

## RUSSIAN ECONOMY: TRENDS AND PERSPECTIVES 06'2009

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**BASIC DEVELOPMENTS AND TRENDS**

*The murder of A. Magomedtagirov, the Minister of Internal Affairs of Dagestan and attempted assassination of .Yu.-B. Evkurov, the President of Ingushetia have once again demonstrated the crisis situation at the Northern Caucasus. S. Ignatiev has been approved by the Head of the Central Bank of Russia for a new term, so the Russian authorities have indirectly confirmed the sustainability of the government financial sector and its policy.*

*Aggravated decline of the Russian economy within January-May 2009 was accompanied by concurrent reduction of both, savings and final consumption of households. Investments in fixed assets have decreased by 17.7 % as compared with the relevant period of the last year, and retail trade turnover decline by 2.2 %. Under the volatile monthly dynamics, the industrial production volume in January-May made 82.4 % as compared with the last year, including 77.6 % output of processing industries.*

*Dynamics of the June core market indicators demonstrate the absence of positive developments in the Russian industry during the past month. The rates of decline in demand, output and employment remain the same, as well as satisfaction with sales. There were improvements only in the estimates of sales and plans for production, but the realization of those estimates in terms of growth of surplus stocks of finished goods is not obvious. Industries' crediting has remained at the same level. From the IV-th quarter of 2008, the investment downfall against the dynamics of GDP decline was noted. With further reduction of business activity in the economy, the investments in the fixed assets within January-May 2009 have decreased by 17.7 % as compared with the relevant period of the preceding year, the scope of construction works has reduced by 19.2 %. The reduction of the domestic market and income downgrading provoked the decline in the share of own funds of enterprises in the structure of sources of investment financing.*

*As of the end of May results, the CPI in Russia amounted to 0.6%, which is more than twice lower than the indicator of the relevant period of the last year. Therefore, the growth of consumer prices within January-May has reached 6.8 % (against 7.7 % during the relevant period in 2008). The real RUR effective exchange rate has grown by 2.2 %, while foreign currency reserves of the Bank of Russia have increased by 5.3 % to USD 404.2 billion. The value of the two-currency basket continues to decline: as of the month results, its value made RUR 36.56. On June 4, the Bank of Russia once again has downgraded the refinancing rate by 0.5 percentage points to 11.5 % per annum. At the same time, there were reduced the interest rates on credits and deposits for commercial banks with the Central Bank. On June 8 and 15, for the first time in this year, there were held unsecured auction and a direct REPO auction for the term of year.*

*Basic indicators of Russia's foreign trade in April 2009 continued to decline as compared with those of 2008; however, against the preceding month, some growth was observed. There was a surplus in the foreign trade balance in April, like in preceding period (6.7 billion dollars).*

*On June 9, Prime Minister Vladimir Putin has made a statement that Russia, Belarus and Kazakhstan are withdrawing their individual applications for accession to WTO and will join the Organization as members of the Customs Union. This statement means the actual termination of Russia accession to WTO.*

*During the period from May 25 to June 23, the MICEX index has downgraded by 12.72 %, which occurred against the background of volatile dynamics in the Russian stock market. The positive trends were especially expressed in the significant increase (by 4 times) activity of investors in the market of government securities, and negative ones – in the decreased quotations (by 5-30%) of the most liquid shares in the Russian stock exchanges.*

*The main trends in the Russian domestic market of corporate bonds in June became a significant expansion of the market, the record amount of issued bonds, the high activity of investors, the growth of corporate bonds indices, and consequently, reduction of the securities effective yield. At the same time, the amount of registered bond issues has declined and there was a large number of actual defaults.*

*Since the beginning of the year, there has been a substantial reduction in resources, allocated through the budget system, whereas there is a need to overcome irregular budget distribution in 2009, which implies a significant increase in the government obligations. According to tentative estimates of the RF Ministry of Finance, federal budget revenues within January-May 2009 amounted to 18,6%, of GDP, which is by 5.4 percentage points of GDP below the indicators of 2008, while the expenditures have exceeded the level of preceding year by 6.7 percentage points GDP, and reached the level of 22.2% of GDP. Although as per results of four months, the expanded government budget is executed with some surplus (0.1 percentage points of GDP), there is a high probability, that already by the end of the first half of 2009 expenditures will exceed revenues and a deficit will be recorded.*

*In late May - June significant amendments have been introduced in the economic legislation and regulatory framework, including the following:*

- a law is adopted, regulating payment agents activities on payments receipt from physical persons;*
- the definition of shareholder agreement is introduced;*
- the method for assessment of credit institutions own funds is modified.*

## THE POLITICAL AND ECONOMIC RESULTS OF JUNE 2009

S.Zhavoronkov

*The murder of A. Magomedtagirov, the Minister of Internal Affairs of Dagestan and attempted assassination of Yu.-B. Evkurov, the President of Ingushetia have once again demonstrated the crisis situation at the Northern Caucasus. Vladimir Putin has announced that the process of Russia accession in WTO is actually terminated. S. Ignatiev has been approved as the Head of the Central Bank of Russia for a new term, therefore, the Russian authorities have indirectly confirmed the sustainability of the financial sector of the RF government and its policy.*

The terrorist acts at the Northern Caucasus have become the main news of June. On June 5, A. Magomedtagirov, the Minister of Home Affairs of Dagestan and the actual leader of the republic, who held this post for more than 10 years, has been shot in Makhachkala. His successor has not been appointed yet. On June 22, YU.-B. Evkurov, the Head of Ingushetia was seriously injured and is still in critical condition, unconscious, and the perspective of his resuming the duties is problematic. Robert Gaysanov, the Prime Minister (previously he was the Minister in the R. Aushev's Government, afterwards he worked in the RF President's Embassy in the Southern Federal Region in Dmitry Kozak's Administration). The responsibility for the terrorist acts has been taken by the Islamic Underground (the so-called «Caucasus Emirate»).

Magomedtagirov and Evkurov were implementing various strategies of counteraction against the Islamists. Numerous operations on the physical destruction of the Islamists were carried out under the leadership of Magomedtagirov, in particular, four Islamic underground «Amirs»: R.Makasharipov, R. Khalilov, I.Mollachiev and O.Sheykhulaev have been annihilated (two of them - in the past year). Human rights activists were accusing Magomedtagirov and his supporters of the tortures, executions without court judgments, murders of suspects. Herewith, the Dagestan government is persistently struggling against the democratic opposition in the Republic.

As opposed to that, YU.- B. Evkurov, the Head of Ingushetia, who was appointed to that position last autumn, has at once achieved consensus with the democratic opposition to the preceding leader and has attracted their sympathies. Evkurov tried to negotiate with the suspects their involvement in terrorist activities, he has been urging them to depart from the underground and used to provide security guarantees.

Dmitry Medvedev had to acknowledge the existence of problems in the Northern Caucasus. Murders and attacks he has defined as «a challenge to the authorities and to the State», and also recognized the existence of the militants in the Caucasus and called for their assassination (earlier, Ramzan Kadyrov has declared, that the underground Islamists were practically totally destroyed and «peaceful life» is going on).

The recent events have once again demonstrated, that in the Northern Caucasian republics (excluding the non-Islamic Kalmykia, Northern Ossetia and Adygea with the majority of Russian population) there is a real war with the Islamic underground: with daily victims, involvement of heavy military armors and aviation and thousands of staff from the RF law enforcement agencies. In some ways the situation is worse (than, for example, in Ingushetia), in some ways it is better (as compared with, for example, in Karachay-Cherkessia), but it is rather explosive everywhere.

Problems of the Northern Caucasus are of both, subjective and objective character. Among the objective problems there can be noted the historic poverty of the region (per-

haps with the exception of Dagestan), as well as a sharp upsurge of the ideas of radical Islam, especially among young people. The concept of armed struggle against infidels (both, Russian and the Caucasian nations, who refuse to accept the Islamists' power), establishment of theocratic state «Emirate», a guaranteed paradise for the killed Islam fighters, has emerged at the beginning of the century to replace the Caucasian nationalism ideas, which were popular in the 90-s. Moreover, there are some subjective issues. One of them is corruption, the scope of which is too high even at the Russian background, as well as the destruction of the government apparatus, which is regarded not as public representative for providing services to the population, but as a source of profit for the officials and for their family clans. Here the public authorities are arbitrary, lawless, human life has low price, and violence is a common way to solve problems. Democratic procedures in the Caucasus are virtually eliminated, the court is a «feed crib», as well as the positions in public administration, and independent mass media are either destroyed or suppressed by terrorism<sup>1</sup>.

All the above-mentioned factors create the basis for the ideas of radical Islam and push the people's resentment towards the authorities (which exists always and everywhere) to the armed underground. Another factor was the policy of R. Kadyrov, the Head of Chechnya, demonstrating to the population the standard of «successful» leader: violent, intolerant to any different point of view, demonstrating luxury at the background of general poverty (indeed, the source of this luxury is the Russian budget). By the way, the attempt to murder of Evkurov has led to the Kadyrov's announcement, that Dmitry Medvedev had allegedly authorized him to lead the struggle against underground militants in Ingushetia, and that was the reason for him to make one-day visit to the capital of Ingushetia, to visit an empty Evkurov's residence and to come back.

The negative trend in the Caucasus is still sustained. We believe that significant efforts to overcome it should be taken not only in police measures, but also in those ones aimed at the destruction of the subjective roots of terrorism, indicated above.

A.Kudrin, the RF Minister of Finance has announced, that Russian and global economies have not yet found a sustained trend to overcome the crisis, but he promised, that the measures, taken by our country, «should result in improvement in the situation in the forthcoming months». Capital outflow from developing countries was defined by Kudrin as the main problem of Russian economy. In June, the World Bank and the OECD have published the reports, in which the prospects of Russia were estimated as rather pessimistic, in contrast to some other states, the decrease of the Russian GDP is expected to continue both, in 2009 and in 2010.

Vladimir Putin, the RF Prime Minister, has announced that Russia terminates negotiations with the WTO as a separate country, and will join the Organization as a member of the Customs Union of Russia, Belarus and Kazakhstan. It is remarkable, that it happened only a couple of days after the St. Petersburg Economic Forum, when the Heads of the country (including D. Medvedev) were saying that the accession of Russia to the WTO is forthcoming. Moreover, the session of the three countries of the Customs Union, scheduled for January 1, 2010 is under a question, due to a number of sharp contradictions in the economic sphere between the three countries, especially between Russia and Belarussia. However, actually, this is not the issue under review. There are many cases of accession of several countries within the customs unions in the history of WTO. Negotiations on Russia accession to WTO have been started nearly fifteen years ago. The recent decision means, that Russia accession to WTO is delayed for an uncertain term. Russian producers turn

<sup>1</sup> The owner of the opposition website «Ingushetiya.ru» M. Evloev was killed last year, and a trial for the closure of the popular democratic newspaper «Chernovik» is currently under prosecution in Dagestan. There are no independent media left in Chechnya and Kabardino-Balkaria at all.

out to be cut off from the system of the WTO arbitration against protectionist measures, taken by governments of other countries, which is especially significant during the crisis (in a growing world economy the consumers of non-ferrous and ferrous metallurgy, which is particularly vulnerable to anti-dumping measures in the industry have not laid any claims to Russia, in contrast to the crisis and post-crisis period at the late 1990-s - the beginning of 2000-s). However, Russia can now ignore the WTO standards, some of which it has adopted unilaterally. The refusal of Russia to join the WTO demonstrates the significant failure of the Russian diplomacy, as well as its unpredictability (as there was nothing to predict the development of the situation in such a way). The case demonstrates the regime trend to isolation and unwillingness to comply with any generally recognized standards and procedures (even only in economic sector) and a trend to discretionary management. Rejection from accession to WTO will be an additional factor, constraining the investment potential of Russia, along with the existing institutional constraints, especially the problems of individual integrity, and the ascending problem of private property inviolability.

Two major economic conflicts with specific background took place in June. Federal Bailiffs' service has announced the preparation for sales of 29 per cent of «Vypelcom» shares, owned by Telenor, the Norwegian company. Telenor share in «Vypelcom» has been arrested under a claim of Farimex offshore company, which accused the Norwegians of delaying the release of cellular operator services to the Ukrainian market. Omsk arbitration court has supported Farimex and has assessed the damage at USD 1.7 bln; afterwards the Telenor shares have been seized. Telenor has filed an appeal, but the Russian law allows the disposal of the seized property under the first instance court decision before the appeal investigation. Telenor has announced, that Farimex is nothing else, but the structure of «Vypelcom» - «Alfa Group», another large shareholder (meanwhile «Alfa Group» owns significant assets abroad, and the submission of such claims on behalf of this company is risky). While Telenor is quite determined and announces, that it would not lead any negotiations with «Alfa Group», until the situation with the arrest of the securities is not resolved. If the threat of the Federal Bailiffs Service is realized, it could become the largest expropriation of foreign investment since the case of Yukos. The second conflict is expanded in regard to Cherkizovo market in Moscow, the largest retail market of the capital city, owned by the ACT group of companies, the billionaire Telman Ismailov, the person close to the Mayor of Moscow Yuri Luzhkov (Ismailov's brother is the acting Prefect of one of Moscow districts, and the Mayor has personally participated in the opening ceremony of the new ACT elite hotel in Turkey). In June, V.Putin has made a statement about the need to strengthen the fight against smuggling, and said, that «the results of the work should be imprisonments». Soon afterwards, the Prosecutor General Office has stated, that in the warehouses in Cherkizovo market there were detected several thousand containers of smuggled goods, which are moreover dangerous to health. A. Bastrykin, the Head of the Investigations Committee under the Prosecutor General Office has announced, that the Operational Headquarters for the closure of the market was established. In late June, Moscow Mayor office has informed on the market temporary closure due to violations of sanitary norms. According to the media, Ismailov is gone to Turkey, where he is obtaining the citizenship. Actually, the fact of smuggled goods is not surprising, especially in Cherkizovo market. Another fact is really surprising: for a long term the authorities did not notice any incompliance, but suddenly started to demonstrate strict measures on the closure of a large company, rather than activities on the order and the rule of law restoration.

In June the RF State Duma under the proposal of D. Medvedev has extended the responsibilities of S.Ignatiev as the Chairman of the RF Central Bank for a four-year term. This is the third term of Ignatiev in the position of the Head of the Central Bank of Russia since

his appointment in early 2002. As the Head of the Central Bank, Ignatiev worked in close cooperation with the RF Ministry of Finance, pursuing conservative fiscal policy in the situation of sharp increase in federal revenues. Though the government sometimes yielded to lobbyists in regard to expenditures extension, the activities of financial government sector and the Central Bank (in particular, the establishment of the Stabilization Fund) has helped to avoid a disaster in the situation of prices' downfall for the basic commodities of Russian export, started in summer of 2008. Re-appointment of S. Ignatiev demonstrates that the position of A. Kudrin, the RF Minister of Finance, remains powerful.

In June, T. Bolloyev, the native of St. Petersburg, the founder of the «Baltic» brew house, ex-Vice President of «Olympstroy» public corporation has been appointed to the position of the Company Leader. B. Kolodyazhniy, the President of Corporation, who is close to Alexander Tkachev, the governor of Krasnodar Region and the former Mayor of Sochi city, has resigned. Bolloyev was elected for the third time the Chief of the public corporation within two years (within the same period three Mayors were replaced in Sochi). During that time, none of the major new facilities, planned for the Olympics-2014, was built. Actually, doubtfulness in giant construction plans (more than 200 new objects, including the subway and artificial islands) is the main reason behind the current situation. Indirectly, the willingness of authorities to amend the plans is based on the recent statements of Putin, who proposed to install built-up constructions instead of permanent ice palaces, so that after the Olympics they could be removed.

In June, two outstanding court decisions were delivered. The Russian Supreme Court has rejected the verdict on the murder case of A. Politkovskaya, the journalist of «Novaya Gazeta», having satisfied the appeal of the Prosecutor's office, which requested to contest the verdict and to submit the case for a new review (in February 2009, three persons, accused in the murder of Anna Politkovskaya, were fully acquitted by the jury court). Moscow City Court jury convicted D. Dovgiy, the former Head of the Main Investigation Department of the Investigation Committee under the RF Prosecutor's Office in receiving a bribe in the amount of Euro 750 thousand from one of the accused of the criminal cases, investigated by the Department. Even before his arrest, Dovgiy has accused A. Bastrykin, the Head of the Investigation Committee under the RF Prosecutor Office in the falsification of criminal cases against A. Storchak, Deputy Minister of Finance and A. Bulbov, the General of Federal Drug Control Committee. Dovgiy's prosecution was based on a number of circumstantial evidences and records of his conversations, but the money has not been found. Without going into details of both cases, it should be noted, that a lot of strange details in the activity of the jury court, as well as the right of higher courts to revoke their verdicts, frequently used by them, do not promote the stability of the judicial system. ●

## INFLATION AND MONETARY POLICY

N.Luksha

*As of May results, the CPI in Russia amounted to 0.6 per cent, which is more than twice lower than I the relevant period of preceding year. Therefore, the growth of consumer prices within January-May has reached 6,8 per cent (7,7 per cent during the relevant period of 2008). The real effective ruble exchange rate has increased by 2.2 per cent, while the international reserves of the Bank of Russia have increased by 5,3 per cent , making USD 404.2 bln. The value of the two-currency basket continued to decrease: by the end of the month it has amounted to RUR 36.56 . The RTS Index has grown to 1088 points, having increased by 30 per cent within the month. On May, 26 the method of credit institutions' own funds assessment has been modified. On June, 4 the Bank of Russia once again downgraded the refinancing rate by 0.5 percentage points to 11.5 per cent per annum. At the same time, interest rates under credits and deposits of commercial banks with the RF Central Bank have been decreased . On June, 8 and 15 the unsecured auction and the direct REPO auction with 1 year maturity were held for the first time in the current year.*

The consumer price index in May made 0.6 per cent. Therefore, May has become the second month of the current year, when the rate of prices growth has not exceeded the relevant index of preceding year (see Figure 1.). The greatest input in prices growth in May was made by the goods, increased in prices by 0.7 per cent.

Among non-food products, the greatest input in prices growth, as in the preceding month, was observed for tobacco (+2.5 per cent), as well as for washing and cleaning detergents (+1.4 per cent). The growth rate of prices for medicines has slowed significantly. In May it raised by minimum value since the beginning of the year (+0.4 per cent versus 3-5 per cent within the previous months). Herewith, in May there was further reduction in gasoline (-1.4 per cent).

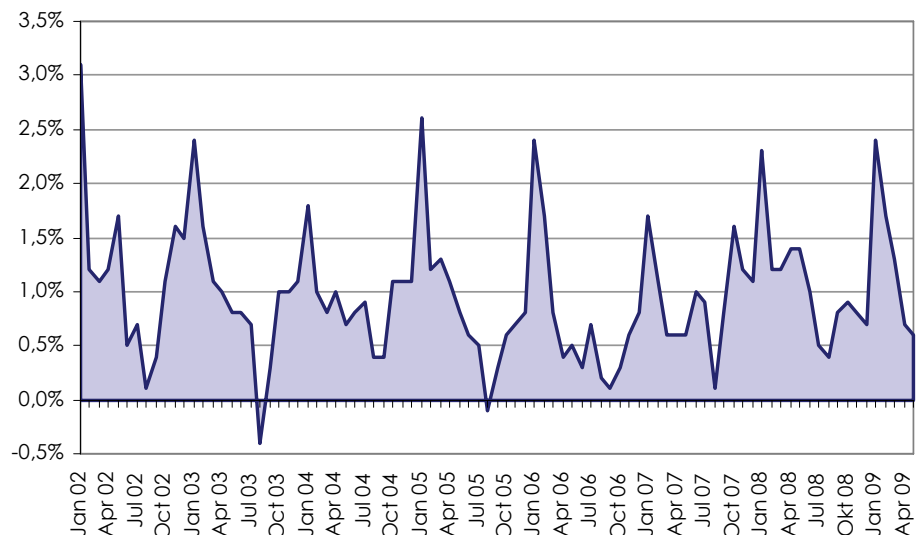
In May, the growth rate of foodstuffs remained unchanged (+0.7 per cent). The utmost growth was observed for fruit and vegetables prices (+4.1 per cent), fish and seafood (+1.6 per cent). In May there was further reduction in sunflower oil prices (-3.1 per cent), milk and dairy products (-1 per cent). Eggs prices have declined significantly again (-10.1 per cent). Butter prices also have declined (-0.9 per cent), as well as prices for sugar (-0.8 per cent), cereals and beans (-0.6per cent).

The growth rate for commercial services as of the month results has amounted 0.3per cent, remaining unchanged as compared with April. The utmost growth was noted in prices for passenger transport (1.2per cent), in particular, for long-distance trains, health resort services (by 1.1 per cent), preschool education and cultural institutions services (by 1 per cent). In view of the forthcoming summer vacations, prices for international tourism continued to decline (-2.3 per cent). Prices for communication services and education decreased, accordingly, by 0.3 per cent and 0.2 per cent.

Therefore, in May the growth rate for consumer prices continued to decrease: the inflation within the month , as well as the accumulated inflation since the beginning of the year were decreased as compared with relevant indexes of the preceding year. In May, the price growth rates for all types of goods and services has not exceeded April indicators. As we were estimating in preceding surveys, the decline of the monetary supply at the beginning of the current year, as well as the consumer demand decrease, urged by 'summer house



season” at the background of incomes reduction (for example, real disposable incomes in May have declined by 1.3 per cent, as compared with May, 2008) have resulted in inflation decline. According to our estimates, CPI in June will be lower than the relevant indicator of 2008. It will be due to the seasonal reduction in prices for agricultural products, and to a significant decline in the monetary supply growth rate since the beginning of the current year (within January-



Source: Russian Statistical Agency

Fig. 1. The Growth Rate of the CPI in 2002–2009 (% per month)

April of the current year the monetary base M2 decline has made 8.6 per cent against its expansion by 0.6 per cent within the relevant period of 2008). The increase in gasoline prices, due to the continuing upward trend in oil prices in the global markets could become one of a few new factors, pushing up the price index in June. The Central Bank does not exclude the forecast for the inflation in Russia in 2009 less than 12 per cent. Nevertheless, the Ministry of Economic development wouldn't amend the estimates of the official annual inflation rate, established at 13 per cent for the current year.

The basic CPI<sup>1</sup> in May 2009 has made 0.5 per cent (versus 1.1 per cent in the relevant period of preceding year).

As of May 2009 results, the monetary base (in broad definition<sup>2</sup>) has grown by 5.1 per cent and amounted to RUR 4712.3 bln. As of May 1, 2009 the volume of the monetary base in a broad definition has reached RUR 4483.5 bln. Let us consider the dynamics of the monetary base in broad definition by components.

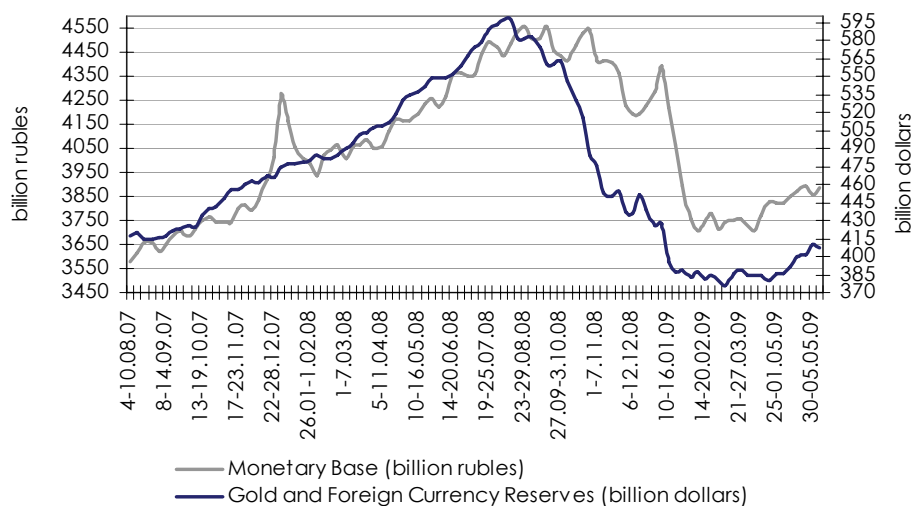
As of June, 1, 2009, cash in circulation, with regard to the fund balances in credit organizations made RUR 3.8 trln (growth by less than 1 per cent within the month), correspondent accounts of credit organizations with the Bank of Russia made RUR 414.6 bln (-12.1 per cent), mandatory reserves made RUR 31.5 bln (-3.1 per cent), banks' deposits in the Bank of Russia made RUR 407.4 bln (2.6 times growth), and the value of shares of the Bank of Russia with credit organizations made RUR 17.3 bln (+13.1 per cent).

Within May, 2009, significant growth of excessive reserves of commercial banks<sup>3</sup> was observed, this indicator has risen up by RUR 192.9 bln, or 30 per cent. Herewith, the utmost growth rate was demonstrated by the banks' deposits in the Central Bank of Russia.

1 Basic index of consumer prices is an indicator of the inflation level without regard to seasonal price reduction (fruit and vegetable products) and to administrative measures (tariffs for government-regulated services, etc.). It is estimated by the RF Statistics Service.

2 The RF monetary base in broad terms with no regard to the cash issued by the Bank of Russia and the balance of Compulsory Reserve Accounts on credit organizations in national currency, deposited in the Bank of Russia, taking into account the assets of correspondent accounts and bank deposits, allocated in the Bank of Russia.

3 The excessive reserves of commercial banks with the RF CB refers is the amount of correspondent accounts of commercial banks, their deposits with the RF CB and the CB bonds of commercial banks.



Source: RF Central Bank

Fig. 2. Changes in the Monetary Base and in the Gold and Foreign Currency Reserves in 2007–2009

further crisis aggravation. Despite the fact, that according to the Central Bank of Russia estimates, there is a trend for decline in the growth of over-due indebtedness, it is too early to say, that a second wave of the crisis can be avoided.

In May the growth of the volume of cash in circulation by less than 1 per cent and reduction of mandatory reserves by 3.1 per cent has led to expansion of the monetary base in narrow definition (cash plus the required reserves) by 0.9 per cent (see Fig. 2).

The volume of international reserves of the Central Bank of Russia in May has increased by 5.3 per cent, amounting to USD 404.2 bln. On June 11, A. Ulyukaev, the first Vice-Chairman of the Central Bank of Russia has stated, that in the near future the share of the U.S. Treasury bonds (US Treasuries) in the international reserves can be reduced. We would like to remind, that at the present time the volume of them amount 30 per cent. Moreover, it is planned to buy the bonds of the International Monetary Fund in the amount of USD 10 bln. However, the statement of the Central Bank has not been confirmed by A. Kudrin, the Head of the Ministry of Finance, who said, that Russia's international reserves still remain in the U.S. Treasuries. Discussions in government authorities have directly impacted the USD rate, which has initially decreased in response to the statement of A. Ulyukaev and then has started to grow again after the speech of the Vice-Prime Minister.

In May, for the first time since the beginning of current year, the net inflow of private capital, which, according to preliminary estimates of A. Ulyukaev, ranged from USD 2 bln to USD 3 bln (let us remind, that as of results of the 1-st quarter of 2009, the net outflow of capital amounted to USD 22 bln). The inflow of currency into the country, as well as the continuing increase in oil prices resulted in further strengthening of the ruble real effective exchange rate, which increased by 2.2 per cent in May. The index of real effective rate as of the month results made 129,06<sup>1</sup> (see Fig. 3). Thus, in the framework of foreign exchange intervention, the RF Central Bank has carried out net purchases in the amount of USD 18.6 bln and Euro 449.3 mln, which is accordingly 2,3 and 1,4 times higher, than the relevant net purchases of April.

As of May results, the official rates of USD and Euro against RUR have declined. The USD rate has declined from RUR 33.25 to RUR 30.98, or by 6.8 per cent. The Euro rate against RUR by the end of May has declined from RUR 43.84 to RUR 43.38, or by 1 per

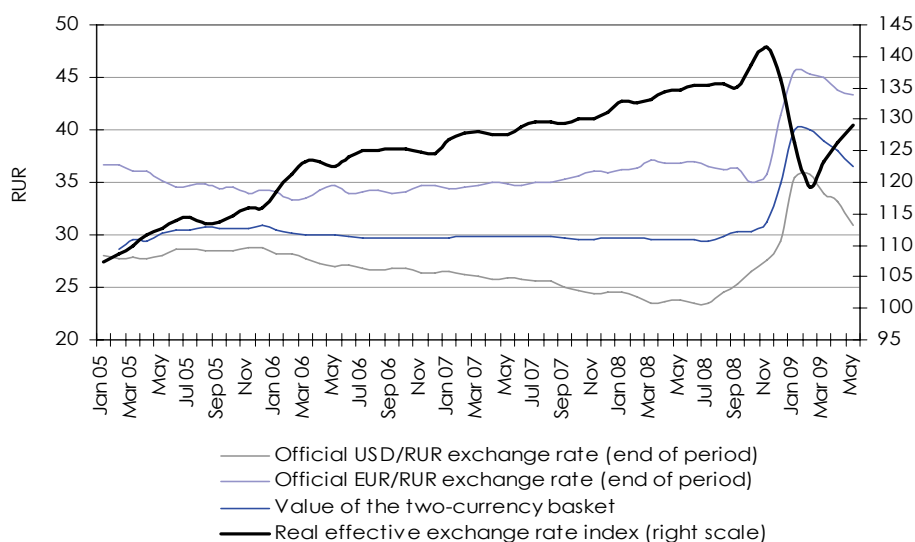
<sup>1</sup> The level of 2002 is taken for 100.

cent. As a result, within May, RUR has increased by RUR 1.45 in regard to the two-currency basket, while the value of the two-currency basket<sup>1</sup> has declined to RUR 36.56. Since the beginning of the current year it has decreased by 8.7 per cent.

On May 26, the Board of Directors of the Bank of Russia has approved amendments to the assessment methods of credit institutions own funds (capital). In line with those amendments, banks will be able to increase its

authorized capital (capital Level 1) at the expense of subordinated credits, which should meet a number of additional conditions, namely: long-term (maturity of at least 30 years), non-cumulative nature (the unpaid interest on those credits is not refunded and not accumulated), as well as an opportunity for participation in any credit institution losses refund. The total amount included in the capital subordinated loans with additional conditions is limited to 15 per cent of the value of fixed capital. This decision was motivated by the growing arrears of banks and, consequently, the need for the establishment of reserves for tentative losses. After the conversion of subordinated debt in capital assets from banks will have additional opportunities to continue borrowing.

On June 4, 2009 the Bank of Russia has decided to amend the rate of refinancing, interest rates on credit and deposit operations, performed by the Bank of Russia. In particular, the refinancing rate was again reduced by 0.5 percentage points to 11.5 per cent per annum. Since the refinancing rate is the base interest rate for all credit operations of the Central Bank, the amendment has resulted in corresponding decrease in other interest rates of the Central Bank of Russia (see Table 1.).



Source: RF Central Bank, author's estimations

Fig. 3. Indicators of Ruble's Exchange Rate Dynamics

Table 1

RF CENTRAL BANK INTEREST RATE FOR CREDIT OPERATIONS

Credit type	Interest rate (% per annum)	
	Before amendment	After amendment
Overnight	12	11,5
Credit, secured by assets or warranty	11 - up to 90 calendar days; 11,5 - from 91 to 180 calendar days 12 - from 181 to 365 calendar days	10,5 - up to 90 calendar days 11 - from 91 to 180 calendar days 11,5 - from 181 to 365 calendar days

Source: RF Central Bank

Moreover, the interest rate on «foreign currency swap» for the term of 1 day transactions (in RUR) has been reduced by 0.5 percentage points to 11.5per cent per annum, the rate

1 Two-currency basket is the RF Central Bank operational indicator in its foreign currency policy. Currently the share of EURO in the currency basket makes 45 per cent, USD – 55 per cent.

on direct REPO operations for the term of 1 day and for a period of 7 days have been also reduced by 0.5 percentage points to 10,5 per cent per annum, for a period of 1 year - up to 11.25 per cent. The Central Bank of Russia has also lowered the rates on deposits, such as : «tom-next», «spot-next» and by 0.5 percentage points of deposit transactions: deposits on the standard conditions of «tom next», «spot next» and «on demand» - up to 6.25 per cent per annum, «Week 1» and «Spot-week» - up to 6.75 per cent per annum. Fixed rates on collateral loans on all the terms have been reduced from 11 to 10.5per cent per annum.

Moreover, the Bank of Russia has lowered the rates on liquidity, provided through the auctions:

1) Operations of direct REPO :

- o for a period of 1 day - from 9 to 8.5 per cent per annum;
- o for a period of 7 days - from 9.5 to 9 per cent per annum;
- o for a period of 90 days - from 10.75 to 10.25per cent per annum;
- o for 6 months - from 11,25 to 10,75 per cent per annum;
- o for a period of 12 months - from 11.75 to 11.25 per cent per annum;

2) On lombard credits:

- o for a period of 14 calendar days - from 9.5 to 9 per cent per annum;
- o for a period of 3 months - from 10,75 to 10,25 per cent per annum;
- o for 6 months - from 11,25 to 10,75 per cent per annum;
- o for a period of 12 months - from 11.75 to 11.25 per cent per annum.

Therefore, the RF Central Bank has taken steps to mitigate credit and monetary policy. We would like to remind, this is already the third rate reduction, made in this year: On April 24, it was reduced by 0.5 percentage points to 12.5 per cent, and afterwards, on May 14 - by 0.5 percentage points up to 12 per cent. Reduced rates were caused in particular by slowdown in inflation, which in May was 2 times lower than in the relevant period of the preceding year. Herewith, the rates reduction has contributed to relatively favorable situation in foreign currency exchange market, the growth of international reserves, as well as to changes in the structure of banks' deposits in RUR. The Central Bank of Russia does not exclude, that in case of further RUR strengthening and inflation decrease they could be followed by a new decline in interest rates.

On June 8, the first since the beginning of the crisis, an unsecured auction was arranged to credit banks, which offered funding for 1 year. Earlier credits were available for five weeks, three months and six months. The demand has exceeded the offer by 3.6 times. Moreover, on June 11, the Bank of Russia has announced, that since June 15, the first in the current year direct REPO auction for the term of 1 year at the minimum interest rate of 11.25 per cent will be held. Similar auctions will take place every 4 weeks. Along with stabilization of the economy, the credits become are provided for longer terms and lower interests, as the demand for such credits is still not satisfied. ●

## FINANCIAL MARKETS<sup>1</sup>

N.Burkova, E.Khudko

*Growing global oil prices during the month of June, volatility of the world stock indices, positive macroeconomic news from the United States, production rate growth in China, as well as decreasing refinancing interest rate by the RF Central Bank from June 5, the approval by the Russian Government of the new anti-crisis program for 2009, on the one hand, and the information on the bankruptcy of General Motors, the second automobile producer in the world, downgrading of the leading Russian and US companies' ratings, as well as ruble rate decline on the other hand have contributed to the volatility of the RF stock market. Herewith, positive trends were observed, especially in the increased investors' activity in the market for government securities, and negative ones in downgrading of the liquid shares in the Russian exchange markets. The main trends in the Russian domestic market of corporate bonds in June became a significant expansion of the market, the record amount of placed bonds, the high activity of investors, the growth of corporate bonds indices and, consequently, the reduced effective yield of securities. However, it should be noted, that in this month a reduction of the registered bond issue and a large number of actual defaults were observed.*

### Government securities market

Within June, growth of oil prices, negative dynamics in the security market, weakening ruble as a result of the Bank of Russia information on the plans to transfer to a floating exchange rate regime have resulted in general upward trend of profitability of the Russian government bonds, denominated in foreign currency. Government securities stock market in June was characterized by diversified yields at the background of increasing activity both, in the primary market and the secondary OFZ market.

As of June 23, the Russian Eurobonds RUS-30 yield to maturity has increased as compared with the level of May 24 from 7.51 to 8.17 per cent per annum (by 8.66 per cent), RUS-28 – from 8.06 per cent to 8.36 per cent per annum (by 3.72 per cent), RUS-18 – from 5.01 to 5.12 per cent per annum (by 2.20 per cent) and RUS-10 from 5.35 per cent to 5.48 per cent per annum (by 2.43 per cent). As of the same date, the downgrading trend was also observed in the yields of external currency debt bonds. Thus, the yield to redemption of the seventh tranche of external currency debt bonds has decreased from 4.99 to 4.85 per cent per annum (by 2.81 per cent) (see Figs 1-2).

Within the period from April May 25 to June 23, the total turnover of the OFZ secondary market amounted to approximately RUR 47.35 billion with an average daily turnover of RUR 2.25 billion (about RUR 10.86 billion with an average daily turnover of RUR 0.6 billion in May), what corresponds to the growth of an average monthly turnover nearly by four times.

Within May 25 – June 23, there were three auctions on additional OFZ placement (against three auctions a month earlier, two of which were recognized invalid). Thus, one auction on additional placement of OFZ series 25064, for the amount of RUR 6 billion, an

<sup>1</sup> In the course of preparation of the survey, there were used analytical materials and surveys published by the "Interfax", MICEX, RTS, RF Central Bank and the materials presented at web sites of Russian issuing companies.

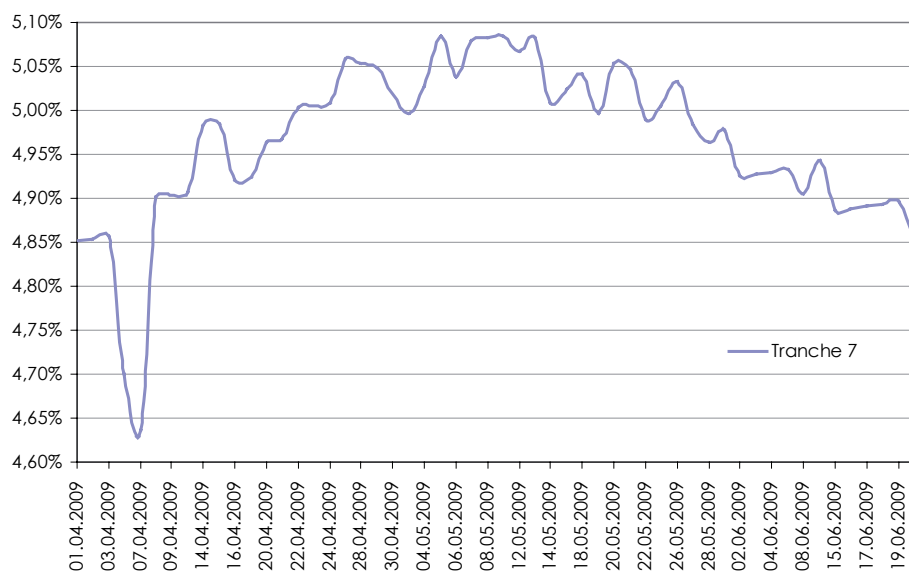


Fig. 1. Minfin bonds' yields to maturity in April – June 2009

actual placement volume reached RUR 5.99 bln was held on May 27 with an average weighted yield of 12.28 per cent per annum. On June 10, there was an auction on additional OFZ placement, series 25064 for the amount of RUR 8 bln, actual placement volume reached RUR 7.56 bln with an average weighted yield of 11.96 per cent per annum. On June 17, there was an auction on additional OFZ placement, series 25064 for the amount of RUR 10 bln, actual placement volume reached RUR 9.98 bln with an average weighted yield of 11.90 per cent per annum. Therefore, the total actual amount of placements within the period under review amounted to 98 per cent of the planned amount, what is a sign of significant increase in the investor's interest in the primary OFZ market. This trend reflects the overall positive dynamics in the market of government securities.

Moreover, in the same period there were several auctions on additional OFZ placement in the secondary market. Thus, two auctions took place on May 27 and 28 on additional placement of OFZ series 25064, for the amount of RUR 829.91 mln and RUR 828 mln, accordingly, with an average weighted yield 12.23 per cent per annum. On June 1, 2,

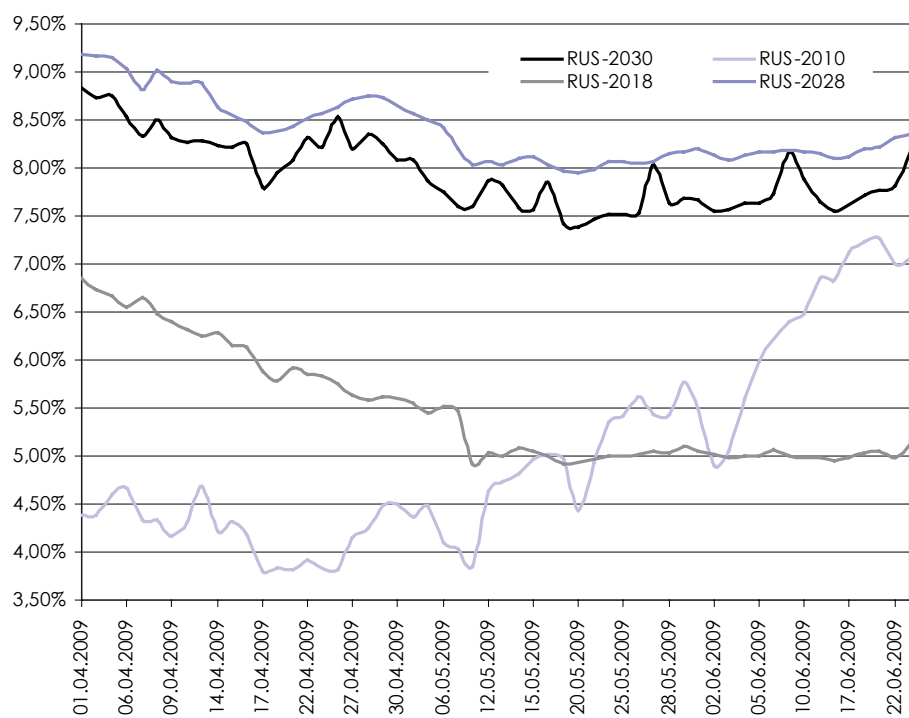


Fig. 2. Yields to maturity of the Russian Eurobonds with maturity in 2010, 2018, 2028 and 2030 in April – June 2009

3, 4, 5 and 15 there were auctions for additional OFZ placements, series 25063 for the amount of RUR 5 bln, RUR 14.51 bln, RUR 13.55 bln, RUR 11.57 bln, RUR 10.17 bln and RUR 8 bln, the actual amount of placements were RUR 0.81 bln, RUR 0.97 bln, RUR 1.98 bln, RUR 1.40 bln, RUR 2.17 bln and RUR 0.03 bln with the average weighted yields at 12.10 per cent, 11.76 per cent, 11.62 per cent, 11.53 per cent, 11.46 per cent and 11.45 per cent per annum, respectively. On June 11 and 18 there were held auctions for additional OFZ placements, series

25064, for the amounts of RUR 440.99 mln and RUR 23.29 mln, actual placement was 100 per cent with the weighted average yield at the level of 11.04 per cent and 10.95 per cent per annum, respectively.

As of June 23, the OFZ market has amounted to RUR 1088.4 bln at face value and to RUR 915.01 bln at the market value. The duration of the GKO-OFZ market portfolio has made 1847.66 days, having decreased by 1.6 days as compared with the preceding month (as of May 24).

**Stock market**

**Stock market situation**

Improved rates of oil prices in the global market, volatility of the world stock indices, as well as the national currency, the adoption of the new program of anti-crisis measures for 2009 by the Russian Government, Federal Service on Financial Markets’ decision to open new positions, reducing the refinancing rate of the RF Central Bank from June 5 (to 11.5 per cent per annum), new auctions for unsecured credits to the banks for one-year term on the one hand, and the downgrading of 11 Russian banks rating by Standard&Poor agency, the withdrawal of licenses from several banks, on the other hand, have urged volatility in the dynamics of the Russian financial market in June.

All those factors have urged the downgrading of the most liquid securities in the Russian stock markets (by 5-30 per cent on average), as well as the majority of MICEX market stock indices growth as of the month results (See Table 1).

Throughout June, a general volatile dynamics was observed in the Russian stock market (Fig. 3). Herewith, there was growing trend in the MICEX index in May-early June, which was replaced by a downgrading trend at the second half of the month. The minimum value the MICEX index has reached on 23 June, 957.05 points (957.05 points in the preceding month). The maximum value the MICEX index has reached on June 1, having reached 1,206.20 points (1 094.73 per cent points in the preceding month).

In general, within the period from May 25 to June 23, the MICEX index has decreased by 12.72 per cent, what makes about 133.65 points in absolute terms (within the year, from June 24, 2008 to June 23, 2009, the MICEX index has downgraded by 44 per cent). Over the same period the turnover of trades in shares, included in the MICEX index, made about RUR 1,483.80 bln at an average daily turnover of RUR 70.60 bln (against RUR 1,061.83 billion with an average daily turnover of RUR 58.99 billion in the preceding period). Therefore, the investors’ daily activity in the stock market in June has grown as compared with the preceding month by 20 per cent. The indicators of maximum and minimum daily turnover in the market trades in June made, accordingly, RUR 133.31 bln (as of June 2), and RUR 40.49 bln (on June 15).

As of the month results (from May 25 through June 23), the “blue chips” securities have shown a downgrading trend. The leaders of the downgrading rates were “Rostelecom” shares, which have downgraded by 35.31 per cent. Lower

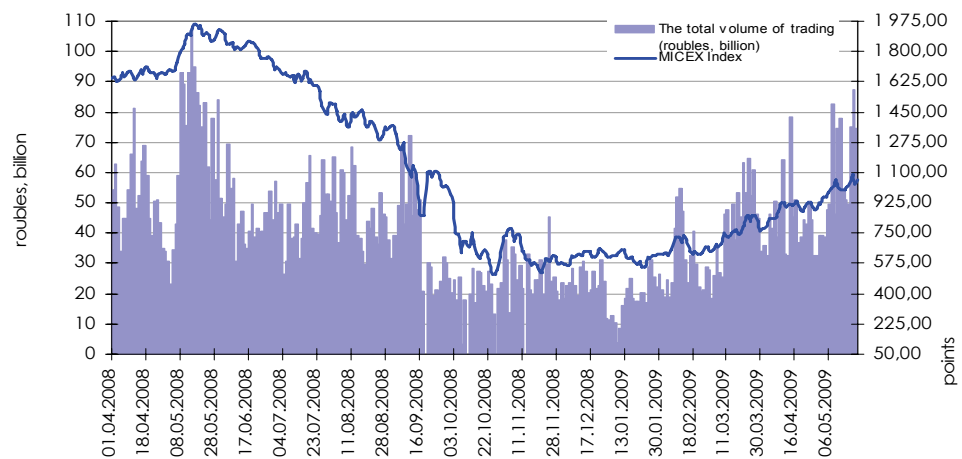


Fig. 3. Dynamics of MICEX Index and trading volume

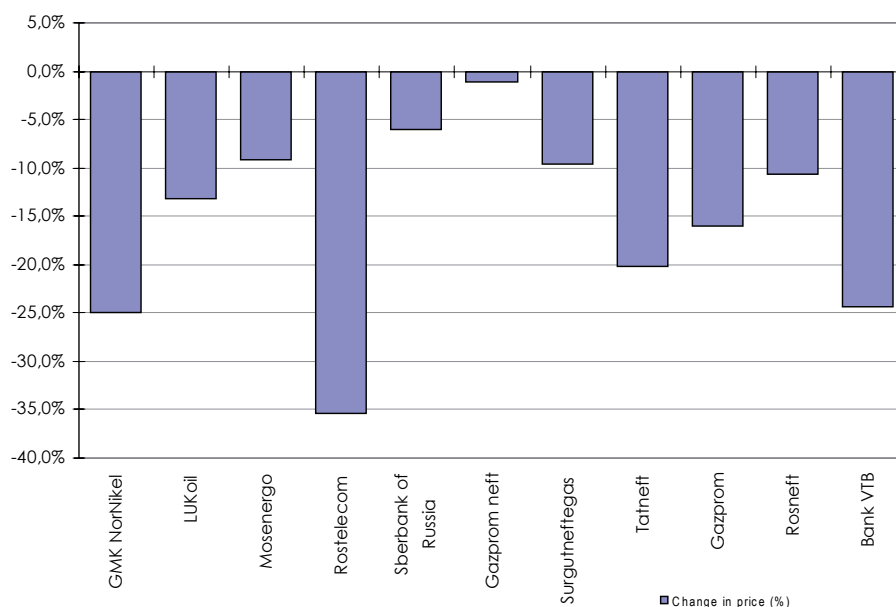


Fig. 4. Dynamics of the Russian Blue Chips from May 25 to June 23, 2009

rates of downgrading were observed in the shares of GMK “Nornickel” (by 24.92 per cent), “VTB Bank” (by 24.38 per cent), “Rosneft” (by 10.67 per cent), “Surgutneftegas” (by 9.54 per cent) and “Mosenergo” (by 9.18 percent). The lowest downgrading was observed in the shares of “Sberbank of Russia” (by 5.96 per cent) and “Gazprom Neft” (by 1.16 per cent). (See Fig. 4).

In June the MICEX turnover leaders were: “Sberbank of Russia” (42.40 per cent of the total

turnover), “Gazprom” (18.93 per cent of the total turnover), “LUKOIL” (5.53 per cent), GMK “Nornickel” (4.89 per cent) and “VTB Bank” (4.12 per cent). The total share of transactions with the shares of the five «blue chips» was about 76 per cent (all «blue chips» - 82 per cent) of the total trades in shares at the MICEX stock market during the period from May 27 to June 23.

According to MICEX information, as of June 23, the top five leaders of the domestic stock market in terms of capitalization, estimated on monthly average results, were: “Gazprom” – RUR 3 498 bln (RUR 3 365.19 bln in May), “Rosneft” – RUR 1 763.85 bln (RUR 1 646.19 bln in preceding month), “LUKOIL” - RUR 1 157.63 bln (RUR 1 267.89 bln in preceding month), “Surgutneftegas” - RUR 817.88 bln (RUR 847.81 bln in preceding month) and “Sberbank of Russia” - RUR 774.32 bln (against RUR 572.49 bln).

### ***Futures and Options Market***

In June, the activity of investors in the short-term MICEX market has significantly increased (by 2 per cent) as compared with the preceding month. Thus, in the period from May 25 through June 23 the total turnover in the MICEX (futures) market made approximately RUR 70.05 bln (3,060 of transactions, 2.07 mln of contracts), against approximately RUR 68.6 bln (2 878 transactions, 1.95 mln of contracts) in May. The largest volume of trading in June as a month earlier, was observed in the futures RUR/USD, amounting to RUR 64.94 billion (169 transactions, 1.99 mln of contracts). Herewith, prices of futures contracts, concluded in the current month for RUR/USD futures in the short-term MICEX market were made within RUR/USD 31.4-31.7 for July and August, for RUR/USD 31.4-32 for September, RUR/USD 32.7-33 for December. Thus, the investors’ expectations regarding the growth of the dollar rate over the nearest six months have downgraded by RUR 1-2 as compared with the preceding month. The greatest number of transactions (1,971) within the month was made with commodity futures, the volume of trades in those transactions has reached RUR 3.76 billion.

Trading volume of transactions in futures for the MICEX index within the period has grown by 60 per cent (from RUR 852 million to RUR 1.35 bln), what is basically related to the launch of the short-term MICEX market trades of the new tools on April 27, 2009, futures of the shares of OAO «Gazprom» and JSC «Sberbank of Russia», the most liquid



instruments of stock market CJSC «MICEX». On June 15, the first delivery of futures of JSC «Sberbank of Russia» and OAO «Gazprom» were placed. It should be noted, that the value of the MICEX index (the price of transactions) was estimated at an average of 940-1060 points in September. Therefore, the investors' expectations regarding the growth of quotations index of the MICEX before the end of the year have declined by 50 points as compared with a month earlier. There were no transactions in futures on interest rates in June.

A similar situation was noted in RTS FORTS futures market, where the investors' activity in June has significantly decreased as compared with the preceding month by 44 per cent. Thus, throughout May 25 – June 23, the total turnover in the RTS futures and options market made approximately RUR 1,311.79 bln (6,075 thou. transactions, 47.29 mln contracts) against about RUR 912.69 bln (4,823 thou. transactions, 33.87 mln of contracts) in May. Like before, futures enjoyed the greatest demand: the volume of trades in the period under review made RUR 1,267.15 billion (5.996 thousand of transactions, 45.06 mln of contracts). Herewith, prices of futures contracts, concluded in RUR/USD in the RTS FORTS short-term market for the third quarter of 2009 were within the range of 32.7–33.1 RUR/USD, for the forth quarter – RUR/USD 32.5–33. Therefore, the investors' expectations in regard to USD rate for the forthcoming six months have downgraded by RUR 1-2 on average as compared with a month earlier.

RTS index in the third quarter was estimated at 990-1,110 points and within 980–1,150 points in the forth quarter. Options enjoyed far less demand, the turnover made about RUR 44.64 bln (79.17 thousand transactions and 2.23 mln of contracts). The maximum daily turnover in the short-term RTS futures market made RUR 90.71 billion in June (as of June 3), and minimum was RUR 43.84 bln. (on June 22).

### ***External factors behind the Russian stock market dynamics***

In June the Russian financial market dynamics, as a month earlier, was largely dependant on the situation in the global financial markets. Among the basic factors of positive global market indicators, affecting the Russian market in May, one should mention:

- Upgrading global oil prices (over USD 70 per barrel);
- information on the growth of industrial production in China;
- The publication of positive macroeconomic news from the United States (in particular, the reduction of requirements to payment of unemployment benefits in the US, the growth of the new houses construction in the United States);
- Decision of the US Ministry of Finance to pay a total of USD 68 billion to ten U.S. banks in the framework of the program of support to the national economy;
- information on the search of the car company Porsche for long-term partner among the Middle Eastern investors.

However, the following events hindered growth of the global financial markets within the month:

- instability in Iran after the election of President;
- assessment of the World Bank forecast for the world economy indicators as «unusually uncertain», as well as reducing the forecast of world GDP;
- information on the reduction of industrial production in the United States;
- voluntary bankruptcy of the American automobile company General Motors in order to restructure its debts.

All these factors have generally resulted in the volatile dynamics of the global stock indices of June, as compared with the indicators of early 2009, as well as of the month results. Thus, as of results of June, the markets of individual developing countries have shown both, an increase in the indices by 2-10 per cent, and a decline by 1-13 per cent,

while in the US and European markets those indices were demonstrating lower growth rate by 1-2 per cent and downgrading by 2-6 per cent (See Table 1 and Fig. 5).

Table 1

## DYNAMICS OF THE GLOBAL STOCK INDICES (AS OF JUNE 23, 2009)

Index	Ticker	Value	Dynamics within the month(%)	Dynamics since the year beginning(%)
MICEX (Russia)	MICEXINDEXCF	917.30	-13.43	48.06
RTS (Russia)	RTSI	932.74	-9.51	47.61
Dow Jones Industrial (USA) Average (USA)	DJI	8 322.91	0.28	-5.17
NASDAQ Composite (USA)	NASD	1 764.92	1.95	11.91
S&P 500 (USA)	SPX	895.10	0.23	-0.90
FTSE 100 (UK)	FTSE	4 230.02	-4.22	-4.60
DAX-30 (Germany)	DAX	4 707.15	-5.87	-2.14
CAC-40 (France)	CAC	3 116.82	-5.40	-3.14
Swiss Market (Switzerland)	SSMI	5 321.31	-1.81	-3.85
Nikkei-225 (Japan)	NIKKEI	9 549.61	1.17	7.79
Bovespa (Brasil)	BUSP	49 813.58	-3.82	32.66
IPC (Mexico)	IPC	23 496.39	-4.13	4.99
IPSA (Chile)	IPSA	3 022.22	-1.07	27.18
Straits Times (Singapore)	STI	2 226.10	-3.47	26.37
Seoul Composite (South Korea)	KS11	1 360.54	-0.11	20.99
ISE National-100 (Turkey)	XU100	34 909.06	-0.74	29.95
BSE 30 (India)	BSE	14 324.01	1.52	48.48
Shanghai Composite (China)	SSEC	2 892.70	9.87	58.87
Morgan Stanley Emerging Markets Free Index	EFM	579.74	-3.72	26.68

\* Versus index indicator valid on May 27, 2009.

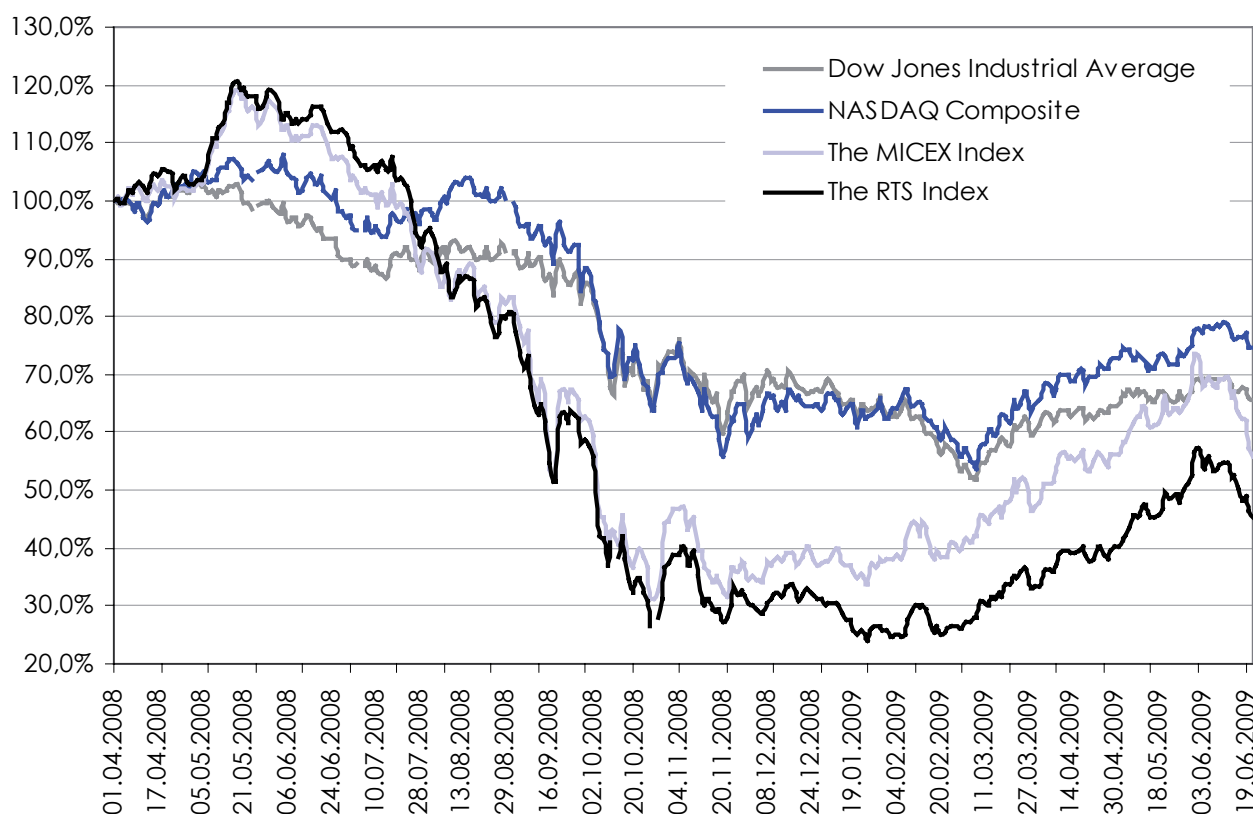


Fig. 5. Dynamics of the main USA and Russian stock indexes (in % to the date 01.04.2008)

**Corporate news*****ОАО “VTB Bank”***

On June 4 OAO “VTB Bank” has disclosed unconsolidated financial reporting, prepared under RAS for May 2009: assets of the Bank on June 1, 2009 have amounted to RUR 2 556 bln (against RUR 2 636 bln on May 1, 2009 and RUR 24.2 bln on January 1, 2009); net losses for the first five months of 2009 have reached RUR 24.2 bln. On June 8, OAO “VTB Bank” has started to provide services on credits, allocated by the China Development Bank to finance the Russian oil companies OAO “Rosneft” and OAO “Transneft”. In accordance with terms of the multilateral agreements, OAO “VTB Bank” carries out the billing operations on loans and export contracts of Russian companies.

On June 9, OAO “VTB Bank” in the framework of optimization of the daughter banks in Western Europe has left Russische Kommerzial Bank AG through a the sale of 100 per cent of Russische Kommerzial Bank AG shares to OAO “Gazprombank”.

On June 18, the VTB Group has placed 3 issues of bonds under mortgage security of ZAO “National Mortgage agent VTB 001”, with the volume of RUR 14 48 bln, issued in accordance with the RF law. Bonds of ZAO “VTB NIA 001”, classes “A” and “B” were placed by public subscription, Class “B” - by restricted subscription in favor of VTB 24. The coupon on the bonds of class “A” was set at 10.5 per cent, class “B” - at 11 per cent. This placement was the third transaction for the securitization of the VTB Group mortgage assets and the first securitization, undertaken by VTB Group in accordance with the Russian legislation.

***ОАО «Gazprom»***

On June 5, OAO “Gazprom” and E.ON AG have signed the agreement on exchange the assets in the gas production and natural gas sales. In accordance with the document, OAO “Gazprom” will obtain 49 per cent of ZAO “GEROSGAZ”, which owns 2.93 per cent of OAO “Gazprom”, As a result, the ownership right the ownership for that shares package will be transferred from E.ON Ruhrgas to OAO “Gazprom”, and E.ON will acquire 25 per cent of the authorized capital of OAO “Severneftegazprom” before the end of the current year.

Moreover, on June 5 OAO “Gazprom” and StatoilHydro have signed Memorandum of Understanding for the term of three years, which provides for cooperation of the companies in the works on geologic exploration, development and exploitation of carbohydrate resources in the Northern regions of the RF and Norway.

On June 23, OAO “Gazprom” and Kogas have signed an agreement on common review of the Project of gas delivery from the end-point of the gas transfer “Sakhalin-Khabarovsk-Vladivostok” system to Korea.

***ОАО «Gazprom нефть»***

On May 27 OAO «Gazprom нефть» and SIBUR have signed an Agreement of intent on gas preparation and conversion in Eastern Siberia and Far East.

On June 18 OAO «Gazprom нефть» has disclosed the consolidated financial reporting, prepared under the US GAAP for the first quarter of 2009: sales proceeds decreased to USD 4,185 mln (by 16 per cent less as compared with the indicator of the fourth quarter of 2008 and by 48 per cent lower as compared with the relevant period of 2008); net profit amounted to USD 335 mln (as compared with the net loss of USD 543 mln in the fourth quarter of 2008) and decreased by 76 per cent, as compared with USD 1,441 mln for the first quarter of 2008; the EBITDA indicator made USD 942 mln, which is by 361 per cent exceeds the level of the fourth quarter of 2008 (USD 204 mln) and by 54 per cent less, than the relevant indicator of the first quarter of 2008.

### ОАО «ЛУКОЙЛ»

On June 3, ОАО «ЛУКОЙЛ» has disclosed consolidated financial reporting for the first quarter of 2009, developed under US GAAP: the net profit amounted to USD 905 mln; EBITDA indicator made USD 2 414 mln, having decreased by 49.8 per cent as compared with the first quarter of 2008.

On June 19, ОАО «ЛУКОЙЛ» has signed the agreement on acquisition from the Total company 45 per cent of shares in «ТРН», Holland oil producing plant. It is expected, that the amount of the transaction will make about USD 725 mln, including the oil and oil products stock and the transaction will be completed before the end of the current year.

On June 23, ОАО «ЛУКОЙЛ» has successfully completed placement of BO-18, BO-19 and BO-20 series exchange bonds in MICEX for RUR 5 bln for each one, with the maturity term of 364 days each. Herewith, coupon rate for each series was set up at 13.5 per cent per annum. The assets, received as a result of placement will be addressed at replenishment the working capital of ОАО «ЛУКОЙЛ».

### ОАО «Mosenergo»

On June 15, ОАО «Mosenergo» and European banks, Calyon (France) and NordLB (Germany), have entered in the Agreement on opening a credit line with Euro 415 mln limit for the term of 16.5 years for the purpose of financing the contracts between ОАО «Mosenergo» and Siemens AG on the supply of power plants for the construction of PGU-420 gas-vapor power generating units in the framework of ОАО «Mosenergo» investment program.

### НК «Rosneft»

On May 28, НК «Rosneft» has disclosed financial reporting, developed under the US GAAP for the first quarter of 2009: net profit amounted to USD 2.1 bln, having increased by 165,8 per cent, as compared with USD 775 mln in the fourth quarter of preceding year, and decreased by 19.7 per cent as compared with USD 2,564 mln in the first quarter of 2008; the net debt has declined by USD 2 bln, to USD 19,239 mln; EBITDA indicator made USD 2,318 mln (by USD 2,286 mln more, than the relevant indicator of the fourth quarter of 2008 and by 50.7 per cent, as compared with USD 4 698 mln in the first quarter of 2008).

On May 29, ОАО «International airport «Sheremetyevo» (IAS) and ОАО «НК «Rosneft» have concluded an agreement on cooperation in the field of aviation fuel supply.

On June 9, НК «Rosneft» has fully repaid credit in the amount of USD 1.85 billion, obtained about a year ago from the syndicate of international banks in the framework of REPO transaction.

Moreover, on June 19, a regular meeting of the «НК «Rosneft» shareholders was held, which has approved the annual report and accounting statements for 2008, as well as profit allocation (RUR 141.31 billion). It was decided to allocate 14.4 per cent of unconsolidated net profit of the company to dividends on shares of НК «Rosneft» for 2008, which is RUR 20.35 billion (EUR 1,92 per common share). The approved amount of dividend payments, which is by 20 per cent higher than the relevant level of 2007 will be paid before December 31, 2009.

### ОАО «Rostelecom»

On May 30, the annual general meeting of shareholders, which has approved the annual report and accounting statements for 2008, as well as profit allocation (RUR 4 950.44 mln, or 70 per cent of the net profit for replenishment the equity capital, RUR 2,121.62 mln, or 30 per cent of the net profit for the payment of dividends on shares. Herewith, dividends

for 2008 in the amount of RUR 2.9124 per share will be paid on preference shares of type A (total payment on preferred shares of type A will make 10 per cent of the net profit); RUR 1.9410 per share will be paid on ordinary shares (total payment on ordinary shares will make 20 per cent of net profit).

On June 3, the Board of Directors of OAO «Rostelecom» has appointed Anton Kolpakov to the position of General Director of the company.

On June 18, OAO «Rostelecom» has disclosed audited consolidated performance results for 2008 under IFRS: consolidated revenue has increased, as compared with 2007, by 3.1 per cent, to RUR 66.6 bln; net profit amounted to RUR 12.2 bln., having grown by 4.3 times, as compared with 2007.

#### Sberbank of Russia

In June, Sberbank of Russia continued to provide credits to support domestic industrial businesses. For example, on June 5, Sberbank of Russia has opened a credit line for ZAO «SU-155» in the amount of RUR 5.2 bln for financing the construction of residential houses in the Bryansk, Vladimir, Ivanovo, Kaluga, Kostroma, Moscow, Nizhny Novgorod, Tver, Tula and Yaroslavl RF regions of Russia, on June 15 non-revolving credit line was provided to ZAO «Severstal» in the amount of USD 300 mln for the term of 3 years, and on June 16, non-revolving credit line was provided to ZAO «KAMAZ» in the amount of RUR 1.5 bln with maturity term at the end of 2009.

On June 23, Sberbank of Russia has disclosed financial results for the five months of 2009 as per RAAS: assets decreased by 2.3 per cent to RUR 6 569 bln, net profit amounted to RUR 4.0 bln against RUR 56.4 bln within five months in 2008.

#### OAO «Tatneft»

On June 22, OAO «Tatneft» has disclosed unaudited consolidated interim financial reporting, developed under US GAAP for the first quarter of 2009: consolidated net profit has increased to RUR 7,929 mln (USD 233 mln) as compared with the net profit of RUR 6,335 mln (USD 269 mln) in the first quarter of 2008 and the net losses for the fourth quarter of 2008 have amounted to RUR 21,984 mln (USD 748 mln); consolidated EBITDA made RUR 15,063 mln (USD 443 mln).

#### Corporate bonds market

In May of the current year the volume of the Russian domestic stock market (as per nominal value of shares in circulation, denominated in national currency) has been significantly increased and made RUR 1,865.3 bln (695 emissions by 446 emitters), which exceeds the indicator of preceding month by RUR 10.1 per cent<sup>1</sup>. Against the background of increase in the number of emissions, the reduction in the number emitters confirms the trend for a number of emissions to be made by one company (for comparison, in late May there were 621 emissions, made by 456 companies). Also currently there are two issues of bonds, nominated in US dollars and Japanese yens in circulation. The activity of investors in the secondary bond market has significantly increased. Thus, in the period from June 1 to 23 there have been committed by 24.6 thousand transactions with corporate bonds at the MICEX Stock Exchange, totaling to RUR 46.2 billion (for comparison, from April 27 to May 22 there have been committed 30.5 thousand transactions totaling to RUR 37.9 billion)<sup>2</sup>, which also demonstrates the continuing growth of activity of investors in the stock market.

1 As per Rusbonds information

2 As per «Finmarket» information agency

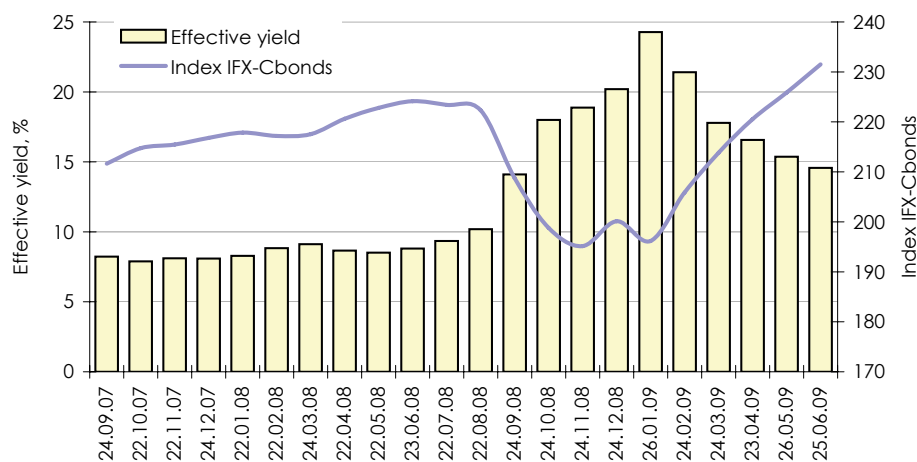


Fig. 6. Russian corporate securities index and average weighted yield dynamics<sup>1</sup>

For the fifth consecutive month the index of the Russian market of corporate bonds IFX-Cbonds continues to grow, and in the period from May 26 to June 25, the index has grown more than by 5 points (or 2.5 per cent), having reached the highest level since last September. The effective yield, respectively, has decreased from 15.37 to 14.57 per cent during the period under review,

which is the minimum value over the past eight months (see Fig. 6). The duration of corporate bonds market portfolio as of June 25 has made 452 days, what is 69 days more as compared with the late May of the current year.

Despite the above-mentioned positive trends, in June a significant decrease in the number and total amount of registered issues of corporate bonds was noted. In the period from May 24 to June 25 there were registered only 10 of bond issues for the total amount of RUR 16.1 bln (for comparison, between April 24 and May 26 there were registered 39 issues of corporate bonds, out of which 29 issues of bonds were issued in rubles, totaling to RUR 86.3 billion and 10 issues of bonds in foreign currency, totaling to USD 10.5 billion). The majority of the reported issues amounted to three series of bonds of OOO “URALSIB Leasing Company” totaling to USD 7 billion, and one issue of OAO “Sedmoy Continent”, totaling to RUR 5.8 billion<sup>2</sup>.

In June, there was observed a growth of the total volume of corporate bonds placed issues. Thus, in the period from May 27 to June 25, there were 21 bonds issues, totaling to RUR 103.3 billion and one issue of bonds, denominated in foreign currency for the total amount

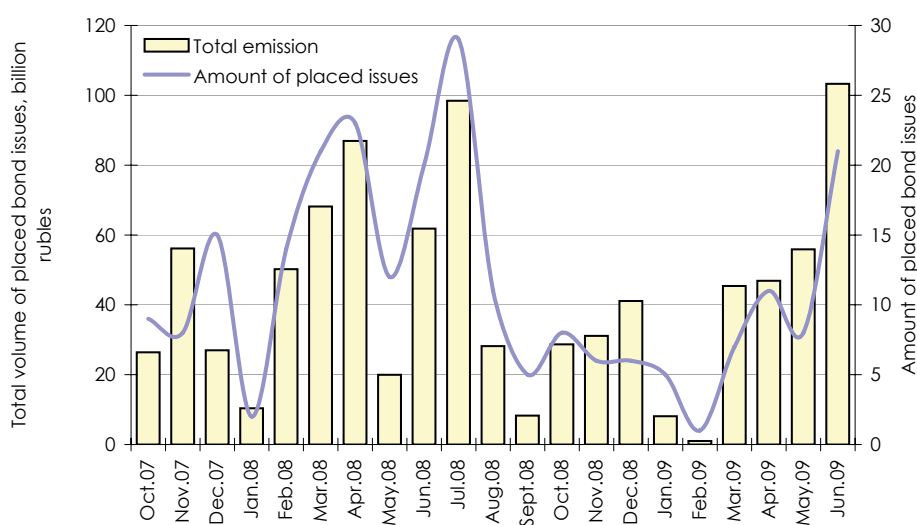


Fig. 7. Corporate securities primary placement dynamics

of USD 2 bln (for comparison, from April 24 to May 26 there were placed 8 bond issues, totaling to RUR 55.9 billion (See Fig. 7). During the period under review the major bond issues were placed by the Bank of Development and Economic Activities (one series of bonds amounting to RUR 2 billion), OAO “Russian Railways” (two series of bonds amounting to RUR 30 billion) and OAO “LUKOIL” (three se-

1 As per Cbonds company data.

2 As per Rusbonds company.

ries of bonds amounting to RUR 15 billion). Herewith, 9 emitters out of 16 have placed their debut issues.

In June a growth trend was noted in the number of issues, recognized invalid due to non-placement of any security; in the period from May 27 through June 25 the Federal Statistical Service for Financial Markets of Russia has recognized as invalid four issues of corporate bonds, offered for public placement (versus only one placement within April 24 – May 26)<sup>1</sup>.

Within May 27 through June 21, the emitters out had to redeem 22 bonded loans totaling to RUR 32.6 billion. However, six emitters have announced a technical default on repayment of their bonds, totaling to RUR 4.8 bln. In July 2009, 15 issues of corporate bonds redemption for the total amount of RUR 15.7 bln are expected<sup>2</sup>.

In June, like in preceding month, there was announced a great number of real and technical defaults<sup>3</sup>. From May 26 to June 25 the default on offer (bonds redemption) was announced by four emitters (within April 24 to May 26 there were five emitters) and seven emitters have failed to repay the coupon yield (there were 13 of those in the preceding period).

Real default on failure to repay the nominal value of the bond loan within the period under review was announced by two emitters, OOO “AirUnion” (the scope of non-performed obligation is RUR 1.5 bln) and OAO “Zavod Avtopribor” (the scope of non-performed obligations is RUR 500 bln). ●

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1 Federal Statistical Service for Financial Markets of Russia information.

2 As per Rusbonds data.

3 As per Cbonds data.

## REAL SECTOR OF ECONOMY: TRENDS AND FACTORS

O.Izryadnova

*The deepening of the recession of the Russian economy in January-May 2009 was determined by simultaneous contraction of the saving and personal consumption of the households in the GDP. Over January-May 2009 investments in fixed assets reduced by 17.7% as compared with the corresponding period of the previous year, the retail trade turnover reducing by 2.2%. The monthly dynamics being unsteady, in January-May 2009 the volume of industrial production made 82.4% of the level of January-May 2008, including by processing industries – 77.6%. The deepening of the recession of the domestic production of consumers' and investment goods, uncompensated by the import supplies and the development of import substituting production, the prerequisites for further contraction of the internal demand are being formed.*

In May 2009 the recession trends in the Russian economy have intensified. According to a preliminary estimation of the Ministry for Economic Development of the Russian Federation, over January-May 2009 the GDP reduced by 10.2%. The contraction of the internal demand was determined by simultaneous contraction of the saving and personal consumption of the households in the GDP.

Over January-May 2009 investments in fixed assets reduced by 17.7% as compared with the previous year, the recession deepening by 23.1% versus May 2008, the workload in construction has reduced by 19.2% and 21.9%, correspondingly.

The decrease in the retail trade turnover was 2.2% in January-May 2009 versus the corresponding period of the previous year, in the volume of the paid services rendered to the population – 2.9%, the real disposable incomes of the population and the real wages reducing over the same period by 0.4% and 2.0%, correspondingly.

Current economic situation accounted for the decrease in the demand for the services of transportation companies as well. The freight turnover decreased by 17.6% as compared with January-May 2008, that of the railway transport – by 23.1%.

Functioning of communication in the system of the national economy has been characterized by extremely high positive dynamics for the recent years. Despite the fact that starting with the 4<sup>th</sup> quarter 2008 some slackening of the dynamics has been observed, in January-April 2009 the increase in the communication services made 7.6%, the index of output of goods by the basic kinds of the economic activity being 13.0%.

The rates of the growth of agriculture also remain in the field of positive values. Over January-May the volume of the production of the agriculture increased by 1.5% versus the corresponding period of the previous year.

The monthly dynamics being unsteady, the volume of the industrial production in January-May 2009 made 82.4% of the level of January-May 2008, that of the processing industries – 77.6%, of minerals extraction – 96.6%, of electricity, gas and water production and distribution – 94.7%.

In January-May 2009 the mining and production of the main primary fossil fuels has reduced by 10.3%. The volume of production of oil, including gas condensate, made 202 million of tons over five months of 2009 or 99.9% versus the corresponding period of the previous year. The factors lowering the production still include the exhaustion of the exploited oil fields and insufficient increase in oil reserves, as well as the scantiness of the



investment funds to maintain the oil production and develop new oil fields in the environment of worsening economic situation in the world. The influence of the negative factors was somewhat weakened by the changes in the internal conditions, for instance, by the decrease of the export duties and severance tax, ruble devaluation and the trend for the gradual increase of the world prices for oil.

According to the data of the Ministry of Energy of the Russian Federation, in January-April 2009 the total volume of the well-boring reduced and made 93.4% versus the level of January-April 2008, the volume of development drilling – 95.9% and that of exploration boring – 54.9%. In January-March 2009 the investments in oil production made 77.9% (in comparable prices) of January-March 2008.

In January-May 2009 the share of the main oil companies in the all-Russian production of oil made: OJSC Rosneft – 23.2%, OJSC LUKOIL – 19%, OJSC TNK-BP Holding – 14.1%, OJSC Surgutneftegas – 12.2%, OJSC Gazpromneft – 6.0%.

Table 1

OIL PRODUCTION AS BROKEN BY MAJOR OIL AND GAS COMPANIES IN JANUARY-MAY 2008 AND 2009, AS MILLION OF TONS

Oil companies	2008	2009	As percentage to the corresponding period of the previous year
OJSC LUKOIL	37.2	38.3	103.1
OJSC Bashneft	4.86	4.98	102.4
OJSC TNK-BP Holding	28.3	28.5	100.7
OJSC Rosneft	47.2	46.8	99.1
OJSC Tatneft	11.0	10.8	97.9
OJSC Surgutneftegas	25.7	24.7	96.1
OJSC SLAVNEFT	8.2	7.8	94.9
OJSC Gazpromneft	13.0	12.2	93.9
OJSC RussNeft	5.9	5.3	89.6
OJSC Gazprom	5.4	4.7	86.6

Source: Central Dispatching Department of Fuel Energy Complex of the Ministry of Energy of the Russian Federation

In January-May 2009 the Russian oil processing plants processed 95.8 million of tons of crude oil or 99.6% versus the corresponding period of 2008, the total export of oil over the same period is estimated to be 102.0 million of tons (99.2%). The proportion of oil processing in the volume of its production (47.5%) and the extent of the processing of crude oil (71.1%) sustained approximately at the level of January-May 2008.

In January-May 2009 the production of oil products made 99.4% of the corresponding period of the previous year. In January-May there was 14.5 million of tons of car petrol produced (102.1% on the previous year), 27.3 million of tons of diesel fuel (97.8%) and 26.8 million of tons of furnace oil (99.7%).

According to the data of the Federal State Statistics Service, over January-April 2009 there was 41.3 million of tons of oil products exported (108.7% on the corresponding period of the previous year).

The decrease in the volumes of gas production is accounted for by the continuing contraction of internal and, to a bigger extent, external markets. The production of gas in January-May 2009 made 80.8% versus January-May 2008 (238 billion of cu. m). The enterprises of Gazprom Group, according to the preliminary data, produced 188.5 billion of cu. m of gas (76.75 as on January-May 2008), oil companies and independent producers – 49

billion of cu. m. (101.2%). It should be noted that the proportion of the enterprises of Gazprom Group in the total volume of gas production decreased and was equal to 79.3% versus 82.5% in the corresponding period of the previous year. In January-May 2009 gas consumption in Russia is estimated to be at the level of 202.4 billion of cu. m (93% versus January-May 2008), including by the UES of Russia – 69 billion cu. m (93.6%). The volume of gas export was 49.1 billion of cu. m (52.3% versus January-May 2008), including 37.6 billion cu. m to non-CIS countries. The proportion of export in the total volume of gas production over January-May 2009 decreased to 20.7% versus 31.9% in January-May 2008, in May it went up to 34.2% versus 33.1% in May 2008.

In January-May 2009 the volume of coal production was 114.2 million of tons, 84.0% versus January-May 2008, including 22.5 million of tons in May 2009 (89.6% versus May 2008). The decrease in coal production in January-May 2009 is accounted for by both the decrease in the internal demand for the coal due to the recession of production in most of the economic sectors in the country and warm weather and the decrease in demand at the external market under the influence of continuing global economic crisis. In January-May 2009, according to the live data, there was 71.0 million of tons of the Russian coal supplied to the internal market (which makes 81.3% versus January-May 2008), 36.1 million of tons (80.9%) was supplied to the power stations, 13.8 million of tons (78.9%) for carbonization. Export supplies are estimated to be 30.4 million of tons in January-April 2009 (98.3% versus January-April 2008).

Over January-May 2009 there was 427 billion of kilowatt-hours of electric power produced, which makes 94.2% versus January-May 2008. The decrease in the rates of electric power production was accounted for by the recession of the production in a number of kinds of activities in economy and industry that consume much energy as well as by warm weather.

In January-May 2009 the production of the electric power at the hydroelectric power plants increased by 9.5% as compared with January-May 2008, at the thermal and nuclear power plant it decreased by 9.1% and 5.9%, correspondingly. A significant increase in the production of the electric power at hydroelectric power plants versus the corresponding period of the previous year is due to a favorable hydrologic situation at a number of rivers in the European part of Russia and in Siberia. The proportion of the electric power produced at the hydroelectric power plants in the total volume of production went up from 15.1% in January-May 2008 to 17.6% in January-May 2009, the proportion of the electric power produced at the thermal power plants decreased from 69.6% to 67.2%. The length of the repair works at some plants increasing, the proportion of the electric power produced by the nuclear power plants remained at the level of January-May 2008 and made 15.2%.

Over January-May 2009 the consumption of the electric power made 420.3 billion kilowatt-hour, which is by 6.2% below the corresponding period of 2008, the balance of crossflow of export and import supplies of electric power is estimated to be 7.1 billion kilowatt-hour, which is by 23.85 higher than the level of January-May 2008. The dynamics being towards the reduction in the rates of economy and in the rates of consumption of fuel and energy resources the trend for the increase of the energy and electric capacity of the national economy should be underlined.

A sharp drop of the investment activity had a negative influence on the dynamics of production of the main investment goods. In January-May 2009 the production of machinery and equipment reduced by 37.6% versus the corresponding period of 2008, while the production of electric, electronic and optical equipment reduced by 42.4% and that of transport vehicles – by 37.5%.

The reduction in the production of mechanical equipment by nearly a quarter as compared with January-May 2009 was accounted not only by the general factors of recession of the production but also with the specific nature of the production cycle and irregularity in execution of the signed contracts. The difficult financial situation of the consumers, which

was due to the unacceptable conditions for crediting, also intensified the drop in production of machine tools by 64.9% and household appliances – by 34.8%.

The reduction of promising projects in construction continued to affect negatively the production of machinery and equipment used in the road construction and house-building. Thus, as compared with January-May 2008 in January-May 2009 the production of excavators decreased by 87.5%, of truck-mounted cranes – by 86.5%, of bulldozers – by 67.7%, of elevators – by 58.4%.

In January-May 2009 the production of machinery and equipment for agriculture and forestry decreased by 21.5% of the level of January-May 2008. This drop was mainly caused by the reduction in the production of wheeled tractors (by 43.3%) and fodder harvesters (by 53.9%) in connection with the fall of demand from the agriculture producers. The growth of production of grain combines was partially due to the increase of customs duties for import goods as well as the fulfillment of measures adopted by the Government of the Russian Federation (additional capitalization of OJSC Rosselkhozbank and OJSC Rosagroleasing).

In January-May 2009 the reduction in the production of transport vehicles and equipment is observed practically all over the product range. The decrease in the demand for services of railway companies, reduction of the volumes and purchase and delays with payment for orders by the OJSC Russian Railways still have a negative effect on the volumes of production of railway equipment. Thus, in January-May 2009 the production of diesel-locomotive shunters decreased by 44.3% to the level of January-May 2008, freight and passenger cars – by 56.1% and 26%, correspondingly, mainline diesel locomotives – by 16.7%, mainline electric locomotives – by 4.3%.

As compared with the corresponding period of 2008, in January-May 2009 the production of passenger cars decreased by 61.5%, of trucks – by 73%, which is connected by a practical abolition of leasing sales of motor vehicles. In January-May 2009 the output of domestic passenger cars was 114.8 thousand, 32.1% of the level of January-May 2008, of passenger cars of import models – 115.4 thousand (47.95 versus January-May 2008). The plans working as industrial assemblage enterprises produced 85.4 thousand of motor vehicles (58.6% versus January-May 2008). The dramatic decrease of the demand, for instance due to the changes in crediting conditions, reduction of incomes of the population and overproduction in 2008, which has led to the increase in stocks of finished goods, had a negative effect on the development of the production. The measures of the government support for automobile industry of the Russian Federation, including those aimed at the stimulation of the demand, have not succeeded in overcoming crisis trends in the domestic motor-car construction.

In the sector of the goods of intermediate demand it is in the production of construction materials (67.4% versus January-May 2008), in the chemistry industry (81.3%), in production of rubber and plastic goods (81.3%), in timber processing and wooden goods production (71.0%) and in pulp and paper industry (16.2%) where the most intensive rates of decrease sustain.

The demand of the internal market for the metal is secured by the rates of the development of the metal-consuming kinds of economic activities – machine-building, construction, defense and fuel and energy complexes. Index of metallurgy production and production of finished metal goods made 72.85 in January-May 2009 versus January-May 2008, the index of metallurgy production being 73.2%, and that of finished metal goods production – 72.3%. Taking into account the dynamics of the production by the main consumers, capacity of the internal market regarding metal-roll contracted to 58% in January-April 2009 versus the corresponding period of the previous year. Against this background decrease of the physical volume of export of ferrous metals in January-April 2009, which is moderate compared with the decrease of the internal demand, of 25.7% versus January-April 2008 was a factor slowing-down the rates of production recession.

The trend for the drop of the production of the light industry sustains, which is accounted for by both the difficulties connected with the replenishment of liquid funds experienced by the enterprises (due to the extension of the period for the repayment of monetary means, problems with short-term credits) and the pent-up demand. Over January-May 2009 the index of textile and sewing industry made 78.2% versus January-April 2008, that of leather, leather goods and footwear production – 88.6%, and that of foodstuffs, including beverages and tobacco, production – 96.9%.

The deepening of the recession of the domestic production of consumer goods, which has not been compensated by the import supplies that form 34% of the retail trade turnover of foodstuffs and 53% of that of non-food goods, may have a negative impact on the dynamics and the structure of the consumer market, taking into account the fact that there is no adequate expansion of import substitution production observed.

The dynamics of the financial results of activity of enterprises was defined, on the one hand, by the drop of the industrial production, and on the other hand, by the increase in producers' prices, which was mainly registered in minerals extraction and in production and services of the natural monopolies. Over January-April 2009 the index of industrial production decreased by 14.9% versus the corresponding period of the previous year, whereas the prices of the producers of industrial goods rose by 7.0%. As a result of the diversified effect of these factors structural shifts in the distribution of incomes by kinds of activities have intensified.

The profitability of the sold goods, products and works, as a result of the 1<sup>st</sup> quarter 2009, made 11.0% and decreased by 4.5 per cent as compared with the corresponding period of the previous year.

Table 2

PROFITABILITY OF SOLD GOODS, PRODUCTS, WORKS AND ASSETS OF THE ORGANIZATIONS AS BROKEN BY KINDS OF ECONOMIC ACTIVITIES IN THE 1<sup>ST</sup> QUARTER 2008 AND 2009, AS PERCENTAGE

	Profitability of sold goods, products, works and services		Profitability of assets		For reference:		
					January-April 2009 versus January-April 2008		April 2009 versus December 2008
	2008	2009	2008	2009	financial result	physical volume of output	Index of prices
Total	15.5	11.0	2.2	0.5	41.7	87.0	
including:							
agriculture, hunting and forestry	19.6	14.5	1.7	0.6		101.5	101.4
fishing, fish breeding	24.4	40.3	4.7	4.9	96.6	109.3	
minerals extraction	34.7	19.3	4.4	1.6	57.8	95.6	125.1
processing industries	17.4	10.8	3.5	-0.4	8.7	78.0	01.5
electricity, gas and water production and distribution	7.7	13.3	2.0	2.3	160.7	95.4	117.7
construction	3.8	2.5	0.5	0.0	23.1	81.6	98.3
wholesale and retail trade; motor vehicles and motorcycles services; repair of household appliances and items of private use	13.2	9.5	2.3	0.6	39.3	97.8	
transportation and communication	17.7	15.4	1.6	0.4	60.0		112.6
communication	41.2	37.7	3.5	1.7	92.0	107.6	102.7

Source: Federal State Statistics Service

It is electricity, gas and water production and distribution that remains the most profitable branch of industry in January-April of the current year. This is due to the increase of the regulated tariffs by 21.1% since January 1, 2009 and reserved growth of the production costs in connection with the moderate dynamics of the prices for energy carriers.

The worsening of the financial results of the processing industries activity was primarily defined by the deep contraction of the external and internal demand. The fluctuation of prices had by far smaller impact on the financial result of this sector than a considerable drop in the volumes of production.

Despite the decrease of the financial result in minerals production over January-April 2009 by 42.1% versus the corresponding period of the previous year, the profit was made primarily owing to the decrease of the export duties for oil industry and the increase of the world prices for oil, as well as to high export prices for gas.

In construction the contraction of the investment demand and unavailability of credit resources, this kind of activity strongly depending on the banks' credits, has resulted in the considerable reduction in the volumes of construction works, the profit as a result decreasing by 4.3 times as compared with the corresponding period of the previous year.

The contraction of the commercial cargo transportation by 17.75 in January-April versus the corresponding period of the previous year has led to the reduction of the financial result in transport and communication by 40.0%, despite the increase in tariffs for cargo transportation by 12.6%.

The continuing drop of financial result in all the kinds of activities except for the natural monopolies was reflected in acute shortage of the liquid funds for settlements and payments of wages, for credits and loans etc.

As on May 1, 2009 the total arrears of debt of organizations' liabilities increased by 9.7% from the beginning of the year, delayed accounts receivable went up by 13.4% due to the arrears of customers' debt. Correspondingly, in order to cover the consumers' arrears the liquid funds lacking the organizations had to increase credit debt. As a result by May 1, 2009 past-due credit debt went up by 9.0% versus January 1, 2009.

The enterprises solved their problems with liquid funds mainly delaying the payments of wages. By the end of May the arrears of wages went up by 1.9 versus January 1, 2009. A sharp increase of arrears of wages in its turn results in the general decrease of the solvent demand. Thus, the real sector continues to suffer from multiplicative effect of the contraction of the demand. ●

**RUSSIAN INDUSTRY IN JUNE 2009**

S.Tsukhlo

*In June the dynamics of the main indices of the economy testifies that there have been no positive changes in the Russian industry over the previous month. The rates of the decrease of demand, output and employment remain the same, as well as the satisfaction with the demand. Only the forecasts for sales and the plans of production have improved but their fulfillment in the environment of the growth of the excessive stocks of finished goods is doubtful. The crediting of the industry has remained at the same level.*

**Official statistics in May**

Official data of the Federal State Statistics Service on the dynamics of the industrial production contain contradictory estimations. On the one hand, the decrease of the output as compared with May of the previous year was equal to 17.1% and was the maximal for the current crisis which gives grounds to state that the level of the industrial production becomes lower from month to month. On the other hand only slight changes of the index in May as compared with April (17.1 after 16.9) and exclusion of the seasonal data makes the Center for Macroeconomic Analysis and Short-Term Forecasting hold that the volumes of production remained unchanged as compared with April. The experts are of the opinion that the fewer workdays and the decrease in the heat production in warm May 2009 “has cut” the official statistics of the month.

**Demand for Industrial Goods**

In June the situation with the demand for the industrial goods did not change fundamentally as compared with May. The rates of sales decrease (according to the initial data) remained at the level of May (-23 balance points). The exclusion of seasonality demonstrated its increase (worsening) by 4 points, but as a result it just returned the figure of May to the average value of the 1<sup>st</sup> half of 2009. The demand is decreasing in all the sectors, and most intensively in chemical industry (-44 balance points) and light industry (-40 balance points).

The worsening of the dynamics of sales (growth of the rate of the decrease) lowered the satisfaction with their volumes. After fluctuations in two preceding months this index also returned to the average level of 2009. Now three quarters of the Russian enterprises are not satisfied with the volumes of demand for the production they make. However the index being stable in the environment of the continuing intensive decrease of sales and uncertainty as to the prospects for the way out of the crisis gives clear evidence of the sustaining ability of the producers to remain active. There have never been observed such stable estimations of the demand in previous years.

The foodstuffs production demonstrated full (comparable to pre-crisis) adaptation to the current economic conditions. The satisfaction with the demand has been 60% for the second month in the row (52% in May 2008, 58% in June). The situation in the industry of construction materials is quite opposite, only 8% of the enterprises regarding the demand as normal (66% a year ago), the same holds for the light industry (11%, against 38% a year ago).

The forecasts for the demand on exclusion of the seasonality have improved a bit, returning in June to the average figure of the 2<sup>nd</sup> quarter, which is -12 balance points. In the 1<sup>st</sup> quarter the average figure was equal to -18 b.p. The positive dynamics in the forecasts of the enterprises after a drop at the end of 2008 is obvious and even more so when analyzing the initial data. In the 1<sup>st</sup> quarter such a situation was observed only once. It seems that the industry hopes that it will soon come out of the crisis (in the nearest two or three months, as it is formulated in the question on the forecast of the demand).

### **Output of the Production**

The intensity of the decrease of the output in June throughout the industry has not changed as compared with May. On the whole the 2<sup>nd</sup> quarter was only a bit better when it comes to the dynamics of the production, which is because of the drop in April, when the rates of the output decrease was the worst for all the first half of the year.

At the level of the branches of industry, in the 2<sup>nd</sup> quarter some branches have already started to increase the production. Positive balances (that is prevailing responses of “growth” over the responses “decrease”) were received from the foodstuffs production over the whole quarter, and from ferrous metallurgy and timber industry in June. Upon exclusion of the seasonality the positive dynamics of the production in the sectors mentioned sustained.

In June considerable positive changes were characteristics for the plans of the output in the industry. This index has been positive (or rather stopped to be negative) for the first time in the current crisis when the seasonality is excluded. In the forthcoming months the industry will make efforts to stop the decrease of the demand. The growth of the production is possible in the opinion of the enterprises in all the branches of industry, excluding industry of construction materials and light industry.

### **Prices of the Enterprises**

In June the enterprises continued to decrease their prices though less intensively than in the previous month. Some branches (non-ferrous metallurgy and machine-building) even tried abolition of the deflation policy. It seems, however, that these actions had a negative effect on the dynamics of sales in June. The latter made the enterprises markedly reconsider (by 5 points) their plans for prices for July-August and again resort to the decrease (or to be more cautious – to the absence of the increase) of the sales prices. There have not been such plans registered by the surveys in 2009 yet. Last time the decrease of the prices was planned by the industrial enterprises in November-December 2008. The most intense decrease of prices is possible in the industry of construction materials and the fuel industry. As to foodstuffs production, timber and chemical industry, there the growth of prices is possible in the forthcoming future.

### **Stocks of Finished Goods**

The estimations of the stocks of the finished goods worsened by 14 points in June after the improvement by 14 points in May. The share of the normal estimations remained at the level of 56%. It seems that the industry tries to make its policy of the stocks management compatible with the evolving though unstable and difficult to forecast trends of sales, output and their possible changes. The absence of optimism in the dynamics of sales in combination with the plans for the production growth caused the growth of excessive stocks in June. Against such a negative background the foodstuffs production stands out estimating its stocks as insufficient. The latter fact will act as an

additional support for the growth of the production in the branch in the environment of the planned increase in prices.

### **Real Dynamics and Plans of Dismissals**

In June surveys registered no changes in the dynamics of the employment in the industry. After a slight improvement (that is decrease) of the rates of real dismissals in May the enterprises returned to the preceding (characteristic for February-April) ratio of the actions on staff dismissal and hiring. It is natural that there are more reports on the reduction of the staff than of its hiring. However more than a half of the enterprises preferred changing the number of employees but slightly over all the crisis months (the exception being January which was especially difficult). In the 2<sup>nd</sup> quarter the human resources policy was especially stable at the enterprises of non-ferrous metallurgy (74% of the enterprises have not changes the number of employees), timber industry (68%) and foodstuffs industry (66%). In contrast, only 52% of machine-building enterprises could refrain from the changes in the number of employees the intensity of dismissals being the highest (-31 balance points).

The plans for the staff at the enterprises also have not changed when compared with May. In the forthcoming months the industry plans to continue reduction of the number of the employees though less intensive than the current dismissals. Here it is possible that non-ferrous metallurgy (balance of the forecast changes in the employment is -30 balance points) and machine-building (-24 balance points) become the leaders. Only the foodstuffs production is planning to increase the employment in July-August.

### **Industry Crediting**

In June the availability of the banking credits has not suffered any changes as compared with May. Only one third of the industrial enterprises considers it as normal; and is able to get a loan from the bank. Now the highest availability is characteristic for foodstuffs production (49% of enterprises consider it as normal, against 64% in May), chemistry industry (48%, 45% in May) and machine-building (36%, 30% in May). The opposite situation is characteristic for timber industry (15%, 22% in May) and ferrous metallurgy (18%, 26% in May).

The ability to pay for the existing credits has increased up to 61% in June (100% refers to the enterprises having the credits, 16% of enterprises reporting on the absence of the credits). In April the ability of the industry to serve the credits made 50%. It is the metallurgy (96%) and foodstuffs producing enterprises that are most sure of their ability. The biggest weakness when it comes to credits is demonstrated by the industry of construction materials (33% of enterprises are able to serve their credits) and timber industry (47%). ●



## FOREIGN TRADE

S.Prikhodko, N.Volovik

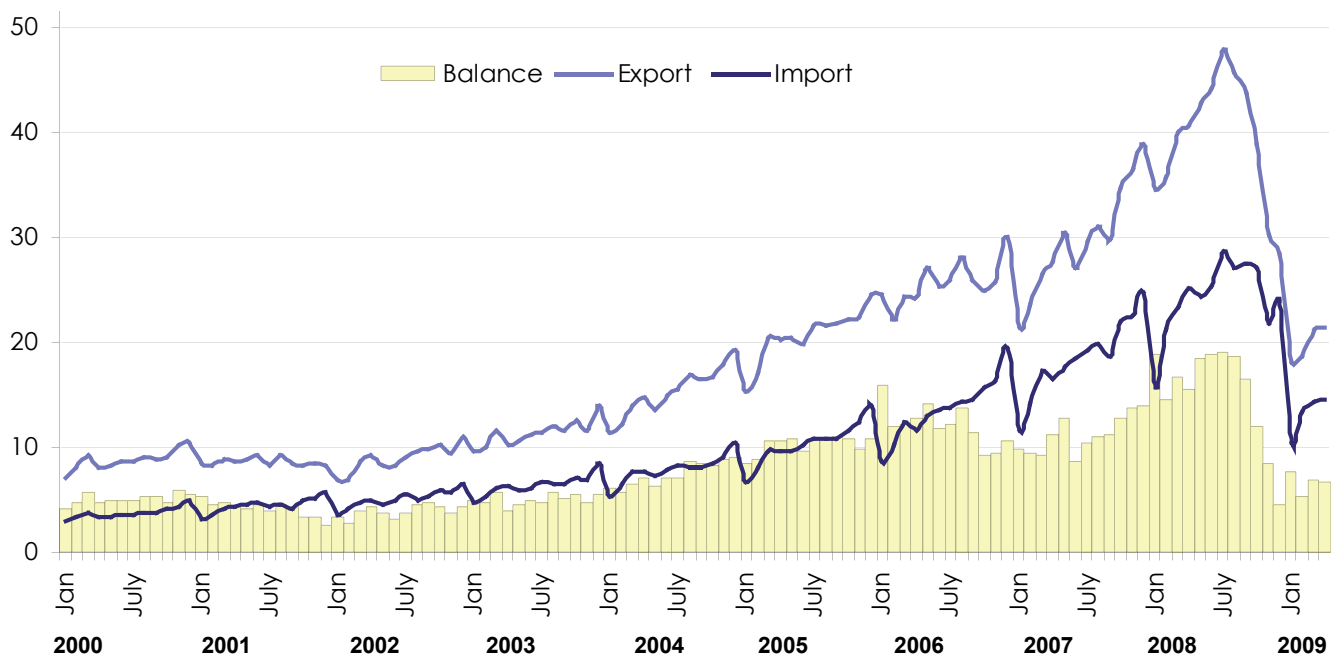
*In April 2009 main indices of the Russian foreign trade continued to decrease as compared with the corresponding figures of 2008. However, as compared with the previous month a small growth was observed.*

*On June, 9 V. Putin, Prime Minister of Russia, made a statement that Russia, Belorussia and Kazakhstan are withdrawing applications on accession to the WTO and are going to join the Organization within the framework of the Customs Union.*

Foreign trade turnover calculated on the basis of balance-of-payments methodology was equal to USD 36.9 billion in April, which is 45.4% lower than the figure of April last year, but 0.9% higher than the figure of March 2009. As compared with the corresponding figure of the previous year, export has reduced by 47.1% down to the level of USD 21.3 billion, though growing by 0.5% as compared with March 2009. When compared with the corresponding months of the previous year, from January to April 2009 export decrease rates are at the level of about 47%.

Against the background of stabilization of the decrease rates of export value, the decrease of import is accelerating. Whereas in February 2009 the import reduced by 36.5% as compared with the corresponding month of the previous year, in March the figure was 38.6% and in April – 42.6%. Value volume of import was only USD 14.6 billion in April. As compared with the previous month there is a growth of import supplies observed of 1.6%. The foreign trade balance remains positive, being USD 6.7 billion.

The dynamics of the Russian export is still defined by the world prices for oil. Throughout April 2009 prices for the oil grade Brent fluctuated around the level of USD 50 per



Source: Central Bank of the Russian Federation

Fig. 1. Main Indices of Russian Foreign Trade (as USD billion)

barrel, despite the fact that the stocks of oil significantly exceed the average levels. The demand for oil throughout the world, excluding China, remains low. Nevertheless in May and June the growth of prices for oil at the world markets continued, exceeding the level of USD 70 per barrel on June, 9. Thus, over six months since the beginning of the year oil became by more than 70% more expensive.

In April 2009 the price for oil grade Urals has decreased by 2.2 times as compared with last April and was equal to USD 48.8 per barrel, exceeding by 8% as on March 2009. Over the period of monitoring from May 15 to June 14, 2009 the average price of oil grade Urals was equal to USD 63.66225 per barrel. Basing on this price from July 1, 2009 the export duty rate for oil is established at the rate of USD 212.6 per ton, for light oil products – USD 155.5 per ton, for dark oil products – USD 83.8 per ton.

Table 1

## AVERAGE MONTHLY WORLD PRICES IN APRIL OF THE CORRESPONDING YEAR

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Oil (Brent), USD/barrel	13.92	15.72	22.97	26.26	25.81	24.79	33.5	50.6	68	68.32	108.26	51.51
Natural gas, USD/1 mln BTU	2.548	2.187	3.052	5.200	3.408	5.390	5.785	7.422	7.964	7.67	10.32	3.604
Petroleum, USD/gallon	0.378	0.391	0.808	0.999	0.814	0.855	1.152	1.603	2.016	2.13	2.884	1.459
Copper, USD/ton	1775.3	1539.9	1710.1	1689.4	1620.8	1598.5	2950	3395	6370	7766.5	8684.9	4406.6
Aluminum, USD/ton	1413.5	1318.0	1448.0	1493.7	1370.3	1332.8	1734	1894	2620	2814.8	2959.3	1420.9
Nickel, USD/ton	5352.5	5239.5	9657.1	6303.1	6940.6	7915.3	12872	16142	17935	50267	28763	11166

Source: calculated on the basis of London Metal Exchange, Intercontinental Oil Exchange (London)

In April 2009 the interest of investors in the market of non-ferrous metals was observed to be growing. Thus, average monthly price for aluminum has grown by 6.4% as compared with March 2009. Compared with April 2008 it fell by 52%.

Prices for copper increased by 17.5% versus March 2008 and reduced by 49.3% versus April 2008.

Average price for nickel in April 2009 went up by 15.2% as compared with the previous month and dropped by 61.2% versus April 2008.

In January-April 2009 Russia's foreign trade turnover, according to the data of the Bank of Russia, was equal to USD 131.9 billion, which is by 54.1% lower than over the corresponding period of the previous year, export being USD 79.2 billion (52.6%) and import – USD 52.7 billion (61.6%). Foreign trade balance remained positive, being USD 26.4 billion (64.7 billion in January-April 2008).

In January-April 2009 the export of oil in physical terms reduced only by 0.7% versus the corresponding period of the previous year, reduction in export of coal, aluminum and unprocessed timber was 1.8%, 1.2% and 6.5%. Over the same period the export of oil products increased by 5.1%, and of copper – by 1.7%.

The export of ferrous metals and fertilizers went down quite markedly – by 27.3% and 22%. And it was the production of machine-building industry that suffered most from the contraction of the external demand. Over the period under examination the export of tractors reduced by 30.2%, of metal-cutting machine tools – by 61.7%, of trucks – by 70.5% and of buses – by 71.8%.

The drop of the Russian import was assisted by the decrease in real disposable incomes of the population, contraction of credits and withdrawal of investments. The investment goods are the first to fall, demand for them decreasing faster and faster against the background of stagnation of the industry. As compared with April 2008 in April 2009 the import of machine-building production has reduced by 55.4% primarily because of the contraction of the purchase of the overland transport vehicles by 3.7 times, as well as of mechanic equipment, electric equipment, optical tools and devices – by half. In the environment of the absence of the crediting the enterprises have to suspend investment programs. The difficulties connected with getting a credit also influenced the trading organizations supplying the import goods to satisfy the consumers' demand.

The reduction of the import supplies was also influenced by the changes in customs and tariffs policy. In April 2009 not only did the import of the cars turn out to be less than in April of the previous year by 76%, but it was also 21% lower than the import in March of the current year. Over January-April 2009 the volume of the import of passenger cars reduced by 69.1% as compared with the corresponding period of the previous year. On the whole, over the given period there were 187.6 thousand of cars imported in Russia worth USD 2 833.5 million, including 173.4 thousand worth 2 738.4 million from non-CIS countries and 14.2 thousand worth USD 95.1 million from CIS countries.

In 2008 the proportion of the used cars was a bit more than 20% of the total volume of import of passenger cars. Upon introduction of new customs duties, import of the used cars older than three years has practically ceased. In January 2009 the share of the used cars in the import was 10%, while in February it did not exceed 0.6%. In the 1<sup>st</sup> quarter 2009 its share was about 3%. It should be noted that a part of the cars got customs clearance before January 11, that is before the new duties were introduced.

In January-April 2009 the import of used cars in Russia decreased by 24 times at once – down to 4.9 thousand of cars (in 2008 there were 120.3 thousand of cars imported over the first four months).

Such a sharp decrease in sales of the used cars is accounted for by the fact that the duties for its import are more severe than for the import of the new ones. The duty for the import of the used cars is established not in per cent but in Euros: depending on the engine volume from Euro 2.5 to Euro 5.8 for 1 cu. cm of the engine. As a result the custom clearance of a used car produced abroad of the engine volume of 1.6 liter (taking into account VAT payment) makes USD 5.5 thousand. For the import of a new car produced abroad of the same volume of the engine, the duty will not exceed USD 3.8-4 thousand.

Import of foodstuffs reduced considerably less – versus April 2008 in April 2009 it decreased by 30.5%, import of textile and footwear decreasing by 30.85, and of production of chemistry industry – by 40.5%. However the reduction of the import and it becoming more expensive, judging from the situation in the Russian industry, has not stimulated the growth of import substitution so far.

On June 9, Vladimir Putin, Prime Minister of the Russian Federation declared that Russia, Kazakhstan and Belorussia are going to carry out negotiations on accession to the World Trade Organization (WTO) as the unified Customs Union. Thus, the process of accession to the WTO will be carried out not by each of the countries separately, but by the unified Customs Union of three countries. Russia and Belorussia have been trying to access WTO since 1995, and Kazakhstan – since 1996. Russia has passed 95% of the way on accession, Kazakhstan – about 70% and Belorussia – only a half.

Russian and the WTO are in disagreement concerning three key issues: subsidies for farmers, export duty rates for timber and the regulations concerning Russian state monopolies, for instance, the policy of Gazprom concerning pricing. Russian workers in the field of agriculture are against the approval of WTO conditions since in this case the Gov-

ernment of the Russian Federation will have to decrease the level of support for the agricultural producers by 5-10% every five years.

Washington and Brussels are unsuccessfully trying to persuade Russian to sign the agreement on the trade with the aeronautical engineering products which envisages the rejection of the subsidies for aeronautical engineering. However Russian experts hold that in the course of negotiations the Russian party should protect the interests of the Russian aircraft construction and ensure that it is competitive at the world markets.

In the history of the WTO there have not been examples of several countries accessing it within the framework of the Customs Union so far. There were no such examples in the history of the organization that existed before the formation of the WTO in 1994, which was the General Agreement on Tariffs and Trade and functioned from 1948 to 1994.

Nevertheless, the chief Russian negotiator with the WTO, Maxim Medvedkov is hoping that the positions that were agreed on over many years will hold. Moscow, Minsk and Astana will together continue the negotiations starting approximately with the place where Russia stopped. We consider it as highly unlikely.

First, a number of countries will undoubtedly use the opportunity to reconsider the concessions that Russia has already made and simply declare additional claims. Now they have an advantage of not having to resort to such step as recall of the signature on the papers that have already been signed.

Second, it is not quite clear how Russia and Belorussia are going to adjust their positions at the negotiations with the WTO. The share of the state in the economy of Belorussia, methods of its regulation, legislation on the protection of intellectual property, admission to the market of the foreign financial organizations, subsidizing of export does not meet the requirements of the organization.

World Trade Organization does not forbid its members to form Customs Unions. The EU countries joined the GATT (the predecessor of WTO) first and only then united their economies. Many economic unions participate in the multi-lateral negotiations as consolidation, but there seems to have been no examples of the collective accession to the WTO.

Besides, nobody knows what the Customs Union is like until it is registered legally. The Customs Union of three countries will be created by 2010 when the countries will fully synchronize their customs duties and get rid of the customs at the boundaries of the countries. The official start of the negotiations between the WTO and the Customs Union should be approved by the Intergovernmental Council European and Asian Economic Union, and the dates when three countries suspend their negotiations with the WTO has not been defined yet.

Each year again and again would the officials repeat that the accession to the WTO will enable to expand the share of the Russian goods at the world market, which, in its turn, will facilitate the economic growth. And now there appears a reason to turn down further negotiations.

The WTO is the institute to constrain the protectionist measures, and since the beginning of the crisis Russia has virtually recognized protectionism as a positive measure, which is obvious, for instance, from the introduction of duties for passenger cars import, metallurgy production, limitations on import of milk, meat and other foodstuffs. There would be no such "manual control".

In such a situation one can conclude that the Government of the country does not have hopes for the fast accession to the WTO any more and prefers to make agreement on formation of the Customs Union since this agreement holds higher priority than the prospects of WTO accession. Economic profit from the Russia's accession to the WTO within the Customs Union is obscure, since the Russian trade turnover with non-CIS countries, which are members of the WTO, is by far bigger than with countries of the former USSR.

But in fact Russia's trading partners by the WTO are not very much interested in its soon accession to the WTO: for them Russian is mainly the exporter of the raw materials, and it is easy enough to trade in it outside the World Trade Organization.

The accession to the WTO made sense for Russia not for the benefit of any customs duties but to express its desire to obey the rules of the world market. This would attract foreign investors: in recent years they were interested in Russia because of high prices for oil, but now this factor is no more in effect.

Negotiations on the accession of the Customs Union to the WTO are to start on January 1, 2010. By that time the Customs Union will be not only formally created but all the necessary documents will be ratified as well. Now the Government of the Russian Federation works on the position according to which the main task is not to lose the potential of the negotiations with the WTO that was reached and use it to the maximum extent possible. However the head of the Working Group on Russia's accession to the WTO, Stefan Johansson, declared that "the process of consideration of the consolidated application of three countries can continue for indefinite time". ●

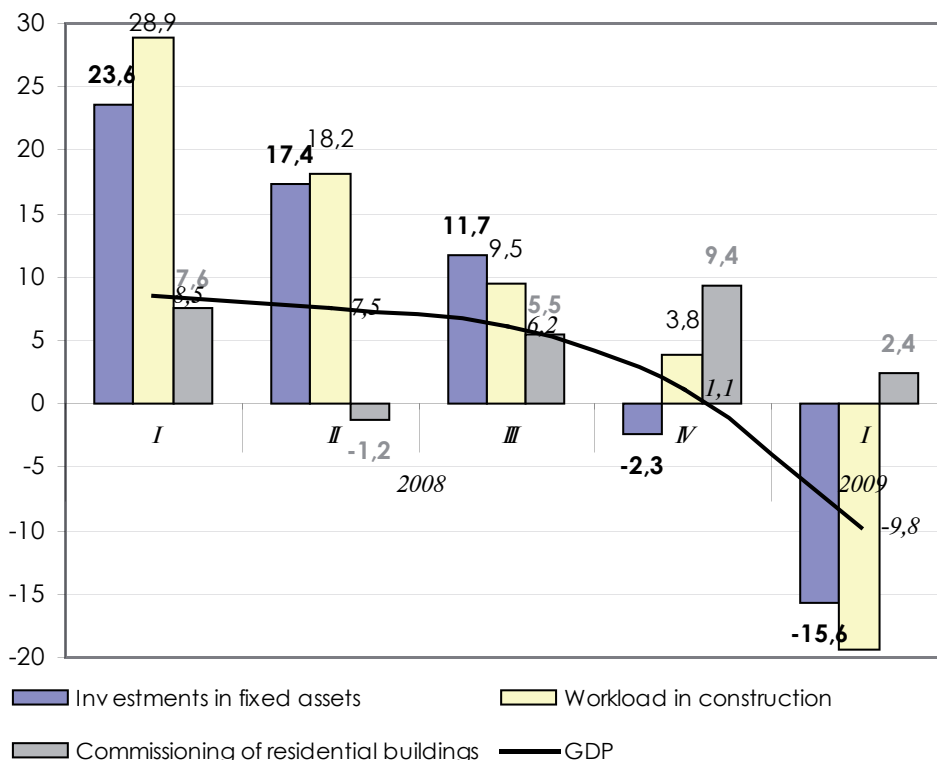
## INVESTMENTS IN REAL SECTOR

O.Izryadnova

Starting with the 4<sup>th</sup> quarter 2008 there is the acceleration of the rates of investments decrease as compared with the decrease of the GDP observed. In the 1<sup>st</sup> quarter 2009 while the investments contracted by 15.6% versus the corresponding period of the previous year, the GDP went down by 9.8%. The business activity decreasing further in the economy, investments in the fixed assets over January-May 2009 reduced by 17.5% as compared with the corresponding period of the previous year, and the decrease in the workload in construction made 19.2%. The contraction of the internal market and the drop of the revenues of the economy defined the dramatic proportion of the on funds of the enterprises in the structure of the financial sources for the investments in the fixed assets.

Slow-down of the rates of the economic growth changed the situation in the sector of investments. As a result of the 1<sup>st</sup> quarter 2009 the volume of the investments in the fixed assets reduced by 15.6% throughout the economy, and by 5% for large and medium enterprises. The most considerable reduction of the investments in the fixed assets, of more than 40%, was registered in the segment of small-scale enterprises.

In 2008-2009 the anticipating growth of the construction of objects of infrastructure and production against the slow-down of the rates of commissioning of the total floor area of



Source: Federal State Statistics Service

Fig. 1. Growth Rates of GDP, Investments in Fixed Assets, Workload in Construction and Commissioning of Residential Buildings in 2008-2009, as percentage to the corresponding period of the previous year

residential buildings was characteristics. However the dynamics of commissioning of residential buildings in the 1<sup>st</sup> quarter 2009 remained positive and made 102.4% versus 107.6% in the 1<sup>st</sup> quarter 2008, and 104.2% in January-May against 106.1%. It should be noted that as compared with the 1<sup>st</sup> quarter 2008 the absolute volumes of the investments in the construction of the residential buildings took place and the trend for the decrease of the share of the investments in the construction of residential buildings in the structure of the investments in fixed

assets down to 6.0% in the 1<sup>st</sup> quarter 2009 versus 8.1% in the corresponding period of the previous year.

The expenses for the construction of buildings and installations increased in the structure of the investments in fixed assets up to 51.6%, exceeding by 3.1 per cent the figure of the corresponding period of the previous year. The trend for the decrease of the share of expenses for machinery and equipment has strengthened: whereas in the 1<sup>st</sup> quarter 2008 this figure was at the level of 34.5%, in the 1<sup>st</sup> quarter 2009 it lowered to 32.2% (table 1). It should be noted that against the background of the dramatic drop in the domestic production of the investment goods, investments in the purchase of import machinery, equipment, transport vehicles (not including the subjects of small-scale business and the parameters of informal activity) made RUR 76.5 billion in the 1<sup>st</sup> quarter 2009 or 25.5% of the total volume of the investments in machinery, equipment and transport vehicles versus 19.5% in the 1<sup>st</sup> quarter 2008.

Table 1

STRUCTURE OF INVESTMENTS IN FIXED ASSETS AS BROKEN BY KINDS OF FIXED ASSETS IN 2008-2009 (NOT INCLUDING THE SUBJECTS OF SMALL-SCALE BUSINESS AND THE PARAMETERS OF INFORMAL ACTIVITY), AS PERCENTAGE TO THE TOTAL

	2008	Including			2009
		1 <sup>st</sup> quarter	1 <sup>st</sup> half of the year	January-September	1 <sup>st</sup> quarter
Investments in fixed assets - total	100	100	100	100	100
Including as broken by kinds of fixed assets:					
housing	7.5	8.1	7.8	7.6	6.0
buildings and installations	52.4	48.5	49.9	51.3	51.6
machinery, equipment, transport vehicles	33.0	34.5	34.1	33.6	32.2
other	7.1	8.9	8.2	7.5	10.2

Source: Federal State Statistics Service

The scale of the economy decreasing this year it is observed that the role of the budget funds in the financial sources for the investments in the fixed assets is changing. The volume of the investments decreasing in absolute terms as compared with the corresponding period of the previous year the increase in the volume and the proportion of the funds of the federal budget in the financial sources for the investments in fixed assets was one of the prerequisites for mitigation of the negative aftermaths of the sharp restriction of own funds of the enterprises. In January-March 2009 RUR 121.5 billion of investments in fixed assets (13.0% of the total investments in the economy) was financed at the expense of the budget funds, of which RUR 37.9 billion (4.1%) was financed at the expense of the federal budget, RUR 75.9 billion (8.1%) – at the expense of the budgets of the subjects of the Federation (table 2).

Table 2

STRUCTURE OF INVESTMENTS IN FIXED ASSETS AS BROKEN BY THE SOURCES OF FINANCING, AS PERCENTAGE (NOT INCLUDING THE SUBJECTS OF SMALL-SCALE BUSINESS AND THE PARAMETERS OF INFORMAL ACTIVITY)

	2008	Including			2009
		1 <sup>st</sup> quarter	1 <sup>st</sup> half of the year	January-September	1 <sup>st</sup> quarter
1	2	3	4	5	6
Investments in fixed assets, total	100	100	100	100	100
including by the sources of financing:					
own funds	40.0	46.2	44.3	42.8	40.9
of which:					

Table 2, cont'd

1	2	3	4	5	6
profit	18.6	20.5	20.5	20.1	18.1
borrowed funds	60.0	53.8	55.7	57.2	59.1
of which:					
banks credits	11.1	10.4	10.5	11.0	13.40
including by foreign banks	2.4	1.6	1.8	1.7	4.3
borrowed funds from other organizations	6.5	6.9	6.7	6.8	9.2
budget funds:	21.0	11.8	14.9	16.8	13.0
federal budget	8.1	2.8	4.4	5.5	4.1
budgets of the subjects of the Russian Federation and local budgets	10.4	8.3	9.3	10.0	8.1
other	21.1	24.3	23.2	22.3	23.3
of which					
funds received for the share participation in construction means of the population	3.3	3.7	3.5	3.5	2.2
Foreign investments in the total amount of the investments in fixed assets	1.5	1.4	1.6	1.7	0.9
	4.6	5.3	5.3	4.8	6.7

Source: Federal State Statistics Service

The demand of the state for the production and services of the Russian enterprises is maintained through the fulfillment of the planned investments projects in the field of transportation, telecommunication etc. within the framework of FTP and FTIP as well as large infrastructure projects of the Investment Fund, expenditures for which remained at the level that was planned beforehand or decreased to the minimal extent. Besides the work on the definition and support for the priority investment projects aimed at the technological modernization of the processing branches of industry is being carried out, which would increase the competitiveness of the Russian economy at the stage of the post-crisis growth.

In 2009 taking into account the optimization of the volumes and the structure of the expenditures of the federal budget it is planned to allocate RUR 651.7 billion from the means of the federal budget to construct the objects and fulfill the measures included in the Federal Targeted Investment Program (FTIP), including RUR 105.1 billion (16.1% of the total volume of FTIP) aimed at the financing of the objects listed in the state defense order. The optimization of the expenditures allowed to reduce the volume of funds envisaged for FTIP fulfillment by more than RUR 55 billion (Decree of the Government of the Russian federation from May 7, 2009 No 604-r).

It is planned to aim the funds at the rate of RUR 442.77 billion (67.9% of the total amount of FTIP) to finance the objects included in the Federal Target Programs (FTIP program part). This includes RUR 63.09 billion of the state defense order.

In 2009 it is planned to direct the funds of RUR 208.97 billion to construct the objects and fulfill the measures within the framework of the FTIP non-program part, which makes 32.1% of the total volume of FTIP. This includes the state defense order of RUR 42.01 billion.

In accordance with the List of construction sights and objects for the federal government needs approved by the Decree of the Government of the Russian Federation from December 31, 2008 No 2058-r and included in the Federal Targeted Investment Program for 2009, it was envisaged to allocate the public investments for the construction at 2444 construction sights, objects and for the fulfillment of measures (table 3). It is planned to put 1186



objects into commission. In 2008 there were 2821 objects financed, and 1354 objects were intended for commissioning.

By May 1, 2009 430 objects have been financed to full extent, 344 objects had the technical readiness from 51.05 to 99.9%. According to the data of the Federal State Statistics Service, as a result of four months of 2009 there were 4 objects of the social complex put into commission.

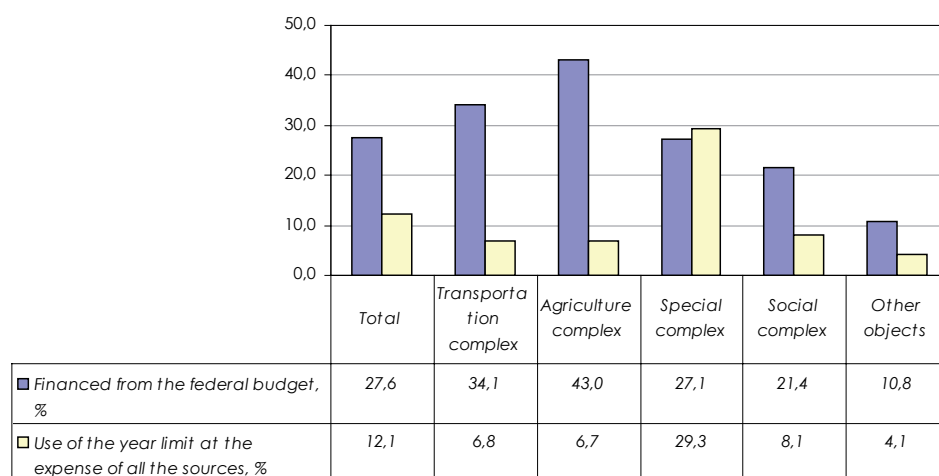
Table 3

OBJECTS ENVISAGED BY TARGETED INVESTMENT PROGRAM AND VOLUMES OF PUBLIC INVESTMENTS FOR 2009 (EXCLUDING CONSTRUCTION SIGHTS AND OBJECTS INCLUDED IN STATE DEFENSE ORDER)

	Number of objects for 2009		Put into Commission in January-April 2009		Limit for the state investments for 2009		Financed from the Federal Budget in January-April 2009	Investments used at the expense of all sources of financing in January-April 2009
	total	including with the deadline in 2008	to full capacity	partially	total	including from the federal budget		
Total	2444	1186			590.4	533.0	147.1	71.7
including:								
transportation complex	282	102	–	–	219.2	214.6	73.2	14.8
agriculture complex	195	105	–	–	8.9	8.6	3.7	0.6
special complex	355	161	–	–	129.9	93.6	25.4	38.1
social complex	1443	702	–	4	217.7	202.2	43.3	17.6
other objects	169	116	–	–	14.7	13.9	1.5	0.6

Source: Federal State Statistics Service

In January-April 2009 there was RUR 147.1 billion of public investments of the year limit financed from the federal budget and RUR 16.8 billion from the budgets of the subjects of the Russian Federation and other sources. In January-April 2009 the budget allotments envisaged to fulfill FTIP were financed at 27.6% of the year limit, which is 5.1 per cent higher than the figures of the corresponding period of the previous year. The state customers used RUR 71.7 billion of the public investments or 13.5% of the year limit of funds envisaged for their construction.



Source: Federal State Statistics Service

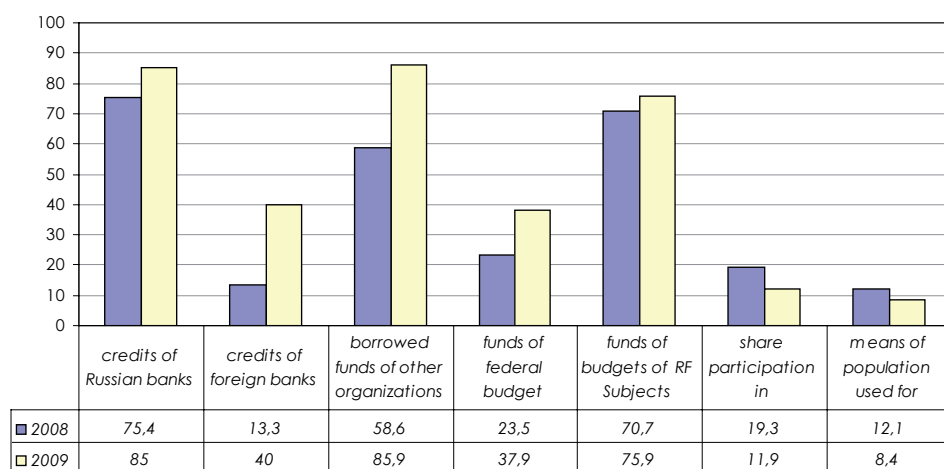
Fig. 2. Level of Financing and Use of Public Investments in January-April 2009

The year limit of the public investments in agriculture and transportation complexes is financed to a considerably higher extent than on the whole throughout the construction sights and objects. In the special complex the budget allotments were financed to approximately average figures, in the social complex – to the level of 21.4%, which is significantly below the average level. The specific feature of the use of the funds is defined by the highest level of the use of investments within the special complex while the figures of the use of the funds within the social and production complexes are significantly below the average.

Contraction of the internal market and the decrease in the economy's revenues defined sharp reduction of volumes and the share of the own funds of the enterprises and organizations in the structure of the sources of financing of the investments in the fixed assets. In the 1<sup>st</sup> quarter 2009 large- and medium-scale enterprises used RUR 381.3 billion for the investment purposes versus RUR 393.5 billion in the corresponding period of the previous year. The shortage of own funds was compensated by the attraction of banking credits and borrowed funds. Out of RUR 552.0 billion attracted in the 1<sup>st</sup> quarter 2009, RUR 125.0 billion or 22.6% was accounted for by the banking credits (fig. 3).

The structure of the banking credits in the sources of financing of the investments in fixed assets was subject to considerable changes. Whereas in January-March 2008 15% of the total sum of the banks' credits was accounted for by the proportion of the foreign banks credits, in the 1<sup>st</sup> quarter 2009 the figure went up to 32%. The increase of the credits of foreign banks in the 1<sup>st</sup> quarter 2009 as compared with the corresponding period of the previous year was 2.7 times higher than the increase in the credits of the domestic banks for the investments in the fixed assets. As a result, the proportion of the foreign investments in the total volume of the investments in fixed assets went up to 6.75 and was RUR 62.9 billion. This trend was formed against the background of the intensification of the net outflow of the capital and the reduction of the volumes of foreign investments. According to a preliminary estimation of the Central Bank of the Russian Federation, in the 1<sup>st</sup> quarter 2009 the net outflow of the private capital made USD 38.8 billion. In the 1<sup>st</sup> quarter 2009 foreign investments made USD 12.0 billion (69.7% on January-March 2008), including the direct investments of USD 3.3 billion (57%).

The shortage of the own funds and slack participation of the domestic banking sector in the financing of the investments in fixed assets accounted for the expansion of the number of borrowing enterprises. In the 1<sup>st</sup> quarter 2009 the volume of the borrowed funds of other



Source: Federal State Statistics Service.

Fig. 3. Structure of Funds Attracted for Financing of Investments in Fixed Assets in the 1<sup>st</sup> Quarter 2008 and 2009, As RUR billion

organizations to finance the investments in fixed assets (insurance and investments companies, trading enterprises etc.) made RUR 85.9 billion and was nearly equal to the volume of credits issued by the domestic banks in the structure of financing of the investments in fixed assets.

The financial crisis determined the characteristic features of the investment behavior of the investors at the market of construction

of residential buildings. In January-March 2009 there was an absolute reduction observed in the funds aimed at the share participation in construction both by organizations and the population. In January-September 2008 the proportion of funds received for share participation in construction made 3.5% of the total amount of the investments in the fixed assets throughout the economy, 1.7% - from the means of the population, in the 4<sup>th</sup> quarter 2008 the figures were 2.9% and 1.0%, correspondingly, and in the 1<sup>st</sup> quarter 2009 – 2.2% and 0.9%.

Low indices of the investment activities of the last quarter of 2008, the increase in the volumes of the unfinished construction, high interest rates and shortage of credits defined unfavorable background for the development of the economy in 2009. As a result of the 1<sup>st</sup> quarter 2009 the volume of the investments in the fixed assets decreased by 15.6% on the whole throughout the economy, and by 5% at large- and medium-scale enterprises. The most dramatic contraction of investments of more than 40% was observed in the segment of small-scale enterprises. The trend for the decrease of the business activity in the economy continuing, in January-May 2009 investments in fixed assets made 82.3% of the figure for the corresponding period of the previous year.

Increase of the proportion of the industry in the structure of investments in fixed assets on the whole throughout the economy as a result of the 1<sup>st</sup> quarter 2009 was accounted for by a sharp deepening of the recession in the agriculture (74.8% versus the 1<sup>st</sup> quarter 2008), communication (75.0%), education (80.9%), health care (93.2%), operations with the real estate (76.0%) (table 4).

Table 4

STRUCTURE OF INVESTMENTS IN FIXED ASSETS BY KINDS OF ECONOMIC ACTIVITY (EXCLUDING THE SUBJECT OF SMALL-SCALE BUSINESS AND THE PARAMETERS OF INFORMAL ACTIVITY), AS PERCENTAGE

	2008	В ТОМ ЧИСЛЕ				2009
		January-March	January-June	January-September	October-December	January-March
Total	100	100	100	100	100	100
including by kinds of economic activities:						
agriculture, hunting and forestry	3.9	3.6	4.3	4.2	3.4	2.9
industry	42.0	46.0	44.7	44.1	38.4	47.1
minerals extraction	16.6	21.6	19.8	18.3	13.7	20.7
of which fossil fuels extraction	15.1	19.9	18.2	16.7	12.6	18.5
processing industries	16.5	18.6	17.6	17.5	14.8	19.1
electricity, gas and water production and distribution	8.9	6.8	7.3	8.3	9.9	7.3
Construction	2.4	3.4	3.8	2.7	2.0	3.2
Wholesale and retail trade; motor vehicles and motorcycles services; repair of household appliances and items of private use	2.7	2.5	2.7	2.7	2.7	2.7
Transportation	21.9	19.1	19.2	20.4	24.2	22.6
Communication	4.1	4.5	4.2	4.1	4.1	3.0
Financial activity	1.2	1.1	1.0	1.2	1.2	1.5
Operations with real estate, rent and services rendering	11.7	12.5	12.1	11.9	11.3	10.2
Education	2.2	1.4	1.7	1.8	2.8	1.1
Public administration and military defense security; compulsory social security	2.0	0.9	1.4	1.6	2.7	1.1
Health care and social services rendering	2.6	1.6	1.9	2	3.5	1.5
Rendering of other utilities, social and personal services	2.9	1.9	2.5	2.8	3.4	2.8

Source: Federal State Statistics Service

Investment activity in the branches of infrastructure is one of the indicators of the growth potential, since the activity in this sector of the economy is mainly aimed at the solution of the promising problems. The reduction of the investments in the development of the railway transport of 38.4% versus the corresponding period of the previous year is a worrying factor of the dynamics of the investments. The absolute decrease in the scales of investments had an extremely negative effect on the adjacent production of investment goods. The amount of orders of joint-stock company "Russian Railways" decreasing over January-May 2009 the production of mainline diesel locomotives dropped by 16.7%, of freight cars – by 56.1%, of passenger cars – by 26.0% versus the corresponding previous of the previous year.

The positive dynamics of investments in transportation was maintained by the increase in financing of priority projects on the development of pipeline transportation. As compared with the 1<sup>st</sup> quarter 2009 investments in pipeline transportation went up by 1.47 times, their proportion in the structure of investments in fixed assets rising from 4.9 per cent to 13.3%. It should be noted that the successful fulfillment of the programs for the development of pipeline transportation is in tight connection with the dynamics of the development of the adjacent productions of metallurgy and machine-building complexes. The sustention of the demand for some kinds of production predetermined that the reduction of the investments in metallurgy production (98.7% on the 1<sup>st</sup> quarter 2008) was less deep than that of investments in the economy and the processing industries.

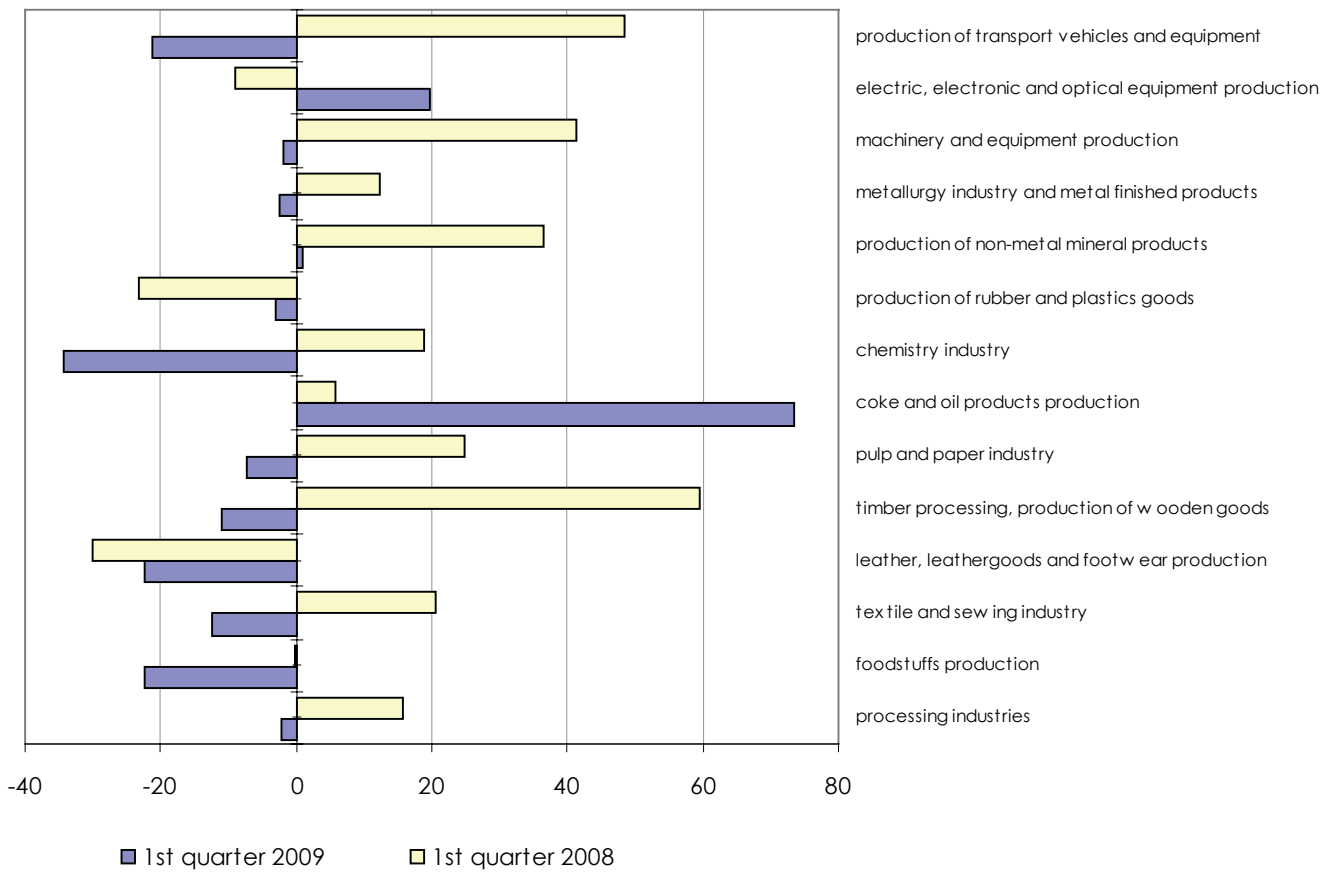
Against the background of sustention of the demand for the trading services in 2006-2008 and in the 1<sup>st</sup> quarter 2009 there was a redistribution of the investments by kinds of activities in the environment of the material and technical base of the retail trade and the trade with motor-vehicles. The investments in retail trade went up by 11.8% as compared with January-March 2008, and those in the trade with motor vehicles remained at the previous level.

Changes in the structure of investments in fixed assets by kinds of economic activities were defined by moderate decrease of the rates in the processing industry (97.8% as on the 1<sup>st</sup> quarter 2008) and the positive dynamics in the electricity, gas and water production and distribution (100.6%). The decrease in the investment activity in the minerals extraction turned out to be deeper in the 1<sup>st</sup> quarter 2009 and made 9.3% as compared with the corresponding period of the previous year.

Despite the reduction of the investments in fixed assets of fossil fuels extraction by 12.2% as compared with the 1<sup>st</sup> quarter 2008 their share in the structure of investments in fixed assets in the industry as a whole retained approximately at the level of the corresponding period of the previous year and made 40%. The efficiency of the investment activity being low in recent years, the unfavorable trends of renewal of mineral and raw materials base evolving together with those of the putting in commission of new fields, the intensification of the rates of investments decrease creates additional obstacles for overcoming of the negative aftermaths of the crisis. The situation is aggravated by the fact that under existing situation concerning world prices for fossil fuels, in the 1<sup>st</sup> quarter 2009 the profitability of their production decreased down to 18.9% versus 32.8% in the corresponding period of the previous year, and the profitability of assets- down to 2.2% versus 4.3%, correspondingly.

In the 1<sup>st</sup> quarter 2009 the proportion of the processing industries in the structure of investments in fixed assets throughout the economy made 19.1% and in the structure of the investments in industry – 40.6%. the contribution into the maintenance of the investment activity in the processing industries was secured due to the increase in investments in oil products production (178.1% as on January-March 2008), in electric, electronic and optical equipment production (119.6%), in pulp, paper and cardboard production (117.2%), in production of construction materials (100.9%) (fig. 4).

## INVESTMENTS IN REAL SECTOR



Source: Federal State Statistics Service

Fig. 4. Changes in Dynamics of Investments in Fixed Assets As Broken By Kinds of Processing Industries in 1<sup>st</sup> Quarter 2008-2009, As Percentage to Corresponding Period of Previous Year

The productions characterized by the deepest recession of the investment activity include chemistry industry (65.7% versus January-March 2008), foodstuffs production (77.6%), leather and footwear production (77.7%), textile production (87.6%) and timber processing and wooden goods production (88.9%).

The analysis of the dynamics and structure of the investments demonstrates that the low proportion of the investments in machine-building is characteristic for the Russian economy. The proportion of the investments in production of investment goods made 2.5% in the 1<sup>st</sup> quarter 2009 and decreased by 0.4 per cent as compared with the corresponding period of the previous year. The change in the proportion of the investments in machine-building was mainly defined by the reduction of the investments in production of transport vehicles by 21.1% versus the 1<sup>st</sup> quarter 2008 and in the production of machinery and equipment – by 2.0%.

Under existing age, technological and reproduction structure of fixed assets low rates of investment in machine-building production is the factor limiting the rates of development of production of final and intermediate goods. The output falling dramatically and the structure of the domestic production of the investment goods being what it is import remains one of the main sources for the renewal of the fixed assets, reconstruction and modernization of the production. It should be noted that even in the acute phase of the crisis investments in the purchase of the import equipment and machinery maintained positive dynamics, which enabled to alleviate the negative effect of the dramatic contraction of the production of machinery, equipment and transport vehicles.

## FOREIGN INVESTMENTS

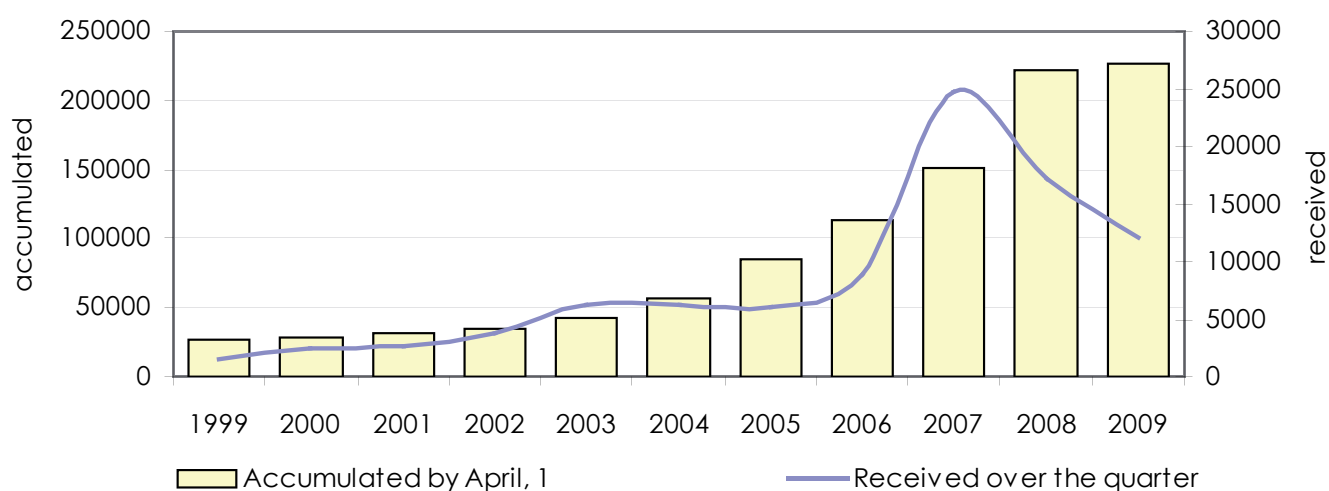
E.Ilukhina

*At the beginning of 2009 the activity of the foreign investments in the Russian economy remained low. The rates of the decrease of the foreign investments in the Russian economy were nearly double of the corresponding figure of the reduction of the volumes of the withdrawn capital. Foreign investments are concentrated in the industry and the field of the trade though the latter is losing its attractiveness. In the industry the foreign investors still have the interest in the processing industries. As to geographic structure the biggest volume of investments coming into the Russian Federation in the 1<sup>st</sup> quarter 2009 was directed from the Netherlands, Luxembourg and Germany, which accounted for 35.9% of the total foreign investments in the Russian economy.*

The volume of foreign investments received in the 1<sup>st</sup> quarter of 2009 by the non-financial sector of the Russian economy not taking into account the bodies of monetary and financing regulations, commercial and saving banks, including ruble investments recalculated in the US dollars made USD 12.0 billion, which is 30.3% below the figure of the 1<sup>st</sup> quarter of 2008.

In the 1<sup>st</sup> quarter of 2009 the volume of withdrawn capital in the form of profit of foreign investors transferred abroad as well as in the form of payments of interest for the use of credits and credits repayments made USD 12.07 billion, which is by 15.3% lower than the corresponding figure of 2008. At the same time, whereas in the 1<sup>st</sup> quarter 2008 82.6% of the volume of the foreign investments received over the same period was withdrawn, in the current year this figure was equal to 100.3%. Besides, for the first time over the last decade the investments from Russia exceeded the volumes of the foreign investments in the Russian economy (the excess is estimated to be 63.7%).

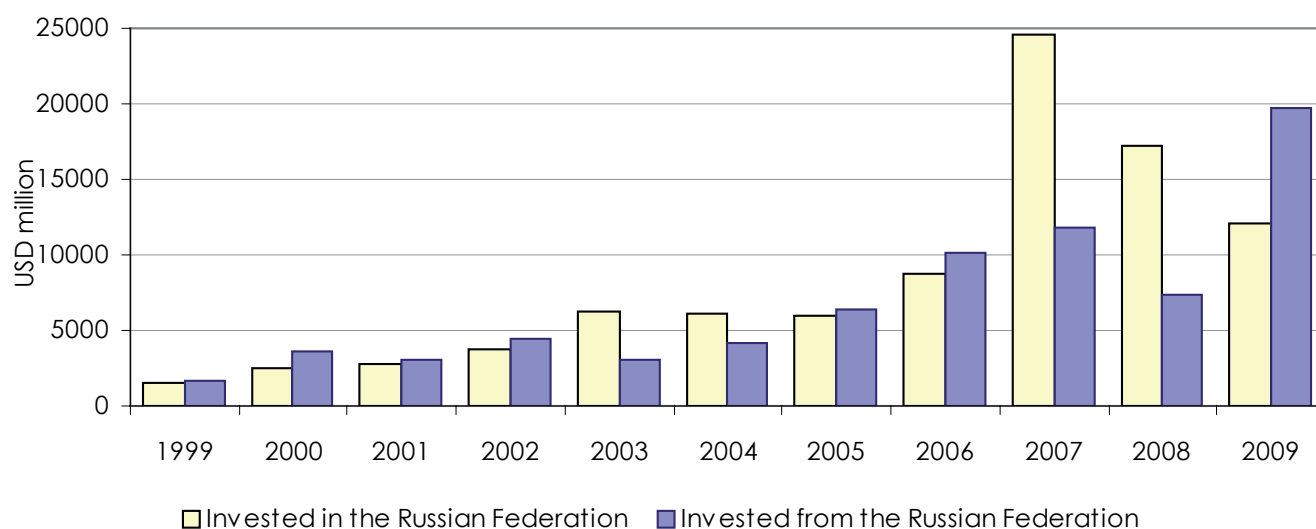
As compared with the previous year the foreign investments decreased in all the directions of their use. The same as in the previous year in relative terms the biggest decrease in the 1<sup>st</sup> quarter this year was observed in the segment of the direct investments, which reduced by



Source: Federal State Statistics Service

Fig. 1 Foreign Investments in the Russian Economy in the 1<sup>st</sup> Quarter 1999-2009, as USD million

## FOREIGN INVESTMENTS



Source: Federal State Statistics Service

Fig. 2 Foreign Investments in the Russian Federation and investments from the Russian Federation Abroad in the 1<sup>st</sup> Quarter 1999-2009

43.0% on the 1<sup>st</sup> quarter 2008 and were equal to USD 3.2 billion. The most dramatic decrease in absolute terms was observed in the segment of other investments: they decreased by USD 2.8 billion down to USD 8.7 billion. In relative terms other investments decreased by 24.4%. Portfolio investments as a result of the 1<sup>st</sup> quarter of 2009 are estimated to be USD 115 million, which is 6.5% below the level of the 1<sup>st</sup> quarter of 2008.

Taking into account deeper drop of the direct investments in the 1<sup>st</sup> quarter of the current year, their share in the structure of the total investments in the Russian economy has reduced.

Table 1

STRUCTURE OF FOREIGN INVESTMENTS RECEIVED BY THE RUSSIAN FEDERATION IN THE 1<sup>ST</sup> QUARTERS OF 2004-2009, AS PERCENTAGE

	2004	2005	2006	2007	2008	2009
Direct investments	23.9	31.9	43.7	39.5	32.4	26.4
Portfolio investments	1.4	1.3	2.6	0.8	0.7	1.0
Other investments	74.6	66.8	53.6	59.6	66.9	72.6

Source: Federal State Statistics Service

Speaking about the direct investments, it should be noted that the decrease by 2.6 times (down to USD 1.7 billion) of the contributions to the authorized capital of the enterprises in the territory of the Russian Federation was a negative factor. Their share in the structure of the direct foreign investments reduced to 52.1% (75.9% in the 1<sup>st</sup> quarter of 2008). The credit constituents of the direct investments has increased by 5.3% up to USD 1.2 billion, which resulted in the increase in the proportion of the credits received from the foreign co-owners of the organization to 37.6% in the structure of the direct investments (20.3% in the 1<sup>st</sup> quarter 2008).

As to the structure by branches, the biggest amount of the foreign investments was directed into the industry, where its proportion has increased up to 52.3%, though in absolute terms the foreign investments in industry decreased by USD 2.1 billion. The second list by the attractiveness for the foreign investors is held by the trade. The foreign investments in this sphere decrease by 2.1 times as compared with the 1<sup>st</sup> quarter of 2008 (by USD 2.9 billion). The

biggest growth of foreign investments (by 3.5 times) was observed in the sphere of transportation and communication.

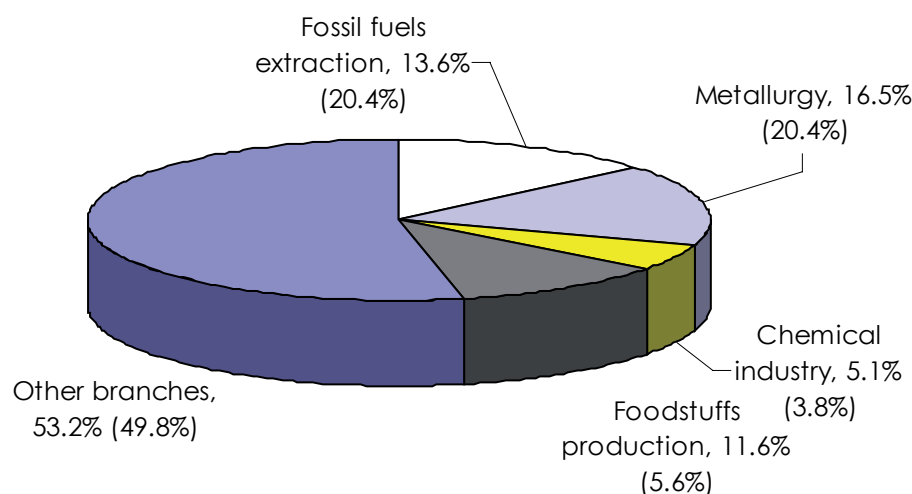
Table 2

STRUCTURE OF FOREIGN INVESTMENTS IN THE RUSSIAN ECONOMY AS BROKEN BY BRANCHES  
IN THE 1<sup>ST</sup> QUARTER 2007-2009

	As USD million			As percentage to the total			Change as percentage to the corresponding period of the previous year		
	2007	2008	2009	2007	2008	2009	2007	2008	2009
Industry	11 899	8 445	6 297	48.3	48.9	52.3	by 2.3 times	71.0	74.6
Construction	272	474	176	1.1	2.7	1.5	by 10.9 times	174.3	37.1
Transportation and communication	2 740	361	1 276	11.1	2.1	10.6	by 3.9 times	13.2	Б 3.5 p.
Wholesale and retail trade	7 895	5 473	2 605	32.1	31.7	21.7	by 4.8 times	69.3	47.6
Operations with real estate, rent and service rendering	891	1779	1 124	3.6	10.3	9.3	by 2.1 times	199.7	63.2
Financial activity	821	513	332	3.3	3.0	2.8	119.2	62.5	64.7
Other branches	106	210	221	0.4	1.3	1.8	13.4	198.1	105.2

Source: Federal State Statistics Service

As a result of the 1<sup>st</sup> quarter of 2009 the decrease in the concentration of the foreign investments in the limited number of branches of industry was observed. The investments in the production of fossil fuels continued to reduce, as a result of the 1<sup>st</sup> quarter 2009 they were equal to USD 858 million, which is half of the figure for the 1<sup>st</sup> quarter of 2008. On the whole foreign investments in extractive industry have reduced by 2.2 times as compared with the 1<sup>st</sup> quarter of 2008 down to USD 1 billion. In the current year the interest of the foreign investors in the Russian processing sector has grown, investments in which went up by 22.0% up to 5.2 billion. Against the background of the reduction of the investments in the metallurgy in the 1<sup>st</sup> quarter of 2009 (by 39.8% down to USD 1.0 billion as compared with the corresponding period of 2008), the growth of investments in other processing industries was observed. Thus, the investments in foodstuffs production increased by 55.2% up to USD 731 million, the investments in coke



Source: Federal State Statistics Service

Fig. 3 Structure of Foreign Investments in Industry by Branches in the 1<sup>st</sup> Quarter 2009 (data for the 1<sup>st</sup> quarter 2008 are given in brackets)

and oil products production doubled and were equal to USD 881 million. Diversified dynamics of the foreign investments by branches of industry resulted in considerable changes in the structure of the foreign investments in industry over the period under examination.

Direct investments in the extraction of the minerals have reduced by 2.6 times as compared with the 1<sup>st</sup> quarter 2008 and were equal to USD 486 million. Other



investments in this branch have reduced by 45.7% over the period under consideration, which has resulted in the reduction of the share of the direct investments in the total investments in the extractive industry from 56.5% to 48.6%, and the growth of the proportion of other investments from 42.3 to 51.4%.

In the 1<sup>st</sup> quarter 2009 direct and other investments increased by 88.5% and by 8.4% on the corresponding figures of the previous year, which resulted in the growth of the share of the direct investments in the structure of the foreign investments in the processing industry from 17.2% to 26.6% and the decrease of the proportion of other investments from 82.6% to 73.3%.

The structure of the foreign investments aimed at the industry in the 1<sup>st</sup> quarter 2009, though it is different from the corresponding structure of the total foreign investments in the Russian economy by higher proportion of the direct investments, are also characterized by higher rates of decrease of direct investments. Direct investments in industry reduced by 2.1 times as compared with the 1<sup>st</sup> quarter 2008, whereas other investments in industry remained almost at the level of the previous year (decrease is equal to 1.8%).

Table 3

FOREIGN INVESTMENTS IN INDUSTRY IN THE 1<sup>ST</sup> QUARTER 2004-2009, AS PERCENTAGE

	2004	2005	2006	2007	2008	2009
Direct investments	35.5	43.2	56.2	70.3	46.0	30.4
Portfolio investments	0.3	2.2	3.5	1.0	1.2	0.1
Other investments	64.2	54.5	40.3	28.7	52.8	69.5

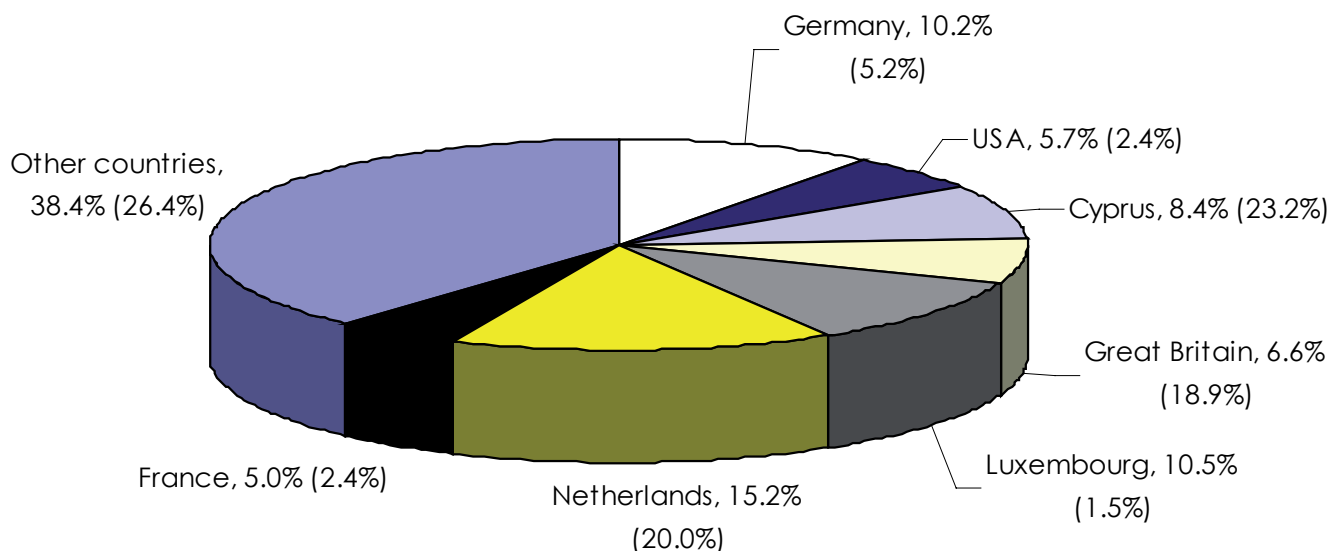
Source: Federal State Statistics Service

In the 1<sup>st</sup> quarter 2009 direct investments in industry made 60.2% of the total direct investments in the Russian economy (69.6% in the 1<sup>st</sup> quarter 2008). The proportion of the portfolio and other investments in the corresponding total figures are estimated to be 5.2% and 50.1% (84.6% and 38.6% in the 1<sup>st</sup> quarter 2008).

In the 1<sup>st</sup> quarter of the current year the changes occurred in the geographic structure of the foreign investments received by the Russian economy. As a result of the 1<sup>st</sup> quarter 2009 the five leading countries investing in the Russian economy consist of the Netherlands, Luxembourg, Germany, the Cyprus and the Great Britain, which accounted for 50.9% of the foreign investments received by the Russian Federation (in the 1<sup>st</sup> quarter 2008 the first five leading investing counties accounted for 71.3%).

In the 1<sup>st</sup> quarter 2009 the Netherlands returned to the leading position in the list of the main investing countries in the Russian Federation (as a result of the 1<sup>st</sup> quarter 2008 the Netherlands held the 2<sup>nd</sup> place), though their investments reduced by 1.9 times as compared with the corresponding period of 2008 and were equal to USD 1.8 billion. Investments in wholesale and retail trade accounted for about USD 1.3 billion (72.5% of the total investments from the Netherlands to the Russian Federation), in the 1<sup>st</sup> quarter 2008 the figure being USD 444 million or 12.9%, which makes 50.9% of the total foreign investments in this branch (8.1% in the 1<sup>st</sup> quarter 2008). In the 1<sup>st</sup> quarter 2008 the main part of the investments from the Netherlands (USD 1.9 billion or 55.7%) was aimed at the production and distribution of electricity, gas and water, which made 97.7% of the total foreign investments in this field.

In the 1<sup>st</sup> quarter 2009 the biggest growth of the investments was observed for the investments from Luxembourg (by a factor of five, up to USD 1.3 billion). The biggest part of the investments from Luxembourg was directed to communications – USD 938 million (74.4% of the total investments from Luxembourg in the Russian Federation) and to foodstuffs production – USD 242 million (19.2%). It should be noted that the proportion



Source: Federal State Statistics Service.

Fig. 4 Geographic Structure of Foreign Investments received by the Russian Federation in the 1<sup>st</sup> Quarter 2009 (data for the 1<sup>st</sup> quarter 2008 are given in brackets)

of Luxembourg in the field of communications was 86.6% of the total investments in this branch, and in foodstuffs production- 33.1%.

Investors from Germany increased the inflow of the capital in the Russian Federation up to USD 1.2 billion at the beginning of 2009, which is 36.0% more than the corresponding figure of the 1<sup>st</sup> quarter 2008. The main fields of interest for the German investors were processing industry and trade, where USD 663 million were directed (54.0% of the investments from Germany to the Russian Federation) and USD 516 million (42.1%).

The figures of investments from France and the USA from Russia also went up: by 44.9% up to USD 600 million and by 63.4% up to USD 688 million, correspondingly.

The most considerable decrease of the investments among the leading investing countries was observed for the Great Britain, they reduced by 4.1 times in the 1<sup>st</sup> quarter 2009 and made USD 798 million. The Cyprus and Ireland also decreased the volumes of their investments in the Russian Federation as compared with the 1<sup>st</sup> quarter 2008 by 4 times and by 2.6 times down to USD 1 billion and USD 142 billion, correspondingly.

This year investors from the Great Britain prefer investing in the processing industry (USD 531 million or 66.5% of the investments from the Great Britain to the Russian Federation), communication (USD 76 million or 9.5%), as well as in electricity, gas and water production and distribution (USD 80 million or 10.0%).

The biggest part of the investments from the Cyprus accounted for the operations with the real estate (USD 244 million or 24.2%) and minerals extraction (USD 176 million or 17.4%). USD 141 million (14.0%) and USD 127 million (12.6%) of Cyprus investments was directed, correspondingly, in the foodstuffs production and trade.

As a result of the 1<sup>st</sup> quarter of 2009 Japan became one of the first ten countries importing capital in the Russian Federation, its investors investing USD 393 million in the Russian economy, USD 282 million or 71.8% of these investments was directed to fossil fuels extraction.

On the whole, as on the end of March of 2009 the volume of accumulated foreign investments in the Russian economy reached USD 226.7 billion, which is 2.6% higher than the figure for the end of March 2008. The biggest growth of the accumulated investments as compared with the data of the end of March 2008 (by 41.9%) is observed for the

investments in Germany. In contrast, as compared with the beginning of the previous year the accumulated foreign investments from Germany decreased by 12.3%.

Table 4

### STRUCTURE OF ACCUMULATED FOREIGN INVESTMENTS AS BROKEN BY THE MAIN INVESTING COUNTRIES

	Accumulated by 01.04.2009, as USD million				Change versus 01.01.2009, as percentage			
	Total	Direct	Portfolio	Other	Total	Direct	Portfolio	Other
USA	7 738	2 917	713	4 108	88.2	91.4	107.7	83.6
Germany	15 285	6 133	9	9 143	87.7	84.3	34.6	90.3
France	8 608	1 775	22	6 811	90.2	92.1	by 22 times	89.5
Great Britain	27 580	3 459	2 222	21 899	89.5	74.4	95.0	91.9
Cyprus	36 282	22 359	1 363	12 560	63.8	54.9	78.9	87.1
Netherlands	44 492	35 062	38	9 392	96.0	97.6	92.7	90.5
Luxembourg	32 690	932	253	31 505	95.0	76.6	92.7	95.7
Other countries	54 067	22 566	816	30 685	89.5	82.1	146.5	67.6
Total	226 742	95 203	5 436	126 103	85.7	77.8	96.6	92.3

Source: Federal State Statistics Service

## STATE BUDGET

I.Sokolov, E.Fomina

*Global financial crisis amended considerably the execution of the state budget in 2009. Since the beginning of the year the strong dependence from the tax earnings from foreign economic activity sustaining, the resources redistributed through the budget system have reduced considerably, at the same time the necessity for the fulfillment of “anti-cyclic” nature of the budget for 2009 envisaged considerable growth of the state responsibility in the current year as compared with the figures of 2008. Despite impressive volumes of accumulated reserves, the budget system of the Russian Federation has objective difficulties with the balance at its different levels.*

### Analysis of Main Parameters for Execution of the Budget of Enlarged Government over January-April 2009

The crisis spreading in the Russian economy, the dynamics of the main parameters of the budget system of the Russian Federation is becoming more and more different from the prevailing trends of the previous year (see table 1). Thus, as a result of four months of 2009 the volume of the revenues of the budget of enlarged government has reduced by 5.4 per cent of the GDP as compared with the corresponding period of 2008, the expenditures, in contrast, increasing by 9.2 per cent of the GDP. And though as a result of four months the budget of the enlarged government was executed with slight surplus of 0.1 per cent of the GDP, there is a high possibility that in the 1<sup>st</sup> half of 2009 the expenditures will exceed the revenues and the deficit will be observed.

Table 1

IMPLEMENTATION OF BUDGET REVENUES AND EXPENDITURES AT ALL THE LEVELS OF ADMINISTRATION IN JANUARY-APRIL 2008-2009 (AS PERCENTAGE OF THE GDP)

	2009		2008		Deviation as percentage of the GDP
	As RUR billion	As percentage of the GDP	As RUR billion	As percentage of the GDP	
<b>Federal Budget</b>					
Revenues	2221.4	19.8	3024.5	24.9	-5.1
Expenditures	2573.2	22.9	1885.3	15.5	+7.4
Deficit (-) /Surplus(+)	-351.8	-3.1	1139.5	9.4	-12.5
<b>Consolidated Budgets of the Subjects of the Russian Federation</b>					
Revenues	1895.4	16.9	1995.3	16.4	+0.5
Expenditures	1599.1	14.3	1435.6	11.8	+2.5
Deficit (-) /Surplus(+)	296.3	2.6	559.7	4.6	-2.0
<b>Budget of the Enlarged Government</b>					
Revenues	4156.3	37.0	5154.8	42.4	-5.4
Expenditures	4140.7	36.9	3361.9	27.7	+9.2
Deficit (-) /Surplus(+)	15.6	0.1	1792.9	14.8	-14.7
For reference: GDP, as RUR billion	11 220		12 153		

Source: Ministry of Finance of the Russian Federation, calculations by IET.

Against the background of unfavorable aftermaths of the global financial crisis and the following recession of the Russian economy, the economy still depending on the price situation at the world goods and raw materials markets and the dynamics of the demand for the energy carriers there occurred a dramatic drop in the budget revenues over the period under consideration.

Over the period under consideration the volumes of earnings decreased most considerably when oil and gas earnings are examined. For instance, the earnings from the severance tax reduced by 2.1 per cent of the GDP as compared with the corresponding period of 2008, the earnings from the customs duties – by 3.3 per cent of the GDP. The main reason for such a reduction is a sharp drop of prices for energy carriers, which effect was accompanied by the decrease in the physical volumes of hydrocarbons (mainly gas) production and export. That is why even more than 30% devaluation of the ruble against the US dollar (average dollar exchange rate over 4 months of the current year was about RUR 33.8 per USD versus RUR 24.2 per USD in January-April 2008) could not prevent the drop of the incomings of the severance tax in the budgets (table 2).

The volume of oil and gas earnings at the beginning of 2009 was also somewhat affected the changes in the administration of the severance tax:

- starting from 2009 the volume of the produced oil is defined in units of net mass for the purposes of taxation;
- the list of the plots for which zero rate of severance tax is applied was expanded. They include: those to the north from the Arctic circle within the borders of the internal sea waters and the territorial seas, on the continental shelf of the Russian Federation, in Azov and Caspian seas, in the territory of Nenetsk autonomous okrug and on Yamal peninsula.

Besides lowering of the oil and gas earnings it was the tax on organizations' profits and VAT for which the biggest reduction of earnings was observed, this is accounted for by the worsening of the financial situation of the Russian enterprises, decrease in the business activity, reduction of incomes from the labor and entrepreneurial activities. Over January-April 2009 the earnings from the tax on profit to the budget of the enlarged government made 4.5% of the GDP in relative terms in contrast to 7.8% of the GDP. The decrease in the earnings from this tax has taken place for the first time since 2003, when the earnings from the tax on profit started to grow steadily (table 2).

The key cause for such a considerable reduction in the earnings from the profit tax was further growth of the proportion of unprofitable organizations in the economy and the reduction of the net balanced financial result of the activity of enterprises and organizations by 70% (in nominal terms). Thus, over the 1<sup>st</sup> quarter 2009 the financial result of the real sector was RUR 366.5 billion, which is 3.6 times lower the corresponding figure over the first quarter 2008. It should be noted that the share of the unprofitable organizations in the total number of organizations increased by 5.2 per cent as compared with the corresponding period of the previous year.

Also, starting with 2009 some amendments and addenda to chapter 25 of the Tax Code of the Russian Federation came into effect concerning the administration of the tax on organizations' profit and the improvement of the situation for the taxpayer, among which it is the increase of the amortization premium from 10 to 30% that has the biggest effect on contraction of the tax base (ascription of a part of the initial value of the fixed assets to the expenditures). Besides, in 2009 the rate of the tax on the organizations' profit was lowered by 4% (earlier 24%) (table 2).

Against the background of the reduction of the earnings from the tax on organizations' profit and severance tax, the volume of the budget revenues from VAT over January-April 2009 decreased but slightly: the reduction of the earnings from this tax to the budget of the enlarged government was not bigger than 0.4% of the GDP, and it should be noted that the reduction

distributed equally between the internal VAT and the tax levied on import. And if the reasons for the reduction of the tax earnings from the taxation of the import goods are obvious, the decrease in the collection of the internal VAT is accounted for by the general slow-down of the business activity and by the change of the procedure for tax administration. Thus, whereas in January-April 2008 the internal VAT for December 2007 and the 1<sup>st</sup> quarter of 2008 was paid to the budget, in the first four months of 2009 the payments of VAT to the budget were made within the framework of installment payment for the 4<sup>th</sup> quarter 2008 and the 1<sup>st</sup> quarter 2009 (table 2).

The increase in the volume of earnings from the incomes tax on natural persons which was equal to 4.2% of the GDP in the first four months of the current year, which is 0.4% of the GDP more than the figure for the corresponding period of the previous year should be noted. In our opinion the growth of earnings in relative terms does not give evidence for the improvement in the collection of the tax but is due to the anticipating rates of the reduction of the GDP as compared with the rates of the reduction of the personal incomes. Thus, according to the preliminary estimation, the real disposable incomes of the population (profits deduced by the compulsory payments corrected by the index of consumer prices) reduced only by 1.0% in January-April 2009 versus the corresponding period of 2008. at the same time, in 2009 a number of privileges contracting the taxation base for the tax on incomes of natural persons came into effect: the amount of the deduction for a child was increased up to RUR 1000, the sum of the income over the year under which such a deduction is applied was also increased (up to RUR 280 000); the sums of payments for education of employees and the compensation for the employees for the purchase and construction of the housing were exempted from the taxation. The acceleration of the decrease rates of the level of personal incomes expected in 2009 in combination with the privileges mentioned should result in the contraction of the base for the incomes tax on natural persons.

Table 2

DYNAMICS OF THE LEVEL OF TAX BURDEN AND INCOMINGS OF THE MAIN TAXES IN BUDGET OF THE ENLARGED GOVERNMENT OF THE RUSSIAN FEDERATION IN JANUARY-APRIL 2008-2009, AS PERCENTAGE OF THE GDP

Level of tax burden (1+2+3)	2009	2008	Deviation as percentage of the GDP
		34.9	41.9
Tax earnings (1), including:	26.6	30.6	-4.0
tax on organizations' profits	4.5	7.8	-3.3
incomes tax on natural persons	4.2	3.8	+0.4
single social tax*	2.3	1.9	+0.4
value added tax	6.0	6.4	-0.4
excises	0.9	0.9	0.0
severance tax	2.3	4.4	-2.1
Insurance fees for the compulsory pension insurance (2)	2.8	2.5	+0.3
Profits from foreign economic activity (3)	5.5	8.8	-3.3

\* not taking into account the contributions into compulsory pension insurance

Source: Ministry of Finance of the Russian Federation, federal State Statistics Service, IET's calculations.

As to the management for the expenditures in 2009, the Government of the Russian Federation used the principle of the anti-cycle budget policy as a basis. The reduction of the revenues at the beginning of the year being obvious, there was no reduction in the expenditures observed. Thus, the Government demonstrates its intention to fulfill the social liabilities to the full extent. Nevertheless, already as a result of 4 months of 2009 there are notable changes in the structure of the expenditures by the directions of their use: there is optimization of the

expenditures for investment purposes observed along with the allocation of additional funds for the social support of the population and provision of the business functioning.

The expenditures of the budget of the enlarged government made 37.2% of the GDP over January-April 2009 versus 27.7% of the GDP in 2008 (table 3).

Table 3

EXECUTION OF BUDGET OF ENLARGED GOVERNMENT CONCERNING EXPENDITURES OVER  
JANUARY-APRIL 2009, AS PERCENTAGE OF THE GDP

	January-April 2009		January-April 2008		Deviation as the percentage of the GDP
	as RUR billion	as percentage of the GDP	as RUR billion	as percentage of the GDP	
Expenditures, total	4 140.7	37.2	3 361.9	27.7	+9.5
including					
General state issues	377.6	3.4	370.1	3.0	+0.4
Including for the state and municipal debt service	81.0	0.7	69.1	0.6	+0.1
National defense	337.5	3.0	274.0	2.3	+0.7
national security and law enforcement	354.6	3.2	294.7	2.4	+0.8
National economy	631.4	5.6	389.2	3.2	+2.4
housing and communal services	196.9	1.8	173.5	1.4	+0.4
Environment protection	7.1	0.1	5.4	0.04	+0.06
Education	466.4	4.2	400.9	3.3	+0.9
Culture, cinematography, mass media	82.8	0.7	73.1	0.6	+0.1
Health care and sport	429.7	3.8	369.2	3.0	+0.8
Social policy	1254.7	11.2	990.5	8.2	+3.0

Source: Report on the execution of the consolidated budget over January-April 2008-2009, the Treasury of the Russian Federation, IET calculations

Considerable volumes of the financing account for the article “National economy”: 5.6% of the GDP in 2009 versus 3.3% of the GDP in 2008. The financing by the article “Social policy” has reached a record-breaking level over the first four months of the current year, which makes 11% of the GDP versus approximately 8% of the GDP in 2008. Besides, the substantial amount of the government means are traditionally directed to financing of the articles “National defense”, “National security and law enforcement”. The liabilities of the state to finance these purposes were executed at the volume of 3.0% of the GDP and 3.2% of the GDP, correspondingly, which is 0.7-0.8 per cent higher than the figures of 2008 for each of these directions.

### Execution of the Federal Budget of the Russian Federation in January-May 2009

According to the preliminary estimations of the Ministry of Finance of the Russian Federation the revenues of the federal budget over January-May 2009 were equal to 18.6% of the GDP, which is 5.4 per cent lower than the figure of 2008, while the expenditures exceeded the level of the previous year by 6.7 per cent of the GDP and reached the level of 22.2% of the GDP. Such a considerable increase in the expenditures is due to the implementation of the anti-crisis measures that are to be fulfilled in 2009 as well as considerably lower volume of the GDP in nominal terms in the current year.

The key reason for the reduction of the volume of the profits of the federal budget in the period of 2009 under consideration both in the absolute and in the relative terms as compared with the corresponding period of the previous year is the reduction of the oil and gas revenues

in the budget. It should be noted that while the volume of the incomings of severance tax and the profits from the foreign economic activities depend directly on the dynamics of the world prices for hydrocarbons as well as on the rates of their production and the level of ruble exchange rate, the rates of the structural (not oil and gas) earnings is due to the current situation in the national economy and the expectations concerning its development throughout the year. The aftermaths of the financial crisis had a negative effect on the situation in the sectors of the Russian economy, leading as a result to the reduction of not oil and gas revenues of the federal budget.

It should be noted that if one deduces the total investment profits of the Reserve Fund and the Fund for the National Welfare at the amount of RYR 205.1 billion and RUR 63.4 billion, correspondingly, as well as the interests on the deposits of the Fund of the National Welfare paid in April to the Vnesheconombank at the amount of RUR 4.1 billion, from the revenues of the federal budget, the volume of the resources of the federal budget will turn out to be significantly lower than over the corresponding period of 2008.

Table 4

 MAIN PARAMETERS OF THE FEDERAL BUDGET OF THE RUSSIAN FEDERATION  
 IN JANUARY-MAY 2009

	January-May 2009		January-May 2008		As percentage to the revenues and expenditures of the budget	Deviation	
	As RUR billion	As percentage of the GDP	As RUR billion	As percentage of the GDP		As RUR billion	As percentage of the GDP
Revenues, including:	2 640.5	18.6	3700.2	24.0	39.3	1059.7	-5.4
Oil and gas revenues	921.4	6.5	1348.8	8.8	44.8	427.4	-2.3
Allocations to the Reserve Fund and to the Fund of the National Welfare (Stabilization fund)	0	0	0	0	0	0	0
Expenditures, including:	3151.2	22.2	2388.5	15.5	32.3	762.7	+6.7
expenditures for interests payments	76.8	0.5	65.8	0.4	32.7	11.0	+0.1
excluding expenditures for interests payments	3074.4	21.6	2322.7	15.1	32.2	751.7	+6.5
Surplus of the federal budget	- 510.7	- 3.6	1311.7	8.5	16.7	-801.0	-12.1
Deficit not connected with oil and gas	-1432.1	-10.1	-37.1	-0.2%	28.0	-1395.0	-9.9
Estimation of the GDP	14219		15390				

Source: Ministry of Finance of the Russian Federation, IET calculations

It should be noted that over January-May 2008 the federal budget was executed with surplus of 8.5% of the GDP, while its execution over the corresponding periods of the current year turned out to have deficit (of -3.6% of the GDP).

Table 5 demonstrates the dynamics of earnings and expenditures of oil and gas funds over January-May 2009. The volume of means in the Reserve Fund was equal to 9.7% of the GDP in ruble equivalent, while the total amount of the oil and gas funds reached nearly 16% of the GDP. The total amount of earnings over 5 months of 2009 to the Reserve Fund of the Russian federation and to the Fund of the National Welfare made RUR 275.1 billion, while the financing of the budget deficit used nearly RUR 1.4 trillion. At



present the Reserve Fund is the main “warrantor” of the financial stability of the country’s budget system.

Table 5

DYNAMICS OF FORMATION AND USE OF OIL AND GAS REVENUES OF FEDERAL BUDGET IN  
JANUARY-MAY 2009, AS RUR BILLION

Index	Remainder of the funds by the end of 2008	Established by the budget 2009	Received over January-May 2009	Used over January-May 2009		Remainder of the funds by the end of May 2009
				to provide the balance of the federal budget	to provide for oil and gas transfer	
Oil and gas revenues of the federal budget	x	2 057.2	921.4			x
Directions of use of oil and gas revenues:	x	x				x
• Oil and gas transfer	x	2 531.1			921.4	
• Reserve fund	4 027.6	5 147.5	205.0	1 260.0	133.2	3 127.9
• Fund of National Welfare	2 584.5	x	70.1	–	–	2 784.1
Total	6612.1	x	1196.5	1260.0	1054.6	5912.0

Source: Federal Treasury

The cash execution of the expenditures of the federal budget became slightly more uniform over January-April 2009, though the reached indices of execution do not give grounds to speak about the proper rhythm of spending of the budget funds throughout the year (see table 6). The use of the federal means forestalls the dynamics of the last year for the majority of articles, and this is especially true for the budget expenditures of social direction. However, in contrast there occurs a slow-down of execution for a number of articles. Thus, the reduction of 1.5 per cent and 0.8 per cent occurred for the articles Housing and communal services and interbudgetary transfers, correspondingly.

Table 6

CASH EXECUTION OF FEDERAL BUDGET OVER JANUARY-APRIL 2009 (AS PERCENTAGE TO  
BUDGET REVENUES AND EXPENDITURES)

	January-April 2009	January-April 2008
Expenditures, total	26.3	25.5
including		
General state issues	23.5	22.2
Including for the state and municipal debt service	29.1	31.2
National defense	27.7	27.4
national security and law enforcement	28.2	28.1
National economy	24.1	17.8
housing and communal services	11.6	13.0
Environment protection	21.6	22.2
Education	23.9	22.5
Culture, cinematography, mass media	24.7	24.2
Health care and sport	19.8	17.4
Social policy	28.0	25.6
Interbudgetary transfers	28.5	29.3

Source: Ministry of Finance of the Russian Federation, IET calculations

**Main events in the field of budget policy in June 2009:**

1. On June 22, 2009 the Government of the Russian Federation submitted to the State Duma of the Russian Federation the bill “On making changes to the Budget Code of the Russian Federation and article 45 of the Federal Law “On the Central Bank of the Russian Federation (Bank of Russia)”, according to which the deadline for submission of the project of the federal budget to the State Duma of the Russian Federation is postponed for more than a month – to October, 1 instead of August, 26 as at present. Besides, it is suggested to reduce the period for consideration of the project of the federal budget: 20 days from the moment of submission of the bill to the State Duma by the Government of the Russian Federation for the first reading; 25 days from the moment of adoption of the first reading of the bill for the second reading; 5 days from the moment of adoption of the bill in the second reading for the third reading.

2. On June 17, 2009 at a regular meeting of the Federal Assembly the Federal Law “On making changes to the Federal Law “On the federal budget for 2009 and for the planning period of 2010 and 2011” was adopted, according to which the procedure for provision of the state guarantees of the Russian Federation for credits attracted by backbone enterprises and strategic organizations of defense industry complex. For instance, the period of validity of the state guarantee after the completion of the period for the credit repayment is reduced from 2 years to 70 days, the requirements of the execution of the state guarantee at the amount not exceeding 90% of the sum of the principal’s unsettled liabilities on the repayments of the unpaid (uncleared) sums of the credit after the full realization of the rights by the crediting bank by other than state guarantees on execution of the principal’s liabilities according to the credit agreement. These changes represent a forced measure since the existing mechanism for provision of the state guarantees proved to be ineffective.

3. In the program of anti-crisis measures of the Government of the Russian Federation signed on June 19, 2009 of the prime minister of the Russian Federation, Vladimir Putin, defined 7 priorities, which would guide the Government of the Russian Federation in the forthcoming years. These are:

1) The execution of the social responsibilities of the government towards the population and the development of the human potential. The expenditures of the federal budget for these purposes including the expenditures for wages, scholarships, medicines, pensions that are regulated by the standards will make RUR 4365.4 billion, which exceeds the level of 2008 by 30.4%;

2) The support and development of the industrial and technological potential for future growth;

3) The stirring up of internal demand for the Russian goods as a basis for the recovery of the economic growth. The important role in this question is played by the government which through the system of public investments and purchases is to expand the demand in the spheres of house building, development the transportation infrastructure, state defense order;

4) The stimulation of innovations and structural reorganization of the economy;

5) The creation of favorable conditions for the economic growth due to the improvement of the most important institutes of the market, removal of the barriers for entrepreneurial activity;

6) The formation of a powerful financial system as the reliable basis for the development of the national economy;

7) The provision of the macroeconomic stability, preservation of the trust of the Russian and foreign investors.

4. During June 2009 the Ministry of Finance of the Russian Federation officially stated its position concerning the following issues:

1) It is expected that the export duty rates for oil and oil products can become approximate starting with 2011. When the export duty for oil products is significantly lower than that for oil, the companies rectify oil to low-octane petroleum, bitumen and furnace oil using cheap and primitive technology. As a result huge volumes of raw materials that could be further processed are supplied to export. In order to prevent such a procedure and to stimulate further processing of oil in the country the Ministry of Finance of the Russian Federation has decided to introduce unified export duties for oil and products of its rectification.

2) The Ministry of Finance of the Russian Federation connects the earning of additional funds to the budget system of the country with:

- Increase of severance tax rate for natural gas starting with 2010, which will make for additional RUR 50 billion;
- Reconsideration of state duties (the effect is also estimated at the level of RUR 50 billion);
- Indexation of excised for alcohol and tobacco (additional earnings of RUR 10-15 billion).

3) It is planned to introduce the tax on real estate in a number of regions of the Russian Federation starting with 2012. The tax will be local, unite the existing taxes on land and real estate. The rate of the tax will make 0.5-2.0% at discretion of local authorities. In the opinion of a deputy minister, S. Shatalov, the introduction of the tax on real estate is aimed at the promotion of just distribution of the tax burden.

4) In order to stimulate the citizens' investments in stocks and other securities it is suggested to introduce tax deduction of up to RUR 1 million for the incomes received from the investments at the stock market.

5) It is planned to increase the limit for investment tax credit for the companies fulfilling investing projects from 30% of the sum of the tax currently in effect to 100%, and to apply the tax deferments: for the period of one year according to the decision of the Ministry of Finance of the Russian Federation, for the period of up to three years – according to the decision of the Government of the Russian Federation.

6) It is suggested to increase the limit for the simplified taxation of the small business to RUR 60 million instead of RUR 30 million currently in effect. This measure is temporary (introduced for three years) and is included in the list of anti-crisis measures to support the small business.

### **Analysis of Execution of Budgets of Subjects of the Russian Federation over January-April 2009**

The volume of the revenues of the consolidated budget of the subjects of the Russian Federation taking into account gratuitous transfers from the federal budget reached 16.9% of the GDP in January-April 2009, which is 0.5 per cent above the figure of the corresponding period of 2008 (see table 1). The execution of the budgets of the subjects of the Russian Federation concerning the expenditures over January-April 2009 made 14.3% of the GDP versus 11.8% of the GDP in the corresponding period of 2008.

The aftermaths of the crisis have different consequences in the regions. The post-crisis phenomena affected to a high extent the regions that have started to make large investments in recent years, directing to them a significant part of the government allocations. At present they have to optimize the volumes of expenditures in order to prevent the budget misbalances and guarantee the fulfillment of the social liabilities towards the population in 2009.

The regions that actively pursued the policy of the debt refinancing in 2008 found themselves in still more difficult position. In a number of cases the amount of the yearly borrowings could reach 20-30% of the expenditures of the regional budget, a half of the means being aimed at the refinancing of other debts. According to the preliminary data of the Ministry for Regional Development, at the beginning of May approximately 20 regions of the Russian Federation had quite a difficult situation with debts, 10 of them entering real debt crisis.

The situation with the provision of the regional budgets with finances is aggravated by the reduction of tax earnings and the growth of debts. The subjects of the Federation have to pay more and more attention to find the reserves to reduce the expenditures, which seems to be hopeless, since the expenditure have been increasing at high rates over the recent years..

Table 7 and table 8 represent the rating of five most and least “financially stable” subjects of the Russian Federation as a result of the consideration of consolidated budget in January-April 2009. The dynamics of the revenues incomings to the consolidated budget act as a criterion of balance of the regional budget in table 7, and cash execution of the budgets of the subject concerning the expenditures over 4 months of 2009 relative to the volumes established for the year – in table 8.

The situation with the filling of the resource part of the budget is most unfavorable in Krasnoyarsk krai, Khanty-Mansi autonomous okrug, Chelyabinsk oblast, Kemerovo oblast and Moscow: nominal reduction of the incomings of the revenues in the consolidated budgets of the regions ranged from 18% to 27% versus the incomings of resources in 4 months of 2008 (table 7), whereas the decrease in the incomings on average throughout Russia did not exceed 5%. However in January-April 2009 come correction of the situation with the resources of the regional budget was observed as compared with the figures for the 1<sup>st</sup> quarter of the year, which was accounted by the receipt of the financial aid from the federal budget in April, which alleviated the situation a bit.

*Table 7*

EXECUTION OF REVENUE PART OF CONSOLIDATED BUDGETS OF SUBJECTS OF THE RUSSIAN FEDERATION IN JANUARY-APRIL 2009

Regions	Executed in January-April 2009, as RUR billion	increase on 2008, as percentage
Regions with the biggest growth of revenues part of the budget		
Sakhalin oblast		
Revenues	31.6	89.9
Surplus	18.5	258.5
Republic of Chechnya		
Revenues	18.6	88.8
Surplus	3.9	114.3
Republic of Dagestan		
Revenues	23.0	49.5
Surplus	7.1	98.7
Republic of Kabardino-Balkaria		
Revenues	82.9	37.7
Surplus	24.8	114.7
Tambov oblast		
Revenues	11.2	34.6
Surplus	3.6	47.3
Regions with the biggest reduction of the revenue part of the budget		

Table 7, cont'd

Regions	Executed in January-April 2009, as RUR billion	increase on 2008, as percentage
Krasnoyarsk krai		
Revenues	37.2	-27.4
Surplus	-3.9	-122.9
Moscow		
Revenues	34.1	-26.3
Surplus	1.0	-93.7
Khanty-Mansi autonomous okrug		
Revenues	48.7	-20.3
Surplus	13.9	-19.9
Chelyabinsk oblast		
Revenues	28.2	-18.8
Surplus	5.7	-52
Kemerovo oblast		
Revenues	31.2	-18.2
Surplus	4.9	-56.8

Source: Federal Treasury

According to the criterion of the evenness of execution of the budget in the part of expenditures of the subjects of the Russian Federation over 4 months versus the adopted volumes for 2009 it is the budgets of the Republic of Kalmykia, Republic of Chechnya, Republic of Ingushetia, Magadan oblast and Republic of North Osetia – Alania that are the most intensively executed. In January-April the volume of the executed liabilities in these subjects of the Russian Federation reached 35-46% of the volumes planned for the year. For reference, the average figure for the execution of the budgets in the part of expenditures did not exceed 26% of the volume planned for the year.

Table 8

EXECUTION OF EXPENDITURES OF CONSOLIDATED BUDGETS OF SUBJECTS  
OF THE RUSSIAN FEDERATION IN JANUARY-APRIL 2009

Regions	Executed in January-April 2009, as RUR billion	As percentage of the volume adopted in 2009
Regions with the highest rates of execution of the budget		
Republic of Kalmykia	2.5	35.6
Republic of Chechnya	14.6	35.2
Republic of North Osetia – Alania	5.9	46.4
Republic of Ingushetia	3.9	40.9
Magadan oblast	5.2	34.6
Regions with the lowest rates of execution of the budget		
Tyumen oblast	26.3	15.7
Khanty-Mansi autonomous okrug	34.8	17.2
Kaliningrad oblast	7.9	19.0
Saint-Petersburg	77.8	19.2
Nizhny Novgorod oblast	27.8	20.4

Source: Federal Treasury.

The sharp slow-down of the growth rates of the regional budgets is primarily connected with the drop of the earnings from the tax on the organizations' profit as a consequence of the contraction of the taxation base, that is the profit of organizations itself. Thus, in the environment of the slow-down of the economic activity from the beginning of 2009 the drop of the industrial production and construction works is observed in more than 60 subjects of the Russian Federation. In April 2009 the most dramatic decrease of the production occurred in Kaliningrad, Orel, Nizhny Novgorod and Chelyabinsk oblasts, in Moscow (by more than 30% as compared with the figures of the corresponding period of the previous year). The main reasons for these were the decrease of the demand and correspondingly the prices for the enterprises' production, slow recovery of the possibilities of the credit organizations concerning rendering of acceptable conditions and the volumes of credits.

It should be noted at the same time that in a number of regions industrial production, in contrast, went up. In April 2009 the growth of the production was observed in 18 subjects of the Russian Federation (in March – in 16 regions), and only in 5 regions the growth of production was observed during all the months of 2009, they are the Republic of Dagestan and Ingushetia, Amur and Sakhalin oblasts, Nenetsk autonomous okrug.

Moreover, the contraction of the volume of the earnings on profit was influenced by the fact that the regions had to return a part of the tax that was paid by the enterprises in advance.

As to the tax on individuals' income, which is the second important tax for the regional budgets, the earnings from it over 4 months of 2009 in the consolidated budget made 4.2% of the GDP, which is by 0.4 per cent higher than the figures of 2008. Some growth of incomes was possible owing to the most stable regions. Thus, the growth of real monetary incomes in 32 subjects of the Russian Federation as a result of 4 months of 2009 (over the 1<sup>st</sup> quarter – also in 32 subjects) had some influence on the earnings from the tax to the regional budgets of the country.

The growth of the index of the real monetary incomes of the population was observed in the following regions: the Republic of Tuva – 124.4%, Republic of Adygea – 121.6%, Amur oblast – 121.1%, Republic of Kalmykia – 121%, Moscow – 112.6%. The decrease of the real monetary incomes was observed in 50 regions (in 48 regions in the 1<sup>st</sup> quarter), including the Republic of Altai, where the real monetary incomes were 63.1%, in Republic of Mordovia (66.8%), in Nenetsk autonomous okrug (70.1%), in Ulyanovsk oblast (82.5%).

Federal support for the subjects of the Russian Federation was directed towards the stabilization of the situation at the labor market by the joint work on the fulfillment of the programs for assisting of the employment of the population and the measures for the social support of the unemployed, as well as the support for the real sector of the economy. The support was provided in the forms of subsidies (10 regions received subsidies of the total volume of RUR 2.4 billion). The employment programs were financed with RUR 43 billion from the federal budget.

In addition to these measures there is funding of the interest rates for credits of the enterprises of the real sector envisaged at the regional level in 69 regions, and the provision of the state guarantees - in 57 subjects of the Russian Federation.

The deficit of regional budgets was covered by the remainders at the accounts of the subjects of the Russian Federation by the beginning of 2009 in the amount of RUR 416 billion, as well as by the funds of the federal budgets (RUR 300 billion). For instance, the federal budget gives the regions credits for RUR 150 billion at the rate of 1/3 of the refinancing rate of the Central Bank of the Russian Federation.

Thus, there are grounds to expect that in 2009 against the background of the contraction of the tax earnings in the regional budgets of the country together with the inevitable growth of the expenditures (and primarily the current expenditures) the financial soundness of the budgets will be defined by the reasonable regional policy of the federal center. ●

## MIGRATION PROCESSES

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*As in all countries of the world, in Russia migration processes and the crisis are closely interrelated. However, these correlations do not match a standard pattern: a crisis - the increasing problem of unemployment - the redistribution of jobs held by migrants before the crisis in favor of the local population - «not demanded» migrants come back to their countries.*

To make significant number of migrants to leave Russia and come back to their native countries, they should be both, not in demand of the Russian employers, and be in any demand at home. In practice, there is an explicit trend for the «migrant» labor to be in demand in the shadow or semi-shadow sectors of the economy, which is formed not only under the influence of traditional macro-economic factors; many of «not quite compliant employers» in these sectors still have benefits from hiring illegal migrants, and to a lot of them in the current situation it is even more profitable than before.

The relatively liberal procedures for the legalization of migrants labor, developed in Russia within 2007-2008, become difficult to implement as a result of «counter-crisis» measures, taken in regard to migration. At least, the tendency to tighten the law and enforcement are observed again. Therefore, on the one hand, once again strong reasons for more workers to go «to the shadow», on the other hand, there is a crisis in the construction industry, where the share of illegally employed migrants was very high, has contributed to their transfer to the «legal segments» of the labor market (e.g., in the sector of housing and public facilities). In addition, the experience of 2008 and the rapid exhaustion of quotas in a number of the most attractive regions for migrants in early 2009 has contributed to the growth of official migrants inflows as compared with the relevant period of preceding year<sup>1</sup>. At the same time, the crisis has affected countries of the CIS, which are the main suppliers of labor force to Russia, no less strongly than Russia. As a result, the already weak and dependent economy of the Central Asian countries faced with the «export» in unemployment and can not resist this process.

Even more than before, Migration statistics fails to record the real processes in this area. Therefore, analyzing it, one should realize that it reflects only the «the top of the iceberg», the overall dimensions of which are not defined. The crisis has increased the scope of the statistical inconsistency, which was urged by a number of circumstances:

- predominance of «employer market» over the «employee market» has led, among other things, to the increased share of unofficial employment (Population survey data on employment: as early as in the first phase of the crisis in Russia, in November 2008, the share of employment in the informal sector was 19.3 per cent, whereas a year earlier, in November 2007, it was 17.1 per cent<sup>2</sup>). Even more often than earlier, migrants, apparently less protected, than the local population, are getting more often in the trap of illegal employment due the reluctance of employers to legalize their employment;
- amendments in the legal procedure of work permits for foreign citizens, made by the Federal Migration Service as «anti-crisis measures» in response to the criticism of

1 The inflow of labor migrants to Moscow has increased by 17% / BFM.ru, 03.03.2009.

2 Population survey on employment. Russian Statistical Service. May, November 2008.

opponents of the lack of enforcement of migration policy in the situation of crisis. The main point of those amendments is the following: the person, who arrived to Russia from visa-free countries and completed the immigration procedure for foreign workers, now can get a work permit not for a year term (maximum), as earlier, but only for 90 days, during which he should find a job and enter into a contract with the employer for at least 1 year. After that the migrant has to appeal to FMS again and the work permit can be extended for the remainder of the year deadline. Formally the «rule 90 days» is introduced to reduce the number of labor migrants, who have come to Russia under visa-free regime, but who are unable to find a job here due to the crisis. In fact, this approach is disputable in legal terms: the employers, reluctant to legalize their employees before, even less willing to enter into labor contracts, thus increasing the segment of irregular migration and informal employment.

Russian Statistical Service data on population migration are very unreliable indicators of the current crisis. In January-April 2009 migration growth in Russia has declined as compared with the relevant period of the last year, only 1,1 per cent. There are nearly no significant changes in the data on the arrivals to Russia: a decrease by 3.8 per cent is noted here. Statistics of departures from the country demonstrated a gradual decline, which is typical for Russia for a long time, and in no way is associated with the current crisis. The downfall in departures by 22 per cent, but there is nothing to bother about: for instance, the reduction of departures within the pre-crisis 2006 versus the indicator of 2005 was almost two-fold. Reduction in departures to foreign countries has reached 10 per cent and tends to zero, which, incidentally, demonstrates the inadequacy of the procedures of statistical observation, rather than the actual scale of the process.

All those factors demonstrate the growing inadequacy of statistics on the actual situation, on the changing format of the Russian employees involvement in global processes (work under labor contracts, training and research programs abroad, the widespread introduction of the telecom and IT structures), rather than the unusual type of the current crisis (during the previous one, of August 1998, when migration flows responded by the doubtless growth of departures from Russia to foreign countries and the decline in the number of arrivals).

In the absence of any reliable current statistics of migration flows, one of the indirect indicators of the crisis is the statistics of cross-border financial transactions of physical persons. As before, the cash flows coming from Russia to the CIS and other countries, are incomparable in terms of mass: according to the Central Bank, in 2008 the volume of monetary transfers to the foreign countries was 1.9 times higher than the volume of transfers to the CIS countries. But as it is, the dynamics of monetary transfers to the CIS countries rather expressly reflects the crisis situation (Fig. 1).

Pre-crisis monetary transfer dynamics, typical, for instance, for 2007, has been gradually ascending since the first Quarter of the year, when the traditional seasonal decline in wages was accompanied by the departure of migrants to their native countries, until the IV-th Quarter. The second half of 2008 was marked by unusual dynamics; the amount of monetary transfers in the IV quarter was almost 25 per cent lower than in the III Quarter. In addition, if earlier the volume of transfers was growing from year to year, in early 2009 that trend was interrupted as well: in the I quarter the amount of the transfers was by one third lower than a year ago, in the first quarter of 2008. The average amount of monetary transfers from Russia to CIS countries has decreased by nearly by 1.4 times. Those facts clearly demonstrate the Russian crisis and its expansion to the CIS countries, closely linked with Russia in terms of human and monetary flows.

However, the decline in monetary transfers could be partly explained by the changed channels the ways of transfer from bank transfers in favor of money self-delivery. At the end of



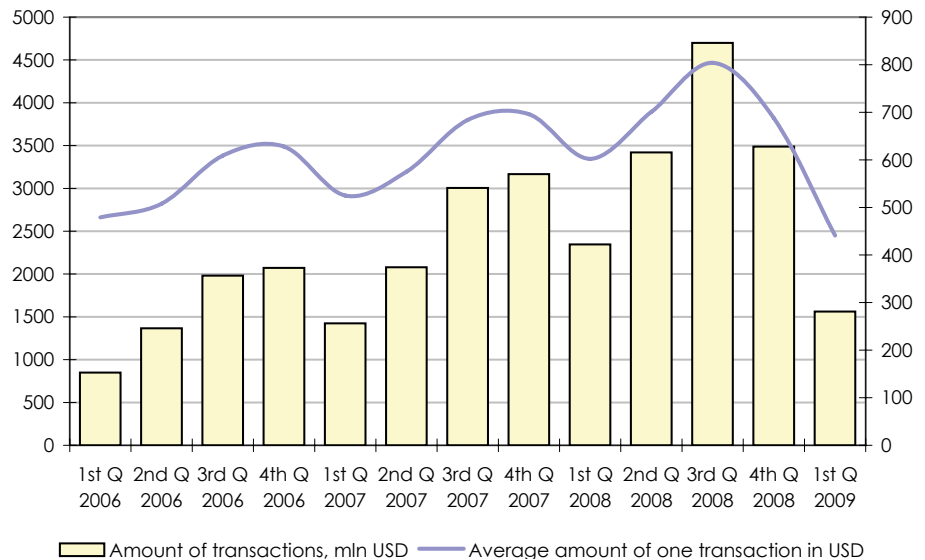
the last year, according to the estimates of the FMS of Russia, the departure of labor migrants from Russia to Armenia has increased. The major reason for this was the crisis in construction industry, the traditional activity for the migrants worldwide and in Russia<sup>1</sup>. According to A. Kuznetsova, FMS Deputy Head, the number of foreigners employed in construction in the past year has decreased by 60 per cent by February 2009; only in Moscow Region, 117 construction sites were closed<sup>2</sup>.

FMS has recorded the reduction in the inflow of migrant workers as well. In the I-st quarter of 2009 the number of migrants, who came to Russia is by 400 thousand people (10-15 per cent) less than in the relevant period in 2008<sup>3</sup>. In April and May an increase in the inflow of foreign labor force is recorded, as compared with the winter months, though not as active as a year ago.

In late 2008, the Government of Russia has decided, that the quota of permits to attract foreigners to work in 2009 will amount to 3 million 977 thousand people, but 50 per cent would be reserved, i.e., it will not be extended to the regions. The authorities of several regions, where the growth in unemployment was especially high at the beginning of the year, than the average country-wide level (Ulyanovsk, Yaroslavl, Sverdlovsk Regions), went further and advocated for a further reduction in quotas.

In Russia, in the background of almost universal structural unemployment and unpopularity of a range of industries and labor trends among the local population (including low-skilled labor), such measures will contribute to the strengthening of the latent presence of migrants in labor markets, rather than to the decline in unemployment.

Another «anti-crisis idea» is to increase domestic migration as a measure to combat unemployment. It is anticipated, that the employment problem can be resolved, by promotion the move from crisis areas to the less problematic ones. Anti-crisis program of the Government implies that in the current year 15 900 of the Russian citizens will obtain the total of RUR 800 million as remuneration for their relocation, per diems during the moving to the place of their new job (RUR 100 per day) and reimbursement for housing rent within 3 months (no more than RUR 550 per day). The concerns a small part of the Russian unemployed, the number of which in April 2009 was 7.1 million. However, back in January, Yu. Hertsiy, the Head of the Russian Labor Service has reported, that the budget will help to resettle 100 000 people<sup>4</sup>. However, it might be not so easy to find so many people,



Source: Central Bank of RF.

Fig. 1. Transfers of sums from Russia to the CIS countries according to the Statistics of physical entities cross-border transactions. Quarter I, 2006 – Quarter I, 2006

1 In 2008 41% of registered by FMS migrants were engaged in construction industry.

2 Migrants are moving to the South // News Time. February 12, 2009.

3 Migrants support the population number in Russia // RIA Novosty. April 8, 2009.

4 To get to the job site // «SmartMoney», May 18, 2009.

willing to change not only their jobs, but also the place of residence: in spite of the crisis, the Russians, especially the unemployed, resent mobility.

The results of the pre-crisis survey of the unemployed and job seekers, performed under the request of the Russian Labor Service and with the assistance of local employment services (as of October 2008)<sup>1</sup> demonstrate, that the real potential of the territorial mobility of people, looking for a job through the assistance of the State, is insignificant. According to the tentative survey results, the willingness to work in a different locality was expressed by only 14 per cent of the respondents.

There are 22 per cent of population, ready to move for good conditions with a guaranteed shelter. Herewith, the real mobility of the respondents made only 4 per cent. The main incentive to a possible relocation is a very high salary, rather than just any salary. Moreover, in case the average salary at the previous place of work of the respondents was RUR 9.6 thousand, the expected salary in other regions was RUR 38 thousand on average, i.e., over 4 times more. And to move to Siberia and the Far East areas this level increases to RUR 66 thousand. Government opportunities to promote the domestic relocations are clearly inconsistent with such expectations.

The analysis of the widely publicized new portal «Work in Russia» vacancies (800-900 thousand vacancies in all regions of Russia) showed that they, as other options, offered by Employment Service, are not too attractive to the job-seekers even in the time of crisis.

In mid-February 2009, 6.5 per cent of expected jobs were offering a salary at the minimum level, RUR 4 330 and another 9 per cent a monthly rate from RUR 5 thousand minimum<sup>2</sup>. Only 12 per cent of vacancies offered the salary rate over RUR 20 thousand (the majority of them are vacancies in Moscow and northern regions, where the purchasing capacity is higher), while only 5.3 per cent of vacancies imply provision of housing (mainly service housing or dormitories)<sup>3</sup>. In this situation, the real capacity of the government to reduce unemployment by enhancing the domestic migration is hard to believe. ●

1 Public contract for the «Development a model of employment in other locations for the citizens, seeking employment, by public service authorities», executed by the ANO «Institute of International Family Studies/R»

2 It should be remembered, that an increased unemployment benefit is RUR 4.9 thousand.

3 N.V. Mkrtchian. Are the unemployed ready move for the job // Russian migration. 2009. Number 1.

## SHOULD CONCEPT FOR DEVELOPMENT OF LEGISLATION ON LEGAL ENTITIES BE REGARDED AS TRANSFORMATION OF MODEL?

E.Apevalova

*The project of the Concept for the development of the legislation on legal entities of 2009 is a fresh attempt to systematically develop the mechanism for corporation management and for the solution of the most acute problems in this sphere. The Concept also envisages such innovations as “corporation” rights, suggested instruments to weaken the dependence of the boards of directors, changes in the system of legal entities and their registration etc.*

In March 2009 the project of the Concept for the Development of the Legislation on Legal Entities developed in concordance with the Decree of the Government of the Russian Federation from July 18, 2008 No 1108 “On improvement of the Civil Code of the Russian Federation”<sup>1</sup>, which defines the main directions for the development of the legislation on legal entities, was presented. It was expected that the Concept should be presented to the President at the beginning of summer 2009.

The basic weakness of the law “On joint-stock companies” of 1995 taking into account all its amendments consisted in it being hyper-orientated towards the Anglo-Saxon model for the protection of shareholders’ (minority shareholder) rights. The Concept for the development of the corporation legislation up to 2008 (by the Ministry for Economic Development of the Russian Federation, adopted in 2006), which became the main program document of 2000s in this sphere, was to some extent the manifest of an alternative model focusing on protection of major (principal) shareholders’ rights. It should be noted that such a change of a model better corresponds to the real economic processes in the sphere of corporation management that are characteristic for the majority of Russian companies (“continental European model”). At the same time a radical change of the regulatory strategy should not result in new imbalances to the prejudice of any subject of corporation relationships.

The project of Concept-2009 under consideration is a fresh attempt to systematically develop the mechanism for corporation management and for the solution of the most acute problems in this sphere. As to the essence of the concept the most important question is whether the existing model for corporation management is being changes and whether the level of responsibility of the business is growing.

### “Corporation” rights

The limitation of the rights of the participants of the Russian legal entities regarding the companies’ property is one of the specific features of the Russian model for corporation management. The stock-holders are acknowledged to have right in personam – incorporeal right towards the entity (article 2 of the Federal Law “On joint-stock companies”, notion of “stocks” stated in article 2 of the Federal Law “On securities”). The Civil Code of the Russian Federation recognizes that the participants of the legal entities have either right in personam towards the entity or the proprietary interest for its property (paragraph 2

<sup>1</sup> Project of the Concept for the Development of the Legislation on legal entities is a constituent part of the Concept for the development of civil legislation of the Russian Federation, being developed by the President’s Research center on private law on commission of the President’s Council for codification and improvement of civil legislation.

article 48 of the Civil Code). Not dwelling on the theoretical side of the issue, we would only like to note that the rights in personam are relative (derivative) to the proprietary interests, to which the rights of property also belongs, which is reflected in all the aspects of their realization (including their protection).

The authors of the concept suggest assigning to the participants of legal entities, including shareholders, the “interest” in the entity in addition to the right in personam and thus changing the status of promoters and shareholders of the companies. The aggregates of the rights of the participators of companies (rights in personam – incorporeal right towards the company and interest in it) is suggested to be termed as “corporate” rights of participators of legal entities.

Besides, the Concept envisages:

- introduction of the possibility to debate over the decisions of the general meetings and other collegial bodies, the conditions for the secession or expel from the participators (for all kinds of legal entities);
- the fixation of the right of the participators of any organization on the information in the Civil Code of the Russian Federation.

### **Dependence of executive boards**

The expansion of the sphere of the promoters’ and shareholders’ rights is accompanied by the attempts of some changes in the regulation of the operation of the executive boards of joint-stock companies. Recognizing the problem of combination of the management and control functions as a key problem, the authors suggest “fixing a more specific structure of the bodies of a joint-stock company” with clear separation of these functions. However the measures that are suggested, that is the abolition of use of the term “executive board” and its substitution with the term “supervisory board” and the prohibition for combination of the posts in supervisory board with the posts in the management of a joint-stock company, cannot even be a basis for the solution of the problem mentioned.

The model of the corporation management that was chosen in Russia as long ago as in the 90-ies, was borrowed from the USA, where the structure of the corporation control is characterized by a comparatively high atomism of the share capital, which does not allow for the executive board to be controlled by one of the shareholders.

In Russia the situation is the opposite – according to conclusions of the study of information transparency conducted by the rating agency Standard&Poors in 2007, 57 out of 80 biggest Russian companies are controlled, that is more than 50% of their shares belonged to one shareholder or a group of shareholders signing the agreement, and 74 companies had at least one principal shareholder with more than 25% of shares. Such a distribution of the rights for share property is exactly reflected in the structure of the formed executive boards – 46% of executives participating in the study were the direct representatives of the principal shareholders, another 21% of executives are insiders, including managers. Such a situation in the leading companies (together with the existing empirical estimations) allows to draw a conclusion in 180 thousand of other Russian joint-stock companies which operation is not open to the public, the dependence of the executive boards from the biggest owners is even higher.

The dependence of executive board on a principal shareholder or a group of such shareholders often results in it making decisions not for the benefit of the company but for the benefit of the controlling shareholder. The conflicts between different groups of shareholders in connection with the absence of the mechanisms for their solution develop into corporation wars and takeovers of the corporation’s assets. In order to decrease the level of the dependence of the executive boards on the controlling shareholder, which is a key problem of the Russian system of corporation management, it seems necessary to:

1). Change the membership of executive board and the procedure for its decision making, legal fixation of the compulsory representation of the minority shareholders, representatives of the dependent companies in executive boards together with the expansion of the number of questions the decision on which should be made unanimously by the executive board<sup>1</sup>. The basic idea of the necessity for coordination of interests in the executive board should be supplemented by the mechanisms preventing the members of executive board from abusing their rights;

2). Legal fixation of the liability to conclude the agreements between the principal shareholder or a group of such and the minority shareholders, according to which the principal shareholders become obliged to purchase the shares belonging to minority shareholders in some cases on the demand of the latter. The cases include: insufficient profit, change in the stock capital not for the benefit of the minority shareholders etc.;

3). In order to reduce the level of corruption and to increase the efficiency of operation of the joint-stock companies controlled by the government, many of which are strategically significant, it is necessary to introduce the ban on the holding a post in the public service and a post in the management bodies of a company, which has shares belonging to the government, in a company controlled by the government at the same time, and to fix in the law the regulation that the persons which are member of management bodies of such companies should be independent executives.

It is also necessary to create a system of specialized public control over joint-stock companies having a public share or controlled by the public. At present they cannot be controlled by the departments that set aims for them since these departments already participate in their management. The system of informal relations existing, there is no real government control over them. It cannot be executed by the Clearing House of the Russian Federation as well, since the government companies do not do operations with budget funds.

Adoption and fulfillment of such measures is not simple due to many Russian enterprises being closed societies and the controlling owner, including the government, being unwilling to give anybody information on the operation of the company (its expenditures, counteragents etc.). The work in this direction can be regarded as a direct intervention, on the one hand, in the field of private property. In order to have such a right, the government should really guarantee its inviolability and protection, including that from the selectively applied measures of criminal prosecution, corporations' takeovers. On the other hand, this also means a fundamentally new level of fight with the corruption, including the corruption at the highest level, since the selectivity in this sphere will have no effect despite all the pious hopes.

Correspondingly, the introduction of such norms should be well-thought, gradual, probably first probed on a small circle of enterprises and considering the evolving problems and mechanisms for their solution.

### **Legal entities: creation of a system or redistribution of the spheres of influence?**

The concept envisages the creation of the harmonious system of organization and legal forms for legal entities, simplification of the structure of the legislation on the juridical persons, and, finally, to the extent that is possible, uniform regulation of the main statements of their operation. All the legal entities are supposed to be divided into:

<sup>1</sup> For further detail see: Radygin A., Entov R., Apevalova E. et al. Internal mechanisms of corporation management: some applied problems - IET, 2009 (in Russian)

- corporations based on membership: legal entities (joint-stock companies and limited liability companies), societies, production cooperatives and the majority of non-commercial organizations;
- other juridical entities.

At the same time the effort is made to bring into correspondence the operation of the organization with its legal status. The activity of non-commercial organizations which is referred to as entrepreneurial at present will become the activity bringing additional profit. It should be supplementary, all its allowed forms should be stated in the charter of the society, its authorized capital for the societies willing to participate in it, should be similar in the amount to the authorized capital of the commercial organizations.

Besides, it is suggested to fix the notion of “public joint-stock company”, receiving their public status from the moment of the government registration of the securities prospect, that are to be placed among unlimited number of persons by public offering. The status of public joint-stock company suggest higher level of authorized capital, necessary presence of independent executives, disclosure of the information and special registering clerk keeping the register and acting as a tabulation commission at shareholders’ meetings.

Besides, it is suggested to exclude the possibility for the existence of closed joint-stock companies, state corporations, and in future – unitary enterprises.

Closed joint-stock companies can transform into regular joint-stock companies (not public ones) if they increase their charter capital up to RUR 2 million in the period from 1 to 2 years or will be transformed in limited companies (with the charter capital of less than RUR 1 million), or in production cooperatives. As to limited companies, it is proposed to increase the charter capital up to RUR 1 million and to make it possible to transform in production cooperatives.

Unitary enterprises with the right for economic control will be transformed in legal entities with the prevailing share of the government, making it possible to determine the most important decisions. It is suggested to leave the state (not municipal) public enterprise for operational management of public property.

It is suggested to create no new state corporations, and as to the existing ones, it is suggested to transform them and to abolish the legal possibility of creation of juridical entities of such kind. Thus, Rosnanotech, Rostechologies, Vnesheconombank and Agency on deposit insurance are to be transformed into legal entities with 100% of the government participation. The Fund for the assistance of housing and utilities services development should bring the documents in correspondence with the requirements general for all the funds. Rosatom and Olimpstroj are to become the federal bodies of the government<sup>1</sup>.

The suggested instrument with which help such transformations can be fulfilled is “turn of reorganization” (“reverse reorganization”). It allows the possibility to conduct compulsory reorganization on the decision of the court (on illegal merge of juridical entities – their separation, on illegal separation – its merge etc.), or the recognition it as invalid by the court (in case of serious violations, infringing the rights of the participants of the reorganized juridical entity, for instance, on loss of corporation control over juridical entity).

For persons that are fully or partially deprived or lost the shares of participation in the reorganized juridical entity as a result of illegal reorganization the possibility of recovery of lost control over corporation. Persons, retrieving the profits as a result of such reorganization, can be forced, according to the decision of the court, to return the share of participation to the person, whose interests were infringed. The deals concluded by juridical

<sup>1</sup> The bill on state corporation is planned to be developed and adopted by the State Duma. The basis for the approach to its development is the supposition that the state corporations are created for some period of time in order to solve particular problems.

entities evolving as a result of the reorganization which was later recognized as illegal are considered to be valid, and the juridical entities - as existing before the moment of recognizing the deal as invalid or not taking place. Only the deals damnifying the reorganized juridical entity (or aimed at damnification) can be considered as invalid on condition that the fact that the counteragents of such deals were unconscientious.

The purposefulness of creation and existence of state corporations was and still is questionable, which is mainly connected with the efficiency of their operation. Already at present large resource opportunities and unclear definition of its place in pursuing the state policy<sup>1</sup>, can be noted as well as a considerable influence of the state corporations on the development of the branches of industry connected with them and the decrease of the level of competition in such branches<sup>2</sup>, while the creation of the special legal sphere for them negatively affects the interests of other participants of the market.

In this connection the idea of transformation of state corporations and exclusion of such an organization and legal form seems to be justified and should be reflected in the Civil Code. However the mechanism securing its execution (“reverse reorganization” and possibility for recovery of the lost control over corporation) cannot be adopted as general measures since it can cause:

- further instability at the market of corporation control;
- decrease of the level of protection for the rights for corporation property;
- abuse of the rights of “former” shareholders, without agreement of whom the reorganization was impossible (the above state does not apply to the cases of administrative pressure and selective application of criminal prosecution measures).

In fact, the mechanism of “reverse reorganization” can become a new mechanism used for corporation takeovers.

The high level of the risk that in the existing court system the determination of “exclusive” cases when the “reverse reorganization” is possible will often be made under administrative or corruption pressure should also be noted. Besides, the formal legal approach that is often used in practice of evaluation of the evidence in the arbitrary courts leaves the economic essence of the concluded deals and their consequences out of the scope, which will prevent the mechanism of the “reverse reorganization” from being effective.

It seems that the legal norms that do not have the aim of the development of the common or special legal regulation and are aimed at solution of particular tasks of policy, even such important ones as the redistribution of the control over the largest Russian assets, should not become one of the elements of the basis for civil and legal legislation of the country<sup>3</sup>. The situation of stagnation observed nowadays in the development of key institutes (those of property, bankruptcy etc) is accounted for by this very approach.

The legal norms aimed at solution of particular tasks when included in the system of basic norms:

- inefficiently regulate the corresponding sphere for other participants, often damaging the system of legal regulation without legal or economic grounds;
- provoke chaotic, patch legal regulation in future;
- stimulate the growth of uncertainty of the legal sphere for a considerable number of persons.

1 For further detail see: Radygin A., Entov R., Apevalova E et al. Internal mechanisms for corporation management: some applied problems. – Moscow, IET, 2009.

2 Federal antimonopoly service of Russia recognizes the hypertrophied growth of the largest Russian companies as a serious threat for competition. – For further detail see: Report of the Federal Antimonopoly Agency of the Russian Federation “On competition in Russia”, 2007

3 Such tasks can be solved in regulating and legal acts of another level.

### **Increase of responsibility of heads and promoters of legal entities**

Another direction for the development of the legislation on legal entities is the increase of responsibility of the heads and promoters, the necessity for which increase has been obvious for a long time. It is suggested to:

- introduce property responsibility of the members of the executive board and other collegial executive bodies for the damnification of the legal entity, similar to the procedure envisaged for joint-stock companies (paragraph 2 article 71 of the Federal Law “On joint-stock companies”);

- to fix the possibility to make anybody responsible to the legal entity for the imprudent actions or risks that were not justified by the circulation. For instance, the sale of the property of the legal entity in case of clash of interests at a substantially lower priced. Not taking due cautiousness when choosing counteragents and/or preparing the deal;

- to abolish the possibility for limitation or exclusion of the property accountability of the body (head) of the legal entity according to the agreement between them (paragraph 3 article 53 of the Civil Code of the Russian Federation);

- to introduce subsidiary (additional) guilty property accountability of the promoters/shareholders, beneficiaries and other persons having the opportunity to determine the decisions made by the legal entity on making deals to its counteragents of the deals;

- to introduce subsidiary accountability of the promoter/shareholder of “one-person company” for the debts (deals) of such a person if the property is inadequate in case the deal was made to fulfill the will (orders) of its single participator;

- to change the start of the period for limitation of actions concerning the claims made by the legal entity against its former managers – from the moment when the new bodies of the legal entities discovered or were to discover on the corresponding losses, but not above the period defined by the law (for instance, 10 years).

Nevertheless it seems that the suggested measures cannot secure more responsible behavior of the mentioned persons because of the following reasons:

1. The mechanism of indirect claims borrowed and introduced in the Russian legislation (paragraph 2 article 71 of the Federal Law “On joint-stock companies”) which was suggested to be applied to the members of the executive boards and other executive bodies is used rarely in practice and cannot be regarded as efficient yet. Only about ten cases when somebody was made responsible in such proceeding are known, and those mainly are the heads of the banks that were later declared bankrupt;

2. The estimation of the justification of the entrepreneurial risk by the court is complicated due to the special features of the Russian court system. The formal legal approach and not uncommon case when judges lack sufficient knowledge of economics are obstacles for objective judgment of the situation connected with the definition of the possible extent of the entrepreneurial risk. Beside, the legal regulation of disclosure of information in cases of clashed of interest is highly inefficient, in fact the majority of such conflicts are out of the legal sphere, limiting the opportunities to make the managers of legal entities answerable;

3. Taking legal actions in cases of subsidiary accountability of the beneficiaries and other persons that can define the decisions of the legal entity is also difficult. In Russia starting with 90-ies the real owners of the considerable volume of the corporations’ assets are not known either to administrative bodies or to law enforcement bodies, which is accounted for by the corruption, as well as the aspiration of personal safety and the provision of the security of assets. No innovations connected with the responsibility for disclosing information have changed this situation. In practice of the conclusion of the interconnected deals the cases of



the beneficiaries being disclosed are exceptionally rare and the mechanism itself is among the most inefficient in the existing system of corporation management;

4. The idea of establishing a ten-year period for taking legal actions against the managers of the legal entity is very dangerous and can be used both for solution of the political tasks and for mild reprivatization. The selectivity of the taking legal actions against the owners of the largest Russian assets is a regular Russian practice. There are no grounds to believe yet that the suggested legal norm will not serve as another instrument of the government for the purposes of the redistribution of the assets or that this norm will not be used for the similar purposes at a lower level of the redistribution of the assets, in taking over the corporations.

### **Changes in the rules of registration of legal entities**

One of the main “disease” of the Russian sector of corporations – seizure of the assets of corporations- the authors of the concept plan to “treat”, following the ex-minister for economic development, G. Gref, by changing the rules for registration of legal entities. However in this part the discussed Concept, in contrast to the “Concept for the development of the corporation rights up to 2008”, tends to make system solutions.

Thus, for instance, the system of the registration of legal entities is planned to be developed, which envisages:

- introduction of the rights for checking the reliability of the data necessary to register a legal entity;
- legal fixation of the charter as a single constituent document, which should be applied to unincorporated legal entities;
- creation of typical forms of charters;
- compulsory legal expertise of the constituent documents being in concordance with the legislation – for nontype charters;
- transfer of the functions of registration of legal entities to the bodies or justice, or, as an alternative, to arbitrary courts and introduction of the single state register;
- considerable increase of the amount of the authorized capital (up to RUR 1 million for the limited companies, up to RUR 2 million – for joint-stock companies) and payment of the authorized stock when the company is created in monetary terms;
- the possibility of recovery of damages from the legal entity in case the damages were the result the data to the state register of the legal entities were not submitted or submitted in the improper forms.

On the whole the suggested measures seem to be adequate and corresponding to the existing needs, however they will cause significant expenditures not only for the government but also for the legal entities. In combination with the measures aimed at the increase of the extent of responsibility of the promoters and managers of the legal entities, the expansion of the rights of the promoters and shareholders these measures will put the business under additional pressure, which in the existing economic situation will be excessive and unjustified. Not only the “overnight companies” but also a large number of small- and medium scale enterprises will be destroyed by such measures. The statement that the companies that will not be able to pay for the increase of the authorized capital stock will still be able to make entrepreneurial activity in the form of production cooperatives is true only to some extent. Formally they will be able to do so, but in practice large companies, serving of which interests is the business for many small-scale enterprises, give preferences to joint-stock companies or at least the limited companies when choosing the counteragents. That is why the change of status will result in the loss of the basic customers and consumers for many of them, which will be nearly equivalent to the loss of the business of a significant contraction of its volume.

Due to the facts mentioned above the introduction of such complex of measures in effect should be gradual and connected with the economic situation of the Russian companies.

On the whole the measures on the expansion of the rights of participators of the companies (including shareholders), on fixation of a higher of responsibility of the companies in connection with the increase of the authorized capital stock, stricter government control in the sphere of the registration of the legal entities and the legal fixation of higher level of personal responsibility of heads and promoters of the companies are to make for the misbalances of the development of the legislation on legal entities for the benefit of principal shareholders (which does not mean that all the suggested mechanisms are effective). In the sphere of the responsibility of legal entities in the new Concept, in contrast to the Concept of the development of corporation legislation up to 2008, the focus is shifted from the necessity of the development of “fiducial responsibility” system basing on the criteria of conscientious and sensible managers of the legal entities to the creation of the system of legal responsibility for damages caused by them and for other actions infringing the interests of the company. On the whole the direction of the development of the legislation on legal entities has been correctly chosen in the Concept.

As to the quality of elaboration of the Concept and its further efficient fulfillment, it will mainly depend on:

- taking into account the practical experience in the field of operation of legal entities;
- elaboration of the mechanisms for fulfillment of the suggested direction till they are acceptable from the practical point of view and justified for the introduction from the viewpoint of the economic situation in the country;
- political will to solve the key Russian problems concerning the issues of property, to overcome the resistance of lobbyists on one hand, and to take into account the opinion of the society, on the other hand. ●

**RESULTS OF UNIFORM STATE EXAM IN 2009**

T.Klyachko

Starting with 2009 the Uniform State Exam became the single form for final attestation of the high-school graduates on the school curriculum. USE was conducted in corpore, as it was declared, the current results, however, can be regarded as a remarkable though implicit defeat of the idea of the USE. Once again a reform in the education is being emasculated, though formally it is being fulfilled.

On June 23, 2009 the preliminary results of the USE taken by school-leavers of the 11<sup>th</sup> forms of comprehensive schools were published (table 1).

Table 1

USE RESULTS IN 2009

Subject	Number of papers as a result of exam materials processing	Minimal figure for USE points	Average number of points	Number of students taking USE who passed with 100 points	Percentage of students taking USE with the result BELOW the level of the minimal number of points	Percentage of students taking USE with the result ABOVE the level of the minimal number of points
Biology	156797	35	53.4	84	8.0	92.0
Information Technology and Information and Communication Technologies	67537	36	56.1	61	11.4	88.6
Russian	1010660 (including 978857 on the main day of exam raking)	37	56.4	859	6.3 (5.7 on the main day)	93.7
Geography	33255	34	49.7	23	10.2	89.8
Literature	49795	30	61.8	247	6.5	93.5
Mathematics	946 756 on the main day (data for the reserve day are being processed )	21	42.9	305	6.8 on the main day (data for the reserve day are being processed)	93.2
English	76804	20	59.4	81	5.2	94.8
German	4781	20	43.6	0	10.1	89.9
French	2203	20	58.8	0	2.1	97.9
Spanish	181	20	74.6	1	0.0	100.0
Social studies	445711	39	56.7	78	5.3	94.7
Chemistry	68139	33	54.7	130	9.0	91.0
History	176416	30	48.0	136	8.7	91.3
Physics	194847	32	49.0	171	5.7	94.3

In 2009 Uniform State Exam was conducted in normal mode for the first time: experiment with USE was finished in 2008. Starting with this year the Uniform Exam has become the single form for attestation of the school-leavers on school curriculum. Correspondingly, two compulsory subjects (Russian and mathematics) were taken by nearly 1 million of people in 2009:

- 946 176 people took mathematics;
- 960 000 people took Russian.

The following rules for issuing of school-leaving certificates were established. If a school-leaver has not passed the exam on one of the compulsory subjects, that is, he got less than the minimal stated number of points, he has a right to retake the exam. If he has not got the necessary minimal number of points at two compulsory exams (Russian and mathematics) the school-leaver does not have a right to retake the exams and can try to pass the exams no sooner than next year. In this case the school-leaver does not get the USE certificate, and instead of school-leaving certificate, he gets the reference on attending school.

If a school-leaver taking any optional subject (nor Russian, neither mathematics) gets the mark below the minimal number of points, he can retake this USE only next year.

If a school-leaver gets more than the minimal number of points for two compulsory exams, and less than minimal number of points for the optional subject(s), he still gets a school-leaving certificate.

Thus, current rules for USE taking implicitly establish that in the Russian comprehensive schools getting a school-leaving certificate is connected only with passing of the established threshold level for two compulsory subjects – Russian and mathematics<sup>1</sup>. School is not responsible for the knowledge in other subjects. Moreover, the rules for USE taking do not defined where and how the school-leavers that did not pass Russian and mathematics should get the knowledge they did not get due to different reasons, including bad work of the students themselves. It is not quite clear at the same time how it will be decided in which case it is bad work of a student and in which – of a teacher or a school. The situation with the optional subjects is also unclear, since for them it is also not established when and how a school-leaver should complete his studies in order to pass these exams.

At the same time, on 24.07.2007 the Law “On making changes to some legislative acts of the Russian Federation in connection with the stipulation of the compulsory nature of general education” which, on the whole, makes the state represented by the educational institution for general education responsible for the receipt of the full volume of knowledge according to comprehensive school curriculum. Shifting the responsibility to the shoulders of students and their families makes children from poverty-stricken families most vulnerable, since they cannot afford getting knowledge necessary to pass USE on payment basis. Correspondingly, for these children no ways for their further educational and professional development are defined. To be more specific, since in order to enter the educational institutions of vocational training one should have a school-leaving certificate, those failing exams in compulsory subjects can count only on the studies in the institutions of the basic vocational training. Those, getting the school-leaving certificate but not passing the exams on optional subjects with the necessary points, will be able to enter the institutions of vocational training.

To a certain extent, the degree of uncertainty connected with the introduction of USE has resulted in the fact that last year in the system of education can be called “year of Uniform State Exam”. The fight against the USE and around the USE became more vehement in spring-summer 2008. This was much accounted for by the published results of USE-2008. In 2008 23.5% of students did not pass mathematics, 11.2% - Russian, and these, it should be remembered, are compulsory subjects. Among the optional subjects the students demonstrated the worst results

<sup>1</sup> The Rules also do not postulate how the issuing of school-leaving certificate should be connected with the result the school-leaver demonstrated during the whole period of his studies in school.

in literature – nearly 25.5% of 2 grades<sup>1</sup>. This meant that nearly one third of school-leavers would not get the school-leaving certificates, if there was no “plus one point” rule in 2008. Taking into account the fact that getting higher education has become a social norm in Russia, the results were shocking for the society not only because the quality of the school education dropped dramatically, but also because the entrance to a higher education institution has become an unattainable dream for many families. The Uniform State Exam instead of means to expand the availability of higher education - the role that was underlined during all the years of USE experiment – became in the eyes of the society a barrier for the transfer from school to a higher educational institution.

In our opinion, this was the main reason for the started vehement fight against the USE. Other reasons, such as insufficiently proficient preparation of testing and monitoring materials, corruption etc would not have caused such a support for the fight against the USE from the parents and teachers. The suit against the USE was brought in the Supreme Court, the signatures were collected to cancel USE (in Kemerovo oblast, for instance, there were 40 thousand of signatures collected), the bill suggesting optional taking of USE by the school-leavers and optional admission of their results by higher educational institutions was prepared (authors S. M. Mironov, O. N. Smolin). The spread of the economic crisis lead to cautious opposition to USE of the bodies of educational management of the subjects of the Russian Federation, being worried that if 25-30% of the school-leavers are not able to pass USE, there will be a threat of mass youth unemployment, spread of crime among the youths, increase in drug consumption etc. The higher educational institutions facing a considerable shortage of students (up to 200 thousand of people) in the environment of the crisis would also experience highly negative economic and social consequences, taking into account the possible reduction of both the off-budget incomes of higher educational institutions and the teaching staff.

At the same time, USE is practically the single symbol of the reforms in the field of education. (Besides the Uniform State Exam, the introduction of the norm per capita financing in the general education and new system of labor remuneration can be regarded as significant reforms. However the fulfillment of these measures has not been completed yet and in the environment of the reduction of the budget expenditures they lose their efficiency dramatically, and this concerns, first of all, the stimulating role of the wages).

In 2009 the Uniform State Exam was conducted in corpore, as it was declared, the current results, however, can be regarded as a remarkable though implicit defeat of the idea of the USE. The total of 6.8% and 6.3% of poor grades (two out of five) in mathematics and history does not testify the improvement of the situation in the school education but a considerable deterioration of the requirements for the examinees, especially when one compares these figures with the dynamics of the proportion of those getting two out of five for the USE for the mentioned subjects over the last four years (table 2).

Table 2

PROPORTION OF SCHOOL-LEAVERS GETTING AT USE ON COMPULSORY SUBJECTS 2 POINTS OUT OF 5 IN 2006-2009, AS PERCENTAGE

Subject	«2» (out of five)			
	2006	2007	2008	2009
Russian	7.91	8.81	11.21	6.3
Mathematics	19.99	21.14	23.48	6.8

Thus, it can be concluded that one more reform in the field of education is being in fact emasculated, though formally, it is being fulfilled. However, this is characteristic for the whole policy of reforms in Russia. ●

1 Official data of the Federal Service for Supervision in the Sphere of Education and Science

## ASSESSMENT OF SOME CHANGES IN THE HR POLICY OF THE RF ARMY<sup>1</sup>

V.Tsymbol

The year of 2009 was marked by the transition of the Army to its «new look», defined by the RF President. However, the majority of the detailed characteristics of that image is kept in secret from public. In such a situation, of course, the Russian citizens are greatly interested in the military HR policy. It seems to us that it makes sense to focus on some of those issues, not only assessing the current state, but also estimating the tentative solutions.

It is known, that during the completion of the Federal Targeted Program (FTP) on the transfer of the military units of permanent readiness to the contract basis, one of the key issues is the enforcement of the military men, serving under call, to the «voluntary» signing a contract. There have been attempts to apply all the violations of military staff rights, typical for those serving on the call, to the soldiers and junior officers, entered into a contract.

At the seminar, held in late 2008 in IET at the initiative of human rights defenders, a number of proposals were made to improve the legislation in this area, which were further submitted to the Commissioner for Human Rights in the Russian Federation. On his initiative, on May 20 of this year, the problems of protecting the rights of military personnel have been discussed with representatives of the Ministry of Defense and other security agencies, as well as the Prosecutor General's Office, the Administrations of the President and the RF Government, the Federal Council and the State Duma.

First of all, it was proposed to make amendments to the Federal Law of March 28, 1998 № 53-FZ «On Military Duty and Military Service», precluding the possibility of enforcement of the contract with military men in the service on order. Earlier, such cases of enforcement were related primarily to the young men, who served in the army, having failed to enter a high school, or after an unsuccessful first attempt to do it.

It should be noted, that in the RF legislation significant amendments have been recently made to the regulations, governing the possibility of concluding a contract with the military men, performing military service on order<sup>2</sup>. Table 1, provided below shows the fragments of some of the wording, as given in the core text of the law, as those that have been changed. Their possible effects have not yet become a subject of public attention.

Changes in the wording, associated with the intention of military management to replenish the Russian Armed Forces staff and other troops with High Schools' graduates. But some of the «elite» Universities students are excluded from such trends. They have retained military departments, graduates of which, who become reserve officers, in contrast to the earlier practice, will not be recruited. The number of the «elite» universities is growing from year to year. In parallel, the corruption, related to joining thereof is growing.

1 Methodological part of the survey was financially supported by Russian National Research Fund in accordance with the draft N 08-02-00038a.

2 Federal law «On amendments to the Article 38 of the Federal Law «On military duty and military service» and Articles 23 and 28.5 of the Federal Law of 9.02.2009 N 1-FZ «On the status of military personnel».

## THE WORDING OF LEGISLATION ON THE POSSIBILITY OF CONTRACTING

Article 34. The conclusion of the contract on military service

1. The contract for military service can be concluded by:

- the military men, performing military service on order, served for at least 6 months;
- reserve officers;
- the men, not residing in the reserve, graduates of public, municipal, or non-governmental educational institutions of higher education, having state accreditation for the relevant areas of training (specialties);

Article 38. Item 3. The first contract for military service is concluded:

Before 09.02.09

- a) with a citizen, entering military service, when there are positions in the HR listing for the ranks of a soldier, sailor, sergeant, officer – for three years;
- б) with a citizen, entering military service, when there are positions in the HR listing for the ranks of a warrant, warrant officer or officer - for five years;

After 09.02.09

- a) with a military man, doing the military service on order or any other citizen, entering military service in the military position in the HR listing in the rank of a soldier, sailor, sergeant, officer – for three years;
- б) with military men performing military service on order or any other citizen, entering military service in the military position in the HR listing in the rank of a rank of warrant, warrant officer or officer, except for citizens, referred to in subparagraph «д» of this paragraph – for five years ;

д) with a citizen, who has passed training under the program of military training at a military training center in the federal public higher educational institution and obtained the military rank of an officer - for three years.

For the graduates of high schools, which have no military department, the interaction with the system of enlisting to the army is strengthened. Earlier it used to start immediately after completion of training by a graduate from higher school. It started with an invitation to a local recruitment office. Now, this interaction has become more diverse. All men, who provided a «leave» for the term of training, in case they have no other rights to the deferral or exemption, will be invited (called) for military service, with the following choices:

1) signing a contract on his military service with the rank of soldier, sailor, sergeant, officer – for 3 years, or a warrant, warrant officer, officer – for 5 years (of course, if the graduate specialty, is in demand in the military departments);

2) To perform military service on order in the rank of a soldier, sailor - for 1 year (or any other specialties, obtained at the educational institution).

This choice of the university graduate should be made in the recruitment office, while still outside the army. But herewith, the process of involvement in the military service is not over.

If he chooses the option of military service on order, after 6 months (already when placed in the barracks) he can be offered to continue his service in one of three ways:

- under a contract in the rank of a soldier, sailor, sergeant, officer – for at least 2.5 years,
- under a contract in the rank of a warrant, warrant officer, officer – for 5 years;
- service on order for the remaining six months.

The interests of military commanders in such approach are understandable. The army, in accordance with the «new look», in the coming years will be interested in an accelerated staffing under contracts, especially for the positions of the «new format». They have to be recruited, preferably among graduates with a good education.

However, there exist the interests of manufacturers (economic and military-industrial) sectors of the economy, which require highly skilled specialists to develop innovation technologies. The sooner such specialists join the production sphere, the better. Therefore, the military industrial complex leadership used to «reserve» specialists earlier, and raises this question from time to time now.

It would seem that with such a clash of interests, the solution of the problem should be moved to the microeconomic level, i.e., to the households and citizens. Let them make the decision. But then, in order to achieve a suitable solution, the relevant agencies should develop a system of the citizens preparation to perform their constitutional duties on Homeland defense (in case of war) and a system of material and other incentives, that would provide to citizens of Russia a free choice, what is more suitable to do in peacetime.

It should be noted, that the state has a capacity to influence that choice with a system of incentives and regulations.

At the same time, there are also those who make use of the imperfections of the system of recruitment and the fear of the army with its «slavery» discipline and extremely low level of remuneration. They are «lobbing» the legislation, that preserves corruption everywhere through a series of legislative and regulatory acts: in the education system (joining an “elite” university), and in the system of recruitment to the army, and during the conclusion of the contract with the military organization of the state.

Unfortunately, the impact of these forces is rather large, as evidenced by the adoption of new amendments to the law without any discussion with the community. Therefore, *the problem of enforcing the contract could get worse, having encompassed the university graduates*, who have to regard their relation to the army service twice now. In doing so, much will depend on the fact, how voluntary is the choice of serving on order, the option of further service, which is preferable to each of the military men. When staying in the barracks, when the soldier is limited in his rights and actions, it is difficult to track compliance with the voluntary choice.

The problem, described above, has at least *two solutions*.

The *first* one is implemented through the proposals, put forward by the defenders of human rights to amend the wording of Item 1 of Art. 34 of the Federal Law «On Military Duty and Military Service» (see the top of *Table 1*) by deleting the words on the possibility of concluding a contract with the «military men performing military service on order», upon «at least six months» of the service term.

This legal provision was introduced, when the service term was 2 years, and in waiting for its completion, it seemed unreasonable to sign a contract. However, it appears, that the legislation, not supported by the increasing attractiveness of military service, does not accelerate the implementation of the Federal Targeted Program for the staffing of military units of permanent readiness. Moreover, it led to the law violations in the contract conclusion, the bribes and even the escape of the contractors from the Russian Armed Forces.

It should be noted, that the amendments to the law, proposed by the human rights defenders for the solution of the first issue requires no additional expenditures.

The *second* way to solve the problems associated with returning to the question about the mission of service on order. It should be left only in regard to the young men, serving under the contract and/or staying within the resource mobilization. That's the way it was written in the «Principles of the National Policy of the Russian Federation for Military Construction, up to 2010», approved by V. Putin in August 2002. For this purpose, a 6-month term of service-training in training military units. This service will affect those who did join a high school or failed to pass the exams. For the students it will be enough to have training in a military department and a short-term military camp training. In any



case, young people must pass the tests for the military profession, and to take the oath of office.

In the regular army those who took the oath have to serve only under the contract, voluntarily, and not less than for 3 years. It is optimal for the military organization, that on average, the term of service would be about 6 years. It would be beneficial to the combat effectiveness of troops, whereas the number of military retirees will not be growing too fast. In the experience of other states, to achieve this result, a reasonable combination of incentives should be provided.

This project of solving the problem, substantiated by IET experts is widely known. It is related with the increased budgetary investments, which should amount at least 0.5% of total current expenditures for national defense. At the same time, such solution of the problem will ensure a higher combat effectiveness of troops, strengthen the rule of law in them, will be welcomed by the citizens, and of course, will support the corruption suppression in Russia.

To implement this proposal there should be a political will. Its presence seems to be evidenced by approval of the new Federal Program «Reforming and Development of the RF Public (2009-2013 years)»<sup>1</sup>, which deals with the reform of all kinds of public service, including military service.

The only subject of concern is the 2013 as the deadline for completing the program. Do we have such time allowance? In fact, in this year the young men, who reach the age of 18 years old, were born in the year of the collapse of the former state. Just then there started a steep decline in birth rates, the level of wealth in the family and the level of health have decreased. After a couple of years, the number of the 18-year-old boys will be equal to the number of places in universities. Thus, the majority of the recruits to the military service will be the university graduates.

Thus, it is necessary to restructure the system of recruitment to the military service as soon as possible, especially with regard to the fact, that our civil servants are experts in delaying the reforms. This is evidenced by at least the fact that the concept of the above Program, started just now has been approved back in 2001(!). Some forces were impeding the planned reforms, and will be damping any other reforms, aimed against corruption.

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1 Federal Program is approved by the RF President decree N 261 dated March 10, 2009 and published in the Russian Newspaper on 13.03.2009.

## REVIEW OF THE MEETINGS OF THE GOVERNMENT OF THE RUSSIAN FEDERATION IN JUNE 2009

M.Goldin

*In June at the meetings of the Presidium of the Government of the Russian Federation the following issues were discussed: execution of the federal budget, budget of the Pension Fund, budget of the Fund for Social Insurance and the Fund for Compulsory Health Insurance in 2008, results of Federal Target Programs and Federal Targeted Investment Programs execution in the 1<sup>st</sup> quarter 2009.*

On **June, 1** at the meeting of the Presidium of the government of the Russian Federation the execution of the federal budget in 2008, as well as the budget of the Pension Fund, budget of the Fund for Social Insurance and the Fund for Compulsory Health Insurance in 2008 were discussed.

In 2008 the revenues of the federal budget for 2008 made up RUR 9 275.9 billion, and the expenditures according to cash execution were equal to RUR 7 570.9 billion. The surplus of the federal budget made RUR 1 705.0 billion.

In 2008 tax earnings of the federal budget were equal to RUR 5 232.7 billion (12.6%) and were RUR 114.2 billion or 2.2% higher than the forecast volume of revenues for 2008.

The biggest part of the tax earnings of the federal budget was secured by the earnings of value added tax (40.7% of the total amount of the tax earnings), severance tax (30.7%), tax on organizations; profit (14.5%), single social tax passed in the federal budget (9.7%).

In 2008 non-tax earnings of the federal budget (not taking into account the payments without compensation) made RUR 4 041.9 billion (9.7% of the GDP), which is by RUR 195.9 billion or 5.1% higher than the forecast volumes of non-tax earnings in 2008. In the structure of non-tax earnings profits from the payment of custom fees were equal to 86.2%.

On the whole cash expenditures of the federal budget over account period were equal to RUR 7 570.9 billion or 97.8% on the corrected budget revenue and expenditure for 2008. Cash noninterest expenditures of the federal budget over 2008 were equal to RUR 7 417.5 billion or 97.8% on the corrected budget revenues and expenditures (RUR 4 112.0 billion or 96.5% of the total volume of expenditures in 2006, RUR 5 834.4 billion or 91.5% of the total volume of expenditures in 2007).

The volume of the state debt was equal to RUR 2 692.0 billion as on January 1, 2009.

As on January 1, 2009 the volume of the means of the Reserve Fund was equal to RUR 4 027.6 billion, of the Fund for the National Welfare – to RUR 2 584.5 billion. Over 2008 the volume of means of the Reserve Fund expanded by RUR 958.6 billion, of the Fund of the National Welfare – RUR 1 801.7 billion.

In 2008 real execution of the budget of Pension Fund was equal to RUR 2730.2 billion (104.2% as on budget allotments) by revenues and to RUR 2357.8 billion (99.4%) by expenditures. In 2007 the budget of the Fund was executed by 101.7% by revenues and by 100.2% by expenditures. In 2008 real execution of the budget of Fund for Social Insurance was equal to RUR 360.5 billion (98.5% as on budget allotments) by revenues and to RUR 379.4 billion (97.4%) by expenditures. In 2007 the budget of the Fund was executed by 104.1% by revenues and by 99.0% by expenditures.

In 2008 the budget of the Fund for Compulsory Health Insurance was executed at the sum of RUR 162.6 billion by revenues, including the general volume of interbudgetary transfers received from the federal budget of RUR 73.2 billion, of which RUR 30.9 billion was spent on

the provision of some categories of citizens with the additional free health care envisaging the provision with the medicines, medical equipment, as well as special products of dietotherapy for the disabled children.

The Government of the Russian Federation approved the report on execution of the federal budget for 2008 and ordered it to be submitted to the Clearing House of the Russian Federation. Also at the meeting the draft of the federal law “On execution of the federal budget for 2008” was approved and it was commissioned to be submitted to the State Duma according to the established procedure. Besides, the reports and drafts for the federal laws on the execution of the budgets of all three off-budget funds were adopted.

On **June 15, 2009** at the meeting of the Presidium of the Government of the Russian Federation the results of the progress of Federal Target Programs (FTP) and fulfillment of Federal Targeted Investment Programs (FTIP) in the 1<sup>st</sup> quarter of 2009 were discussed.

It should be noted that in 2009 the total volume of financing of 53 FTP according to the open part of the federal budget was envisaged to be RUR 990.1 billion, including the expenses for the public investments of RUR 651 billion (the amount of the budget investments at the rate of RUR 503.2 billion and the subsidies for co-financing of the objects of capital construction of the state property of the subjects of the Russian Federation and municipal property, included in the federal target programs at the rate of RUR 147.7 billion), for research and development – RUR 92 billion, expenses for the directions of “other expenses” being RUR 247.1 billion.

In the 1<sup>st</sup> quarter 2009 the cash execution of the federal budget concerning the financing of the FTP was made at the rate of RUR 87.5 billion or 8.85 of the budget allotments for 2009, which is by RUR 43.3 billion more than in the corresponding period of 2008 (mainly because of the expansion of financing by the direction of research and development).

The biggest amount of the budget allotments by the public investments were made for the following programs:

- Modernization of the transportation system of Russia in 2002-2010 – RUR 23.6 billion;
- Economic and social development of the Far East and Transbaikalia up to 2013 – RUR 3.9 billion.

The biggest amount of funds of the direction of research and development was aimed at the fulfillment of the Federal space program of Russia for 2006-2015 (Roskosmos) – RUR 17.18 billion.

The Ministry of Economic Development of the Russian Federation on the basis of the complex analysis of the parameters for FTP execution in the 1<sup>st</sup> quarter 2009 made an estimation of the efficiency of FTP fulfillment.

Fulfillment of five programs is recognized as efficient:

- Federal space program of Russia for 2006-2015;
- Development of electronic componentry base and radioelectronics in 2008-2015;
- Development of civil aeronautical engineering for 2002-2010 and for the period up to 2015;
- Guarantee for nuclear and radiation security in 2008 and in the period up to 2015;
- Modernization of transportation system in Russia in 2002-2010.

Other 34 programs are regarded as of average efficiency of fulfillment.

According to the data of the Federal Treasury, in the 1<sup>st</sup> quarter of 2009 the objects and measures of FTIP were financed at the rate of RUR 40.8 billion at the expense of the federal budget (not taking into account the state defense order), which makes 7.4% of the total volume of the budget investments, envisaged for the year. Within the framework of the FTIP program part RUR 29.7 were financed (7.4% of the total amount of the budget investments envisaged for financing of program part), within the framework of FTIP non-program part – RUR 11.1 billion (7.6%). ●

## REVIEW OF ECONOMIC LEGISLATION

I.Tolmacheva

*In June the following important changes to the legislation were made: the Law, regulating the activity on the acceptance of the payments of the natural persons made by the paying agent was adopted; the legal status of the Cossack societies was legally established; the notion of the share agreement was introduced; refinancing rate of the Bank of Russia was reduced to 11.5% per annum.*

### **I. Federal Laws of the Russian Federation**

#### **1. Federal Law from 03.06.2009 No 103-FZ “ON ACTIVITY OF ACCEPTANCE OF THE PAYMENTS MADE BY NATURAL PERSONS CONDUCTED BY THE PAYING AGENTS”**

Law comes into effect on January 1, 2010.

The activity on acceptance of payments of natural persons by paying agent is defined as the acceptance of monetary means by the paying agent from a natural person which are aimed at execution of monetary liabilities to the supplier on payment for goods (works, services), including making payments for accommodation and utilities in concordance with the Housing Code of the Russian Federation, as well as making further settlements by the paying agent with the supplier.

The paying agent is defined as a legal entity or individual entrepreneur conducting the activity on acceptance of payments of natural person; the payer is a natural person making payments to the paying agent in order to fulfill the liabilities of the natural person to the supplier.

The Law states the conditions for conducting of acceptance of the payments, defines the specific requirements for cash vouchers issued by the paying agent to the payer and the requirements for the automatic devices to accept the payments of natural persons; envisages the procedure for implementation of control over observance of the established requirements. The Law establishes that after January 1, 2010 the acceptance of the payments without cash registers and issuing cash vouchers meeting the requirements of the adopted Federal Law is not allowed.

#### **2. Federal Law from 03.06.2009 No 107-FZ “ON MAKING CHANGES TO THE FEDERAL LAW “ON NON-COMMERCIAL ORGANIZATION” AND TO ARTICLE 2 OF THE FEDERAL LAW “ON STATE SERVICE OF RUSSIAN COSSACKS”**

Federal Law “On non-commercial organizations” is supplemented with the statements establishing the legal status of the Cossack societies. They are defined as the forms of self-organization of the citizens of the Russian Federation uniting in order to revive Russian Cossacks, to protect the rights, save the traditional lifestyle, housekeeping and culture. Cossack societies are to be included in the state register; they have a right to conduct entrepreneurial activity corresponding to the aims of their creation. At the same time the new version contains the norm of the Federal Law “On state service of the Russian Cossacks”, defining the notion of “Cossack society”.

#### **3. Federal Law from 03.06.2009 No 115-FZ “ON MAKING CHANGES O THE FEDERAL LAW “ON JOINT-STOCK COMPANIES” AND ARTICLE 30 OF THE FEDERAL LAW “ON MARKET OF SECURITIES”**

A new article is introduced in the Law “On joint-stock companies”, which envisages the notion of stock agreement, the number of its participants, the procedure for the conclusion

and execution of the agreement. Thus, the stock agreement is defined as the contract on execution of the rights testified by stocks and (or) on specific features of the execution of the rights for stocks. The Law is supplemented by the statements envisaging authorizing the general meeting of shareholders to solve the issue of the formation of the single executive body of the society or on the pre-term suspension of its authority in case the statute of the society assigns this question to the authority of the executive board which did not make a decision. The conditions, on which the societies disclosing the information in concordance with the legislation of the Russian Federation on securities are to disclose the information on non-acceptance of such a decision and other societies – to inform the shareholders on non-acceptance of such a decision according to the procedure envisaged by the Law, in order to notify them about the general meeting of the shareholders are defined.

The procedure for the claim of the special general meeting of the shareholders in these cases is described in detail.

Changes, connected with the statements mentioned, are also included in the Federal Law “On the market of securities” expanding the list of the information which is subject to disclosure.

## **II. Instructions, Letters, Orders**

1. Instruction of the Central Bank of the Russian Federation from 04.06.2009 No 2247-U “ON REFINANCING RATE OF THE BANK OF RUSSIA”

From June 5, 2009 the refinancing rate of the Bank of Russia is established to be 11.5% per annum. Earlier (from May 14, 2009) the refinancing rate was equal to 12.0% per annum. ●

## REVIEW OF REGULATING DOCUMENTS IN THE FIELD OF TAXATION OVER MAY–JUNE 2009

L. Anisimova

1. According to the Federal Law from June 3, 2009 No 117-FZ changes are made into article 217 of the Tax Code of the Russian Federation. The agriculture products produced by agriculture producers, farms that were given to the employees as a natural form of labor remuneration as well as (or) works (services) made (rendered by such agriculture producers and farms for the benefit of an employee, property rights transferred by the mentioned organizations and farms to the employee are excluded from the list of taxable incomes.

The exemption from taxation is granted for each really worked month during the labor contract in the calendar year when the following conditions are observed simultaneously: the total sum of incomes in the natural form does not exceed RUR 4 300;

the income from the sale of the goods (works, services) produced by the organizations and farms over the previous calendar year does not exceed RUR 10 million.

The negative difference between the real and the maximum acceptable profits (RUR 4300) is allowed to be taken into account by taxpayers when defining tax liabilities in the following months of the calendar year.

The incomes in the natural form of catering the workers recruited for seasonal field works; profits in the form of payment for the transportation costs for the underage people going to and from the place of studies, studying in the pre-school and general education institutions having a corresponding license; profits in the natural form received by the taxpayers suffered from the terroristic acts in the territory of the Russian Federation, , natural disasters or other force-majeur in the form of educational services, as well as treatment and health care and the services of the sanatoria and health resorts are also exempted from taxation.

2. According to the Federal Law from June 3, 2009 no 120-FZ changes are made in subparagraph 2 paragraph 1 article 219 of the Tax Code of the Russian Federation. The right for the receipt of the social tax deduction is spread to a taxpayer who is a brother (sister) of the person studying in educational institutions in case the taxpayer pays for the education until the student (brother or sister) is 24 years old and on condition that he studies full-time.

3. The Government of the Russian Federation on May 25, 2009 approved the main directions of the tax policy of the Russian Federation for 2010 and for the planning period of 2011 and 2012.

4. According to the Decree of the Government of the Russian Federation from May 26, 2009 No 451 changes were made to the Decree of the Government of the Russian Federation from December 2, 2000 No 914 establishing the rules for making invoices. Changes were made in the regulations for the filling of journals of received and drawn, books of purchases and sales when calculating VAT.

5. According to the Letter of the Federal Tax Service of the Russian Federation from May 28, 2009 N MN-22-6/431 it is clarified how the rate of the single tax when implementing simplified taxation system taking into account the right of the subjects of the Russian Federation to vary it from 5 to 15% should be reflected in the Form for submission of the tax declarations in electronic form.

6. According to the letter of the Ministry of Finance of the Russian Federation from May 22, 2009 No 03-11-11/89 the question on the procedure for the taxation with the single tax on the imputed income of the entrepreneurial activity on transfer of trade places and land plots at the retail markets for temporary use, including on conditions of sublease, is clarified.

The Ministry of Finance of the Russian Federation explained that in concordance with paragraph 2 article 15 of the Federal Law from December 30, 2006 No 271-FZ “On retail trade markets and making changes in the Labor Code of the Russian Federation” the trade places are given on the contracts for providing trading places for the period that does not exceed the period of permissions’ effect.

In the opinion of the Ministry for industry and Trade of the Russian Federation, which, according to clause 8 of the Order of the President of the Russian Federation from May 12, 2008 No 724, is responsible for the development of the state policy and legal regulations in the field of trade, transfer of the trading places on other contracts (including sublease contracts) is not envisaged by the Law.

Entrepreneurial activity in the field of rendering services on transfer of land plots for the placing of the objects of stationary and non-stationary trading network as well as the objects of catering organizations to the temporary use (including that on the basis of sublease contracts) can be transferred to the payment of the single tax on the imputed income in concordance with subparagraph 14 paragraph 2 article 346.26 of the Tax Code of the Russian Federation. For these purposes the number of the transferred land plots (if the area of 1 land plot is less than 10 sq. m) or the total square transferred to temporary use (if the area of one land plot is more than 10 sq. m) will act as a physical index. If one and the same land plots was leased more than once during the year, for the purposes of payment of single tax on the imputed income is considered as one land plot. The sum of the tax in this case does not depend on the real time of use of the land plot during the year, but the correcting coefficient of basic profitability C2 (in case it is established by the legislation of the subject of the Russian Federation for the location of the plot) is applied to the activity on the transfer to the temporary use. For instance, the seasonality and the regime of work can be regarded as the specific features of such entrepreneurial activity. ●

## REVIEW OF BUDGETARY LEGISLATION

M. Goldin

*In June 2009 the following events took place in the field of budget legislation: the list of the reasons for granting the budget credits to the budgets of the subjects of the Russian Federation was expanded, the application of the blocking of the expenditures of the budget means for non-target use of the budget means was abolished from January, 1 to December, 31.*

According to the Decree of the Government of the Russian Federation from 26.05.2009 No 453 “On approval of the regulations for granting (use, return) of the budget credits from the federal budget to the budget of the subjects of the Russian Federation for 2009” new Regulations for granting (use, return) of the budget credits were put into effect.

According to the Regulations for granting (use, return) of the budget credits the budget credits are given for the following purposes:

- a) partial backing of the deficit of the budget of the subject of the Russian Federation;
- b) backing of a temporary cash gap, evolving when executing the budget of the subject of the Russian Federation;
- c) implementation of the measures connected with the elimination of the aftermath of the natural disasters and man-caused damage taking place in the territory of the subject of the Russian Federation (further referred to as natural disasters and man-caused damage);
- d) construction, reconstruction, thorough repair, repair and maintenance of the motorways of general use (excluding the motorways of federal significance).

New regulations expand the list of causes for granting of budget credits to the budgets of the subjects of the Russian Federation. In concordance with earlier adopted procedure the credits are granted for the purposes listed in points (a), (b) and (c), that is, granted for the period exceeding the limits of a financial year. Now it is established that the credits can also be given when the initially adopted for 2009 amount of subsidies for construction, reconstruction, thorough repair, repair and maintenance of the motorways of general use (excluding the motorways of federal significance) is reduced by more than 15%. In this case the credit may be granted for the period up to 3 years.

According to the Order of the Ministry of Finance of the Russian Federation from 23.04.2009 No 37n “On making changes to the Order of the Ministry of Finance of the Russian Federation from December 26, 2005 No 162n” it is established that from January 1 to December, 31 2009 the Procedure for reduction of the limits of the budget liabilities by the superintendant of the means of the federal budget in cases of no-purpose use of the means of the federal budget, established by the Federal Service for Financial and Budgetary Supervision and the Clearing House of the Russian Federation, approved by the Order of the Ministry of Finance of the Russian Federation from December 26, 2005 No 162n, is applied when it comes to blocking of expenditures of the means of the federal budget made on the basis of the facts of the no-purpose use of the funds of the federal budget revealed before January 1, 2009. In other words, the blocking of the budget expenditures in the period from January 1 to December 31 2009 is applied only to the facts of the no-purpose use of budget means revealed before January 1, 2009. ●