oil and oil products will be lowered. The export of crude oil will be charged at the rate of \$385.7 a ton (\$395.9 a ton in November). The privileged oil duty will decrease from \$192.3 a ton to \$185.3 a ton. The rate on oil products will go down from \$261.2 a ton to \$254.5 a ton. In December 2013, the export of petrol will be charged at the rate of \$347.1 a ton (\$356.3 a ton in November).

After some stabilization in August, in September 2013 negative dynamics prevailed again in global non-ferrous metals market which situation is primarily related to uncertainties about the prospects of the US real sector growth. In addition to the above, throughout September, there was no positive news on development of China's economy. Disparity between the global demand in and supply of base nonferrous metals got worse; it is to be noted that supply of nickel and copper increased dramatically.

According to the data of the London Metal Exchange, as compared to August 2013 prices on aluminum, nickel and copper fell by 3.1%, 3.6% and 0.5%, respectively. In January–September 2013, aluminum, copper and nickel were traded 7.6%, 7.3% and 13.1% lower as compared the same period of 2012, respectively.

In September 2013, for five months running the FAO food price index continued to decrease (a drop of 203.1 points); it was 1.5 points and 10.5 points lower than in August and January 2013, respectively. The factor behind such a decrease was a dramatic drop in global prices on grain while all the other components of that index – dairy products, vegetable oil, meat and sugar appreciated a little.

According to the data of the Central Bank of the Russian Federation, in January–September 2013 Russia's foreign trade turnover amounted to \$632bn which is 0.2% higher than in January–September 2012. It is to be noted that the export amounted to \$382.8bn, that is, it decreased by 1.5% as compared to the same period of 2012. The above situation took place due to a drop of 9.8% in export supplies to CIS states. Export supplies to far abroad countries remained at the level of the previous year. As a result, during nine months of 2013 the share of the far abroad countries in the total

volume of the export increased from 84.8% to 86.3% as compared to the same period of 2012.

During the first nine months of 2013, the import increased by 2.9% to \$249.2bn. Import purchases from CIS states grew at a higher rate: the import of goods from those countries increased by 3.8%, while that from far abroad countries, by 2.8%. The share of far abroad countries in the total volume of Russian import fell to 85.6% against 85.7% in January–September 2012, while the share of CIS states rose to 14.4% against 14.3%.

Russia's trade balance surplus remained positive at the level of \$133.6bn (\$146.6bn in January–September 2012).

A decrease in the export in January–September 2013 as compared to the same period of 2012 is justified by negative dynamics of prices (primarily, on energy resources and metals), while growth in imports took place due to appreciation of prices on imported goods with modest rates of a drop in purchases in physical terms.

Table 2

INDICES OF COST, PHYSICAL VOLUMES AND FOREIGN TRADE PRICES IN JANUARY–SEPTEMBER 2013
(JANUARY–SEPTEMBER 2012 = 100)

	Index of physical volume	Price index
EXPORT		
Total	104.3	95.8
Far abroad	106	96.4
CIS	95	92.4
IMPORT		
Total	99.2	101.4
Far abroad	98.9	101.9
CIS	101	98.2
	104.3	95.8

Source: the Ministry of Economic Development.

Due to a decrease in export prices with growth in prices on import purchases the conditions of Russia's trade with foreign countries got worse. In January–September 2013, the index of trade conditions amounted to 94.5 (105.3 in January–September 2012).

In January–September 2013, the negative dynamics of the Russian export as compared to the same period of 2012 was justified by a decrease in physical volumes of

export supplies of food products and agricultural primary products (by 13%), metals and metal products (4.8%) and machines and equipment (6.4%), as well as a drop in contractual price on oil and oil products (by 3.5%), chemical products (6.7%) and metals and metal products (5.2%).

In January–September 2013, growth in contractual prices over virtually the entire nomenclature of goods purchased from abroad was observed. So, as compared to January–September 2012 food products and agricultural primary products appreciated by 2.1%, chemical products, by 1.8%; textile, textile products and footwear, by 7% and machines, equipment and means of transportation, by 1.8%.

On November 25, 2013, the meeting of the Dispute Resolution Council of the WTO took place. At the above meeting, at the request of the European Union a panel of arbitrators was formed to resolve the dispute as regards the regime of payment of the utilization duty charged in the Russian Federation on motor vehicles. In October 2013, at a similar meeting Russia turned down the first request by the EU to form a panel of arbitrators. According to the WTO rules, the second request cannot be turned down. So, the first panel investigation against Russia from the day of its accession to the WTO in 2012 began.

The WTO will send Russia a list of arbitrators which the latter has to agree on with the EU within two weeks from the day of receipt of that list. If the agreement fails to be reached within the above period, the issue will be transferred to the WTO Director General who appoints arbitrators at his own discretion.

The group of arbitrators has to take a decision within six months on which party in the dispute is right. At that stage, it is important that the government of the state which is involved in the dispute has support of skilled advisors (lawyers, economists, negotiators, experts and other), as well as governments of other countries whose interests may be affected by the results of the dispute resolution.

According to the statistics, about 60% of decisions made by the group of arbitrators are appealed against at the appeals body; it is to be noted that cancellation or amendment of decisions made by the group of arbitrators take place rather rarely. It is to be noted that decisions taken by the appeals body cannot be appealed against and are the basis of the WTO case law.

China, India, Japan, Korea, Norway, Turkey, Ukraine and the US declared about their intentions to participate in the investigation as a third party.

The Russian side believes that the issue in question could have been resolved by means of consultations. To ensure equal conditions both for domestic producers and importers of means of transportation, amendments were introduced in October 2013 into Article 24.1 of Federal Law No. 89-FZ on Production and Consumption Waste. Under the above amendments, from January 1, 2014 Russian car makers will pay the utilization duty on the same terms as others. At present, the utilization duty is charged only when cars are imported to Russia and that was the cause of major complaints on the part of the EU. ●

THE LIVING STANDARDS OF THE POPULATION OF THE RUSSIAN FEDERATION

S.Misikhina

Over the first 9 months of 2013, the real disposable money income of the population rose by 3.6% on the corresponding period of 2012. The highest rate of wage growth was observed in the budget-funded sector, as a result of the implementation of the RF President's Edicts of 7 May 2012. The money income inequality index over the period of January–September 2013 somewhat increased. The poverty level indices for the first half-year of 2013 turned out to be higher than the corresponding indices for Q1 2012 due to alterations introduced in the subsistence level estimation methodology.

The money income of the population. In September 2013, the average nominal monthly charged wage was at the level of Rb 29,811, having increased on August by 2%. Due to a low inflation rate (in September, consumer prices rose on August by 0.2%), the increase displayed by the level of the real average monthly charged wage was slightly less than that of the average nominal monthly charged wage, and amounted to 1.8%. As the pension level had been raised no further since the April indexation, the average size of allotted monthly pension in September 2013 practically remained at its August level, thus amounting to Rb 10,045. In real terms, the average pension amounted to 99.9% of its August level.

The slight increase of the average monthly wage and the zero growth of the average pension resulted in a corresponding upward movement of the nominal per capita index of the population's money income, which mostly appears to be the upshot of the shrinkage in the population's other types of income, and to a lesser degree – of the growth in wage arrears.

The volume of outstanding average monthly arrears of wages over September 2013 rose by 6.1% on August, thus amounting to Rb 2,679m. This index was pushed up by the increased number of workers whose earnings were in arrears – from 77 thousand to 83 thousand, while the amount of arrears of wages per employee remained practically unchanged.

The population's nominal per capita money income in September 2013 amounted to Rb 24,209, which represents a 3.6% decline on August 2013. Over the course of September, the real disposable money income of the population dropped by 4.3% compared with August.

On the whole over the first 9 months of 2013, the average monthly wage in nominal terms increased on the corresponding period of the previous year by 13.2%, the average allotted monthly pension – by 9.7%, and the population's average monthly per capita money income in nominal terms – by 11.0%. When taken in real terms, growth of the population's money

income over the first 9 months of 2013 is as follows: the average monthly wage rose by 5.9%; the average pension – by 2.7%; and the population's average monthly money income – by 3.6%.

The movement of the real disposable money income index over the January–September periods of 2012 and 2013 is shown in *Table 1*.

Table 1

CHANGES IN THE REAL DISPOSABLE MONEY INCOME, %

	As percentage of	
	corresponding period of previous year	of previous period
2012		
Q1	101.6	76.0
Q2	104.4	115.9
1st half year	103.1	
July	100.3	93.3
August	109.3	104.0
September	105.3	99.0
Q3	104.9	100.9
January–September	103.8	
2013		
Q1	106.2	76.3
Q2	103.4	112.9
1st half year	104.7	
July	104.2	94.7
August	102.1	101.9
September	98.7	95.7
Q3	101.7	99.2
January–September	103.6	

Source: data released by Rosstat.

As a result of the upward adjustment of salaries and wages in the budget-funded sector (covered, among other sources, also by dotations allocated from the federal budget), in January–August 2013 the highest growth rate was displayed by the average nominal monthly charged wage indices (less welfare benefits) in the sectors of public education (123.5%), and public healthcare and social services (118%).

The salary growth rates in the budget-funded sector over the period of January–August 2013 could be

rivalled only by those in the petroleum product industry (119.6%) and the industry of recreation, entertainment, culture and sports (118.4%).

However, this growth in the budget-funded sector appears less impressive when set against Russia's average monthly wage indices. Over the first 8 months of 2013, by comparison with the corresponding period of 2012, the ratio between the average wage in the budget-funded sector and Russia's average monthly wage increased as follows:

- in public education – from 69% to 76%,
- in the sector of public healthcare and social services – from 77% to 80%.

However, these officially published data seem to be somewhat understated when compared with the information released by Konstantin Laikam, Deputy Head of the Federal State Statistics Service (*Rosstat*), at the press conference held by *RIA Novosti*. According to Mr. Laikam, over the first 9 months of 2013, the average monthly salary of Russian schoolteachers amounted to more than Rb 27,556, which pushed the ratio between the average salary in public education and Russia's average monthly wage up to 95%¹. If this information is correct, this may mean that September saw a very noticeable upsurge in the average salary index in the public education sector, as a result of which its growth over September was higher than in the previous months; another reason may be that the salary level calculation methodology applied for the purpose of monitoring the RF President's Edicts of 7 May 2012 differs from the methodology applied by *Rosstat* in its follow-up of the movement of the average monthly charged wage index (less welfare benefits).

Socioeconomic differentiation. In 2013, the creeping upward trend in money income inequality remained unchanged. Over the first 9 months of 2013, the income inequality indices rose on the period of January–September 2012 as follows:

- the Gini coefficient: from 0.413 to 0.415;
- the ratio of the average income of the richest 10% to the poorest 10% (R/P 10%): from 15.7 to 15.8.

The increasing inequality in the distribution of the population's money incomes has largely been caused by the increasing share of the fifth quintile (highest incomes) and the shrinking share of the second quintile in the aggregate volume of population's money income. The income growth in the fifth quintile occurred in the segment representing 10% of the wealthiest population group.

Subsistence level and poverty. The subsistence level indices in Q1 2013 were as follows: monthly average for total population – Rb 7,372; monthly average for able-bodied population – Rb 7,941; monthly average for retired population – Rb 6,043; and monthly average for children – Rb 7,104.

The poverty index in the first half-year of 2013 was at the level of 18.4m, or 13.0% of total population, while in the first half-year of 2012 it amounted to 17.7m, or 12.5% respectively. However, these values by no means point to overall poverty growth in the Russian Federation. The worsening indices largely reflect the alterations introduced in the subsistence level estimation methodology after 1 January 2013, which resulted in the index's upward adjustment.

Table 3

**NUMBER OF PEOPLE WITH INCOMES BELOW
SUBSISTENCE LEVEL**

	Million	As % of total population
2012		
Q1	19.1	13.5
Q2	16.4	11.5
1st half year	17.7	12.5
Year	15.6	11.0
2013		
Q1	19.6	13.8
Q2	17.2	12.1
1st half year	18.4	13.0

Source: data released by *Rosstat*.

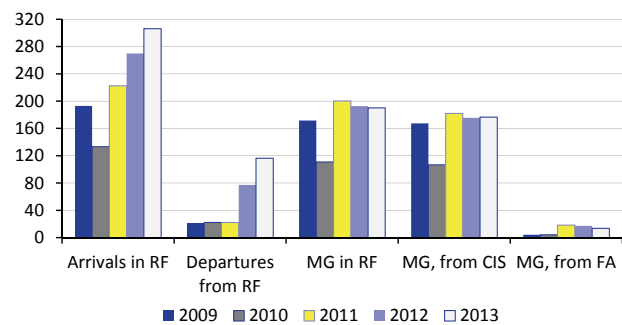
¹ The average salary of school teachers across the Russian Federation over the first 9 months of 2013 amounted to Rb 27 thousand (*RIA Novosti*). See <http://ria.ru/society/20131119/978023013.html>.

RUSSIA'S MIGRATION PROCESS IN 2013

L.Karachurina

The year 2013 brought no changes to the existing situation as compared with the previous year – either in terms of its overall development or from the point of view of the fact that Russia's migration growth statistics now include also a certain part of temporary (labor) migration. The share of positive net migration is increasingly concentrating specifically in several RF subjects. While in 2009 the top ten regions housed 67.3% of positive net migration, in 2013 this index amounts to 87.7%. This means that only 12–15 regions in this country appear to be attractive to migrants – that is, enjoy economic stability. On the whole, such an evident shrinkage of growth poles in the country is a clear sign of a looming economic crisis, made visible by the phenomenon of migration. It is very difficult to find any objective economic sources of the October 2013 events in Moscow's Biryulevo district. Or, to be more correct, such sources may indeed exist, but they mostly have to do with property redistribution, and not with migration issues. The entire discourse going on around these events lies in a political dimension; once again, a hot discussion centers around the negative and positive effects of migration for Russia's economic system and – due to lack of well-substantiated studies on the economics of migration – the emphasis is placed, first of all, on its negative features.

Russia's migration growth index over the first 8 months of 2013 (January–August) amounts to 190 thousand, remaining practically unchanged by comparison with the same period of last year. In continuation of the trend observed in 2012, Russia experienced a relatively insignificant natural population decline (-6.6 thousand). Seen against this background, migration growth functioned not only as a replacement component compensating for natural population decline, but also as a population growth factor. However, it should be reminded that, from 2011 onwards, Russia's migration growth statistics have been incorporating not only those migrants who are registered at their place of residence (as it had been since 1995, when this type of registration replaced the previously existing permanent residence registration system), but also those who are registered at the place of their stay for a period of 9 months or longer. The alterations introduced in the methodology of keeping statistical records were reflected by changes in the statistics of *arrivals* in Russia almost from the very beginning of the year 2011, and towards the end of that year and in early 2012 (that is, with a distinct time lag) the corresponding changes became visible in the statistics of *departures* from Russia, which demonstrated a dramatic upsurge: departures were now registered 'automatically' – for example, at the end of the 9-month period of registration at the place of stay (Fig. 1). In this sense, the year 2013 introduced no changes in the overall picture by comparison with year, either in terms of its general trends or from the point of view of the temporary (labor) migration component that is now incorporated in Russia's migration growth statistics.



Note. MG – migration growth; FA – far-abroad countries.

Source: *Sotsial'no-ekonomicheskoe polozhenie Rossii* [The Socioeconomic Situation in Russia]. January–September 2010, 2012, 2013. Rosstat.

Fig. 1. General Parameters of Russia's External Migration, January–August 2009–2013, Thousand Persons

Being observed in conjunction with the internal population redistribution between Russia's regions, the spatial projection of recorded external migration growth has several specific features.

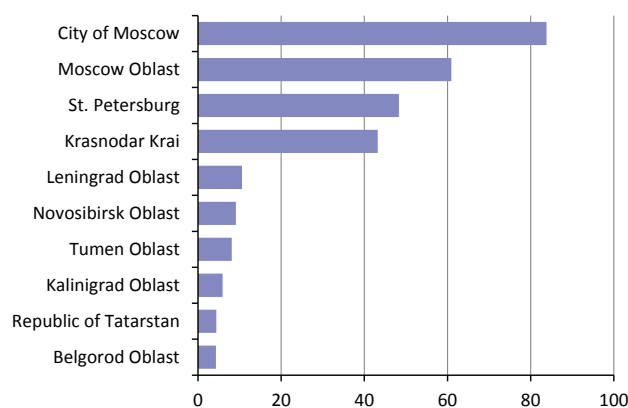
Firstly, in spite of the presence, in the migration growth data, of the temporary migration component, migration flows are on the decline in 47 regions (in fact, more than half of Russia's regions) – a phenomenon indicative of their lack of attractiveness from the point of view of any form of mobility, or permanent or temporary migration. Back in 2009, when the indices of net migration were lower (and included almost no data on temporary migration), migration growth was noted in 54 regions, against the present-day 36 regions. Population decline¹ is now recorded not only

¹ Taken as an aggregate index of all external and interregional migration flows.

in all the northern regions, the Caucasus (with one inexplicable exception represented by the Republic of Ingushetia), half of the regions situated in the Volga Federal District, and in 21 of the 27 regions situated east of the Urals (including the RF subjects of the Urals Federal District); this phenomenon is currently noted also in some big regions centered about 'millionaire cities', like Sverdlovsk Oblast, Volgograd Oblast, and Rostov Oblast. In this latter case this is evidently the upshot of the recent 'pumping over' of all types of resources (including human) into *Olympstroy* (the State Corporation for Construction of Olympic Venues and Sochi Development as an Alpine Resort), with the ambition to create a 'second Moscow' in the south of Russia. In fact, Krasnodar Krai has always been attractive to migrants: Russia cannot claim being blessed with a superabundance of coastal territories with favorable climatic conditions. The *Sochi 2014* mega-project functioned as an additional 'pump' in the redistribution of all forms of migration flows (domestic and foreign, fully or partially legitimate). However, now, when little time is left before the start of 2014 Winter Olympic Games, Sochi is hectically trying to get rid of any migrants¹.

Secondly, the positive component of net migration is increasingly concentrating in a few RF subjects (Fig. 2). While in 2009 Russia's top ten regions accounted for 67.3% of positive net migration, in 2013 this index amounts to 87.7%. This means that only 12–15 regions are actually attractive to migrants (instead of the 36 regions with a positive net-migration index) and thus can be estimated to enjoy economic stab. Among these, the following four regions are indisputable leaders: the City of Moscow; Moscow Oblast, St. Petersburg; and Krasnodar Krai. On the whole, such a dramatic drop in the number of growth focal points in this country is a signal of an economic crisis, sent by migration – a phenomenon called by Zh. A. Zaionchkovskaia, back in the 1990s, a 'barometer of the socioeconomic situation in the country'².

In Russia's arrivals statistics, the share of Tajikistan, and especially that of Uzbekistan, continue to increase and together constitute 40% of all arrivals. Simultaneously, the number of arrivals from Belarus and Kyrgyzstan is on the decline. In abstract terms, Ukraine, Kazakhstan and Armenia remain significant sources



Source: *Sotsial'no-ekonomicheskoe polozhenie Rossii* [The Socioeconomic Situation in Russia]. January–September 2010, 2012, 2013. *Rosstat*.

Fig. 2. The Regions of Russia with Positive External Migration Growth, January–August 2009–2013, thousand persons

of migration flows into Russia (in addition to already mentioned Uzbekistan and Tajikistan). On the whole, the role of the CIS in shaping up Russia's migration flows is very prominent, and it is not losing its importance. The CIS accounts for 88.4% of all migrant arrivals in Russia and thus for 92.9% of Russia's aggregate migration growth. The exchange with 'far abroad' is also dominated by former Soviet republics – the Baltic States and Georgia, which provide another 2.4% of arrivals and 2.9% of net migration.

In the recently published Report of the UN Secretary General on the 46th Session of the Commission on Population and Development, Russia, by the number of international migrants (12.3m), is ranked second after the USA (42.8m)³. In this connection, it must be specified that here *international migrants* are understood as people of foreign origin. When applied to Russia, this term includes everyone who is alive, was born in the USSR and then resettled in Russia at any age, in any period of time (for example, in the 1960s). This principle is also applicable to other fragments of the former Soviet empire, thus pre-determining, say, the ranking of Ukraine (10th) on that list of countries⁴.

A common past, a historically integrated common space, an attitude to Russia as the 'big brother', marked differences in the demographic potential and socioeconomic situation are the factors that shape the current labor migration flows inside the CIS and give

1 For the law violations and absurdities involved in the process, see Loginova O. *Sochi proshchaetsia s migrantami* [Sochi Says Good-bye to Migrants] // *Nezavisimaia Gazeta* [The Independent Gazette]. 31 October 2013.

2 Zaionchkovskaia Zh. A. *Migratsiia naseleniia kak indikator sotsial'noi situatsii v postsovetskom prostranstve* [Population Migration as an Indicator of the Social Situation in the Post-Soviet Space] // *Problemy prognozirovaniia* [Forecasting Issues]. 1997. No 3. P. 119–128.

3 United Nations, Economic and Social Council. *New trends in migration: demographic aspects* / Report of the Secretary-General. E/CN.9/2013/3.

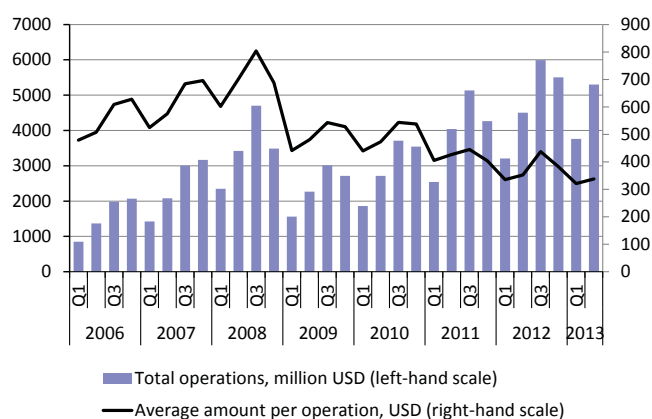
4 For more details, see Shcherbakova E. M. *Mirovye tendentsii mezhdunarodnoi migratsii i migratsionnoi politiki* [World Trends in International Migration and Migration Policy] // *Demoscope Weekly*. 2013. No 555–556. See http://demoscope.ru/weekly/2013/0555/barom01.php#_FN_9

rise to both the real and speculative issues associated with migration.

According to data released by the Federal Migration Service of Russia (RF FMS), over the first 9 months of 2013, a total of 951.9 thousand work permits were issued (for employment by legal entities) and 1,197.5 thousand patents (for employment by individuals). Another 80.5 thousand people obtained work permits to be employed as highly qualified workforce, and 260.5 thousand people were issued temporary residence permits or permit for residence in Russia¹. So, over the January–September period of 2013, no less than 2.5m of foreign citizens were granted a legal employment status in Russia. This roughly corresponds (a rise by 6.5%) to the indices observed over the same period of last year. The bulk of growth (by 15%) was produced by the increased number of patents, which make it possible to legalize the employment status outside of the continually sequestered quotas. Besides, patents seem to have become an important budget-forming component, as revenues in a total amount of Rb 6,028m were generated by that source, against Rb 4,815m received last year. On the whole, over the first 9 months of 2013, (legalized) migrants generated for Russia's budget a total of Rb 27,872m (via the Federal Migration Service).

An analysis of the cash flow in an opposite direction, based on the statistics of cross-border money transfers by physical persons² over the period of Q1 and Q2 2013, points to the same trend that has emerged earlier: each quarter demonstrates an increase, by 1.17–1.25 times on the same period of previous year, in the amount of money transfers from Russia to the CIS members. Thus, in Q1 2013, physical persons transferred, from Russia to the CIS, 1.17 times more money that they had done in Q1 2012. At the same time, the average money transfer amount continued to display a downward trend (Fig. 3), and the balance of operations with Kazakhstan remains positive (for Russia).

It is not easy to pinpoint an economic factor that triggered the October 2013 events in Biryulevo district of Moscow. Or, to be more correct, such a factor may well exist, but it has to do with property redistribution, and not with the migration issue. The entire discourse around these issues belongs to the domain of politics³. Once again, the argument as to the pluses and minuses of migration in the context of an economic



Source: RF Central Bank, http://www.cbr.ru/statistics/?Prtid=svs&ch=Par_17101#CheckedItem

Fig. 3. Cross-border Money Transfers by Physical Persons from Russia to the CIS, Q1 2006 – Q2 2013

system has received a powerful impetus, and the focus of attention, of course, in the downside of migration. Meanwhile, even before the riots in Biryulevo, during Moscow's mayoral election campaign, the administrative bodies began to implement a package measures designed to harden their stance towards migrants. One manifestation of the new policy, for example, was the opening, in the aftermath of the events at the Matveevsky Market, of a temporary camp for detained illegal migrants in the Golyanovo district of Moscow⁴, the events in which migrant foreign citizens were in no way involved; another was the general anti-migrant rhetoric applied in the course of the election campaign by several Mayoral candidates.

After the Biryulevo events, the authorities put forth a number of initiatives in the 'sphere of migration' that may entail certain specific economic and social consequences:

- the suggestion voiced by State Duma deputy Alexey Zhuravlev that the possibility for the children of migrants to be enrolled in schools and kindergartens must be linked to their parents' legal employment status and payment of taxes⁵;
- the Federal Migration Service of Russia, according to its Director Konstantin Romodanovsky, 'closes' the possibility of entry in the Russian Federation for those who have violated existing migration legislation, meanwhile applying the speedy deportation procedure to up to 3,000 persons per day⁶;

1 Federal Migration Service: Official statistics / Information on the migration situation in the Russian Federation over the first 9 months of 2013. See <http://www.fms.gov.ru/about/statistics/data/details/73472/>

2 The RF Central Bank's data. See http://www.cbr.ru/statistics/?Prtid=svs&ch=Par_17101#CheckedItem

3 See, for example, Zakharov M. *Kto vinovat v Biryulyovo* [Who Is To Blame for the Disturbances in Biryulevo] // Polit.ru, 14 October 2013. See <http://www.polit.ru/article/2013/10/14/biryulyovo/>

4 Chernykh A. *Palatochnaia distsiplina* [Field Camp Discipline] // *Kommersant*, 5 August 2013.

5 Podosenkov S. It is suggested that the children of unemployed migrants should not be accepted into schools and kindergartens // *Izvestia*, 27 September 2013.

6 *Tsivilizovanniy knut dolzhen byt'* [There Must Be a Civilized Whip]. An interview with Director of the Federal Migration Service Konstantin Romodanovsky // *Kommersant*, 16 October 2013.

- once again, there is a strong possibility that strict sanctions can be introduced against those who organize illegal migration¹, this category including employers and those who provide illegal migrants with lodging and residence registration. It is planned that the amount of fines imposed for tax evasion associated with the lease of residential property will be increased. So, this measure may directly affect those Muscovites (or residents of other Russian cities) who let their apartments to migrants²;
- a discussion has been launched as to whether the period of stay in RF territory for foreign citizens from visa-waiver countries should be shortened from the current 90 days to 45 days³;
- the discussion concerning the introduction of visa requirements for citizens from CIS countries has once again been revived.

The discussion around the issue of developing a new system for estimating the need for foreign workforce also continues. Another round of criticism has been launched against the existing system of quotas for the employment of foreigners⁴, and so on.

And finally, one of the most important consequences of the riots in Biryulevo has been an impressive upsurge in nationalist discourse, where migration is posed as nearly the gravest problem faced by Russia (and certainly – by Moscow); this theme strongly reverberates in the public mind. The migration issue is perceived as being so acute that it has become front-page news, dwarfing nearly all other issues irrespective of their importance. (For example, neither Moscow traffic jams nor the ongoing slump in industry can rival ‘the migrants’ in popularity). The latest opinion poll conducted by the Levada Center on the issue of migration and inter-ethnic tension⁵

has revealed that anti-migrant attitudes are becoming increasingly widespread in Russian society. In November 2013, being asked the question ‘What, in your opinion, must be done with illegal immigrants from the near abroad?’, 73% of Russian respondents replied: ‘They must be deported outside the borders of Russia’, which represents a rise by 20 pp. on November 2006 (when the September conflicts in Kodopoga had been fresh in the public memory). Accordingly, the number of respondents choosing the answer ‘They must be legalized and aided in finding employment and assimilating in Russia’ has dropped by almost half (from 31% to 15%). Only 11% of the respondents believe that ‘no restrictions on the residence of [representatives] of any nations should be imposed’ (against 21% in August 2004); 54% support the idea that a ban should be imposed on entry for those from the Caucasus; 45% support a similar ban for people from the former Soviet republics in Central Asian; the same percentage of the respondents are for banning Chinese immigrants from entering Russia. And finally, 63% are ‘for’ or ‘inclined to be for’ restrictions to be introduced against granting the right of permanent residence or employment not only to people from former USSR republics, but even to Russians arriving from other regions Russia proper.

At the same time, while speaking in London at Global Cities Initiative’s international conference, Rector of Moscow School of Management SKOLKOVO Andrey Sharonov pointed out that ‘Moscow must welcome migrants who are willing and able to become law-abiding citizens, otherwise the economies of this city and the country as a whole will be faced with stagnation. Ignoring this opportunity for promoting economic growth may result in a Japanese-style stagnation trap... One of the causes of the lengthy stagnation in Japan is its closed borders. They have no migration, they allow access to nobody, so stagnation has been continuing for 25 years – no economic growth, no boom that they used to have 30 years ago’⁶. The rhetoric and actual policies of the past few months are not only detrimental to Russia’s attractiveness to migrants; they create no incentives for the migrants inside this country to integrate in any receptive social environment. ‘By shifting the emphasis onto the ethnic issue, society falls into a stupor and becomes divided. Muscovites en

1 1 *Tsivilizovannyi knut dolzhen byt’* [There Must Be a Civilized Whip]. An interview with Director of the Federal Migration Service Konstantin Romodanovsky // *Kommersant*, 16 October 2013.

2 Moreover, the Moscow authorities went as far as to declare that police would carry out checks of all apartments in the city in order to identify ‘illegal’ migrants among the residents. For more details on this and other problems involved in the ‘replacement of the corruption issue with the ‘ethnic’ one, see Rogov K. *Perevod strelok s korrupsii na natsional’nyi vopros* [A Shift of Focus from Corruption to the Ethnic Relations Issue] // *Novaya gazeta* [The Hew Gazette]. 21 October 2013.

3 Ms Yarovaya suggests that the period of a foreigner’s stay without a visa should be shortened from 90 to 45 days // *Interfax*. 22 October 2013.

4 *Tsivilizovannyi knut dolzhen byt’* [There Must Be a Civilized Whip]. An interview with Director of the Federal Migration Service K. O. Romodanovsky // *Kommersant*, 16 October 2013.

5 The survey was conducted on 25–28 October 2013 on the basis of a representative all-Russian sample of urban and rural population (1,603 participants aged 18 years and older) in 130 population units across 45 regions of Russia. For more details, see

Rossiane o migratsii i mezhnatsional’noi napriazhennosti [Russians Express Their Views on Migration and Inter-ethnic Tensions]. 5 November 2013. See <http://www.levada.ru/05-11-2013/rossiane-o-migratsii-i-mezhnatsionalnoi-napryazhennosti>

6 Sharonov: *bez migratsii ekonomika Moskv i RF mozhnet nachat’ stagnatsiiu* [Sharonov: Without Migration, the Economies of Moscow and the Russian Federation as a whole May Descend into Stagnation] // *RIA Novosti*. 31 October 2013. <http://ria.ru/moscow/20131031/973807714.html>

masse are for well-being, not war. They are certainly prone to xenophobia, but their xenophobia is nonaggressive both because labor migrants themselves are by no means aggressive, and because Muscovites do not compete with them on the labor market – on the

contrary, they widely use their services', writes Kirill Rogov¹.

1 Rogov K. *Perevod strelok s korruptsii na natsional'nyi vopros* [A Shift of Focus from Corruption to the Ethnic Relations Issue] // *Novaya gazeta* [The New Gazette]. 21 October 2013.

THE RF HIGHER EDUCATION SYSTEM'S PERFORMANCE MONITORING

T.Klyachko

A second round of monitoring the performance standards practiced by higher educational establishments has been completed in the Russian Federation. The very fact of such a monitoring having actually been launched is an indirect sign that licensing and accreditation procedures are applied inadequately, if at all. Thus, two control mechanisms are being formed, each requiring substantial budget funding.

The Russian Federation has completed a second round of monitoring the performance level of higher educational establishments. The first round took place in 2012 and caused a big scandal, because the list of inefficiently performing establishments was found to contain such well-known names as the Moscow Institute of Architecture (State Academy), the Moscow Aviation Institute (State University of Aerospace Technologies), and Russian State University for the Humanities. So, the RF Ministry of Education and Science had to explain that if certain higher educational establishments had been identified as 'displaying signs of ineffectiveness', this did not really mean that they had been inefficient, and then 'manually' adjusted the results of the monitoring.

In 2012, the following five major criteria were applied in the assessment of higher educational establishments' performance level:

- the average USE (Unified State Examination) score of newly enrolled students,
- the volume of funding, per faculty member, allocated to research and development (R&D) activities,
- share of foreign students in the total number of students at a given higher educational establishment,
- revenue per faculty member,
- total floor area of premises used for studies and research, per student.

In 2012, a lot of misunderstanding was associated with the index of 'share of foreign students in the total number of students at a given higher educational establishment', because many higher educational establishments did not list their students from the CIS as foreign. In 2013, this issue was carefully explained, and so all students from the CIS were registered in the monitoring forms as foreign students.

The logic applied in elaborating the monitoring criteria is quite understandable, if the following goals are taken into consideration: entry of Russian higher educational establishments in the world university ratings; development of scientific research on the basis of

higher educational establishments; increasing the remuneration level of academic staff; ensuring adequate tuition standards on the basis of state-of-the-art educational laboratory equipment, software and information technologies.

It is quite another matter that all these indices must be incorporated in the licensing and accreditation procedures of higher educational establishments. Thus, the fact that such a monitoring was actually necessary in order to assess their performance levels can be interpreted as an indirect sign that the other form of supervision (in the form of licensing and accreditation) is applied inadequately, if at all. So, instead of improving the functioning of the system of licensing and accreditation of higher educational establishments, it is supplied with 'crutches' in the form of monitoring, without actually interfering in its functioning. As a result, there emerge two control mechanisms, each requiring impressive budget spending.

Typically, the Federal Service for Supervision in the Sphere of Science and Education (*Rosobrnadzor*) has already requested some additional budget funding for conducting off-plan audits of those higher educational establishments that have failed to submit information concerning their performance in the framework of the monitoring.

In 2013, one more criterion was added to the five previously applied major ones: successful employment of the alumni – *the share, in the total number of alumni of a given higher educational establishment, of those who, having studied on a full-time basis, during the first year after their graduation did not sign up at an employment agency when searching for a job.*

For the 2013 monitoring, the floors for two indices were somewhat adjusted. The value of the first one – the share of foreign students in the total number of student at a given higher educational establishment – was now to be no less than 1 per cent, and for the capital's higher educational establishments – no less than 3 per cent. The other adjusted index – the total floor area of premises per student – was to be no less than 5 m², in the capital cities of Russia – no less than 13 m².

Table 1

FLOOR VALUES FOR THE EFFECTIVENESS INDICES SET FOR HIGHER EDUCATIONAL ESTABLISHMENTS

	Educational activity, score	Scientific research activity, thousand Rb	International activity, %	Financial and economic activity, thousand Rb	Infrastructure, m ²	Employment, %	Additional indices
for educational establishments: without specific orientation of their activity	63	95	3.0	1,500	13.0	99.342	–
military and power structures							0.5
medical orientation							0.69
agricultural orientation							0.59
creative orientation							0.51
sports orientation							0.05
transport orientation							0.07

Source: http://miccedu.ru/monitoring/materials/reg_10301.htm

In order to be considered effective, a higher educational establishment was to comply with no less than three criteria out of six.

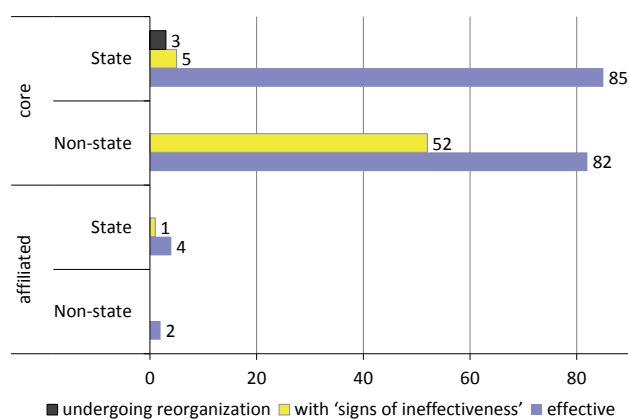
With due regard for the specificities of certain higher educational establishments, in 2013 these were also divided into special categories: military, medical, agricultural, creative, sports-oriented and transport-oriented higher educational establishments.

The 2013 monitoring encompassed non-state higher educational establishments. On the basis of data obtained in the course of monitoring, the RF Ministry of Education and Science determined those higher educational establishments that displayed 'signs of ineffectiveness': among these, there were 18.4% of core higher educational establishments and 20.4% affiliated ones. Among non-state higher educational establishments, 'signs of ineffectiveness' were displayed by more than 35% entities, while among state-funded higher educational establishments such signs were displayed by 7.5% entities.

The floor values for determining effectiveness in the city of Moscow were as follows – see *Table 1*.

As a result, in Moscow, the following five state-funded higher educational establishments with 'signs of ineffectiveness' were identified: the Russian Academy of Justice, the State Academy of Slavic Culture, the Moscow State Humanities and Economics Institute, the Russian State University of Innovative Technologies and Entrepreneurship, and the Moscow Institute of Open Education.

Besides, another 48 non-state higher educational establishments situated in Moscow were found to have 'signs of ineffectiveness', while 70 Moscow-based higher educational establishments submitted no information in the framework of the monitoring.



Source: http://miccedu.ru/monitoring/materials/reg_10301.htm

Fig. 1. The Monitoring Results for Moscow-based Core and Affiliated Higher Educational Establishments

In Moscow, a total of 227 core higher educational establishments and 7 affiliations took part in the monitoring (*Fig. 1*).

In St. Petersburg, 'signs of ineffectiveness' were found only in 2 state-funded higher educational establishments – the St. Petersburg State Technological University of Plant Polymers and the St. Petersburg State Institute of Psychology and Social Work, and also in 10 non-state higher educational establishments, while 14 higher educational establishments failed to submit relevant information to the RF Ministry of Education and Science.

In Moscow Oblast, four non-state higher educational establishments were found to have 'signs of ineffectiveness'; these signs were also displayed by 24 affiliations, among which there were four affiliated state-funded higher educational establishments. In Leningrad Oblast, no state-funded core higher edu-

cational establishments with 'signs of ineffectiveness' were found, but these signs were displayed by nine affiliations, which included four affiliated state-funded higher educational establishments.

This year, a total of 1,054 core and affiliated higher educational establishments took part in the performance monitoring, including 480 non-state higher educational establishments. No information for the monitoring was submitted by 108 higher educational establishments, and 14 higher educational establishments provided no explanations for discrepancies in their submitted data.

Over the period between 18 and 23 November 2013, in the framework of the second phase of the performance monitoring of higher educational establishments, the task forces set up under the Interdepartmental Commission for the Assessment of Effectiveness of Educational Organizations in the Sphere of Higher Education held their meetings. These task forces included representatives of the bodies of executive authority of subjects of the Russian Federation, Plenipotentiary Representatives of the President of the Russian Federation, representatives of the Association of Russia's Leading Universities, the Regional Unions of Rectors, the Association of Russia's Non-state Higher Educational Establishments, the Federal Service for Supervision in the Sphere of Science and Education (*Rosobrnadzor*), and experts in the field of education.

The task forces considered the submitted materials for 38 state-funded higher educational establish-

ments, 123 non-state, and 254 affiliated higher educational establishments. On the basis of their conclusions, the proposals for the December meeting of the Interdepartmental Commission for Assessing the Effectiveness of Educational Organizations in the Sphere of Higher Education are to be prepared, for the Commission's final decisions.

The RF Ministry of Education and Science explained as follows: 'By the results of the Interdepartmental Commission's meeting, higher educational establishments or their affiliations may be recognized to be ineffective, or it may be recommended to them that they should elaborate and implement their activity optimization programs. Some of the higher educational establishments or affiliations with markedly specific orientation of their activity may be excluded from the group of higher educational establishments with signs of ineffectiveness'¹.

Thus, those higher educational establishments and their affiliations that have found themselves on the lists of institutions with 'signs of ineffectiveness' will be given two or three weeks to challenge this verdict and to 'defend their honor' – and, most likely, they will indeed take advantage of that opportunity. One may only guess as to what kind of mechanisms will be applied in such a 'defense'.

1 See <http://минобрнауки.рф/%D0%BD%D0%BE%D0%B2%D0%BE%D1%81%D1%82%D0%B8/3752>

BUSINESS ENVIRONMENT IN RUSSIA. ASSESSMENTS AND REALITY

V.Starodubrovsky

Russia has been upgraded 19 places, from 111th to 92nd, out of the 189 countries covered by the recent Doing Business 2014, the report made by the World Bank and the International Finance Corporation. The performed work has shown tangible results. However, a sober attitude towards assessing the real effect of this very important work on the business environment at large is needed. This country has been ranked behind the 100th place for 5 of the 10 areas and behind the 150th place for 2 areas covered by the Doing Business ranking. The 12-place upgrade for Russia on such an essential area as the ease of starting a business ignores that corruption at the local level is one of the main obstacles in the country. It refers to some other areas too. Most importantly, the Doing Business ranking covers major characteristics pertaining to business environment, leaving aside such most painful ones as protection of entrepreneurs' ownership and individual rights, poor judicial system, corruption etc. No real success can be achieved unless all of the lagging institutional areas undergo systemic reforms.

It is known that the Russian policy towards business environment is basically aimed at improving the conditions reflected in the **Doing Business** ranking made by the World Bank (hereinafter – the WB) and the International Finance Corporation and dedicated to the assessment of regulation of small and medium-sized enterprises¹. It can be recalled that President Putin set a task to upgrade Russia's ranking from 120th to 20th by 2018. We noted in our previous reviews that this ranking – for all its significance and a fairly wide coverage of specific procedures which constrain entrepreneurship – ignores a few of the most relevant business environment characteristics constricting business in Russia, namely poor protection of ownership and personal rights of entrepreneurs, a disastrous situation in the judicial system, high level of corruption, defense and law enforcement agencies' pressure, etc. All this have to be recalled to provide a 'sober' assessment of the potential effect of progress in this type of ranking on real situation in the business environment and behavior of businesses.

Indeed, the progress is evident: according to the recently published **Doing Business Report 2014**, Russia has been upgraded 19 places in 2013, from 111th (according to the revised data) to 92nd, leaving behind

China (96th) and other BRIC countries (Brazil has been ranked 116th, India – 134th). However, the South Africa is ranked 41st. Furthermore, Russia is behind its partners within the Customs Union: Kazakhstan has been ranked 50th, Belarus – 63rd. Russia is behind Albania (90th) and Barbados (91st), followed by Serbia and Jamaica. The two former Soviet republics, Georgia has been ranked 8th (from 9th) and Armenia – 37th (from 39th) behind Belgium (36th) and ahead of France (38th). The leader is Singapore followed by Hong Kong, New Zealand, the United States, Denmark.

Going back to Russia, notwithstanding the lag in the implementation of the corresponding road maps which were mentioned in the previous review, certain visible results have been achieved.

The most significant improvement has been achieved in the ranking for the ease of **getting electricity**, where Russia was upgraded 71 places, from the second-to-last 188th up to 117th. The improvement concerns the introduction of a standard tariff of getting an electricity connection, and elimination of a series of previously applicable procedures. As a result getting an electricity connection now takes 5 procedures, 162 days and 293.8% of annual income per capita. Getting an electricity connection is easiest in Iceland, where it takes 4 procedures and 22 days and costs 14.4% of income per capita². The difference is evident. In China the foregoing procedure takes a bit less time than in Russia, but 499% of income per capita.

Russia has been upgraded 29 places, from 46th to 17th, having joined the long-cherished top-20 club for the ease of **registering property**. Now registration

¹ This ranking includes 10 parameters which describe economic regulation areas in which small and medium-sized businesses are facing most typical constrains. This approach is distinguished by its specificity which helps identify more or less business-friendly procedures and assess positive and adverse changes in these areas. In general, the number of required procedures or documents, the duration and cost of the registration process are assessed for each area. The assessment is based on the legislation, its amendments, and business surveys at respective countries. Assessments of specific areas are combined in a common index in order to rank a country on the basis of the ease of doing business. The ranking of the Doing Business Report 2014 covers 189 countries. The data refer to mid-2013.

² An interesting comparison of several countries by specific indicator was made on the basis of a report published by *Finmarket Information Agency* on October 29, 2013 09:33 See.: <http://www.finmarket.ru/economics/article/3532882>

takes 4 procedures, more than three weeks (22 days) and 0.1% of annual income per capita. The same procedure in leading Georgia is provided for free and takes 2 days. It is characteristic that Belarus has been ranked 3rd in the world, where registration is free too and takes 4 days.

Russia has been ranked as one of the top-20, even top-10 countries, for the ease of **enforcing contracts**. Like in the previous year, Russia has been ranked 10th (although it requires 36 procedures which take 270 days and cost 13.4% of the value of the claim).

The next improvement in the ranking for Russia concerns the ease of **starting a business**. With regard to starting a business Russia has been upgraded 12 places from 100th to 88th. For all the progress made here, the situation still remains ugly. According to the WB, registration of a new company in Russia requires 7 procedures and takes 15 days and costs 1.3% of income per capita. Furthermore, the registration requires an initial capital being equal to 1,2 of the same income. In New Zealand, the leader, starting a business requires a single procedure which takes half a day and costs 0.3% of income per capita. The United States have been ranked 20th, but the situation with starting a business depends on a particular state. For instance, in Delaware they adopted an extremely simplified procedure under which a firm even may be opened by mail. The runner-up is Canada which has a single procedure which takes 5 days and costs 0.4% of income per capita. Armenia with 2 procedures which take 4 days and cost 1.1% of income per capita (the country has been upgraded 4 places to 6th), Georgia with 2 procedures which take 2 days and cost 3.5% of income per capita (8th) are among the leaders. Belarus has been ranked 15th (5 procedures which take 9 days and cost 0.8% of income per capita). China has been downgraded 5 places from 153rd to 158th, where business registration requires 13 procedures which take 33 days and 2% of income per capita.

However, the situation with starting a business needs to be given more comments. The WB links Russia's progress in this area with a simplified procedure for opening a bank account, i.e., updating the legislation, which, of course, only can be welcomed. It is known, however, that the key constraints for starting a business, especially a small one, are related here not only to legislative procedures, but first of all rent-seeking at the local level of power. The ranking in question ignores this essential factor. This is another illustration of how an upgrade in ranking may be rewarded for making no real progress. The same is true with a series of other areas covered by the ranking.

The next improvement, a 7-point upgrade from 63rd to 57th, concerns the ease of **paying taxes**. The tax pay-

ment procedure in Russia requires 7 payments within a year and takes 177 hours. According to the WB's estimates, total tax burden for businesses accounts for 50.7% of commercial profit. In Ukraine it takes 28 payments, 390 hours, and costs 54.9% of commercial profit, in China – 319 hours and costs 63.7% of commercial profit. The leader is the United Arab Emirates – 4 payments, 12 hours, and 14.9% of commercial profit.

Russia has been upgraded 5 places for the ease of **trading across borders** in response to the introduction of an electronic system for submitting export and import documents and elimination of a series of procedures for physical inspections of cargo. However, Russia is still far behind in this area: it has merely been upgraded from 162nd to 157th. The export procedure requires nine documents, 22 days of registration, and export of a standard containerized cargo costs \$2615. The import procedure requires 10 documents, 21 days of registration, and \$2810 respectively.

A similar situation is observed with the ease of **dealing with construction permits**, where despite 2 extra "scores" Russia has been upgraded merely from 180th to 178th, the lowest place among the 10 areas covered by the ranking in question. A construction permit requires 36 procedures, 297 days (a bit less than 10 months), and costs 89% of annual income per capita. Ukraine has achieved an impressive breakthrough in this area. It has been upgraded 41 places, from 186th to 145th. In Ukraine, a construction permit can be obtained within 73 days, although it costs 607.1% of income per capita. In China, it takes a bit less time (270 days) than in Russia, but the cost is 344% of income per capita.

Russia has been downgraded 2 places, from 113th to 115th, for the ease of **protecting investors**, which a very essential indicator, especially if one recalls the frustrating situation with investments in this country. Russia was downgraded too in the previous Doing Business Report. This is alarm signal, given that investments represent the root of opportunities for economic growth. Here Russia is behind Belorussia which has been ranked 98th. Out of the 10 scores: Russia has been awarded 6 scores for the extent of disclosure index, 6 scores for the ease of shareholder suits index, and 4.7 scores for the strength of investor protection index. The leader, New Zealand, has been awarded 10, 10, and 9.7 scores respectively. In China which has been ranked 98th, the extent of disclosure index has been awarded 10 scores, the ease of shareholder suits index has been behind the Russia's one – 4, and the strength of investor protection index has been just a bit better than the Russia's one – 5 scores.

Russia has been downgraded 4 places, from 105th to 109th, for the ease of **getting credit**. The downgrade process has been evident for the two consecutive

years. The strength of legal rights index (let's recall the situation with the judicial system) has been awarded 3 scores out of 10, while the depth of credit information index – 5 scores out of 6. Private credit bureaus cover 59.2% of adults. The Great Britain ties with Malaysia for the first place: both countries have been awarded 10 scores for the strength of legal rights index, max. 6 scores for the depth of credit information index. The private credit bureaus cover all adults in the Great Britain and 77.2% of adults in Malaysia.

Russia has been ranked 55th for the two consecutive years for the ease of *resolving insolvency*.

How to assess an overall effect of the ranking in question on the business environment?

The progress is evident. However, this country has been ranked behind the 100th place for 5 of the 10 areas and behind the 150th place for the 2 areas covered by the Doing Business ranking. The scope of work to do speaks for itself. Most importantly, this ranking covers only a part of the essential factors with govern the business environment, fails to provide its integrated, systemic enhancement, which means it eventually can have a weak effect on the business health and behavior. ●

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

M.Goldin

In November 2013, at the meetings of the Government of the Russian Federation were discussed, among other things, the following issues: the draft law aimed at ensuring of transparency of financing of political parties and the draft law on disclosure of the information on persons holding senior executive offices in credit institutions.

On **November 7**, at the meeting of the Government of the Russian Federation the draft federal law on Amendment of the Federal Law on Political Parties was discussed. The purpose of the draft law consists in ensuring of transparency of financing of political parties. The above measure was initiated by recommendations of the group of countries on combating corruption (GRECO). GRECO is a body of the Council of Europe and deals with implementation of international and legal documents developed by the Council of Europe in the sphere of prevention of corruption. To solve the above objective, GRECO carries out monitoring of measures carried out by GRECO in the sphere of prevention of corruption. Amendments to the Federal Law on Political Parties come down to the following changes:

1) The draft law determines the sphere of activities of the association or the union of political parties and other non-government associations – in accordance with the new edition of the Federal Law the above entities are established exclusively for participation in elections.

2) The draft law is expected to set a limit on the amount of membership fees and affiliation fees within the limits of the maximum possible amount of donations to a political party from an individual, which sum currently amounts to Rb 4,330,000 (Cl. 9 of the Federal Law on Political Parties). The above measure is justified by the fact that there is an explicit possibility to evade the above maximum limit of a donation by disguising the source of funding as membership (affiliation) fees.

3) The draft law expects to set the limit on the maximum amount of the loan received by a political party as a fivefold amount of the annual donations from a single legal entity or individual. The above measure is justified by the fact that at present on the basis of a loan agreement with a political party which agreement may be of an imaginary nature or concluded on noncompetitive terms actual financing of political parties can be carried out in circumvention of provisions of Article 58 (5) of the Federal Law on the Principal Guarantees of Voting Rights and Rights to Participation in the Referendum of

Citizens of the Russian Federation which set the limited list of sources of financing of electoral funds of candidates and electoral associations.

4) The draft law sets an obligation of a political party to carry out an audit of its accounting (financial) statements with occurrence of at least one of the following events:

- a) a political party receives state funding;
- b) the total sum of annual donations to a political party amounts to Rb 60m or more;
- c) within a calendar year, a political party carried out expenditures worth \$60m or more.

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

Also, on **November 7** at the Meeting of the Government of the Russian Federation draft Federal Law on Amendment of Article 8 of the Federal Law on Banks and Banking was discussed. The draft law sets an obligation of credit institutions to disclose to an unlimited number of people the information which is placed on its official site on the qualification and work experience of the following persons:

- members of the Board of Directors (the Supervisory Council) of a credit institution;
- persons holding the office of a sole executive authority and its deputies;
- members of the collegial executive authority;
- chief accountant;
- deputy chief accountant of a credit institution;
- and also manager and chief accountant of a branch of a credit institution.
- Subject to disclosure is the following information:
 - Name, patronymic name, family name;
 - The information on the vocational education;
 - Name of the job position;
 - Information on the working career.

It is expected that executive officers of a credit institution will be prosecuted for a violation of the obligation to disclose the information on persons holding executive positions in a credit institution. ●

AN OVERVIEW OF NORMATIVE DOCUMENTS ON TAXATION ISSUES FOR OCTOBER–NOVEMBER 2013

L. Anisimova

Russia's tax and fiscal policy during the period under consideration was extremely contradictory. On the one hand, the shortage of budget revenues resulting from the stagnant state of the Russian economy compelled the authorities to make an emphasis on forceful methods in their fight against tax fraud and tax evasion. On the other hand, the October–November period of 2013 saw the adoption of several normative documents establishing that income from some types of financial activity, deemed excessively risky for the persons carrying it out as well as for the economy as a whole, should be exempt from taxation. This series of tax exemptions can be reasonably interpreted as a direct encouragement of such activities; moreover, it should be said that the aforementioned tax benefits are not envisaged in The Main Directions of Tax Policy for 2013–2015.

1. RF President Vladimir Putin submitted to the State Duma a draft law establishing that the Investigative Committee (hereinafter to be referred to as the IC of Russia) should be vested with the authority to initiate criminal proceedings for tax-related offences. The draft law envisages that Russia's investigative bodies should get back their pre-2011 right to initiate criminal proceedings for failure to timely pay tax¹. Both the RF Government and the business community requested that the draft law should be revised. It should be said that, contrary to ordinary procedure, the draft law had not been discussed at a Government meeting before being introduced to parliament.

A few words about the essence of the problem. Tax evasion regulations are defined by the RF Tax Code (hereinafter to be referred to as the RF TC). They envisage a number of procedural actions (tax inspections, demands that taxes be paid, the opportunity to resolve tax issues between parties without initiating criminal proceedings, and other 'soft' rules long adopted by taxmen around the world in their dealings with businesses for the purpose of detecting and recovering tax arrears without disrupting the business process). The RF Criminal Code (hereinafter referred to as the RF CC) represents a different area of law and is based

on different rules: in accordance with the RF CC, the very fact of a tax not being paid timely should be interpreted as a tax crime to be repressed. When these two legislations were used in parallel, there emerged a conflict of interest between taxmen and law enforcers – those who were first to detect one or other tax offence, would apply to it their own legislation. This issue was repeatedly examined in legal studies². At present, the IC of Russia has the right to initiate criminal proceedings for tax-related offences only on the basis of materials submitted by the Federal Tax Service of Russia (hereinafter to be referred to as the FTS of Russia), although several years ago investigation agencies had the authority to unilaterally initiate criminal investigations.

The current President of Russia believes that the sole authority to file tax cases, granted to the tax authorities as a result of the 2011 reforms, unjustifiably reduces the time frame and possibilities for launching criminal cases by adopting, for that purpose, the time frame and the rules for tax inspections established by the RF TC (tax inspections should be carried out no more frequently than once in three years). President Putin's meeting with the Head of the FTC of Russia produced a compromise decision on that issue. The compromise version of the draft law establishes that the investigation agencies, including the Investigative Committee, should be obliged to request relevant doc-

1 See Decision of the Plenum of the Supreme Court of the Russian Federation, of 28 December 2006, No 64 'On the Practical Application, by Courts of Justice, of Criminal Legislation Concerning Liability for Tax Crimes'. In accordance with Point 3 of the Decision, 'the evasion of paying taxes and (or) fees, the liability for which is envisaged by Articles 198 and 199 of the RF CC, shall be deemed to be intentional deeds aimed at non-payment thereof that resulted in the non-payment or partial payment of the corresponding taxes and fees to the budget system of the Russian Federation... As, in accordance with the corresponding provisions of tax legislation, the time frame for submitting the tax declaration and the time frame for tax payment may not coincide, the moment of termination of a crime punishable under Article 198 or Article 199 of the RF CC shall be deemed to be the actual non-payment of taxes (or fees) within the time frame established by tax legislation'.

2 See, for example, N. A. Kolokolov, *Stadii ukloveniia ot nalogov: primeneniie ugovovnoi otvetstvennosti* [The Stages of Tax Evasion: Application of Criminal Responsibility] // *Nalogi* [Taxes], 2009, No. 1. The article has been included in the ConsultantPlus system. 'How should the moment of termination of a crime be determined, if the crime has not been exposed by a tax body obliged to impel the taxpayer to pay the tax, but by a preliminary investigative body? Should the latter begin by insisting that the tax must be paid? I do not think so, because this is simply not its function. Moreover, if the preliminary investigative bodies begin insisting that taxes should be paid, there will be no persons convicted of tax crimes: who will dare disobey an investigator pressing charges?'

uments from the FTS of Russia when initiating criminal proceedings for tax-related offences¹.

We believe that the situation in 2011 crucially differed from that in 2013. Since 2011, a number of seminal methods of tax control have been introduced into practice, including electronic financial statements, electronic VAT invoices, etc. The system of electronic correspondence between the tax agency and the banking sector has become so sophisticated that now the cooperation between the IC of Russia and the FTS of Russia has been largely transformed and progressed to a level where granting access to relevant databases does not result in the immediate stoppage of the activities of organizations-taxpayers, as it inevitably used to be the case in the past as a result of seizure of important documents.

Recent opinion polls indicate that some businessmen are in favor of restoring the right of the IC of Russia to initiate criminal proceedings for tax-related offences. The tax authorities are incapable of investigating transactions; they do not aim at reclassifying transactions, nor at identifying the participants of relevant transactions, nor at exposing the actual relationships – although, for example, minority shareholders are primarily interested in these very issues^{2,3}. Thus, the activity of the IC of Russia can become a very effective tool in combating tax avoidance by the transfer of assets abroad, and in preventing the appropriation of assets belonging to Russian legal entities by their foreign shareholders and creditors. The importance of this task cannot be underestimated, bearing in mind that capital flight from Russia continues unabated.

1 *Putin predlozhit kompromiss po spornomu nalogovomu zakonoproektu* [Putin's compromise offer on the controversial draft law on taxes]. Lenta.ru, 25 November 2013.

2 It should be noted that, in accordance with Russian legislation, only minority shareholders have the right to file a lawsuit to protect the ownership interests of a legal entity in the name of that legal entity in the event when the claim is lodged against the management bodies of a joint-stock society, or against other persons exerting influence on the activity of that society, for example, its majority shareholder.

3 See, for example, R. Faliakhov, *Bastrykin soberiot nalogi. Vladimir Putin: SKR smozhet vozbuzhdad' ugovnyye dela po narusheniam nalogovogo zakonodatel'stva na osnove operativnykh materialov MVD* [Bastrykin will collect all the taxes. Vladimir Putin: The ICR will be able to launch criminal cases for tax legislation violations on the basis of the Ministry of Internal Affairs' operative data]. Gazeta.ru, 15 November 2013.

The current state of affairs, when criminal cases can be launched only on request of the tax authorities, is really outrageous – says Valery Tutykhin, partner of the law firm *John Tiner & Partners*. – We have many instances in our practice, when, in the interests of minority shareholders, we contest the decision to withdraw assets from a joint-stock society. We see that the withdrawal was accompanied by tax fraud, but the criminal case will inevitably be launched only in regard to the withdrawal of assets. While the tax-fraud component, as a rule, will remain unattended to.

2. In an effort to reduce capital flight, Russia introduced a number of other changes to her tax legislation. Previously, in order to attract investment, dividend income had been taxed at a reduced rate of 9% for residents, and 15% for non-residents. This is significantly below the standard corporate profits tax rate of 20%.

The principal aim of Law of 2 November 2013, No. 306-FZ 'On the Introduction of Alterations to Parts One and Two of the Tax Code of the Russian Federation and Some Legislative Acts of the Russian Federation' was the introduction of the so-called 'punitive' (30%) tax rate designed to prevent capital flight to offshore tax havens in those cases when the recipients of dividends paid by Russian organizations are non-disclosed (that is, have not been identified).

In brief, the most important innovation introduced by the Law is that the tax agent's obligations are transferred to those Russian depositories that actually make payments on Russian securities to foreign legal entities in the person of either their nominal holder, or a depository situated outside of the Russian Federation, or a trustee, which assert their right, based on the ownership of Russian securities or securities issued by foreign emitters, to receive income from participation in the capital of a Russian organization, in the form of dividends, that should be paid into the bank accounts of the nominal holder of the securities, the foreign depository or the trustee, respectively, for the purpose of transferring it to its non-disclosed owners.

According to the Law, such foreign depository (or a nominal holder, or a trustee) should be deemed to be the receiver of income and be obliged either to provide information on its tax residence for the purpose of determining the tax rate to be applied to the income transferred to it, or to disclose and confirm, by presenting proper documentation, information on the persons who have opened depo accounts with the said foreign depository (or at a nominal holder or at a trustee) and at their tax residence.

The legislations of offshore tax havens forbid the disclosure of information on beneficiaries. If a nominal holder (or a foreign depository, or a trustee) is a tax resident of an offshore tax haven (a zone with a tax regime laxer than that in the Russian Federation, that has not concluded a double taxation avoidance agreement with the Russian Federation), the monies transferred to it should be taxed at the newly introduced 30% rate.

A similar procedure and a similar 30% rate were also introduced within the framework of profits tax – with regard to dividends paid on Russian securities to their nominal foreign holders (or foreign depositories, or trustees) who are residents of the said zones with tax regimes laxer than that in the Russian Federation,

that have not concluded double tax avoidance agreements with the Russian Federation and do not disclose the identity of their beneficiaries and the tax residence thereof.

It is very important that, under the new Law, the tax agent (a Russian depository) should not be obliged to calculate and pay the amount of tax that is not withheld by it, because the information and (or) the documents submitted to it by an organization acting in the interest of third parties were unreliable and (or) incomplete, and also in the event when such organization refuses to submit, on request of the tax body carrying out an off-site or on-site tax inspection, the information and documents envisaged by the RF TC. This approach is a traditional and widely used method used in combating offshore tax havens.

According to the information published by business newspapers and magazines, the RF Ministry of Finance is now busily mapping yet another, even more radical, reform designed to toughen the general rules for granting tax deductions and exemptions on dividends received. It is reputed that under the new rules, the taxpayers will be obliged to pay taxes in full, and only then to submit the documents and calculations concerning the deductions and exemptions¹, etc.

We believe that this plan is rather flawed from the economic point of view: if an investor is able to confirm his right to a tax deduction, the authorities should build no artificial barriers to that investor's income earning. If honest investors suffer, Moscow's future as a financial center will suffer with them.

3. By Federal Law of 2 November 2013, No 307-FZ alterations are introduced in Chapter 30 of the RF Tax Code 'Tax on Property of Organizations', whereby regions are granted the right to levy property tax on real estate entities consisting of retail outlets and offices (administrative and business centers) on the basis of their cadastre value (which is approximated to market value). It should be pointed out that to apply tax rates in the amount of 1.5–2% of market value in conditions of a stagnating economy may prove to be too burdensome for businesses. Such rates, in fact, represent a ceiling even in developed countries. As a rule, in case of a switchover to estimations based on property's market value, it is recommended that the relevant tax rates must not exceed the level of 0.2–0.5%. This practice helps to soften, to a certain degree, the shock

produced by the increased estimated value of immovable property, as well as to prevent the emergence of loss-making businesses in the relevant territory. As estimated by market participants themselves, the balance sheet value of immovable property entities in the Russian Federation often amounts to only 10% of their cadastre value. In other words, it would be feasible to compensate for the tenfold growth of estimated value by establishing a lower tax rate².

By Article 378.2 of the RF Tax Code, an administrative and business center is defined as a detached non-residential building (construction, structure), where the premises belong to one or several owners; it must answer at least one of the following conditions:

1) the building (construction, structure) is situated in a land plot on which, among other types of uses, it is permitted to erect office buildings intended to be used for business, administrative and commercial purposes;

2) the building (construction, structure) is intended to be used or is actually being used for business, administrative and commercial purposes. In this connection:

- the building (construction, structure) is recognized to be intended to be used for business, administrative and commercial purposes if the intended use of premises with total area no less than 20% of that building's (construction's, structure's) total area, in accordance with the cadastre passports of the relevant immovable property entities or the technical registration (inventory) documents relating to the said immovable property entities, it envisaged that they house offices and related office infrastructure (including centralized reception rooms, meeting rooms, office equipment, parking sites);
- the building (construction, structure) is recognized to be actually used for business, administrative and commercial purposes if no less than 20% of its total area is occupied by offices and related office infrastructure (including centralized reception rooms, meeting rooms, office equipment, parking sites).

As is evident, the definition of an administrative and business center may be interpreted sufficiently broadly, which at first will inevitably give rise to disputable situations. We believe that this definition may be extended to property entities owned by state corporations, federal property entities and those owned by municipal formations, which may result in an additional growth of federal and municipal budget expenditure and the budget deficit.

¹ M. Papchenkova: 'The tax regime for investors is being toughened. Only after the tax is paid in full, tax exemptions for dividend income will be taken into account and the taxpayer compensated. We are told that the Ministry of Finance's project will be a new tool in the struggle against offshore tax havens. Experts complain in unison: "For investors, it will be a disaster".' See bmf.ru, 29 October 2013.

² R. Makarov. *Rossiiskomu biznesu postavili nozhku* [Russian Business Has Been Tripped Up]. See mk.ru of 28 October 2013, economics/ realestate/ article/ 2013/10/28/937421.

4. Alongside the measures designed to toughen the tax policy, over the period under consideration some tax exemptions were also introduced, which we believe to be rather controversial. It is not quite clear who has initiated such measures, how they can be justified and substantiated from the point of view of economics, and which of the relevant economic structures conducted their expert's estimation.

By Federal Law of 2 November 2013, No 301-FZ alterations are introduced to a number of RF legislative acts, including the RF Tax Code. In accordance with the amendments to Articles 266 and 297.3, the exemptions previously applicable only to banks should be extended to credit cooperatives and microfinancial institutions. Thus, in particular, by Article 266 it is established that 'credit consumer co-ops and microfinancial institutions may create reserves against dubious debts with regard to outstanding debt arising as a result of failure to pay interest on debt liabilities'. And in Article 297.3 it is envisaged that 'credit consumer co-ops and microfinancial institutions are granted the right to create, beside the reserves against dubious debts envisaged by Article 266 of the RF Tax Code, also reserves against potential losses from loans'.

In this connection, we believe it necessary to offer some explanations. Within the framework of the RF Tax Code, banks were granted an exclusive tax exemption, which was not enjoyed by other sectors. Since banks earn their living by making long-term investment, on a temporary basis, of money owned by others (their depositors) in the financial market – that is, make that money available for investment in production, the State decided to soften for the economy the potential consequences of failure to repay the issued bank loans – namely, to deduct from tax base not only the amount of non-repaid loans which is not covered by banks' security, but also the amount of interest that banks have failed to receive on such loans – so that banks were able to fulfill their obligations to their clients. This arrangement represents a kind of 'additional coating' designed to ensure the banking system's smooth running – alongside the requirement that loans should be issued against security, the introduction of a bank loan insurance system, and mandatory required reserves that banks must place on the RF Central Bank's accounts.

Microfinancial institutions do not bear such important social responsibilities as banks do. Essentially, from the point of view of their economic function, they are mutual benefit funds that provide unsecured loans, at a cost. The absence of security adds to the relationship between the borrower and lender an adventurous and speculative flavor. The non-repayment risks are compensated for by an excessively high inte-

rest rate. Instead of settling, in due time, the issue as to the permissible limits for such an activity, the bodies responsible for bank supervision have evidently overlooked the sphere of control over microfinancial institutions, and this, in our opinion, resulted in the resources of ordinary commercial banks (including their clients' deposits) also getting involved in speculations in this very risky market.

We regard the extension to microfinancial institutions of the tax exemption that was previously enjoyed only by banks as the result of direct lobbying, which will inevitably conduce to undermining both the sustainability and the equilibrium of the banking system, because in this way money will be withdrawn from the production sector (where, in fact, surplus product is created, which is the genuine source of banks' income in the form of interest) into the market for unsecured financial speculations.

That the introduction of these exemptions is the result of lobbying is further confirmed by the fact that the mechanism stipulated in the Law does not envisage any protection of the budget's interests. The possibility to write off the non-repaid loans and lost interest against diminished tax base implies that clients' debts must also be immediately written off, and the clients informed about their debts having been written-off¹. Microfinancial institutions, in the event of debt written-off and interest lost at the expense of reserves funded by profit before tax, immediately become tax agents obliged to pay personal income tax, and so they must submit to the tax inspectorate at the place of their registration information concerning each writing-off operation and the amount of personal income tax base or each relevant client (the writing-off of debt for the client represents income in kind). And in case of a foreign borrower the microfinancial institution will probably have to pay the amount of personal income tax due to be paid by the borrower, that has not been deducted by the microfinancial institution at source, and also refund the lost amount of budget revenue. Otherwise there will emerge one more significant channel for tax-free capital outflow, because microfinancial institutions are subject to special sector specific legislation, which imposes no constraints concerning borrowers.

If such debts are sold by a microfinancial institution to a collection agency with a discount, the amount of discount must not be written off against reserves and

¹ Evidently the lawmakers, when granting to microfinancial institutions a tax exemption in the form of the possibility to write off unsecured loans and lost interest at the expense of budget revenue, have simply 'forgotten' that by doing so they also annul the debts incurred by individual borrowers, who are thus obliged to pay only the amount of personal income tax on the relevant sums.

thus reduce the microfinancial institution's taxable base (profit), because otherwise the discount will diminish the aggregate tax base by being recorded twice – by the microfinancial institution as part of reserves (expenditures) and by the collection agency as part of income. The new Law regretfully contains no stipulations whereby a microfinancial institution, in an event of selling the relevant debt to a collection agency, should be obliged to restore, as part of taxable non-operating income, the amount of charged reserves.

The possibility for microfinancial institutions to write off from their balance sheets, in one or other way, the debts incurred by individual borrowers against consumer loans is fraught with high corruption risks, because the actual amount of debt is either written off for the borrower (and thus is in part redeemed at the expense of budget revenue in the form of lost amount of tax on profit (that otherwise would have been paid by the microfinancial institution – in other words, the borrower received a gift of money), and the borrower pays only personal income tax, at 13% rate, on the written-off debt; or the microfinancial institution 'sells' this debt to a collection agency, to be collected in full and with interest.

All these issues, unfortunately, are not reflected in the newly adopted document, with the inevitable conclusion that the Law has been introduced only in order to enable microfinancial institutions write off their losses and lost income at the expense of budget revenue.

5. The RF Ministry of Finance and the RF Federal Tax Service continue publication of their explanations and clarifications concerning the filing of notifications on financial deals, controlled by tax agencies, concluded between related entities, including credit institutions. Thus, in particular, this issue is covered by Letter of the RF Federal Tax Service of 1 November 2013, No OA-4-13/19652, whereby explanations are offered concerning the procedure for filing, in the form of a single notification, the information on a group of similar deals with securities (the RF Ministry of Finance and the RF Federal Tax Service recommend that the general rules established for recognizing goods to be identical, and the conditions of a deal comparable, should be followed in this instance, given that the RF Tax Code contains no special norms whereby these notions can be applied to securities). Besides, it is explained that information should be entered in the notifications on controlled financial deals on deals involving debt liabilities (loans, credits, deposits, etc.), operations with currency and precious metals carried on by credit institutions, operations with derivative financial instru-

ments¹, operations in the framework of currency and interest rate swaps, operations with promissory notes, and so on.

It should be noted that, by comparison with the previously issued explanations as how to file notifications on controlled financial deals, Letter of the RF Ministry of Finance and the RF Federal Tax Service of 1 November 2013, No OA-4-13/19652 has not been revised by higher judicial instances, and consequently it cannot be considered to be incorporated in prevailing tax legislation.

6. Letter of the RF Ministry of Finance of 28 October 2013, No 03-04-07/45465 and the RF Federal Tax Service of 8 November 2013, No BS-4-11/20000 explains the procedure of levying personal income tax on income received in the form of actual value of a participant's share in a society's charter capital, withdrawn by the participant when the latter leaves the society.

The essence of the problem is as follows. By Resolution of the RF Constitutional Court (hereinafter to be referred to as *RF CC*) of 16 July 2009, No 1015-O-O, shares in a charter capital of a limited liability society are qualified as ownership rights, and so are not to be understood as property, consequently in the event of sale of such a share, no deduction from personal income tax is to be granted.

At the same time, the possibility to deduct from personal income tax the cost of acquisition, by an individual, of a share in a charter capital, when the individual sells (or redeems) the aforesaid share, is directly stipulated in the second paragraph of Subitem 1, Item 1 of Article 220 of the RF Tax Code, although the deduction of expenditures in the framework of that Article represents a form of property tax deduction.

Letter of the RF Ministry of Finance of 28 October 2013, No 03-04-07/45465 and the RF Federal Tax Service of 8 November 2013, No BS-4-11/20000 offers the following explanations: 'By Article 210 of the RF Tax Code it is established that, when determining personal income tax base, all incomes of a taxpayer should be taken into account, received in the form of cash or in kind, or the right to dispose of such incomes, as well as income in the form of material gain defined in accordance with Article 212 the RF Tax Code. So, when a participant leaves a limited liability society, personal income tax should be levied on the actually paid full amount of the withdrawn share in accordance with the general rule' – that is, without deducting the cost of acquiring that share. At the same time, we believe

¹ Within the framework of the RF Tax Code, the term *derivative financial instruments* is translated into *financial instruments of derivative transactions*, with some reservations; for explanations, see Article 214.1 and Article 301 of the RF Tax Code.

that the RF Ministry of Finance and the RF Federal Tax Service must also take into account the possibility of the second paragraph of Subitem 1, Item 1 of Article 220 of the RF Tax Code being treated as a special norm established with regard to income received from the sale (or redemption) of a participant's share in a charter capital. In this case, regardless of the fact that such expenditures represent a form of property tax deduction, they may be taken into account for the purpose of reducing the base for levying tax on the transaction of sale (or redemption) of a participant's share in a charter capital. Such an approach is compatible with the standpoint of the RF Supreme Court (hereinafter to be referred to as *RF SC*). In the *Overview of Legislation and Judicial Practice of the RF SC for Q3 2007*, approved by Decision of the RF SC's Presidium as of 7 November 2007 (the Decision was issued prior to the Resolution of the RF CC, and its wording was not adjusted after the issuance of the Resolution), it is noted that, in accordance with the second paragraph of Subitem 1, Item 1 of Article 220 of the RF Tax Code, in an event of sale, by a participant in the charter capital of an organization, of the participant's share (or part of it), 'the taxpayer may reduce the sum of taxable income by the amount of actually incurred expenses in connection with the receipt of the said income, confirmed by proper documentation.

Sometimes, in their previously issued explanations, the RF Ministry of Finance and the RF Federal Tax Service expressed a standpoint similar to that of the RF SC, discussed above. Thus, for example, in Letter of 6 April 2011, No. KE-4-3/5392 it was explained that, '... in the event of sale of a share in a charter capital of an organization, irrespective of the actual period of enjoying that right, the taxpayer (an individual) may reduce the amount of income thus received by the amount of expenses, confirmed by properly formalized documents, incurred in the course of acquisition of the aforesaid share, plus the amount of expenses, confirmed in the same manner, incurred in the course of making additional contributions (or deposits) to the charter capital, on condition that the amount by which the charter capital has been increased is subject to registration in the procedure established by existing legislation'.

Thus, we believe that, in the event of redemption (or sale) of an individual's share in a charter capital, if tax has been paid by the tax agent on the full amount of income received by the said individual – that is, without setting it off against the amount of actually incurred expenses in the course of acquiring the share in the charter capital – that individual has the right, later on, to independently apply to the tax agency with the request that the amount of expenses incurred while

acquiring the share in the charter capital be set off against the current personal income tax base, in order to reduce it accordingly.

Experts have pointed to the lack of unanimity in the standpoints of different judicial bodies whilst issuing decisions concerning the possibility to deduct, from tax base, an individual's expenses incurred in the course of acquiring a share in a company's charter capital in the event of its sale (or redemption). In some cases, a court ruling is issued to the effect that such expenses should be subject to deduction. Other judicial bodies rule that a taxpayer has no right to apply property tax deduction (generally and with regard to the part relating to the acquisition expenses) to the realization of ownership rights, irrespective of the existence of the norm specifically stipulated in the second paragraph of Subitem 1, Item 1 of Article 220 of the RF Tax Code. A review of judicial practice can be found, for example, in publications released by the ConsultantPlus service network¹.

7. Letter of RF Ministry of Finance and the RF Federal Tax Service of 1 November 2013, No ND-4-8/19645@ offers explanations concerning the procedure of writing off the excess amount of taxes, penalties and fines paid by a taxpayer. Thus, in particular, the Letter explains as follows. In accordance with Article 78 of the RF Tax Code, the excess amount of tax paid by a taxpayer should be refunded on the basis of a written application submitted by the taxpayer. In presence of an outstanding amount of a tax or levy, or penalties due to be paid to the same budget (or off-budget fund), an excess amount of tax can be refunded to the taxpayer only after the refund has been set off against the outstanding payment (or debt). The application concerning the refund of excess amount of tax can be submitted within a period of three years. Tax agencies are obliged to notify taxpayers of each excess payment of tax within 10 days after such a payment has been identified.

If a taxpayer has been notified of the fact of excess payment of tax and failed to submit an application requesting that the excess amount should be refunded (or set off), and did not submit to tax agencies accounting and tax reports, on the basis of which the excess payment could be carried forward and set off

1 *Prodazha fizicheskim litsom doli v ustavnom kapitale obshchestva s ogranichennoi otvetstvennost'iu: nekotorye spornye voprosy ischisleniia NDFL* [Sale by an individual of a share in the charter capital of a limited liability society: some disputable aspects of personal income tax calculation]. Materials prepared on the basis of legal acts issued as of 24 January 2011 by A. V. Zhigachev. The wording of the second paragraph of Subitem 1, Item 1 of Article 220 of the RF Tax Code remains unaltered as of 26 November 2013, which means that the analysis of judicial decisions is still valid.

against future payments, the said amount of excess payment may be written off after the expiry of the 3-year period by decision of the director of relevant tax inspectorate¹. In cases when taxpayers carry on financial and economic activity, submit to a tax agency

their accounting and tax reports, but fail to submit thereto applications requesting that the amount of excess payment of tax should be written off, any decision issued by the director of a tax inspectorate that such sums should be written off will be invalid, as explained by the RF Ministry of Finance and the RF Federal Tax Service. ●

1 As budget revenue. – Author's note.

REVIEW OF RUSSIA'S ECONOMIC LEGISLATION IN NOVEMBER 2013

I.Tolmacheva, Yu.Grunina

In November, the following amendments were introduced into the legislation: the federal law determining the legal status, authorities and functions of the Russian Research Fund was signed; the procedure for licensing of educational activities in the Russian Federation was updated.

I. Federal Laws of the Russian Federation

Federal Law No.291-FZ of November 2, 2013 on THE RUSSIAN RESEARCH FUND AND AMENDMENT OF INDIVIDUAL STATUTORY ACTS OF THE RUSSIAN FEDERATION

The purpose of the fund is financial and organizational support of fundamental scientific research and exploratory research, training of scientific personnel and development of research teams which occupy leading positions in a specific field of science.

To achieve the goal, the Fund carries out the following main functions:

- competitive selection of scientific and research programs and projects which envisage: fundamental scientific research and exploratory research; development of research institutions and higher educational establishments for the purpose of development of research personnel; establishment at research institutions and higher education institutions of laboratories and departments which meet the international standards and development of the international scientific and R&D cooperation;
- funding of programs and projects selected on a competitive basis;
- participation in formation and replenishment of the specific capital of research institutions and higher educational establishments;
- participation in development of proposals as regards formation of the state policy in R&D and development of the higher education.

The Russian Federation may use for state needs the outputs of intellectual activities created in realization of programs and projects financed by the Fund on the basis of the unpaid simple (non-exclusive) license provided by the possessor of the right to the state customer with payment by the latter of a reward to the author/authors of the outputs of intellectual activities.

The federal law determines governing bodies of the Fund – the Fund's Board of Trustees, the Board of the Fund and the General Director of the Fund – as well as their authorities.

Also, authorities exercising control over the Fund's financial and economic activities – the auditing commission – are established.

For the purpose of export support of the Fund's activities, establishment of consultative bodies – the Fund's Expert Council – is envisaged.

II. The Federal Law in question becomes effective from the day of its official publication.

Resolutions of the Government of the Russian Federation.

Resolution No.966 of October 28, 2013 on LICENSING OF EDUCATIONAL ACTIVITIES

At present, the procedure for licensing of educational establishments, including educational establishments of national security, defense and law-enforcement agencies, national research universities, the Lomonosov Moscow State University and St. Petersburg State University will be regulated by a single document. Earlier, an individual procedure for licensing was provided for each of the above categories of educational establishments. However, it is established that educational activities in the territory of the Skolkovo innovation center are carried out by private entities which carry out educational activities without a license in accordance with the Federal Law on the Skolkovo Innovation Center.

Licensing of educational activities is carried out by the following entities:

- Rosobrnadzor in respect of Russian and foreign entities which carry out educational activities in accordance with higher education training programs, as well as federal state vocational training entities which carry out educational programs of the secondary vocational education in the spheres of defense, internal affairs, security, nuclear energy, transport and communications and knowledge-intensive production by lines the list of which is approved by the Government of the Russian Federation;
- regional executive authorities which carry out the assigned powers of the Russian Federation in the sphere of education in respect of entities

which carry out educational activities in the territory of a respective constituent entity of the Russian Federation.

To secure a license, the license applicant has to submit to the licensing authority an application executed in accordance with the requirements of the Federal Law on Licensing of Individual Types of Activities with documents enclosed as per the approved list.

The documents (copies of documents) submitted to the licensing authority should not include the date which constitutes a state secret.

Resolution No. 174 of March 16, 2011 of the Government of the Russian Federation by which the former statute on licensing of educational activities, as well as a number of Resolutions of the Government of the Russian Federation which regulated licensing of educational activities for educational establishments of national security, defense and law-enforcement agencies and those with the status of national research universities, as well as the Moscow State University and St. Petersburg State University were approved becomes null and void. ●