



RUSSIAN ECONOMY: TRENDS AND PERSPECTIVES 06'2010

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RUSSIAN ECONOMY IN JUNE 2010: TENTATIVE INDICATORS AND MAJOR TRENDS

I. Political background: intentions and reality

Among June events in the political sphere, which can provide an impact on the economic climate in Russia, one should mention the Economic Forum in St. Petersburg and the visit of President Medvedev to the USA. In the President's speech at the Economic Forum, the news was disclosed about the signing of the Decree, which shortens the list of strategic enterprises by 5 times. This measure in the short term is rather symbolic, than practical in nature and is intended to demonstrate the President's desire to pursue a more open policy towards foreign investors than it used to be in the last six months of 2000-s. During the President's visit to the USA there were announced the commitment of the Parties to resolve all issues relating to Russia's accession to WTO by the fall of this year, as well as reaching framework agreements on the issue of imports of the US poultry to Russia. However, this is not the first «breakthrough» in negotiations at the highest level, forcing to treat it with caution.

Meanwhile, the prospects for economic cooperation within the CIS countries also remain rather vague: Ukraine has signed an agreement with the EU, which is inconsistent with the possible joining the trade and customs unions, proposed by Moscow (CES, CU). On the other hand, June in general has been marked by mutual claims and demands between Minsk and Moscow over the price of gas supply and transit, as well as the trade regime of oil and oil products within the Customs Union. Even if Belarus will sign after all the documents of the Customs Union, it will not mean the resolution of conflict issues and the end of trade wars between Moscow and Minsk.

At the G20 summit in Canada, representatives of the world leading economies agreed on the position, which reflects a compromise between the supporters of the forced (France, Germany) and restrained (USA) approaches to reduce the budget deficit: It was decided to reduce deficits by 2013 approximately twice against the current levels. The Russian leadership has stated that these rates correspond to the capacities and intentions of the Russian government.

II. Macroeconomics, finance and budget: unstable stability

Macroeconomic Dynamics in June has traditionally been affected by the situation in the global markets. Issues in the Euro zone in April and May resulted in significant changes in the Dollar/Euro rate: Euro rate has decreased from USD 1.36 on April 14 to USD 1.19 on June 7, then rose to USD 1.23 by June 28. This dynamics is reflected in the high volatility of prices of essential commodities: Brent oil barrel price dropped from USD 89 on May 3 to USD 70 on May 25 (-21.3%), and then rose to USD 78 on June 16 (+11 %). Similar fluctuations have been noted in the prices of non-ferrous metals: from April 15 to early June, they fell by 24-33%, and then grew by 8-12% by the end of the month. Traditionally, the Russian stock indices were reflecting the fluctuations in commodity prices: for example, the MICEX index fell from 1,530 points as of April 15 to 1,197 points on May 25, and then began the reverse dynamics and reached 1,406 points on June 21 (the RTS index on the same dates had the values of 1,676, 1,226 and 1,457 points).

In the first four weeks of June the Euro rate strengthened against the ruble by 1.9%, the dollar strengthened against the ruble at the same rate – by 1.9%, resulting in the two-currency basket value growth to RUR 34.34 (+1.9%). Foreign currency reserves of the Central Bank amounted to USD 461.4 billion as of June 25, i.e., the reserves remain at the level attained in the second half of April – USD 454-461 billion with minor fluctuations over two and a half consecutive months.

From June 1 to 28, the CPI in Russia increased by 0.4% (- 4.4% from beginning of the year), whereas in June 2009 this index amounted to 0.6%, thus in the annual terms, inflation made 5.8% by the end of June. Apparently, however, the cycle of declining inflation (in annual terms) is close to completion: we would like to recall the sharp inflation slowdown occurred in Russia in spring 2009, so the monthly growth in prices in May-June 2010 are moving closer to the level of the last

year. At the close similarity of the May inflation in 2009 and 2010 (0.5% in May this year and 0.6% in May 2009), the quality of price growth is rather different: in May 2009, the basic inflation was 0.5%, while in May 2010 – 0.1%. This means in particular that the increase in prices due to seasonal and administrative factors in spring of 2010 is significantly accelerated as compared with last year. During the summer and early autumn a significant acceleration of inflation is hardly possible (although not excluded that it will be slightly higher than in the last year, when prices growth remained at zero rate during the August-October), but by the year-end the inflation risks increases which will be provoked both, by the growth of monetary supply (from the beginning of 2010 up to May 1 increase in M2 was 4.7%), and the revival of consumer demand and the likely termination of the trend towards RUR strengthening.

In May, the excessive reserves of commercial banks rose very slightly (by 5.7 billion rubles or 0.3%), whereas in previous months, the increase amounted to 10-20%, so one can speak about changing (or suspension) of the trends to a rapid increase in excessive reserves. Meanwhile, the accumulated excessive liquidity has led to further reduced rates of inter-banking credits in May and June. According to the Central Bank, in May there was some recovery in the market of bank loans: loans to non-financial institutions increased over the previous month by 1.9% (against 0.9% growth in April), and to individuals - by 1.2% (against 1% growth in April). In general, the May credit portfolio of banks grew by 0.8%. In June, the Central Bank expects a reduction in lending to companies up to 1%.

By the end of June the Central Bank estimates the net capital inflow at USD 4.3 billion (like at the end of May), so the net capital inflow in June will be recorded for the fourth consecutive month, after a capital flight in January and February in the amount of USD 16.9 billion. If this trend continues, the significant capital outflow, observed earlier in the year can be fully compensated in July and August.

In June, amendments were introduced to the law on the federal budget for 2010: it is planned to increase the budget revenue by 1.2% of GDP while expenditures are reduced by 0.2 percentage points, resulting in reduction of the budget deficit from 6.8% of GDP to 5.4% of GDP. This was possible thanks to the positive situation in global markets of raw materials, a more dynamic revenue inflow, and cost reduction policies. Thus, federal budget revenues in January-May amounted to 19.1% of GDP, which is 1 percentage point more than in the same period of the last year. As a result, the federal budget is executed with a deficit of 2.9% of GDP against 3.3% of GDP in 2009. Due to the same external factors, the Reserve Fund, although it decreased over 5 months to 519, 5 billion rubles (by 28.4% as compared with the end of 2009) will not meet the expectations to be fully utilized before the end of 2010 to cover the federal deficit.

Budget of the expanded government as of May 1, 2010 is executed with a surplus of 2.3%. Budget expenditures of the expanded government decreased by 1.1 percentage points of GDP, while in absolute terms, expenditures increased by 550 billion rubles or 13.3% as compared with the same period of the last year. However, the expenditure structure has significantly changed: expenditures were reduced for "National economy" (by 1.6 percentage points), for "National security", "Housing utilities", "Healthcare", "Education" and "Federal Issues" (by 1.7 percentage points total). At the same time expenditures were significantly increased for social policy (from 10.9% of GDP in January-April 2009 to 13.1% in the same period of 2010).

III. Industry: with hope, but without confidence

Revision of the State Statistics Service data on the dynamics of industrial production has resulted in the lower estimates of the pre-crisis output growth, and respectively, the depth of the crisis was smoothed, and the rates of post-crisis recovery happened to be higher. Production growth in industry in January-May 2010 as compared with the relevant period of 2009 amounted to 110.3%, including in mining – by 106.0%, and in the manufacturing industry - by 114.4%. Positive trend in the industry and the dynamics of freight turnover (growth by 12.4%), production and electricity, gas and water consumption (growth by 6.0%).

Positive dynamics of industrial production is supported by the revival of consumer demand. Thus, retail trade turnover in January - May 2010 amounted to 102.9% against the same period of the last year. In turn, growth in demand is based on income growth, which in January-May amounted to

106.2% as compared with the same period of the last year. Revenue growth, however, is specific: It is indicative that budget revenues from personal income tax in January-April were lower (in terms of GDP share) than in the corresponding period of the the previous year. This is due to the fact that a large share of income growth was achieved through the valorization of pensions (for January-April 2010 the actual amount of fixed pensions has been increased by 1.43 times as compared with January-April 2009). In view of this increase, the consumer demand may be temporary and limited. It is distinctive, that the growth of retail trade turnover was mainly achieved in the increase in turnover of food products (4.6%), while the non-food trade grew only by 1.3%. The continued stagnation in the sector is confirmed by extremely low rate of price growth by 1.7% since the beginning of the year (the growth by 4.8% for food and by 6% in commercial services).

However, the greatest impact on economic growth prospects in the short term will be provided by a continued low level of investment activity. In the first quarter of 2010 investments in the fixed assets totaled to 1.2626 trillion rubles, or 95.9% as compared with the corresponding period of the last year, when investment activity was already going through a phase of dramatic decline. In January-May, the situation has somewhat improved: investments amounted to 99.6% as compared with the last year (with regard to the small businesses and non-observed activities), which allows to suggest the end of investment downfall. However, in the segment of medium and large enterprises (excluding small business and non-observed activities) and by major industries, it looks much worse. Thus, investment in the mining sector in the first quarter of 2010 amounted to 89.9% as compared with the last year, in the manufacturing industry – 78.6%, in construction – 70.3%, in trade – 84.2%, in transport and communications – 76.5%.

Instability of the positive economic dynamics is demonstrated by IEP market surveys. According to the initial estimates, the growth rate of output in June is close to the a new post-crisis record and becoming more comparable with the values of this index of early 2008. However, first estimates of the June market situation showed a reduction of the companies optimism after the May upsurge. Companies failed to confirm the record, but kept the value of this index in the positive range. The main reason for the fall of optimism is a sharp decline in estimates of demand. In June this component of the IEP Index of Economic optimism has lost 16 points at a time and again became negative. June output estimates got reduced as well. Dynamics of reserve estimates also confirms these trends: in May, the balance of assessments has clearly improved, indicating expectations of enterprises to increase the growth rate of sales in June and July, but in June the balance deteriorated towards the average values of the preceding months of the crisis. ●

POLITICAL AND ECONOMIC RESULTS OF JUNE 2010

S.Zhavoronkov

In June Dmitry Medvedev confirmed that he had not taken any decision about his candidacy for presidential elections in 2012 so far, despite the rumors on that issue. In the framework of public speakings in June Dmitry Medvedev and A.Kudrin raised the issue of commitment to reduce the budget deficit. It is confirmed that a balanced budget to a greater extent will be achieved through tax growth, rather than expenditure reduction. There took place an escalating of large commercial conflicts, in particular, FAS has confirmed the intention to collect fines from the oil industry, and the holder of the Kovykta field, owned by TNK-BP "Rusia Petroleum", which declared bankruptcy, having exhausted attempts to obtain from the state any support in continuation of their activities or repurchase its shares by public companies.

The major development in June 2010 became the St. Petersburg Economic Forum and the presentation of Dmitry Medvedev, announced under the title "We have changed". Medvedev promised to abolish some taxes (such as "capital gains tax"; it seems, it is a tax benefit on profits of legal entities in the sale of assets increased in value), but increase others - their exact list is not disclosed.

In addition Dmitry Medvedev has also declared at the economic forum that he would reduce five times the list of strategic enterprises "...The state should not pick up apples from the tree of the economy, but it should help grow our apple orchard, so I shorten the list of strategic enterprises in the five-fold, to 41 ...". The relevant Decree of the President of Russia was signed. Some commentators praised the gesture, though in fact, it has a little meaning. Excluding the assets from the list of strategic enterprises does not mean that they will be privatized – to this end, they should be at least included in the privatization program. However, as is well known, privatization was virtually stopped in the recent years.

D. Medvedev promised to create an investment fund that would be addressed on the principles of private co-financing ("Say, for one ruble of government investment, we expect to attract three rubles of private investment") in the Russian investment projects and attract "strategic investors" to them. However, the investment fund exists in Russia today, and among its shortcomings is just the called ultra-high amount of private co-financing affordable only to large businesses, and even not all of them. Medvedev also promised to finance training of Russian students at prestigious international universities and research centers (actually, there is nothing new about it, but now the state is not directly engaged, it is done through public educational and research institutions).

In general, the President gave an optimistic picture of Russia's future - "... Russia should become an attractive country, where people from all over the world would come in search of their special dreams. In search of better opportunities for success and self-realization that Russia will be able to give to everybody who is willing to accept this challenge and to love Russia as their new or second home ... «. However, this attractive picture of Russia, which is attractive to people from all over the world, and not only to the poorest countries as it happens now is markedly contrasted with the relatively modest innovations proposed by the forum participants.

During his visit to the USA in June, D. Medvedev, responding to a question of one of the participants of the meeting at Stanford University, once again, "did not rule out" his participation in elections in 2012, and has stated as a condition, as before, the abstract "implementation of plans, which I formulated, ... support of the people ... « and his own desire to do that." In this regard, Dmitry Medvedev, who by the middle of his term has neither his own, different from Putin's political platform, nor a parliamentary political party that would nominate him, or his own team, nor - as he says - even a certain desire to remain the President of Russia, confirmed once again that the decision as to who becomes the President in 2012, remains with Vladimir Putin.

The Russian Finance Minister Alexei Kudrin at the St. Petersburg Economic Forum has made an important statement about the inevitability of increasing the retirement age. “... *It does not matter when it is decided - after a year or two or five years. But it has to be done*”. Kudrin said that the deficit of the Pension Fund this year will exceed one trillion rubles, and on the next year it will be only slightly less, despite the decision to raise taxes. Kudrin has rightly recalled that in Russia, the retirement age is lower not only as compared with the countries of Eastern Europe, but also in the developed countries. We could add that in the developed countries of Europe raising of the retirement age is being discussed, and in some countries such decisions are already made. Virtually nowhere in the world¹ the retirement age for women is 55 years and for men - 60 years, while in Russia from 25 to 31% of the population, according to various estimates, has the right for early retirement or for an increased pension.

However, there is another problem. At the current level of legally paid wages, which is substantially lower than in both, the developed and many developing countries, the transition to a defined contribution pension system is extremely problematic in Russia. As regards the problems with pensions financing, they will get worse; according to the estimates, in 10-15 years the number of pensioners will equal the number of working population (currently it is 15% lower), and the anticipated extension in life expectancy, if it happens, will mean a dramatic increase of the burden on the pension system (currently the average life expectancy for men is slightly lower than the retirement age). So even the retirement age extension by 5-7 years, which is extremely doubtful before the completion of the electoral cycle in 2012 might not be a radical solution to the problem.

A. Kudrin confirmed the intention of the RF Government significantly to increase excise duties on petrol, alcohol and tobacco to reduce the budget deficit, so that to reach a deficit-free budget by 2015, having reduced the deficit to 1% of GDP each year. Ideally, Kudrin spoke in favor of deficit-free budget excluding revenue from hydrocarbons, although the current policy is questionable and the possibility of achieving balanced budget is doubtful. Kudrin also promised a significant reduction in costs (other than health and education), but, again, in recent years, there was no such reduction and it was unclear, whether there was a political will to reduce those expenditures. Dmitry Medvedev in late June said only about “*reducing the deficit by half by 2013*”, rather than about the balanced budget.

At another conference (“Capital Renaissance”) in the same month Kudrin reminded of the threat of macroeconomic instability. He warned of the likelihood of decrease of oil prices to 60 dollars per barrel in the next three years.

In June a number of major economic and political conflicts aggravated in Russia.

In June TNK-BP, the owner of a control stock in the operator Kovykta deposit – “Rusia Petroleum” (the other 25% minus one share is held by Norilsk Nickel, 11% - by the Irkutsk Region Administration), has decided to appeal to the Court of Arbitration of the Irkutsk Region with a declaration of “Rusia Petroleum” bankruptcy. This company was pushed to this desperate measure by complete legal uncertainty in regard to the extracted gas. According to the law “On Gas Export”, “Gazprom” has a monopoly for its exports, but the closest and most economically sound consumer of gas is China. For more than ten years of virtual inactivity of the field the situation has changed - China has obtained an access to the Central Asian gas, having constructed a special pipeline. “Gazprom”, and later the formal owner of Rosneft - the state-owned Rosneftegaz has announced that “it is not going to purchase “Rusia Petroleum”, and the Ministry of Natural Resources is constantly threatening with revocation of the company license (again, such a threat was heard from the Minister S.Trutnev after the filing of the bankruptcy notification). Since “Rusia Petroleum” has large loans to the major shareholder, exceeding 11 billion rubles, the announcement of bankruptcy seems to haunt both, legal and actual intent was to restore at least something (the license in bankruptcy, most likely, will also be included in the bankruptcy assets - in any case, it is allowed by the Federal Law “On the Subsoil”).

Whatever may be the end of this story, it is an example of irresponsible attitude of the State to the fields development and the investors in the oil and gas sector: the license holder, having spent a lot of money for over 10 years, has not received any guarantees on gas disposal from its fields,

1 Regardless such countries as Ukraine or Uzbekistan, where, however, pension rates are significantly lower.

no clear instructions, even of a political nature, as to the development of his company and no guarantee for a refund. Meanwhile, "Gazprom" continues to complain about the gas shortage.

Moscow Arbitration Court has declared invalid the pooling of interests of "Megaphon"-TeliaSonera (43.8%) - (a controlling stake belongs to the Governments of Sweden and Finland) and Altimo (25%), owned by the shareholders of "Alfa Group", which resulted in the foreign controlling shareholder participation in one of the three largest Russian mobile operators: according to the conditions of transaction concluded in November 2009, TeliaSonera was supposed to be the asset manager. Group of Companies "Telecominvest" of Usmanov (co-owner operator) has challenged the deal, referring to the Law "On Foreign Investment", according to which a foreign company can not have a controlling stake in the Russian company referred to strategic ones. Earlier, however, FAS approved a similar deal to merge the assets carried out by co-owners of "VimpelCom" Altimo and Telenor (control stock is owned by the Government of Norway).

The general meeting of shareholders of GMK "Norilsk Nickel" has ended with a scandal, although there were no formal charges of violating the law. "Interros" Group of Vladimir Potanin (a little over 25% of shares), Company management, disposing of about 8% of the shares, the pledge holder on VEB loans, "Metalloinvest" Group (about 10% total) and minority shareholders have voted in such a way that "Russian aluminum", the owner of a blocking stake did not receive parity representation with the "Interros" in the Board of Directors, in contrast to the last year result, approved by the State and not withdrawn so far. Perhaps, the representatives of State have expressed in such a way a protest against the aggressive attempts of the "Russian Aluminium" to gain super dividends from the Company.

I. Artemyev, the Head of FAS, announced that he has no intention to enter into settlement agreements with the oil businessmen and plans to charge them for the full amount of fines (a total of about 26 billion rubles). In late May, Presidium of the Supreme Arbitration Court adopted a precedent-based decision on the case against TNK-BP for 1.1 billion rubles for the collective maintenance of high oil products prices, and the fine is paid. However, Artemyev said: "...unless otherwise ordered by the Prime Minister Vladimir Putin." Thus, Artemyev has refuted the words of the representatives of his own Institution about the possibility of a settlement agreement with the oil sector members ("Rosfnet" and "Gazpromneft", who called for such an option, and supported by the First Vice-Prime Minister Shuvalov in early June). Thus, it seems, the decision has not only fiscal meaning, but also a political logic, bringing us back to the time when oil companies were regarded not only as an engine of the economy, but also as the donor, who retains tax revenue from the budget.

The law "On Amendments to the Federal Law "on Federal Security Service" and to the Code of the Russian Federation on Administrative Offences", submitted by the RF Government was adopted in the first reading. According to the Law, the Federal Security Service acquires the right to make a formal warning to an entity who has not committed a crime, but, according to an FSS official opinion, has taken actions that give rise to the emergence of the causes and conditions for the crime, the investigation on which is carried out by FSS. The key issue is debated in the State Duma Committees the question of administrative liability for failure to respond to the warnings, which will be discussed in second reading (the Committee for constitutional legislation proposes to impose to the entities a fine from 500 to 1000 rubles or an administrative arrest for up to 15 days). If this law is passed in this form, in fact, it would mean the possibility of FSS to condemn individuals persons to administrative detention for 15 days without court sentence on the basis of its own conclusions about what creates the conditions for committing crimes and what does not.

There have been some symbolic developments in the "second Yukos case" - in terms of the absurd accusations of the owners of Yukos of that time in the theft of oil, produced by Yukos. This case is required by the Russian authorities, since the term of Yukos managers under the first sentence judged in 2005 is coming to the end. Witnesses in the court, Victor Khristenko, the Minister of Industry and the head of Sberbank, and G. Gref, the former Minister of Economic Development have stated they did not have any information on such crimes. In June, the criminal case against former Vice-President of Yukos V. Alexanian was terminated in connection with the lapse of time. V. Alexanian was arrested in 2006 after he was appointed the Head of the company by its shareholders at a time when the former Head Nazarov refused to obey them, and in fact moved

under the guidance of Yukos opponents. In prison, it became clear that Alexanian was seriously ill, got almost blind, and his confinement was obviously inflicting humanitarian damage to the reputation of the Russian authorities.

However, it is doubtful that those events provide grounds to the possibility of justifying M.Khodorkovsky - it would be a personal political defeat for V.Putin. Rather, there is created some resemblance of competition in that case, which caused another public scandal after the court refusal to apply the entered into force new amendments to Art. 208 of the Criminal Procedure Code, which excludes the detention of the accused under the charges against Khodorkovsky. ●

INFLATION AND CREDIT AND MONETARY POLICY

N.Luksha

According to the May 2010 results, consumer price inflation in annual terms stopped to slow down, having reached, as in April, 6 per cent. Monthly consumer price inflation in May almost equalized with those of the last year (0.5 per cent against 0.6 per cent). Following three weeks of June the CPI made 0.3 per cent. The increase in consumer prices since the beginning of the year to June 21 reached 4.3 per cent. The real effective exchange rate of the ruble continued to strengthen: in May it reached 0,5 per cent. In May, the foreign currency reserves of Russia decreased by 1 per cent, but slightly increased in the first half of June, thus reaching USD 458.5 billion on June 18. From June 1, the Bank of Russia once again lowered the refinancing rate by 0.25 percentage points to 7.75 per cent per annum.

In May, for the first time since the beginning of the year, the inflation slowing has practically stopped. Apparently, the consumer price index reached a minimum year to year growth rate of around 6 per cent. Monthly growth rates became almost equal to the last year, having reached 0.5 per cent against 0.6 per cent in the previous year (see Fig. 1). The largest contribution to the prices growth has been made by more prices growth for food products (by 0.7 per cent).

In May of this year seasonal price growth for fruit and vegetables was continued (+ 7.2 per cent). In addition, prices were rapidly growing for alcoholic beverages (+ 0.8 per cent), meat and poultry (+ 0.5 per cent). However, the majority of food products became cheaper, and therefore, excluding the cost of fruit and vegetables, price decline in this group of products amounted to 0,1 per cent. The greatest decrease in prices affected the eggs, which became cheaper by 5.3 per cent in May.

In May, the growth rates of prices for non-food goods have slightly increased (by 0.4 per cent). Continued growth rates were observed in automobile gasoline (by 1.5 per cent) and tobacco (by 1.4 per cent). As in the past month, medicines and TV-audio commodities became cheaper, respectively, by 0.8 per cent and 0.6 per cent. In May, prices have reduced also for electrical appliances and other household equipment (-0.1 per cent).

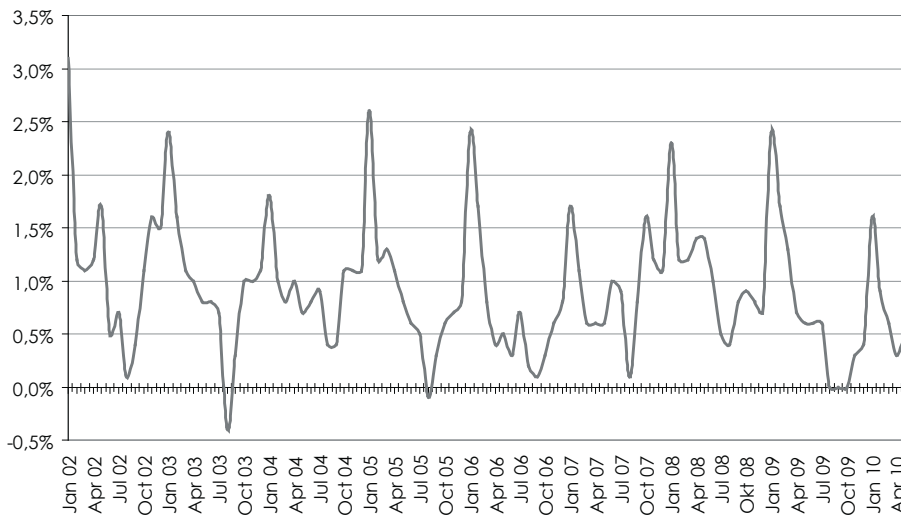
The rate of increase of prices for paid services in May 2010 amounted to 0,4 per cent, having increased by half compared with the previous month. At the beginning of the summer vacation season, prices for passenger transport (1.7 per cent), especially the passage in long-distance trains (at 9,4 - 12,1 per cent), and sanatorium-health services (1.6 per cent) and overseas tours (0.7 per cent). Also, prices dropped connection and insurance services (by -0.2 per cent).

The growth rate of prices for commercial services in May 2010 amounted to 0,4 per cent, having increased by half as compared with the previous month. At the beginning of summer vacation season, prices for passenger transport (by 1.7 per cent), especially for the long-distance trains (by 9.4 – 12.1 per cent), healthcare and recreational services (1.6 per cent) and overseas tours (0.7 per cent). Prices decreased also for communication and insurance services (by -0.2 per cent).

In June of this year, monthly inflation rates have continued to move closer to last year's values. During the first three weeks of June prices rose by 0.3 per cent, while in June 2009 - by 0.4 per cent. According to the forecast of AG Ulyukaev, the First Deputy Chairman of the Central Bank, in June prices will not exceed the indicator of June 2009 and will amount to 0.6 per cent¹.

We would like to recall, that before May the gap in the monthly inflation rate against the last year reached 1.5-2-fold. During the summer months one can hardly expect a significant acceleration in inflation caused by seasonal cheapening of products. However, the risk of inflation could get higher in the IV quarter of 2010, which will contribute to the continued expansion of monetary supply: growth of monetary supply increases (since the beginning of 2010 before May 1, M2 growth was 4.7 per cent). In addition, inflationary pressure will be associated with the restoration of consumer demand at the background of rising incomes (real disposable income of the Russian citizens in

1 «Inflation Bottom». Statistics. // Vedomosty, 07.06.2010, P. 3.



Source: RF Statistical Service.

Fig. 1. The Growth Rate of the CPI in 2002 - 2010 (% per month).

January-May 2010 increased by 6.2 per cent as compared with the same period of the last year). In addition, according to A. Ulyukaev, the potential of sustainable RUR strengthening, which served as counteracting the inflation factor, in this period has been exhausted¹. Growing global energy sources and food prices also played a role in stimulating inflation.

The basic CPI of consumer price index² in May 2010 has made 0.1 per cent (versus 0.5 per cent in the relevant period of 2009).

As of May results, the monetary base (in broad definition) has increased by 0.9 per cent and amounted to RUR 6,859 bn. Cash in circulation with regard to the fund balances in credit organizations on June 1 has reached RUR 4.7 trillion (+5.2 per cent), correspondent accounts of credit organizations in the Bank of Russia made RUR 539.4 billion (decreased by 2.8 per cent), mandatory reserves made RUR 170.5 billion (-6.9 per cent), banks' deposits with the Bank of Russia made RUR 591.5 bn (+2.6 per cent), the value of shares of the Bank of Russia with credit organizations made RUR 841.1 bn (+0.8 per cent).

In May market recovery in bank crediting was continued. According to A.G. Simanovsky, Director of the Department of Banking Regulation and Supervision of the Central Bank, the volume of crediting has continued to grow: Credits to non-financial organizations in May increased by 1.9 per cent, and to individuals - by 1.2 per cent as compared with the previous month³. In general, the May credit portfolio of banks grew by 0.8 per cent. In June, the Central Bank expects a lower growth rates of crediting to companies up to 1 per cent. Simultaneously, the share of overdue debts has increased from 5.41 per cent in April to 5.55 per cent in May.

In view of the credit markets revival, growth of the excessive reserves in the banking sector virtually halted. In May, they rose only by 0.3 per cent to RUR 1.974 trillion. Nevertheless, due to the accumulated excess liquidity in the banking system, interbank rates continued to fall, reaching 2.8 per cent in May. Thus, from the beginning of the year they dropped by 1.5 times.

In view of the outlined improvements in the banking sector, from July 1, the Central and tightens the requirements for credit risk assessment for granted loans. According to the new policy:

- *In the absence of current (on the date of assessment) of overdue loan*, the assessment of quality of the debt service is not changed as compared with previous terms in accordance with a Directive of December 30, 2008;

- *if on the assessment date there are arrears on principal debt and (or) interest thereon*, as well as in the event the arrears under principal debt and (or) interest from July 1, 2010, including the prepaid debt on the date of assessment, the quality of debt service assessment of such a loan shall be made in accordance with the requirements effective in 2004-2008;

We would like to recall, that on December 30, 2008, to support the banking sector in the crisis situation, a number of changes have been introduced in the formation of reserves for possible credit losses. Under the smoother standards, before the end of 2009, banks had the right not to maintain

1 Reurets News (<http://slon.ru/news/416756/>), 25.06.2010.

2 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

3 RIA News (<http://www.rian.ru/economy/20100115/204718318.html>), 15.01.2010.

the quality of debt service assessment by increasing the duration of arrears for a period of 30 days, the loan restructuring (change the currency in which it was nominated, maturity, interest rate) and after October 1, 2008 to address the loans of this period for previously accrued debts repayment.

Thus, from July 1, the Bank of Russia is recovering the procedure of reserves formation for tentative credit risks effective before the crisis.

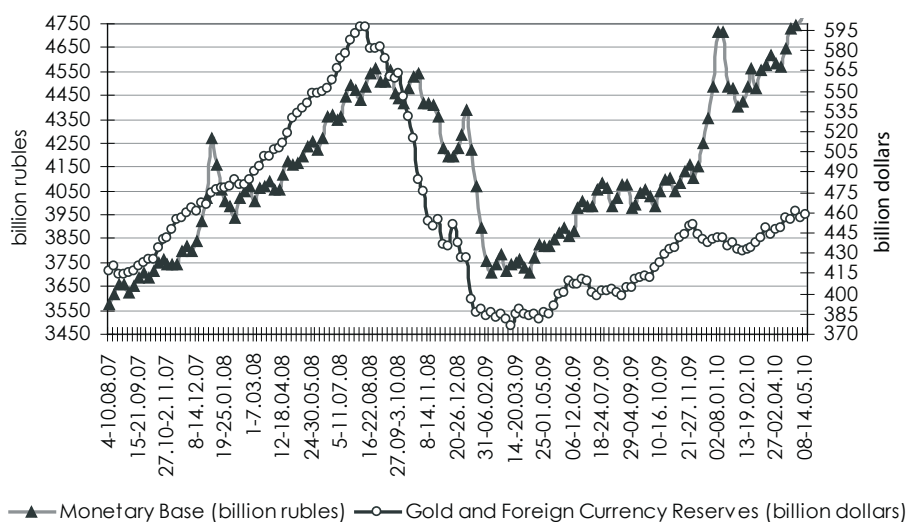
In May the growth of the volume of cash in circulation by 1.5 per cent per cent with the decrease of mandatory reserves by 6.9 per cent urged the extension of monetary base in narrow definition (cash plus mandatory reserves)¹ by 1.2 per cent (see Fig. 2).

In May the volume of foreign currency and gold reserves of the RF Central Bank has decreased by 1 per cent and by the end of the month amounted to USD 456.4 bn. As opposed to that, at the first half of the June foreign currency and gold reserves have somewhat increased, having made USD 458.5 bn as of June 18.

In May, the inflow of capital into the country was continued: according to the estimates of A. Ulyukaev, First Deputy Chairman of the Central Bank, it has reached USD 4 billion². As a result, in May the real effective ruble rate continued to be strengthened (+0.5 per cent). As of the month result, the real effective exchange rate increased to 144.52³ (see Fig. 3).

In June the Euro volatility has significantly declined, and the European currency has somewhat won back the decline of preceding months. Earlier in this month, the Euro weakened sharply after the statements made by the representatives of the new government of Hungary on the possibility of a default under the national debt payments. However, the stock market panic was avoided after the official denunciation of those statements by Budapest. From the second week of June, the Euro rate got upgraded. Support for the rate of European currencies was provided by successful auctions on placement of debt securities of the Governments of Spain and Belgium, which reduced fears of investors. During the first four weeks of June the Euro rate has strengthened against the Ruble by 1.9 per cent, amounting to RUR 26 38.33 by June 26.

Strengthening of the dollar, which began in May, continued in early June. However, with the second decade of June the dollar started to decline. On the one hand, it was happening due to the dynamics of the pair Euro/USD in Forex market. On the other hand, the depreciation of the dollar contributed to the growing oil price. Traditionally, the dollar and oil prices are moving in opposite directions. The news of June 19 about the detachment of the rigid Yuan rate to the dollar has not had a significant impact on the dynamics of the dollar. The market reacted to the fall of the dollar, following the statements of the People's Bank of China, however, followed by correction, when it became clear that Beijing will not allow sharp fluctuations in the rate of their currency. During the first four weeks of June the dollar strengthened against the ruble by 1.9 per cent, to USD 31.08 on



Source: RF Central Bank.

Fig. 2. Changes in the Monetary Base and in the Gold and Foreign Currency Reserves in 2007 - 2010

1 We would like to remind, that the monetary base in the broad definition is not a monetary instrument, it reflects the obligations of the Bank of Russia in national currency. The monetary base in narrow definition is a monetary instrument (one of indicators of the volume of monetary offer), which is under total control of the RF Central Bank.

2 RIA News (<http://www.rian.ru/economy/20100514/234400005.html>), 14.05.2010.

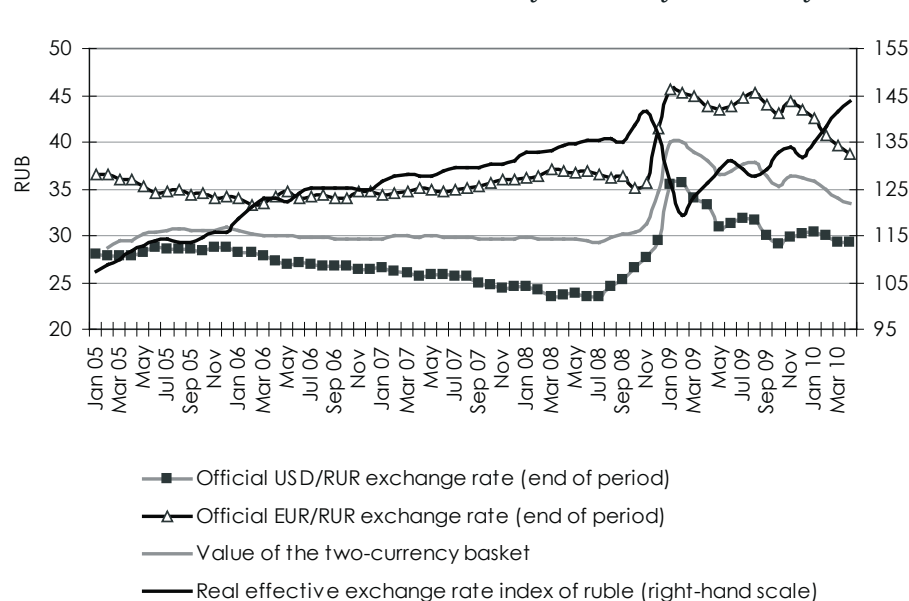
3 The level of January 2002 is accepted as 100 per cent.

June 26. As a result in June for the first time since November of the last year the value of the two-currency baskets has grown to USD 34.1 as of May 28¹ (+ 1.7 per cent). As a result, in June the cost of the two-currency basket² has grown to RUR 34.34 (+1.9 per cent).

On June 7, 2010 in order to improve the information policy, the Bank of Russia has reported the change in the form of currency intervention to the domestic market and the procedure of information disclosure (the changes in the mechanism of foreign exchange the Central Bank has introduced, according to observations of market participants, back in mid-spring of this year). From January 2009, a technology corridor was established for the value of the two-currency basket: if the rate fell to its lower limit, the Central Bank purchased currency, if it reached the top - it sold them, but if it stayed within the corridor, the Central Bank refrained from buying or selling currency. Herewith, if the volume of intervention exceed USD 700 million, the boundaries moved by 5 cop. Now the Central Bank has added a mechanism of regular purchases of foreign currency within the established corridor - this will be so-called targeted interventions. The volume targeted interventions will be estimated with due regard to the dynamics of energy prices in the global markets. Operations of the Central Bank for foreign currency buying/selling, committed over the targeted level will be aimed at smoothing exchange rate fluctuations of the ruble, not caused by the impact of fundamental economic factors. Since June, the Bank of Russia started to publish data on both, combined and target interventions.

With the mechanism of foreign currency interventions effective before, the currency market participants could predict the actions of the Central Bank in the foreign currency market and accordingly, could “play against” it. Now the actions of the Central Bank will be less predictable for currency traders. Thus, the Bank of Russia has moved from “automatic” to “manual” management of foreign currencies exchange rate.

It seems that within this two-currency corridor ruble will behave less predictably for the foreign currency market participants than ever before, or when the situation in the energy markets resulted in rapid achievement and penetration of the ruble through one of the corridor boundaries. Thus, short-term fluctuations of the ruble rate in both ways now will be more likely, although in the medium-term the national currency volatility will likely be more stable.



Source: RF Central Bank, author's estimates.

Fig. 3. Indicators of RUR exchange rate within January 2005 – May 2010³

Since May 31, 2010, the Bank of Russia once again reduced the refinancing rate and other key interest rates under the RF Central Bank operations. The refinancing rate was set at 7.75 per cent per annum. Simultaneously, the Bank of Russia has reduced the Interest rate instruments to provide liquidity in the banking sector by 0,25 percentage points. At the same time the rate for “overnight” deposit has not been changed, the rate for “Tom Next”, “Spot-Next”, “demand” deposits it has decreased by 0.25 percentage points, and for the “one week”, “Spot-week”

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

2 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

3 The level of January 2002 is accepted as 100 per cent.

deposits - by 0,5 percentage points. Against the background of a favorable situation with liquidity in the banking sector repo operations are not in demand, and the key to the economy becomes the rate on deposits, which limits the lower rates in the interbanking market.

We would like to remind, that the Bank of Russia has reduced the interest rates already for the fourth time in the current year.

The policy of the interest rates mitigation was started by the Central Bank back in April 2009. The reasons for further interest rates reduction, as stated in the Central Bank press release practically does not differ from those that caused previous rate reductions. In particular, the persistent tendency to reduce inflation (annual inflation rate for May 25 was 5.7 per cent, as compared with 6.1 per cent a month before). Moreover, with this measure the Central Bank wants to encourage credit activity of commercial banks to ensure the recovery of economic growth. In addition, it is stated in the press-release that the Bank of Russia will apparently maintain the interest rates at the same level in the nearest months.

Almost four weeks after the press release, A. Ulyukaev, the First Deputy Chairman of the Central Bank has confirmed that the current level of interest rate is an equilibrium and the Central Bank will not be changed so far¹. ●

1 Reuters News (<http://slon.ru/news/416756/>), 25.06.2010.

FINANCIAL MARKETS¹

N.Burkova, E.Khudko

In June, the upward dynamics was observed in the Russian financial market. The relative stabilization of the world economy, growing oil prices, strengthening of the national currency and a relatively high level of liquidity helped to support the government securities market. Together with the existing economic problems in a number of European countries, the continued depreciation of Euro against the US dollar and the growing US external have resulted in a contraction of trading in the market of corporate securities. The key indicators in the corporate securities market have shown positive dynamics: the index of corporate bonds was growing, accompanied by simultaneous decrease in the yield, trading volume in the secondary market was increased. The main negative trend was the decline of the market volume and the number of IPOs. Once again, the situation worsened in the situation with the emitters' performance of their obligations to the owners of securities.

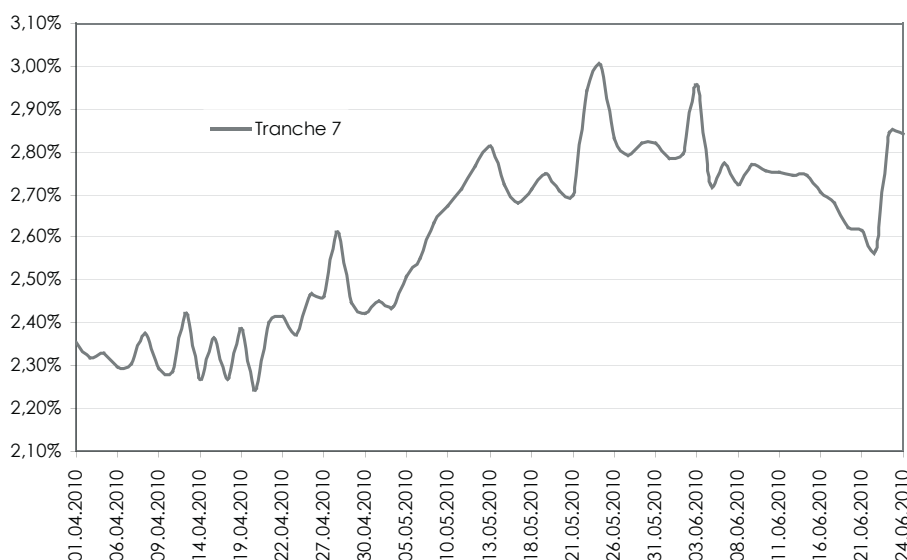
Government securities market

The increasing oil prices, the relative stabilization of the global stock markets and strengthening of the national currency of Russia supported the government securities market in June 2010 and contributed to a significant increase in the investors' interest to this segment of the stock market at the background of volatile trends of Russian Eurobonds yield.

As of June 24 of the current year, the Russian Eurobonds RUS-28 yield to maturity has grown as compared with the level of May 24 from 6.35 to 6.39 per cent per annum (by 0.61 per cent), RUS-18 – from c 5.26 to 5.47 per cent per annum (by 4.05 per cent). Herewith, the 24th coupon of the seventh tranche of external currency debt bonds was redeemed at the rate of 12.75 per cent per year. At the same time, the Russian Eurobonds RUS-30 yield to maturity has on the contrary reduced from 5.64 to 5.4 per cent per annum (by 4.19 per cent), RUS-15 – from 4.69 per cent to 4.32 per cent (by 7.91 per cent), and RUS-20 – from 5.77 to 5.46 per cent (by 5.52 per cent). As of the same date, a similar downgrading trend was observed in the yields of external currency debt bonds. Thus, the yield to redemption of the seventh tranche of external currency debt bonds has increased from 2.94 to 2.84 per cent per annum (by 3.4 per cent) (see Figs 1-2).

Within the period from May 25 to June 24 the total turnover of the secondary market of government bonds amounted to approximately RUR 665.66 billion with an average daily turnover of RUR 30.26 billion (about RUR 39.38 billion with an average daily turnover of RUR 2.07 billion in May), which means the growth of an average monthly turnover by 14.6 times.

In the period from May 25 to June 24, there were



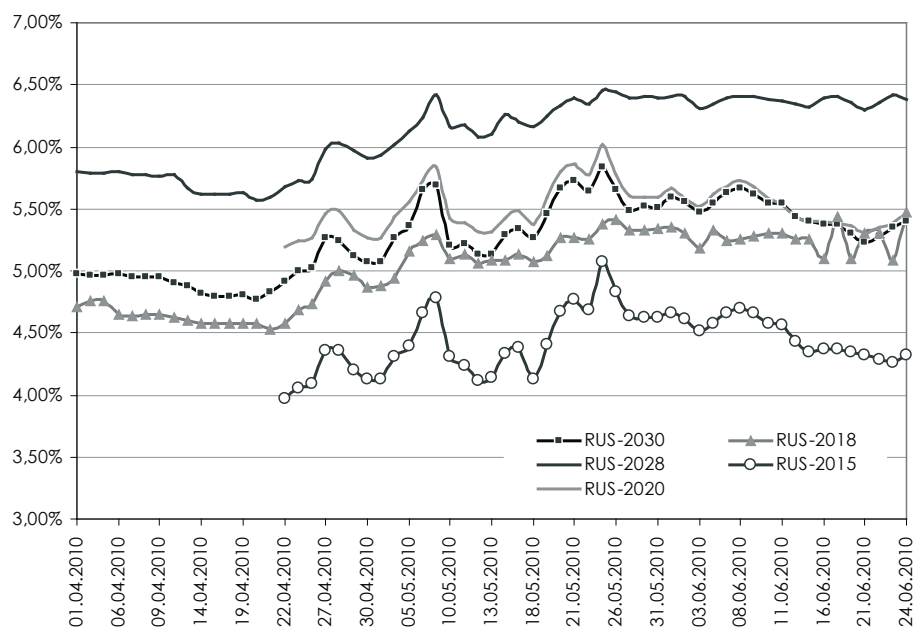
Source: "Finmarket" Information Agency data

Fig. 1. Minfin bonds' yields to maturity in April – June 2010

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

3 auctions on government bonds additional placement at the primary government bonds market (a month before there were no auctions). Thus, an auction for government bonds placement series 25074 was scheduled for May 26, but was recognized as invalid. However, on June 23 there were two auctions on government bonds placement at the primary government bonds market series 25071 and 25074; the total placement volume was RUR 20 bln each. The actual volumes were RUR 8.5 bln and 18.9 bln with an average weighted yield of 6.98 and 4.57 per cent per annum. Therefore, the total volume of placement for the period under review was RUR 68.5 per cent versus the estimated level of, which demonstrates an increased interest to the primary government bonds market.

Moreover, in the period under review there were several of government bonds additional placement in the secondary market was made (Table 1). Herewith, the total actual placement of government bonds in the secondary market for the period amounted to RUR 34 per cent versus the estimated value.



Source: "Finmarket" Information Agency data

Fig. 2. Yields to maturity of the Russian Eurobonds with maturity in 2010, 2015, 2018, 2020, 2028 and 2030 in April – June 2010

Table 1

ADDITIONAL PLACEMENT OF FEDERAL LOAN BONDS IN THE SECONDARY MARKET

Auction date	Placement	Auction type	Placement volume, RUR bln	Volume at face value, RUR bln	Average weighted yield
02.06.2010	ОФЗ-25071-ПД	additional placement	9 239.22	305.53	7.11
02.06.2010	ОФЗ-25072-ПД	additional placement	4 005.70	2 242.28	6.51
02.06.2010	ОФЗ-25073-ПД	additional placement	9 421.51	5 240.77	6.25
02.06.2010	ОФЗ-25071-ПД	additional placement	9 239.22	2 000.00	7.10
02.06.2010	ОФЗ-25072-ПД	additional placement	4 005.70	1 763.42	6.52
03.06.2010	ОФЗ-25071-ПД	additional placement	6 933.69	1 533.69	7.08
03.06.2010	ОФЗ-25073-ПД	additional placement	4 180.74	2 433.74	6.22
03.06.2010	ОФЗ-26199-ПД	additional placement	3 709.15	865.45	6.16
04.06.2010	ОФЗ-25071-ПД	additional placement	5 400.00	200.00	7.07
04.06.2010	ОФЗ-25073-ПД	additional placement	1 747.00	1 647.00	6.17
04.06.2010	ОФЗ-26199-ПД	additional placement	2 843.70	2 043.70	6.15
08.06.2010	ОФЗ-26199-ПД	additional placement	800.00	400.00	6.14
08.06.2010	ОФЗ-25073-ПД	additional placement	100.00	100.00	6.13
08.06.2010	ОФЗ-25071-ПД	additional placement	5 200.00	657.78	7.07
09.06.2010	ОФЗ-25071-ПД	additional placement	4 542.22	1 942.22	7.07
09.06.2010	ОФЗ-26199-ПД	additional placement	400.00	400.00	6.13
10.06.2010	ОФЗ-25071-ПД	additional placement	4 348.00	2 600.00	7.05
11.06.2010	ОФЗ-26201-ПД	additional placement	3 133.52	200.00	6.54

Table 1, cont'd

Auction date	Placement	Auction type	Placement volume, RUR bln	Volume at face value, RUR bln	Average weighted yield
16.06.2010	ОФЗ-26201-ПД	additional placement	2 933.52	533.52	6.53
17.06.2010	ОФЗ-26201-ПД	additional placement	2 400.00	360.00	6.53
18.06.2010	ОФЗ-26201-ПД	additional placement	2 040.00	2 040.00	6.52
Total:			86 622.89	29 509.09	

As of June 24, the volume of government bonds market made RUR 1 505.32 bn at face value and RUR 1 536.67 bn at the market value (as compared with RUR 1 448,42 bn and RUR 1 461.79 bn accordingly as of May 24). The duration of the OFZ market portfolio was 1 574.18 days, having decreased by 61.42 days as compared with the preceding month (as of May 24).

Stock market

Stock market situation

In June 2010, in contrast to May, the volume of trading in the stock market showed a negligible at the background of the sustained volatility of the global financial and commodity markets, reduction of the RF Central Bank refinancing rate from June 1 to 7.75 per cent, positive financial performance of a number of the largest Russian companies as per results of the quarter I of 2010, growth of trade surplus of Russia in April 2010, by 2.3 times to USD 14.6 billion and the GDP of Russia in January - April 2010 by 3.5 per cent, unemployment decrease in May to 7.3 per cent increase in international reserves, improved forecasts of OECD on the growth of Russian GDP in 2010 (by 0.6 p.p. to 5.5 per cent) and the UN estimates (by 1.5 up to 4.3 per cent), as well as reduced forecast of the Ministry of Economic Development in regard to inflation in 2011 to 5-6 per cent.

The maximum value within the month the MICEX index has reached on June 21, having reached 1,393.07 points (1 406,21 per cent points in the preceding month) (*Fig. 3*). The minimum value for the period of June 8 – 1 301.41 points (against 1 263.99 points in the preceding month).

In general, within the period from May 25 through June 24, the MICEX index has increased by 7.39 per cent, what makes about 93.78 points in absolute terms (within the year, from June 25, 2009 through June 24, 2010, the MICEX index has been upgraded by 29.71 per cent). Over the same period, the turnover of trades in securities included in the MICEX index made about RUR 1,150.13 bn at

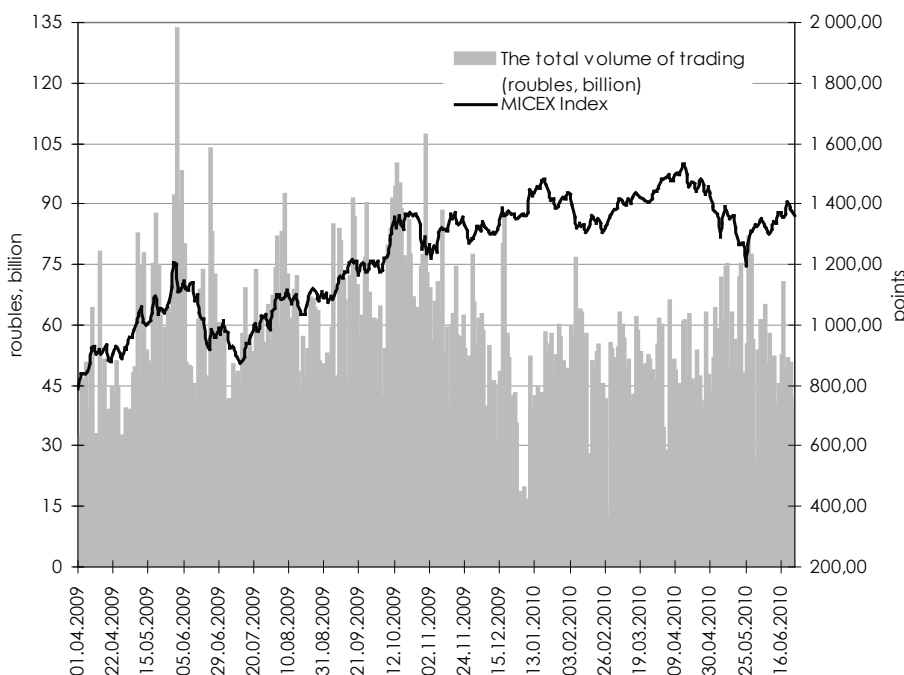


Fig. 3. Dynamics of MICEX Index and trading volume

an average daily turnover of RUR 55.19 bn (against RUR 1 150.13 bn with an average daily turnover of RUR 60.53 bn in the preceding period). Therefore, the investors' average daily activity in the stock market in June has grown as compared with the preceding period by 8.82 per cent. The indicators of maximum and minimum daily turnover in the market trades made, accordingly, RUR 81.74 bn (as of May 21), and RUR 38.9 bn (on June 23).

As of the month results (from May 25 through June 24), the "blue chips" securities have shown positive dynamics. The leaders in the growth were Sberbank of

Russia, whose shares have grown by 24.79 per cent, Rostelecom (22 per cent) and Gazprom Neft, whose shares have decreased by 24.10 per cent, and LUKOIL (20.35 per cent). Some less upgrading rates were noted in securities of VTB Bank (19.27 per cent), Tatneft and Surgutneftegas. They were followed by the securities of Gazprom (8.18 per cent), GMK Nornickel (4.35 per cent), Mosenergo (2.22 per cent) and Rosneft (1.66 per cent) (Fig. 4).

In June of the current year the MICEX turnover leaders were: “Sberbank of Russia” (35.57 per cent of the total turnover), Gazprom of Russia (17.80 per cent), GMK “Nornickel” (8.24 per cent), Rosneft (7.08 per cent) and LUKOIL (6.83 per cent). The total volume of transactions with the shares of those five «blue chips» was about 75.52 per cent (all «blue chips» - 83.01 per cent) of the total trades in shares at the MICEX stock market over the term from May 25 to June 24.

According to MICEX information, as of June 24, the top five leaders of the domestic stock market in terms of capitalization were: “Gazprom” – RUR 3 696.62 bn (RUR 3 552.21 bn a month earlier), “Rosneft” – RUR 2 116.99 bn (against RUR 2 214.17 bn), “Sberbank of Russia” - RUR 1 745.52 bn (against RUR 1 514.76 bn), “LUKOIL” - RUR 1 441.26 bn (against RUR 1 255.81 bn) and GMK “Nornickel” – RUR 935.58 bn (against RUR 916.64 bn).

Futures and Options Market

In June the total turnover in the MICEX futures market has grown nearly by 40 per cent as compared with the preceding month. Thus, in the period from May 25 through June 24 the total turnover in the MICEX (futures) market made approximately RUR 127.87 bn (837.53 thousand of transactions, 3.41 mln of contracts) against approximately RUR 90.95 (510.02 thousand of transactions, 2.11 mln of contracts) in May. The largest volume of trading in June, like a month before, was observed in contracts for futures and equity instruments, amounting to RUR 87.16 billion (834.5 thousand of transactions, 2.25 mln of contracts). Herewith, futures for the MICEX index in the short-term MICEX market section in terms of the volume of trade were followed by contracts for “Nornickel” and «Sberbank of Russia», “Gazprom” and “LUKOIL” shares. It should be noted, that the value of the MICEX index (the price of transactions) for September 2010 was basically within the range of 1,300–1,410 points and for December - within the range of 1,370–1,400 points. The second place in terms of trading volume within the month of June was taken by foreign currency futures (RUR 33.86 bn). Herewith, contracts for the US dollar were in the first place in terms of trading in the MICEX futures market, followed by futures contracts for Euro/RUR and for Euro/USD rate. It is worth noting that prices of futures contracts, concluded in June for RUR/USD futures in the MICEX futures market were within RUR/USD 31–31.9 for September, RUR/USD and 31.2–32 for December. Trading volume in futures for commodity assets within the period has increased by 51.92 per cent (from RUR 2.87 billion to RUR 4.36 billion). There were no contracts for interest rate in June. Among the news of the MICEX futures market, one should mention introduced on June 1, 2010 the transfer of one additional series of quarterly estimated MICEX Index futures and futures for ordinary shares of OAO “Gazprom”, “Sberbank of Russia”, OAO “LUKOIL” and GMC “Norilsk Nickel”, with the maturity in December 2010

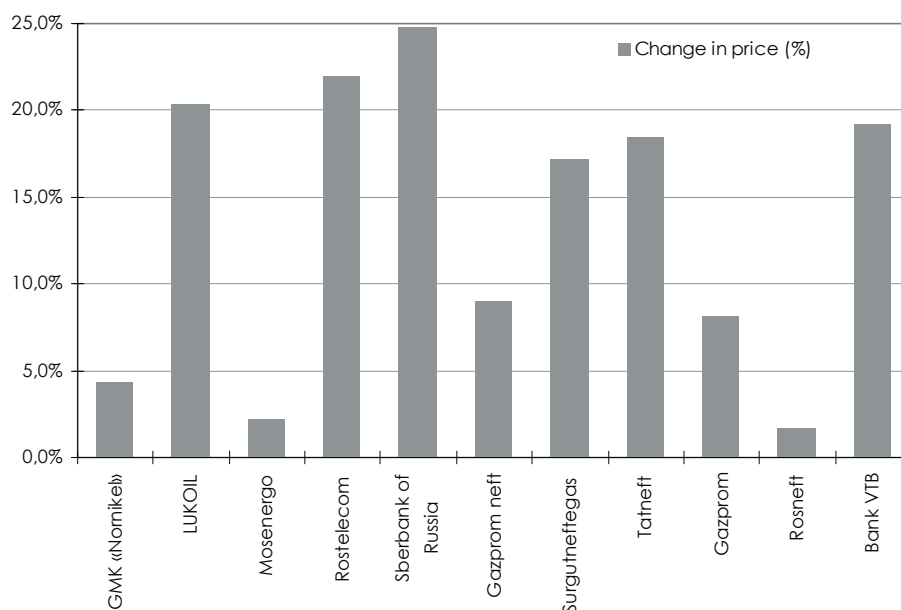


Fig. 4. Dynamics of the Russian Blue Chips from May 25 to June 24, 2010

Opposite trends were observed in the RTS FORTS futures market, where the investors' activity in June has somewhat decreased as compared with the previous month (by 2 per cent). Thus, in the period from May 25 through June 24 the total market turnover of futures and options in RTS was about RUR 2 758.15 billion (13.1 million of transactions, 62.29 million of contracts) as compared with about RUR 2 814.79 billion (12.27 million of transactions, 62.29 million of contracts) in May. The greatest demand among the market participants, as before, was demonstrated in futures: trading volume in them during the period under review amounted to RUR 2 651.4 billion (12.91 million of transactions and 60.17 million of contracts). Herewith, in the first place in terms of futures trading volume were the futures contracts for the RTS index, which were followed with a significant margin by the futures contracts for dollar-ruble rate and for the shares of Sberbank of Russia, Gazprom and Euro-US dollar rate. It should be noted that prices of the transactions, concluded in the RTS FORTS on futures contracts for the date of execution on September 15, were within RUR 30.9–31.8/USD, and on December 15, 2010 - RUR 31.2–32.2/USD. The value of futures contract for the RTS index (based on the prices of recent contracts) for September 15 was estimated on average at 1,300–1,460 points, for December 15, 2010 – 1,350–1,460 points. Options enjoyed far less demand, the turnover made about RUR 106.75 bn (186.53 thousand transactions and 2.12 mln of contracts). The maximum daily turnover in the short-term RTS futures market in the period under review made RUR 155.22 billion (as of June 4), and the minimum was RUR 90.72 bn, (as of June 21).

The maximum daily trading volume in the RTS futures market in the period under review amounted to RUR 155.22 billion (on June 4), and the minimum was RUR 90.72 billion (on June 21). In addition, since June 21, 2010 there were started trading in futures contracts for electricity in the RTS FORTS futures market with the deadlines in July and August 2010.

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 April, one should mention:

- increase of the UN forecast for global growth in 2010 to 0.6 PP to 3 per cent and by the OECD estimates - up to 4.6 per cent;
- global oil price growth up to USD 78 per barrel in June 2010;
- reducing unemployment in the U.S. in May 2010 by 0.2 percentage points up to 9.7 per cent;
- Eurozone GDP– growth by 0.2 per cent over quarter I of 2010;
- French government plans to reduce public spending by Euro 45 billion over the next three years;
- statement of the People's Bank of China that the European market remains a key focus of the national investment policy;
- plans of the People's Bank of China on the gradual reform of the monetary policy of the country (rejection of the national currency binding with the dollar);
- decision to keep key interest rate the U.S. Federal Reserve (in the range of 0-0.25 per cent per annum), the European Central Bank (at the level of 1 per cent) and the Bank of England (at the level of 0,5 per cent).

Along with the above, the following events were restraining the global financial markets growth within the month:

- negative forecast of the IMF regarding the status of the Spanish economy;
- international rating agency Fitch Ratings downgrading of Spain debt rating by one level from AAA to AA +; forecast - "stable";
- international rating agency Moody's downgrading the rating of Greek government bonds from A3 to Ba1, as well as the short-term credit rating of Greece from Prime-1 to Not-Prime, forecast - "stable";
- increased unemployment in the Eurozone countries in April 2010 to 10,1 per cent (versus 9.2 per cent in April 2009);
- growth of the USA external debt to USD 13 trillion or 90 per cent of GDP;
- a record deficit of Italy's public debt (Euro 1.81 trillion);
- depreciation of the Euro against the dollar in the global markets;
- restrictions imposed by South Korea for carrying out currency transactions in order to stabilize the national currency.

All those factors have generally resulted in the positive dynamics of the global stock indices in June, as of the month results. Thus, the markets of the developed countries were demonstrating a general growth in the indices by 1-5 per cent over the month, while the indices of the developing markets were upgraded by 2-8 per cent. The exception was the Chinese Shanghai Composite index, which has declined by 4 per cent. Herewith, on the contrary, there was observed a decrease in the basic stock market indices as compared with early January 2010 results (See *Table 2* and *Fig. 5*).

Table 2

DYNAMICS OF THE GLOBAL STOCK INDICES (AS OF JUNE 24, 2010)

Index	Ticker	Value	Dynamics within the month(per cent)	Dynamics since the year beginning(per cent)
MICEX (Russia)	MICEXINDEXCF	1 363.15	7.39	-0.50
RTS (Russia)	RTSI	1 402.97	6.96	-2.88
Dow Jones Industrial (USA) Average (USA)	DJI	10 152.80	0.86	-2.64
NASDAQ Composite (USA)	NASD	2 217.42	0.17	-2.28
S&P 500 (USA)	SPX	1 073.69	0.004	-3.71
FTSE 100 (UK)	FTSE	5 100.23	0.60	-5.78
DAX-30 (Germany)	DAX	6 115.48	5.34	2.65
CAC-40 (France)	CAC	3 555.36	3.63	-9.68
Swiss Market (Switzerland)	SSMI	6 320.62	1.84	-3.44
Nikkei-225 (Japan)	NIKKEI	9 928.34	1.74	-5.86
Bovespa (Brasil)	BUSP	63 936.70	6.71	-6.78
IPC (Mexico)	IPC	32 312.76	5.05	0.60
IPSA (Chile)	IPSA	4 075.27	7.96	13.79
Straits Times (Singapore)	STI	2 847.61	4.54	-1.73
Seoul Composite (South Korea)	KS11	1 739.87	8.41	3.39
ISE National-100 (Turkey)	XU100	55 915.67	2.49	5.85
BSE 30 (India)	BSE	17 730.24	7.65	1.52
Shanghai Composite (China)	SSEC	2 566.75	-3.99	-21.68
Morgan Stanley Emerging Markets Free Index	EFM	754.21	6.44	-3.66

* – Versus index indicator valid on May 24, 2010.

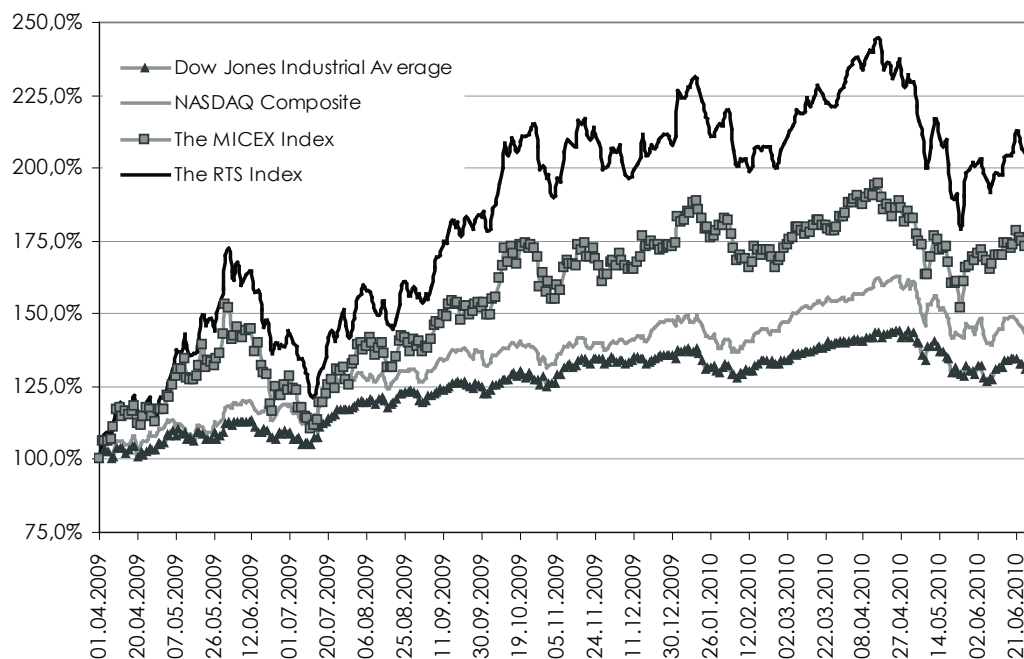


Fig. 5. Dynamics of the main USA and Russian stock indexes (in % to the date 01.04.2009)

Corporate News**ОАО "VTB Bank"**

On June 2, 2010 VTB Bank has disclosed non-audited IFRS financial results for the I quarter 2010: net profit totaled 15,3 billion rubles (as compared with 20.5 billion rubles of the net loss as of the I quarter of 2009 results), the capital adequacy ratio increased to 22,2 per cent as compared with 20.7 per cent at the end of 2009. On June 4 the annual meeting of VTB Bank shareholders has decided to distribute profits for 2009: deductions for dividends amounted to 6.07 billion rubles (USD 0.00058 per issued ordinary registered share for the nominal value of RUR 0,01), and retained earnings made RUR 16.5 billion. In addition, VTB Bank has been recognized by the international edition of Trade Finance Magazine as the "Best Russian Bank in trade finance in 2010." On June 25 VTB Bank and International Finance Corporation (IFC) have signed a framework agreement on granting to VTB Bank guarantees for foreign trade transactions in the framework of global program of IFC's trade finance.

ОАО «Gazprom»

On June 7, Gazprom and DESFA (Greece) agreed to establish a joint venture South Stream Greece S.A., the scope of activities of which will include design, financing, construction and operation of the pipeline on the territory of Greece. On June 17, ОАО Gazprom and Siemens AG have signed a Memorandum of Understanding on Cooperation in the field of liquefied natural gas. On June 18 there was signed a cooperation agreement with "Sovcomflot" on transportation of LNG from the Shtokman field, an agreement on scientific-technical cooperation with Statoil, as well as an agreement with "NOVATEK" on cooperation in the production of liquefied natural gas on the Yamal Peninsula. Also on June 18, ОАО Gazprom has signed with the Foundation Group of Companies "Project Delta" a strategic cooperation agreement providing for cooperation between the companies in the energy sector, including gas production, transportation, underground storage and processing, and with Gasunie - Memorandum of Understanding on strategic cooperation. On June 19, ОАО Gazprom and GDF SUEZ have signed a Memorandum of Understanding on cooperation in energy conservation and efficiency. The meeting of ОАО "Gazprom" shareholders on June 25 has approved the dividends as per results of operations for 2009 in amount of 2 rubles. 39 kop. per share (or 1.5 per cent of net profit); December 31, 2010 is the completion date of dividend payment.

ОАО «GazpromNeft»

On May 18 ОАО "Gazprom Neft" became the owner of 50 per cent share in Bennfield Limited, which owns 25,66 per cent shares in Sibir Energy. On May 25 ОАО "Gazprom Neft" has disclosed its consolidated financial results under the US GAAP for the I quarter of 2010: net profit increased by 117 per cent to USD 727 million (against USD 335 million in 2009).

ОАО "LUKOIL"

On June 2 ОАО "LUKOIL" has disclosed its consolidated financial statements under U.S. GAAP for the I quarter 2010: net profit amounted to USD 2,053 million (by 126,9 per cent higher than for the I quarter 2009), the rate of EBITDA (earnings before interest, taxes, depreciation and amortization) reached USD 3,729 million, having increased by 54.5 per cent. In addition, on June 24 the annual general meeting of ОАО "LUKOIL" shareholders approved the payment of dividends as per the company performance in 2009 in the amount of RUR 52 per ordinary share (RUR 50 as per results of 2008).

ОАО "Mosenergo"

On May 27 ОАО "Mosenergo" has disclosed financial statements under RAS for the I quarter of 2010: net profit amounted to RUR 5,131 million (by 2.8 per cent lower than in the I quarter of 2009), the value of assets made RUR 216 683 000 000. On June 15, Mosenergo has disclosed unaudited interim consolidated financial statements under IFRS for the I quarter of 2010: net profit increased by 20,0 per cent to RUR 5,627 million. EBITDA declined by 1.5 per cent to RUR 9,002 million. On June 4 Mosenergo has paid the first coupon income on bonds of series 03, placed on December 4,

2009: total payment amounted to RUR 255.55 million, RUR 51.11 per bond. In addition, on June 16 the annual general meeting of Mosenergo shareholders decided to distribute profit for the financial year, including the annual dividends: the total amount of net profit for 2009 of RUR 4 508 990 000 were distributed as follows: RUR 225 450 000 to a reserve fund, RUR 3 783.540 million - for investment and RUR 500,00 million - for payment of dividends. The amount of dividends as per results of Mosenergo performance over 2009 was approved at RUR 0.01262335 per share; payment term of dividends - within 180 days from the date of the decision on their payment.

NC «Rosneft»

On June 18, 2010 the meeting of NC “Rosneft” shareholders has decided to pay dividends on the shares for 2009 amounting to 11.7 per cent from the unconsolidated net profit of the company, which is RUR 24.4 billion (RUR 2,30 per common share), i.e., by 20 per cent more than for the same period of 2008; dividends will be paid before December 31, 2010.

OAO «Rostelecom»

On May 31 Rostelecom announced its audited consolidated results under IFRS for 2009: net profit made RUR 3.5 billion (by 71.6 per cent less than in 2008); OIBDA (revenues less expenses ordinary activities, excluding depreciation) - RUR 12.5 billion (decline by 12.5 per cent). On June 18, OAO “Rostelecom” disclosed unaudited consolidated reporting under IFRS for the I quarter of 2010: net profit made RUR 0.6 billion (by 31.8 per cent less than in the I quarter of 2009), OIBDA is RUR 2,7 billion (decline by 2.8 per cent).

Sberbank of Russia

On June 2, Sberbank of Russia has drawn a credit from Citibank Europe PLC for trade financing in the amount of USD 150 million for 1 year. On June 3, Sberbank of Russia has concluded a transaction with MAIR group of companies to settle MAIR debt to Sberbank – the subsidiary has acquired 75 per cent of shares in the enterprise “Rusvtormet Center”, which holds assets of metallurgical plant in Krasny Sulin, Rostov Region and a reinforcement metal plant in Georgievsk, Stavropol Region. On June 4, the annual general meeting of shareholders of Sberbank of Russia has decided to pay dividends for 2009 on ordinary shares of the bank in the amount of RUR 0.08 per share and RUR 0.45 per preferred share. On June 17 Sberbank of Russia and St. Petersburg have signed agreements on cooperation in the development of St. Petersburg infrastructure, on the project “Universal electronic map implementation and the interaction in order to place the national and municipal orders of St. Petersburg. On June 25, Sberbank of Russia and Wells Fargo Bank, National Association have signed an agreement to provide credit for trade financing in the amount of USD 75 million for 1 year.

On June 7, Sberbank of Russia has disclosed a brief interim consolidated financial reporting under IFRS for the I quarter of 2010: net profit totaled RUR 43.5 billion (RUR 0,6 billion for the I quarter of 2009); assets increased by 2.8 per cent and made RUR 7 300 900 000 000; total capital adequacy ratio as per Basel I was 18.9 per cent on March 31, 2010. On June 16 Sberbank of Russia has disclosed financial reporting under RAS for 5 months of 2010: net profit totaled RUR 58.1 billion against RUR 4.0 billion over 5 months of 2009, assets increased by 3.0 per cent to RUR 7.321 billion; Russian enterprises were granted loans exceeding RUR 1.3 trillion; capital adequacy ratio made 19 per cent.

OAO “Surgutneftegaz”

On June 25, the annual general meeting of the company shareholders decided to pay dividends for 2009 in the amount of USD 1,0488 on preferred shares and RUR 0.45 on ordinary shares.

OAO “Tatneft»

On June 21, OAO “Tatneft” has disclosed its consolidated financial statements developed under U.S. GAAP for the I quarter of 2010: net profit amounted to RUR 12.630 million (RUR 7.929 million in the I quarter of 2009). On June 25 the annual general meeting of OAO “Tatneft” shareholders has approved the payment of dividends as of the results of 2009 in the amount of 656 per cent of

nominal value per share (ordinary and preferred ones); timeframes for a payment are from July 1 to December 31, 2010.

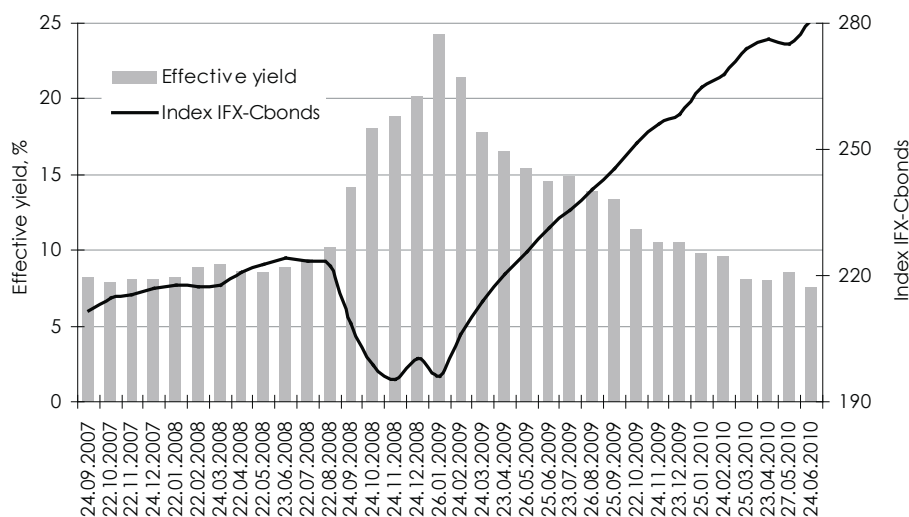
Corporate bonds market

The volume of the Russian domestic stock market (as per nominal value of shares in circulation, denominated in national currency) in June of the current year was continuing to decline and at the end of the month made RUR 2 37.0 bn, which is less than the relevant indicator of preceding month by 2.6 per cent¹. Such a trend has emerged in connection with a large number of bond redemptions over the past two or three months. Herewith, the total number of emitters has decreased from 361 to 357 and emissions in circulation and denominated in the national currency has decreased from 655 to 646. There is still one emission of bonds in circulation, denominated in Japanese yens and two emissions denominated in US dollars.

Despite the reduced scope of corporate bonds market, the activity of foreign investors in corporate bonds significantly increased as compared with preceding month, what was observed in two indicators, the volume of trading and the number of transactions. Thus, the trading volume in the MICEX market in the period from May 25 through June 24 amounted to RUR 109.3 billion (for comparison, from April 26 through May 23 the trading volume was equal to RUR 86.6 billion), whereas the number of transactions was 24.0 thousand (against 19.7 thousand transactions in the preceding period)². Therefore, the trading indicators are the highest over the last two years.

After a small decline last month, the index of Russian corporate bond market IFX-Cbonds again continued its upward trend emerging since the beginning of 2009, demonstrating a sufficiently large increase by 5.9 points (2.1 per cent) in the period from May 27 to June 24. Effective yield after a short period of growth has decreased by 1 p.p. and reached its historic peak (See Fig. 6). The duration of corporate bonds market portfolio has demonstrated a reverse trend against the last months and increased by 25 days, having made 717 days by the late June.

In June companies were actively registering bond issues again. Thus, from May 28 to June 24, thirteen emitters have registered 30 bond issues amounting to 181.5 billion rubles. This is twice more than in May (from April 24 through May 27, twenty nine emitters have registered fifty eight bonds issues worth of 327.8 billion rubles). In general, in June emitters were registering 3-4 bond issues in the amount not less than one billion rubles each. The greater part of the reported emissions were four series of exchange bonds of OAO “GMK Norilsk Nickel”, totaling to 50 billion rubles, four series of OOO “Suek-Finance”



Source: Cbonds data.

Fig. 6. Russian corporate securities index and average weighted yield dynamics

exchange bonds for the amount of 30 billion rubles, four series of exchange bonds of OAO “Alliance” Oil Company” for the amount of 20 billion rubles, three series of ZAO “UniCredit Bank” exchange bonds for the amount of 20 billion rubles³

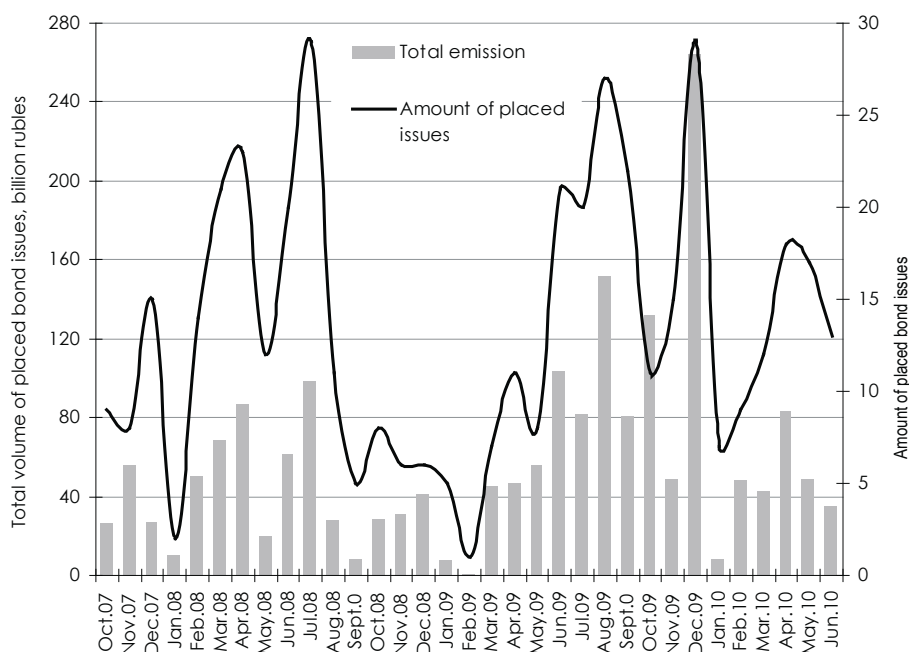
In the primary bond market a slight decline was observed in the main indicators. Thus, in the period from May 28 through June 24 there were placed 13 corporate bonds emissions, including 4 stock bonds issues totaling to RUR 35.2 billion (for comparison, from April 24 through May

1 As per Rusbonds information
 2 As per “Finmarket” Information agency.
 3 Source: Rusbonds data.

27 there were placed 17 bonds emissions for the total amount of RUR 48.8 billion (See Fig. 7). During the period under review the largest bond issues were placed by OAO "AK ALROSA" (two series of stock bonds for the total amount of RUR 15 billion) and OAO "Fifth Electricity Producing Company of the Wholesale Market" (two series of bonds for the total amount of RUR 4 billion). Herewith, over the second consecutive month no emissions were recognized as invalid by the Federal Financial Monitoring Service (FFMS) due to non-placement of any security, which testifies a sustained demand for the bonds of Russian emitters¹.

Within May 28 through June 24, twenty three emitters were supposed to redeem their 28 bond issues totaling to RUR 6.4 billion. However, two emitters have announced a technical default on repayment of their bond loans for the total amount of RUR 8 bn (against two emitters, who announced a technical default on repayment of their bond loans, totaling to RUR 2.5 bn in the relevant preceding period). In July 2010, twenty one issues of corporate bonds redemption for the total amount of RUR 33.1 bn are expected².

The situation with the performance of current debt liabilities has once again deteriorated after a positive trend, observed in the recent months. From May 28 through June 24, the real default on bonds coupon yield redemption was announced by twelve emitters (against four emitters from April 24 through May 27). Offer (bonds purchase) was carried out by all issuers in due time, like in the preceding reporting period. In regard to two emissions the emitters managed to reach agreement with bondholders to restructure the debts. A real default on bonds redemption at the nominal value of their bonds was announced by two emitters (in the preceding relevant period - three emitters), though none of them managed to restructure their debt failed to redeem their loans under seven emissions³. ●



Source: Rusbonds data

Fig. 7. Corporate securities primary placement dynamics, denominated in national currency

1 FFMS of Russia data
 2 Rusbonds data.
 3 Cbonds data

REAL ECONOMY SECTOR: TRENDS AND FACTORS

O.Izryadnova

On the basis of the results of Russian economy functioning in January-April 2010 the Ministry of Economic Development of the Russian Federation presented "Scenario conditions for functioning of the economy of the Russian Federation and the main parameters of forecast for socio-economic development of the Russian Federation in 2011 and in the planning period of 2012 and 2013". According to the preliminary estimation in 2010 the expected growth of the GDP will make 104%, investments in fixed assets – 102.9% and retail trade turnover – 104.4%. Index of industrial production will be equal to 102.7%, and that of the manufacturing industries – 103.0%. According to estimation of annual inflation, it is expected to be at the level of 106.0%. It is the increase in the investment activity that remains one of the main challenges for the Russian economy in 2011-2013.

In January-May 2010 economic situation was defined by the trends of recovery of domestic business activity and solvent demand. This year the positive dynamics is registered in all types of economic activity. In January-May 2010 versus the corresponding period of 2009 the growth of production in the industry made 110.3%, including minerals production – by 106.0% and in manufacturing industry – 114.4%. The absolute decrease of the production output volume defined expansion of the demand for services of natural monopolies. The volume of transportation turnover went up by 12.4%, that of railway transportation – by 12.7%, electricity, gas and water production and distribution – by 6.0%.

The dynamics of the domestic market depends on the rate of stocks renewal, growth of consumer demand and the level of investment activity. As a result of January-May 2010 investments remain below the level of the corresponding period of the previous year by 0.4%. Starting with this April the growth of retail trade turnover has recovered. As compared with January-May 2009 retail trade turnover has increased by 2.9%, the demand for paid services rendered to the population stabilizing at the level of the previous year. The trend for the increase of the foodstuffs goods proportion at the consumer market sustained. In January-May 2010 the turnover of foodstuffs went up by 4.6%, of non-food goods – by 1.3% as compared with the corresponding period of 2009.

Recovery of consumer market is supported by the increase of incomes of population, change of the situation in the sector of consumer crediting and stabilization of the situation at the labor market. The increase in consumer prices over the period from the beginning of the year reached 4.0%, which is 2.8 percentage points below the figure of the corresponding period of 2009. Index of prices for foodstuffs made 104.8%, for non-food goods – 101.7%, for paid services rendered to the population – 106.0%. The inflation growth rates slowing down, increase in real incomes of the population in January-May 2010 versus the corresponding period of 2009 made 6.2%, increase in wages – 4.4%. The dynamics of real incomes of population is considerably influenced by the growth of pensions. Over January-April 2010 the real amount of accrued pensions will increase by 1.43 times as compared with the corresponding period of the previous year.

In April-May 2010 the negative trend at the labor market was observed to turn. In May 2010 the number of the employed population made 70.2 million and has increased versus January by 2.5 million, the number of the unemployed decreasing over the same period down to 5.6 million versus 6.6 million on average over the 1st quarter. It should be noted that the decrease of unemployment occurs against the background of contraction of part-time employment. Starting with the end of February 2010 part-time employment reduced by 40%. According to the data of monitoring of the situation on the labor market as on May 12, 2010 the number of employers to whom administration-initiated holiday leaves were given or that were idle because of administration or worked part-time made 972 thousand.

Economic situation improving gradually, the demand for work force is also recovering. The demand for work force declared to the state unemployment agencies made 1174 thousand by the end

of April versus 802 thousand in January. As a result the tension coefficient (number of unemployed citizens registered in state unemployment agencies per 100 vacancies) reduced to 203.0 in April against 310.6 in January 2010.

Both the internal and external demand growth recovering, it is the external demand that remains the main factor for economy development in 2010.

As compared with January-April 2009 export went up by 59.1%, import – by 21.5%. Increase in export value volume is connected with the growth of prices for the main goods of Russian export and primarily for hydrocarbons, increase in import – with ruble strengthening and recovery of the trend for the growth of import for internal consumption.

In concordance with the preliminary estimations of macroeconomic indices in 2010 used when developing “Scenario conditions for functioning of the economy of the Russian Federation and the main parameters of forecast for socio-economic development of the Russian Federation in 2011 and the planning period of 2012 and 2013” the expected GDP growth belongs to the interval 103.1%-104.0%, the industrial production growing by 101.9%-102.7%, that of manufacturing industries – 102.3%-102.9%. The estimation of annual inflation is expected to be at the level of 105.8–106.0%. Under conditions of population’s incomes increasing at moderate rates (103.6%), the consumer crediting recovering gradually the retail trade turnover is forecast to increase by 4.4% in 2010 versus the previous year.

Scenario conditions and main parameters of socio-economic development for the period of 2011-2013 were developed in two main variants differing in the quality of economic growth but with equally conservative estimations of external conditions. World prices for oil for 2010-2011 are presumed to be at the level of USD 75 per barrel increasing gradually to USD 78 per barrel and USD 79 per barrel in 2012 and 2013, correspondingly. Trends of prices at the market of metals, as well as other raw materials, follow on the whole the scenario of world prices for oil. In the prepared variants of development it is envisaged that in 2011-2013 the prices at the markets of raw materials for the main kinds of goods will be stable in real terms.

Table 1

EXTERNAL CONDITIONS FOR SOCIO-ECONOMIC DEVELOPMENT FORECAST

	2008 report	2009 report	2010 estimation	2011	2012	2013
World price for oil grade Brent, USD per barrel	94.4	61.1	75	75	78	79
Oil export, million of tons	243.1	247.6	250.5	248	247	247
Gas export, billion of cu m	195.4	168.7	205.7	205.9	205.5	205.3
Growth of world economy, %	3.1	-0.6	4.0	3.9	4.0	3.7

Source: Ministry for Economic Development

According to conservative variant (1) annual growth rates of the economy are estimated to be in the interval from 2.6% to 3.1% on condition that the risks of weak investment and consumer demand growth will sustain and the crediting activity will be recovering very moderately.

Moderately optimistic variant (2) reflects faster economy recovery as a result of the increase in business efficiency, growth of banking crediting and stimulation of economic growth and modernization. The growth of the GDP in 2011-2013 is forecast at the level of 103.4–104.2%.

As a main variant for the development of the federal budget for 2011-2013 moderately optimistic variant (2) is suggested, to which the upper limit of the interval corresponds. The considered forecast variants suggest transferring to the growth of Russian economy and compensation of the recession of 2009 in the forthcoming three-year period.

According to the estimation domestic demand in real terms in 2010 will expand by 6.8%, the production for the domestic market increasing by 3.4% and import – by 18.8%. In the forthcoming three years the trend for the anticipating growth of import versus the domestic production is forecast to sustain. It should be noted that the forecast slow-down of the internal demand in 2011-2013 against the background of investment demand increase by 8.8% in 2011, by 6.3% in 2012 and by 8.1% in 2013 reflects the decrease in the efficiency of the economy.

It is the growth of final consumption that is the dominating factor in the expansion of the internal market. The growth of the retail trade turnover, according to both the variants, will exceed the pre-crisis level by 12.4-15.6% in 2013 and will be supported by the increase in real wages by 6.1-8.9%. The real disposable monetary incomes of the population will grow to a higher extent. This will be primarily connected with the considerable increase in social transfers and mainly due to the growth of pensions. However on the whole slow dynamics of population's incomes recovery will bar a significant decrease in poor population and the level of poverty can only reduce from 13.1% in 2009 to 12.2%-11.9% in 2013.

Analyzing these figures, one should take into account the situation at the labor market. On average in 2010 the total number of the unemployed will make 6 million or 8.2% of economically active population. In 2011-2013 the unemployment is forecast to decrease at slower rates than before the crisis. According to variant (2) by 2013 the unemployment will lower to 6.9% of economically active population (to 7.3% according to variant (1)), and the employment figures will reach 67.7 million (67.4 million).

The sustention of unemployment will limit the growth of wages in the private sector during the forecast period. After the real wages was lowered by 2.8% in 2008, it is expected to rise by 3.5%-3.6% in 2010. In the forthcoming years under conditions of variant (2) the growth of real wages will not exceed 2.5-3.1%.

Under conditions of variant (1) low business and state investment activity will restrict the growth of wages in the private sector and budget limitations will not allow indexation of wages of employees of government-financed organizations in 2011-2012. As a result, the real growth of wages on the whole throughout the economy will be slightly above 1%. Taking into account the fact that the growth of incomes may turn out to be insufficient for the expansion of the internal demand, the forecast presume the acceleration of consumer crediting rates.

Table 2

DYNAMICS OF INTERNAL AND EXTERNAL DEMAND, ACCORDING
TO MODERATELY OPTIMISTIC VARIANT, AS PERCENTAGE TO THE PREVIOUS YEAR

	2008	2009	2010	Forecast		
				2011	2012	2013
GDP	5.6	-7.9	4.0	3.4	3.5	4.2
Internal demand	9.1	-14.1	6.8	5.9	5.0	5.6
Import	15.2	-30.4	18.8	11.7	8.5	8.3
Domestic production	7.2	-8.9	3.4	4.2	4.0	4.9
External demand (export)	0.6	-4.8	5.4	1.3	1.8	1.9
Structure of sources for domestic demand coverage:	100	100	100	100	100	100
Import	39.7	51.9	60.5	43.8	36.6	30.0
Domestic production	60.3	48.1	39.5	56.2	63.4	70.0

Source: Ministry for Economic Development

In 2013 according to moderately optimistic variant GDP will exceed by 6.8% pre-crisis level of 2008. Annual growth rates of industrial production in 2010-2013 according to this variant will make 2.7-4.2% and as a result pre-crisis level will be exceeded by 1.6% in 2013.

The following structural changes are planned:

- increase in the proportion of foodstuffs processing and light industry in the total volume of industrial production (in 20130 the volume of production in these branches of industry will reach 109%-115% versus the level of 2008) at the expense of the growth of consumer demand and import replacement;

- by 2013 the volume of chemistry industry production will grow by 109%-112% versus the level of 2008 due to the increase of export and the expansion of internal demand;

- steady slow growth of production and demand for the production of fuel and energy complex against the background of potential realization of energy efficiency economy (by 2013 the volume of production may be equal to 102-104% versus the level of 2008)

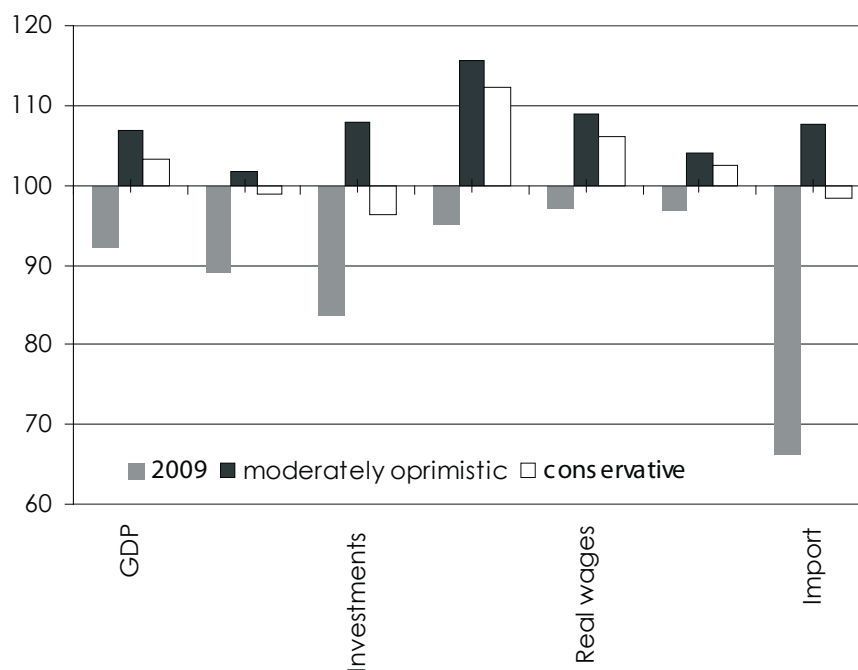
According to the forecast by 2013 the production of goods of intermediate demand will approach pre-crisis level, but the proportion of investment goods in the total volume of industrial production will shrink. Despite the fulfillment of measures to support the domestic machine-building and forecast high rates of production growth, by 2013 the volume of machine-building production output is predicted to be at the level no higher than 95-96% versus 2008. In this connection the problem of material and technical provision of investment process arises. The forecast growth of investments in fixed assets by 8.7% in 2013 versus pre-crisis figure of 2008 envisages that the growing demand for machinery and equipment should be covered at the expense of import. Besides, the assumption of forecast developers on possible stagnation in construction materials production is worrying: the volume of production in real terms by the end of forecast period can be below the pre-crisis level by 15-18%.

The analysis of the main parameters allows making a conclusion that it is necessary to control carefully the dynamics of the main figures of investment activity.

According to the specified data of the World Bank the growth of the Russian economy in 2010 may make 4.5%, which is 0.5 percentage points below the estimations published previously. Bank's experts proceed from the fact that the EU problems will have a limited influence on Russia's economy, but still do not exclude the possibility of debt crisis and European economy growth rates slowdown influencing the Russian economy through the change of oil prices, which will result in the contraction of export earnings, pressure ruble exchange rate and capital withdraw.

According to the World Bank experts, in the second half of the current year it is the consumption and recovery of stocks at enterprises that are the main factors of economic growth. The consumption will be mainly secured by the measures of government support, which has been rendered to the population since 2008.

World Bank experts recommend active attraction of non-government investments and to develop public-private partnership, as well as to use the support of the international financial institutes. Nevertheless they doubt that the companies will considerably increase investment plans in the environment of contraction of credits and uncertainty in the world economy. ●



Source: Ministry for Economic Development

Fig. 1. Dynamics of Main Macroeconomic Indices in 2009-2013, as percentage from 2008

RUSSIAN INDUSTRY IN MAY 2010

S.Tsukhlo

In May 2010 none of the IET survey indices¹ was observed to worsen. The estimations of the existing situation by enterprises went back to the pre-crisis level. The growth of the demand, though insignificant, was registered in nearly all branches of industry. The output growth rates reached the crisis maximum and the level of average of the first half of 2008. The estimations of finished goods stocks were sharply and optimistically reconsidered. The growth of prices and the employment as well as the increase in credit availability also testify that the positive trends in this sector of economy persist.

Demand for Industrial Goods

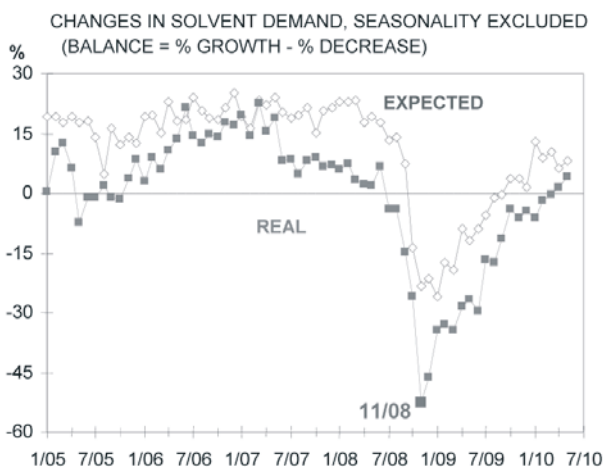


Fig. 1

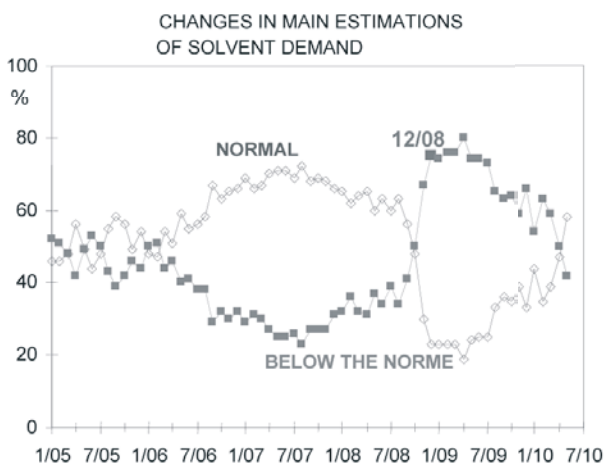


Fig. 2

This May weak positive trends in the dynamics of the demand for industrial goods have sustained. The sales growth rates (upon the exclusion of seasonality) improved by 2 points. On the whole from the beginning of the year this figure went up by 10 points, which is insufficient to overcome the crisis but still important, since the growth persisted, although in the 4th quarter 2009 the demand changes rates became steadily negative (i.e. at that time the sales were decreasing) (fig. 1). In May the growth of the demand was registered in all the branches of industry except from industry of construction materials, light industry and foodstuffs production.

Forecasts for June-July remained positive (i.e. the sales will continue to increase), but not so as at the beginning of the year. In January 2010 a sharp leap of forecasts optimism was registered, which was corrected by the enterprises already in February-March, becoming even more modest in April-May (fig. 2). At the moment the growth of sales is predicted in all the sectors, including the industry of construction materials.

In May the satisfaction with the demand went up to 58%, exceeding the proportion of responses “below the norm” for the first time during the current crisis and reached pre-crisis level of September 2008. The gap from the bottom of the crisis (April 2009, 19%) has already reached 39 points. The highest satisfaction with the volume of sales was registered in August 2007 and made 72%. Formally there is only 14 points left to the absolute maximum level. Thus, a considerable part of the way leading out of the crisis has already been covered (at least according

¹ Surveys among the directors of industrial enterprises have been conducted by the IET according to the European harmonized methodology monthly since September 1992 and cover the whole territory of the Russian Federation. The panel volume makes about 110 enterprises, at which more than 15% of the employed in the industry work. The panel is shifted towards larger enterprises for every separate sector of industry. The return of questionnaires makes 65–70%.

to the enterprises' feelings). However a sharp growth of satisfaction with the demand in the recent months (by 23 points over March-May), their growth rates changing but slightly (by 6 points over the same three months) testifies that the industry has come to terms with slow crisis overcoming and hopes less and less for the recovery of former high rates of demand and output growth. It is metallurgy, chemistry, oil chemistry (72-75%) and foodstuffs enterprises (64%) that demonstrate the highest satisfaction with the demand.

Another argument for the fact that the levels of demand that are considered as normal for enterprises before the crisis and in 2010 are quite different is the facilities load. On average in 2007 the demand was considered to be normal if 77% of facilities was used, in the 2nd quarter 2010 however the notion of norm sank to 72%. In 2001 the facilities load for normal volume of sales made 62%.

Stocks of Finished Goods

In May the surveys registered sudden and positive reconsideration of the estimations for finished goods, the result of which being zero balance of the estimations (*fig. 3*). The main reason for that was the decrease of the proportion of responses "above the norm" by 6 points, the level of responses "below the norm" remaining practically unchanged. This means that the excessive goods stocks were reconsidered and became "normal". This has already happened in November 2009, but the following month the balance returned to the level of normal (non-crisis) excess and remained at it for 5 months. In May the reduction in estimations balance occurred in all the branches of industry, excluding light industry and foodstuffs production. In these sectors the balances went up from negative to zero values, which means that the branches of industry has got rid of insufficient stocks.

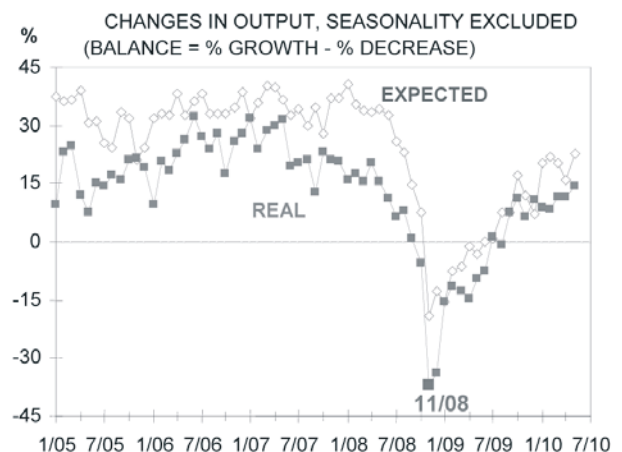
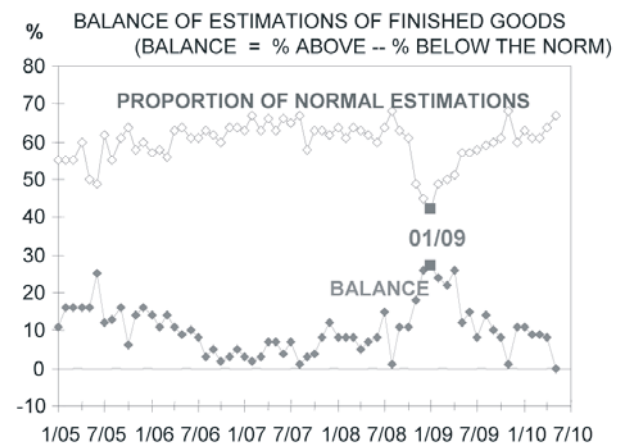
Production Output

Production output growth rates in May went up (upon exclusion of seasonality) to 15 points and reached the crisis maximum and the average level of the first half of 2008. In the 1st quarter 2010 the growth rates made 10 points, in the 4th quarter 2009 – 9 points. In May the decrease in output was not registered in any branch of industry, while the most intensive growth was observed in chemistry and machine-building industry.

Plans for production have also reached the crisis maximum. In May 2010 they became equal to plans of August 2008 (*fig. 4*). Now the production is expected to grow in all the sectors of industry, and the most intensive is possible for metallurgy, machine-building and lumber processing industry.

Prices of Enterprises

Prices of enterprises have been growing steadily since the beginning of 2001. Their rate of changes has been in the range of +9...+13points for the fifth month in the row, which definitely testifies that the enterprises do not have doubts concerning their market force. For twelve crisis months out of twenty the enterprises had to lower prices. The first attempt to increase them was



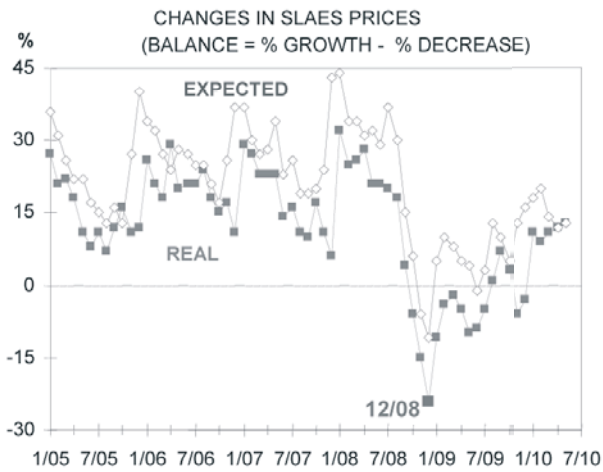


Fig. 5

Redundancies: Real Dynamics and Plans



Fig. 6

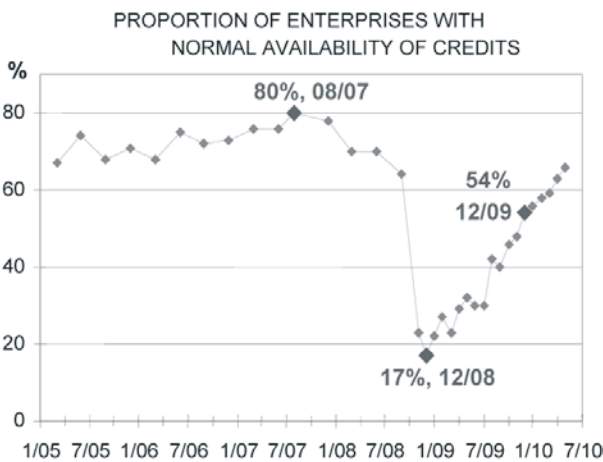


Fig. 7

made in August 2009, but lasted only three months and reached only +7 balance points (*fig. 3*). In May 2010 the growth of prices was observed in all branches of industry except foodstuffs production.

Pricing plans of the enterprises envisage the sustention of the existing growth rates for the forthcoming months. Such a situation has been characteristic for three previous months: the enterprises plan to maintain the prices growth rates at the previous level and fulfill these plans quite successfully. The pricing euphoria of December-February has disappeared. All branches of industry are planning to raise prices with the exception for the foodstuffs production.

In May the industry has maintained its previous positive employment growth rates, which have been registered by the surveys since March (*fig. 6*). In other words, for the third month in the row the enterprises have been hiring more people than making redundant. The hiring is dominating in all the branches of industry with the only exception for the light industry, where the balance turned out to be negative. At the same time in the 2nd quarter 2010 46% of enterprises of this branch state they have insufficient number of staff in connection with the expected changes in the demand. In other branches of industry the proportion of such estimation does not usually exceed 10%, and is 19% only in machine-building industry. Only 41% of enterprises in the light industry are now paying normal wages for employees. In the majority of other branches this figure exceeds 60% and only in machine-building industry and industry of construction materials it makes 43%.

Crediting of Industry

The availability of credits for the Russian industrial enterprises is still increasing: in May there are already 66% of enterprises that are satisfied with it. Thus, this figure has reached pre-crisis level (64%, September 2008), the gap from the crisis minimum makes nearly 50 points, and there are only 14 points left to reach absolute maximum (80%, August 2007) (*fig. 7*). The banks still favor the metallurgy enterprises (87% of which have normal availability of credits, the average minimum rate being 13.8% per annum), chemistry and petrochemistry industries (69% and 13.7%), machine-building enterprises (68% and 14.6%) and foodstuffs processing productions (59% and 14.5%). ●

INVESTMENTS IN REAL SECTOR OF ECONOMY

O.Izryadnova

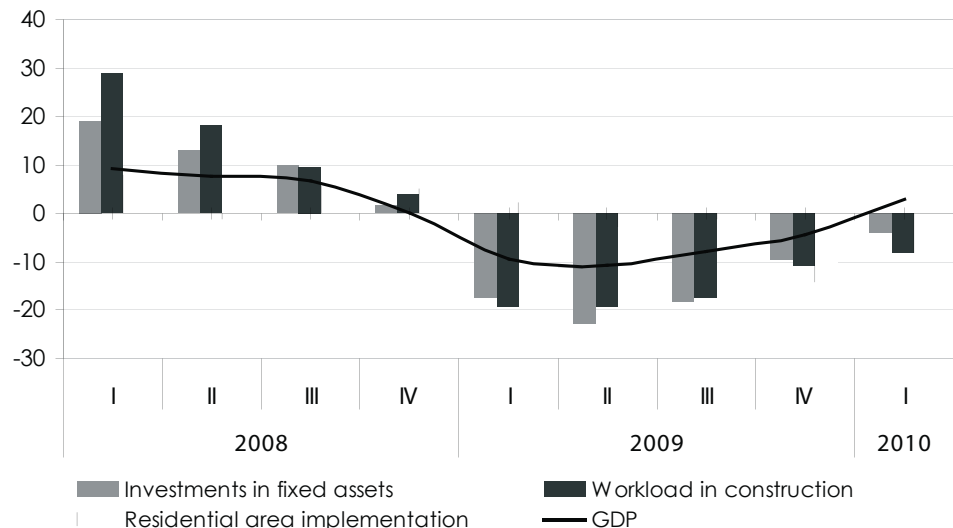
Over January-May 2010 investments in fixed assets made 99.6% of the figure of the corresponding period of the previous year. The increase in investment expenses in April and May 2010 versus the corresponding months of the previous year and preceding months positively affected the dynamics of investments in fixed assets.

According to the forecast of the Ministry for Economic Development of the Russian Federation the growth of investments will make 102.9% in 2010, that of the GDP – 104.0%. The upsurge in the investment activity is expected in 2012 at the expense of the dynamics growth and the increase of banking credits share in the structure of sources of financing. The prolongation of trends for anticipating growth of investment import versus the dynamics of investments in fixed assets is worrying since it testifies that the domestic machine-building production is weak.

The recession of the economic activity observed since the second half of 2008 changed the situation in the investment sector. Starting with the 4th quarter 2008 the reduction in investment in fixed assets scale has been observed. In 2009 the contraction of the scales of investments in fixed assets proceeded in an acuter form: investments in fixed assets dropped by 17.0% while GDP reduced by 7.9%, in the segment of small-scale enterprises the decrease of investments in fixed assets exceeded 25%. In the 1st quarter 2010 investments in fixed assets made RUR 1262.6 billion or 95.9% of the level of the corresponding period of the previous year. The specific nature of the 1st quarter 2010 could be seen in the change of the trend: against the background of intensification of investment activity contraction in the organizations of large- and medium-scale business, investments at the small-scale enterprises were observed to grow.

Over January-May 2001 on the whole throughout the economy RUR 2416.0 billion of investments in fixed assets was used, which made 99.6% of the figure of the corresponding period of the previous year. It was the increase in investments expenses scales in April and May 2010 versus the corresponding months of the previous year that had a positive effect on the dynamics of investments in fixed assets.

In the 1st quarter 2010 the GDP growing by 2.9% versus the corresponding period of the previous year, the contraction of workload in construction made 8.1% and of residential area implementation – 8.3%. Low business activity in construction in January-May of the current year was accounted for by both underinvestment of construction works in the 1st quarter and the absence of sufficient groundwork. The volume of executed works in construction made only 94.9% of the level of January-May 2009, and imple-



Source: Federal State Statistics Service

Fig. 1. GDP, Investments in fixed Assets, Workload in Construction and Residential Area Implementation Growth Rates as Broken by Quarters 2008-2010, as Percentage to the Corresponding Period of the Previous Year

mentation of housing area – 98.7%. The dynamics of housing implementation was considerably influenced by the contraction of funds for financing of share participation in construction by both organizations and the population. In the structure of investments in the 1st quarter 2010 investment expenses for construction of houses and buildings lowered by RUR 83.4 billion as compared with the 1st quarter 2009.

It should be noted that the absolute decrease in the scale of investments in fixed assets in the 1st quarter 2010 as compared with the corresponding period of the previous year concerned all kinds of fixed assets. Investment in machinery and equipment reduced by RUR 33.9 billion, including those for domestic samples – by RUR 11.2 billion. Investments for purchase of import machinery, equipment, transport vehicles (not taking into account the subjects of small-scale entrepreneurship and the volume of investment not registered by direct methods) made RUR 54.5 billion in the 1st quarter 2010 or 20.4% of the total volume of investments in machinery, equipment, transport vehicles (RUR 76.7 billion or 25.5% in the 1st quarter 2009).

Table 1

STRUCTURE OF INVESTMENTS IN FIXED ASSETS AS BROKEN BY TYPES OF FIXED ASSETS IN THE 1ST QUARTER 2009-2010 (NOT TAKING INTO ACCOUNT SUBJECTS OF SMALL-SCALE ENTREPRENEURSHIP AND PARAMETERS OF INFORMAL ACTIVITY)

	RUR billion		As percentage to the total	
	2009	2010.	2009	2010.
Investments in fixed assets	933.3	802.1	100	100
including: housing	56.4	44.3	6.0	5.5
buildings and constructions (houses excluded)	481.8	410.5	51.6	51.2
machinery, equipment, transport vehicles	300.6	266.7	32.2	33.2
other	94.5	80.6	10.2	10.1

Source: Federal State Statistics Service

The structure of investments as broken by sources of financing has also been subject to significant changes. In the 1st quarter 2010 the proportion of investments made at the expense of own funds of organizations increased by 4.2 percentage points, and the proportion of attracted funds, consequently, decreased. Though in the 1st quarter 2010 the profitability of the economy made 12.7%, exceeding by 1.7 percentage points the figure of the corresponding period of the previous year, the proportion of investments financed out of the profit of the organization reduced to 15.0% versus 18.1% in the 1st quarter 2009.

Despite the recovery from the crisis the gap between the financial sphere and the real sector persisted. Stagnation of the banking and credit sector, difficulties connected with debts restructuring, slow decrease in interest rates had a negative effect on the investment activity. The level of business activity in the 1st quarter 2010 was negatively influenced by the recovery of the trend for the capital withdrawal as well. According to the preliminary estimation of the RF Central Bank the net export of the capital by the private sector made USD 12.9 billion in January-March of the current year versus the inflow of USD 8.3 billion in the 4th quarter 2009. Besides, though foreign investments in the Russian economy on the whole went up by 9.3% versus the level of the corresponding period of the previous year and made USD 13.1 billion, their structure did not contribute into the increase in investment activity in the real sector of the economy.

Scantiness of own funds was not compensated by the growth of banking credits and borrowed funds. In the 1st quarter 2010 out of RUR 440.0 billion that was attracted RUR 76.0 billion or 17.3% was accounted for by banking credits (22.6% in the 1st quarter 2009). The role of budget funds in the structure of financing of the investments in fixed assets was observed to change in its turn. In the 1st quarter 2010 RUR 103.3 billion of investments in fixed assets was financed at the expense of budget funds (12.9% of the total volume of investments in the economy), including RUR 44.2 billion (5.5%) that was financed at the expense of the federal budget and RUR 52.8 billion (6.6%) – at the expense of budgets of subjects of the Russian Federation. The expansion of the volumes of financing of the investments in fixed assets from the federal budget did not compensate for the contrac-

tion of expenses for investment purposes of subjects of the Russian Federation by RUR 23.1 billion and of budgets of other levels – by RUR 0.5 billion.

Table 2

STRUCTURE OF INVESTMENTS IN FIXED ASSETS AS BROKEN BY SOURCES OF FINANCING (NOT TAKING INTO ACCOUNT SUBJECTS OF SMALL-SCALE ENTREPRENEURSHIP AND PARAMETERS OF INFORMAL ACTIVITY)

	RUR billion		As percentage to the total	
	2009	2010	2009	2010
Investments in fixed assets	933.3	802.1	100	100
including as broken by sources of financing: own funds	381.3	362.1	40.9	45.1
of which: profit remaining at organization's disposal	168.7	120.7	18.1	15.0
amortization	184.5	199.3	19.8	24.8
attracted funds:	552.0	440.0	59.1	54.9
including: banks' credits	125.0	76.0	13.4	9.5
out of which credits of foreign banks	40.0	25.3	4.3	3.2
borrowed funds from other organizations	85.9	51.3	9.2	6.4
budget funds	121.5	103.3	13.0	12.9
of which: out of federal budget	37.9	44.2	4.1	5.5
out of budgets of subjects of the Russian Federation	75.9	52.8	8.1	6.6
off-budget funds	2.1	1.6	0.2	0.2
other	217.5	207.8	23.3	25.9
of which: funds of superior organizations	164.2	154.5	17.6	19.3
Funds received for share participation in construction (organizations and population)	20.3	16.1	2.2	2.0
including funds of population	8.4	7.8	0.9	1.0
funds from corporate bonds issue	0.1	0.02	0.01	0.0
funds from stocks issue	5.2	14.9	0.6	1.9
Foreign investments in the total volume of investments in fixed assets	62.9	46.2	6.7	5.8

Source: Federal State Statistics Service

The state demand for the production and services of Russian enterprises is supported through sale of planned investment projects in the field of transportation, telecommunications etc realized within the framework of FTP and FTIP as well as large infrastructure projects of Investfund.

The following is envisaged for fulfilling the measures included in FTIP in 2010:

– RUR 616.5 billion from the federal budget versus RUR 589.3 billion in 2009. Out of which RUR 402.7 billion or 65.3% of the total volume of FTIP are envisaged for financing of the objects included in the federal targeted programs (FTIP program part) versus RUR 353.1 billion (59.9%) in 2009;

– RUR 62.2 billion is envisaged for financing special works included in the state defense order, which by RUR 7.2 billion exceeds the figure of 2009

Funds at the rate of RUR 213.8 billion or 34.7% of the total volume of FTIP are envisaged for construction of objects and fulfillment of measures within the framework of non-program part of FTIP, the figures of 2009 being at the level of RUR 236.2 billion or 40.1%.

Financing of special works included in the state defense order within non-program part is envisaged at the sum of RUR 44.5 billion, the figure of 2009 being RUR 35.9 billion.

In concordance with the list of construction sights and objects for federal state needs for 2010 approved by the Government of the Russian Federation from December 30, 2009 No 2130 and

specified on May 1, 2010, the allocation of state investments for construction of 1805 construction sights, objects and fulfilling measures and 939 are envisaged to put into commission versus the corresponding figures for 2009 - 2575 and 1362 construction sights and objects.

On account of annual limit in January-April 2010 the investments from the federal budget of RUR 183.7 billion and from the budgets of subjects of the Russian Federation and other sources of USD 3.9 billion were financed. As on May 1, 2010 445 objects were financed to the full extent, 349 objects had the state of technical readiness from 51.0% to 99.9%. In January-April 2010 5 objects were put into commission to the full extent and 2 objects – partially. Besides, 1 object of the objects that were envisaged for commissioning in the next years were put into commission partially.

Table 3

OBJECTS ENVISAGED BY TARGETED INVESTMENT PROGRAM AND VOLUMES OF STATE INVESTMENTS IN 2010 (NOT TAKING INTO ACCOUNT CONSTRUCTION SIGHTS AND OBJECTS INCLUDED IN THE STATE DEFENSE ORDER)

	Number of objects for 2010		Commissioned in January-October 2010		Limit of state investments in 2010		Financed from the federal budget in 2010	Investments used at the expense of all sources of financing in 2010
	total	including those with the date of commissioning in 2009	partially	to the full extent	total	including from the federal budget		
Total	1805	939	5	3	527.1	519.3	183.7	47.2
including: transportation complex	355	209	2	1	203.1	245.0	98.9	24.5
agriculture complex	173	87	-	-	12.2	6.6	2.9	0.4
special complex	265	119	1	-	19.9	28.3	3.5	0.6
social complex	925	487	2	2	265.7	219.9	73.0	20.0
other objects	87	37	-	-	26.2	19.4	5.4	1.6

Source: Federal State Statistics Service

Annual limit of state capital investments in transportation complex (48.7%) is financed considerably above the average for construction sights and objects for the state needs. Budget assignments in the special complex are financed within 17.6%, in the social complex- within 27.5%. on average throughout Russia in January-April 2010 about 25.7% of the total amount of financed funds from all sources of financing was used.

As to the territory structure, the use of limit of funds envisaged for financing of construction sights and objects of FTIP is above average in Russia in North-Caucasian, far Eastern, Urals Siberian and North-Western federal okrugs. Privolzhsky, Southern and Central federal okrugs are characterized by use of budget investments below average.

Table 4

USE OF FUNDS FOR CONSTRUCTION SIGHTS AND OBJECTS FOR FEDERAL NEEDS IN 2010

	Limit of assignments from all the sources of financing	Limit of state investments for the year	Really used from all the sources of financing in the 1 st quarter 2010	
			RUR million	As percentage from the year limit
Russian Federation	519.3	488.2	47.2	9.7
Central federal okrug	199.6	198.9	12.4	6.2
North-Western federal okrug	75.9	69.2	9.2	12.2
Southern federal okrug	95.4	85.2	6.5	6.8

Table 4, cont'd

	Limit of assignments from all the sources of financing	Limit of state investments for the year	Really used from all the sources of financing in the 1 st quarter 2010	
			RUR million	As percentage from the year limit
North-Caucasian federal okrug	8.4	8.4	1.5	18.3
Privolzhsky federal okrug	21.9	20.3	1.9	8.6
Urals federal okrug	5.1	4.7	0.7	13.1
Siberian federal okrug	20.9	20.6	2.6	12.6
Far Eastern federal okrug	92.2	80.9	12.4	13.4

Source: Federal State Statistics Service

As a result of the 1st quarter 2010 the volume of investments in fixed assets (not taking into account the subjects of small-scale entrepreneurship and investments not registered by direct statistical methods) reduced by 20.1% versus the corresponding period of the previous year. Quite considerable changes occurred in the structure of investments in fixed assets as broken by types of economic activities in 2009 and 2010.

Table 5

INVESTMENTS IN FIXED ASSETS (NOT TAKING INTO ACCOUNT SUBJECTS OF SMALL-SCALE ENTREPRENEURSHIP AND VOLUME OF INVESTMENTS NOT REGISTERED BY DIRECT METHODS) IN THE 1ST QUARTER 2009-2010

	In current prices				Growth rate versus the corresponding period of the previous year	
	As RUR billion		As percentage to the total		2009	2010
	2009	2010	2009	2010		
Total	933.3	802.1	100	100	95	78.9)
Agriculture, hunting and forestry	26.7	26.9	2.9	3.4	74.8	100.8
Fishing and fish-breeding	0.4	0.4	0.04	0.1	85.8	107.3
Industry	439	415	47.1	51.7		
Minerals extraction	192.9	180.4	20.7	22.4	90.7	89.9
Manufacturing industries	178.2	141.8	19.1	17.7	97.8	78.6
Electricity, gas and water production and distribution	67.9	92.8	7.3	11.6	100.6	122.6
Construction	29.5	19.8	3.2	2.5	97.5	70.3
Wholesale and retail trade	25.9	15.7	2.7	2	96.2	84.2
Hotels and restaurants	2.8	4.2	0.3	0.5	89.9	141.2
Transportation and communication	238.6	194.4	25.6	24.2	105.4	76.5
Railway transportation	28.3	54.6	3	6.8	61.4	130.7
Pipeline transportation	124	69	13.3	8.6	147.4	55.1
Communication	28.3	24.9	3	3.1	75	82.8
Financial activity	14.2	8.6	1.5	1.1	135.3	61.4
Operations with real estate	95.3	70.6	10.2	8.8	76	66.7
State management	10.2	10.1	1.1	1.2	106.7	81.5
Education	10.6	10.4	1.1	1.3	80.9	97
Health and social services rendering	14	12.1	1.5	1.5	93.2	83.8

Source: Federal State Statistics Service

The increase in concentration of investment resources in the industry to 51.7% of the total volume of investments in the economy in the 1st quarter 2010 was accompanied with the reduction of the investment activity scale as compared with the 1st quarter 2009 in extractive and manufacturing industry by 10.1% and 21.4% and their growth in electricity, gas and water production and distribution by 26.2%.

In the 1st quarter 2010 the proportion of transport accounted for 21.1% of the total volume of investments and that of communication – for 3.1%. Absolute volumes of transport financing in the 1st quarter 2010 reduced by RUR 40.8 billion and made approximately 75% of the figure of the 1st quarter 2010. Investments in the development of railway transportation increasing by 30.7%, investments in pipeline transportation made 55.1% of the figure of corresponding period of the previous year.

In concordance with the scenario conditions of Russia's economy functioning and the main parameters of socio-economic development of the Russian Federation for 2011 and for the planning period of 2012 and 2013 the expected growth of investments in 2010 will make 102.9%, the growth of the GDP – 104.0%.

In 2010-2011 the investments in fixed assets of natural monopolies are expected to increase sharply: by 25% in 2010, by 44% in 2011, which is mainly due to a sharp growth of investments of open joint-stock company Gazprom by 40% in 2010 and by 2.2 times in 2011. The envisaged fulfillment of large projects in oil and gas production, in pipelines construction, for instance investments in fixed assets according to the program of complex development of fields on Yamal peninsula are planned at the level of RUR 440 million in 2011.

Besides, in 2011 large investment projects of car producers are planned for realization, the increase in investments in transport vehicles production can exceed 75%.

In 2012 the growth rates of investments are estimated to be at the level of 115%, in 2013 – 110%. In middle-term run the state investments in real terms are expected to grow, but their share in the structure of the sources of investments financing will continue to decrease. Banking credits to enterprises will increase at accelerating rates with 13-15% in 2010 up to 25% in 2013.

It should be noted that the forecasted anticipating growth of investment import as compared with the dynamics of investments in fixed assets is a continuation of the existing trends of the recent months and testifies that the domestic production of capital goods has been developing not intensively enough. ●

FOREIGN TRADE

N.Volovik, K.Resenkova

As compared with the corresponding figures of 2009 in April 2010 main indices of the Russian foreign trade continued to grow under the influence of the improvement of the situation at the world markets. Starting with July 1, 2010 the regulations for goods import by natural persons in the territory of the Russian Federation are changed.

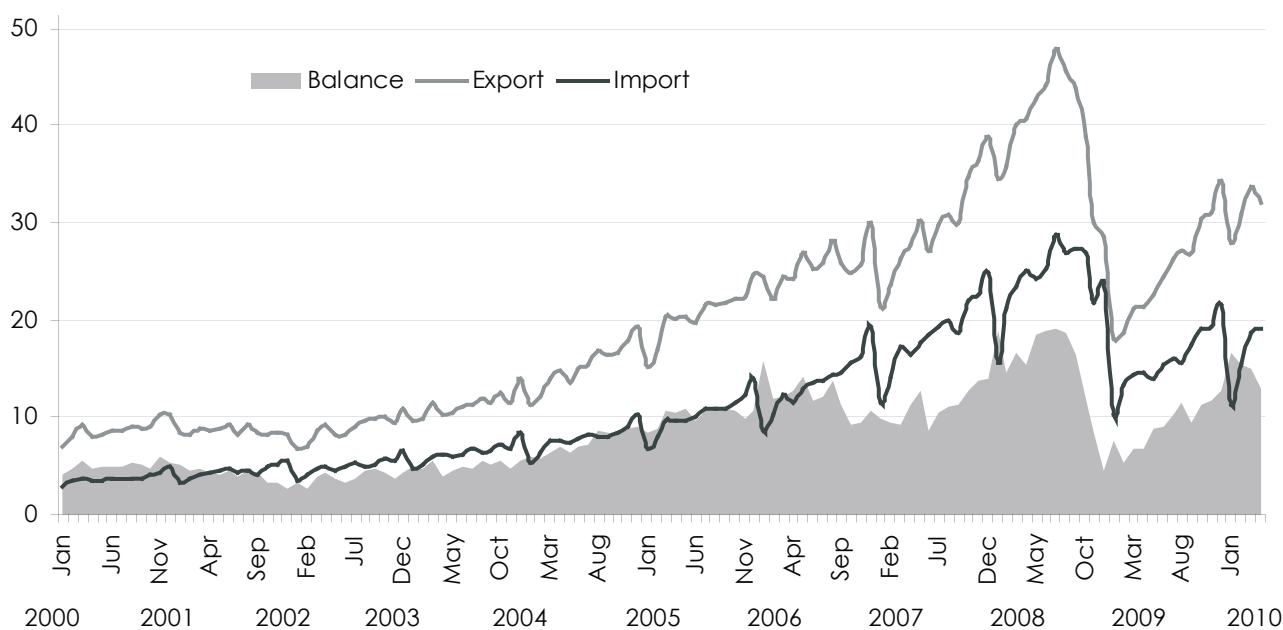
Foreign trade turnover, calculated on the basis of balance-of-payment methodology, made USD 52.1 billion, which by 42.8% exceeds the figure of last April but is 2.5% below the figure of March 2010. As compared with the corresponding figure of 2009 export went up by 52.2%, though reducing by 4.9% versus March, making USD 32 billion. The annual figure of the import growth is much more moderate - 29.3%, the monthly increase of import supplies though is going on: as compared with the previous month they went up by 1.8% - up to USD 19.1 billion. In April 2010 the foreign trade balance of the Russian Federation was positive and made USD 12.9 billion, having risen by 2.1 times versus the positive balance of USD 6.2 billion in April 2009.

This April at the world markets of foodstuffs and raw materials the prices continued to grow. According to the data of the IMF, the prices for the industrial raw materials of agricultural origin (cotton, wool, natural rubber, lumber) went up by 4.6% versus the previous month and versus April 2009 the growth made 49.5%.

The prices for foodstuffs, non-ferrous metals and fuel and energy commodities as compared with this March went up by 2.3%, 13.9%, and 6%, and as compared with the corresponding month of the previous year – by 8.5%, 6.3% and 60.1%, correspondingly.

The price for oil grade Urals in April 2010 made USD 82.5 per barrel, which is 1.7 times higher than the level of April 2009, and versus March 2010 the price for oil rose by 7.6%.

In April 2010 aluminum prices returned to the level of September 2008 – about USD 2400 per ton. According to the data of the International Aluminum Institute, world stocks of primary metal



Source: Central Bank of the Russian Federation

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

have been decreasing every month – from 1.265 million of tons in January to 1.163 million of tons in March. As to production, the main world producer – China – in March contracted the output of metal to 45 thousand of tons daily in March from 46.5 thousand of tons daily in February 2010.

At the beginning of April a number of factors contributed into copper becoming more expensive: contraction of stocks of metal, potential growth of demand against the background of the improvements in the world economy, expectation for copper deficit (according to some forecasts as soon as the 4th quarter 2010), increase in import in China, which this March exceeded February 2010 figures by 42% and March 2009 figures – by 22%.

Over the last few months nickel has become by nearly 50% more expensive, reaching the highest level for the last two years. This was accounted for by the improvement of the demand for stainless steel and the growth of its production. The real demand is expected to grow which will be assisted by the shortage of stainless scraps and news on production cessation at the enterprises of the sector due to technological and social reasons.

Prices for aluminum in April 2010 went up by 5% versus March 2010, for copper – by 3.8%, for nickel – by 15.9%, as compared with April of the previous year the price for nickel went up by 2.3 times, for copper – by 1.8 times, for aluminum – by 1.6 times.

Table 1

AVERAGE MONTHLY WORLD PRICES IN APRIL OF CORRESPONDING YEAR

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Oil (Brent), USD/barrel	15.72	22.97	26.26	25.81	24.79	33.5	50.6	68	68.32	108.26	51.51	85.67
Natural gas, USD/1 million BTU	2.187	3.052	5.200	3.408	5.390	5.785	7.422	7.964	7.67	10.32	3.604	5.23
Petrol, USD/gallon	0.391	0.808	0.999	0.814	0.855	1.152	1.603	2.016	2.13	2.884	1.459	2.321
Copper, USD/ton	1539.9	1710.1	1689.4	1620.8	1598.5	2950	3395	6370	7766.5	8684.9	4406.6	7745.1
Aluminum, USD/ton	1318.0	1448.0	1493.7	1370.3	1332.8	1734	1894	2620	2814.8	2959.3	1420.9	2316.7
Nickel, USD/ton	5239.5	9657.1	6303.1	6940.6	7915.3	12872	16142	17935	50267	28763	11166	26031

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

However, whereas this April the situation at the world goods market in general improved, May data testify that the situation has changed. Thus, for instance, the decrease of prices for oil, aluminum, copper and nickel in May as compared with April made 10.1, 11.9, 11.7 and 15.5%, correspondingly.

Considerable drop of world prices in May is mainly accounted for by unstable situation in the EU countries, which resulted in dollar strengthening and increase in uncertainty concerning economy recovery (and, correspondingly, the demand for energy carriers) not only in Europe, but in the world on the whole. Besides, the decrease in prices was assisted by the signs of Chinese economy growth slow-down.

Starting with July, 1st export duty rate for oil will decrease by 14.8% - to USD 248.8 per ton. This is due to the fact that from May, 15 to June, 14 the average price of oil grade Urals made USD 71.28356 per barrel. It should be noted that export duty rate for light oil products will be USD 179.9 per ton, for dark – USD 96.9 per ton. At present export duty rate for crude oil makes USD 292.1 per ton. Export duty rate for light oil products makes USD 209.1 per ton, for dark – USD 112.7 per ton.

According to the same decree, starting with July 1, 2010 export duty rate for oil of East Siberian oil fields is established at the rate of USD 69.9 per ton instead of zero duty rate, which was in effect since December 1, 2009. The oil fields of the Eastern Siberia will be steadily led to the standard scheme of export duty rates payment. For instance, it is presumed that Vankor oil field will come to the standard scheme in 2011, Verkhnechonsk oil field – in 2012, Talakan oil field – in 2013. The transfer to the standard duty rates payments is expected when they reach the profitability level of 17%.

The observed slow-down of export growth rates is accounted for by the fact that the physical volumes of main goods export is approaching the pre-crisis level, though the external demand at the moment has not recovered yet.

In April 2010 as compared with April 2009 physical volumes of export went up by 5.2%, those of import – by 24.3%. Average export prices increased by 21.6%, whereas import prices went up by only 3.5%. In connection with a considerable growth of export prices as compared with import prices, trading conditions were favorable for Russia: index of trading conditions made 117.5.

According to the data of the Bank of Russia, in January-April 2010 Russia's foreign trade turnover made USD 189.2 billion, which is by 43.8% more than in the corresponding period of the previous year. For instance, export went up by 59.1% - up to USD 124.6 billion, import – by 21.4% - up to USD 64.6 billion. Thus, foreign trade balance made USD 60 billion versus USD 25.1 billion in January-April 2009.

The increase of export value of goods by 1.6 times as compared with January-April 2009 was connected with the increase of contract prices for the main goods of Russian export, and, primarily, for oil. The physical volume of oil export went up but slightly: in January-April 2010 total oil export went up by 0.2% versus the corresponding period of 2009 and made 81.5 million of tons. It should be noted that 72.4 million of tons of oil was exported to non-CIS countries in January-April 2010, which exceeds the figure of January-April 2009 by 7.2%, and 9.1 million of tons of oil was exported to CIS countries, which is 30.1% below the figure of the corresponding period of the previous year, which is mainly due to the contraction of supplies to Belorussia.

The proportion of high-tech production in export has reduced from 5.3% in January-April 2009 to 4.4% over the first four months of 2010. The proportion of machinery, equipment and transport vehicles in import has also reduced from 43.2% to 40.5%.

The structure of import is somewhat influenced by stagnation processes taking place in the Russian industry. As compared with disastrous April 2009 import supplies in nearly all trading groups are growing. However as compared with the level of March 2010 import of chemistry industry goods has contracted significantly, and this concerns not only the import of pharmaceuticals, which import volume dropped by 15.3% versus March 2010 due to introduction of price regulation at the pharmaceutical market, but other kinds of goods as well. It is only supplies of rubbers and polymers that went up insignificantly – by 3.2%. The general reduction of chemistry industry goods import made 5.7% versus March.

It is likely that this is the case of “stocks renewal”. Thus, versus March the purchase of chemistry fibers went down by 14.7%, of knitted clothes – by 4.8%, and the value volume of knitted clothes supplies remained practically at the level of the previous month. Annual growth rates of textile and footwear purchases exceeded in April 50%.

Import of machinery and equipment that contracted considerably in 2009 still represents a huge reserve for import growth. Import of transport vehicles, in which cars dominate, in April went up by 10.5% as compared with March 2010 and by 40.3% versus April 2009. However import of cars has not reached pre-crisis level yet.

The Code of Customs Union coming into effect on July 1, 2010, regulations for goods import into Russia by natural persons are changed. It should be remembered that the agreement on the Customs Union of Russia, Belorussia and Kazakhstan was signed in Minsk, on November 27th, 2009. New Customs Code has already been ratified by parliaments in Kazakhstan and Russia. Minsk has not done it so far, since it struggle for abolition of export duty rates for oil.

The Customs Code of the Customs Union envisages only one form for declaration of items for private use – passenger car declaration. Other forms of customs declarations used currently in the Russian Federation will be abolished. This concerns the application (when declaring goods transferred in non-accompanied luggage or sent to the address of a natural person, who does not cross boundaries) and customs declaration for a car. So far the decision was adopted, according to which, when selling cars imported from Belorussia or Kazakhstan in Russia, natural persons will have to pay duty rates to full extent.

The procedure for items of private use import is specified by the Agreement on the procedure for transfer of items of private use across the boundaries of Customs Union by natural persons and carrying out customs operation, connected with their release (further referred to as Agreement).

The Agreement determines, that natural persons can bring in accompanied or unaccompanied luggage (excluding transport vehicles) goods of total worth less than Euro 1500 (or equivalent) and of total weight less than 50 kilos (now the figures are RUR 65000 and 35 kilos). If the abovementioned sums are exceeded, for such an excess the single customs duty rate is applied of 30% of customs value of the mentioned goods, but no less than Euro 4 per 1 kilo.

Natural persons can bring into the territory of the Russian Federation only 5 liters of spirits instead of 10 earlier, and the norm of duty-free alcohol import will be increased from 2 to 3 liters. Ethanol in the volume of up to 5 liters is subject to the single duty rate of Euro 22 per 1 liter.

Tobacco and tobacco goods can be brought in duty-free in the amount of no more than 200 cigarettes or 50 cigars (cigarillos) or 250 gram of tobacco, or the assorted goods mentioned of the total weight of no more than 250 gram per one natural person that is of age.

The dependence between the number of departures and arrivals and duty payments has been abolished. Earlier there was a limit set for Russians upon arrival – they had a right to use duty-free privileges only once a month.

The Agreement now includes the list of goods that are not items of private use and, consequently, are not subject to the rules of duty free import. This applies to natural diamonds, some kinds of agriculture equipment, solaria, boilers, apparatus and equipment for photo studios, medical equipment, games, activated by tokens, coins and banknotes. For some goods of items for private use exceptions were made. For instance, the citizens will be able to bring fish and seafood with the exception for rock lobsters, lobsters and shrimps into the territory of the Customs Union, but no more than 5 kilos; fuel for refueling in a separate vessel, but no more than 10 l. The amount of black caviar remains unchanged – up to 250 gram.

Norms for citizens that received legacy out of boundaries of the Customs Union are more liberal. They will be exempted from customs duties and feed payment. However the fact of legacy and authenticity of documents will have to be certified in official bodies of the Russian Federation. ●

FOREIGN INVESTMENTS

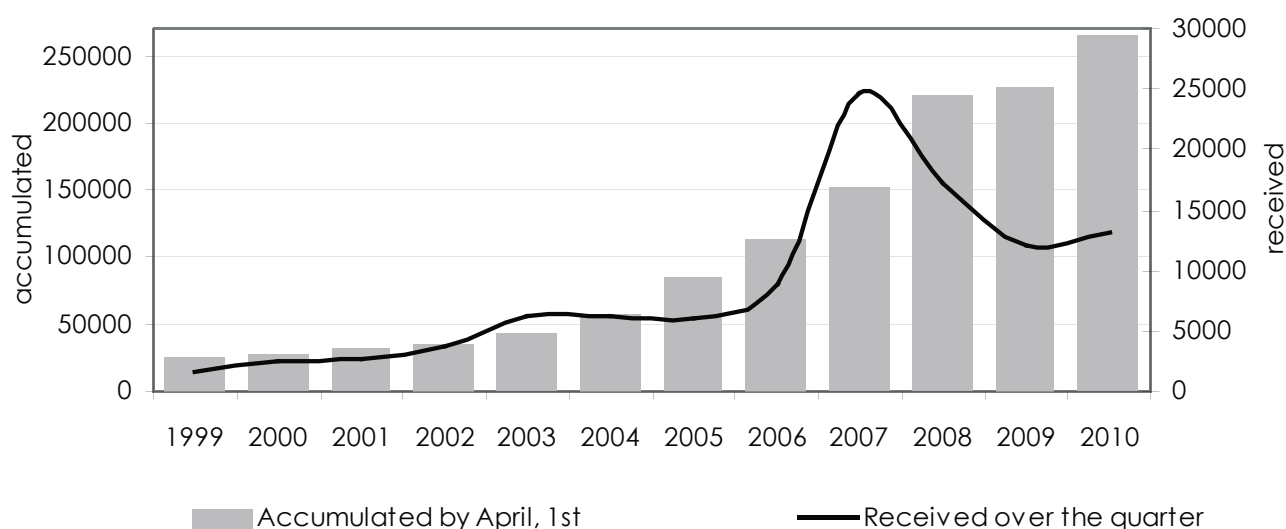
E.Ilukhina

At the beginning of 2010 the volumes of foreign investments in the Russian economy have not increased significantly. In the 1st quarter 2010 the volume of direct foreign investments attracted to the Russian economy was the lowest since the 2nd quarter 2006. At the same time, the volume of withdrawn capital the same as in the previous year in January-March of the current year conformed to the volume of foreign investment incoming over the same period of time. It is industry that remains the most attractive sector of economy for investors. Sector of transportation and communication became the second attractive sector, pushing trade to the third place. In the industry foreign investments in fossil fuels production went up at anticipating rates as compared with processing sector. As to the geographical structure, the largest volume of investments incoming in the Russian Federation in the 1st quarter 2010 was directed from the Netherlands, Germany and Cyprus, which accounted for 46.1% of total foreign investments in the Russian economy.

Volume of foreign investments incoming in the 1st quarter 2010 into non-financial sector of the Russian economy not taking into account the bodies of monetary and crediting regulation, commercial and saving banks, including ruble investments recalculated in dollars made USD 13.1 billion, which is by 9.3% above the figure of the 1st quarter 2009 and by 23.8% below the level of the 1st quarter 2008.

In the 1st quarter 2010 USD 13.02 billion was withdrawn in the form of incomes of foreign investors transferred abroad as well as payments of interests for use of credits and credits repayment, which is 7.9% higher the corresponding figure of 2009. Thus, in the 1st quarter 2010 the volume of funds equal to 99.1% of the received investments was withdrawn (100.3% in the 1st quarter 2009). Besides, for the second year in the row the investments from Russia to foreign countries have exceeded the volumes of foreign investments in the Russian economy (in the 1st quarter 2009 the excess was estimated to be 63.7%, and in the 1st quarter 2010 – 74.2%).

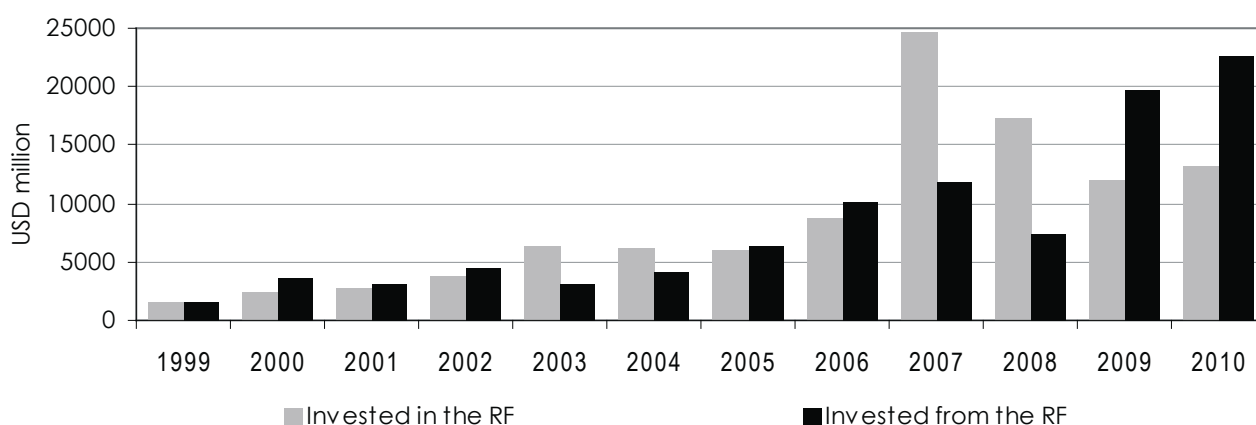
Current year is characterized by diversified dynamics of the directions of foreign investments use. The same as in the previous year, in the 1st quarter of the current year the decrease in the segment of direct investments was observed, which reduced as compared with the 1st quarter 2009



Source: Federal State Statistics Service

Fig. 1. Foreign Investments in Russian Economy in the 1st Quarter 1999–2010, as USD million

by 17.6% down to USD 2.6 billion (in the 1st quarter 2009 the decrease was estimated to be 43.0%).



Source: Federal State Statistics Service

Fig. 2. Foreign Investments in the Russian Federation and Investments from the Russian Federation to Foreign Countries in the 1st Quarter 1999-2010

The volume of direct foreign investments attracted in the Russian Federation in the 1st quarter 2010 proved to be the lowest since the 2nd quarter 2006. The segments of other and portfolio investments went up by 17.1% and by 2.5 times up to USD 10.2 billion and USD 293 million, correspondingly (in the 1st quarter 2009 other and portfolio investments were observed to decrease by 24.4% and 6.5%, correspondingly).

Taking into account the growth of portfolio and other foreign investments in the 1st quarter of the current year against the background of decrease of direct investments, the proportion of the later in the structure of aggregated investments in the Russian economy has reduced.

Table 1

STRUCTURE OF FOREIGN INVESTMENTS, RECEIVED BY THE RUSSIAN FEDERATION IN THE 1ST QUARTER 2004-2010, AS PERCENTAGE

	2004	2005	2006	2007	2008	2009	2010
Direct investments	23.9	31.9	43.7	39.5	32.4	26.4	20.0
Portfolio investments	1.4	1.3	2.6	0.8	0.7	1.0	2.2
Other investments	74.6	66.8	53.6	59.6	66.9	72.6	77.8

Source: Federal State Statistics Service

Speaking about direct investments, it should be noted that after a dramatic drop in the 1st quarter 2009 (by 2.6 times) of contributions in the statutory capital of enterprises in the territory of the Russian Federation, in January-March of the current year they continued to decrease, though at slower rates: as a result of the 1st quarter 2010 they went down by 19.2% versus the corresponding period of the previous year. Their share in the structure of direct foreign investments went down to 51.0% (52.1% in the 1st quarter 2009). Crediting component of the direct investments contracted by 17.8% to USD 982 million, the proportion of credits received from foreign co-owners of enterprises in the structure of direct investments remained at the level of the previous year, making 37.4%.

The volume of trading credits grew by 31.1%, which resulted in the growth of their proportion in the aggregated structure of other investments up to 33.0% (29.5% in the 1st quarter 2009). The volume of other credits (58.0% of the aggregated volume of other foreign investments in the Russian economy) decreased as compared with the 1st quarter 2009 by 2.9%. It should be noted that the sum of short-term credits issued for the period of less than 180 days rose by 4.3 times.

As to the structure by sectors, the same as in the previous year, the biggest volume of foreign investments is directed to the industry, though their share in the aggregated structure increased to 61.0%, in absolute terms foreign investments went up to USD 1.7 billion, not having reached the level of the 1st quarter 2008. Sector of transportation and communication became the second attractive sectors, in which by 18.6% more funds was invested from abroad than in the 1st quarter 2009. In absolute terms the growth is not so big, making USD 237 million. The biggest reduction

of foreign investments in the 1st quarter was registered in the wholesale and retail trade, where the volume of foreign investments is estimated to be USD 1.4 billion, which is by 46.0% below the figure of the corresponding period of 2009. At the same time the trade holds the third place among the most attractive sectors for foreign investments. It is in the financial activity where the most dramatic growth of foreign investments was observed (by 2.8 times).

Table 2

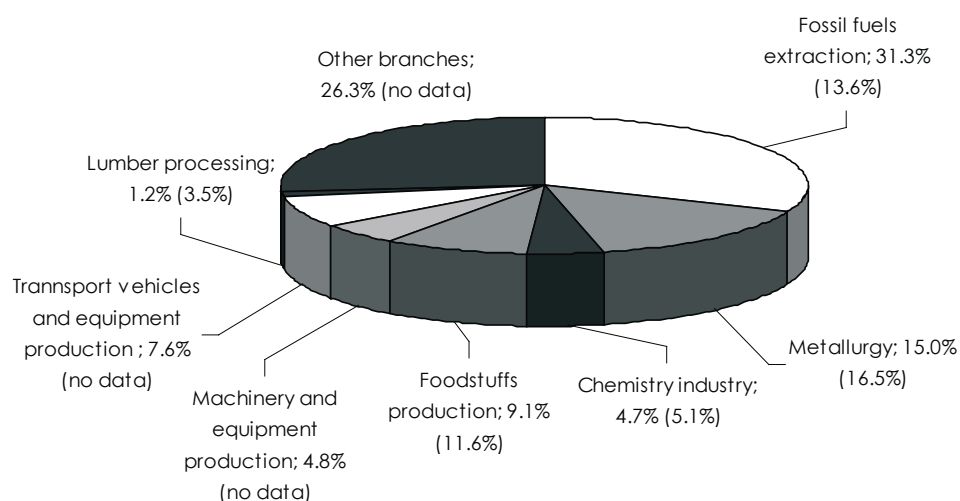
STRUCTURE OF FOREIGN INVESTMENTS IN RUSSIAN ECONOMY AS BROKEN BY SECTORS
IN THE 1ST QUARTER 2008-2010

	As USD million			As percentage to the total			Change as percentage versus the corresponding period of the previous year		
	2008	2009	2010	2008	2009	2010	2008	2009	2010
Industry	8 445	6 297	8 025	48.9	52.3	61.0	71.0	74.6	127.4
Construction	474	176	228	2.7	1.5	1.7	174.3	37.1	129.5
Transportation and communication	361	1 276	1 513	2.1	10.6	11.5	13.2	B 3.5 p.	118.6
Wholesale and retail trade	5473	2 605	1 407	31.7	21.7	10.7	69.3	47.6	54.0
Operations with real estate, rent and service rendering	1779	1 124	922	10.3	9.3	7.0	199.7	63.2	82.0
Financial activity	513	332	925	3.0	2.8	7.0	62.5	64.7	278.6
Other sectors of economy	210	221	126	1.3	1.8	1.1	198.1	105.2	57.0

Source: Federal State Statistics Service

In the sector of industry a considerable growth of foreign investments in fossil fuels production was observed, as a result of the 1st quarter 2010 they made USD 2.5 billion, which by 2.9 times exceeds the level of the 1st quarter 2009. On the whole, foreign investments in processing industries went up by 2.6 times up to USD 2.6 billion versus the 1st quarter 2009.

In January-March of the current year the volume of foreign investments in the Russian manufacturing sector increased by 2.8% versus the 1st quarter 2009 up to USD 5.3 billion. In the 1st quarter 2010 versus the 1st quarter 2009 in the manufacturing sector investments directed in coke and oil products production increased by 52.4% to USD 1.3 billion, in metallurgy – by 15.0% up to USD 1.2 billion, in chemistry industry – by 19.8% to USD 381 million. At the same time the volume of foreign investments in foodstuffs processing remains at the level of January-March of the previous year (USD 730 million), in lumber processing and production of wooden goods – reduced by 2.3 times (down to USD



Source: Federal State Statistics Service (before September 2009 data on machinery and equipment production as well as transport vehicles and equipment production were not given and were included in the section of "other branches of industry").

Fig. 3. Structure of Foreign Investments in Industry as Broken by Branches in the 1st quarter 2010 (data for 1st quarter 2009 are given in brackets)

96 million). Diversified dynamics of foreign investments by branches of industry influenced the change of the foreign investments structure in the industry over the period under consideration.

Against the background of a considerable growth of aggregated volumes of foreign investors in the extractive industry, direct investments in this sphere reduced by 3.7% as compared with the 1st quarter 2009 and made USD 468 million. Other investments in this branch of industry over the period under consideration went up by 4.2 times, which resulted in the reduction of the direct investments proportion in the aggregated investment from 51.4% to 82.1%.

Direct investments in manufacturing industries in the 1st quarter 2010 lowered by 23.0% versus the corresponding figure of the previous year, other investments increased by 9.0%, which resulted in the contraction of the proportion of direct investments in the structure of foreign investments in the processing industry from 26.6% to 19.9% and the growth of proportion of other investments from 73.3% to 77.7%. Portfolio foreign investments in these branches of industry went up by 25.6 times (from USD 5 million to USD 128 million), however their share in the aggregated structure of foreign investments in manufacturing industries remain insignificant – 2.4% (0.1% in January-March 2009).

Structure of foreign investments directed into the industry was different in the recent years from the corresponding structure of aggregated foreign investments in the Russian economy since the proportion of direct investments in it was higher. In January-March of the current year the situation has changed: the proportion and absolute volumes of foreign investments are observed to decrease at more intensive rates. Direct investments in industry reduced by 19.9% as compared with the 1st quarter 2009, whereas other investments - went up by 45.4%.

Table 3

STRUCTURE OF FOREIGN INVESTMENTS IN INDUSTRY
IN THE 1ST QUARTER 2004-2010, AS PERCENTAGE

	2004	2005	2006	2007	2008	2009	2010
Direct investments	35.5	43.2	56.2	70.3	46.0	30.4	19.1
Portfolio investments	0.3	2.2	3.5	1.0	1.2	0.1	1.6
Other investments	64.2	54.5	40.3	28.7	52.8	69.5	79.3

Source: Federal State Statistics Service

Direct investment in industry in the 1st quarter 2010 made 58.5% of aggregated direct investments in the Russian economy (60.2% in the 1st quarter 2009). The proportion of portfolio and other investments in the corresponding aggregate figures is estimated to be 43.7% and 62.2% (5.2% and 50.1%, correspondingly, in the 1st quarter 2009).

The same as in the 1st quarter 2009, in January-March of the current year five leading countries investing in the Russian economy include Netherlands, Germany, Cyprus, the Great Britain and Luxemburg, which share accounted for 60.5% of foreign investments attracted in the Russian Federation (in the 1st quarter 2009 five leading countries accounted for 50.9%).

The Netherlands still hold a leading position in the list major investors in the Russian Federation, the volume of their investments increasing by 38.1% in January-March of the current year versus the corresponding period 2009 up to USD 2.5 billion. About USD 1.0 billion (41.1% of the total investments from the Netherlands in the Russian Federation) were accounted for by communication sector, which made 69.3% of total foreign investments received by this branch. Investors from Netherlands directed USD 803 million or 31.8% of the total investments in the Russian economy from this country into the sector of fossil fuels production, 7.7% was directed to operations with real estate, 5.1% and 4% - to machinery and equipment production and foodstuffs processing, correspondingly. In the 1st quarter 2009 the prevailing part of investments from the Netherlands (USD 1.3 billion or 72.5% of total investments from the Netherlands to Russia) was aimed at wholesale and retail trade, which made 50.9% of total foreign investments in this sector.

In the 1st quarter 2010 the investments from Germany were observed to grow at most intensive rates (by 71.6% versus January-March 2009). The main part of total investments from Germany in the Russian economy this year, which made USD 2.1 billion, was directed to fossil fuels production

– USD 800 million (38.0% of total investments into the Russian Federation from the country) and manufacturing industry – USD 744 million (35.3%). In the sector of mineral extraction the share of Germany accounts for 30.6% of total foreign investments in this sector, and in manufacturing industry – for 13.9%.

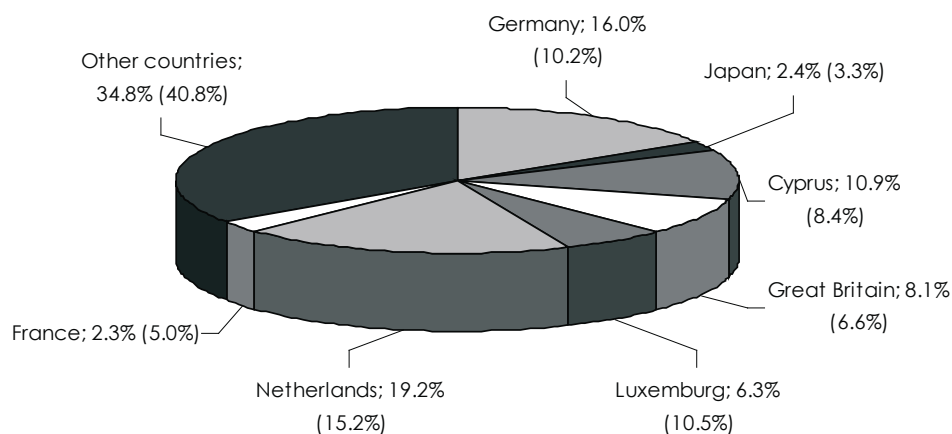
Investors from Cyprus increased their investments in the Russian economy in January-March 2010 up to USD 1.4 billion (+42.1% versus the corresponding figure of the 1st quarter 2009). Investors from Cyprus were mainly interested in operations with real estate, where USD 250 million were directed (17.4% of country's investments in the Russian Federation), extractive industry – USD 222 million (15.5%), trade – USD 164 million (11.4%) and financial activity (11.1%).

The Great Britain has also increased its investments in the Russian Federation (by 32.9% versus the 1st quarter 2009 up to USD 1.1 billion), giving preference to coke and oil products production, which sector accounted for more than a half of investments in the Russian economy from the Great Britain (53.2%). Besides, investors from the Great Britain demonstrated interest in the sphere of transportation and communication (18.4% of total investments in the Russian Federation from the country) and trade (12.4%).

The most dramatic decrease in investments among the leaders of investing countries to the Russian Federation was registered for investments from France and Luxemburg: the reduction versus the corresponding period of the previous year made 45.5% and 33.9%. The absolute figures of investments in the Russian Federation from these countries as a result of the 1st quarter of the current year made USD 303 million and USD 803 million, correspondingly. Japan has already reduced the amount of investments in the Russian Federation as compared with the 1st quarter 2009 by 19.6% to USD 316 million.

This year the investors from Luxemburg paid attention to financial activity, investing in this sphere USD 419 million and to operations with real estate – USD 351 million.

On the whole, as on the end of March 2010 the volume of accumulated foreign investments in the Russian economy reached USD 265.8 billion, which exceeds the figure of end March 2009 by 17.2%, but is 0.1% below the level registered on January 1 of the current year.



Source: Federal State Statistics Service

Fig. 4. Geographical Structure of Foreign Investments Received by the Russian Federation in the 1st Quarter 2010 (data for the 1st quarter 2009 are presented in brackets)

STRUCTURE OF ACCUMULATED FOREIGN INVESTMENTS AS BROKEN BY MAIN INVESTING COUNTRIES

Table 4

	Accumulated by 01.04.2010, USD million				Change to 01.01.2010, %			
	Total	Direct	Portfolio	Other	Total	Direct	Portfolio	Other
Ireland	9051	463	5	8583	98.3	111.6	100.0	97.6
Germany	20296	7780	22	12494	105.6	99.3	157.1	109.8
France	8030	2212	30	5788	93.1	101.4	103.4	90.3
Great Britain	20466	3258	2365	14843	86.8	89.9	101.6	84.2
Cyprus	52184	37897	1586	12701	106.2	113.0	86.4	92.4
Netherlands	43279	23345	4273	15661	89.0	80.3	99.8	102.5

Table 4, cont'd

	Accumulated by 01.04.2010, USD million				Change to 01.01.2010, %			
	Total	Direct	Portfolio	Other	Total	Direct	Portfolio	Other
Luxemburg	36384	1044	283	35057	97.9	88.1	103.7	98.2
China	10201	832	0	9369	98.6	88.6	–	99.6
Other countries	65910	25928	11323	28659	105.7	85.8	757.4	93.6
Total	265801	102759	19887	143155	99.1	94.3	193.9	96.1

Source: Federal State Statistics Service. ●

STATE BUDGET

E.Fomina

In June 2010, following the adjustment of the key indicators of socio-economic development of Russian economy over the medium term, the main indicators of the federal budget for the current year and for the period up to 2013 were amended and approved. Under the amended law on the federal budget for 2010, the volume of income redistributed through the budget system will be increased by 1.2 per cent of GDP, while the expenditures will be increased by 0,2 percentage points. As a result of volatile trends of changes in the structure of the budget, the budget deficit will be reduced to 5.4 per cent of GDP, which is by 1.4 percentage points lower than the initial indicators, accompanies with further reduction to 2 per cent of GDP by 2013. The reduction of the federal budget deficit will contribute to bring the Russian economy to a more sustainable path of development.

The analysis of the main parameters of the expanded government budget execution in January-April 2010

According to the available statistics on the execution of the budget in January-April 2010, the volume of the revenues of the budget of the expanded government has increased by 1.1 percentage points as compared with the relevant period of 2009. The expenditures of public sector of economy has been reduced by 1.2 p.p. of GDP. As a result, as of May 1, 2010 the budget of the expanded government has been executed with the surplus of 2.3 of GDP, whereas in the relevant period of 2009 the expanded government budget balance made only 0.1 per cent (See Table 1).

Table 1

EXECUTION OF THE BUDGET OF ALL LEVELS IN TERMS OF REVENUE AND EXPENDITURES IN JANUARY-APRIL 2009-2010

	January-April 2010		January-April 2009		Change, percentage of the GDP
	In billion RUR	As percentage of the GDP, %	In billion RUR	As percentage of the GDP, %	
Federal budget					
Revenues	2618.3	19.5	2221.5	19.4	+0.1
Expenditures	3030.5	22.6	2573.2	22.4	+0.2
Deficit (-) /Surplus (+)	-412.2	-3.1	-351.7	-3.0	-0.1
Consolidated budgets of the RF Subjects					
Revenues	2177.8	16.2	1895.4	16.5	-0.3
Expenditures	1664.4	12.4	1599.1	13.9	-1.5
Deficit (-) /Surplus (+)	513.4	3.8	296.3	2.6	+1.2
The budget of the expanded government					
Revenues	4998.9	37.3	4156.3	36.2	+1.1
Expenditures	4689.9	35.0	4140.7	36.1	-1.1
Deficit (-) /Surplus (+)	309	2.3*	15.6	0.1	+2.2
Справочно: ВВП, млрд руб.	13406.0		11482.0		

* A significant surplus of the budget of the expanded government as against the deficit of the federal budget can be explained by the procedure for crediting of funds to extra-budgetary funds by way of bypassing the federal budget as it was done before.

Source: The Ministry of Finance of the Russian Federation, calculations of the Institute for the Economy in Transition (IEP)

In fact, the volume of expanded government budget revenues for January-April 2010 is much higher than revenues for the same period of 2009 upon their "cleansing" of the surplus revenue from investments of earlier periods. It is worth reminding that in January 2009 the income from fund management of

oil and gas assets in 2008-2009 was entered in the budget in the amount of 275.2 billion rubles. In January-April 2010 investment income in the amount of nearly 134 billion rubles was credited. Thus, the revenue of the national budget system over January-April 2010 has increased by 2.5 per cent of GDP as compared with the corresponding period of 2009.

Exploring the structure of the formation of expanded government revenues of the four months of this year (*Table 2*) it may be noted that revenue growth was largely due to an increase in revenues from foreign trade and the tax on mineral extraction and to a lesser extent due to an increase in corporate income tax, as well as contributions for mandatory pension insurance.

Revenue from mineral extraction tax (MET) and *income from foreign economic activity* over 4 months of 2010 increased by 1.1 percentage points of GDP and by 2.0 percentage points GDP, respectively. The grounds were provided by a number of factors, both internal and external ones. The positive effect of growth of global energy prices has been backed up by increase in the physical volume of production and export of hydrocarbons. During January-April 2010 gas production (natural and associated gas) growth has reached more than 21 per cent, oil - about 3 per cent of the corresponding period in 2009¹. Following the increase of the global prices for oil and petroleum products, the export duties were consistently increased: from March to May 2010 the duty has grown from USD 253.6 to 284 per ton, and from June 1 it increased to USD 292.1 per ton. However, from July 1, 2010 the increase of export duty on oil will be stopped, its value will drop to USD 246-250 per ton at the background of a decline in oil prices in June.

With the spread of the debt crisis and the slowdown of the European economy one can expect volatility in the global energy prices. The volatile prices could limit the growth in revenues to the budget before the end of 2010. In addition, a negative effect on the growth of oil and gas revenues in the future could provide ruble strengthening. In 2010, the total budget losses from exchange rate fluctuations, according to tentative estimates, will exceed USD 500 billion².

Herewith, the decline in oil and gas budget revenue could be offset by internal measures. Thus, it is possible that since July 1 there will be in effect a reduced rate of export duty on oil from Eastern Siberia, introduced instead of the zero rate, effective from the beginning of 2010³. According to preliminary estimates, the fee can amount to about USD 70 per barrel. This rate will be adjusted each month depending on the market prices and demand for oil in the global markets. The beneficial tax rate will be applied to 22 deposits in Eastern Siberia till the end of 2010, with subsequent abolishment of beneficial rate to some of the most profitable deposits. This measure will increase the fiscal burden on the fuel and energy sector and promote revenue from oil and gas sector to the national budget system.

Against the background of increasing export duties for oil fields in Eastern Siberia in the near future one can expect the renewal of the duties on copper and nickel, to which the zero rate was temporarily introduced by the Government in January 2009.

As compared with a noticeable increase in oil and gas revenues, both in absolute and relative terms, non-oil revenues are demonstrating a slight growth tendency, reflecting the lag of their growth in the dynamics of recovery of the domestic economy.

The share of revenue from *corporate profit tax* in the expanded government budget within January-April 2010 has increased by 0.6 percentage points of GDP. It should be noted that during the January-March 2010 the dynamics of revenue from that tax was less than the indicator of the relevant period of 2009, but in April the trend of the first months of this year was reversed. Most likely, this dynamic has developed under the influence of the relative improvement at general economic background. However, in the future one can apparently expect the slowdown in corporate income tax due to the narrowing tax base in view of the planned introduction of zero rate to income tax for commercial and non-profit organizations in medicine and education.

Personal income tax revenues in the expanded government budget has declined to 3.8 per cent of GDP, which is by 0.3 percentage points of GDP lower than in the relevant period of the last year, and at the same time, in nominal terms for the four months of 2010 it grew by more than 30 billion rubles. The increase in tax in absolute terms was a consequence of growth of real disposable monetary incomes

1 Report of the Ministry of Economic Development of Russia "On the current situation in the economy of the Russian Federation in January-May 2010"

2 <http://www1.minfin.ru/ru/press/speech/index.php?pg4=2&id4=10009>

3 <http://www.kommersant.ru/doc-y.aspx?DocsID=1387569>

of the population which level since the beginning of this year increased by 7.2 per cent¹ versus the level of the last year's mostly under the influence of valorization of pensions in January 2010

Table 2

THE DYNAMICS OF THE LEVEL OF THE TAX BURDEN AND REVENUES FROM THE MAIN TAXES TO THE BUDGET OF THE EXPANDED GOVERNMENT OF THE RUSSIAN FEDERATION IN JANUARY-APRIL 2009 AND 2010, % OF THE GDP

	4 months of 2010	4 months of 2010	Change, percentage points of the GDP
Level of tax burden (1+2+3)	34.4	31.4	+3.0
Revenues from taxes (1), including:	22.0	22.4	-0.4
Corporate profits tax	5.0	4.4	+0.6
Individual income tax	3.8	4.1	-0.3
Single social tax*	0**	2.2	-
VAT	5.9	5.9	0
Excise duties	1.1	0.9	+0.2
Severance tax	3.3	2.2	+1.1
Insurance contributions for mandatory pension insurance (2)	5.0	3.6	+1.4
Revenues from foreign economic activity (3)	7.4	5.4	+2.0

*without taking into account insurance contributions for mandatory pension insurance.

** Starting from 2010, the single social tax has been transformed into insurance contributions which are credited to extra-budgetary funds.

The source: The Ministry of Finance of the Russian Federation, Rosstat and IEP assessments.

The volume of revenue from the VAT in January-April 2010 remained at the level of the corresponding period of 2009 and amounted to 5.9 per cent of GDP.

In January-April 2010 there was a marked increase in *excise tax* revenue to the budget of expanded government. The increase in revenue was 0.2 percentage points of GDP as compared with to last year's indicator. The reason for this growth was the rapid increase in tax rates on a number of excisable goods from 2010. In the future, the Ministry of Finance plans to continue a gradual increase in excise taxes on alcohol and cigarettes. Increased rates is under adjustment, but according to preliminary estimates, the excise tax on tobacco could rise twice.

In general it can be noted that the level of the *tax burden* on the economy in 4 months in 2010 has increased by 3.0 percentage points of GDP compared to the same period in 2009 and reached 34.4 per cent of GDP. To a large extent the increase of this indicator is due to the influence of external factors.

Against the background of growing revenue of the budget of expanded government in terms of GDP share within January-April of 2010, expenditures of the expanded government budget over four months demonstrated an explicit reduction in public expenditures as a percentage of GDP, which is consistent with the adopted in 2010 concept of deterrence of their growth. Budget expenditures decreased by 1.1 percentage points of GDP (Table 3). It may be noted that in nominal terms, expenditures increased by 550 billion rubles.

Table 3

EXECUTION OF THE BUDGET OF THE EXPANDED GOVERNMENT IN TERMS OF EXPENDITURES IN JANUARY-APRIL 2009 AND 2010, % OF THE GDP

	January-April 2010		January-April 2009		Change, percentage points of the GDP
	млрд руб.	в % ВВП	млрд руб.	в % ВВП	
Total budget expenditures	4689.9	35.0	4140.7	36.1	-1.1
Among them					
Federal issues	403.4	3.0	377.6	3.3	-0.3

1 Report of the Ministry of Economic Development of Russia "On the current situation in the economy of the Russian Federation in January-May 2010"

Table 3, cont'd

	January-April 2010		January-April 2009		Change, percentage points of the GDP
	млрд руб.	в % ВВП	млрд руб.	в % ВВП	
Including expenditures associated with the servicing of federal and municipal debt	96.7	0.7	81.0	0.7	0
National defense	414.0	3.1	337.5	2.9	+0.3
National defense and law enforcement	377.5	2.8	354.6	3.1	-0.3
National Economy	526.9	3.9	631.4	5.5	-1.6
Housing and public utilities	176.3	1.3	196.9	1.7	-0.4
Environmental protection	6.3	0.05	7.1	0.06	-0.01
Education	502.6	3.8	466.4	4.1	-0.3
Culture, cinematography and mass media	87.2	0.7	82.8	0.7	0
Health care and sports	441.1	3.3	429.7	3.7	-0.4
Social policy	1754.3	13.1	1254.7	10.9	+2.2

Source: RF Treasury, IEP estimates.

The worst decline in public expenditures was based on the limitation of funding for «national economy» budget line - by 1.6 percentage points of GDP, for «Health Care and Sports» and «Housing and communal services» - by 0,4 percentage points of GDP for each of these areas. In addition, lower rates in spending are noted in the direction of «Federal issues» - by 0.3 percentage points of GDP lower than in the corresponding period of 2009. Expenditures for servicing the public debt remained stable, accounting to 0.7 per cent of GDP. This dynamics indicates a slowdown in growth of funding of the government administration, in particular the salaries of public officers. Also in the medium term it is planned to reduce the public officers staff, and thus the budget for their salaries. In the case of reduction of «bureaucracy» by 20% by 2013, the budget savings will amount to 37 billion rubles for the period¹.

Increased funding for the period under review occurred under «Social Policy» and «National Defense» lines: 2.2 percentage points of GDP and 0.3 percentage points GDP higher than the values of 2009, respectively.

RF federal budget execution within January-May 2010

According to the information of the RF Ministry of Finance, *federal budget revenues* in January-May of 2010 amounted to 19.1 per cent of GDP, which is by 1.0 percentage points of GDP exceeds the indicator of the relevant period of 2009 (See *Table 4*). The growth of federal budget revenues during the period of the current year was based primarily on an increase of revenue from the fuel and energy complex as a result of relatively favorable market prices and demand for the Russian exports, as well as the resumption of the physical volume of production of hydrocarbons.

Federal budget expenditures in January-May 2010 exceeded by 0.7 percentage points of GDP the level of the corresponding period of the last year. However, growth in expenditure for January-May 2010 is not a sign of the inevitable growth as of the results of 2010, but based on the accelerated rate of their spending and delivery to the end consumers of the budget. As of the end-year results, according to the latest amendments to the Budget Law of 2010, a decline of expenditures in relative terms is expected by 0.2 per cent of GDP

As a result, over five months of this year, the federal budget is executed with a deficit of 2.9 per cent of GDP against 3.3 per cent of GDP in 2009. The amount of non-oil deficit, according to preliminary estimates, also declined slightly relative to the value recorded in the previous months of 2010, but it still remains high, more than 11 per cent of GDP, whereas its value recommended by the experts of the World Bank should not exceed 5 per cent of GDP. Such a large amount of non-oil deficit shows

1 <http://www.izvestia.ru/economic/article3143085/>

a significant amount of the accepted state obligations not secured by non-oil budget revenue, which increases the dependence of the budget system on the external background.

Table 4

BASIC INDICATORS OF THE RF FEDERAL BUDGET IN JANUARY-MAY 2009–2010

	January-May 2010		January-May 2009		Execution of the budget in % of the 2010 year estimates	Change	
	RUR bn	% of GDP	RUR bn	% of GDP		RUR, bn	p.p. of GDP
Revenues, including:	3195.7	19.1	2641.4	18.1	46.0	554.3	+1.0
Oil and gas	1469.3	8.8	853.5	5.8	46.0	615.8	+3.0
Contributions to the Reserve Fund and National Welfare Fund (Stabilization Fund)	26.5	0.2	272.6	1.9	–	–246.1	–1.7
Revenues, including:	3687.0	22.0	3118.0	21.3	37.3	569.0	+0.7
Interest expenditures	84.7	0.5	76.3	0.5	27.9	8.4	0.0
Non-interest expenditures	3602.2	21.5	3041.7	20.8	37.6	560.5	+0.7
Deficit / Surplus of the federal budget	-491.3	-2.9	-476.5	-3.3	16.7	14.8	+0.4
Non-oil deficit	-1960.6	-11.7	-1330.1	-9.1	32.0	-630.5	-2.6
GDP estimates	16770.0		14632.0				

Source: RF Ministry of Finance (tentative estimates), IEP estimates

The key source of funding for the federal budget deficit remains the Reserve Fund (*Table 5*). Its volume over 5 months decreased by 519.5 billion rubles to 1.1977 trillion rubles. However, as opposed to the expectations for its complete exhaustion before the end of 2010 to cover the federal budget deficit, it will never happen.

Volume of the National Welfare Fund (NWF) as of June 1, 2010 decreased to 2.61 trillion rubles. Also in June 2010 it became known that the FNB assets will not be addressed to cover the deficit of the Pension Fund of Russia (PFR), as previously planned (originally it was intended to allocate 385 billion rubles for this purpose). The changes already made to the law on the federal budget for the current year. If necessary, to maintain the PFR balance the federal budget revenues will be used¹.

Table 5

DYNAMICS OF FEDERAL BUDGET OIL AND GAS REVENUE AND EXPENDITURE WITHIN JANUARY-MAY 2010, RUR BLN.

Indicator	Balance as of late 2009	Estimated for 2010 budget	Revenue within January-May 2010	Utilized over January-May 2010		Balance as of late July 2009
				Support of the federal budget balance	Support to oil and gas transfer	
Oil and gas revenue of the federal budget	X	2057.2	1469.3			x
Areas of oil and gas revenues expenditure:	X	x				x
• Oil and gas transfers	X	2531.1	1469.3			
• Reserve Fund	1 830.5	5147.5	0	519.5	0	1197.7
• National Welfare Fund	2 769.0	x	26.5	2.5	–	2616.5
Total	4599.5	x	1495.8	522.0	0	3814.2

* balances are calculated at the rate of June 1, 2010

Source: Federal Treasury.

1 <http://www1.minfin.ru/ru/press/speech/index.php?pg4=2&id4=10009>

Table 6 shows the dynamics of the cash execution of the federal budget for the four months of the current year, according to the functional classification of budget expenditures. It should be noted that in general the dynamics of expenditures over January-April 2010 exceeded (by 4.3 per cent to the annual budget estimates) the rate of the cash budget execution for January-April 2009.

The accelerated rates are noted in the funds expenditures under the line of "Intergovernmental transfers" - by 9,2 percentage points in excess of the last year indicator. This increase in the intergovernmental transfers is explained, in the first place, by a substantial increase of pensions in the current year, as well as by an accelerated transfer offunds to the PFR. Cash execution of the federal budget in terms of the «National Defense», «Housing and public utilities», «Environmental Protection» is also executed at an accelerated rate, by about 5 percentage points higher than their funding in the past year in each area.

On the contrary, the trend to delay the delivery of federal funds to the final users of the budget funds is noted under «National Economy» budget line at 1.6 percentage points below the dynamics of 2009.

Table 6

CASH EXECUTION OF THE FEDERAL BUDGET WITHIN JANUARY-APRIL 2009-2010
(% VERSUS BUDGET ESTIMATES FOR THE YEAR)

	January- April 2010	January- April 2009
Total Budget Expenditures	30.6	26.3
Including		
Federal issues	22.7	23.5
Including expenditures associated with the servicing of federal and municipal debt	25.5	29.1
National defense	32.7	27.7
National defense and law enforcement	28.4	28.2
National Economy	22.5	24.1
Housing and public utilities	16.4	11.6
Environmental protection	26.8	22.0
Education	26.3	23.9
Culture, cinematography and mass media	26.3	24.7
Health care and sports	21.2	19.8
Social policy	29.3	28.0
Interbudgetary transfers	37.8	28.6

Source: RF Ministry of Finance, IEP estimates.

In general, one can note that in the coming years we should expect tighter fiscal functions of the government (increasing some tax rates and reducing tax benefits). This strategy is necessary to compensate for the decreased revenue of the budget system. At the same time, in recent years there has been excessive public liabilities to the population, some of which is inefficient and requires a reduction. However, the implementation of this strategy of «fiscal consolidation» will be held in the pre-electoral period, when it is extremely difficult to take necessary but unpopular decisions.

Review of the key developments in the fiscal policy in June 2010

On June 29, 2010 an Annual Report of the RF President on budget policy for 2011-2013¹ was presented. The Budget Report comprises the major results of the implementation of national policy in the fiscal area for 2009, as well as its main trends for the forthcoming three years

At the background of generally positive trends in the economy in late 2009 - early 2010. there remain a number of significant challenges weakening the national financial system, accompanied with the continuing high-degree dependence of budgetary resources on the commodity markets.

1 <http://www.kremlin.ru/news/8192>

In the medium term, a key factor in the growth of budget revenues should be the extension of the tax base mainly due to the emergence of new business entities engaged in innovative sectors. To encourage economic diversification, there are plans to introduce targeted tax benefits, in particular in terms of the taxation of the wages fund of innovative companies.

With the general trend of the need to restrain budget expenditures in the medium term, it is planned to fulfill social liabilities to the population in full. The problem of increasing PFR deficit, special attention and action in the period 2011-2013, in the situation of the decline in the share of working-age population.

The Budget Report mentions also the need to return to the practice of drawing up long-term financial plans, which was suspended during the crisis period.

In June 2010 the establishment of the road fund budget was also further discussed¹. It is worth recalling that in May 2010, the Government of Russia took the initiative to establish a targeted budget fund for construction and repair of roads. According to preliminary estimates, it is planned to accumulate collected excise taxes on gasoline, diesel fuel, motor oil for the formation of this fund. With regard to rising rates of the above excisable goods since 2011, according to preliminary estimates, this arrangement will allow to accumulate in the fund about 500 billion rubles annually. At the same time, to avoid double taxation and to compensate the rising prices for petroleum products, mainly gasoline, it was proposed to abolish the transport tax.

It should be acknowledged that at present there is a problem in financing for maintenance and repair of federal, regional and municipal roads, and in the budgets of this year foresee allocation of only about a quarter of the required funds.

The proposed funding mechanism for road funding is widely used in international practice. Herewith, abroad, except for public funds, private investments are widely attracted through the mechanism of public-private partnership.

On June 10, 2010 at the meeting of the RF Government Russian Ministry of Finance amendments are introduced to the indicators of the federal budget for 2010². According to the draft law, the budget revenues will increase to 17.3 per cent of GDP against 16.1 per cent of GDP initially approved by the law. This increase in resources will be possible against the background of a favorable external economic situation, the volume of oil and gas revenues will reach 8.3 per cent of GDP against the previously expected 7.4 per cent of GDP.

At the same time, it is planned to relocate federal expenditures due to the savings on selected items - total savings will amount to 154.3 billion rubles. In addition, a further increase of savings to 325.5 billion rubles is planned. Additional funds are allocated to financing the social expenditures: covering the budget deficit of the Pension Fund of Russia, financing of federal and regional co-financing of additional payments to pension funds for veterans and military personnel housing facilities. However, despite the growth of federal budget expenditures in nominal terms, in relative terms, their value will decrease by 0.2 percentage points GDP.

As a result of the amendments, there was formed a budget with a lower (by 1.4 percentage points of GDP) deficit as compared with the the law approved for 2010. ●

1 <http://bujet.ru/article/80871.php>

2 <http://www1.minfin.ru/ru/press/speech/index.php?pg4=2&id4=10009>

THE RUSSIAN BANKING SECTOR

S.Borisov

In April, the aggregate nominal book value of the Russian banking sector has entered the “green zone” as compared with the level of late 2009. The balance sheet total growth in the sector continues for the second consecutive month, although the pace of growth can hardly be called satisfactory. As in March, the most powerful indicator of growth of assets was other than credit instruments. However, the growth of credit portfolio every month is becoming more stable.

Table 1

BASIC INDICATORS OF THE RUSSIAN BANKING SECTOR, RUR BN

	As of 01.05.2009	As of 01.01.2010	As of 01.05.2010		
			Nominal value	Growth since the year begin- ning, %	Growth from year, %
Assets	28 047.8	29 430.0	29 566.0	0.5%	5.4%
Loans to non-financial institutions	13 175.1	12 541.7	12 531.8	-0.1%	-4.9%
Loans to individuals	3 810.6	3 573.8	3 571.1	-0.1%	-6.3%
Loans to banks	2 446.3	2 725.9	2 748.0	0.8%	12.3%
Investments in bonds	2 119.8	3 379.1	4 007.9	18.6%	89.1%
The Central Bank's deposits	2 822.8	1 423.1	645.5	-54.6%	-77.1%
Banks' deposits	3 544.8	3 117.3	3 087.2	-1.0%	-12.9%
Legal entities' deposits	5 060.4	5 466.6	5 485.3	0.3%	8.4%
Household' deposits	6 295.0	7 485.0	8 037.4	7.4%	27.7%
Provisions for possible losses	1 400.7	2 050.6	2 163.8	5.5%	54.5%
Profit (in the current year)	32.3	205.1	163.9		407.4%

Source: The Bank of Russia.

The main investments of the banking sector are made in the bonds. The fastest growth of the banks investments volume was noted in the bonds of the Central Bank of Russia (+13 per cent against March), in other banks (8.3 per cent) and in the RF debt liabilities (3.1 per cent). This distribution demonstrates quite logical and consistent structure of credit risk. In April one can also note a particularly increased interest of banks in promissory notes (+10 per cent as compared with March) and equity securities (7.1 per cent against March). In addition, among the latter an impressive growth of 10 per cent as compared with March (regardless revaluation) was observed in the banks investments in shares of corporate sector companies.

In the credit portfolio of banks the growth of the share of loans provided to non-financial organizations and individuals is maintained within 1.5-2 per cent per month. According to the Central Bank, the corporate loan portfolio of the banking sector grew in April by 0.9 per cent against the previous month. In terms of currency, the main driving force behind the expansion of loans to corporate clients in April, were ruble loans to companies and individual entrepreneurs. Their growth is registered at 1.1 per cent against the March values. Herewith, the quality of the loan portfolio remained relatively unchanged. For corporate clients the share of overdue loans in the portfolio was 6.36 per cent in April (Fig. 1), whereas in the retail loan the portfolio the share of overdue loans has remained virtually unchanged for the third consecutive month. The most noticeable share of overdue loans of corporate clients in April is accounted for the industries, which are in particular affected by the reduction in

domestic demand: namely the wholesale and retail trade (18 per cent), as well as processing industry (16 per cent).

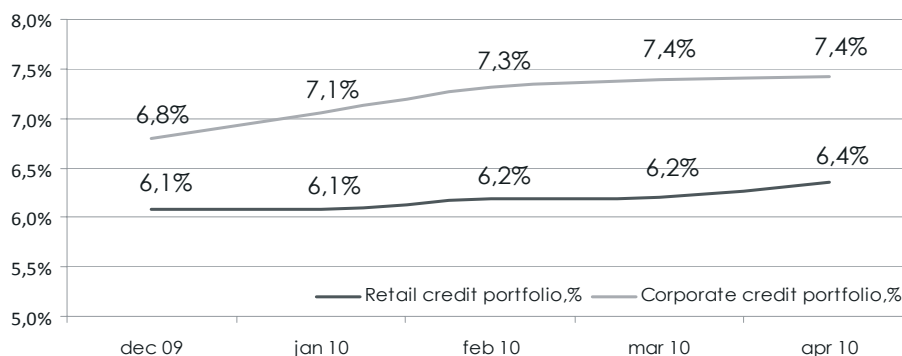
Stabilization of the loan portfolio quality can be estimated both, by the percentage of loans to the fourth and fifth categories in the portfolio of the 30 largest Russian banks, and by indicators of capital adequacy. According to the RF Central Bank, the level of loans of category IV and V in April was 10 per cent, which is even slightly higher than the December values (9.9 per cent).

The ratio of capital of the banking system to the assets, weighted by the level of risk, according to the data of April 1 amounted to 20.5 per cent against 16.9 per cent a year ago. As a consequence, the growing rate of provisions for possible losses accumulation continues to slow down: the reserves in April increased only by 0.9 per cent as compared with the previous month. The “problem” loans are no longer growing at an alarming rate, allowing individual banks to get additional profit from the use of redundant reserves for possible losses.

The growth of retail loan portfolio in April 2010 was comparable with the increase in corporate one and was equal to 1 per cent. Although such growth is far from the pre-crisis rates, the stable growth in consumer loans, albeit insignificant, confirms the normalization of market risk in this segment of the banking business and the probable change in trend in the medium term.

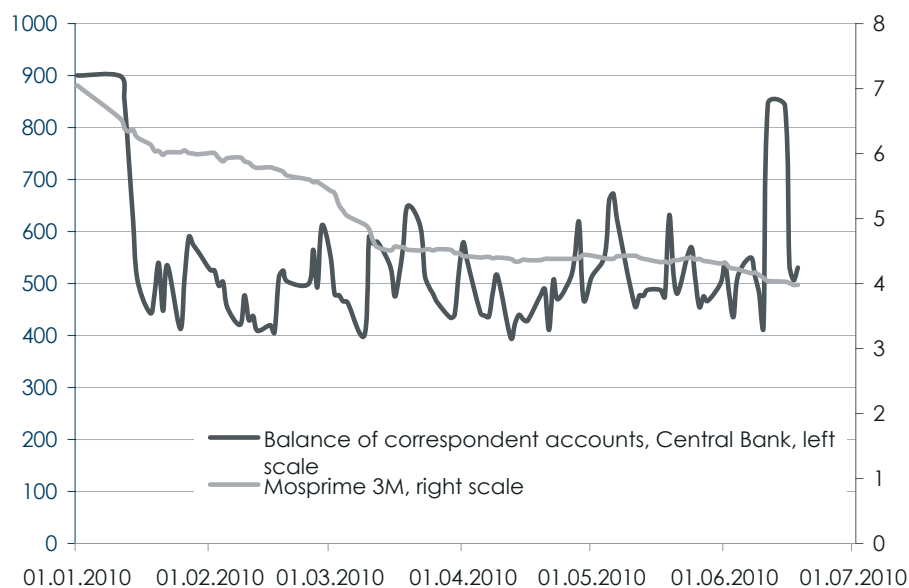
The portfolio of interbanking loans in April has declined by 1 per cent, which is at the background of negative dynamics in Mosprime 3M rate may be indicative of excess liquidity in the market and the desire of lending institutions to implement a more aggressive strategy to increase revenue (mostly non-interest). Moreover, the volume of bank liquidity balances in correspondent accounts with the Central Bank is getting consistently closer to the average level of 550 billion rubles. (Fig. 2).

In addition to excessive liquidity, another important trend in the banking system since the beginning of the year was the stabilization of changes in the amount of total capital of credit organizations. Thus, after the explosive growth of 21 per cent over 2009 (the main reasons were raising the minimum capital requirements for CO and extensive investment in capital of banks with government participation), the amount of capital in the banking system of Russia in January 2010 has slightly



Source: Bank of Russia.

Fig. 1. Overdue debt dynamics as broken down by months (% of credit portfolio)



Source: Bank of Russia.

Fig. 2. Mosprime 3M rate dynamics as compared with liquidity balances in correspondent accounts with the Central Bank

reduced. In April the capital has decreased by another 3 billion rubles (-0.5 per cent from the beginning of the year).

The growth of corporate and retail deposit portfolios of banks still continues. Thus, on April retail deposits of individuals have grown by 3.1 per cent, and the accounts and deposits of corporate clients - by 0,7 per cent. The core specifics of the April growth of deposits for both types of portfolio has become relatively more intense growth of short-term investments. According to the official statements, the ruble-denominated deposits of up to 30 days (including demand deposits) grew in the corporate sector by 14 per cent and in the retail sector - by 9 per cent as compared with the March level.

Although the rates of fund-raising market continue slowly to decline, more active, as compared with the growth rates in lending deposit base growth creates a surplus pressure on interest gains of the banks. In the meantime, the dynamics of profit accumulation since the beginning of the year is more than optimistic. During four months of 2010, Russian banks were able to gain 163.9 billion rubles, estimated under RAS.

Main Events over My-June 2010 are provided below:

- the number of banks that keep the membership in the deposit insurance system only due to a moratorium on the exclusion thereof in the first quarter reached 75, having increased almost three-fold since October of the last year. Herewith, those banks violate the requirements not only in terms of profitability, but also in terms of assets and capital. According to the Central Bank estimates, by mid-2010 about 100 banks will need the protection of the moratorium, i.e., more than 10 per cent of all banks that involve deposits of individuals;

- the Bank of Russia is ready to support the insurance of the assets at the accounts of individual entrepreneurs through a deposit insurance system (DIS) for physical entities; the compensations are offered is the same as to the individuals - up to 700,000 rubles per person;

- banks have become less likely to violate the counter-money-laundering" legislation, and in response, the Central Bank responded by mitigation of its enforcement measures. According to the Bank of Russia, in 2009, the Regulator held 1,224 audits in the banks, which discovered that the number of violations in the banks has slightly declined - to 16.4 thousand against 16.9 thousand in 2008;

- the Bank of Russia plans to prohibit to credit institutions to impose fees for deposits replenishment. This may be an answer of the Central Bank to the actions of banks, which are attempting to compensate for the losses from taken in the past "expensive" deposits;

- the Central Bank intends to introduce limits on non-core assets on the balance sheets of banks. The Central Bank is ready to encourage bankers to sell non-core assets and plans to tighten reserve requirements in respect of property, which is impaired;

- the Central Bank extends the list of reports that banks are encouraged to publish for public access. The Regulator has issued recommendations to bankers to publish on the website of the Central Bank not only the accounting statements on turnover and profit and losses, but also information about reserve rates and capital. In case the Banks follow those recommendations, the capacity of the independent assessment of the financial standing of banks will be substantially enhanced;

- Since July 1, the validity term of anti-crisis mitigation measures of the Central Bank in terms of reserve rates is terminated. The Central Bank announced that there will be no further extension of mitigation rules and the refinancing rules will return to the pre-crisis state. In addition, from July 1 an amendment will be introduced to the assessment of the capital adequacy rate - it will include an operational risk. According to the assessments of the Bank of Russia, in view of the abolition of beneficial reserve rates, the banks will have to increase their reserves by 50-90 billion rubles. ●

MARKET OF REAL ESTATE IN THE RUSSIAN FEDERATION

G.Zadonsky

Despite the slow-down of housing construction in 2010 (98.7% versus the corresponding period of 2009) the coefficient of housing availability versus 2008 and 2009 continues to decrease. According to the data of Russian Public Opinion Research Center, the number of individual owners of land plots is lowering. The volumes of housing mortgage crediting being low (three times lower in 2010 than in 2009) and interest rates decreasing steadily, the outstanding debt is still growing.

In January-May 2010 organizations of all forms of ownership built 184.3 thousand of new flats in the Russian Federation of the gross square of 16.5 million sq m or 116 sq m for one thousand people, which made 98.7% of figures of January-May 2009. Out of this figure, 34.3 thousand of flats of the gross square of 3.2 million meters was built in May. Individual developers built the housing of the gross square of 8.69 million sq m or 52.8% of the total volume (91% of the volume, commissioned by the individual developers in January-May 2009) (table 1).

Table 1

CONSTRUCTION OF HOUSING IN JANUARY-MAY 2010 IN 10 SUBJECTS OF THE RUSSIAN FEDERATION (CHARACTERIZED BY HIGHEST FIGURES OF COMMISSIONED SQUARE PER ONE THOUSAND PEOPLE)

	Commissioned, gross square, thousand sq m			Commissioned, gross square, thousand people	Commissioned by individual developers, from total volume, gross square, thousand sq m		
	from the beginning of the year	in May	as % to the corresponding period of the previous year		from the beginning of the year	as % to the total volume	as % to the corresponding period of the previous year
Russian Federation	16461.8	3111.3	98.7	116.01	8690.3	52.79%	91.0
Moscow oblast	1998.1	513.8	94.8	297.66	1058.3	52.97%	81.9
Krasnodar krai	1476.1	279.6	124.0	287.08	864.8	58.59%	93.2
Leningrad oblast	426.2	48.3	95.2	261.17	178.5	41.88%	80.1
Republic of Tatarstan	796.4	143.5	81.1	211.33	388.2	48.74%	103.7
Tyumen oblast	702.9	128.0	120.3	206.80	220.7	31.40%	93.3
Saint-Petersburg	890.9	66.1	130.8	194.44	54.9	6.16%	88.8
Kaliningrad oblast	170.6	42.0	85.8	182.00	43.6	25.56%	50.9
Belgorod oblast	263.7	58.3	91.5	172.91	249.9	94.77%	101.1
Astrakhan oblast	173.0	27.5	105.9	172.10	109.5	63.29%	117.2
Ryazan oblast	197.9	25.3	91.8	170.94	38.2	19.30%	87.3

Source: according to the data of the Federal State Service

Average real cost of construction of 1 sq m of gross square of housing in the Russian Federation built in the 1st quarter 2010, according to the data of the Federal State Statistics Service, went up by 8% versus the 1st quarter 2009 and made RUR 31135 (table 2). Cost of construction of 1 sq m of the gross square of housing built in the 1st quarter 2010 in rural areas reduced by 7.3%, in towns and urban communities – went up by 9%. Average real cost of construction of 1 sq m of gross square of housing in the 1st quarter 2010, according to the data of the Federal State Statistics Service,

exceeds the average Russian level by 1.5 or more times in the following regions: Khabarovsk krai (RUR 58912), Republic of Buryatia (RUR 54151), Yamalo-Nenetsk autonomous region (RUR 49768), Yaroslavl oblast (RUR 45430), Sakhalin oblast (RUR 45313), Republic of Chechnya (RUR 45304).

Table 2

AVERAGE REAL COST OF CONSTRUCTION OF 1 SQ M OF HOUSING, RUR

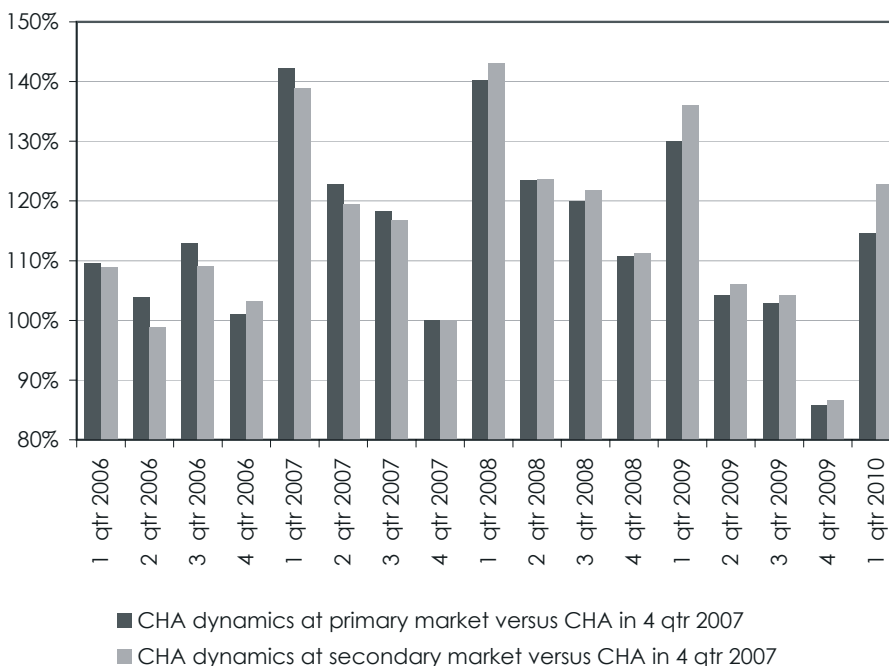
	Blocks of flats without extensions, additional storeys and built-in rooms, not taking into account houses built by individual developers		
	total	in rural area	in towns and urban communities
2009			
I quarter	28814	28597	28826
II quarter	28763	29994	28673
I полугодие	28790	29358	28754
III quarter	29294	28393	29338
January-September	29002	29011	29002
IV quarter	31622	31169	31649
Annual	30312	30111	30324
2010			
I quarter	31135	26383	31447

Source: according to the data of the Federal State Service

Coefficient of housing availability (CHA) – ratio of market price of a standard (typical) flat (54 sq m) for a family of three to the annual income of a family - lowered by 15% in the 1st quarter 2010 versus the value of the coefficient in the 1st quarter of 2009 in the primary market and by 13% versus the coefficient of 2009 in the secondary market. Versus the coefficient of housing availability in the 1st quarter 2008 the decrease made 25.6% for the primary market of housing

and 20% for the secondary market. On the whole, CHA in 2009 was lower not only the values of CHA in 2008 but also those in 2007, which testifies that after the crisis the housing has become more available (*fig. 1*).

According to the data of the Federal State Statistics Service and Calculations of AHML, in the 1st quarter 2010 coefficient of housing availability (CHA) lowered from 5.8 to 5.0 years. CHA reduced at average rates, by 10-30%, in 31 regions, including Moscow – from 6.5 to 5.8 years, Moscow oblast – from 5.9 to 4.9 years, in Krasnoyarsk krai – from 4 to 3.6 years, in Samara oblast – from 4.6 years to 3.9 years. It is in the Repub-



Source: according to the data of the Federal State Service

Fig. 1. CHA Dynamics at Primary and Secondary Housing Markets versus CHA in the 4th quarter 2007

lic of Kabardino-Balkaria where the housing is the least available (CHA = 6.9 years), and it is the most available in Murmansk oblast (CHA = 1.6 years).

Data of Federal Registration Service on the volume of rights registration, limitations (encumbrance) of rights and deals with land plots present indirect evidence of the situation at the market of land plots. In the 1st quarter 2010 Federal Registration Service registered 1573155 property rights for land plots, which made one fifth of 7501568 registered property rights for land plots in 2009. The biggest part, 92.6% of rights registered in the 1st quarter are the rights of natural persons, the rights of legal entities accounting for only 3.97%. Other registered rights, as it is in the case of rent and mortgages mentioned below are the rights of the Russian Federation, subjects of the Russian federation and municipal formations. The ratio was nearly the same in 2009: 94% and 3.39%, correspondingly. The rent of land plots is characterized by different figures. In the 1st quarter 2010 108567 rights for rent of land plots was registered, out of which 25440 are the rights for rent by natural persons, and 17.6% - the rights of legal entities.

There were 43062 cases of land plots mortgages of land plots registered in the 1st quarter 2010, which makes 24.3% of the volume of registration in 2009. The proportion of natural persons accounts for 20052 registrations, that of legal entities - for 19817.

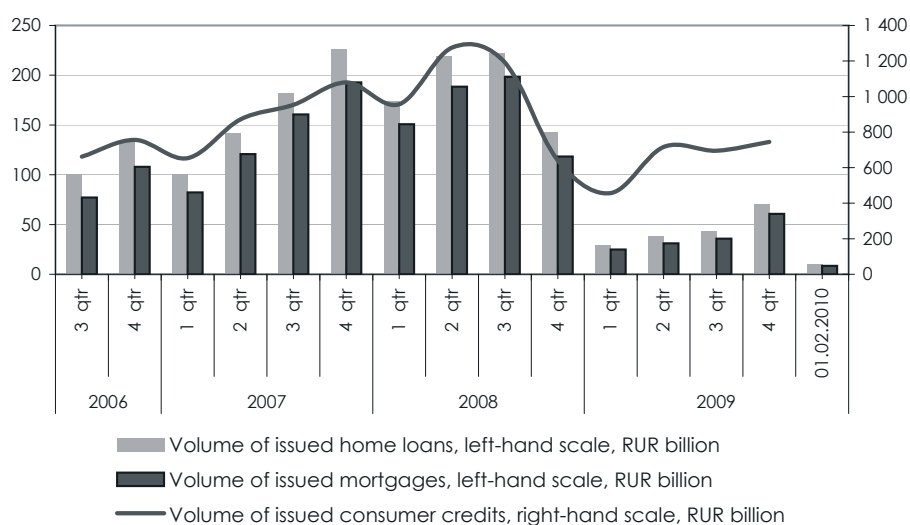
102494 housing mortgages registered in the 1st quarter 2010 made 25.77% of the number of mortgages registered in 2009, in 22226 case in 2010 (73729 in 2009) encumbrance was issued.

As a result of survey conducted by Russian Center for Public Opinions Study, over the last year the number of owners of out-of-town property reduced from 51% to 42% of respondents, mainly due to the contraction in the number of owners of land plots.

According to the data of the Central Bank of the Russian Federation, in 2010, as on May 1st, 81436 home loans of RUR 89682 million were issued, including 62254 mortgage credits of RUR 76319 million. Both the volume and the number of mortgages issued in 2010 exceed by nearly two times the volume and number of mortgages issued over the corresponding period of 2009. However, the volume of mortgages in the 1st quarter 2010 makes only one third of that in the 1st quarter 2008 (*fig. 2*).

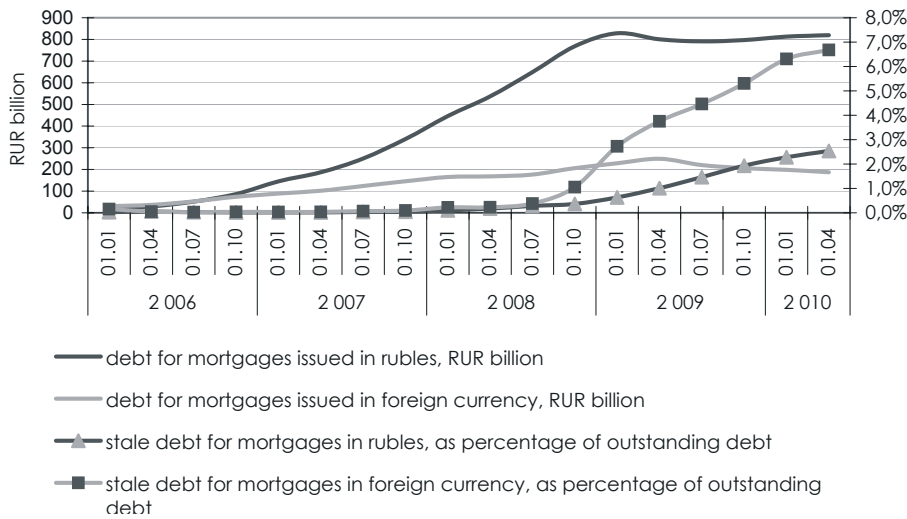
Outstanding debt for mortgages over April 2010 increase by approximately 1% and reached RUR 828.63 billion (*fig. 3*), and for credits in foreign currency is continuing to decrease and was equal to RUR 185.0 billion as on May 1, 2010. The stale debt continues to grow both in absolute and relative terms. Stale debts for credits in rubles made 2.61% of outstanding debts or RUR 21.6 billion as on May 1st, and for credits in foreign currency – 6.9% or RUR 12.7 billion, correspondingly. For home loans in rubles stale debt made 2.47% (RUR 24.4 billion) of the outstanding debt as on May 1, 2010, and of credits in foreign currency – increased to 7.22% (RUR 14.46 billion) of outstanding debt.

According to the data of the Central Bank of the Russian Federation the average weighted interest rate for mortgages issued over the month in rubles is still decreasing (*fig. 4*). The average interest rate for mortgages issued within a year in the foreign currency is also lowering – from 12.7% at the beginning of 2010 to 10.9% as on May 1, 2010. According to the data of AHML average weighted interest rate for mortgages refinanced by the agency over 5 months of 2010 made 10.7%, whereas the aver-



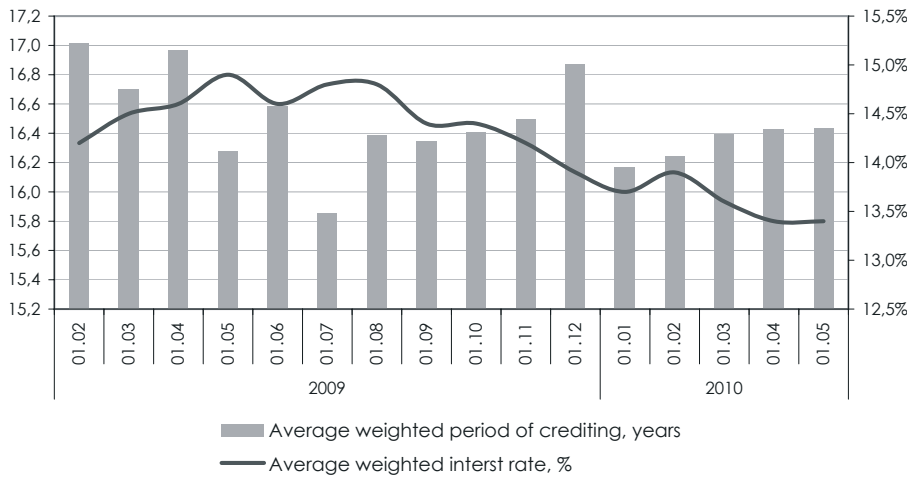
Source: data of the Central Bank of the Russian Federation

Fig. 2. Dynamics of Credits Rendering to Natural Persons over the Quarter



Source: according to the data of the Central Bank of the Russian Federation

Fig. 3. Dynamics of Outstanding Debt and State Debt for Mortgages



Source: according to the data of the Central Bank of the Russian Federation

Fig. 4. Average Weighted crediting Period and Interest Rate for Mortgages Issued in Rubles over a Month

age weighted rate over the month reduced from 10.83% in January 2010 to 10.6% in May.

Over five months of 2010 AHML refinanced 17616 credits of RUR 17.42 billion. Credits refinanced over 4 months of 2010 made 21.9% of all the mortgages issued in rubles or 18.2% of monetary volume of issued credits.

The proportion of mortgages issued in foreign currency as on May 1, 2010 made, according to the data of the Central Bank of the Russian Federation, 5.27% in the volume of all the credits issued in 2010 (6.25% as on January, 1st) and 18.25% in the outstanding debt (19.6% as on January, 1st).

Decrease in the share of five largest banks of the country (and primarily Sberbank) in the number of mortgages issued over the 1st quarter (from 68% to 60%), as well as the share of banks, holding places from the 6th to the 20th, according to the volume of assets, from 11% to 9% testifies, according to AHML report for the 1st quarter 2010, on the upsurge in small banks' activity at the mortgages market.

Federal Law "On making changes to the Federal Law "On state registration of rights for immovable property and deals with it" and some legislative acts of the Russian Federation", adopted by the State Duma on June 4, 2010 and signed by the President of the Russian Federation, envisages:

- attraction of monetary funds of citizens for housing purchase in blocks of flats, not put into commission only on the basis of contract on participation in share construction;
- exemption of developers working within the framework of the law on share construction from VAT payment;
- increase of fine from RUR 500 thousand to RUR 1 million for attraction of citizens' funds with violation of Law statements.

The bill "On protection of rights of citizens investing their money in construction of block of flats in the territory of Moscow oblast" was adopted in the first reading by Moscow oblast Duma. Similar laws have already been adopted in eight subjects of the Federation and they are under consideration in another four subjects.

AHML introduces special product “Novostroika” (New Building), according to which regional partners of the agency issue mortgages for purchase of flats in new buildings below 11% per annum. Program “Stimulus” of the AHML, fulfilled in 13 regions, envisages reduction of commercial risks of developers credited in concordance with it thanks to the responsibilities for redemption of unsold construction objects by the sales guarantor. ●

REVIEW OF ECONOMIC LEGISLATION

I.Tolmacheva

In June 2010 the following changes to the legislation were made: privatization of the federal property will be carried out on the basis of the forecast plan (program), approved by the Government of the Russian Federation for the period from one to three years; starting with June 1, 2010 the RF Government established the coefficient for additional indexation of social pensions; the cost of an insurance year is defined for the purposes of calculation of insurance contributions by individual entrepreneurs, lawyers and solicitors for 2010; the refinancing rate of the Central Bank of the Russian Federation was lowered.

I. Federal Laws of the Russian Federation

1. "ON MAKING CHANGES TO THE FEDERAL LAW "ON PRIVATIZATION OF STATE AND MUNICIPAL PROPERTY" from 31.05.2010 No 106-FZ

At present the Government of the Russian Federation is obliged to approve the forecast plan (program) for privatization of the federal property every year for the corresponding year. A number of changes have been introduced into the Federal Law "On privatization of the state and municipal property". For instance: privatization of the federal property will be carried out in concordance with the forecast plan (program), approved by the RF Government for the period from one year to three years.

It is established that the Law does not apply to the relations evolving when the federal property is alienated in concordance with the decisions of the RF Government in order to create conditions to attract investments, as well as to modernize or technologically develop the economy.

The RF Government has a right to commission any legal entities and not only the specialized state institutions as earlier with the organization of the sale of the federal property for privatization.

The regulation of the ways of property complexes privatization of federal unitary enterprises and open joint-stock companies that are in the federal ownership is excluded in case their fixed assets balance value as on the latest report date exceeds five million minimal wages, as well as property that "corresponds to other criteria established by the RF Government".

The decision on the federal property privatization should contain from now on the initial value of the property (if not envisaged otherwise by the decision of the RF Government) and not the "normative price", which is the lowest level for the possible initial price of the property, which is included in it now.

Information support of state or municipal property privatization is regulated in more details, for instance, the Law now includes the statements regulating the placement of the corresponding information in the Internet.

Changes have also been made to the articles of the Law regulating the procedure for sale of the state or municipal property: the volume of advances paid by participants of the tender at which the state or municipal property is sold was lowered from 20% to 10% of the initial price, but, at the same time the regulation for the maximum value of advance payment is excluded (earlier it was equal to 4.5 million of minimum wages).the procedure for sale of the municipal property through the public offer is also specified (it is carried out in case) the tender for the specified property sale was recognized as invalid). The Law has been supplemented by the article, regulating the electronic sale of the state or municipal property.

II. Decrees of the RF Government

1. "ON APPROVAL OF ADDITIONAL INDEXATION COEFFICIENT FROM JULY 1, 2010 FOR SOCIAL PENSIONS" from 21.06.2010 No 457

According to the Federal Law from December 15, 2001 No 166-FZ "On state pension provision in the Russian Federation", it is established that indexation of social pensions is conducted annually

starting with April ,1st, taking into account the growth rates of prices for goods and services over the elapsed year. In case the growth rates of the pensioner's minimum subsistence level exceeded the growth rates of prices for goods and services, starting with July 1 additional indexation of social pensions is carried out by the difference in the annual index of pensioner's subsistence level and the annual index of growth of prices for goods and services. The coefficients of social pensions indexation are defined by the RF Government. Thus, starting with July 1, 2010 the coefficient of additional indexation of social pensions is established at the level of 1.0341.

2. "ON THE COST OF INSURANCE YEAR IN 2010" from 16.06.2010 No 443

Basing on the cost of insurance year individual entrepreneurs, lawyers and solicitors of private practice pay insurance contributions to the RF Pension Fund and Funds of Compulsory Health Insurance. In 2010 the cost of the insurance year is defined to be RUR 10392. The cost of insurance year is calculated on the basis of tariffs of insurance contributions for compulsory pension insurance and minimal wages, established from January 1, 2010.

III. Instructions, Letters, Orders

1. Order of the RF Central Bank "ON REFINANCIN RATE OF THE BANK OF RUSSIA" from 31.05.2010 No 450-U

Starting with June 1, 2010 the refinancing rate of the Bank of Russia was lowered by 0.25 percentage points and now makes 7.75% per annum. ●

REVIEW OF MEETINGS OF THE GOVERNMENT OF THE RUSSIAN FEDERATION IN JUNE 2010

M. Goldin

In June 2010 at the meetings of the Presidium of the Government of the Russian Federation the project of the federal law "On making changes to some legislative acts of the Russian Federation concerning calling to account of the managing bodies of economic entities" was approved.

On June, 16th at the meeting of the Presidium of the RF Government the project of the federal law "On making changes to some legislative acts of the Russian Federation concerning calling to account of the managing bodies of economic entities" was discussed.

The main idea of the bill is the improvement of the Russian Federation legislation in the sphere of regulation of the relations connected with the members of managing boards fulfilling their duties towards the entities and calling these persons to legal account.

At the moment the norms regulating the responsibility of the managing board members of the economic entities are included in different normative legal acts: in Civil and Labor Codes, in federal Laws "On joint-stock companies", "On limited liability companies". It is the statements of article 53 of the Civil Code that have key significance. According to this article a person that according to the law or statutory documents of a legal entity should act for the benefit of the legal entity it represents honestly and sensibly and in case it does not fulfill or unduly fulfills the duties has to compensate the losses caused to the legal entity at the of the founder (participant).

The main disadvantage of the mentioned principle consists in too general character of the existing legal norms that represent it. Thus, it is not clear from article 53 of the Civil Code which sort of behavior of the person should be considered as dishonest or insensible and serve as a base to bring him to account. The analysis of the court practice demonstrated that the courts experience difficulties when adopting decisions in such cases since there are no criteria of honesty or sensibility developed by the doctrine or in practice, which could be used as guidance.

In this connection it seems necessary to find the most important criteria for sensibility and honest behavior of members of economic entities managing boards and establish them legislatively.

The bill introduces a concept of fiduciary duties between the members of managing board and the company which is wide-spread in the countries of common law practice. In short this concept means that the members of managing boards of economic entities should act carefully («duty of care») and be loyal to the company («duty of loyalty»). In other words, it is presumed that the members of managing boards always act for the benefit of the company. As one of criteria, which allow making a supposition on disloyalty of a person is the conflict of interests seen in his actions, which is understood as the lack of direct or indirect interest for the particular actions (absence of actions) on behalf of the company. The criterion mentioned is established according to the bill.

In order to secure a more effective mechanism of responsibility the bill also established the responsibility of the member of the managing board to notify the authorized body of the company on the conflict between his interests and company's interests, and also in its interests in the conclusion of a deal (deals). The bill envisages strict legal grounds for bringing the members of the managing board to account, i.e. establishes the responsibility for losses caused by insensible and (or) dishonest actions (absence of actions) when fulfilling their rights and executing duties.

The bill defines the list of reasons, for which the managers can be brought to account, as well as the coterie, they are responsible to.

The bill not only defines the criteria of dishonest or insensible behavior, but also establishes a particular list of rights and duties of member of entity's managing board, which is very important when the reasons for legal actions are determined.

The bill introduces in the legislation the notion of the person executing the responsibilities of single-handed executive body, which is widely used in practice, and also establishes the require-

ments for the procedure of his appointment, his responsibility and a number of other requirements connected with appointment of such a person.

The bill introduces the institution of insurance of managing board responsibility to the economic entity itself and to the third parties by an economic entity and the possibility of compensation to the member of its managing board for the losses caused by the court procedures concerning his actions as a member of managing board of such an economic entity.

The bill also eliminates the gap, consisting in the fact that the members of the board of directors (supervising board) of an economic entity, who voted for the approval of securities offering circular, bear no responsibility in case they cause losses to the owner of securities as a result of unreliable, incomplete and (or) misleading information contained in this offering circular.

The RF Government approved the bill and submitted it to the State Duma for consideration. ●

REVIEW OF REGULATORY DOCUMENTS CONCERNING TAXATION OVER MAY–JUNE 2010

L.Anisimova

1. According to the Federal Law from June 2, 2010 No 115-FZ changes were made to article 346.3 of the Tax Code of the Russian Federation (RF Tax Code). The changes concern default interest charges. From now on when losing the right for the single agricultural tax application, a taxpayer has to recalculate all his taxes that were earlier substituted with the single agricultural tax in proper time. If a taxpayer has not carries out recalculation in time, he has to pay default interests for delay in charging and payment for every tax, for which the tax liability is recovered. The default interest is charged for every calendar day of the delay starting with the day that follows the recalculation deadline, which is established by paragraph 3 clause 4 article 346.3.

If an organization or an individual entrepreneur have violated the requirements established by paragraphs 5 and 6 article 346.2 of the RF Tax Code and applied single agriculture tax without sufficient grounds, default interests are charged for every tax to be paid for every calendar day of the delay in the taxation periods in which the taxpayer has applied agriculture tax without grounds.

2. According to the Letter of the RF Ministry of Finance from May 26, 2010 No 03-11-11/151 the question on the single tax on the imputed income concerning activity of production sale to budget organizations is answered. For instance, the RF Ministry of Finance clarifies that the single tax on the imputed income can be applied for some kinds of activities, for instance for entrepreneurial activity in the field of retail trade. The agreement of retail trade is a public agreement with undefined number of customers.

Sale of goods (works, services) to budget institutions cannot be regarded as retail trade, since it is regulated by the Federal Law from 21.07.2005 No 94-FZ “On order placement for supply of services, execution of works, services rendering for state and municipal needs”. In this case it does not concern the retail sale to natural persons and legal entities for private, family, home or other use, which is not connected with entrepreneurial activity (paragraph 1 article 492 of the RF Civil Code), but order placement for state (or municipal) needs.

According to paragraph 1 article 9 of the Federal Law No 94-FZ, state or municipal contract is defined as an agreement signed by the customer on behalf of the Russian Federation, a subject of the Russian Federation or a municipal formation in order to provide for state or municipal needs. Such a contract belongs to the contract of delivery, since there is a specific customer.

On the basis of this, the RF Ministry of Finance comes to conclusion that the entrepreneurial activity connected with the sale of goods (including foodstuffs) on the basis of a state (or municipal) contract when supplying goods to state institutions, for instance, to schools, kindergartens and other institutions does not belong to retail trade, and, consequently, cannot be transferred to the single tax on the imputed income regime.

3. According to the Letter from May 25, 2010 No 03-04-05/9-288 the RF Ministry of Finance answered an enquiry concerning application of property tax deduction for the personal incomes tax regarding new construction or purchase in the territory of the Russian Federation of a residential house, apartment, room or share (shares) in them, land plots, provided for individual housing construction and land plots on which the purchased houses or share (shares) in them are situated.

The RF Ministry of Finance comments on the application of subparagraph 2 paragraph 1 article 220 of the RF Tax Code on the property tax deduction when selling a flat which the spouses that are now divorced bought together.

It seems that when answering such questions the RF Ministry of Finance should obligatory refer to the position of the RF Constitutional Court. The general scheme for property tax deduction

granting for the common property in case it is purchased is studied in detail by the RF Constitutional Court in Decision from March 10, 2005 No 63-O, and in case it is sold – in the Decision of the RF Constitutional Court from 13.03.2008 No 5-P.

According to the position of the RF Constitutional Court the general sum of the property tax deduction granted both to participants of the joint share property and to the owner of a house or a flat remains within the single maximum amount of property tax deduction, i.e.: property tax deduction is granted to the object of real estate and not to a taxpayer. Otherwise, namely in case every participant of common share property was granted a property tax deduction equal in amount to the property tax deduction granted to the owner of a house or a flat, the total sum of property tax deductions of all the participants of common property could be several times more than the sum of a property tax deduction granted to the owner of a house or a flat, which contradicts the constitutional principles of equality and fairness in the field of taxation.

Since the property tax deduction is granted for an object of immovable property, in case a flat that is in common property is sold, it should be distributed among co-owners according to their shares.

4. According to the Letter of the RF Ministry of Finance from May 25, 2010 No 03-03-05/107 the question concerning taxation of operations with non-marketable securities and application of article 280 of the RF Tax Code was clarified.

According to article 280 of the RF Tax Code the incomes of a taxpayer from the operations of sale or other retirement of securities (including clearing) are defined basing on the price of sale or other form of securities clearing, and expenses are defined basing on the price of purchase and costs connected with it.

The price of a deal for non-marketable securities, which is taken into account when calculating taxation base, is defined basing on the calculated price of securities with 20% deviations (minimum and maximum price).

This means that when selling non-marketable securities at the price below the calculated one reduced by 20%, it is the calculated price as on the date of sale reduced by 20% that will be recognized as the accounted price of sale.

In case non-marketable securities are purchase at a price which exceeds the calculated figure increased by 20%, it is the calculated price as on the date of sale increased by 20% that will be recognized as the accounted price of purchase.

5. The Letter of the RF Ministry of Finance from May 24, 2010 No 03-04-05/2-287 contains the position of the RF Ministry of Finance concerning recognition of limited liability company as a tax agent and commissioning it with the responsibility to withhold and transfer to the budget personal income tax from the real value of participation share in the capital of a limited liability company, paid to a natural person on his withdrawal from the number of limited liability company participants.

It should be noted that the RF Ministry of Finance bases on the fact that the income of a taxpayer in the form of a real value of the share received when withdrawing from the company does not belong to incomes envisaged by articles 214.1, 227 and 228 of the RF Tax Code. The responsibility to calculate and pay taxes from incomes reflected in the articles mentioned (214.1, 227, 228) is transferred to natural persons that pay taxes.

The position of the RF Ministry of Finance seems quite rather disputable. Higher courts have studied the nature of legal relations of participation in a limited liability company capital several times and regarded these relations as a property right (see, for instance, Decision of the RF Supreme Court from 29.01.2010 No 5-V10-5). Subparagraph 2 paragraph 1 article 228 of the RF Tax Code includes in the envisaged list of incomes the sums from sale of property rights belonging to natural persons.

It is clear that the RF Ministry of Finance tried to apply single effective scheme for payment of taxes from incomes from securities and participation shares in limited liabilities companies: the responsibility to withhold personal incomes tax both from the incomes of securities sale and from the incomes form participation shares in limited liability companies are transferred to tax agents

(organizations), however, unfortunately, in case of sale of participation shares in limited liabilities companies capital this does not literally correspond with the RF Tax Code.

6. According to the letter of the RF Ministry of Finance from May 25, 2010 No 03-03-06/2/101 the question on the procedure for acceptance for tax deduction of insurance contributions to state social off-budget funds in connection with replacement of single social tax with the system of compulsory insurance contributions. According to subparagraph 49 paragraph 1 article 264 of the RF Tax Code insurance contributions to state social off-budget funds should be accounted among other expenses connected with production and (or) sale. The date of making expenses in the form of compulsory payments, according to subparagraph 1 paragraph 7 article 272 of the RF Tax Code is the date of their accrual. A taxpayer independently (paragraph 1 article 318 of the RF Tax Code) defined in the accounting policy for the purposes of taxation the list of direct expenses connected with goods production (works execution, services rendering). All other sums of expenses connected with production and sale of goods (works, services) are regarded as indirect expenses.

7. According to the letter of the RF Federal Tax Service from May 25, 2010 No ShS-37-3/2379@ and the letter of the RF Ministry of Finance from 12.03.2010 No 03-08-13 peculiarities of calculation, withholding and payments of taxes by a tax agent from the incomes received by a foreign organization from the sources in the Russian Federation.

For instance, it is noted that a Russian organization (or a permanent representative of a foreign organization), which acts as a tax agent of a foreign organization in concordance with paragraph 1 article 310 of the RF Tax Code withholds tax every time it pays incomes to the organization in the currency in which income is paid. The sum of the tax withheld from the incomes of foreign organizations is transferred by a tax agent to the federal budget in the currency of the Russian Federation simultaneously with incomes payment.

The RF Ministry of Finance draws attention to the fact that article 287 of the RF Tax Code contains statements that allow a tax agent to transfer the sum of already calculated and withheld tax to the budget not on the day of the payment of income but within three days after the income was paid (transferred) to the recipient-counteragent. In this case, as it is explained by the RF Ministry of Finance, the sum of the tax is recalculated according to the official exchange rate of the RF Central Bank on the day of payment (transfer) of the tax to the federal budget. ●

CHANGES IN REGULATORY BASE OF BUDGET PROCESS

M.Goldin

In June 2010 the following events took place in the regulatory base of budget process: the decision on providing the government support to small- and medium-scale business was adopted, the cost of insurance year in 2010 was defined, the coefficient for additional indexation of social pensions from July 1, 2010 was established.

According to the Decree of the RF Government from 21.06.2010 No 460 “On additional measures of government support for the subjects of small- and medium-scale business in 2010” RUR 5000000 thousand is allocated to provide government support for the development of small- and medium-scale entrepreneurship in 2010.

The funds of federal budget will be granted to budgets of RF subjects for fulfilling the following measures:

a) support of subjects of small- and medium-scale entrepreneurship that carry out innovation activity;

b) support of municipal development programs for small- and medium-scale entrepreneurship of undiversified municipal formations, included in the list of undiversified municipal formation with the high extent of crisis phenomena in socio-economic sphere and (or) those that are under such threat;

c) support of subjects of small- and medium-scale entrepreneurship operating in the territory of subjects of the Russian Federation that belong to North-Caucasian Federal Okrug.

It should be noted that the support of small- and medium-scale entrepreneurship carrying out innovation activity and operating in North-Caucasian regions cannot exceed RUR 200000 thousand rubles.

The volume of subsidies to the budget of a subject of the Federation for fulfillment of the support measures to the municipal programs of small- and medium-scale entrepreneurship of undiversified municipal formations is defined by the government committee on the economic development and integration and established by the RF Government. The level of co-financing of expenses of the subject of the Federation in this case must be 95%.

According to the Decree of the RF Government from 16.06.2010 No 443 “On the cost of the insurance year in 2010” the cost of the insurance year in 2010 is defined at the rate of RUR 10392.

The cost of insurance year is calculated on the basis of tariffs of insurance contributions for compulsory pension insurance and minimal wages, established from January 1, 2010. The cost of insurance year is necessary for individual entrepreneurs, lawyers and solicitors of private practice to calculate insurance contributions to the RF Pension Fund and Funds of Compulsory Health Insurance.

According to the decree of the RF Government from 21.06.2010 No 457 “On approval of additional indexation coefficient from July 1, 2010 for social pensions”, starting with July 1, 2010 the coefficient of additional indexation of social pensions is established at the level of 1.0341.

According to the Federal Law from December 15, 2001 No 166-FZ “On state pension provision in the Russian Federation”, it is established that indexation of social pensions is conducted annual starting with April, 1st, taking into account the growth rates of prices for goods and services over the elapsed year. In case the growth rates of the pensioner’s minimum subsistence level exceeded the growth rates of prices for goods and services, starting with July 1 additional indexation of social pensions is carried out by the difference in the annual index of pensioner’s subsistence level and the annual index of growth of prices for goods and services. The coefficients of social pensions indexation are defined by the RF Government. ●