

**RUSSIAN ECONOMY: TRENDS AND PERSPECTIVES**  
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## Political and Economical Results of July 2007

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Most interesting events in July were in one or another way connected with the foreign policy environment. The main result of July, according to the mass media, was the triumph of the Russia's application at the contest for the conduction of the winter Olympiad-2014. The application presented in distant Guatemala by V. Putin in person left a famous winter capital – Austrian city of Salzburg - behind. And it is despite the fact that there is no suitable mountain skiing route – the route of more than 5 km of length is planned to be built in 2009.

The Government of the Russian Federation adopted a huge investment program for the conduction of the Olympiad in Sochi in 2014 – of the total amount of more than RUR 190 bln only at the expense of the federal budget, half of which will provide for roads construction and the rest – for the construction of the sports objects, municipal infrastructure. As the head of the Ministry for the Economic Development and trade G. Gref fairly said that such an amount of the investments is “unexampled” (as well as there being a G. Gref's deputy in charge of Sochi, which is a city with population suburbs included of no more than 400 thou of people).

From our point of view, argumentations on recoupment of such investments are more than disputable. Not all Olympiads of the recent time were profitable, and in general recoupment of Olympiads, which is natural, is calculated not only basing on the immediate profit from the Olympiad but from the profit of created infrastructure. The amount of financing provisioned is either the evidence of the fact that existing infrastructure is rudimentary (which was also testified by numerous public “telling-offs” of the local authorities by V. Putin and G. Gref) or that real aims of this project are far from political or image ones, or, which is most likely, that these facts are combined. So, having not yet solved many fundamental problems, connected with human assets (expenditures for Olympiad are approximately equal to the annual expenditures for health care, the deficit of the Pension Fund increasing) the Russian Government starts to manage the welfare quite generously for the benefit of one small town and some winter sport lovers.

Some steps of Russia were evidently of image nature and symbolized the intentions and readiness of the country's authorities to conduct tough police. Another exchange of “compliments” between Russia and Great Britain has occurred – the latter deported four Russian diplomats and threatened of indefinite toughening of visa regime, however, it is not clear yet what in will consist in. Russia declared the deport of the same number of English diplomats in response, and V. Putin has fully used extremely lame suggestion of the British authorities to change Russian Constitution<sup>1</sup> to give the advice to “lecture on the British and to remind that the times of colonialism have gone away. As far as the rest is concerned - one should not, despite the insinuations of both parties, expect any economical squabbling in near future. Great Britain and Russia are important to each other from the economical point of view and each of them has enough trumps. However, strategically Great Britain is one of the first among the countries of the European Union, which has a serious potential for political and economical pressure on Russia because of the total independence from Russian energy carriers and because of a higher even when compared with the Western Europe level of Russian authorities and businessmen assets location in its territory. In its turn it is British justice and its unwillingness to collaborate with the Russian governmental structures serve as a guarantee of these assets safety. That's why Litvinenko's case is of symbolic importance to the British, also for the purpose of prove of the power in its own territory.

V. Putin also fulfilled his recent threat – he signed the order on interruption of the Treaty on Conventional Armed Forces (TCAF) effect by Russia and the international agreements, connected with it. As it was clarified, Russia has frozen TCAF effect “up to the time when NATO countries ratify the Adapted treaty and start to execute this document conscientiously”. This step was presented as significant in the global world order, but in fact it just establishes the current state of affairs.

The most unpleasant events in the field of the foreign policy were two important decisions of the European Court of Human Rights as the organization that despite its slowness has the right to at least levy fines from the Russian authorities and state the violation of the written or unwritten norms. First of all the court upon considering the case of the former Federal Security Service colonel M. Trepashkin, who was sentenced for four years for governmental secrets disclosure, and obliged Russia to pay him three thousand euro for tortures (Trepashkin who suffers from asthma did not get medicines). There are quite a lot of such claims

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<sup>1</sup> Obviously, theoretically it can be mentioned that the problem of Lugovoi extradition could be solved without the changes in Constitution due to the priority of foreign policy treatments and the trial against him in Russia could solve a number of questions.

being satisfied, but this is a special case, since Trepashkin who retired from the special service in 1998 together with Litvinenko, positions himself as an open enemy of V. Putin and was a member of a committee on the investigation of houses explosions in Moscow in 1999. Second upon considering the case “Musaev and others against Russia”, the Court ascertained the accusations in committing numerous war crimes by the federal armed forces personnel (56 civilians were killed in a village of Novye Aldy one day in February 2000). And though the matter concerns remote times of “counter-terrorist operation” even now, in “peaceful times”, taking into account the escalation in recent months in both Chechnya<sup>2</sup>, Ingushetia and overall the North Caucasus, this is an unpleasant evidence of the obvious fact: in a part of the Russia’s territory military operations take place.

V. Zorkin, the chairman of the Constitutional Court of Russia, who some time ago spoke against the adoption of the current Constitution, proposed even “remedial” initiative of making amendments to the legislation, which will restrict the right of the Russians to make claims to the European Court of Human Rights (one can do so after the first cassation instance at present). However, the notion of grounds’ for defence exhaustion is interpreted in Strasburg, and it is highly unlikely that the current procedure will be changed.

Some changes for the better have occurred in the field of big monopolies. Gazprom named a foreign partner who will assist it in the development of a huge Shtokmanovskoye field (two years since A. Miller announce the refusal of collaboration concerning the field with foreigners its development has not made any progress). It is decided to give the contract to the French company Total, which has the experience in the work at the market of liquefied gas as well, and which will get 25% in company, that operated the field. Exact parameters of the deal are not clear yet, but it seems that the task of the operation company will be the technical organization of the jobs and supply of the equipment, and funding will be made by Gazprom. However whether this happen or not is unclear. The Russian authorities face the task of prevention the adoption of the new regulatory acts in the field of power by the EU (starting with the compulsory division between generation and sale and to the different extents of limitations for operation of either state-owned companies of the companies of the states that do not ratify the Power charter), which are expected in autumn 2007 and secure profitable prolongation of the frame contract EU-Russia. It seems that serious work will (or will not) start when the answers for these questions appear, and at the moment the matter concerns the declaration of intentions.

In July the government submitted for discussion the project of the law “On the procedure of foreign investments execution in the commercial organizations, which are of strategic importance for national security of the Russian Federation”. It was elaborated in accordance with V. Putin’s message of 2005, but until recently because of the rigid tensions between the departments it had been unclear if it is to be issued by the government (and it is still not evident if it is soon adopted by the State Duma). Such contradictions are not surprising, since the personal opportunities for officials depend on those who and in which part will participate in the agreement process.

The list of “strategic branches”, whose enterprises’ control stock purchase requires the permission by the governmental committee, includes special technical equipment, weapons production, aircrafts construction, space and nuclear industry, those, that have “the kinds of activities within the framework of natural monopolies”, “own exclusive rights for intellectual property within the framework of national security technologies” etc. Though the law project turned out to be relatively mild, The Federal Security Service received the veto right for any deal, being in such way equal to the government as a whole.

There is nothing unexpected in such a result. The real situation in Russia has not been regulated by the written legislation for a long time. And the fact that the list does not include, for example, such “strategic branches” as heat and power complex does not mean that the heat and power complex’s enterprises can be sold to foreigners without V. Putin’s agreement. Any deal in Russia can be considered as invalid on the grounds, for example, of the ascertained by the courts judge-made laws of defence and law enforcement agencies to calculate the fair price for a deal. Any big deal with opaque conditions may not receive the approval of the Federal Antimonopoly Service.

A sensational claim was made by Oleg Deripaska, one of the biggest Russian oligarchs, principal shareholder of “Russian aluminum”. He stated that he is ready to lose his company at any moment and hand it over to the state, his wealth coming to him out of the blue. Deripaska’s strange claim (it is evident that the state can take his company excluding foreign assets at any moment without his consent) some commentator regarded as a form of vow. . It seems doubtful that there is a necessity for it. It is more likely that the point is

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<sup>2</sup> In Chechnya, besides the confrontation with Islamites, the struggle within “pro-Russian authorities” is becoming more acute – R. Kadyrov’s units fought the competitive detachment “Zapad” of M. Kakiev, A. Ahmadov, the chief of the Chechnya’s riot squad, and A. Khasanbekov, the chief of the 2 operative search bureau, lost their posts.

that the enterprises find some rhetoric form of equating themselves with the government. And it is worth mentioning that also that when the “Russian aluminum” was being created in his present form different ways of development were discussed, for instance V. Vekselberg’s group proposed the opportunity of IPO with the further sale of their share in the company. The principal stockholder made it clear for everybody – how can anyone speak of IPO if he is ready to give everything to the state? At the same time the government does not take anything from him, him being consequently a legal owner. Deripaska’s claim should be considered first of all in the context of a strange type of property rights in Russia, which resembles feudal conditioning holding, and it can concern both legally government and legally private enterprises.

Several important changes in personnel took place in July. V. Putin accepted I. Ivanov’s resignation from the position of the Security Council secretary, A. Sharonov left deputy’s position by G. Gref at the Ministry of the Economic Development and Trade for the work at Troika Dialog. He was replaced by A. Popova, head of the department for corporate management. Whereas I. Ivanov’s resignation does not influence Russian policy very much (Security Council has become an advisory department after the leave of S. Ivanov), A. Sharonov was G. Gref’s key deputy, was in charge of legislation activity, supervised strategic departments, natural monopolies reform etc. It should be expected that reform potential of the Ministry will decrease. However, in general it is not needed to the government and authorities.

Two event that testified the improvement of the authorities’ public position occurred in July. Party “Velikaya Rossiya” (Great Russia) got the refusal of the registration, the formal head of which State Duma’s deputy A. Saveliev was surrounded by D. Rogozin’s circle and himself in person, activists of the Movement against illegal immigration and other smaller nationalistic organizations. Several months ago they swore allegiance to the Kremlin, concentrating their dissatisfaction in the liberals and abandoning topics that were likely to cause authorities’ annoyance. It did not help. Successfully provoking several splits and scandals, the Kremlin left Great Russia, which reduced significantly its activity on the streets, out of the parliament. By and large it was ascertained once again that it is useless “out-of-system” operators to ask for the license for the political activity. The split in “Drugaya Rossiya” (Another Russia), which succeeded during the spring and drew the attention to its activity and even received with difficulties the permission to conduct rallies, was rather subjective than objective factor. They could not come to agreement concerning the single candidate for the presidency (some were inclined to support M. Kasianov, some with G. Kasparov as a leader – V. Geraschenko, who was evasive on his willingness to run for election) and they could not make a better decision than to announce the leaving of the coalition by malcontents – M. Kasianov, G. Satarov, L. Alekseeva, V. Ryzhkov. Demonstrating the society and their supporters inability to come to the agreement, overestimating each other losses due to the lack of compromise, the discordants not belonging to the parliament enlarged the sad list, where there had already been official “democrats”. However a resource question can reconcile them – it is evidently unequal by different candidates.

No dynamics were demonstrated by the authorities on the issue of “succession”. The only public step was intended to demonstrate the equality and unity of two candidates – S. Ivanov and D. Medvedev, the first chairman’s of the Government of the Russian Federation deputies appeared in a summer camp of “Nashi” (Our) movement wearing nearly identical casual clothes, joking at ease, not answering political questions

Several scandals at regional level took place in July. First of all, Federal Council adopted nearly without changes the treatment, which was rejected earlier, on distribution of competence and power between the federal governmental bodies of Russia and Tatarstan, which preserves special rights and privileges for the republic. Thereby it was once again testified that there are no topics, on which S. Mironov and his group could hold their own position. All their claims during voting become pointless.

D. Donskoi, the mayor of Arkhangelsk, was arrested in July. Last year in Russia in general was characterized by the flood of arrests and criminal cases against the elected mayors of towns, who did not conformed to the chain of command but had large distribution powers (Vladivostok, Toliatti, Tomsk, Novgorod, Volgograd, Rybinsk, Krasnoarmeisk mayors). The same as in case with Donskoi, they are often charged with absurd acusations like unpurposeful use of funds for car purchase, guards etc. – one can imagine that all the mayors at large do not have anything of the sort. But Donskoi’s case is especially interesting – first, he claimed (perhaps joking, but not illegal) intention to run for the presidet’s elections, and second, he published video recording of bribetaking by N. Kiselev, Arkhangelsk’s oblast governor, who has just set the question of confidence before V. Putin. It is interesting if this arrest of Arkhangelsk truth-seeker should be interpreted as the business of local “law machinery” or as a political position of the federal authorities – the governor’s fate will clarify this issue.

*S. Zhavoronkov*

## Budgetary and fiscal policy

As a result of the preliminary execution over January-June 2007 the level of the RF federal budget revenues was equal to 23.4% of the GDP, the level of the expenditures of the federal budget - to 15.7% of the GDP, the budget surplus - to 7.7% of the GDP. As a result of January-May the revenues of the RF consolidated budget were equal to 34.8% of the GDP, consolidate budget expenditures – to 24.8% of the GDP, and the budget surplus – to 10.0% of the GDP. As of 1 July 2007 the value of the RF stabilization fund totaled RUR 3 141.4 bln against RUR 3 026.7 bln as of 1 June 2007, which by the ratio to the GDP year on year is 11.3% of the GDP and 10.9% of the DP, correspondingly. The most notable event in the budgetary and fiscal sphere was the adoption of the Law “On making amendments to part two of the Tax Code of the Russian Federation and some other legislative acts of the Russian Federation”.

### State Budget

The dynamics of the main parameters of the RF federal budget over 2005-2007 is presented in *table 1*. The federal budget was executed to the amount of RUR 3 244.9 bln (23.4% of the GDP) in terms of revenues, RUR 2 171.9 bln (15.7% of the GDP) in terms of expenditures and the budget surplus was equal to RUR 1 073.98 bln (7.7% of the GDP) according to the preliminary estimation of the budget execution by cash in the period between January and June 2007 made by the Ministry of Finance of the Russian Federation. In real terms revenues and expenditures of the federal budget over the period in question also were somewhat higher than the corresponding figures of the last year (revenues of RUR 2 931.8 bln, expenditures of RUR 1 870.4 bln). At the same time these data have slightly decreased against the GDP, being, correspondingly 24.9% and 15.9% of the GDP. It should be noted that the federal budget surplus approximates in nominal value the last year’s figure of RUR 1 061.4 bln, while as the percentage of the GDP a decrease as compared with the preceding period is observed (9.0% of the GDP).

*Table 1.*

#### Main Parameters of the RF Federal budget in 2005-2007 as percentage to the GDP

	2005	июнь 2006	2006	июнь 2007
Revenues	23,7%	24,9%	23,5%	23,4%
Expenditures	16,2%	15,9%	16,2%	15,7%
Deficit (-)/ Surplus (+)	7,5%	9,0%	7,4%	7,7%

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

Structure of budget revenues inflow over the period under review by the federal bodies that administer budget revenues is represented in *table 2*.

*Table 2.*

#### Amount of Revenues to the Federal Budget of the Russian Federation in 2005-2007 , as percentage of the GDP, by Cash Execution

	2005	июнь 06	2006	июнь 07
Taxes and other payments administered by the Federal Tax Service	12.33%	12.33%	11.27%	11.69%
Taxes and payments administered by the Federal Customs Service	9.73%	11.09%	10.76%	10.16%
Revenues administered by the Federal Agency for Federal Property Management	0.27%	0.21%	0.26%	0.14%
Federal budget revenues administered by other federal agencies	1.35%	1.25%	1.25%	1.41%
<b>Total revenues</b>	<b>23.67%</b>	<b>24.87%</b>	<b>23.54%</b>	<b>23.39%</b>

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

As follows from the data, presented in the table, over January- June 2007 the amount of the tax and other revenues as percentage of the GDP by the majority of the departments decreased as compared with the figures of the corresponding period of the previous year. Taxes and other payments administered by the Federal Tax Service were equal to 11.69% of the GDP, which is by 0.64% of the GDP lower than the similar figure of January-June 2006. The share of the payments administered by the Federal Customs Service was 10.16% of the GDP (11.09% of the GDP in 2006, the decrease being thus equal to nearly 1% of the GDP). The amount of payments, administered by the Federal Agency for the Federal Property Management, de-

creased by 0.07 p.p. and was equal to 0.14% of the GDP. The volume of the state budget revenues administered by other federal agencies on the contrary demonstrated some increase (by 0.16% of the GDP) as compared with the figures of the last year and was equal to 1.41% of the GDP (1.25% of the GDP in 2006).

To analyze the trend represented above in detail the data published by the Treasury of the Russian Federation are required. Despite the fact that these data are available only for the period between January and May, that is with the lag of one month as compared with the preliminary data published by the Ministry of Finance of the Russian Federation, the patterns of the changes over the first five months in many respects also define the trends observed for the first six months of 2007 (see *table 3*).

Over the period from January to May 2007 the biggest drop in terms of GDP percentage was observed for the following revenue sources: export customs duties (-2.1% of the GDP), severance tax (-1.2%), value added tax for the goods, sold in the territory of the Russian Federation (-0.7%). It should be noted that all in all these taxes composed nearly 60% of the total federal budget revenues over January-May 2007. The biggest growth as GDP percentage was observed from the following items: value added tax for the goods imported into the territory of the Russian Federation (+0.6%) and import customs duties (+0.2%), single social tax (+0.1%). The share of these taxes in the federal budget revenues exceeded slightly 25% as a result of the budget execution over the first 5 months of 2007. As for other items the changes were insignificant - less than 1% of the GDP. The changes described above in the revenues from different kinds of taxes and payments has led to the reduction of the federal budget revenues share in the GDP both over the first five months and over January-June 2007.

*Table 3.*

**Federal Budget Revenues (main items) over 2005-2007 as percentage to the GDP**

	2005	May 06	2006	May 07
<b>TOTAL BUDGET REVENUES</b>	23.72%	25.07%	23.58%	21.77%
1. Company profit tax	1.75%	1.99%	1.92%	1.89%
2. Single social tax	1.24%	1.19%	1.19%	1.29%
<b>3. Taxes for goods and services sold in the territory of the Russian Federation</b>	5.16%	4.63%	3.82%	3.90%
3.1. Value added tax	4.75%	4.25%	3.47%	3.54%
3.2. Excises on excisable goods	0.41%	0.38%	0.35%	0.35%
<b>4. Taxes on the goods imported into the territory of the Russian Federation</b>	2.15%	2.19%	2.27%	2.76%
4.1. Value added tax	2.07%	2.12%	2.20%	2.68%
4.2. Excises on excisable goods	0.08%	0.06%	0.06%	0.09%
5. Severance tax	3.95%	4.61%	4.11%	3.44%
6. Import customs duties	1.25%	1.28%	1.28%	1.51%
7. Export customs duties	6.25%	7.66%	7.12%	5.60%

*Source:* Treasury of the Russian Federation, IET calculations

Preliminary data of the Ministry of Finance of the Russian Federation on financing of the RF federal budget expenditures in January-June 2007 are presented in *table 4*.

Comparing the figures for expenditures by individual items over January-June 2007 with the corresponding period of the last year, it can be noted that these changes were not of unified nature. The biggest drop as GDP percentage was observed for the following items intergovernmental transfers (-0.18%), social policy (-0.14%), nationwide issues (-0.11%), national defense (-0.06%). These items on the whole added up to 66.4% of the volume of federal budget expenditures financed over January-June 2007. The biggest growth in terms of GDP percentage was observed for the expenditures on the national economy (+0.26%), education (+0.14%), municipal housing economy (+0.07%), national security (+0.07%), health care and sport (+0.07%). Expenditures for these items reached 32.3% of the total federal budget expenditures. As for other items the changes were insignificant – less than 0.01% of the GDP.

Let us consider in detail the dynamics of the changes of revenue and expenditure parts of the budget. In order to do this it is necessary to examine the calculations that represent the factors which determine the resulting changes (see *tables 5,6,8*).<sup>3</sup>

<sup>3</sup> The figures of the nominal growth were calculated on the basis of unchanged volume of nominal GDP, that is in terms of GDP percentage over the first half year of 2006

Analyzing the data on the federal budget execution over January-June (*table 5*) it can be seen that the decrease of the resulting figures occurred due to the GDP growth. This is most notable upon examining the federal budget surplus. Had the volume of the GDP been unchanged (that is at the level of the first half of the 2006) the surplus would have increased by 0.11% of the GDP, but because of the growth of the GDP in the first half year of 2007 this figure decreased by 1.37% of the GDP. The resulting decrease of the federal budget surplus was equal to 1.26% of the GDP.

*Table 4.*

**Volumes of Financing of the Federal Budget Expenditures in 2005-2007  
as percentage to the GDP**

	2005	June 06	2006	June 07
Nationwide issues	2.58%	2.32%	2.19%	2.20%
Of which: state debt service	1.06%	0.75%	0.65%	0.46%
National defense	2.71%	3.03%	2.57%	2.97%
National security and law enforcement	2.05%	2.31%	2.08%	2.37%
National economy	1.17%	1.22%	1.31%	1.49%
Municipal housing economy	0.04%	0.20%	0.20%	0.27%
Environmental protection	0.02%	0.03%	0.03%	0.03%
Education	0.73%	0.95%	0.78%	1.09%
Culture, cinematography and mass media	0.22%	0.23%	0.21%	0.22%
Health care and sport	0.42%	0.59%	0.56%	0.66%
Social policy	0.88%	0.95%	0.81%	0.81%
Intergovernmental transfers	5.77%	6.28%	5.68%	6.10%
<b>Total expenditures</b>	<b>16.58%</b>	<b>18.10%</b>	<b>16.40%</b>	<b>18.21%</b>

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

It should be noted that nominal growth of the GDP over January-June 2007 was equal to 18%. This is connected also with increased investment and consumption activity. It also can be noted that unusually warm winter construction works to proceed without ceasing, which considerably contributed to the GDP growth.

*Table 5.*

**The Change of the Main Parameters of the Russian Federation Budget in January-June 2007  
as compared with 2006 (as percentage to the GDP)**

	GDP level being unchanged	Due to the GDP growth	Resulting
Revenues	2.66%	-4.13%	-1.48%
Expenditures	2.55%	-2.77%	-0.22%
Deficit (-) / Surplus (+)	0.11%	-1.37%	-1.26%

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

Let us consider in more detail the change in the volumes of RF federal budget financing (*table 6*). Against the background of the general trend for the reduction in the figures in terms of GDP percentage demonstrated, however, a substantial growth. This is accounted for by a considerable growth in nominal terms by these items, which compensated for GDP growth rates effect. The biggest increase was observed for the parts of "national economy" and "education". The growth of expenditures for the item of "national economy" was in many respects determined by the subdivisions of "transport" and "other issues in the field of the economy". It can be noted that expenditures for infrastructure and education are the priority directions of the budgetary policy, which is also evident from the President of the Russian Federation to the Federal Assembly. The biggest decrease of the GDP share occurred for the item of "intergovernmental transfers". This reduction is accounted for by the GDP growth.

The following characteristic features can be outlined in the dynamics of the individual revenue items of the federal budget (see *table 8*). The increase of the payments from the value added tax and excises for the goods imported into the territory of the Russian Federation is caused by a significant increase of Russian



import.<sup>4</sup> Single social tax also exhibited a considerable growth. According to the data of the Federal State Statistics Service labor remuneration of the wage earners over the first quarter 2007 went up by 28.61% as compared with the first quarter 2006. At the same time the trend for the gradual decrease of the effective single social tax rate is observed from 2003 to 2006<sup>5</sup>. It should be mentioned that labor remuneration growth rates exceed the rates of effective rate decrease. As a result the increase in the payments by the single social tax is observed.

Table 6.

**The Changes in the Volumes of RF Federal Budget Expenditure Financing in January-June 2007 as compared with 2006 (as percentage from the GDP)**

	GDP level being unchanged	Due to the GDP growth	Resulting
Nationwide issues	0.28%	-0.39%	-0.11%
Of which: state debt service	-0.21%	-0.08%	-0.29%
National defense	0.46%	-0.52%	-0.06%
National security and law enforcement	0.49%	-0.42%	0.07%
National economy	0.53%	-0.26%	0.26%
Municipal housing economy	0.12%	-0.05%	0.07%
Environmental protection	0.01%	0.00%	0.00%
Education	0.33%	-0.19%	0.14%
Culture, cinematography and mass media	0.04%	-0.04%	0.00%
Health care and sport	0.18%	-0.12%	0.07%
Social policy	0.00%	-0.14%	-0.14%
Intergovernmental transfers	0.90%	-1.08%	-0.18%

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

For some revenue items the decrease in the terms of the GDP percentage was observed. For instance, the share of payments by the value added tax for the goods sold in the territory of the Russian Federation has reduced. In previous reviews we noted that one of the reasons for this was the transfer for informative procedure of VAT payment from 1 January 2007. The procedure for VAT payment has considerably accelerated, which has led to some reduction in payments by this tax during the year. Later the influence of this factor should diminish. This hypothesis was supported by the new data on the federal budget execution, As follows from table 7 presented below the share of VAT payments in VAT rises gradually.

Considerable decrease was observed for the severance tax and export customs duties. This reduction is connected with the fact that the federal budget revenues are highly dependent on the raw materials sector of the economy payments. It is obvious that the volume of minerals extraction can increase at the rates, which are comparable with the growth of the nominal GDP (18% in the first half year of 2007). As a result a slower growth of raw materials sector accounted for the drop of export duties share and severance tax in GDP

Table 7.

**The change of the Value Added Tax for the Goods sold in the territory of the Russian Federation (as percentage to the GDP)**

	March	April	May
2006	5.12%	4.72%	4.25%
2007	3.08%	3.32%	3.54%
Change	-2.04%	-1.40%	-0.71%

Source: Treasury of the Russian Federation, IET calculations

In July the Treasury of the Russian Federation also published the data on RF consolidated budget execution and budgets of the state off-budget funds over January-May 2007. As a result of January-May 2007 revenues and expenditures of RF consolidated budget in terms of GDP percentage totaled 34.8% and 24.8%,

<sup>4</sup> According to the data of the Federal Customs Service import to the Russian Federation over January-May 2007 increased by 52.4% in nominal terms as compared with the corresponding period of 2006

<sup>5</sup> According to IET calculations effective rate in the first half year was equal to 2003 – 33.76%; 2004 – 33.18%; 2005 – 24.75%; 2006 – 24.42%.

correspondingly. As follows from the data of *table 9* the consolidated budget revenues in terms of GDP percentage is sufficiently lower than the corresponding figure of 2006 (37.2% correspondingly). At the same time the consolidated budget expenditures in terms of GDP percentage are at the last year's level, exceeding the corresponding figure of 2006 by 0.1%. Consolidated budget surplus in January-May 2007 was equal to 10.0% of the GDP, which is by 12.5% of the GDP lower than the corresponding figure of 2006. According to the data of the Treasury of the Russian Federation on extended government budget execution the volume of budget revenues over January-May 2007 was equal to 39.2% of the GDP, expenditures – to 28.5% of the GDP, while the surplus – to 10.8% of the GDP.

*Table 8.*

**Change of the Federal Budget of the Russian Federation Revenues (main items) in January-March 2007 as compared with 2006 (as percentage of the GDP)**

	Level of GDP being unchanged	Due to the GDP growth	Resulting
1. Tax on company profit	0.67%	-0.71%	-0.04%
2. Single social tax	0.60%	-0.48%	0.11%
3. Taxes for goods and services sold in the territory of the Russian Federation	0.95%	-1.46%	-0.52%
3.1. Value added tax	0.83%	-1.33%	-0.50%
3.2. Excises on excisable goods	0.11%	-0.13%	-0.02%
4. Taxes on the goods imported into the territory of the Russian Federation	1.56%	-1.04%	0.52%
4.1. Value added tax	1.51%	-1.00%	0.50%
4.2. Excises on excisable goods	0.05%	-0.03%	0.02%
5. Severance tax	0.40%	-1.29%	-0.88%
6. Import customs duties	0.78%	-0.57%	0.21%
7. Export customs duties	0.55%	-2.10%	-1.55%

Source: Treasury of the Russian Federation, IET calculations

As for 1 July 2007 the value of the RF Stabilization Fund amounted RUR 3 141.4 bln against RUR 3 026.7 bln as for 1 June 2007, which in ratio to GDP year on year is equal to 11.3% of the GDP and 10.9% of the GDP, correspondingly.

*Table 9.*

**Consolidated Budget of the Russian Federation Execution in 2006-2007 (as percentage of the GDP)**

2006												
	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Revenues	36.2	34.4	37.9	37.1	37.2	36,8	36,6	35,4	35,4	35,1	34,8	35,5
Expenditures	17.6	21.0	24.2	25.4	24.7	25,5	25,3	25,1	24,8	24,7	25,1	27,8
Deficit (-) / Surplus (+)	18.7	13.4	13.6	11.7	12.5	11,3	11,3	11,4	10,6	10,4	10,7	7,7
2007												
	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Revenues	30.9	29.6	32.7	33.2	34.8							
Expenditures	14.2	19.0	22.4	23.9	24.8							
Deficit (-) / Surplus (+)	16.7	10.6	10.3	9.3	10.0							

Source: Treasury of the Russian Federation, IET calculations

**Key events in the budgetary sphere**

On 11 July 2007 Federal Council adopted the Law “On making amendments to part two of the Tax Code of the Russian Federation and some other legislative acts of the Russian Federation”. According to this law amendments are being made to some chapters of the Tax Code, connected with the practice of application for the incomes tax of natural persons, single social tax, company profits tax, enterprise assets tax and land tax. Let us consider the most important changes in more detail.

### **Personal incomes tax**

According to the new version of the Tax Code of the Russian Federation the tax-payer is granted the right to reduce taxable incomes amounts not only by the sums of sale their share in the statutory capital of an organization, but also when the incorporeal right is assigned according to the contract of shared construction. The law also envisages the grant of tax deduction in the sum of expenses really made but no more than RUR 100 thou over the taxation period. Lucre gained by interest retrenchment when borrowed funds are received now is exempted from taxes.

Chapter 23 of the Tax Code of the Russian Federation is complemented with the article 214.2 “Specific features of taxation base determination when revenues in form of interest rates from the bank deposits are received”. According to this article taxation base for ruble deposits is referred to as the excess of total amount of interest, which is accrued according to the conditions of the contract over the amount of interest, calculated given the refinancing interest rate by the Bank of Russia, which is in effect during the period over which interest was accrued. For the deposits in the foreign currency – given 9% of year interest, if not envisaged otherwise by the corresponding chapter of the Tax Code.

### **Profit tax**

Defining the tax base for company profit tax it is the sums of account payable by tax-payer of taxes and payments, fees and fines for the budgets of different levels as well as for dues, fees and fines for the budgets of governmental off-budget funds, written off or reduced in any other way that will not be taken into account. Entrance fees and membership dues, shares, donations, deductions for making reserves for current and thorough repair work of the common property, which is made by its members for the association of property owners to the housing, gardening, lawn-and-garden, garage building, housing building co-operative societies.

The laws proposes not to take into account when defining tax base for corporate profit tax the sum of VAT, which is subject to tax deduction for the receiving organization when property, intangible assets, property rights as a contribution to the statutory capital of economic societies, associations, shares to co-operative society funds.

### **Enterprise assets tax**

In order to eliminate double taxation the sums of assets tax that were really paid by a Russian organization beyond the borders of the Russian Federation, that is for the property owned by this organization and located in the territory of another country, will be included in payment of assets tax in the Russian Federation.

The procedure of taxation base definition for the mortgage operations as a kind of securities was defined more precisely, and the initial value of passenger cars and minibuses to calculate amortization sums was doubled.

The law also states that the property handed over to the trust management as well as the property purchased within the framework of trust management is subject to taxation from the trust management organizer, excluding property, which constitutes mutual investment fund.

### **Land tax**

Amendments made to the Tax Code of the Russian Federation define the procedure of tax base calculation as regard to land plots, located in the territory of several municipal districts. As for land plots, purchased as property by natural persons and legal entities on conditions of carrying out of the housing construction it is supposed to apply step-up coefficient and calculate the tax from the moment of government registration of the property rights for these land plots.

### **Single Social tax**

As for single social tax the amendments and addenda are being introduced in order to simplify the mechanism of this tax calculation and payments, elimination of existing inaccuracies and contradictions, which lead to their ambiguous interpretation. For instance, it is supposed to extend the privilege on tax exemption to individual entrepreneurs on payments for disabled employees.

It should be noted that the changes made by the law under review to the Tax Code of the Russian Federation are not taken into account by the corresponding version of the law “On the federal budget for 2008 and for the period up to 2010”. At the same time according to the estimations made by the Minister of Finance Alexei Kudrin the uncollected revenues are approximately RUR 1.5 bln. The biggest part of this sum is accounted for by the regional budgets, the compensatory measures for them being absent. It should be underlined that according to the Budget Code the laws, which make significant changes to Tax legislation must be adopted no later than a month before adoption of the law for the corresponding year (period). The following can also be noted – the law is again being considered without financial and economic basis for the tax changes proposed and without estimation of their effect on the budgetary system.

*O. Kirillov, A. Mamedov*

## Monetary and Credit Policy

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In June of the current year inflation in the RF (+ 1 per cent) was significantly accelerated as compared with both, June and the relevant period of preceding year (+ 0.3 per cent). There were observed the sustained growth of foreign currency and gold reserves in the country, which have reached the volume of USD 411.2 bln, and the monetary base(+ 3.6 per cent). Payments under external government debt exceeded USD 3 bln.

In June the consumer price index has made 1 per cent against 0.3 per cent in June 2006 (see Fig.1). Like in May, foodstuffs made the utmost input in consumer prices growth in June. Their prices have been increased by 1.7 per cent per cent on average countrywide (as opposed to + 0.03 per cent in June of 2006). It is worth noting that the explicit growth rate of food stuffs price in comparison with the previous year has provoked the increase of CPI in the second quarter of the current year as compared with the relevant period of 2006. The utmost growth rates were observed in prices for vegetables and fruit (+ 12.2 per), bakery products (+ 1.6 per cent) and granulated sugar (+ 1.3 per cent). While sugar price has been increased after a long term of downgrading, the quick upsurge of vegetables and fruit prices in the second quarter of 2007 was absolutely unexpected. One of the reasons, which provoked that phenomenon is a complicated situation with the import of fruit and vegetables from a number of traditional suppliers in the Russian Federation (for instance, Moldova).

Upgrading of prices for commercial public services in June made 0.6 per cent (+ 0.7 per cent in June of 2006). The utmost growth was observed in regard to health-care and resort services due to vocational season (+ 3.3 per cent). Besides, significant growth was observed in regard to public transport (by 1.7 per cent), international tourism (+1.9 per cent), healthcare (+ 1.1 per cent) and consumer services (+1 per cent). There was no decrease in any type of public services in June.

Non-food products were also growing in price in June; they have been raised by 0.3 per cent on average (+ 0.3 per cent in June of 2006). The growth of non-food products prices was caused mainly by the growth of prices for construction materials (+ 1.5 per cent). It should be mentioned, that in June there was observed some decrease for audio-and video products (by 0.1 per cent).

The basic consumer price index<sup>6</sup> in June 2007 made 0.4 per cent (versus the relevant period of preceding year in the amount of 0.3 per cent). According to the bulletin of approximation short-term estimates of the RF socio-economic indicators, published by IET, the CPI in June 2007 made 0.3 per cent.

Therefore, the basic factor of accelerated growth of prices for consumer goods in the RF in the past months versus the relevant period of preceding year is the growth of price for food products. Apparently, with the new crop, those prices will be stabilized, which should reduce inflationary pressure. It is worth mentioning, that the basic CPI, not effected by seasonal factor, happened to be lower by 0.9 p.p. in the first half-year in comparison with the same period of preceding year. Thus, currently the speedy growth of monetary supply in the background of higher economic activity provides no significant impact on inflation rates.

Within June 2007, the volume of cash in circulation (in broad definition<sup>7</sup>) has been increased by RUR 209.5 (to RUR 5137.1 bln, i.e., - 3.9 per cent). The volume of monetary base in broad definition as of June 1, 2007 was RUR 5346.6 bln. Let us consider the dynamics of monetary base in broad definition by components.

As of July 1, cash in circulation with regard to the fund balances in credit organizations made RUR 3.25 trillion (plus 4.6 per cent against the level of June 1). Correspondent accounts of credit organizations in the Bank of Russia made RUR 528.7 billion (plus 17 per cent), mandatory reserves made RUR 244.8 billion (plus 6.5 per cent), bank deposits in the Bank of Russia made RUR 758.6 billion (- 38.3 per cent), the value of shares of the Bank of Russia with credit organizations made RUR 350.4 billion (plus 7.8 per cent). In our opinion, this is a temporary trend and in July the growth of monetary base will be renewed.

In June the increased amount of cash in circulation (by 4.6 per cent) and mandatory reserve funds (by 6.5 per cent) has led to the growth of monetary base in narrow definition (cash plus mandatory reserve funds)<sup>8</sup>

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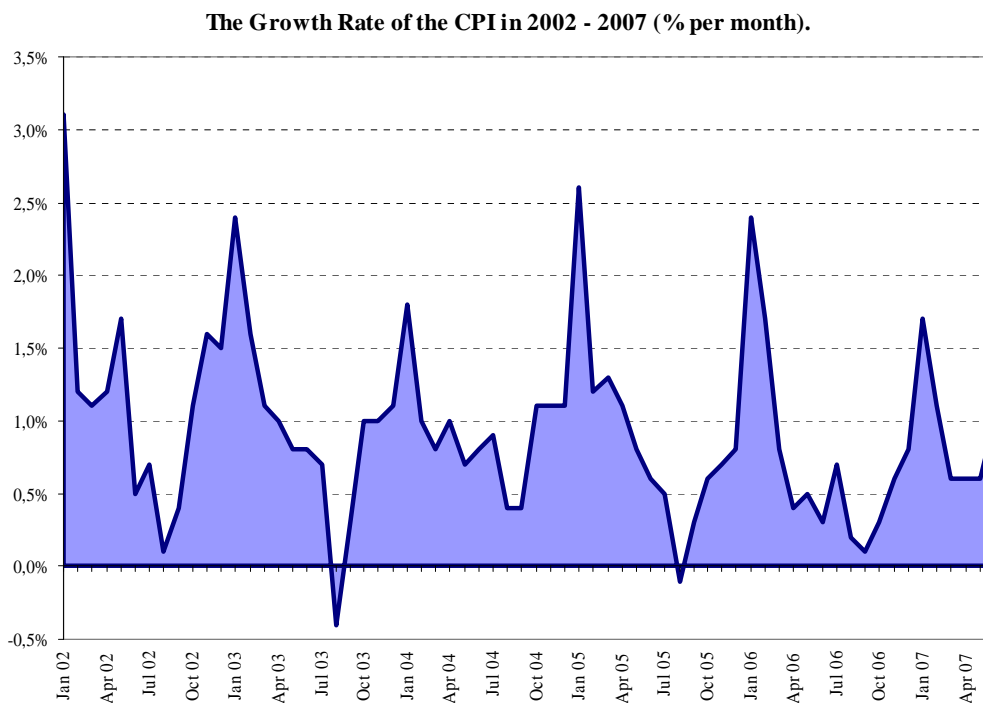
<sup>6</sup> Basic index of consumer prices is an indicator of the inflation level without regard to seasonal price reduction (fruit and vegetable products) and to administrative measures (tariffs for government-regulated services, etc.). It is estimated by the RF Statistics Service

<sup>7</sup> The RF monetary base in broad terms with no regard to the cash issued by the Bank of Russia and the balance of Compulsory Reserve Accounts on credit organizations in national currency, deposited in the Bank of Russia, taking into account the assets of correspondent accounts and bank deposits, allocated in the Bank of Russia..

<sup>8</sup> We should remind, that the monetary basis in broad terms is not a monetary indicator, but an indicator of the Bank of Russia liabilities in national currency. The monetary base in narrow terms is a monetary indicator (one of the indicators of monetary supply), ultimately controlled by the Central Bank of Russia.

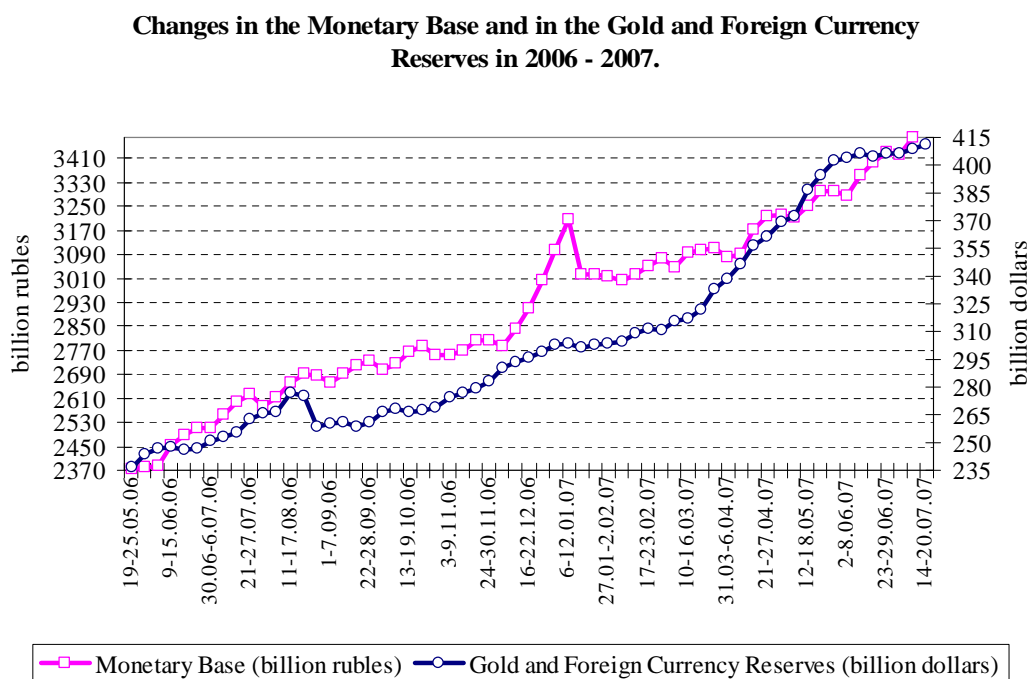
by 3.6 per cent (see Fig. 2). In this background gold and foreign currency reserves of the RF Central Bank have grown by 0.7 per cent and made USD 405.8 billion as of July 1. Within the first two weeks of July they have been increased by 1.3 per cent more and reached the level of USD 411.2 billion. The major part of incoming to the country liquidity has been accumulated in the RF Stabilization Fund, the volume of which has reached as of July 1 of 2007 the level of RUR 3141.4 billion, or 10.8 per cent of GDP (plus 114.7 bln as compared with June 2006). Within the relevant period of preceding year the volume of Stabilization Fund has been increased by RUR 137.8 bln.

FIG. 1.



Source: RF Statistical Service

FIG. 2.



Source: RF Central Bank.

According to the information of the Federal Treasury, payments under external debt in June of the current year have made USD 3 bln. The amount of USD 2.7 bln was addressed to repayment of the external debt and USD 0.3 bln was paid for the services thereof. Herewith, USD 43.6 million was spent to cover the debt of Russia, 97.4 million for the World Bank and EBRD loans, USD 2.7 bln for loans raised upon bonds and USD 200 million under intergovernmental agreements.

*P. Trunin*

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## **Financial Markets<sup>9</sup>**

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In July the situation in the Russian financial markets was rather favorable. Some growth was observed in the external debt market, though there were no noticeable changes due to uncertain dynamics of the US debt market. In general, Russian stock indices were steadily growing in the background of sufficient RUR resources in the banking sector, as well as strengthening of ruble against the basket of foreign currencies. A continuous growth was also observed in the stock market, which basic indices have reached the historical maximum values. The major factors, governing the Russian market were an upsurge of oil prices to the maximum values in the international markets, favorable situation in the international stock markets, as well as a number of positive corporate news from Russian companies.

### **Government securities market**

As of July results, in the Russian debt market in foreign currency there was observed some growth of traded financial instruments. As in the preceding months, the main factor, affecting the dynamics of the Russian debt market, like other developed and emerging markets, was the US debt market. In early July the US securities were getting down upon publication of the data on the number of employees in non-agricultural economic sectors. This information was interpreted as confirmation of potential growth of the bank refinancing rates in future, what encouraged the financial instruments yield upgrading. However, during the second week of the month there appeared negative news from the mortgage sector. Standard & Poor's and Moody's ratings agencies stated that the methodology for risk assessment of mortgage bonds ratings would be revised. As a result, the investors were withdrawing the assets from the risky segment and placed them in government bonds, which caused some decline in their yield. However, this factor provided no long-lasting impact on the quotations, and by the end of the week the US securities yields have somewhat grown again. The dynamics of the Russian Eurobonds was much the same as the US financial instruments.

At the beginning of the second part of July the situation was dependant on the expected disclosure of CPI and the producer price index in the United States, as well as on the speech of the US IRS Head. Nevertheless, neither one nor the other factors had any significant impact on the US debt market.

Prices stayed within the expected limits, and the IRS Head did not bring up any drastic news, noting the significance of inflation risks in the background of lower level of the risks, which could slow down the growth of the U.S. economy.

As of July 20, the Russian Eurobonds' RUS 30 yield to maturity made 5.98 per cent per annum, RUS-18 – 6.10 per cent per annum. As of the same date, the yield to redemption of the Russian Eurobonds made: for the eight tranche of external currency debt bonds – 5.38 per cent, seventh tranche bonds – 5.75 per cent, fifth tranche bonds – 5.29 per cent..

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<sup>9</sup> In the course of preparation of the survey, there were used analytical materials and surveys published by the Zenith Bank, investment company ATON, MICEX, and the materials presented at web sites of Russian issuing companies.

FIG. 1.

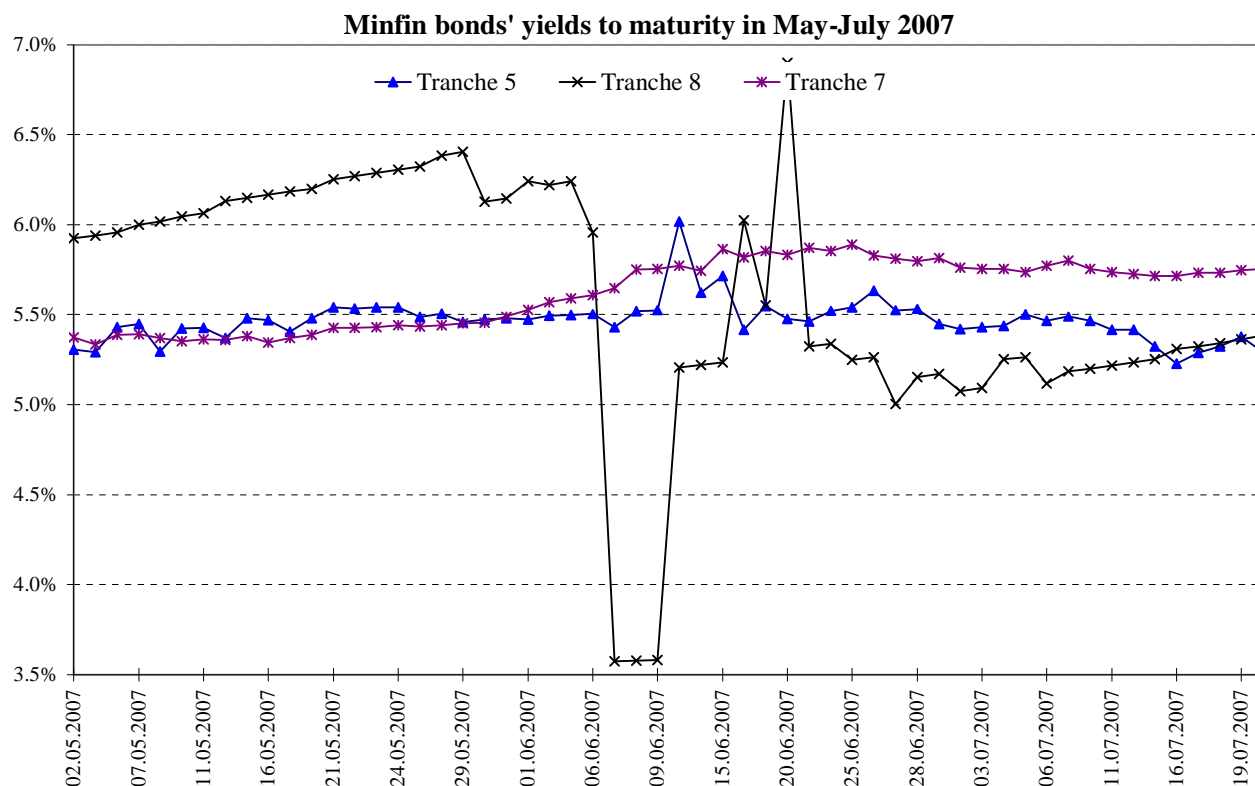
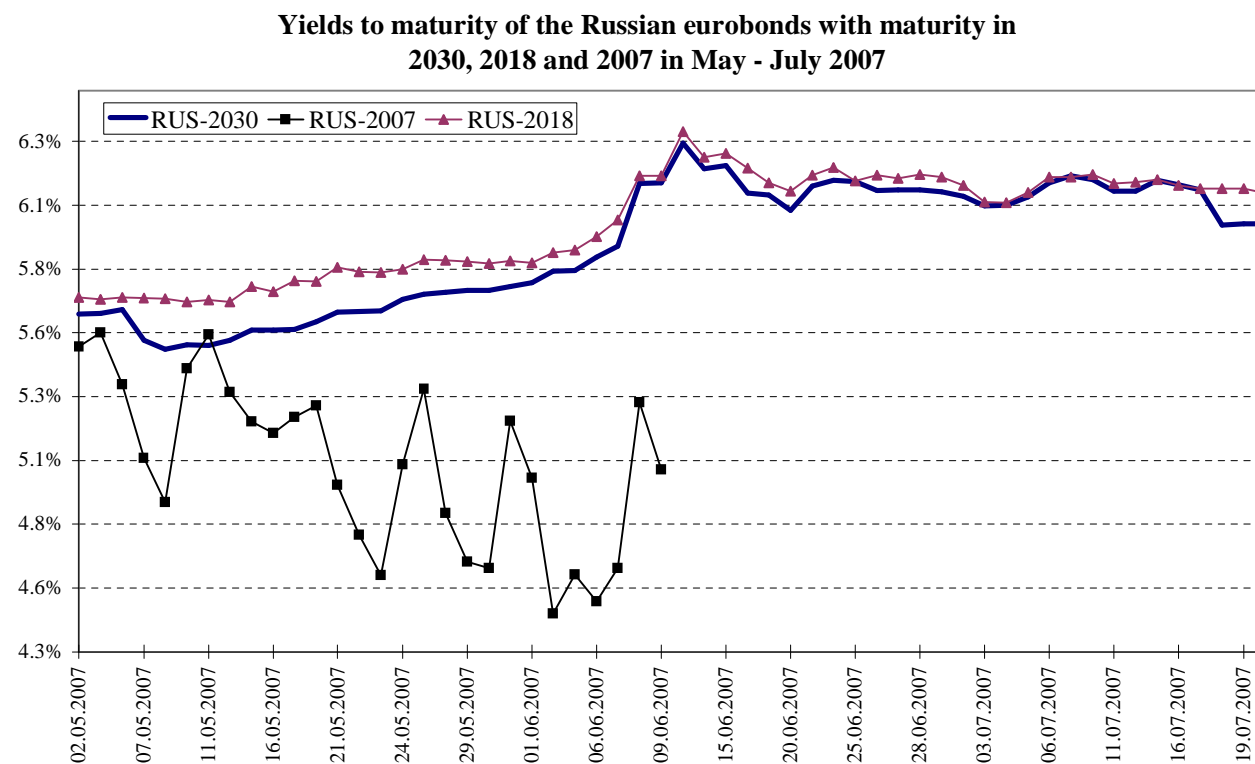


FIG. 2.



In July positive trends dominated in the government ruble debt market, caused by excessive assets in the banking sector and RUR strengthening against USD. The most liquid issues of long duration were in the highest demand.

In the period of July 2 to 20 the total turnover in the secondary market of GKO-OFZ made about RUR 79.7 bln, with an average daily turnover at the level of RUR 5.32 bln.(as compared with RUR 305.9 bln with

an average daily turnover at the level of RUR 20.4 bln. in June). Two auctions on OFZ additional placements were held during the month. Thus, on July 4, a placement of OFZ-PD series 26199 with the issue volume of RUR 2.84 bln. was made. The issue volume was RUR 2.89 bln with an average weighted yield at the level of 6.42 per cent per annum. On July 18 placement of OFZ-PD series 26199 with the issue volume of RUR 11 bln. was made. The issue volume was RUR 10.8 bln with an average weighted yield at the level of 6.15 per cent per annum.

As of July 24, the GKO-OFZ market amounted to RUR 1000.62 bln at face value and to RUR 1016.86 bln at market value. The duration of the GKO-OFZ market portfolio was 2084.15 days.

## **Equity Market**

### **Stock market situation.**

In July there was observed a steady growth of quotations of all basic indices in the Russian stock market, as a result of which they have reached historical peak. Thus, RTS index has reached the level of 2091.26 points.

The growth in the market started from the very beginning of the month, largely due to increased demand for the securities of oil and gas and steel sectors.

In the background of oil prices, which have come up close to the historic peak, an increased demand of investors might be the consequence of fundamental reassessment of investments in the Russian oil and gas sector. The news factors were also positive. Thus, a good incentive for an upsurge of investors' interest to the infrastructure securities of Southern federal region was the news that Sochi will be the capital of the winter Olympic Games in 2014. Moreover, in July, Moody's improved credit rating of "Rosneft" from «Baa2» to «Baa1». The dynamics of developed and emerging markets also supported the Russian stock market. During the next week the market growth was sustained, largely due to further upraise of oil process in the international market. In such environment blue chips were rather stable. Additional support to Gazprom securities was provided by the news that the French company "Total" was chosen as a partner for development of Shtockmanvovskoye oil well.

Early of the second part of the month the growth has slowed down and volatility in the dynamics of the quotations was observed in the market. Partially it was caused by technical factors, as the basic stock indices have reached their maximum historical peaks and further growth would require the development of fundamental factors. Moreover, volatility in dynamics was observed in the international stock markets, where a downfall took place after an upsurge of the middle of the week. In general, the Russian market was upheld by oil, while upon a short-term downgrading the quotations went up, encouraged by the news from USA. Among national news, we should note the beginning of Sberbank securities placement, upon the suspension, required for a split between ordinary and privileged shares. The measure has explicitly encouraged the liquidity and accessibility of the shares to small investors, which was confirmed by evident growth of quotations, when placements were renewed.

In general, within the period of July 1 to 24, the RTS index has increased by 7.24 per cent in absolute terms and made 138.4 points. At the same time the period of turnover of sales on shares, included in the RTS index, made about USD 988.1 mln at the average daily turnover at the level of USD 58.12 mln (as compared with about USD 835.2 mln at the average daily turnover at the level of USD 49.13 mln in June). Therefore, the investors' activity in the stock market in July has increased as compared with the preceding month. The indicators of maximum and minimum turnover in the market trades in July made USD 138.3 mln (as of July 3) and USD 32.8 mln (as of July 20), accordingly.

As of monthly results (from June 24 through July 25) all "blue chips" have shown a growth in their market values. Thus, the utmost growth rates were demonstrated by "Tatneft" (14.41 per cent), "Mosenergo" (13.66 per cent) and Sberbank of Russia (10.4 per cent). Some lower upgrading was observed about quotations of "Gazprom" and "Rosneft" (9.85 per cent and 9.46 per cent accordingly). "LUKOIL" shares grew up in price within that period by 6.62 per cent, "Surgutneftegaz" 6.33 per cent, Nor Nickel by 5.42 per cent, "Gazprom Neft" by 4.22 per cent, RAO UES of Russia by 2.38 per cent. The minimum growth was demonstrated by shares of "Rostelecom", which have raised in July by 0.63 per cent.



FIG. 3.

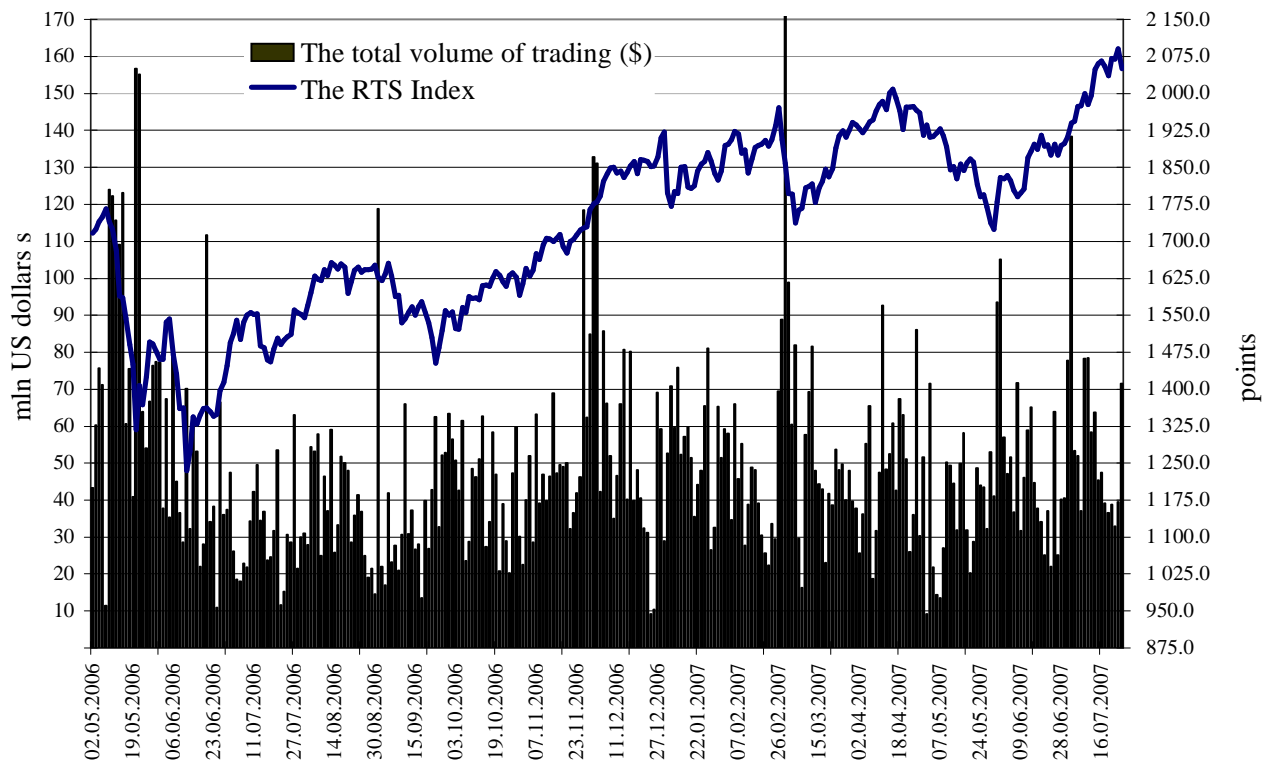
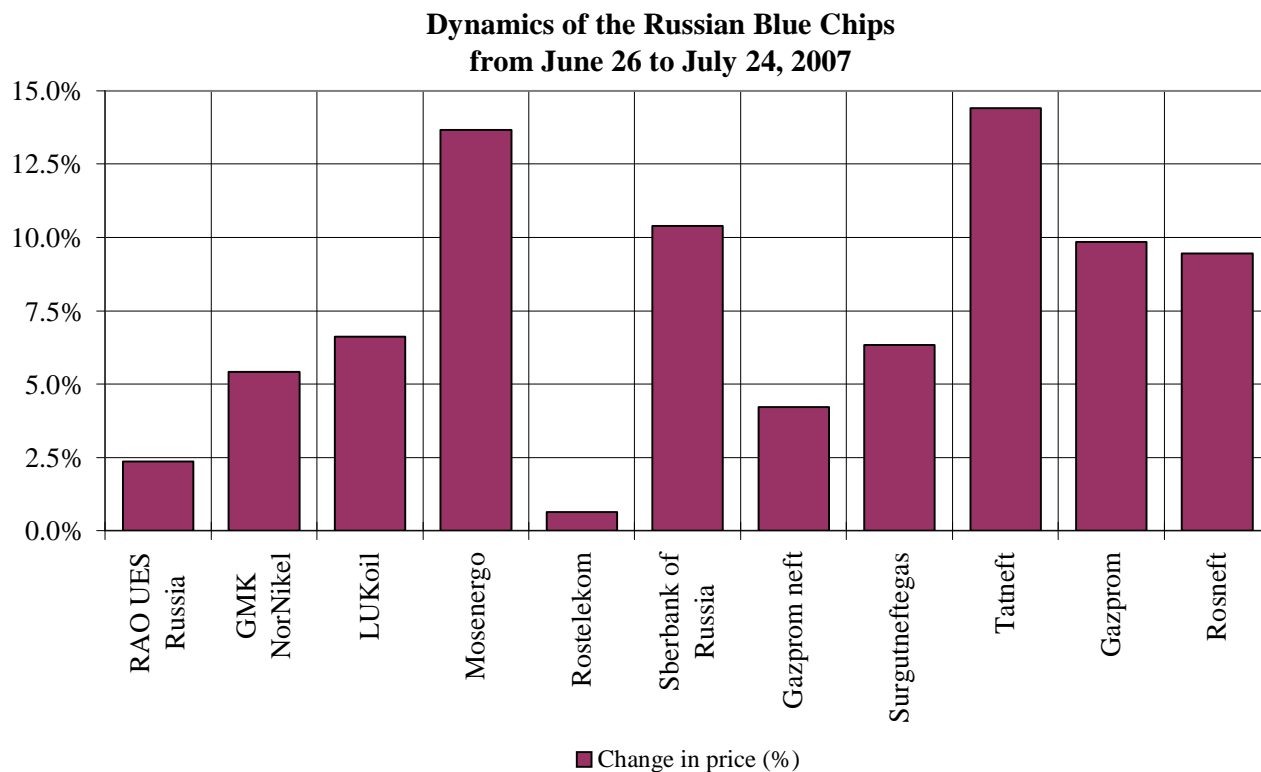


FIG. 4.



In July the RTS turnover leaders<sup>10</sup> were: “RAO UES of Russia” (36 per cent), “Gazprom” (22.3 per cent), “Norilsk Nickel” (9.5 per cent), “LUKOIL” (7.7 per cent), “Sberbank of Russia and (5.2 per cent) and “Ros-

<sup>10</sup> On the classical market.

neft” (1.3 per cent). The total share of trades with the above companies has accounted to 83.5 per cent of the total RTS trading volume.

In terms of capitalization, as of July 24 the top five leaders of the domestic share market were<sup>11</sup>: “Gazprom” (USD 267.3 bln, , “Sberbank of Russia” (USD 94.72 bln), “Rosneft” (USD 92.73 bln), “LUKOIL” (USD 71.68 bln), RAO «UES of Russia» (USD 57.34 bln), “Norilsk Nickel” (USD 42.89 bln).

#### **Futures and options market**

In July the investors’ activity in the RTS futures and options market (FORTS) has decreased as compared with the preceding month. Thus, from May 2 to 24 the total turnover in the RTS futures and options market amounted to approximately RUR 367.17 bln (660.49 thousand of transactions, 8.36 mln of contracts) against about RUR 416.33 bln (743.3 thousand of transactions; 10.18 mln of contracts in the relevant period of June).

The greatest demand, as before, was for futures: the volume of trading in futures in the period under review was RUR 398.9 bln (640.43 thousand of transactions, 6.71 mln of contracts). Options enjoyed a far lower demand, with the volume of trading at about RUR 61.27 bln (20.1 thousand of transactions and 1.66 mln of contracts). The highest level of trading in the futures market was RUR 32.54 bln (as of July 10), the lowest was RUR 11.62 bln (as of July 4).

#### **Corporate bond market**

The situation in corporate debt market in July was rather favorable. The beginning of the month was marked by the growth of prices due to ruble strengthening against the US dollar and excessive liquidity in the banking sector. Some influence on the market was provided by June inflation rate, which was 1% per month, having exceeded the level of the last year and the levels of preceding months.

With other factors being equal, this should have resulted in a reduction of current quotations, but there was observed a reverse situation. This can be explained by the fact that currently inflation retention is a priority of the government, and when the preset limits are exceeded, the RF Central Bank implements the policy of ruble strengthening against the basket of foreign currencies, which encourages the demand for RUR assets. Such situation was prevailing within the following two weeks of the month: the basic supporting factors were the liquidity level and the situation in the foreign currency market. The investors’ activity was at extremely high levels, exceeding not only the indicators of preceding summer months, but the average annual level. A positive event for the market has been placement of debenture issue X-5 for the amount of RUR 9 bln. Demand for the issue came up to about RUR 14 bln, and the balance was transferred to the secondary market. Only by July 20-s the level of quotations got stabilized due to some decline of liquidity in the banking sector, caused by tax payments and liquidity issues of reasonable rates.

From July 2 through 24 the price index of corporate bonds traded on MICEX<sup>12</sup> went up by 0.31 points (0.28 per cent), while the index of the ten most liquid corporate bonds grew up by 0.62 points (0.52 per cent). From July 2 through 20 the total turnover on the MICEX corporate bond section amounted to nearly RUR 46.87 bln, with an average daily turnover of RUR 3.12 bln (about RUR 36.68 bln with an average daily turnover in of RUR 2.45 bln in the relevant period of May). Therefore, the investors’ activity has explicitly grown in July.

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

The situation in the international oil market was quite favorable. Virtually from the very beginning of the month the oil prices started to grow steadily, having reached by the end of July the level of USD 75 per barrel or even more, depending on the brand. Thus, Light Sweet oil price has grown within the month by 4.1 per cent, Brent price went up by 4 per cent, while Russian Urals has grown by 8.3 per cent. Earlier in the month quotations growth was provoked by expectations for reduction of oil and oil products reserves in USA. Though the public became aware after publications, that the reserves have grown substantially, this fact has not urged any noticeable decline of quotations, because at the same time it became clear that the truce in the conflict between militants and the government in Nigeria is ceased. Moreover, it was informed that a modest increase in production capacity of refineries in the USA, which increases the likelihood of fuel shortages in the summer season. The latter factor provided a significant influence on the market throughout July. At the end of the month the publications informed on exaggerated estimates of oil and oil products reserves, made by the US analytics, As a result, an adjustment process was started in regard to oil prices.

The situation in the international stock markets was also favorable in July (see Table 1), excluding the European stock markets, which finished the month with some decline. Opposite to that, positive trends were

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<sup>11</sup> According to RTS data.

<sup>12</sup> The calculation was based on indices of corporate bonds traded on MICEX. The indices were produced by the Zenit bank.

prevailing in the emerging markets. The basic factors, affecting the world markets in July remained the publications of official macroeconomic statistics in the USA and other developed countries, as well as corporate reporting of the leading American corporations.

FIG. 5

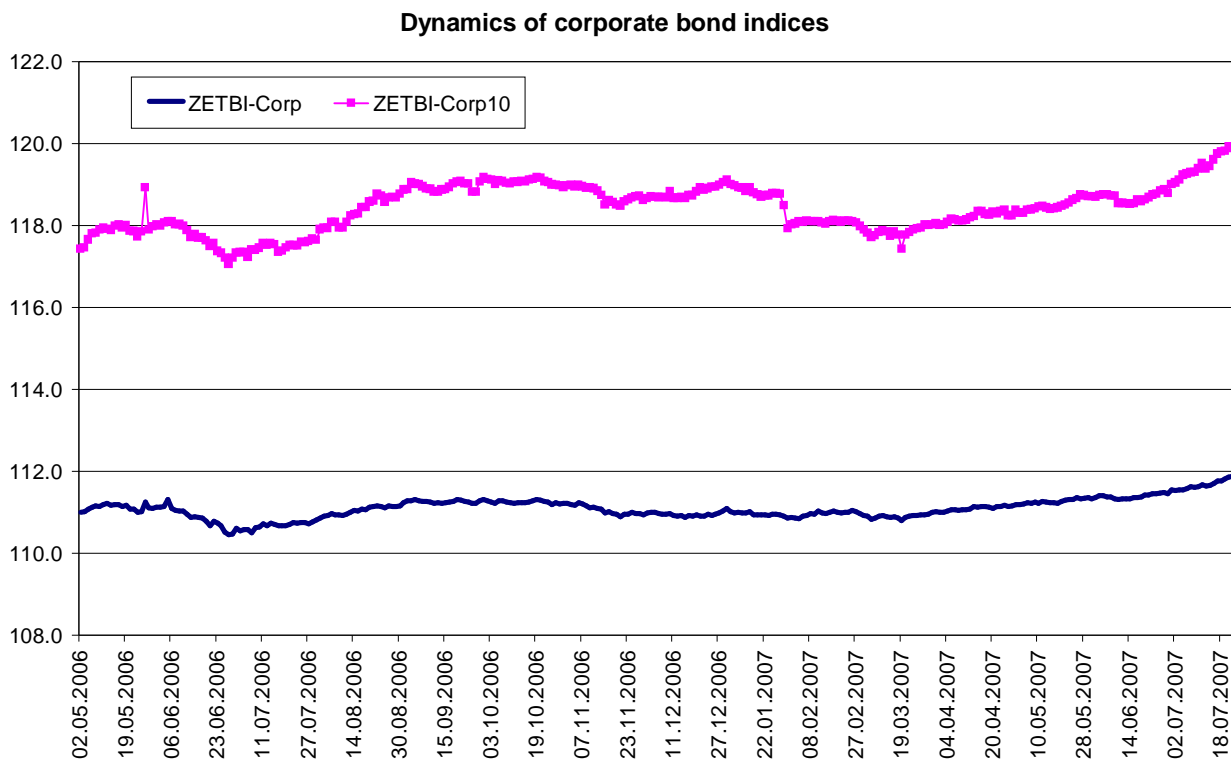
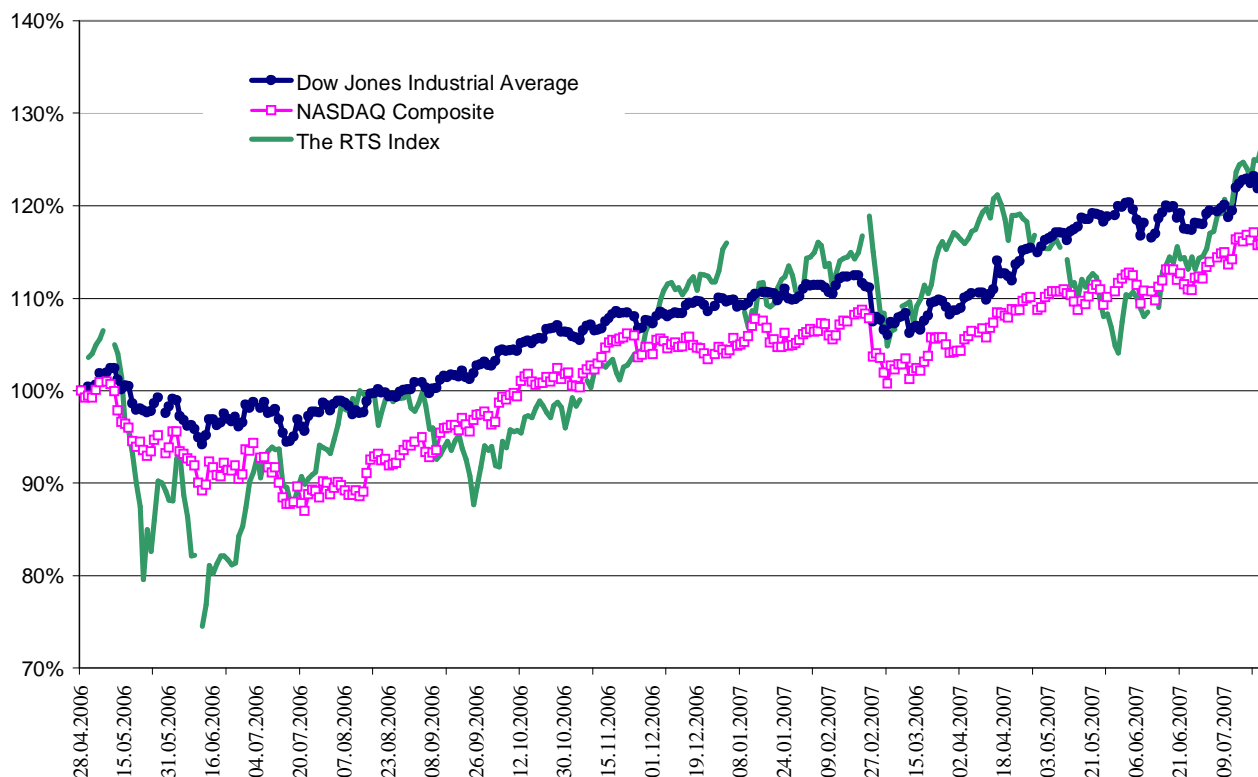


FIG. 6.



**Corporate News**

The net profit of OAO «LUKoil» has made USD 1 299 bln, what is by 23.1 per cent less as compared with the first quarter of 2006. The net profit has grown by 24.7 per cent as compared with the fourth quarter of 2006. EBITDA indicator (earnings before interest, taxation, depreciation, amortization) has made USD

2.432 million (by 13.3 per cent less as compared with the first quarter of 2006 and 14.7 per cent more versus the fourth quarter).

#### **OAO "Gazprom Neft"**

On July 5 OAO "Gazprom Neft" has disclosed consolidated financial reporting in compliance with US GAAP. According to the presented data, The net profit of the Company in 2006 has made USD 20.2 bln, what is by 38 per cent higher as compared with the preceding year. EBITDA indicator (earnings before interest, taxation, depreciation, amortization) in 2006 has grown by 27 per cent and made USD 5.2 bln. Despite the tax burden growth more than by 41 per cent, the net profit of "Gazprom Neft" accounted to USD 3.7 bln, i.e., by 31 per cent higher as opposed to the results of 2005.

On July 22 "Gazprom Neft" has approved at the annual meeting of shareholders payment of dividends on the company shares in the amount of RUR 8.0822 per ordinary share as per 2006 results. Therefore, RUR 38 bln 320 mln will be addressed to the payment of dividends. Dividends will be paid before May 31, 2008

#### **OAO "Gazprom"**

OAO "Gazprom" has selected the French company "Total" as a foreign partner for the first phase of development of Shtockmanovskoye oil field. During the first phase, it is planned to extract 23.7 billion cubic meters of natural gas and to start its delivery by pipeline in 2013, the supply of condensed natural gas will be started in 2014. A special targeted company is being formed for the design, financing and construction for the project purposes, which will afterwards become the owner of the infrastructure of the first phase. OAO "Gazprom" share in the authorized capital of the company will make 75 per cent, the share of "Total" will be 25 per cent. It was stated, that a probability is considered to involve another one or more foreign partners to share up to 24 per cent, by reducing "Gazprom" share. In any case, "Gazprom" will retain at least 51 per cent share in the targeted company, 100% of the shares of the licensee for the field and will own all the hydrocarbons produced.

#### **OAO "Norilsk Nickel"**

On July 24 GMK "Norilsk Nickel" announced the extension of its offer to purchase all issued ordinary shares in circulation of LionOre Mining International Ltd. for monetary funds for the amount about CAD 6.8 bln. before August 13, 2007. The extension of the proposal validity term would provide an additional opportunity to LionOre holders of convertible shares with maturity in 2011, to convert them into ordinary shares of LionOre and place them in the depository as a guarantee of acceptance of "Norilsk Nickel" proposal. Moreover, the shareholders will be able to receive annual interest, payable on July 30, 2007 in accordance with the terms of convertible bonds. Thus, the bond holders will be able to obtain the greatest benefit in the short term upon conversion and placement of ordinary shares in the depository, not waiting for subsequent transaction of "Norilsk Nickel" on forced take-over. On June 29, 2007, having received confirmation, that all the terms of "Norilsk Nickel" proposal have been observed, the company, through its 100%-subsidiary agreed to accept all LionOre shares, which were placed in the depository. On July 3, 2007 Norilsk Nickel has made payment for the shares in full amount and thus gained control over LionOre.

#### **OAO «Rosneft»**

Moody's international rating Agency has upgraded the OAO «Rosneft» rating from «Baa2» to «Baa1». Moreover, «Baa1» rating is assigned to the Company program on the Eurobond issue. The rating was changed after upgrading of the basic credit assessment from "13" (equivalent to "Ba3") to "11" (the equivalent of "Ba1") according to 21-point scale. According to Moody's estimates, the acquisition of new processing resources by "Rosneft" explicitly reflects the company's strategic objectives for the medium term. According to the Agency forecasts, they will lead to significant diversification, net income growth and an increase of free cash flow.

Upgrading of the basic credit assessment is supported by other factors. In particular, increased operating efficiency and production performance of the company, gained through high material replacement rate, low operating costs and the availability of the largest resource base in Russia. Moreover, OAO «Rosneft» management is extending efforts, addressed to improvement of the Company transparency and enhancement of corporate management.

#### **RAO «UES of Russia»**

On July 20 RAO «UES of Russia» has disclosed consolidated financial reporting in compliance with IFRS. Revenues of RAO "UES of Russia" from activities in 2006 amounted to RUR 894,896 bln, i.e. RUR 130,241 bln (or by 17per cent) higher than the 2005. Expenditures for activities in 2006 have increased by RUR 124,116 bln (by 18per cent) and amounted to RUR 820,556 bln. This dynamics of gains and expenses is based on the one hand, on an increased energy consumption in the country and, consequently, grown sales of electricity and heat, and on the other hand, raised prices for all types of fuels and increased consumption.

EBITDA of RAO "UES of Russia" for the year 2006 amounted to RUR 165,590 bln, having grown by RUR 18,567 bln as compared with the indicator of 2005. This was the result of the increased income against expenses (less depreciation) from current activities, depreciation of non-balance assets upon launching NOREM.

Net profit of RAO "UES of Russia" for the year 2006 (less profit tax) has increased by 5.9 times (or RUR 124,141 bln) and reached RUR 149.518 bln. The growth of the net income was largely attributable to the recovery of the reserve for depreciation of fixed assets (by RUR 189,629 bln), the tariff imbalance in the amount of RUR 11.708 bln, as well as revenues from the sale of non-core and non-target assets of the Corporation. Herewith, The growth was offset by an increased deferred income tax on recovery of the reserve for economic depreciation (by RUR 47,733 bln) and investments in some daughter companies of the Group (by RUR 36,314 bln).

Thus, the net profit, subject to payment to RAO "UES of Russia" shareholders within 2006, has increased 4.3 times and amounted to RUR 83.371 bln. Net profit per share of minority shareholders has grown nearly by 10.8 per cent to RUR 66.147 bln due to increased profits of the Group businesses, a significant share of which belongs to minority shareholders.

Table 1.

### Dynamics of international stock market indices

Data as of July 24	Value	Dynamics within the month(%) <sup>13</sup>	Dynamics since the year beginning (%)
RTS (Russia)	2050.15	8.06%	13.98%
Dow Jones Industrial (USA) Average(USA (USA) (USA)	13716.95	2.84%	10.06%
NASDAQ Composite (USA)	2639.86	2.55%	9.30%
S&P 500 (USA)	1511.04	1.22%	6.54%
FTSE 100 (UK)	6498.7	-0.92%	4.47%
DAX-30 (Germany)	7806.79	-0.68%	18.34%
CAC-40 (France)	5907.47	-0.77%	6.60%
Swiss Market (Switzerland)	9047.68	-0.28%	2.98%
Nikkei-225 (Japan)	18002.03	-0.35%	4.51%
Bovespa (Brasil)	55794.57	3.61%	25.45%
IPC (Mexico)	31462.15	2.33%	18.96%
IPSA (Chile)	3378.29	-1.17%	25.44%
Straits Times (Singapore)	3665.13	3.97%	22.75%
Seoul Composite (South Korea)	1992.26	13.87%	38.89%
ISE National-100 (Turkey)	54930.74	19.39%	40.43%
Morgan Stanley Emerging Markets Free Index	1156.68	10.04%	26.72%

### Foreign currency market

In July the trend of RUR strengthening against USD was dominating in the Russian market of foreign currency. As opposed to that, RUR was downgrading against European currency. The observed changes were similar to the dynamics of Forex global market. USD decline at the beginning of the month was based on expectations for refinancing rate growth in EURO zone in the background of downgrading or, at least, sustainable rate in the USA. Nevertheless, European Central Bank has not changed the refinancing rate, while according to the information, published at the end of the first week of the month, the stability of economic growth in the USA was confirmed. As a result, the previous USD downfall has been partially recovered. However, at the beginning of the second week a trend to USD decline was renewed, while EURO has exceeded its historical maximum peak. Those factors encouraged relevant growth of ruble, which has also reached its eight-year peak. At the beginning of the second part of the month USD decline was continued, based on the news on sustained problems in the USA mortgage sector that could negatively affect economic growth rates. In case the news is confirmed in the nearest future, there is a probability of interest rate decrease in the USA, which is a negative factor to its currency rate in the global currency market.

As of results of the month, from July 1 to 25 the USD exchange rate against RUR has declined by RUR 0.332 (- 1.29 per cent) as compared with the rate of beginning of the month, and made RUR 26.3964 to USD 1. The total volume of trading in USD on SELT from July 1 to 20 amounted to about USD 41.24 bln at an

<sup>13</sup> Versus index indicator valid on September 27, 2006.

average daily turnover of USD 2.74 bln (about USD 40.16 bln at an average daily turnover of USD 2.7 in the relevant period of June). Therefore, trading activity of the participants of foreign currency market has been practically unchanged as compared with the preceding month. The largest amount of trading in USD was noted on July 19, when it amounted to about USD 3.4 bln, the minimum level of USD 909.18 mln was observed on July 4.

The ruble liquidity in the banking sector has explicitly grown in July as compared with the relevant indicators of June: the average balance of credit agencies' correspondent accounts in the Bank of Russia in July was about RUR 483 bln against June indicator of about RUR 469.62 bln.

FIG. 7.

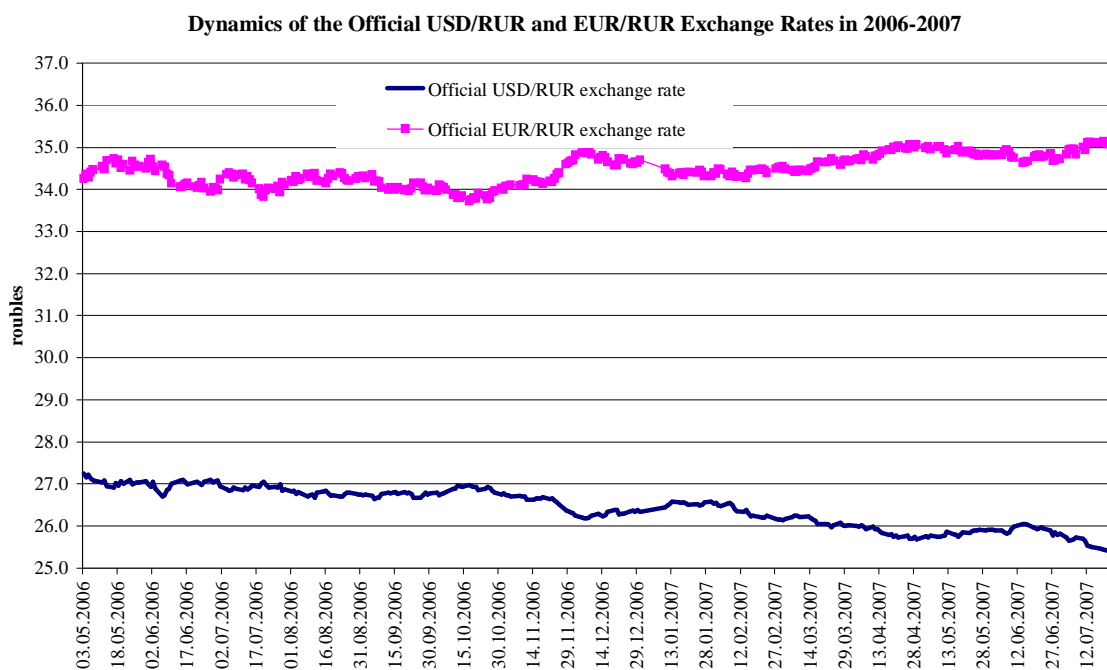
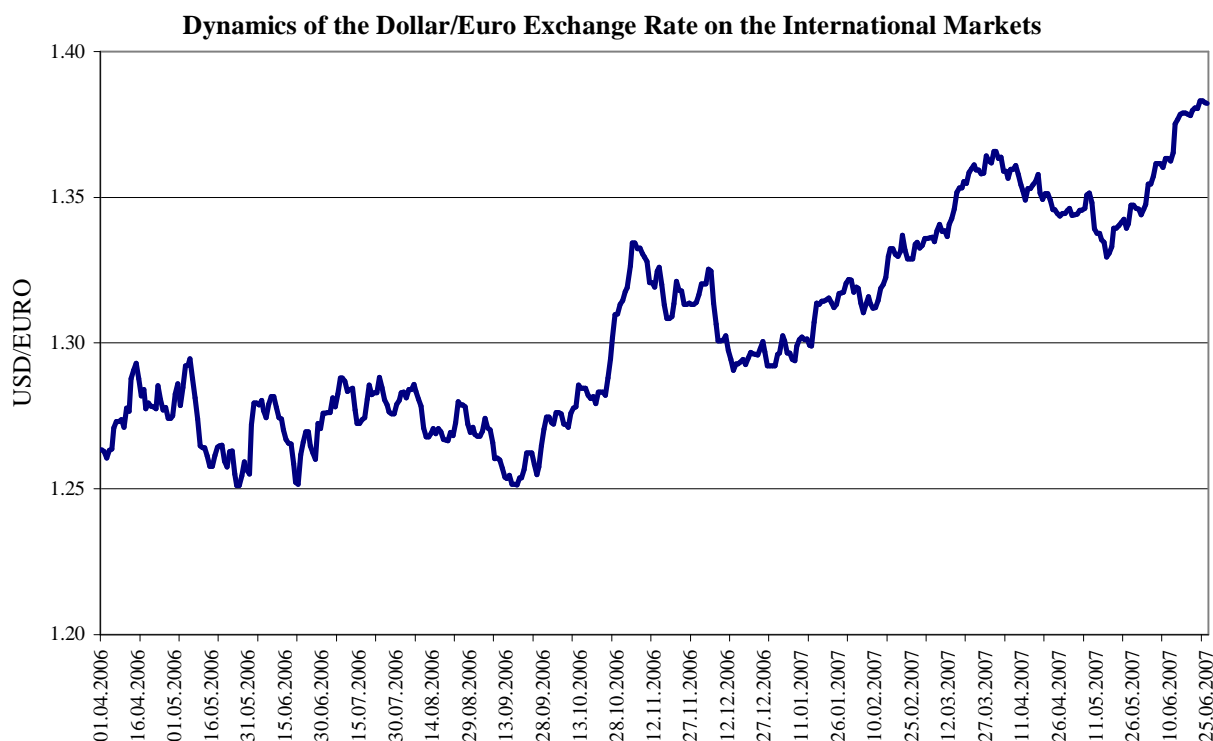


FIG. 8.



From July 1 to 26 Euro rate in the world market has grown by USD 0.035 (2.58 per cent) to the level of USD 1,3823 for EURO 1. In this background the growth of EURO against RUR was observed in July. In the

period from July 1 to 25, the EURO rate has increased by RUR 0.2534. (0.73 per cent), namely from RUR 34.837 to 35.0934.49 for EURO 1. The total volume of trading in EURO on SELT in the period from July 1 to 20 amounted to about EURO 937.3 mln at an average daily turnover of EURO 67.48 mln (about EURO 621.01 mln at an average daily turnover of EURO 67.12 mln in June).

Therefore, the trading activity of the European currency in the Russian foreign currency market has somewhat decreased as compared with the preceding month. The largest amount of trading in EURO within the period under review was observed on July 12 at the level of EURO 112.75 mln, the minimum level of EURO 37.51 mln was noted on July 2.

Table 2.

### Financial market indicators/indices

Month	March	April	May	June	July*
Monthly inflation	0,6%	0,6%	0,6%	1,0%	0,7%
Estimated annual inflation given the current month trend	7,44%	7,44%	7,44%	12,68%	8,7%
Russian Central Bank refinancing rate	10,5%	10,5%	10,5%	10%	10%
Average yield to maturity for all OFZ bond issues (% per annum)	6,47%	6,39%	6,34%	6,14%	6,05%
Monthly turnover on the GKO-OFZ market (RUR bln)	21,40	27,36	20,22	34,63	50,0
Minfin bond yield to maturity at end of month (% per annum):					
tranche 5	5,40%	5,33%	5,48%	5,45%	5,3%
tranche 7	5,42%	5,36%	5,49%	5,81%	5,8%
tranche 8	5,08%	5,86%	6,15%	5,17%	5,4%
Eurobond yield to maturity at the end of month (% per annum):					
2007	5,55%	5,17%	5,21%	–	–
2010	4,96%	5,69%	5,32%	5,83%	5,2%
2018	5,69%	5,72%	5,83%	6,16%	6,1%
2028	5,99%	5,99%	5,99%	6,27%	6,3%
2030	5,50%	5,62%	5,73%	6,10%	6,0%
Interbank credit-MIACR rate (% per annum at end of month) on 1-day loans	4,80%	3,89%	3,40%	3,28%	3,7%
Official RUR to USD exchange rate at the end of month (RUR/USD)	26,0113	25,6851	25,9031	25,8162	25,5999
Official RUR to Euro exchange rate at the end of month (RUR/EUR)	34,6861	35,0653	34,8164	34,7150	34,9336
Change in the official RUR/USD exchange rate in one month (%)	-0,57%	-1,25%	0,85%	-0,34%	-0,84%
Change in the official RUR/Euro exchange rate in one month (%)	0,49%	1,09%	-0,71%	-0,29%	0,63%
RTS stock market turnover in one month (in USD mln, for shares on the RTS index list)	1050,79	997,67	868,90	941,06	1300
RTS-1 index at the end of month	1935,72	1935,51	1780,33	1897,7	1950
Change in RTS-1 index in one month (%)	4,18%	-0,01%	-8,02%	6,59%	2,75%

\* Estimates

D. Polevoy

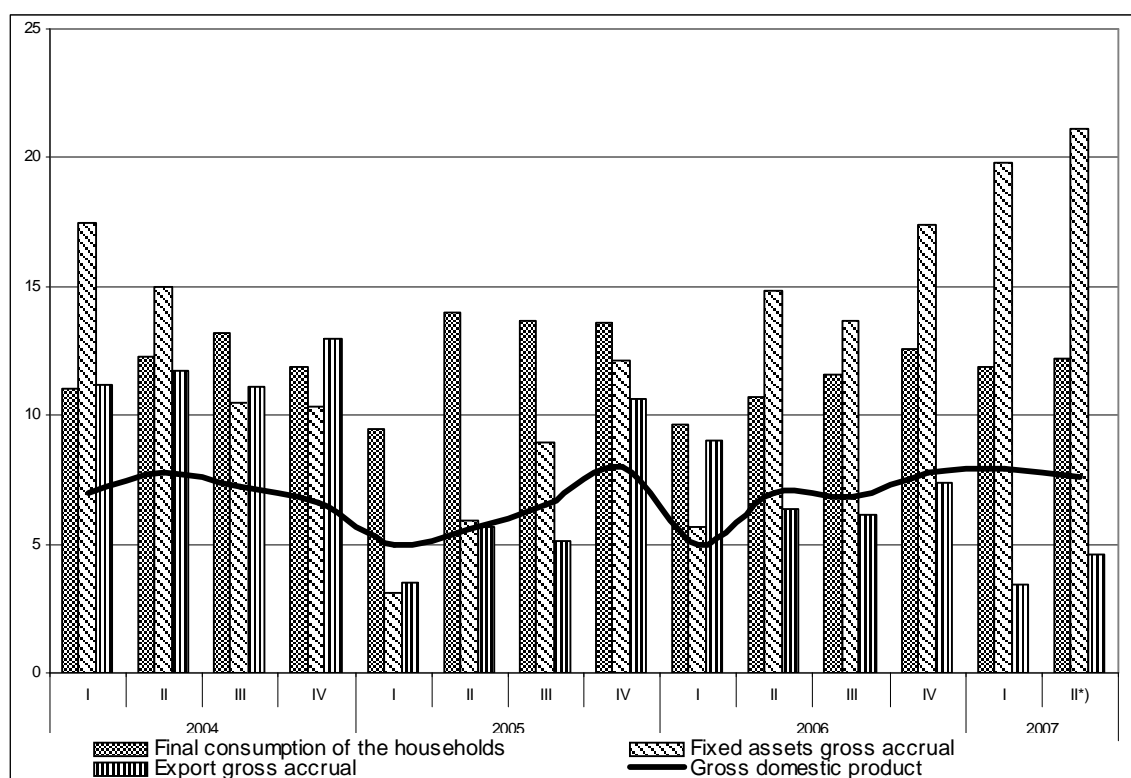
### Real Economy Sector: Trends and Factors

According to the preliminary data for the first six months of 2007 the increase of the GDP was equal to 7.8% against 6.3% over the corresponding period of the previous year. The structure and the dynamics of the GDP produced were influenced predominantly by the high rates of workload increase in the construction,

which reached 25.5% against 8.3% in the previous year. As a result of the first six months of 2007 the increase in processing industries was equal to 12.2% against 4.5% in the corresponding period of the previous year, of extractive industries – to 3.0% against 2.3%.

In the structure of the used GDP the share of investments in the fixed assets was equal to 15.6% over the first six months of 2007, exceeding by 2.1 p.p. the figure over the corresponding period of the previous year.

Characteristic for the first half of 2007 was the acceleration of the economic growth rates in nearly all types of economic activities. According to the preliminary data for the first six months of 2007 the increase of the GDP was equal to 7.8% against 6.3% over the corresponding period of the previous year. The structure and the dynamics of the GDP produced were influenced predominantly by exceptionally high rates of workload increase in the construction against the background of the sustention of the trend for steady growth of the trade turnover, communication services, financial services, and paid services for the population. In the first half year of 2007 the increase of the work in the construction was equal to 25.5% against 8.3% in the previous year and was supported by the growth rates of investments in fixed assets growth up to 22.3% against 11.0%. In the structure of the used GDP the share of the investments in the fixed assets was equal to 15.6% over the first six months of 2007, exceeding by 2.1 p.p. the figure for the corresponding period of the previous year. In this connection it should be underlined that since the second half year of 2006 the trend for anticipating growth of gross accrual in fixed assets as compared with the final consumption of households has been observed, which was the factor that compensated the reserved growth of export.



\*) preliminary estimation.

Fig. 1. Change of the GDP Growth by the Components of the Final Consumption in 2004-2007 as percentage to the corresponding quarter of the previous year

The increase of business activity in the field of investments was the factor that generated the expansion of the domestic demand. Increase in the industry production over the first half year of 2007 was equal to 7.7%, exceeding by 3.3 p.p. the figure of the previous year, and the increase in processing industries – to 12.2% against 4.5% over the corresponding period of the previous year. On comparing the dynamics of the industries development the dramatic widening of the gap between kinds of activities as well as slowdown of the export growth rates, 4/5 of which is formed by minerals and raw materials, is notable.

The acceleration of the processing industries growth rates was most significantly influenced by the increasing demand for building and construction materials, machinery and equipment. The index of machinery production was equal to 123.4% against the decrease of 8.7% over the corresponding period of the previous



year, electronic and optical equipment – by 123.4% against 105.5%, transport vehicles and equipment – by 114.9% against 105.6%. The production of the construction materials increased on average by 17.3%.

Statistics observes the trend for the decrease of export share in the production output of the main goods, which is accounted for by the expansion of the internal market demand as well as stagnant dynamics of the export growth in terms of physical volume along with sustention of the trend for prices for the traditional goods of Russian export at the world market growth. In monetary terms export growth rates have slowed down to 9.8% in January-May 2007 as compared with 31.1% in the previous year.

Analyzing dynamics and structure of internal demand the strengthening of the trend for import growth should be noted. High elasticity of the import against internal demand demonstrates that along with the economy and population incomes growth and the decrease in the competitiveness of the domestically produced goods the shift of the consumer's preferences to the import goods is intensifying. Import increase over January-June 2007 was equal to 59.7%, exceeding by 21.2 p.p. the level of the corresponding figure of the previous year. In the amount of the retail trade resources the share of import supplies increased up to 48%, including for foodstuffs – up to 38% and for non-food goods – to 56%.

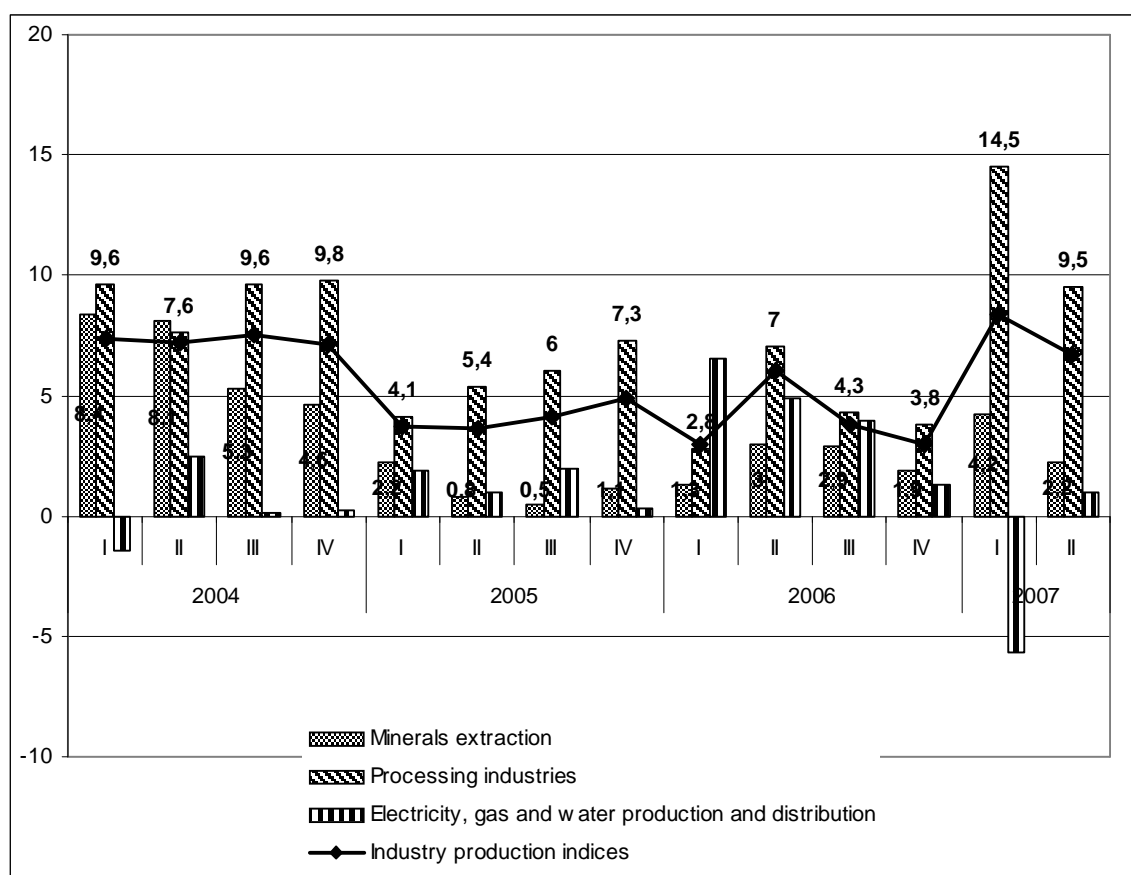


Fig. 2. The change of the Industry Production Growth Rates by the kinds of Economic Activities in 2004 – 2007, as percentage to the corresponding quarter of the previous year

Increase of solvent demand accounted for intensive growth of the retail trade turnover. The same as in the past three years increase of trade turnover was mostly influenced by the anticipating growth of non-food goods market. The retail trade turnover increasing by 14.2% as compared with the first half year of 2006, the increase of foodstuffs sales was equal to 12.4%, of non-food goods – to 15.7%. To a certain extent this was accounted for by structural shifts of prices for main goods groups. The consumer prices having increased over the first half year of 2007 by 5.7%, the prices for foodstuffs since the beginning of the year have increased by 6.1%, and for non-food goods – by 2.2%, for paid services – by 9.8%.

Steady expansion of the households' final consumption in the current year was determined by the improvement of the social indices of the economic development.

Increase of the population's real incomes in the first half year 2007 was equal to 11.2% against 10.2% in the corresponding period of the previous year, real wages – to 17.5% against 12.3%.

In January-May 2007 the volume of monetary incomes of the population was RUR 7377.4 bln and increased by 20.8% as compared with the corresponding period of 2006. The population spent for goods pur-

chase and services payments RUR 5346.0 bln, which is by 22.0% more than in January-May 2006. Savings over this period were equal to RUR 1057.1 bln, which is by 1.7% less than over the corresponding period of the previous year. The share of consumer goods in the structure of monetary incomes use was equal to 72.5% in the first half year of 2007 (71.7% in 2006), including for goods purchase – 55.1%, for savings – 9.0%, for currency purchase – 5.3%. The dynamics of the demand and the structure of the population's expenditures were considerably influenced by the expansion of the consumer crediting scale. By the beginning of May 2007 the volume of the credits granted to natural persons was equal to RUR 23338.9 bln against RUR 1351.3 bln over the corresponding period of the previous year. In this connection it should be noted that one of the characteristic features of the population's expenses structure change is the increase of expenses for compulsory fees and installments payments, including the payments for insurance and loans interest. Since wage earners labor remuneration accounts for nearly 70% of the accumulated incomes of the population, one of the main aspects that determines the parameters of social development is the increase of population employment level.

According to the data of the Federal State Statistics Service on the selective investigation of the population on the employment problems, the number of the employed in the economy has increased by approximately 1.2% as compared with the corresponding period of the previous year and was equal to 69.7 mln of people. Steady economy growth of the recent years and considerable revival in the real economy sector created conditions for demand expansion at the enterprises and organizations for qualified staff and, first of all, experienced personnel. Tension coefficient (the ratio of the unemployed people to one vacant post) decreased from 2.2 in January to 1.3 in June of the current year. The total number of the unemployed, calculated by the methodology of the International Labor Organization, decreased from the beginning of the year by 200 thou. of people, reaching by the beginning of June of the current year 5.1% (6.9% of the economically active population).

Against the background of the production rates acceleration the trend for the increase of the gap between the labor efficiency and wages growth rates sustains. The maintenance of the dynamics of the internal market in such conditions is accompanied with the incomes redistribution from the enterprises to the population, which leads, in the end, to the increase of production expenses and decrease in the production profitability. As a result of the 1 quarter 2007 the share of labor remuneration in the GDP was equal to 51.4%, exceeding by 5.0 p.p. the level of the previous year.

*Table 1.*

**The Structure of the GDP by the Sources of Incomes, in 1 quarter of the corresponding year, as percentage to the total**

	2004	2005	2006	2007
Gross domestic product	100	100	100	100
including:				
Wage earners labor remuneration (включая hidden and payments for social insurance)	49.2	47.3	46.4	51.4
Net taxes for production and import	14.7	19.5	22.4	18.6
Gross economy profit and gross mixed incomes	36.1	33.2	31.2	30.0

Source: Federal State Statistics Service

However, the possibilities of further increase of the expenses for labor remuneration began to be restricted by the changes of competitive environment at the goods market as a result of ruble appreciation and the growth of pressure from import.

As a result of 1 quarter 2007 the economy profitability was equal to 13.3% against 15.1% over the corresponding period of the previous year. The highest level of the profitability is sustained in the productions connected with minerals extraction and processing, for which over the past two years the rapprochement of the labor efficiency and wages growth rates is characteristic. In the processing industries average monthly accrued wages is about 45% of the figure for extractive industries and its dynamic growth is the factor for the attraction of the qualified labor force.

Disproportions in labor remuneration lead to the flow of reducing labor resources to the economy sectors of high profitability, which contributes to the rise of the deficit of the specialists and qualified workers in the majority of the processing industries, which is a limitation factor for the development of processing industries, economy diversification and efficiency increase.

Table 2.

**Profitability of the Sold Goods, Production, Jobs, Services and Assets of the Organizations by kinds of economic activities in 1 quarter of 2005-2007, as percentage**

	Profitability of sold goods, products, jobs and services			Assets profitability		
	2005	2006	2007	2005	2006	2007
Total	15	15.1	13.3	2	2.5	2.2
Minerals extraction	27.1	36.7	22.9	3.7	4.6	2.9
Processing industries	18.6	16	16.5	3.2	3.3	3.2
Electricity, gas and water production and distribution	13.8	10.5	10.7	2.1	2	1.9

Source: Federal State Statistics Service

O. Izryadnova

## Foreign trade

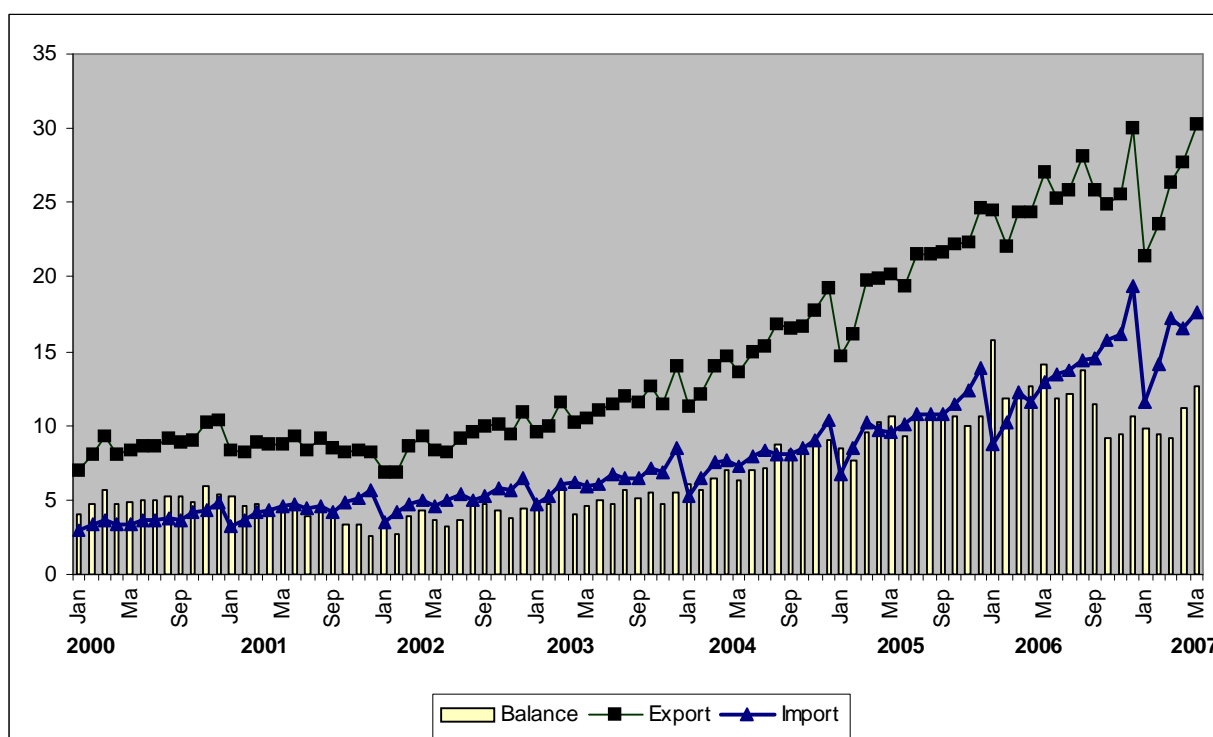
Auspicious situation at the world market as well as the growth of the population's and enterprises' solvent demand favor the maintenance of the positive dynamics of export and import indices. The excess of import supplies growth rates over the export ones leads to the reduction in foreign trade surplus.

At the end of July next turn of the multilateral negotiations on the issue of Russia's accession to the WTO took place.

In May 2007 Russian foreign trade turnover calculated on the basis of the balance-of-payment methodology reached USD 47.9 bln, which is by 19.7% higher than in May 2006. In April 2007 the acceleration of export growth rates outlined mainly due to more rapid growth of physical volume. In May monetary volume of export reached the level, which was record for the past 15 years, - of USD 30.3 bln, having increased by 11.8% as compared with May 2006.

Russian import growth rates remain at high level. In May 2007 monetary index of import increased by 36.5% as compared with May 2006 and was equal to USD 17.6 bln.

Trade balance in May 2007 was positive, of the value of USD 12.7 bln (In May 2006 it was also positive, of USD 14.2 bln).



Source: Central Bank of the Russian Federation

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

The situation at the world markets remained quite favorable for Russian exporters in May 2007. The price for oil grade Brent exceeded USD 70 per barrel in May 2007. The price for oil grade Urals after a dramatic drop at the end of the last year and at the beginning of the current year has started to increase gradually since February and reached the average level of USD 60 in April-May 2007 approximating the level of the corresponding period of 2006.

In May 2007 the average price for oil grade Urals was equal to USD 64.2 per barrel, having grown by 0.7% as compared with April 2007 and dropped by 0.8% as compared with May 2006.

Average price for oil according to the monitoring, conducted by the Ministry of Finance of the Russian Federation, was equal to USD 66,04396 per barrel over May-June. Thus, export duty for oil in Russia will be established at the level of USD 233.9 per ton from 1 August 2007. From 1 June of the current year the rate of the export duty for oil is equal to USD 200.6 per ton.

In May 2006 the absolute record level for copper prices was set. The price for this metal for three-month contracts went up by USD 8800 per ton then. As a result of lengthy correction the prices went down to USD 6800 per ton by the end of the year. Contemporary situation gives grounds for the forecast that the prices will soon reach record levels again. In course of bids at the London metal exchange in May 2007 price for copper exceeded the level of USD 8000 per ton several times.

Price for aluminum was unstable throughout May, though it changed but little, going down a bit, as compared with April. At the beginning of the month the price was high and exceeded the level of USD 2900 per ton, going afterwards down a bit to the level of USD 2795 per ton and it dropped to USD 2771 per ton by the end of May. Average monthly price with the immediate delivery in May was somewhat lower than in April and was equal to USD 2895.91 per ton.

The prices for nickel continued to grow in May 2007. On 9 May 2007 a new price maximum over the last 10 years of USD 53000 per ton was reached.

TABLE 1.

**Average Monthly World Prices in May of the respective year**

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Oil (Brent), USD/bbl	19.29	19.00	14.51	15.91	27.50	28.71	25.21	25.34	37.9	47.8	68.68	67.64
Natural gas, USD /1 mln BTU		2.271	2.187	2.349	3.724	4.220	3.254	5.984	6.465	6.497	7.97	7.94
Petroleum, USD /gallon	0.678	0.634	0.513	0.529	0.957	1.095	0.767	0.835	1.342	1.44	2.072	2.293
Copper, USD/ton	2756.7	2480.4	1736.2	1539.9	1834.7	1708.2	1596.2	1667.5	2720.0	3254.0	8022.0	7682.2
Aluminum, USD/ton	1623.0	1618.9	1370.6	1317.9	1464.7	1536.7	1344.3	1397.6	1615.7	1746.0	2852.0	2797.4
Nickel, USD/ton	8135.2	7468.1	5058.3	5239.5	10141.4	7115.7	6764.0	8351.9	11068	16930.0	21038	52179.1

Source: calculated on the basis of London Metal Exchange (Great Britain, London), International Petroleum Exchange (London) data

In January-May 2007 Russian foreign trade turnover, according to the data of the Central Bank of the Russian Federation, was equal to USD 206.5 bln (118.8% to January- May 2006), including export – to USD 129.4 bln (109.2%), import – to USD 77.1 bln (139.5%). Trade balance remained positive, being USD 52.3 bln, but as a result of faster import growth it reduced by 17.3% as compared with the corresponding figure of 2006 (In January-May – USD 63.2 bln).

Slow-down in export growth to 9.2% against 31.1% in January-May 2006 was determined both by the decrease of the world prices for oil in the first months of the year and the decrease in export proportion in production volumes.

In January-April 2007 as compared with the corresponding period of the last year the share of export decreased in production of natural gas by 5.9 p.p., of unprocessed timber – by 4.4 p.p., of plywood – by 3.6 p.p., of pulp – by 6.9 p.p., of flat rolled metal from carbon steel - by 5 p.p., of passenger cars – by 0.5 p.p.

At the same time over the period mentioned the proportion of the export increased in the production of the following significant goods: crude oil – by 0.3 p.p., oil products – by 1.6 p.p., coal – by 0.4 p.p., artificial rubber - by 2.2 p.p.

The volume of fuel and energy goods export increased by 0.2% up to USD 80.66 bln. Metals and goods thereof export went up by 41.6% to USD 20.9 bln, chemistry industry production – by 21.8% to USD 8.099 bln, timber and pulp and paper goods – by 26.5% to USD 4.842 mln.

Machinery and equipment export over the last five months was equal to USD 6.6 bln and increased by 16.1% as compared with the corresponding period of 2006. At the same time export to non-CIS and CIS countries was nearly equal, being USD 3.3 bln each.

Sustention of import supplies high growth rates was supported by considerable figures of the GDP growth (+7.7% in January-May 2007 as compared with January-May 2006), real disposable incomes of the population (+12.0% January-May 2007 to January-May 2006) and ruble appreciation against main currencies. According to the calculations of the Ministry for Economic development and trade, over January-May ruble appreciation against dollar in real terms was equal to 3.6%, against euro – to 2.8%, against pound of sterling – to 5.1%. According to the estimation of the Central Bank of the Russian Federation real effective ruble exchange rate did not change considerably over May and throughout January-May the increase was equal to 2.3%.

Machinery and equipment import totalled USD 32.7 bln (164.1% to January-May 2006), including from non-CIS countries – USD 29.4 bln (166.1%), from CIS countries – USD 3.4 bln (148.7%). Considerable increase in the goods of this group import is accounted for by revival of investment processes in industry as well as step by step decrease of customs duties for high technological kinds of machinery and equipment.

Import of consumer goods increases at high rates. Over January-May 2007 the goods of light industry were imported for the sum of USD 1609.1 mln, which is by two times more than over the corresponding period of 2006. At the same time clothes import was equal to USD 982.2 mln (194.2% to January-May 2006), including from non-CIS countries – USD 846.8 mln (209.9%). Leather footwear import was equal to 31.6 mln of pairs worth USD 476.3 mln, which is by 2.65 times more than in the corresponding period of 2006. Import of footwear from non-CIS countries increased by 2.8 times while import from CIS-countries – by 1.3 times.

According to the Decree No 290 from 15 May 2007 the Government of the Russian Federation established zero export customs duties for coniferous board as well as some hardwood. The decree comes into effect in a month after official promulgation.

Custom duties for woodwork were introduced in 1999. After 1998 default timber industry enterprises started to accept additional incomes due to the grow of dollar exchange rates. The Government established duties at the rate of 10% as a tool for the federal budget fulfillment at the expense of exporting enterprises. Later in the environment of sharp decrease in timber cutting volumes, stagnation of wood processing enterprises and many complaints from the regions that followed, the Government returned to the issues of duties decrease from time to time, for coniferous board as well, included reducing to the level of 3%, and, in the end, to zero in 2007.

It should be remembered that from 1 July 2007 export customs duties for unprocessed wood, which should be carried up to the prohibition level by 2009-2010, were increased. That's why the measure to abolish export duties for board can stimulate the development of timber industry substantially as well as on processed products and not raw materials export.

On 25 July 2007 five-day round of multilateral negotiations on the issue of Russia's accession to the WTO started. As a result of consultations 8 parts of the report were agreed upon, they deal with tariff quotas application, determination of goods customs value, quantitative import limitations implementation, other duties levy, industry policy, including funding, as well as preshipping inspection, free economic zones operation, civil aircrafts trade.

These parts contain the description of the regime of the regulation, applied in the corresponding fields in Russia, as well as obligations, which the Russian Federation is going to undertake in connection with Accession to the WTO. These obligations specify the corresponding regulations of WTO agreements and besides they envisage the preservation of the privileges for Kaliningrad free economic zone residents for the transition periods envisaged by the legislation of the Russian Federation currently in force. Russia does not join the agreement on civil aircrafts trade. In the field of customs policy Russia will apply WTO obligations, in particular in the framework of risk management system, which is within the rules of multilateral trade system, which prohibit the application of the minimum, reference or indicative prices for determination of the goods customs value.

Russia will also be able to sustain existing tariff quotas for pork, beef and poultry import. In 2009 the conditions for tariff quotas application (if the prolongation of their effect will be needed) will be the subject of negotiation of WTO members interested in that. Introduction of the preshipping control will be possible under the observance of the WTO regulations, which concern, first of all, transparency and level of duties for services rendered.

All these parts will be included in the new version of the report of the working group, which is the paper that determines the system conditions for Russia's accession to the WTO. It is expected that this version will

be prepared after discussion of the rest parts of the report. Two of the parts mentioned (on customs regulation and on normal customs duties) were approved on the whole in the process of the consultations, however will not be included in the new version of the report since Georgian delegation needed additional time, approximately two weeks, to consider these parts.

13 parts of the working group report, which concern technical bars in the trade, sanitary and phytosanitary measures, state support of the agriculture, state orders, state trade enterprises operation, trade aspects of the intellectual property, price formation, export duties, and some other issues, remain uncoordinated. The work on these parts will be continued in August and the beginning of September 2007 during the consultations with interested parties, and the majority of these will be put for the consideration of WTO members in the second half of September 2007.

*N. Volovik*

## **New Organizational Forms of the Science Development at Higher Education Institutions**

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Federal universities that are being created in Russia by fusion of several higher educational institutions following the Government initiative do not meet and probably will not meet the level of hundred world best universities. Formation of fundamentally new higher education institutions and organizations is the most promising direction of organizational changes, but at the same time the most expensive. Since the Government sets the aim of science strengthening at the universities, including the improvement of mechanisms for knowledge transfer, research and development results commercialization, the formation of net structures is the most promising direction.

Science complex reorganization in Russia proceeds simultaneously by several paths, one of which is science intensifying in the universities through the realization of two main initiatives – creation of federal universities and support of a limited number of existing higher education institutions by execution of innovation educational programs at them. Both the initiatives in fact are aimed at the formation of the net of research universities in the country.

The most ambitious aim is set for federal universities, which are formed by fusion of several higher education institutions. They should enter the list of hundred universities of the world within next 10-15 years. In 2007 two federal universities began to function – Siberian and South. Each of them had been created by fusion of higher education institutions of different descriptions. The task is to achieve the “critical mass” of highly qualified lecturers and brightest students, which will enable universities to rank among world leaders. Examination of this initiative allows drawing several conclusions on the efficiency of the chosen approach for research universities formation.

The best universities of the world meet three main criteria. The first is the conduction of high level research, in which best professors and students take part. There is a significant number of private universities among the leading universities – they have more opportunities to attract the best-known scientists and pay them higher wages. At the same time there are several characteristic features that distinguish best universities from the rest. This is not only the level of science papers quotability and patenting activity, but also the indices of trainees composition and staff potential. In such universities number of master students and PhD students usually exceeds the number of students for bachelor’s degree.

Then, in such universities there is a considerably high proportion of foreign student. Usually it fluctuates at the level of 20-25% of the total number of students. However, further increase of their number has negative consequences rather than vice versa. Recent studies conducted at British universities demonstrated that too big growth of the foreign students number, who pay more for their education, leads to the deterioration of education quality<sup>14</sup>.

Finally, at the best universities the third part of the teaching staff is accounted for by the specialists, invited from the abroad.

The second criterion is the adequacy and plurality of financing sources. All leading universities have large endowments. Other sources of funding are government, private companies, revenues from research activity and education fees<sup>15</sup>. Research universities have the strongest links with the industry, including developed innovation infrastructure.

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<sup>14</sup> In 10 years Great Britain can lose its name of the world leader in the field of university education. Source: [http://www.strf.ru/client/news.aspx?ob\\_no=5580](http://www.strf.ru/client/news.aspx?ob_no=5580)

<sup>15</sup> Alden J., Lin G. Benchmarking the Characteristics of a World-Class University: Developing an International Strategy at University Level. London: The UK Higher Education Leadership Foundation, May 2004.

Graduates of the best universities get quite high-powered positions in business and the government later, which on the one hand increases universities' prestige and on the other hand contributes to attraction of additional resources to the universities.

The third criterion is the presence at higher education institutions well-established and flexible administration system. This is the characteristic that allows huge universities to rank among the leaders, since there is quite rigid hierarchic administration system at them.

According to the criteria described above the federal universities being created in Russia do not meet and probably will not meet the level of hundred best universities. First of all the figures of a number of targeted indices necessary to be reached by 2015 automatically exclude them from the leading universities. For instance, the proportion of the foreign students and PhD students should rise from current 0.4% to 7% in the Siberian federal university<sup>16</sup> and from 1.2% to 5% in the South federal university<sup>17</sup>. So the planned figures are four times lower than for the leading world universities. The situation with the proportions of students for bachelor's, master's and doctor's degree is similar. It is planned for both universities that the share of students for bachelor's degree will comprise 60% of the total number of students. So, by this criteria federal universities will not be able to rank among the world leaders.

Second, as a consequence of higher education institution of different description there can be an incompatibility of traditions and norms that existed in each higher education institution. Overcoming of these social and cultural differences will take considerable time. Third, fusion of stronger and weaker higher education institutions does not always lead to the increase of the average level of the institution. The opposite can also take place- strong higher education institutions make become weaker as a result of the fusion. Fourth, fusion of higher education institutions without the change of general regulations for scientific and training activity and the conditions of higher education institution functioning prevents the development of new mechanisms and work principles in the federal universities. For instance, for higher education institutions to form large endowments, it is necessary to make amendments to the system of tax regulation to stimulate companies, funds and private philanthropists to make contributions. That's why serious organizational changes in science give the best results if they proceed in the environment of general reform of the science complex.

First half year of federal universities' work demonstrate that being under the same conditions as other higher education institutions they have to overcome still bigger difficulties. For instance, federal universities' financing, which was set for them by a separate item in the budget, was started for them only in July<sup>18</sup>. Considerable volume of the funds allocated is planned to modernize equipment and material base, for which it is necessary to conduct tenders and only after that buy necessary equipment. Correspondingly, it seems quite difficult to spend the finance allocated by the end of the budget year.

Besides fusions, there are two other ways of research universities formation – by the modernization of existing higher education institutions and by the creation of fundamentally new institutions. The way of modernization is in fact being fulfilled by realization of two-year innovation education programs in the chosen 57 higher education institutions of the country within the framework of national project “Education”. However there are also problems on this way, which are similar to those that federal universities have to solve: the sustention of the same environment in which higher education institutions function problems connected with spending of late allocated budget funds.

The formation of the fundamentally new higher education institutions and organizations is the most promising way of organizational changes, but the most expensive at the same time. Since the Government sets the aim of science strengthening at the universities, including the improvement of mechanisms for knowledge transfer, research and development results commercialization, the formation of net structures is the most promising direction. They can serve as alternatives for superbig higher education institutions that are unable to react fast changing external conditions. Foreign analogues of such net structures are Engineering research centers in the USA, Centers of Excellence nets in Canada, Cooperative research centers in Australia.

A considerable number of organizations, which represent all sectors of science – universities, governmental science organizations, small-scale science intensive companies, large-scale business - interact to form net

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<sup>16</sup> Program for the development of higher education institution “Siberian Federal University” for 2007-2010, appendix 6 “Main target indices for Siberian federal university development up to 2015”

<sup>17</sup> Program for the development of the federal state educational institution of higher professional education institution “South Federal University” for 2007-2010, appendix 6 “Main target indices for South federal university development up to 2015”, p.63

<sup>18</sup> Поиск, №27-28, 06.07.2007, с.4.

structures. This is the most complicated partnership than the cooperation between separate science organizations and private companies. Such nets give more stability to the system of knowledge generation and transfer and secure their diffusion. Governmental support is rendered for the net structures as a rule for a long time – during 7-10 years even in the developed countries with a considerable volume of science financing from private sector (Canada, the USA). At the same time the constant monitoring of the new structures' operation, intermediate results estimation, also by the indices of off-budget funds attraction and as a result budget financing can be extended for a longer period. Another important feature of net structures is the participation of private business on a par with the government in their financing.

The net structures create in this way allows to solve simultaneously the following tasks: to increase the volumes of research and development works, to secure the demand for research results, increase the quality of education, and correspondingly, increase the demand for higher education institutions graduates at the labor force market, to attract additional resources to carry out scientific and education activity. Finally, the advantage of the net form consists in the assistance to the increase of work efficiency and integration of separate elements of innovation system that exist in Russia nowadays.

*I. Dezhina*

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## **Issues of e-business taxation**

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Every day brings out more and more questions of how to control the fulfillment of tax liabilities by e-commerce representatives. The problem is that at present there is no full and thorough law regulation in this sphere, which on the one hand presents wide opportunities for e-business participants to operate in the conditions of gaps in tax legislation, and on the other hand deprives the state of the opportunity to control participant's incomes and levy the taxes. Let us consider main components of legal regulation in this sphere – from basic concepts of e-business to the elements of tax legislation, which are applied to them.

Unfortunately, the legislation of the Russian Federation does not have a law to regulate e-commerce and consequently there is no unified interpretation of the term “electronic commerce” or e-commerce. E-commerce in the broad sense can be understood as a generalized concept, which embraces any forms of business operations, conducted in an electronic way with the use of telecommunicational networks and electronic financing and economic tools. In a more precise sense e-commerce should be interpreted as a commercial activity, which is based on information technologies, upon whose introduction sides interaction proceeds in an electronic way instead of physical exchange or direct physical contact.

As applied to e-commerce the mechanism of the legal regulation can be represented as follows: its base is formed by the national civil legislation regulations, including conflict rules, taking into account the international nature of the e-commerce, as well as rules of international agreements ratified by the Russian Federation and recognized practices, operating in this sphere. The sphere of application of the rules mentioned is privities, which are complicated, to use the terms of the international private law, by the “IT-element”, which accounts for specific features of legal regulations.

At present to understand the concept of e-commerce one can be guided by the following articles of the Civil Code of the Russian Federation part 2 article 160, part 2 article 434 and part 3 article 847, as well as by the Federal Laws “On information, informatization and information protection”, and “On digital signature”.

Synthesizing the legislation rules mentioned, it can be said that in a narrow sense information and technology element is the use of electronic papers (messages etc.) by the participants of the civil legal relationships to make deals or to fulfill the obligations arising from them, signed by digital signature or other analogues of autographs as well as the fulfillment of the electronic exchange by of information systems with the use of electronic means of communication, access, processing, transmittance and storage of the information. In a broader sense information and technological element is the exchange of any information, connected with enterprises activities with the help of the electronic means between the participants of the civil legal relationships.

In any case information and technological element excludes the sides' physical presence at the accomplishment of one or another operation (so-called remotability) and is of functional character, securing attainment, though not always entire, of the functions of the document on paper and in electronic form, autograph and its analogues etc. Practical equivalence enables the law to proceed to legal equivalence in the part of acknowledgement of the consequences of the use of electronic documents and autograph's analogues.

The analysis of the national and international sources for e-commerce law regulation gives evidence for the fact that e-commerce is a complication of information interaction that existed before (telegraph, telephone, post) between the economic entities: the form of the deal does not suffer any changes, remaining



written, but at the same time the specific features of the information and technological element leads to the necessity for regulation of the new way of deals making.

Main entities, taking part in the sphere of e-commerce are Internet (worldwide web), content-provider and user.

The members of e-commerce are the same as the members of the civil legal relationships (article 2 Civil Code of the Russian Federation) and include natural persons and legal entities as well as the state (Russian Federation, its subjects and municipal organizations).

The first group of the participants is the group that provides access to the network and information exchange, which includes Internet providers and other information middlemen. The second group is a content-group, which includes owners (proprietors) of the information resources and advertising agencies (publicity agents), contractual contacts being based predominantly on the contract of onerous services rendering or lease or sale contracts. The third group is the group for e-trade and includes the sellers of goods and services (excluding financial goods and services) and the group of electronic financial services, including loan and insurance organizations as well as professional participants of stocks and shares market. Contractual relations with the participation of these groups' agents are based on the corresponding kinds of contracts, envisaged by the Civil code of the Russian Federation at present.

Depending on the relations arising between different agents the following groups can be identified:

1. **business-to-consumer (B2C) segment**, where contractors are legal entities, which, as far as it is concerned, offer goods, job and services, which are not connected with the realization of the entrepreneurial activity, but accessible for the orders or the use in the electronic way and natural person, which, as far as it is concerned, make an order, purchases and uses the services mentioned;
2. **business-to-business (B2B) segment**, where the participants of the e-commerce are two legal entities, which make and fulfill the contracts by the electronic way on a two-sided basis or within the framework of the specialized electronic area, which is supported by one of the participants or by a special information intermediary;
3. **business-to-government (B2G) segment**, where the participants are a legal entity and the government in person of its bodies, which are empowered to make contracts for goods, jobs supply or for services for governmental needs in a electronic way;
4. **consumer-to-consumer (C2C) segment**. The participants of the e-commerce in this segment are two natural persons, who make sale contracts in an electronic way, the subjects of these contracts are individually defined objects or subsumers. Making the contracts within this composition of the member often envisages the conduction of the Internet auction, whose rules are determined by the organizer.

In the framework of this topic the terms "server", "site", "hosting":

**Site** – visual way of data fixation in the Internet.

**Server** – the unit that renders service to other agent (clients) according to their orders. In information networks it is a computer or a program, which renders a distant access.

**Hosting** – the service of accommodation of someone else's website on its web server, rent for the user the part of its server space, support of the efficiency of the user's site at its web servers.

Server can be either the property of the Internet provider or can be granted to it by the Internet provider on the basis of hosting contract, which form is not fixed in the Russian legislation. Hosting contract can envisage granting of the dedicated server to the content-provider by the Internet-provider or granting of the disc space and communication channel for information placement at the web-server to the content-provider. Besides, in case if Internet-provider owns several servers, the content-provider will not be able to influence where the server, on which disc space its website is, will be located. It also should be mentioned that depending on its technical characteristics and the demand for it the website can be located at several servers at the same time, which are called mirror servers.

## Profit Tax

First of all it should be mentioned that according to the article 246 of the Tax Code of the Russian Federation organizations that should pay profit tax are Russian organizations or foreign organizations that operate through the permanent representative and (or) receive incomes from the sources in the territory of the Russian Federation. The object of the tax levy is the profit, which is defined as the income, received from the sale of goods, jobs, services and property rights and the profits not from sale (articles 247, 248 Tax Code of the Russian Federation).

Taking into account the specific nature of the e-commerce it should be noted that in fact this sphere presents the agents of e-commerce with wide opportunities to make business both in the territory of the Russian Federation and abroad without leaving the borders of the Russian Federation. Besides it makes documents

circulation easier and saves time. From this point of view Russian organizations that operate within the borders of the Russian Federation, making use of the worldwide web, do not cause any specific problems for taxation bodies on the issue of profit tax control and levy. Special feature in this case consists in that a paper document is replaced by an electronic document (making commercial contracts through the Internet, acceptance of the offers proposed in the net by the sellers of the goods, jobs and services through the Internet by the potential clients in the electronic form). During goods sale, jobs fulfillment, which results are of the material character the tracing and control of such operations by the taxation bodies is quite acceptable. Irrespective of the fact that the contract exists in the organization in the electronic form it can be given in paper form (print the file of the contract with electronic digital signature, which has legal effect and is an official document). The proceeds received from this operation by the organization are reflected in the accounting, taking into the account the expenses made according to the rules, established by the chapter 25 of the Tax Code of the Russian Federation.

Regulations of the chapter 25 of the Tax Code of the Russian Federation on the whole give the possibility to tax incomes, received as a result of e-trade, but in our opinion and from the point of view of many other experts the absence of the law which will regulate this sphere and define first of all the notion of the e-trade (commerce) complicates the process of the more specific regulation of tax levy procedure of this sphere's incomes. However basing on the stature of paragraph 1 article 11 of the Tax Code of the Russian Federation, which gives the opportunity to interpret the concepts and terms in another way than the one defined by other laws, the legislator might be able to follow the way of defining the term "e-trade" in the article mentioned. For instance, the following interpretation of the term is possible, "e-commerce is one of the elements of e-business, which is connected with marketing functions implementation, including sale of goods and services to the consumer through the Internet".

In reality electronic bank operation, that is the activity on cashless settlement, is widespread. One of the aspects is the settlement effect between the participants of the operation with the means of the bank cards of credit type, usually. In such cases operation participants are a bank-issuer, a holder of a bank card, acquirer, processing center. ).

Let us define a few necessary terms for a start:

**Holder of a bank card** – natural person, who uses bank card on the basis of the contract with the issuer or the natural person, who is authorized representative of the issuer's client.

**Processing center** – legal entity or its structural body, which provides information and technological interaction between the settlements participants.

**Acquirer** – credit organization that provides acquiring.

**Issuer** – credit organization (or its branch) that issues bank cards.

**Acquiring** – the activity of the credit organization that involves making settlements with the trade (service) enterprises by the operations, which are made with the use of the bank cards, and fulfillment of the cash payments for bank cards holders, who are not the clients of this credit organization.

**Processing** – activity, which involves collection, processing and distribution to the participants of the settlements participants information on the bank cards operations, fulfilled by the processing center.

**Commission** – money, collected by a credit organization from the client according to the conditions of contract signed, including commission fees of the settlement participants with the use of the bank cards, namely:

**processing commission** — money, collected from acquirers and issues for processing implementation;

**acquirer commission** — money collected by the acquirer from the bank card holder for the services on the operation with the use of the bank cards rendered;

**issuer commission** — money, collected by the issuer from its client for operations with the use of the bank cards.

When the holder of a bank card makes payments with the credit card for the purchased goods, services and jobs, a number of participants such as a processing center, acquirer, issuer are involved in the deal.

If the bank card holder withdraws cash from the automatic cash dispenser, which is not the issuer bank, the bank, which owns the cash dispenser acts as an acquirer, which makes acquiring (cash payment) and gets acquirer's commission for the service rendered, which is its profit.

In case when the holder of the bank card pays for the goods, service or job purchased without cash transfer, then processing center comes in, which makes processing and receives processing commission for the service rendered, which is its profit.

As far as bank, which is the bank card issuer, is concerned, its profit is issuer's commission, which is paid by the client for the operations with the use of the bank cards.

The regulations of profits mentioned taxation proceeds according to paragraphs 2 point 1 article 290, paragraphs 3,8,14 of the article 291 of the Tax Code of the Russian Federation.

The regulation seems different when economic entities make transboundary operations with the use Internet communication environment. In such a case a number of problems arises such as definition of taxation object, taxation jurisdiction, permanent representative office for foreign companies.

Regarding Russian participants of e-commerce it should be underlined that according to the article 311 of the Tax Code of the Russian Federation profits received from the sources outside the boundaries of the Russian Federation are taken into account when defining its taxation base for tax on company profit, the profits mentioned are counted in the full volume with the accounting for the expenses undertaken both in the territory of the Russian Federation and abroad. Simultaneously the question of the possible double taxation of the profits, received by the Russian participants of e-commerce from such goods sales beyond the bounds of the Russian Federation.

In order to eliminate double taxation paragraph 3 article 311 of the Tax Code of the Russian Federation states that the sums of the tax, paid according to the legislation of the foreign countries by a Russian company (e-commerce participant) are included during payment of the taxes on company profit in the Russian Federation. The amount of the taxation sums included cannot exceed the sum of tax to be paid in the Russian Federation. Reckoning of the tax sum, paid beyond the boundaries of the Russian Federation, is made on the condition that the taxpayer submits the document that testifies the payment (deduction) of the tax beyond the boundaries of the Russian Federation. The validity period of the attestation is limited by the taxation period in which it was received by the company (participant of the e-commerce).

As far as foreign companies are concerned (e-commerce participants) the question of the permanent representative office arises, since it is necessary to take into account virtual (non-material) nature of the operations.

International taxation practice<sup>19</sup> establishes the criteria of fixed place of regular entrepreneurial activity fulfillment by a foreign company in the territory of another country (permanent representative office). The special character of the e-commerce in fact excludes the possibility to apply the criteria of fixed place for business execution.

In paragraph 2 article 306 of the Tax Code of the Russian Federation the permanent representative office of a foreign company in the Russian Federation is referred to as a branch, an office, a department, a bureau, an agency or any other separated department or other place of this organization activity, which regularly makes business in the territory of the Russian Federation.

Due to the factor of non-material representative office and the factor of extraterrestrial transactions, the question arises if the operation through the web server or website, which is based on the web server of a third party can lead to the formation of the foreign legal entity in the Russian Federation.

To carry out economic activity in the Internet such specific information and technological equipment as a server is required.

In this connection the deals made in the Internet that can be divided in on-line and off-line must be mentioned.

If a deal is made in an off-line regime and goods are supplied in a normal regime (it is not the question of digital goods), the server plays the role of normal communication means and such an activity cannot lead to the formation of the permanent representative office. In some cases it can be described as an auxiliary activity, taking into account statures of the paragraph 4 article 306 of the Tax Code of the Russian Federation.

On-line deals are made completely in the Internet, goods and services are transferred in a digital format from a computer to a computer. But at the same time the question of how important a role the computer equipment (server) plays in the economic activity of a foreign enterprise and how much the equipment is involved in the process of deal making can be considered separately in every particular case (to establish the activity, regularity of server (website) use and the establishment of the permanent representatives office formation)

In cases, when the matter concerns the receipt of the income from the sources in the Russian Federation it should be noted that according to the paragraph 2 article 309 of the Tax Code of the Russian Federation the

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<sup>19</sup> [http://eur-lex.europa.eu/LexUriServ/site/en/com/2003/com2003\\_0702en01.doc](http://eur-lex.europa.eu/LexUriServ/site/en/com/2003/com2003_0702en01.doc)  
<http://www.oecd.org/dataoecd/37/19/36736056.pdf>  
<http://www.oecd.org/dataoecd/58/7/35867672.pdf>  
<http://www.oecd.org/dataoecd/30/48/2400564.ppt>  
<http://www.oecd.org/dataoecd/47/8/2742725.pdf>  
<http://www.oecdbookshop.org/oecd/display.asp?sf1=identifiers&lang=EN&st1=232005031p1>

profits received from goods, other property as well as property rights sale, jobs execution, service rendering in the territory of the Russian Federation which do not lead to the formation of the permanent representatives in the Russian Federation, the payments are not subjected to tax levy. Thus as a result of the absence of the principles, which determine the characteristics of the permanent representative office with reference to the e-commerce participants, no taxation result arises.

Thus, the definition of the “permanent representative office”, envisaged by the article 306 of the Tax Code of the Russian Federation does not take into account the specific features of the business in the field of e-commerce, the result being that the activity of foreign participants of the e-commerce is in fact out of the tax on company profit levy, which on the one hand, puts the Russian positions of the e-commerce in a discrimination position as compared with the foreign participants, and, on the other hand, deprives the budget from the additional tax earnings.

## **Tax Jurisdiction**

As it has already been mentioned above, the operations of e-commerce are of extraterrestrial nature and consequently, they raise the questions of tax jurisdiction, which defines the rights of one or another state to levy the tax. The specific nature of the e-commerce complicated the application of the traditional criteria for the definition of tax jurisdiction limits with the aims of taxation. For instance, the profit from the sources, produced in the cyberspace, has a potential danger of double taxation of the e-commerce participant. The application of the principle of permanent representative seems also most efficient for the implementation of the tax control.

As far as the principle of the permanent representative office is concerned it should be noted that the realization of the e-commerce presumes the connection to the Internet, which drives to the conclusion that Internet service providers (ISP) who realizes the connection of the users to the global information web Internet act as agents of e-commerce participants and in fact make permanent representatives for every firm, involved in the e-commerce. So the creation of the electronic shop will be a sufficient condition for the substantiation of e-commerce participant presence in the particular tax jurisdiction. To put it in another way, making a comparison, it can be supposed that providers by their electronic status are dependent agents of the economic entities of e-commerce. The activity of the providers also supposes the presence of special equipment, physical location of which determines the place for an individual provider operation, which makes the establishment of the e-commerce participant's link with the individual tax jurisdiction considerably easier.

To sum up let us mention that it seems reasonable to define the tax jurisdiction of the e-commerce subjects regarding permanent representatives, which is formed by the provider, securing the connection of the agents mentioned to the Internet. Though it should be underlined that no Internet-provider will act on behalf of the firm, which owns the site. Such activity is out of the boundaries of the usual business and requires the accordance of the additional, by no means typical warrants. Consequently, it can be assumed that appearance of the representative office in such a situation will be of low possibility as well.

It is evident that the aspects mentioned do not settle the existing problems. Other issues also give serious matters of concern, for example the establishing of so-called place of consumption. In fact it is a question of the definition of the state that has the authority to make tax claims for the duties from transboundary deals, which is the very primeval problem of jurisdiction choice. It seems obvious that this is the only way to avoid excessive tax burden as well as unintentional evasion from payments. Unfortunately, in the environment of the electronic modernization of the sending trade the definition of the jurisdiction has fully experienced the necessity to refuse from the traditional criteria of residency and territoriality, which is accounted for by the natural absence of the physical delivery address, impossibility of the non-material services localization and other factors.

Submission of the state tax claims to the location of the user gives rise to bigger confidence. The supplier knows who is really interested in the deal making, possibly it has the information on its status and is able to make payment either by the place of contracts' subject location or the main commercial enterprise of the consumer (or at least its key management bodies).

To sum up the conclusion can be drawn that the taxation base for the income tax from e-business must be dependent on the fact of the determination of the formation conditions for permanent representative in the national legislation and on the regulations set in it. Certainly, under the conditions of the universal globalization a more general approach is to unify the taxation object as well as the criteria for taxation base determination for all taxation jurisdiction.

*N. Kornienko*

## **Meetings of the Government of the Russian Federation in July 2007**

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At the meetings of the government of the Russian Federation in July among other problems the issue of the results and main directions of Federal Customs Service functioning for 2008-2010 and estimation criteria of customs bodies efficiency operation was discussed.

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At the meeting of the Government of the Russian Federation on 5 July the report of the head of the Federal Customs Service of the Russian Federation "On results and main direction of Federal Customs service functioning for 2008-2010" was heard and the project "The list of criteria of customs bodies efficiency with the system of indices" which was presented by him was considered.

The strategic aims for the Federal Customs Service of Russia for three years were defined in the report as well as tactical schemes to achieve them, the numerical indices for the efficiency of administration.

Strategic aim No1. "Increase of the customs legislation observance level and securing the completeness and timeliness of customs duties, taxes and customs fee payment".

According to the authors of the report the first strategic aim of the Federal Customs service will contribute to the strategic aim of country's development "Increase of the budgetary system's stability", which agrees with paragraph 3.2.2 appendix 1 to Methodic Guidelines for Report Preparation on Results and Main Directions of Subjects to Budget Planning for 2006-2008 Operation (below the references are cited for the regulations of the Guidelines mentioned).

The extent of the first strategic aim achievement is characterized, for instance, by such an index as the share of suits (claims) to customs bodies, by which court made a decision not for benefit of customs bodies, in the total amount of suits (claims) considered by courts. This index will be provided by the reduction of adopted (made) illegitimate decisions, actions (inaction) of customs bodies' authorities in course of customs registration and control execution also due to the improvement of work on customs bodies position assertion in courts.

Strategic aim No2. "Increase of the quality of services rendering by customs bodies, reduction of expenses by the participants of foreign economic activity and the state, connected with customs registration and customs control".

Second strategic aim of the Federal customs service should contribute into achievement of the following strategic aims of country's development: decrease in the level of unproductive transactional expenses (paragraph 3.6.6. of the Guidelines); increase in the informational transparency of government actions (paragraph 3.5.9 of the Guidelines); corruption level decrease (paragraph 3.5.8 of the Guidelines); increase in the quality of governmental services (paragraph 4.5.2 of the Guidelines).

Setting of this strategic aim for the Federal Customs Service is accounted for first of all by the necessity to take measures to optimize, increase transparency and reduce time to pass customs registration and control by the members of the Foreign economic activity, as well as to develop customs infrastructure, increase capacity of crossing points through the state boundary of the Russian Federation, increase of their technical equipment level.

The extent of second strategic goal achievement for the Federal Customs Service is characterized by the following indices: time which is necessary to carry out customs procedure, necessary to release goods upon customs registration at the place of their declaration, time for execution of customs procedures in motor vehicles crossing points through the state boundary of the Russian Federation.

Strategic aim No 3. "Detection and suppression of weapons, drugs, infringing goods and other goods, which are banned from the import in the Russian Federation, smuggling as well as goods, articles and valuables, whose export from the Russian Federation is prohibited".

According to the authors of the report, the third strategic aim the third strategic aim for the Federal Customs Service will contribute to the achievement of the following strategic aims of country's development: prevention of terrorist threats (paragraph 2.4.1 of the Guidelines); security guaranteeing of Russia's economic activity and the economic entities that represent it abroad (paragraph 2.2.2 of the Guidelines); securing of the effective regime for weapons and defense technologies supply to the regions of the conflict in the world (paragraph 2.4.3 of the Guidelines).

The extent of the achievement of the third strategic aim for the Federal Customs Service is characterized by the following indices: the proportion of the goods imported in the territory of the Russian Federation, for which the custom bodies undertook measures to eliminate Russian Federation legislation violation, in the total amount of imported goods; the share of criminal cases brought by the customs bodies in the total amount of the registered crimes, which are in the competence of the customs bodies, the proportion of the

goods imported in the customs territory of the Russian Federation, for which the custom bodies undertook measures to eliminate Russian Federation legislation violation, in the total amount of imported goods.

As a result of report of the Federal Customs Service discussion the Report mentioned was commissioned to be elaborated, paying particular attention for:

Reduction of the time of transport vehicles passing through cross points through the state boundary of the Russian Federation;

Introduction of the electronic pathways for information exchange and creation of the interdepartmental information base;

Legislation perfection, necessity for quality increase of the customs bodies rights exercising practice in order to secure effective protection of governmental interests.

Three criteria of the customs bodies' efficiency were also presented to the Government of the Russian Federation at the meeting: successful filling of the federal budget, increase of the service quality of the customs bodies and solution of law-enforcement tasks. Each criterion includes several indices, which reflect the operation of the customs bodies and the quality of customs administration in general.

The first criterion: "Increase of the customs legislation observance level and securing the completeness and timeliness of customs duties, taxes and customs fees payment".

This criterion reflects the set of questions connected with effective customs control, currency control, control of declaration trustworthiness and other directions. It includes five indices, among which, for instance, is the execution of the federal law on the federal budget concerning the transfer of customs payments (100 percent); decrease of the proportion of the customs payments, transferred by the participants of the foreign economic activity with the violation of the set deadlines, in the total amount of the transferred customs payments (supposed to be reduced from 0.19 to 0.17 percent) etc.

Second criterion: "Increase of the quality of services rendered by customs bodies, reduction of expenses by the participants of foreign economic activity and the state, connected with customs registration and customs control"

The criterion reflects the quality of the customs administration starting with the increase of the information transparency to the decrease of expense levels, speeding-up of the customs operations, application of the selective methods for customs control etc. The criterion includes seven indices. For instance, the time for customs procedures execution, the time necessary for goods release upon customs registration (supposed to be decreased down to 24 hours in 2010).

The third criterion: "Detection and suppression of weapons, drugs, infringing goods and other goods, which are banned from the import in the Russian Federation, as well as goods, articles and valuables, whose export from the Russian Federation is prohibited».

In general the criterion reflects the activity of customs bodies, connected with the pursuit of law-enforcement aims, guaranteeing of economic security, control of certain goods movement. Thereby three indices are envisaged, one being, for instance, the share of criminal cases brought by the customs bodies in the total amount of the registered crimes, which are in the competence of the customs bodies (growth from 58 to 66 percent).

All three criteria of customs bodies' efficiency were adopted by the Government of the Russian Federation.

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## **Review of the budgetary legislation over July 2007**

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The following amendments were made to the budgetary legislation – the amendments were made to the Federal Laws "On federal budget for 2007", "On main principles of local government organization in the Russian Federation", the Federal laws "On Russian Federation Pension Fund budget for 2008 and for the planned period of 2009 and 2010", "On the budget of the Federal Fund for Compulsory Health Insurance for 2008 and for the planned period of 2009 and 2010".

Federal Law from 17.07.2007 N 132-Φ3 "On making amendments to the Federal Law "On the federal budget for 2007". The law came into effect on 21.07.2007. A number of amendments and addenda were made according to the law, among which the following can be listed: additional increase of funding by individual directions, addition to transfer of off-budget funds regulations, granting of additional authority to the Ministry of Finance of the Russian Federation etc.

1. In 2007 the additional funding of the following measures is envisaged at the expense of the federal budget: motorways of common use construction and reconstruction, as well as on development of the street

and roads network at the rate of RUR 30000.0 mln; conduction of thorough repairs of block of flats and citizens resettle from dangerous houses at the rate of RUR 10000.0 mln; nuclear and radiation security and growing of research and development potential at the rate of RUR 2888.2 mln. Provisions for creation of President's library named after B. N. Yeltsin are envisaged at the rate of 1900.0 mln. Financing of these measures, envisaged by the amendments, is supposed to fulfill owing to redistribution of the budget funds.

2. The Law additionally establishes that the federal budget funds provided for the Ministry of the Finance of the Russian Federation to compensate the deficit of the Russian Federation Pension Fund budget are transferred in the amount, necessary to cover the deficit, which was formed during the budget of the Russian Federation Pension Fund execution. In case the Pension Fund of the Russian Federation budget be executed without deficit, the funds of the federal budget envisaged for its coverage are not provided.

Provisions of the federal budget that were not used to cover the deficit of the RF Pension Fund budget can be directed by the Ministry of Finance of the Russian Federation to:

1) Pension Fund of the Russian Federation to pay base part of the retirement pensions, governmental pensions provisions, monthly provisions to some groups of citizens, to pay the fares for the pensioners who live in the regions of the Far North and regions of the same status to the place of holiday and return once in two years according to the Law of the Russian Federation from 19 February 1993 No 4520-1 "On governmental guarantees and compensations for citizens who reside in the regions of the Far North and the regions of the same status" and for other payments whose financing is being executed at the expense of the federal budget and according to the legislation of the Russian Federation;

2) Federal Fund of the Compulsory Health Insurance at the rate up to RUR 10 000 000.0 thou to finish the settlements for medicines really given out to some categories of citizens in 2006;

3) Federal Agency for Health Care and Social Development at the rate of up to RUR 47 900 000.0 thou for centralized purchase of the medicines, intended for treatment of some illnesses in 2008 and 2009 according to the procedure and the list, defined by the Government of the Russian Federation.

3. The law is supplemented by the articles that give the Ministry of Finance of the Russian Federation the authority to make decisions on writing off the state internal debt of the Russian Federation by bills of exchange, issued to execute the Federal Law from 24 April 1995 No 46-ФЗ, whose limitation of action has expired; on debt for the federal budget reduction of the lending agencies, which were liquidated according to the legislation of the Russian Federation, on debts of organizations which fulfill the supply (storage and sale) of the production (goods) to the regions of the Far North and the regions equated to them, that were reregistered as internal state debt of the Russian Federation guaranteed by lending agencies; on centralized credits, granted in 1993-1994 and interests charged for them.

It should also be mentioned that up to the end of 2007 the effect of some legal regulations in the part concerning the limitation of the funds attractions for deficit coverage and state debts clearing off is suspended.

Federal Law from 21.07.2007 № 182-ФЗ "On the budget of the Pension Fund of the Russian Federation for 2008 and for the planned period of 2009 and 2010". The Law will come into the effect on 01.01.2008.

The Law establishes the main characteristics for the budget of the Pension Fund of the Russian Federation for 2008 as well as the main characteristics of the Russian Federation Pension Fund budget for planned years of 2009 and 2010. For instance, annual increase of the total amount of revenues and expenditures is envisaged. It is also established that the Pension Fund of the Russian Federation has a right to secure financing of the services to the organizations of reception and composition of the applications from the citizens in electronic form on the refusal to get social services within the limit of the funds, envisaged for financial and material and technical provision of the current operation of the Pension Fund of the Russian Federation to the organizations.

Federal Law from 21.07.2007 № 187-ФЗ "On making a change to the article 53 of the Federal Law "On general principles of local government organization in the Russian Federation". The law will come into the effect on 05.08.2007 г.

The law has made only one change to the article 53 of the Federal Law from 06.10.2003 No 131-ФЗ "On general principles of local government organization in the Russian Federation". This article was brought into accord with the article 87 of the Budget Code of the Russian Federation. The list of expense liabilities of a municipal formation is kept by the local government bodies according to the procedure, established by local administration. Earlier the procedure was established by the representative body of the local government.

Federal Law from 21.07.2007 No 184-ФЗ "On the budget of the Federal Fund for the Compulsory Health Insurance for 2008 and planned period of 2009 and 2010". Comes into effect from 01.01.2008.

The budget of the Federal Fund for Compulsory Health Insurance for 2008 and for the planned period of 2009 and 2010 was formed in accordance with the requirements of the budgetary legislation, balanced by

revenues and expenditures and is equal to: in 2008 – RUR 123 241 204.4 thou, in 2009 - RUR 119 987 658.2 thou and in 2010 - 104 482 669.0 thou.

The Law establishes the structure of expenses for the Fund by sections, subsections, principal articles and kinds of expenses.

The purposeful direction of the standardized insurance reserve of the Federal Fund for the Compulsory Health Insurance, which was adopted in the amount of RUR 10 340 087.3 thou, was defined.

The same as in 2007 the payments for medicinal staff are established at the rate of RUR 10 thou for district therapists, district pediatricians, general physicians (family physicians) and at the rate of RUR 5 thou for the nurses of the corresponding doctors.

The Law also establishes that the Fund directs intergovernmental transfers to the Fund of the Social Security for payments to the governmental and municipal organizations of health care rendered to women at time of pregnancy at the rate of RUR 3 thou, in the period of childbirth and postnatal period at the rate of RUR 6 thou for every woman, who got the services mentioned, as well as for regular and preventive medical check-ups of the child, who was registered for medical check-ups during the first year of life before being three months old, at the rate of RUR 1 thou for the first six months and at the rate of 1 thou for second six months of the regular (preventive) medical check-ups for every child from the moment of his registration.

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## **Review of the Regulatory Documents concerning taxation issued over June-July 2007**

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1. According to the letter by the Ministry of Finance of the Russian Federation from 25 June 2007 No03-03-06/1/397 some questions on ascription of lessor's and lessee's expenditures for the reduction of the tax profit taxation base are clarified.

Paid to the lessor leasing payments and commission fee before putting the equipment into the commission are referred to as expenditures by the lessee. Ministry of the Finance of the Russian Federation clarifies that any expenses should be regarded expenditures on condition that they were made to fulfill the activities directed to the revenue raising.

In case property, received by the leasing contract, is taken stock by lessee, the following is regarded as expenditures: by the lessee – rent (leasing) payments with the deduction of the deterioration sum for that property; by the lessor – expenses for property purchase which was let on lease. If the postponement of putting into the commission of the property received on leasing terms is accounted for by the necessity to fit it into the condition suitable for use, then leasing payments before putting the property into commission can be included in the list of expenditures in order to tax profit.

2. According to the letter by the Ministry of Finance of the Russian Federation from 28 June 2007 No 03-04-06-01/203 the question on the criterion of the recognition of a stockholder, for whose benefit dividends are distributed, as resident or non-resident in order to levy personal incomes tax elucidated.

Ministry of Finance of the Russian Federation explains that according to the subparagraph 1 paragraph 1 article 223 of the Code the date of real receipt the revenue is referred to as the day of revenue payment, including revenue transfer to the tax-payer's account in the banks or to the accounts of third parties on his behalf when the revenue is received in monetary terms.

3. According to the letter by the Ministry of Finance of the Russian Federation from 25 June 2007 No 03-04-06-01/199 the questions of single social tax and single tax on imputed income settlements for the sums of compensatory payments made in case the employee was re-employed after his dismissal because of the staff reduction.

In the opinion of the Ministry of Finance of the Russian Federation the sums paid for the employee in that case cannot be regarded as compensations connected with dismissal. Correspondingly, the organization that acts as a taxation agent, must inform the taxation body according to the established procedure of the impossibility to deduct personal incomes taxes and of the sum of tax-payer's arrears.

Such a position of the Ministry of the Finance of the Russian Federation seems disputable. The courts estimate the situation in another way. At the moment of paying such expenditures were compensations and their status does not change as a result of court abolition of the decision on dismissal because of the staff reduction.

4. According to the letters by the Ministry of Finance of the Russian Federation from 22.05.2007 No 03-07-15/75 and by the Federal Tax Service from 6 July 2007 No IIIT-6-03/534@ the question on VAT payments from the services of customhouse broker is clarified. Taxation at 0% tax rate is applied to the fulfill-



ment of the jobs (services), which are directly connected with the production and sale of goods exported by the export customs regime.

This procedure is extended for jobs (services) on organization and accompaniment of the carriages, conveyance and transportation, escort, shipping and reshipping et. Of the goods exported from or imported into the territory of the Russian Federation – that is it applies only to jobs (services) executed (rendered) directly with respect to such goods.

Services, rendered by a customhouse broker (goods and transport vehicles declaration, submission of the papers and additional information to the customs bodies necessary for customs aims, execution of other activities, necessary for customs registration and control), are not among them and are subject to value added tax taxation at the rate of 18 percent.

5. According to the letter by the Ministry of Finance of the Russian Federation from 26 June 2007 No 03-03-06/1/403 the question of the list of documents necessary for ascription of the expenditures for the purchase of the land plots in the state property to reduce profit tax taxation base.

Ministry of Finance of the Russian Federation clarified that the sum of expenditures for land plots rights purchase is subject to inclusion in the list of other expenditures from the moment of documented papers submission for the governmental registration of the right. The documented papers submission for the governmental registration of the right is referred to as the receipt by the body, which accomplishes governmental registration of the immovable property right and deals with it, papers for governmental registration of these rights.

6. According to the letter by the Ministry of Finance of the Russian Federation from 3 July 2007 No 03-07-08/170 the question on the procedure of VAT calculation is clarified when a Russian organization purchased the services, the place of whose rendering is the territory of the Russian Federation, for the foreign currency and from a foreign person, who is not on books of the Russian Federation taxation bodies.

Ministry of Finance of the Russian Federation clarifies that VAT payment by the taxation agents is made at the same time as payment (transfer) of funds to a foreign person, who is not on the books at a taxation body of the Russian Federation and executes jobs (services) in the Russian Federation. The taxation base for such operations is recalculated into the rubles by the exchange rate of the Bank of Russian for the date when real expenditures were made.

7. According to the letter by the Ministry of Finance of the Russian Federation from 25 June 2007 No N 03-03-06/1/392 the question on the criterion to expenditures documentation for aims of profit tax payment. For instance, it has been elucidated that invoice does not belong to source documents and does not testify the expenditures. According to the Law on accounting all economic operations executed by an organization must be adjusted by vouchers. These papers act as source accounting papers, basing on which the accounting is made.

Source accounting documents are accepted for record if they are composed in the form, present in the albums of unified forms of the source accounting documents, while the documents, whose form is not envisaged by such albums, must contain compulsory properties, envisaged by paragraph 2 article 9 of the Law No 129-Ф3.

The functions of development and approval of the albums of source accounting documents unified forms and their electronic versions were entrusted to the Federal State Statistics Service of the Russian Federation according to the Regulations of the Government of the Russian Federation from 08.07.1997 No 835 "On source accounting documents". According to the decree of the Federal State Statistics Service from 25.12.1998 No 132 the Unified forms of the source accounting documents to record trade operations were stated. One of the approved forms is a receipt (form No ТОПГ-12), which is applied to record sale (distribution) of the inventory holdings by a third organization and is at the same time a source accounting document, which testifies the expenditures. Invoice is not included in the list of the approved forms.

8. According to the Federal Law from 21 July 2007 No 192-Ф3 the amendments are introduced in the Federal Law from 24 July 1998 No 125-Ф3 "On compulsory social security from accidents at the production and professional diseases". Changes envisage the possibility of granting to the insured the delay (payment by installments) of the debt offsets by insurance dues and other payments taking into account their financial state and on the condition on timely payments of current sums of insurance dues to the insurance company. Changes come into effect on 1 January 2008.

9. According to the letter by the Ministry of Finance of the Russian Federation from 4 May 2007 No 03-05-05-01/19 and Federal Tax Service from 5 July 2007 No CK-6-11/531@ the question on the procedure of granting the privilege for company assets tax according to the paragraph 11 article 381 of the Tax Code of the Russian Federation with respect to the federal motorways of common use.

For instance, it is clarified that in order to apply tax privilege according to the paragraph 11 of the article 381 of the Code it is necessary that fixed assets, belonging to the federal motorways of common use, and the buildings, which are indispensable part of the constructions mentioned, were recorded on the books of a taxpayer – federal governmental institution.

In case the property (construction) mentioned being transferred to the temporary ownership or use (free temporary use) according to the rent (borrowing) contracts, that is without transfer of property rights, the tax privilege for such property (constructions) is retained according to paragraph 11 article 381 of the Code.

10. According to the letter by the Ministry of Finance of the Russian Federation from 08.05.2007 No 03-03-05/111 and Federal Tax Service from 13 July 2007 No XC-6-02/558@ the question on recognitions with the aims of profit taxation the losses from the execution of the rights for land plot is elucidated. It is clarified that on purchasing of a land plot from state (municipal) property tax-payers include the expenditures for rights for this plot receipt in the list of other expenditures, which are connected with the production and (or) sale. The expenditures made are either written off evenly during the period, defined by the tax-payer himself, but no less than five year, or are recognized as expenses of the accounting (taxation) period, no more than 30 percent of the tax base of the previous taxation period until the sum of the expenditures mentioned is fully recognized by the choice of a tax-payer. Thus the losses from the right acquisition are either written off evenly during 5 years or writing off of the loss proceeds evenly over the period of real ownership of the plot.

11. According to the letters by the Ministry of Finance of the Russian Federation from 09.04.2007 No 03-05-05-02/21 and by the Federal Tax Service from 2 July 2007 No CK-6-11/519@ some questions on application of chapter 31 “Land tax” of the Tax Code is elucidated. It should be taken into account that taxpayers of the land tax are referred to as organizations and natural persons who own land plots by property rights, permanent (unlimited) right to use or the right of life interest inherited property. The organizations and natural persons are not recognized as taxpayers with regard to the land plots, which are in free limited use or granted according to the rent contract. The grounds for recognition of organizations and natural persons as taxpayers for land tax are the papers that testify property rights, rights of permanent (unlimited) use or the rights of life interest inherited property. Rights for land plots are testified by the papers and subject to governmental registration.

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