

RUSSIAN ECONOMY: TRENDS AND PERSPECTIVES 07'2009

MONTHLY BULLETIN:

BASIC DEVELOPMENTS AND TRENDS	2
THE POLITICAL AND ECONOMIC RESULTS OF JULY 2009 (S.Zhavoronkov)	4
INFLATION AND MONETARY POLICY (N.Luksha)	8
FINANCIAL MARKETS (N.Burkova, E.Khudko)	16
REAL ECONOMY: TRENDS AND FACTORS (O.Izryadnova)	27
RUSSIAN INDUSTRY IN JULY 2009 (S.Tsukhlo)	33
FOREIGN TRADE (N.Volovik)	37
STATE BUDGET (I.Sokolov, E.Fomina)	41
ANTI-CRISIS EFFECT OF BUDGET EXPENDITURES (L.Freinkman)	50
MARKET OF HOUSING MORTGAGE IN THE RUSSIAN FEDERATION (G.Zadonsky)	54
SMALL BUSINESS IN RUSSIA: STATE AND PROBLEMS (O.Izryadnova, E.Fomina, D.Kazantsev)	58
OIL AND GAS SECTOR (Yu.Bobylev)	69
ABOUT THE NATIONAL REPORT ON AGRICULTURAL DEVELOPMENT AND ANTI-CRISIS MEASURES IN THE AGRARIAN SECTOR (R.Yanbykh)	73
PROBLEM OF PERSONALITY IDENTIFICATION OF MILITARY PERSONNEL OF THE RUSSIAN FEDERATION (V.Zymbal)	77
ROLE OF PROTECTION OF INTELLECTUAL PROPERTY RIGHTS IN THE EXPANSION OF RUSSIAN HIGH-TECH EXPORT (A.Pakhomov, Yu.Potantina)	84
REVIEW OF MEETINGS OF THE GOVERNMENT OF RUSSIAN FEDERATION IN JULY 2009 (M.Goldin)	90
REVIEW OF ECONOMIC LEGISLATION (I.Tolmacheva)	92
REVIEW OF REGULATORY DOCUMENTS CONCERNING TAXATION OVER JUNE–JULY 2009 (L.Anisimova)	94
REVIEW OF BUDGETARY LEGISLATION (M.Goldin)	101

BASIC DEVELOPMENTS AND TRENDS

Disclosed budget estimates for the 2010-2012 reflect the impact of the future election campaigns on the budget (parliamentary elections in 2011 and presidential campaign in 2012), implying extension of the budget social liabilities. Results of the medium-term budget discussions clearly indicate that the Russian authorities have abandoned one of the major achievements of recent years – deficit-free budget and are planning at least in the medium-term to maintain deficit at a sustainable level. In July, the visit of the U.S. President B. Obama to Moscow, which had no sensational effect. There were signed several minor agreements in the military sphere, in the absence of certainty in the key issues - the reduction of strategic offensive weapons and missile defense system in Eastern Europe.

The downfall of GDP in the II Quarter of 2009 made about 10.4% as compared to the relevant period of preceding year, the recession is noted in both, the investments in fixed capital, and industrial production. There is a growing tendency to reduce the rate of growth of real wages. At the background of general reduction in the volume of retail trade turnover by 5.6% against April-June 2008, the sales of non-food items fell down by 9.2%.

Herewith, according to the IET survey, in July the situation in the Russian industry has definitely improved. However, positive changes in the dynamics of demand, output, employment and stock assessments have not been reflected in the production plans of enterprises for the coming months. This indicates the uncertainty of the enterprises in future sustainability of the current positive dynamics of production and demand. The access to credits for the Russian industry in July remained unchanged. At the same time in July the companies have increased their estimates of the planned scope of employment reduction in the coming months.

At the end of June, consumer price index remained at the same level, amounting to 0.6% (1% within the relevant period of 2008). Therefore, the accumulated inflation rate since the beginning of the year reached 7.4%, what is by 1.3 percentage points lower than the relevant indicator of 2008. At the background of the foreign currency inflow to the country, RUR real effective exchange rate has grown by 1.5% within the month, while foreign currency reserves of the Bank of Russia increased by 2.1% and reached USD 412.6 billion. On June 19 clarifying amendments were introduced to the Instruction «On the mandatory regulations for the banks». On July 2 the Bank of Russia has removed the limit in the amount of foreign assets of commercial banks. On July 13 the Bank of Russia has again downgraded the refinancing rate by 0.5 percentage points up to 11% per annum.

By June the decline of housing credit interest rate has stopped, although its overall level remains low, as compared with the preceding year. There is a trend to reduce the interest rates on housing credits. There observed further growth of share of overdue debt in the net debt in housing credit.

The volatility in the dynamics of the RF stock market was sustained. In general, in the period from June 24 to July 22, the MICEX index has grown by 6.91%. In the market of corporate bonds there were observed continued growth of the domestic market and increasing activity of investors in the secondary bond market. At the same time, the growth rate of corporate bonds index downgrading was noted, as well as a volatile dynamics of the effective yield rate and reduced total issues volume. The number of actual defaults has reached its historical peak.

Compared with the preceding year, the main indicators of the Russian foreign trade in the first 5 months of 2009 have significantly declined. The decrease in exports was mainly

based on the falling prices for oil and other primary commodities of the Russian export. Import got declined due to the falling incomes and weakening ruble. In addition, further lowering trends were observed due to the introduction of a number of protectionist measures by the Government. According to the new rating of the World Economic Forum, Russia was included in the list of countries with the most closed economies (109-th place in the rating, the downgrading level within the year is by 6 points).

The situation in the oil and gas sector of the Russian economy in January-July 2009 was characterized by an expressed increase in the world oil prices and the stabilization in its production. Growing oil prices, declining RUR exchange rate against foreign currencies and implemented measures of tax incentives have substantially improved the financial position of oil sector as compared with the last quarter of preceding year. At the same time, as a result of reducing domestic and external demand, the production and export of natural gas has been significantly reduced.

Ministry of Agriculture has prepared the first National Report on the progress and outcome of the National Agriculture Development Program in 2008.

During the first six months of 2009, there has been a significant decline in cash flows, distributed through the budget system. The imbalance between the revenues of the state budget and expenditure liabilities has grown, which increases the risk of higher debt borrowings, and in turn can reduce the stability of the national financial system. Enlarged Government budget expenditures within January-May 2009 has amounted to 36,6% of GDP against 28.3% of GDP in 2008. Irregular execution of the federal budget in terms of expenditures is sustained. Only 40% of the federal budget expenditures were executed.

In late June and in July important changes have been introduced in the economic legislation and regulatory frameworks, including the following:

- clarifying provisions were introduced, related to the state registration of non-profit organizations;
- the Law was adopted on creating the Public Company «Russian highways» («Autodor»);
- the Procedure was enacted on the tender selection of the development programs for universities, included in the category “national research university”;
- there adopted a Federal Law, which establishes the procedures for providing financial support to the RF Subjects from the Fund of Assistance to the Reform of Housing Utilities;
- the Federal Law was adopted, which introduces new beneficial thresholds, providing the right to the organizations to transfer to the system of simplified taxation.

THE POLITICAL AND ECONOMIC RESULTS OF JUNE 2009

S.Zhavoronkov

The published projects of the budget for 2010-2012 demonstrate the influence of future election campaigns (parliamentary campaign in 2011 and presidential campaign in 2012) on the budget, which envisages an increase in the social liabilities of the budget. The results of the discussion of the middle-term budget definitely demonstrate that the Russian authorities abolished one of the biggest achievements of the preceding years, namely, the deficit-free budget. In July the President of the USA, B. Obama, visited Moscow, which did not cause any sensations. Several minor agreements in the military sphere were signed though the situation with the main parameters – the reduction of the strategic nuclear forces and the system of anti-missile defense in Eastern Europe remained uncertain. As to the sphere of the political rhetoric, B. Obama and Russian authorities gave a well-known performance alternating friendly phrases and critics. The authorities in Chechnya are accused of new murders of independent public figures against the background of the confrontation with the Muslim underground becoming more acute.

In July the Russian authorities, namely Prime Minister V. Putin and Minister of Finance A. Kudrin stated their understanding of the budget policy for the middle-term prospect. The Russian budget will remain deficit for at least five years, as it was explained by A. Kudrin. In 2009 the deficit instead of planned figure of 8% of the GDP will make 9.4% and the deficit forecast for 2010 will make 7.5% (it should be noted that V. Putin referred to the deficit of 7.5% as the maximum, since higher “endangers macroeconomic stability”). In 2011 the deficit will reduce to 4.35 of the GDP and in 2012 – to 3%.

The Reserve Fund (which will be fully exhausted in 2010), the Fund for National Welfare, internal and external loans will act as the sources to cover the deficit. In 2010 the amount of net market loans will be a bit more than a trillion of rubles, half of which will be borrowed from abroad. The total debt of the Government (internal and external) will rise up to 16.4% of the GDP by 2012 (6.5% in 2008). The ratio of the debt to the GDP, however, is not critical yet, according to the standards of the world practice, but the sum of the deficit of the Russian budget remains among the highest for the developed and developing countries.

It should be noted that though at the meeting devoted to the budget policy for 2010 V. Putin talked about the budget economy, he also promised that the rate of the pension next year will nearly double and the average retirement pension will make RUR 8 thousand. At the same time the Prime Minister called “...to explain to the citizens the nature of changes taking place in the pension system in the most accessible way, to help enterprises, organizations to transfer to the new procedure of payment of insurance contributions”, as well as “...to fulfill the moral liability towards the elder generation and create new, efficient pension system for long-term prospect”. RUR 600 billion is envisaged in the budget for these purposes.

Experts observe that the project of the budget has already been influence by future election campaigns, that is parliamentary campaign of 2010 and presidential campaign of 2012, which suggest the increase of social liabilities. Also the results of discussion of the budget for middle-term prospect obviously demonstrate that the Russian authorities have abolished one of the major achievements of 2000s that is the deficit-free budget and are planning to actively make internal and external borrowings.

In July the President of the USA B. Obama visited Russia for the first time. In accordance with the agenda of negotiations the visit was not planned to be very special: the issues disagreements on which are not of strategic importance were discussed. On the eve of the visit the administration of the USA made an unpleasant surprise to the Russian authorities, having agreed with the authorities of Kirgizia to preserve the military unit there, which will be just called differently. Thus, the Russian attempt to act as a “collective speaker” of all the CIS area failed despite USD 2 billion that was spent to support the authorities in Kirgizia (it should be noted, by the way, that the USA succeeded spending by far less money).

The agreement on transit of the American freights for military purposes through the territory of Russia, mainly by air, was signed. The document envisages that American military pilots will be able to make up to 4500 flights above the territory of Russia per year. According to the public estimation of the USA the new transit route will allow saving the fuel, although the military experts do not consider the difference in the routes from Europe to Afghanistan crucial – as a matter of fact earlier the USA managed without it, the main supplies of the military technique pass through Pakistan and not by the Northern route (where there also are alternative ways – through Ukraine, Georgia, Azerbaijan). The framework document on collaboration between the Armed Forces of Russia and the USA was signed, which was suspended after August war between Russia and Georgia. The declaration on collaboration in the field of standards for exploitation and utilization of the nuclear components was signed.

It seems that no compromise has been reached in the issue that is traditional for Russian-American relations, namely, the restriction of strategic nuclear forces. Only a communiqué with the preliminary parameters for reduction was signed. The number of the strategic warheads should be reduced to 1500-1675, of their launches – to 500-1100 (that is the number of the military load will be reduced approximately by half and the number of carriers – by one third the small superiority of the USA by both the parameters being preserved). The experts are commissioned with elaboration of new legal contract for the period of 10 years to substitute START-1 (strategic arms reduction treaty, which effect ceases in December 2009), and it is planned to finish the reduction in seven years after its conclusion, during which, quite probably, it will be discussed by new leaders of both the countries.

Using the general rhetoric on the joint analysis of threats the parties stated their positions on the question of the placement of the anti-missile defense of the USA in Eastern Europe.

As to political sphere, there the mutual and also traditional exchange of compliments and tart words took place. In Moscow B. Obama found friendly words for D. Medvedev and V. Putin, though on the eve of the visit he stated that the Russian authorities “have one foot in the past”. In response, he together with compliments heard the statements on unjustified desire of the USA to define the global policy all by themselves. In contrast to G. Bish who visited Russia in 2006 not only did B. Obama meet human rights activists but also a small number of opposition and semi-opposition politicians (G. Zyuganov, deputies of the party “A Just Russia”, heads of non-parliamentary parties Yabloko and Right Cause (Pravoe Delo) and the movement Solidarnost). However, B. Obama told neither them nor the Russian business at the meeting in RES anything interesting except that he is sure in the benefits of the democratic way of the development and its inevitability.

It should be noted that the economic issues were not included in the agenda at all. The officials of the American Administration only mentioned – simultaneously with the visit – that the agreement of the USA to the accession of the customs union of Russia, Belorussia and Kazakhstan to the WTO is out of question. Soon after the visit D. Medvedev argued

a bit with V. Putin, noticing that though the accession of the customs union of Russia, Belorussia and Kazakhstan would be ideal, it is difficult and that is why it would be better just to coordinate the efforts of three countries devoted to accession.

D. Medvedev signed the amendments to the law “On non-commercial organizations” that simplify the procedure for registration of non-commercial organization and the procedures of control over their activity. Now, for instance, the inspection of the operation of a non-commercial organization will be made once in three years – not once a year as earlier. Besides, the law established 14-day period for consideration of the application for registration of a non-commercial organization, limits the number of documents necessary for registration and simplifies the procedure for re-registration of such organizations. D. Medvedev promised to make these changes during the meeting with human rights activists in April. They are undoubtedly positive but insufficient – the main problem of non-commercial organizations in Russia is not connected with the prohibition for their registration (such problem exists for the parties), but with the possibility of arbitrary confiscation of any funds legally transferred to them and with the police pressure on both the members of the organization and the possible benefactors.

The Constitutional Court of the Russian Federation published the decision on the case of checking the constitutionality of the Federal Law “On gatherings, meetings, demonstrations, processions and picketing” regulating the procedure for their concurrence with the authorities. Some citizens argued that the statement of part 5 article 5 of this law are not constitutional. This norm allows the authorities to make “motivated suggestion” of changing the planned location and (or) time of the public event to its organizers. The procedure of negotiations is not regulated, and it is prohibited to conduct the event that was not concurred. In the opinion of the plaintiffs the norm under question envisages the procedure for conduction of the public events on permission which contradicts the Constitution guaranteeing the citizens the rights for peaceful meetings. The reason for the general complaint was the refusals of the authorities to coordinate meetings, processions (including the March of the dissenting) and picketing. The existing practice is in fact such that the event may be prohibited on any absolutely farfetched reasons (for instance “traffic disturbances”), it is worth noticing that some organizers are allowed to conduct the events on the same places and routes where others are not.

The constitutional court made a small concession to the plaintiffs. It dismissed the claim itself but stated that the courts in case the complaint is made “before the date of the conduct of the planned event” should estimate the lawfulness of authorities’ actions.

The tense situation in the North Caucasus and primarily in Chechnya is preserved. The vacations in the law enforcement bodies of the republic were cancelled and the head of Chechnya, R. Kadyrov, publically and repeatedly required them to act as fast as possible liquidating the Muslim underground (which, according to the previous version, was nearly obliterated). In their turn the militants carried out response actions, for instance organized an attempt to assassinate R. Kadyrov in Grozny that failed but resulted nevertheless in numerous victims. At the same time the terror towards the Kadyrov’s opponents that have no relation to militants is going on. The attempt to assassinate one of the living brothers Yamadaevs – Isa- took place in Moscow (he is alive, earlier he accused Kadyrov of organizing the attempted murders). In Chechnya the leader of memorial society N. Estemirova was killed. It should be noted that the deceased was not the direct opponent of Kadyrov, moreover the activity of Chechen society Memorial was within the “system” frameworks for the Republic, concentrating on investigation of the crimes of the Russian military and those Chechen bodies of law enforcement that were not under Kadyrov’s control. It seems, however, that these frameworks were estimated somewhat incorrectly. The head of Memorial, O. Orlov, accused Kadyrov of the murder, the latter denied it and

promised to sue Orlov. The activity of Kadyrov once again injures the reputation of the Russian authorities, when it becomes clear that there has been no widely advertised victory over the.

The Russian television has demonstrated the visit paid by D. Medvedev to the President of Ingushetia Yu.-B. Evkurov, who is being treated after severe injuries that he got as a result of the terroristic attack in June, the responsibility for this attack was taken by the Muslim underground. Even according to the official data, Evkurov remained unconscious for a long time. Finally, the public could see Evkurov, who seems to be quite well in appearance. It was promised that in autumn he will return to his duties. If this happens, it may be predicted that there is possibility for further alleviation of the tension in Ingushetia, where the new head of the republic, who tried to reach the compromise with the opposition and to diminish the dissatisfaction of the population with the law enforcement bodies, is widely supported. ●

MONETARY POLICY AND INFLATION

N.Luksha

As a result of June, consumer prices index (CPI) in the RF remained at the previous level, making 0.6% (1% over the corresponding period of 2008). Thus, the inflation accumulated since the beginning of the year reached 7.4%, which is 1.3 per cent below the corresponding figure of 2008. Against the background of rapid inflow of currency into the country real effective ruble exchange rate went up by 1.5% over the month and international reserves of the Bank of Russia – by 2.1% up to USD 412.6 billion. On June 19 specifying corrections were made to the Guidelines “On compulsory norms for banks”. On 2 July the Bank of Russia lifted the limitations on the amount of the foreign assets for commercial banks. On July 13 the Bank of Russia once again decreased the refinancing rate by 0.5 percentage points down to 11% per annum.

Consumer prices index in June was equal to 0.6% (see fig. 1). The same as in the previous month it was the non-food goods becoming more expensive that had the biggest contribution in the growth of prices (+0.8%).

In the group of non-food goods the prices for car petrol have started to grow for the first time over nine months (the growth was equal to 8.8%). This was caused by the increase of oil prices and by the recovery of the demand for oil products. It should be remembered that since the beginning of the year the prices for petrol have fallen by 7.2%. For the first time since the beginning of the year the prices for medicines have been registered to decrease: the drop in June was equal to 0.1%. The same as in the previous months tobacco goods (+1.8%) and detergents and cleansers (+0.8%) were becoming more expensive.

In June the growth rates of prices for foodstuffs slowed down a bit, making 0.5% as a result of the month. The biggest growth was demonstrated once again by fruit and vegetable (+3.9%), fish and seafood (1.3%). The drop of prices has mostly concerned eggs (-9.2%) and sunflower seed oil (-2.2%). The decrease of prices for granulated sugar (the growth being 0.4% in June) and that for the macaroni (drop made 0.6%) has stopped.

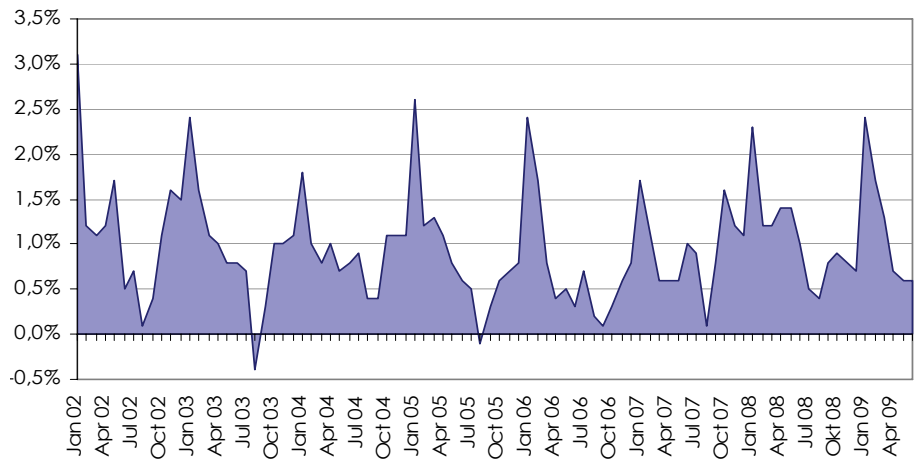
The growth rates of prices for paid services rendered to the population have accelerated, making 0.5% as a result of the month. During summer vacations prices for sanatorium and health services and services of foreign tourism went up making 5.1% and 1.2%, correspondingly. The prices for medical services continued to grow (+1.2%). Decrease of prices was observed only for one kind of services, namely communication services (-0.1%).

Thus, in June inflation continued to slow-down. The same as in the previous month, increase of consumer prices in June and over the period January-June was below the corresponding figures of 2008. However the growth of prices for non-food goods and for the aid services rendered to the population exceeded the figures of the previous month.

According to our estimations, next month CPI will also be below the corresponding figure of the previous year. The main factor for the decrease of the inflation is the reduction of the monetary base M_2 : over January-May of the current year the contraction of the monetary base made 4.7% as compared with its expansion by 3.4% over the corresponding period of the previous year. It is well-known that the influence of the monetary base on the inflation takes place with some time lag. Besides, the slow-down of the general growth of prices is connected with the decrease of prices for agriculture goods at world markets as well as

with the strengthening of the ruble exchange rate against dollar and Euro in winter and spring months.

It should be noted, however, that in the second half of the year the growth of the monetary base can be expected, which will be contributed by the surplus of the balance-of-payments (according to the estimation of the Central Bank of the Russian Federation, over the 1st half of 2009 the current



Source: Federal State Statistics Service

Fig. 1 Growth Rates of CPI in 2002-2009 (as percentage per month)

account of the balance-of-payments made USD 17.2 billion) as well as the inflow of the capital in the country. According to the forecast of the Ministry for Economic Development of the Russian Federation, despite the current decrease of the growth rates of the monetary base M_2 in annual terms, as a result of 2009 its increase will be in the range from 9 to 10%. Besides, in the forthcoming months the growth of prices will be contributed by the increase in fiscal expenditures within the framework of the government anti-crisis program. The budget funds started to flow in the economy actively already in June, which is testified by the sharp growth of budget deficit that month. Increase of pensions (for which RUR 40.9 billion will be allocated) scheduled for August 1 will be another important factor for the level of the inflation.

It should be noted that at the beginning of July the official forecast for the annual inflation by the Ministry for Economic Development was lowered down to 12%. According to the latest version of the socio-economic forecast of the Ministry for 2010-2012, In 2009 non-food goods and paid services rendered to the population will become 13% and 12.5% more expensive, correspondingly. The growth of prices for foodstuffs is expected at the level of 10.6%.

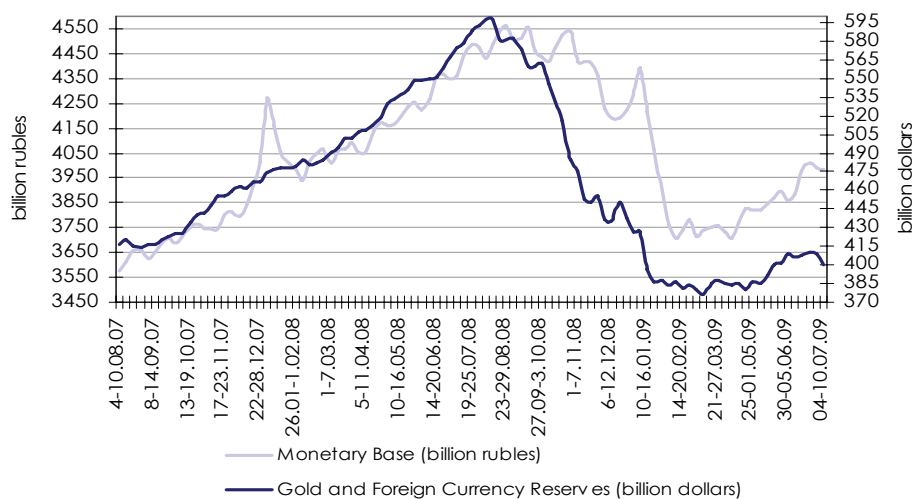
In June 2009, the growth in the basic consumer price index¹ made 0.3% (0.9% over the corresponding period of the previous year).

As a result of June 2009 monetary base (according to broad definition²) increased by 5.4%, making RUR 4967.6 billion (RUR 4712.3 billion as on June, 1st). Let us consider the dynamics of the monetary base in the broad definition component by component.

The amount of cash in circulation (as adjusted for cash balances of crediting organizations) made RUR 3.9 trillion by June 1 (a 1.7 % growth over the month), the amount of correspondent accounts of crediting organizations with the Central Bank of Russia made RUR 471.4 bln (+ 13.7%), the amount of mandatory reserves was at RUR 61.8 billion (doubled), the amount of banks' deposits in the Bank of Russia made RUR 508.8 billion (+ 25%), the

1 The Basic Consumer Price Index (BCPI) is an indicator reflecting the inflation rate at the consumer market. It leaves out of account the seasonal (prices of fruits and vegetables) and administrative (tariffs on regulated types of services etc.) factors, calculated by the RF Federal State Statistics Service

2 According to the broad definition RF Monetary Base includes, alongside with cash in circulation issued by the Bank of Russia and the Ruble denominated balances of mandatory reserves relating to the borrowings made by credit organizations deposited with the Bank of Russia, also the funds in credit organizations' correspondent accounts and banks' deposits with the Bank of Russia.



Source: RF Central Bank

Fig. 2. Dynamics of Monetary Base (According to Narrow Definition) and Gold and Currency Reserves of the Russian Federation in 2007-2009

excessive liquidity has not resulted in the growing of crediting yet. Thus, according to the data of the RF Central Bank, in June the volume of credits of non-financial sector reduced by 0.8% and of population – by 1.1%. In this connection the first vice-chairman of the RF Central Bank, A. Ulyukaev, declared that in case the commercial banks do not improve the conditions for crediting of the real sector the Bank of Russia may resort to the reduction of the volume of liquidity for commercial banks.

At present the authorities call banks to increase crediting of the real sector. In June the Prime Minister, V. Putin, demanded from the state banks to issue credits at the sum of RUR 500 billion within three months and at the sum of RUR 150 billion within July. The state banks expressed willingness to fulfill the task of the prime minister. Besides crediting, banks can give funds to companies buying their debt instruments. In June their volume at the balance of banks went up by 15.8%.

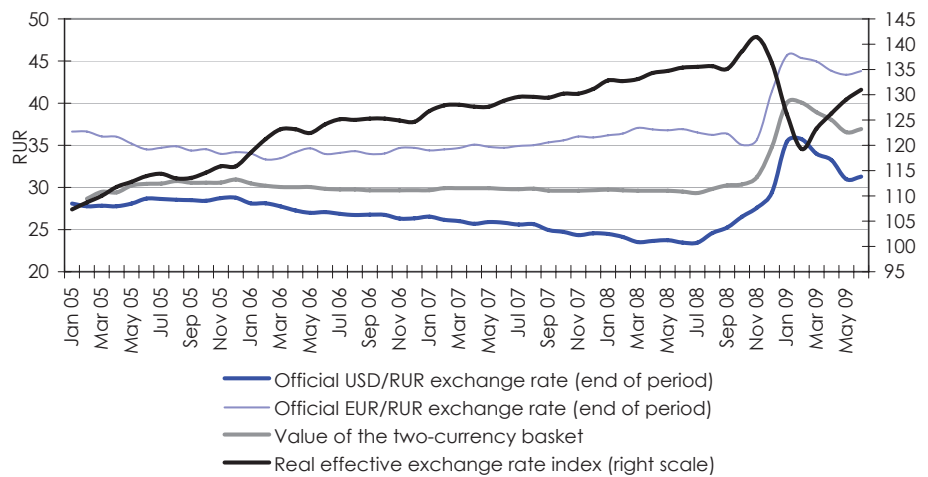
In the nearest future the crediting activity can be expected to grow a bit. This is testified, on one hand, by the improvement of the situation with the overdue debts for credits. In June its growth continued to slow down: the increase of overdue debt made 5.9% this month as compared with 9-12% in spring months. On the other hand, in June for the first time since February, Assets of the Banks went up by 1.7% (earlier the reduction made 1.7-2.3% monthly).

In June, the amount of cash in circulation increased by 2.4%, the mandatory reserves doubling, which resulted in the increase in the monetary base in the narrow definition (cash plus mandatory reserves)² by 2.5% (see *fig. 2*). It should be noted that the amount of international reserves of RF Central Bank grew by USD 8.4 billion or by 2.1%, making USD 412.6 billion as on July 1, 2009. On the whole over the 1st half year the reserves reduced by 3.4%.

1 The excessive reserves of the commercial banks with the RF Central Bank if the sum of the correspondent accounts of commercial banks, their deposits with the RF Central Bank and bonds of the RF Central Bank held by commercial banks.

2 It should be remembered that according to broad definition the monetary base is not a monetary aggregate, but characterizes the liabilities of the Bank of Russia denominated in the national currency. The narrow defined monetary base is a monetary aggregate (one of the characteristics of the amount of money supply) fully controlled by the RF Central Bank.

For the first time over the last year in the 2nd quarter 2009 the net inflow of the private capital of USD 7.2 billion was observed. It should be remembered that over the preceding three quarters there was a net outflow of the capital by the private sector observed, the maximum of which was registered in the 4th quarter of the previous year – USD 130.5 billion. The outflow of the capital against the strengthening of the ruble



Source: RF Central Bank, author's calculations

Fig. 3. Indicators for Ruble Exchange Rate in January 2005 – June 2009

and the growth of prices for oil has stopped, and the means that were withdrawn from the country when the exchange rate dropped started to return to the country. However it is too early to speak about steady change of the trend since the current inflow of the capital is directed primarily not for the direct investments and long-term investments but for short-term speculations at the stock market.

In June and in the 2nd quarter 2009 on the whole the strengthening of the real effective ruble exchange rate went on, making 1.5% and 4.8%, correspondingly. Index of the real effective exchange rate as a result of the month made 131¹ (see fig. 3).

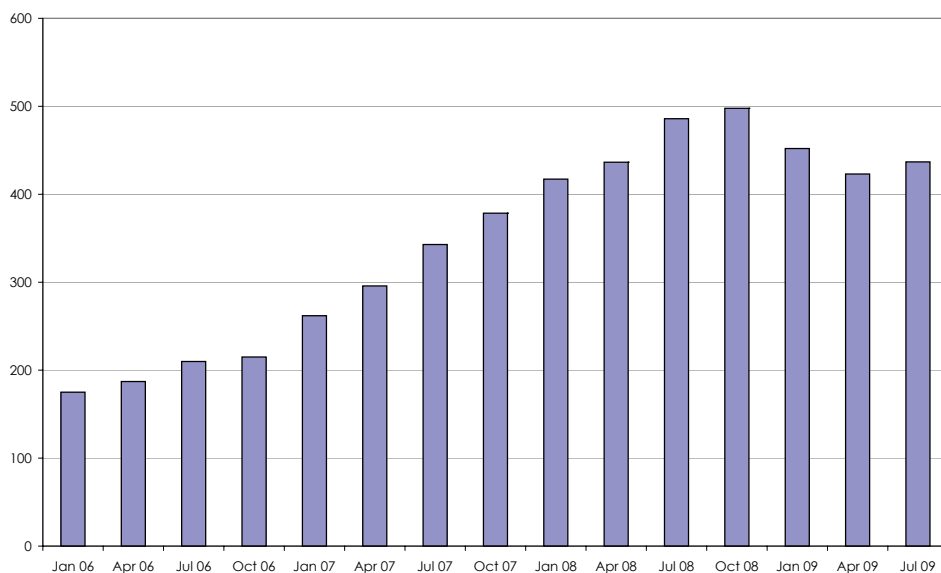
As a result of June nominal exchange rates of dollar and euro increased by 1% against the ruble. Dollar has strengthened up to RUR 31.29, and euro – to RUR 43.82. As a result over the previous month the ruble has become by 37 kopek cheaper as to the two-currency basket², the price of the basket increased up to RUR 36.93. Comparatively stable exchange rate of the national currency (over the whole month the price of the two-currency basket fluctuated in the range from RUR 36.6 to 36.9) asked for little interference of the RF Central Bank in the formation of the exchange rate. Thus, during the currency interventions the RF Central Bank made net purchase at the total sum of USD 1.5 billion and Euro 48 million. As a result of the 1st half of the year dollar went up by RUR 1.89 or by 6.4%, and Euro – by RUR 2.42 or by 5.8%.

At present it is difficult to make definite forecasts for middle-term dynamics of the ruble exchange rate. As usual the dynamics of prices for oil and the situation with the balance-of-payments will be defining. Besides, the RF Central Bank, transferring to inflation targeting, gradually diminishes its presence at the market of currency, consequently the exchange rate being subject to bigger fluctuations than before.

According to the forecast of the Ministry for Economic Development, in the second half of the year the average price for oil will make USD 57.3 per barrel. If the situation develops in accordance with this scenario, it is possible that the ruble exchange rate will somewhat weaken as compared with April-May. However, it is more likely that the price for oil will be a bit higher. Thus, a recent forecast of the Ministry for Power of the USA suggests the average price of the oil basket imported in the USA will be USD 66-67 per barrel in the

1 The level registered in January of 2002 is indexed as 100

2 The two-currency basket is the RF Central Bank operational indicator in its foreign exchange policy. Currently the share of EURO in the currency basket makes 45%, USD – 55%



Source: Central Bank of the Russian Federation, author's calculations

Fig. 4. Aggregated External Debt of Banks and Companies in January 2006 – July 2009

external debt of Russian banks and companies made USD 436.8 billion (see fig. 4). From October 2008 to April the corporate external debt reduced by USD 74.7 billion or by 15%. In the 2nd quarter the external debt of banks and companies went up by 3.3%. the debt of the banks decreased by USD 4 billion or by 2.7%, making USD 142.4 billion and that of companies, in contrast, increased by USD 20.1 billion or by 7.3% up to USD 294.4 billion. It was the oil and gas companies, Rosneft, Transneft and Gazprom that made a considerable contribution in the total debt of the Russian companies, increasing the debt by the sum of USD 14.4 billion in the 2nd quarter. Besides, the growth of debt in the real sector was connected with the re-estimation of exchange rates. In connection with the increase of the debts of the real sector the aggregated RF external debt (government and private), which decreased in the 1st quarter, again went up to USD 475.1 billion.

According to the schedule for repayment of the external debt in the 3rd quarter 2009 the banks are to pay off the main debt at the sum of USD 13.6 billion (plus USD 1.8 billion of interests), and companies- at the sum of USD 13.6 billion (plus USD 3.4 billion of interests).

On June, 19th the Bank of Russia made changes to the Instruction “On compulsory norms for banks”. The changes concerned the following important statements:

- The minimum volume of the own funds was changed to RUR 180 million;
- In order to calculate the norms for the adequacy of the own funds (capital) of the bank (N1) and the maximum rate of the risk per one borrower and per group of connected borrowers (N6) the coefficient of risk was reduced from 100% to 70% for mortgages that in total meet the necessary requirements;
 - The credit requirements for mortgages (loans) for the military that are participants of the saving-mortgage system the reducing coefficient of risk of 10% is established;
 - The increased coefficient of risk (1.3) when calculating the norm (N1) concerning the requirements to credit organizations belonging to the same banking group as the crediting bank is excluded;
 - The approaches to estimation of the risks (credit risk, liquidity risk) used towards the banks-residents of the Russian Federation are now also applied to Vnesheconombank, which is a state corporation carrying out banking operations when executing its functions;

3rd and 4th quarter of the current year. Such a price for oil will push the ruble exchange rate upwards, the result being it will fluctuate around the current levels (RUR 30.5-31.5 per dollar). The Central Bank of the Russian Federation will most likely prevent ruble from further strengthening in order to support the exchange rate that is favorable for domestic producers.

According to the estimation of the RF Central Bank, by July 1, 2009 the aggregated

- Credit requirements to bank, which are residents of the Russian Federation, evolving from the deals made from October 4, 2008 to December 31, 2009 inclusive, in the part which is to be compensated by the Bank of Russia are ascribed to risk-free assets;

- The calculation of the norm for instant liquidity (N2) (Lam indicator) includes the funds deposited in the banks that are residents of the Russian Federation for the period of one day or until demanded, which are on books for less than 10 calendar days and execution of liabilities for which according to the agreement is envisaged for the date no later than the day next to the day of the demand and on condition that such assets are recognized as the loans of the 1st quality category;

- For the purposes of calculation of the norms of current liquidity (N3) the debt liabilities of international banks of development are ascribed to liquid assets;

- The procedure is established for inclusion of the deals with securities received without initial recognition and transferred by the operations made on the reciprocal basis (operations of direct REPO with securities received within the framework of the operations of the reversed REPO) in the calculation of compulsory norms. Such requirement/obligations are regarded as counter ones and in this connection are included in the calculation of the norms for liquidity (N2 and N3) at the sum of exceeding the monetary obligations/requirements on the return of the securities. In this case the bank acts as a debtor and does not carry credit risk, that is why the norms N1 and N6 are not calculated and securities received in the first part of the deal of the reversed REPO and then sold before the date of payment (return of the securities) are still regarded as a received security by the bank;

- In order to calculate norms N2, N3 requirements concerning the receipt of the accrued interest rates for the assets of the 2nd quality category in concordance with the Statement of the Bank of Russia from 26.03.2004 No 254-P and concerning the assets of the 1st and 2nd quality category in concordance to the Statement of the Bank of Russia from 20.03.2006 No 283-P are ascribed to the category of assets of high liquidity and liquid assets.

It was the worsening of the situation with the adequacy of the banks' capital and the desire to stimulate the market of mortgages that were the reasons to decrease the risk coefficient for mortgages. On the whole the amendments made to the Instruction represent the first step towards introduction of the simplified standardized approach for the estimation of credit risks (Basel-2), which was planned to be finished in 2009, but, in connection with the crisis was postponed.

In connection with the stabilization of the situation at the internal market for foreign currency, on 2 July the Bank of Russia declared its intention not to prolong the action of the recommendations on sustention of the average monthly amount of the foreign assets and average total value of the net balance sheet item of credit organizations in foreign currency, which execution was taken into account by the Bank of Russia when establishing the limits for participation in credit auctions for banks. This requirement was introduced last autumn in the environment of large-scale outflow of the capital against the background of ruble devaluation. After the limitation was lifted the commercial banks started to reduce accounts in foreign currency in the Central Bank and transfer them to foreign banks to get profit from interests. This partially accounts for the reduction in gold and foreign currency reserves in the Bank of Russian in the first half of July: by 17 July they had decreased by USD 14.5 billion or by 3.5% down to USD 398.1 billion.

In order to stimulate the crediting activity of the banking sector, from July 13, 2009 the Bank of Russia again decreased the refinancing rate and other key interest rates by 0.5 percentage points. From that date the refinancing rate is established at the rate

of 11% per annum. Since the refinancing rate is the basic interest rate for all the credit operations of the Central Bank, its change resulted in the corresponding decrease of other interest rates of the Central Bank of the Russian Federation (see *table 1*).

Besides, the interest rate for deals “swap of foreign currency” for the period of one day (part in rubles) was reduced by 0.5 percentage points down to 11% per annum, the rates for operations of direct REPO for the period of 1 day and up to 7 days were also decreased by 0.5 percentage points down to 10% per annum, and for the period of 1 year – down to 10.75%. The Central Bank of the Russian Federation has also reduced the rates for deposit operations by 0.5 percentage points: for deposits on standard conditions “tom-next”, “spot-next” and “until demanded” – down to 5.75% per annum, “one week” and “spot week” – 6.25% per annum. The fixed rates for lombard credits of all the periods were decreased from 10.5% to 10% per annum.

Table 1

INTEREST RATE FOR CREDIT OPERATIONS OF THE CENTRAL BANK OF THE RUSSIAN FEDERATION

Kind of credit	Rate (as percentage per annum)	
	Before the change	After the change
Overnight	11.5	11
Credit secured by assets or guarantees	10.5 – for the period of up to 90 calendar days; 11 – from 91 to 180 calendar days; 11.5 – from 181 to 365 calendar days.	10 – for the period of up to 90 calendar days; 10.5 – from 91 to 180 calendar days; 11 – from 181 to 365 calendar days.

Source: Central Bank of the Russian Federation

Besides, the Bank of Russia reduced the rates for operation provision of liquid funds made on the basis of auctions:

- For operations of direct REPO:
 - For the period of 1 day – from 8.5% to 8% per annum;
 - for the period of 7 days – from 9% to 8.5% per annum;
 - for the period of 90 days – from 10.25% to 9.75% per annum;
 - for the period of 6 months – from 10.75% to 10.25% per annum;
 - for the period of 12 months – from 11.25% to 10.75% per annum;
- For lombard credits:
 - for the period of 14 calendar days – from 9% to 8.5% per annum;
 - for the period of 3 months – from 10.25% to 9.75% per annum;
 - for the period of 6 months – from 10.75% to 10.25% per annum;
 - for the period of 12 months – from 11.25% to 10.75% per annum.

Thus, the Central Bank of the Russian Federation has once again taken the measures aimed at softening of monetary and credits policy. It should be remembered that it is the fourth reduction of the refinancing rate since April 2009. It was the slow-down of the economic activity (thus, as a result of May 2009 the volume of industrial production reduced by 17.1% versus the corresponding period of 2008) that was the main reason for the decrease of the rates. The correction of the interest rates was possible due to the relatively stable situation at the market of foreign exchange and the continuing slow-down of the inflation. The decision on further decrease of interest rates will be made by the Central Bank of the Russian Federation basing on the dynamics of inflation, the indices of credit activity as well as the situation at the internal market of the foreign exchange.

In the middle of July the Bank of Russia at the level of the agreement with the bankers established the new maximum for interests on deposits – of no more than 18% from August, 1st. Starting with July, 21st the Central Bank of the Russian Federation publishes

the results of the monitoring of the average for the maximum interest rates of deposits of ten crediting organizations (thus, in the first ten days of July the figure was 14.85%). The regulator resorted to such a measure since the policy of the Central Bank concerning the decrease of the interest rates started to contradict the deposit policy of the commercial banks (the example was the simultaneous increase of deposit interest rates of four biggest players at the retail market, namely, Rosbank, Bank of Moscow, Uralsib and Alfa-bank). On the other hand, in the environment of the crisis increased interest rates for deposits represent additional risks for the banking system. ●

FINANCIAL MARKETS¹

N.Burkova, E.Khudko

The dynamics of the stocks market of the Russian Federation remained diversified. On one hand, this was due to the publication of the positive financial accounts by the American companies, the declaration that the rating of Brazil may be increased by the Moody's international agency, increase of gold and currency reserves in China as well as by the decrease of the refinancing rate by the Central Bank of the Russian Federation. On the other hand, the market was affected by the decrease of world price for oil, decrease of the GDP in the USA and the Great Britain, negative macroeconomic data from the USA, pessimistic expectations concerning the recovery of the global economy in the nearest future, negative financial accounts of the largest banks in the Russian Federation. The expansion of the volume of the internal market continued at the market of corporate bonds and the activity of investors went on rising at the market of secondary bonds. At the same time, the growth rates of the index of corporate bonds slowed down and there was the unsteady dynamics of the effective profitability rate and the reduction of the total volume of the placed bond issues observed. The main negative phenomenon of the period under consideration was the record-breaking level of the real defaults.

Government Bonds Market

Throughout July the periodic decrease in prices for oil, risk of devaluation of the national currency resulted in the prevailing degressive trend of changes in the profitability at the market of the government bonds. The decrease of the activity was observed both at the primary and at the secondary market of the federal bonds.

According to the data on July, 24th, the yield to maturity of RUS-30 decreased, as compared with June, 23rd, from 8.16% to 8.05% per annum (by 1.35%), of RUS -28 – from 8.36% to 8.24% per annum (by 1.442%), of RUS-18 – from 5.12% to 5.07% per annum (by 0.98%), of RUS-10 – on the contrary- increased from 7.05% to 8.03% per annum (by 13.90%). On the same date the yield to maturity of the internal currency bonds demonstrated buoyancy. Thus, the yield to maturity of the 7th tranche of the internal currency bonds increased from 4.85% to 4.96% per annum (by 2.27%) (fig. 1–2).

Over the period from June 24 to July 22 the total turnover of the secondary market of the federal bonds made approximately RUR 40.29 billion the average daily turnover being at the level of RUR 1.92 billion (in June about RUR 47.35 billion the average daily turnover being at the level of RUR 2.25 billion), which corresponds to the decrease of the average daily monthly turnover by nearly 15%.

From June, 24th to July, 23rd there were four auctions on placement of the additional issues of the federal bonds (there were three auctions in the previous month). Thus, on June, 24th there took place an auction on placement of the additional issue of federal bond series 25064 of RUR 10 billion, the real volume of placement being RUR 2.02 billion, the weighted average yield being 11.98% per annum. On July, 1st there took place an auction on placement of the additional issue of federal bond series 25065 of RUR 10 billion, the real volume

¹ Data and analytical materials of Interfax, Moscow Interbank Foreign Currency Exchange, Russian Trading System, Central Bank of the Russian Federation, official sites of the Russian emitter companies were used when preparing the review.

of placement being RUR 2.29 billion, the weighted average yield being 12.11% per annum. On July, 8th there took place an auction on placement of the additional issue of federal bond series 25066 of RUR 10 billion, the real volume of placement being RUR 2.02 billion, the weighted average yield being 11.53% per annum. And on July, 15th there took place an auction on placement of the additional issue of federal bond series 25065 of RUR 6 billion, the real volume of placement being RUR 5.98 billion, the weighted average yield being 12.26% per annum. Thus, the total real volume of placement over the period made only 34% of that planned (98% the previous month), which testifies a considerable decrease of investors' interest in the primary market of federal bonds. Besides, within this period there took place several auctions on additional placement of the federal bonds at the secondary market (see table 1). It should be noted that the total real volume of placement at the secondary market made only 4% of the volume planned for the period. This trend reflects the general degressive dynamics at the market of the government bonds.

As on July, 22nd the volume of market of federal bonds made RUR 1 123.92 billion in nominal terms and RUR 948.99 billion in market prices. The duration of the federal bonds market portfolio made 1811.67 days, having reduced by 35.99 days as compared with the previous month (as on June, 23rd).

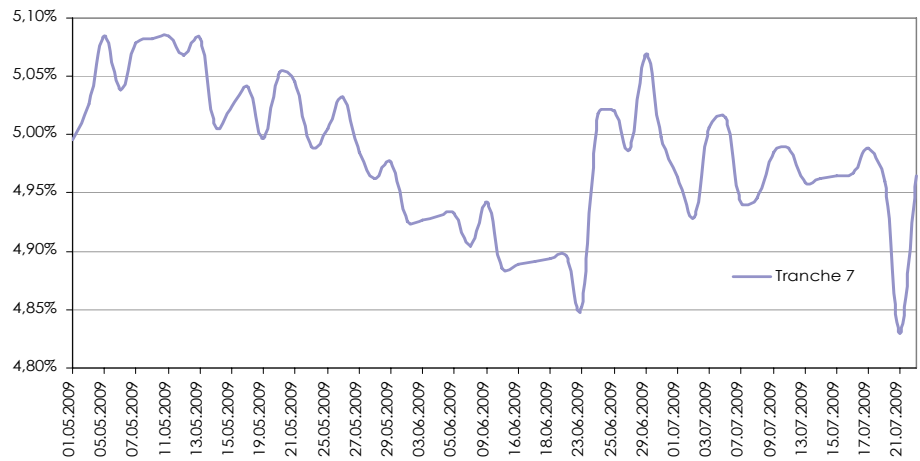


Fig. 1. Yields to Maturity of Internal Currency Bonds in May-July 2009 r.

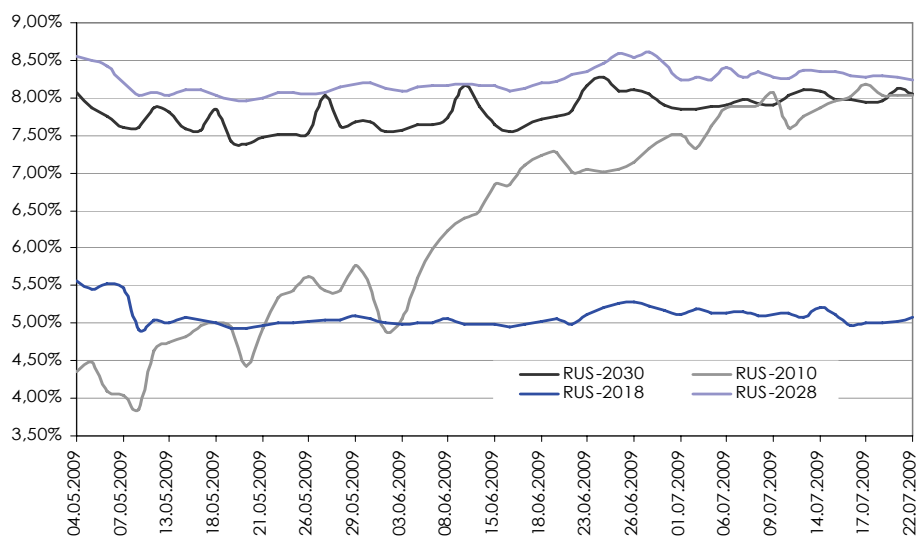


Fig. 2. Yields to maturity of the Russian Eurobonds with maturity in 2010, 2018, 2028 and 2030 in May - July 2009

Table 1

AUCTIONS ON ADDITIONAL PLACEMENT OF FEDERAL BONDS AT SECONDARY MARKET

Date of the auction	Issue	Auction type	Volume of issue, RUR million	Nominal volume of placement, RUR million	Average weighted yield, %
1	2	3	4	5	6
25.06.2009	OFZ-25064-PD	additional placement	7 982.00	411.59	11.98
26.06.2009	OFZ-25064-PD	additional placement	7 570.41	500.00	11.97
26.06.2009	OFZ-25064-PD	additional placement	7 070.41	500.00	11.96

Table 1, cont'd

1	2	3	4	5	6
01.07.2009	OFZ-25064-PD	additional placement	6 570.41	100.00	11.91
02.07.2009	OFZ-25064-PD	additional placement	6 470.41	353.49	11.88
02.07.2009	OFZ-25065-PD	additional placement	7 714.35	100.00	12.10
03.07.2009	OFZ-25064-PD	additional placement	6 116.92	255.00	11.87
03.07.2009	OFZ-25065-PD	additional placement	7 614.35	613.96	12.10
06.07.2009	OFZ-25065-PD	additional placement	7 000.39	26.00	12.10
07.07.2009	OFZ-25065-PD	additional placement	6 974.39	0.61	12.10
08.07.2009	OFZ-25064-PD	additional placement	5 861.92	295.01	11.90
09.07.2009	OFZ-25064-PD	additional placement	5 566.91	92.60	11.90
09.07.2009	OFZ-25065-PD	additional placement	6 973.78	500.00	12.10
09.07.2009	OFZ-25066-PD	additional placement	7 975.48	80.00	11.44
10.07.2009	OFZ-25064-PD	additional placement	5 474.31	205.97	11.89
10.07.2009	OFZ-25065-PD	additional placement	6 473.78	200.00	12.10
10.07.2009	OFZ-25066-PD	additional placement	7 895.48	30.50	11.44
13.07.2009	OFZ-25064-PD	additional placement	5 268.34	1.01	11.90
14.07.2009	OFZ-25064-PD	additional placement	5 267.33	260.00	11.91
14.07.2009	OFZ-25065-PD	additional placement	6 273.78	10.00	12.10
16.07.2009	OFZ-25063-PD	additional placement	7 894.01	1 694.09	11.73
16.07.2009	OFZ-25065-PD	additional placement	6 280.46	500.00	12.15
16.07.2009	OFZ-25066-PD	additional placement	7 864.98	13.29	11.44
17.07.2009	OFZ-25063-PD	additional placement	6 199.93	199.93	11.71
17.07.2009	OFZ-25065-PD	additional placement	5 780.46	100.00	12.15
17.07.2009	OFZ-25066-PD	additional placement	7 851.69	111.28	11.44
20.07.2009	OFZ-25066-PD	additional placement	7 740.41	54.54	11.45
Total:			183 727.03	7 208.86	

Stock Market

Situation at the market of stocks

The increase of quotations of world prices for oil and world stocks indices, decrease of the refinancing rate of the Central Bank of the Russian Federation from 13 July, the positive estimation of the prospects for the Russian financial market by Federal Financial Markets Service, information on the decrease in the number of the unemployed in Russia on the one hand and the negative financial accounts of the largest banks, recall of license from a number of banks, estimation of the Russian deficit of 6.5-7.5% of the GDP in 2010 by the Ministry of Finance, record-breaking level of losses of AVTOVAZ, on the other, contributed in the diversified dynamics of the Russian financial market during July.

Thus, in the first half of July the dynamics of the index of Moscow Interbank Foreign Currency Exchange (MICEX) was characterized by a degressive trend which was substituted with the ascending trend in the middle of the month (fig. 3). On 10 July the MICEX index reached the lowest value over the month of 871.33 points (917.30 points a month ago). The maximum value of the MICEX index was observed on 1 July - 1 012.48 points (1 206.20 points a month ago).

On the whole over the period from June 24 to July 22 the MICEX index went up by 6.91%, which makes about 63.41 points in absolute terms (over the year from July 23, 2008 to July 22, 3009 MICEX index reduced by 61%). Over the same period the turnover of trading with stocks included in MICEX index made about RUR 1 197.86 billion the average daily turnover being at the level of RUR 57.04 billion (over the preceding period RUR 1 483.80 billion the average daily turnover being at the level of RUR 70.66 billion). Thus the average daily level of investors' activity at the stock market in July decreased as compared

with the preceding period by 20%. The values of maximum and minimum daily turnover in trading system in July made, correspondingly, RUR 73.71 billion (21 July) and RYR 39.95 billion (6 July).

As a result of the month (from 24 June to 22 July) the stocks of blue chips demonstrated

diversified dynamics of quotations. The stocks of Mining and Metallurgical Company Norilsk Nickel, whose value increased by 7.12%, LUKOIL (4.61%), VTB Bank (2.85%) were the leaders of the growth. It should be noted that it was the growth of prices for the basic metals that was the main reason for the increase of stocks of Mining and Metallurgical Company Norilsk Nickel quotations. The stocks of Mosenergo (1.96%), Gazprom (1.76%) and Rosneft (1.46%) were characterized by somewhat lower growth rates. In contrast the stocks of other blue chips demonstrated the decrease of quotations. Thus, the stocks of Sberbank of Russia became cheaper by 8.94%, of Tatneft – by 6.05%, of Rostelecom – by 4.54%, of Gazpromneft – by 1.98%, of Surgutneftegaz – by 1.35% (fig. 4). It should be noted that the decrease of the value of Sberbank stocks was mainly connected with the possibility of company Magna refusing to make the deal on the joint purchase of a block of stocks of Opel Concern.

In July the group of leaders in terms of turnover in the MICEX was composed from the following companies: Sberbank of Russia (39.56%), Gazprom (21.87% of the total turnover), Mining and Metallurgical Company Nornickel (7.65%), LUKOIL (5.69%) and Rosneft (4.72%). The decrease of the volume of the deals with the stocks of VTB Bank and the increase of the volume of deals with Rosneft securities resulted in Rosneft pushing VTB Bank from five leaders. The total share of operations with shares of these five blue chips was equal to approximately 80% (of all the blue chips – 85%) of the total shares turnover at the MICEX stocks market in the period from 24 June to 22 July.

According to MICEX data, as of 22 July the top-five list of leaders in terms of capitalization is as follows: Gazprom – RUR 3 742.31 billion (RUR 3 498 billion a month ago), Rosneft – RUR 1 865.60 billion (RUR 1 763.85 billion), LUKOIL – RUR 1 269.30 billion

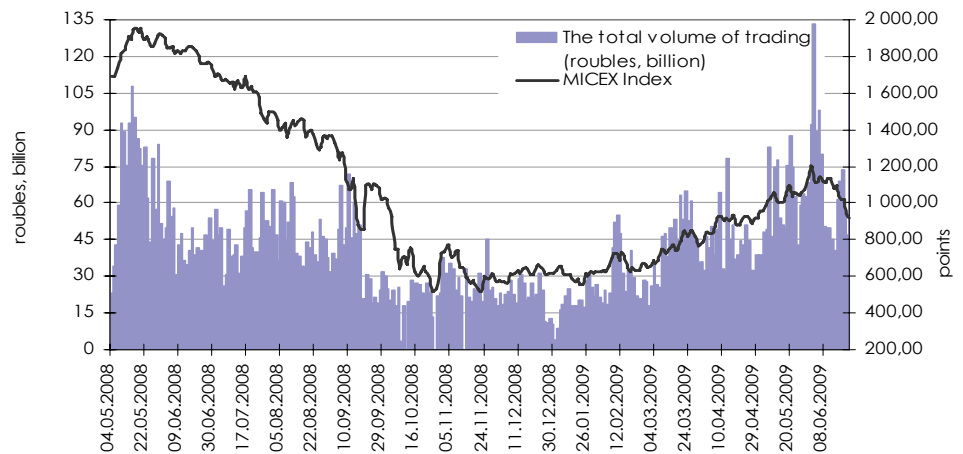


Fig. 3. Dynamics of MICEX Index and Volume of Trading

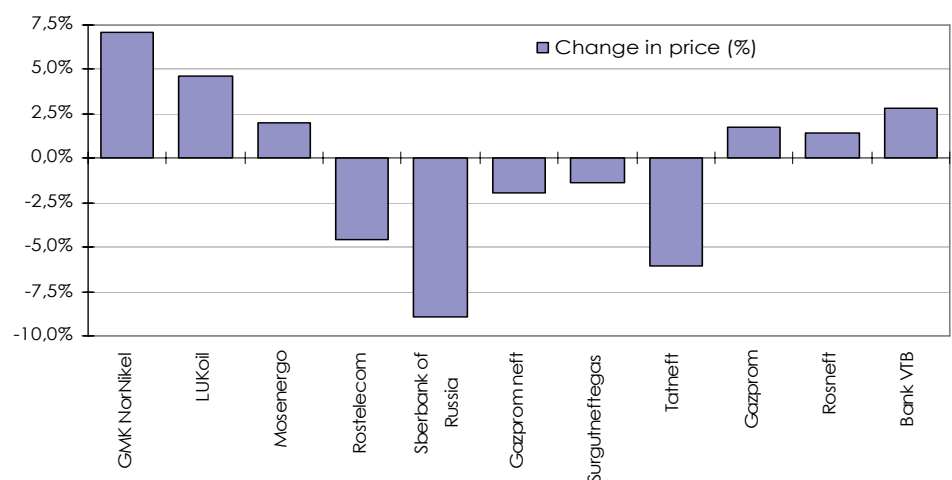


Fig. 4. Dynamics of Quotation of Russian Blue Chips from 24 June to 22 July 2009

(RUR 1 157.63 billion), Sberbank of Russia – RUR 859.59 billion, Surgutneftegas – RUR 786.36 billion (RUR 817.88 billion).

Futures market

In July the activity of the investors at the MICEX futures market increased by 10% as compared with the previous month. Thus, over the period from 24 June to 22 July the total turnover of futures market at the MICEX made about RUR 77.08 billion (3 123 deals, 2.07 million contracts) in June. In July there were futures RUR/USD that, the same as a month before, were characterized by the biggest number of auctions – RUR 72.54 billion (436 deals, 2.16 million contracts). It should be noted that the prices of futures RUR/USD made in the current month at the MICEX futures market were mainly in the range RUR/USD 31.8-32.5, in October – RUR/USD 32-32.6, in December 2009 – RUR/USD 32.5-33.8, for March 2010 – at the level of USD/RUR 34-35. The biggest number of deals (2 065 deals) was accounted for futures for trade assets; the volume of trading with them made RUR 3.71 billion.

The volume of stock instrument futures over the period reduced by more 40% (from RUR 1.35 billion to RUR 827 million). It should be noted that the value of MICEX index (price of the made deals) for September was estimated to be 900-980 points. Thus, the expectation of investors regarding the MICEX index quotations changed towards lowering by 50 points as compared with the previous month. Interests futures deals were not made in July.

The situation at the RTS FORTS market was opposite – there investors' activity in July decreased by 24% as compared with the previous month. Thus, over the period from 24 June to 22 July the total futures and options market turnover in the RTS was about RUR 992.05 billion (5 722 thousand deals, 42.44 million contracts) against about RUR 1 311.79 billion (6075 thousand deals, 47.29 million contracts) in June. There were futures that were in the biggest demand, the same as earlier – the volume of auctions totaled RUR 966.25 billion (5 688 thousand deals and 40.76 million contracts) over the period concerned. It should be noted that the prices for latest deals made by futures contract RUR/USD at futures RTS FORTS market for the 3rd quarter 2009 was within RUR/USD 31.8–33, and for the fourth quarter RUR/USD 32.5–34.

The RTS index for the third quarter (on the basis of prices of the latest deals) is estimated to be within 850-950 points, and for the fourth quarter – within 860-960 points. Options were in by far less demand, the volume of auctions being about RUR 25.80 billion (53.56 thousand deals and 1.68 million contracts). In July the maximum daily auction turnover at the RTS market was RUR 62.53 billion (14 July), and minimum – RUR 29.9 billion (3 July).

External Factors Effecting the Russian Stock Market

In July the dynamics of the Russian financial market was defined by the situation at the world financial market. Among the main factors of positive world situation affecting the Russian market in July the following should be mentioned:

- The publication of the positive financial accounts by American companies, for instance the net profit of the Bank of America increasing by 62% as a result of the first half of 2009, and of Goldman Sachs (over the second quarter 2009) – by 65%;
- The information on the increase of the demand for the durable commodities and the volume of sales in the USA, the reduction of requirements for the unemployment benefit in the USA;
- Information on possible purchase of branches of Royal Bank of Scotland in a number of Asian countries by Australia & New Zealand Banking Group;
- Adoption of a plan for the support of the National banking sector by the Government of Germany;
- Increase of gold and currency reserves of China up to USD 2 trillion;

– Declaration of the International Rating Agency Moody's about possible increase of Brazil rating;

– The periodic increase of the world price for oil as a result of the situation in Nigeria (attacks of the militants on the oil pipelines of the country), the decrease of crude oil reserves in the USA and the weakening of the dollar exchange rates.

At the same time the following events limited the growth of the world financial markets during the month:

– The decrease of the world price for oil (below USD 60 per barrel), also in connection with the pessimistic expectation regarding the recovery of the global economy, the increase of petrol reserves in the USA;

– Information on the decrease of the GDP of the USA in the first quarter 2009 by 5.5%, as well as the maximum drop of the GDP in the Great Britain by 2.4% (as compared with the fourth quarter 2008);

– Report of the Federal Reserve System of the USA on the continual difficulties in the economy of the USA despite the some signs of the slow-down of the economic and financial recession as well as preservation of the key accounting rate within 0–0.25%;

– The publication of the negative macroeconomic news from the USA (for instance, the decrease of the index of buying mood, the volume of sales of new houses as well as further increase of unemployment);

– The decrease of the volume of the industrial production in the UK by 0.5% in May 2009.

All these factors together resulted in the positive dynamics of the main stock indices in July both as compared with the data for the beginning of 2009 and as compared with the results of the month. Thus, as a result of July the markets of some developing countries were characterized by the increase of indices by 4-14%. The similar trend was demonstrated by the markets of the European countries: the growth of indices was observed within 2-9% (see table 2, fig. 5).

Table 2

DYNAMICS OF WORLD STOCK INDICES (DATA FOR JULY 22, 2009)

Index	Code	Value	Change over the month (%)*	Change from the beginning of the month (%)
MICEX (Russia)	MICEXINDEXCF	980.71	6.91	58.30
RTS (Russia)	RTSI	963.06	3.25	52.41
Dow Jones Industrial Average (USA)	DJI	8 881.26	6.71	1.19
NASDAQ Composite (USA)	NASD	1 926.38	9.15	22.15
S&P 500 (USA)	SPX	954.07	6.59	5.63
FTSE 100 (Great Britain)	FTSE	4 493.73	6.23	1.34
DAX-30 (Germany)	DAX	5 121.56	8.80	6.47
CAC-40 (France)	CAC	3 305.07	6.04	2.71
Swiss Market (Switzerland)	SSMI	5 637.02	5.93	1.85
Nikkei-225 (Japan)	NIKKEI	9 723.16	1.82	9.75
Bovespa (Brazil)	BUSP	53 072.57	6.54	41.34
IPC (Mexico)	IPC	26 288.21	11.88	17.46
IPSA (Chile)	IPSA	3 224.67	6.70	35.69
Straits Times (Singapore)	STI	2 450.83	10.10	39.13
Seoul Composite (South Korea)	KS11	1 494.04	9.81	32.87
ISE National-100 (Turkey)	XU100	38 189.08	9.40	42.16
BSE 30 (India)	BSE	14 843.12	3.62	53.86
Shanghai Composite (China)	SSEC	3 296.62	13.96	81.05
Morgan Stanley Emerging Markets Free Index	EFM	642.64	10.85	40.43

* versus the value of indices on June 23, 2009

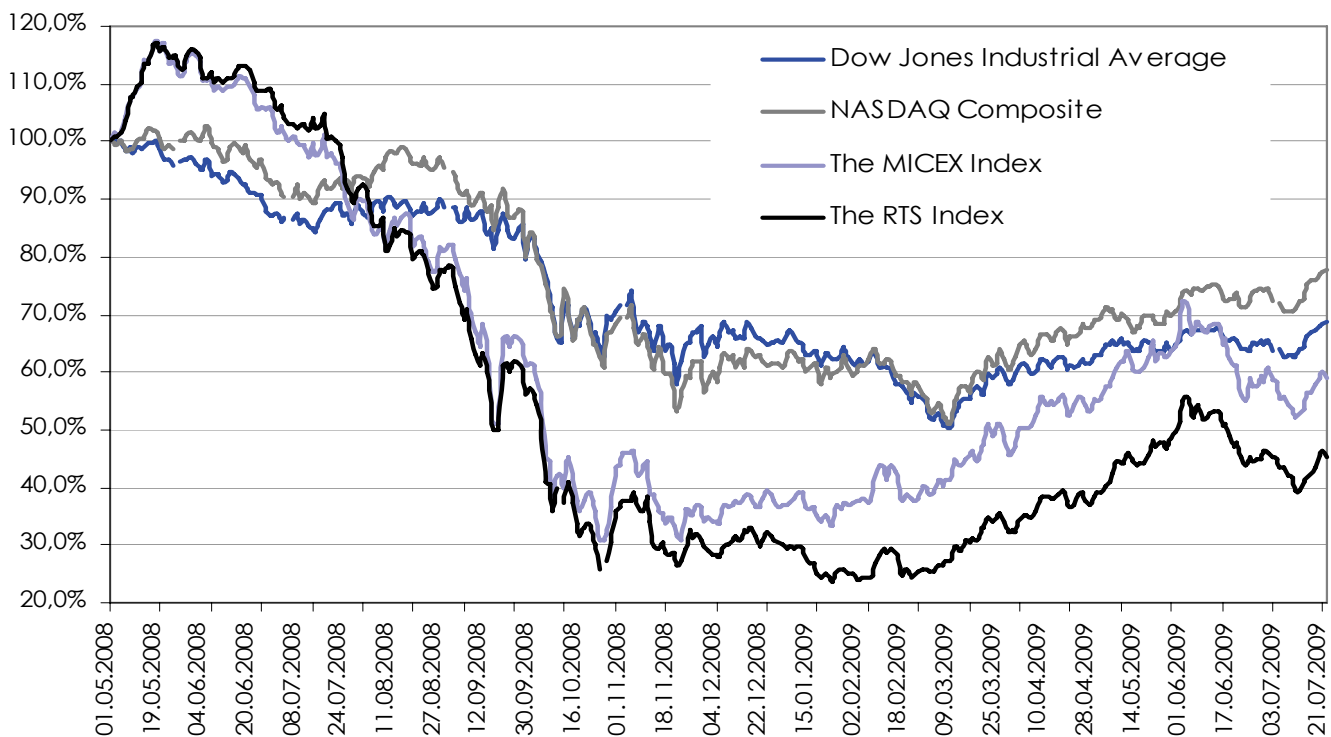


Fig. 5. Dynamics of Main American and Russian Stocks Indices (as percentage to the value of indices as on 01.05.2008)

Corporate News

OJSC VTB Bank

On July 3 OJSC VTB Bank published results on Russian Accounting Standards for June 2009: assets for July 1 made RUR 2 688 billion (on January 1, 2009 – RUR 2 551 billion); net losses over six months of 2009 were RUR 26.45 billion.

On July 6 the international rating agency Moody's gave mortgage-backed securities of the CJSC "National mortgage agency VTB 001" class A rating A3 and bonds of class B – rating Ba1. Mortgage-backed securities were placed at MICEX on June, 18 2009.

On July 13 OJSC Bank VTB summarized the annual general meeting of stockholders taking place on June 29, 2009. The annual report and the annual accounting for 2008 were approved, as a result of 2008 the decision on payment of dividends at the rate of RUR 0.000447 per one normal registered stock of OJSC VTB Bank of nominal value of RUR 0.01 (total sum of deductions to pay off the dividends will make RUR 3 006 million or about 11% of the net profit). It was also decided to increase the authorized stock of OJSC VTB Bank by placing additional normal registered stocks.

Within the framework of support of Russian regions on 15 July OJSC VTB Bank gave the credit of RUR 1 billion to the Government of Tula oblast for financing of primary articles of expenditures of the oblast's budget, influencing the social stability in the region, for instance, to pay the wages, fulfill social commitments and paying for communal services. On 17 July OJSC VTB Bank gave the credit to OJSC "NPK" Uralwag-onzavod of the sum of RUR 3 billion for one year to finance the current activity of the enterprise.

OJSC Gazprom

On 24 June OJSC Gazprom and Nigerian National Petroleum Corporation signed the agreement on formation on principles of parity of a joint venture which envisages the fulfillment of large-scale projects in the sphere of geologic exploration, mining and

transportation of hydrocarbons, project and construction of the system for collection and processing of oil-well gas, construction of the objects of electric power industry in Nigeria.

On 26 June the general annual meeting of the stockholders approved the annual report, the annual accounting for 2008 and the sum of dividends. The sum of the dividends for 2008 will make kopeek 36 per one stock (5% of net profit); the date of the finish of dividend payment is December 31, 2009.

On 30 June OJSC Gazprom placed ruble bonds series A11 and A13 of the total volume of RUR 15 billion with the coupon rate of 13.75% and 13.12% per annum, correspondingly. The volume of issue of bonds of series A11 makes RUR 5 billion, the maturity being 5 years with the put date in 2 years. The volume of issue of bonds of series A13 makes RUR 10 billion, the maturity being 3 years with the put date in 1 year. The coupon period of both the series makes 182 days. The attracted funds will be directed to finance the investments of OJSC Gazprom, to refinance a part of company's debts and to optimize the structure of its debt portfolio.

OJSC Gazpromneft

On 21 July OJSC Gazpromneft successfully placed the bonds of series 03 of the volume of RUR 8 billion of 3-year maturity and the coupon rate of 14.75% per annum. The funds from the placement of bonds will be directed to the general needs of the corporation.

On 23 July OJSC Gazpromneft signed the agreement on collaboration with the Ministry for transport of the Russian Federation in the field of production and application of new generation of construction bitumen in Russia.

On 24 July OJSC Gazpromneft prepaid the credit of Vnesheconombank of USD 375 million, the funds from which were directed to refinance partially the Eurobonds issued by the company in 2002.

OJSC LUKOIL

On 25 June the general meeting of shareholders of OJSC LUKOIL approved the annual report and the accounting results for 2008. The shareholders also approved the payment of dividends of RUR 50 per one equity share (RUR 42 as a result of 2007).

OJSC Mosenergo

On 30 June the general meeting of shareholders of OJSC Mosenergo approved the annual report and the accounting results for 2008 and decided not to pay the dividends for equity shares as a result of 2008 and to direct the undistributed profit of the accounting period to form the saving fund including for the purposes of fulfillment of the investment projects (RUR 1 303 million) and to the reserve fund (RUR 68.6 million).

On 17 July OJSC Mosenergo published unaudited financial accounting for IFRS for the first three months of 2009; electric power plants produced 18 996.5 million kiloWatt-hour of power, which is by 611.2 kiloWatt-hour (by 3.1%) less than over the corresponding period of 2008 (which is accounted for by the drop of the general demand for power); net profit made RUR 4 691 million (RUR 2 159 million as a result of the first three months of 2008).

OJSC Norilsk Nickel

On 30 June the general meeting of shareholders of OJSC Norilsk Nickel approved the annual report and the accounting results for 2008 and decided not to pay the dividends for 2008 as a result of the existing economic conditions and the necessity to maintain the strategic potential of the company.

Sberbank of Russia

On 30 June the general meeting of shareholders of Sberbank of Russia approved the annual report and the accounting results for 2008 and payment of dividends for 2008 for equity shares at the rate of RUR 0.48 per one share, RUR 0.63 per priority share, and decided to increase the authorized stocks of Sberbank of Russia by placement of equity shares by public offering within the declared number of stocks (15 billion).

Starting from 15 July Sberbank of Russia introduced new service – internet trade at the stocks market with the use of the trading system Focus IVonline. Besides, on 2 July CJSC Sberbank- Automated Trading System started to work as a operator organizing and conducting open auctions for the state purchases in electronic form.

In July Sberbank of Russia continued to issue credits to domestic enterprises within the framework of the program for support of the priority branches. For instance, Sberbank of Russia gave credits to Ivmolokoproduct Ltd. (the total sum of RUR 300 million), Sportmaster Ltd. (RUR 2 billion), OJSC Permneftemashremont (RUR 57.76 million), Prominvest Ltd. (RUR 530 million), Research and Production Association Rostar Ltd (RUR 50 million), group Slavneft (USD 270 million), OJSC MOrdovcement (RUR 200 million), OJSC Chusovoy metallurgical works (RUR 470 million), OJSC Corporation VSMPO-AVISMA (USD 165 million).

On 15 July Sberbank of Russia together with Volkswagen Financial Services Rus declared the beginning of collaboration on programs of automotive lending for the purchase of cars of Volkswagen, Audi and Skoda models at official dealers of these models.

On 14 July Sberbank of Russia published the consolidated financial results according to the IFRS over the first quarter 2009. The net profit made RUR 0.6 billion versus RUR 31.1 billion over the 1st quarter 2008, expenditures for creation of reserves increased by twelve times, assets reached RUR 6 768 billion. On 22 July Sberbank of Russia published the results of financial activity as a result of 6 months of 2009 by Russian Accounting Standards: net profit made RUR 5.3 billion versus 66.6 billion over 6 months of 2008; the capital adequacy made 22.7%.

OJSC Surgutneftegas

On June 27 the general annual meeting of shareholders of OJSC Surgutneftegas approved the annual report and the annual accounting for 2008 and decided to pay the dividends for 2008 at the amount of RUR 1.326 for priority stock and RUR 0.6 per equity stock.

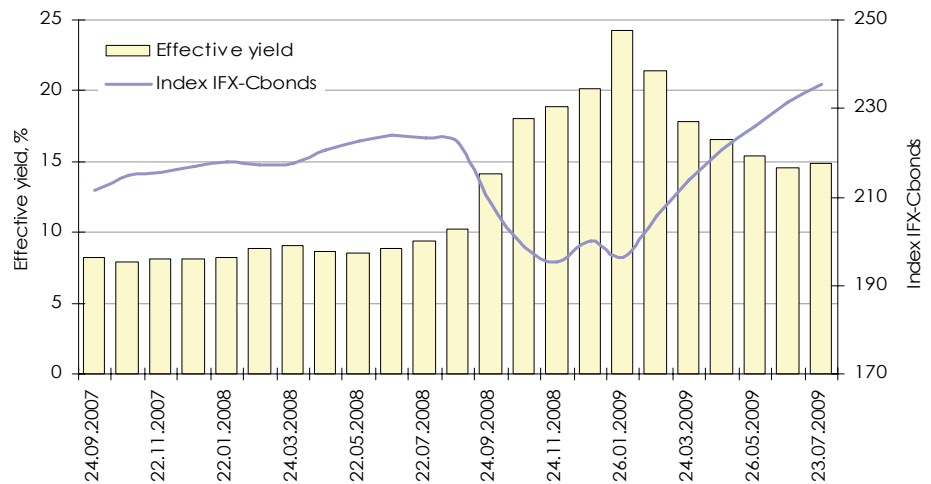
Corporate Bond Market

The volume of the internal markets of the corporate bonds in Russia (by the nominal value of securities in circulation and issued in national currency) has been steadily increasing in recent months and made RUR 1 912.6 billion (693 issues, 443 issuers), which is by 2.5% more than the similar figures for the previous month¹. It should be noted that the number of issues and issuers has changed but little (for reference at the end of June there were 695 issues of 446 issuers in circulation). Currently there are also two series of bonds nominated in dollars and yens in circulation. The activity of the investors at the secondary market has also increased a bit. Thus, over the period from 24 June to 22 July there were 25.4 thousand of deals made with the corporate bonds at MICEX of the total volume of RUR 50.9 billion (for reference from 1 June to 23 June there were 25.6 thousand of deals made of the total volume of RUR 46.2 billion)², which testifies the ongoing trend of the aggregation of the average volume of deals.

1 According to Rusbonds' data

2 According to the data of Finmarket information agency

Starting with January of the current year there has been observed the steady increase of the Russian market of corporate bonds IFX-Cbonds, though the rates of the index growth has been decreasing gradually. In the period from June 26 to July 23 the growth of the index made 3.7 points (or 1.6%), reaching the maximum level since its calculation was started. However despite the growth of the index, effective yield over the period under consideration increased from 14.57% to 14.87% - for the first time since January of the current year (fig.6). The growth of the duration of the corporate bond portfolio proved to be short one and during July this index went down again. As on 23 July the duration made 418 days, which is 34 days less than at the end of June of the current year.



Source: Based on the data of Cbonds company

Fig. 6. Dynamics of Index of Russian Market for Corporate Bonds and Average Effective Yield

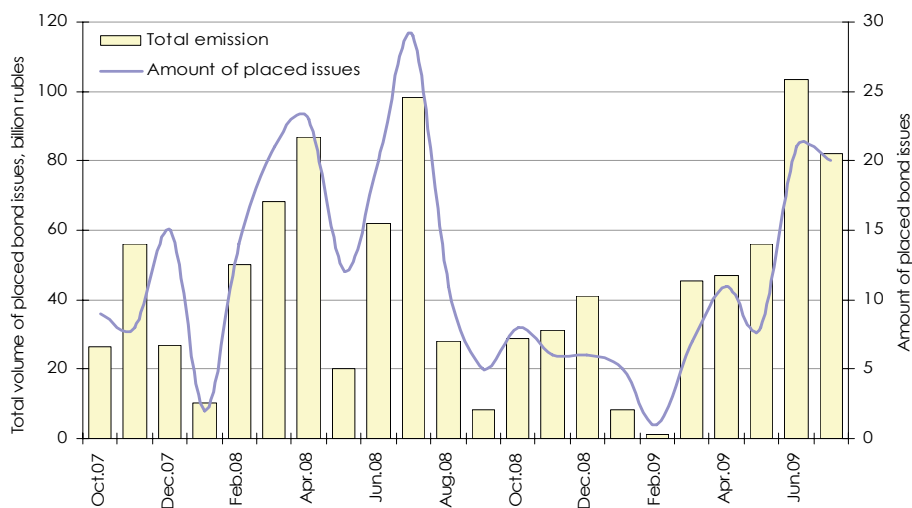
Over the month the total volume of the registered issues of corporate obligations changed but little. In the period from 26 June to 23 July there were 13 issues of bonds of the total volume of RUR 15.9 billion registered (for reference from 27 May to 25 June there were only 10 issues of the total volume of RUR 16.1 billion). The main volume of the registered issues consisted in the series of issues of the First Collector Bureau Ltd. Of the total sum of RUR 6 billion, two series of bonds of Commercial Bank Russian Interregional Bank of Development (OJSC) of the sum of RUR 5 billion and three series of inaugural active bonds of OJSC Sibirtelecom at the sum of RUR 4 billion¹.

The total volume of the placed issues of the corporate bonds in the current month has reduced considerably. From 26 June to 23 July 20 issues of bonds of the total volume of RUR 82.0 billion (for reference from 27 May to 25 June 21 issues were placed out of which there were 20 issues of bonds in ruble equivalent of the total volume of RUR 103.3 billion and 1 issue of bonds in foreign currency equivalent of the volume of USD 2 billion) (fig. 7). Over the period under consideration large bonded loan were placed by OJSC Gazprom (two series of obligation of RUR 15 billion), OJSC Russian Railways (one series of bonds of the sum of RUR 15 billion), OJSC Homos-bank (two series of bonds of the sum of RUR 10 billion) and Vimpelcom-Invest (one series of bonds of the sum of RUR 10 billion). It should be noted that one issuer placed its inaugural issue and one- the issue of active bonds.

The growth of the number of cancelled issues in connection with the non-placement of any security allows to talk about the decrease of investors' interest in the primary placement of corporate bonds. Thus, in the period from 26 June to 23 July federal Financial Markets Service of the Russian Federation recognized six issues of public offerings as invalid (for reference from 27 May to 25 June four issues were recognized as invalid and from 24 April to 26 May – only one issue)².

1 According to the data of Rusbonds company

2 According to the data of the Federal Financial Markets Service



Source: According to the data of Rusbonds company

Fig. 7. Dynamics of Primary Placement of Issues of Corporate Bonds Nominated in National Currency

In the period from 26 June to 23 July the bonds of 13 issuers of the total sum of RUR 16 billion should have retired. However 4 issuers announce debt service default on retirement of bonds of the total volume of RUR 5.25 billion. It should be specially noted that the first real default on retirement of active bonds was declared (the fifth series of active bonds of OJSC RBK Information Systems). In August 2009 10 issues of corporate bonds of the total volume of RUR 24.7 billion are expected to retire¹.

The situation with the issuers carrying out their liabilities towards the owners of obligations became more acute in July. In the period from 26 June to 23 July the default for put date (retirement of bonds) was declared by 9 issuers (4 issuers in the period from 27 May to 25 June), the default on paying coupon yield – by 18 issuers (7 issuers over the preceding period)². Real default on the return of the nominal value of the bonds of the total sum of RUR 3.75 billion over the period under consideration was declared by 5 issuers (2 issuers over the preceding period). However some of the issuers mentioned above managed to reach an agreement with bond holders on restructuring of the debt (11 issues of bonds).

In connection with the sharp growth of the real and technical defaults the MICEX stocks exchange where the majority of the bonds by Russian issuers circulates made a number of steps to increase the quality of the bonds included in quotation list and to improve the awareness of the participants of the market. For instance, the following measures are introduced starting with July 1, 2009:

- Cross-delisting procedure that is declaration of real default for any issue of corporate bonds allowed to circulate at the exchange made by the issuer is the sufficient reason for the exchange to make decision on exclusion of all the issues of the bonds of this issuer included in quotation lists from this lists;

- Procedure for transfer of securities by the issuer that allowed the default of his bonds to special modes of trading “Bonds D – Mode of Main Trading” and “Obligations D – negotiated Deals mode and Address Orders”. Starting with 20 July stocks market MICEX transferred 74 issues of bonds of 56 issuers to the mentioned modes, which on the corresponding date made 13% of the total number of corporate bonds allowed to trading on exchange³.

1 According to the data of Rusbonds company.

2 According to the data of Cbonds.

3 According to stocks exchange MICEX.

REAL ECONOMY: TRENDS AND FACTORS

O.Izryadnova

In the 2nd quarter 2009 the GDP dropped approximately by 10.4% versus the corresponding period of the previous year. Over January-June 2009 the investments in fixed assets reduced by 18.2% as compared with 2008. In the second quarter the intensification of the decrease of both the investments in fixed assets and the industrial production was observed. The trend for the decrease of wages growth rates has become more pronounced. The volume of retail trade turnover decreasing in general by 5.6% as compared with April-June 2008, the sales of the non-food goods reduced by 9.2%.

The results of the first half of 2009 were considerably affected by the trend for the aggravation of the recession in the Russian economy. According to the preliminary estimation of the Ministry for Economic Development of the Russian Federation, in the 2nd quarter 2009 the GDP dropped by 10.4% versus the corresponding period of the previous year (as compared with 9.8% in the 1st quarter). The slow-down of the rates of the economic growth over 2008 and in the 1st half of 2009 were determined by simultaneous contraction of both the internal and external demand. In January-May 2009 the foreign trade turnover made USD 168.9 billion, having reduced by 44.5% as compared with January-May of the previous year, export reducing by 47.4% and import – by 39.3%. The slow-down of the dynamics of investment and consumer demand has defined the contraction of the internal market by 13.7% versus the 1st quarter 2008.

Table 1

INDICES OF MAIN MACROECONOMIC INDICATORS IN 2008-2009,
AS PERCENTAGE TO THE CORRESPONDING PERIOD OF PREVIOUS YEAR

	2008	Quarters				2009		
						Quarters		1 st half of the year
		1	2	3	4	1	2	
Gross domestic product	105.6	108.7	107.5	106.0	101.2	90.5	89.6*	89.9*)
Expenditures for final consumption of households	111.3	112.2	113.4	112.2	108.0	96.8	–	–
Investments in fixed assets	109.8	123.6	117.4	111.7	97.7	85.0	80.0*)	81.8
Implementation of residential buildings	105.3	108.1	99.1	105.7	105.1	102.4	97.2	99.7
Volume of industrial goods	102.1	106.2	105.5	104.7	93.9	85.7	84.6	85.2
Agriculture production	110.8	105.5	106.9	113.0	115.6	102.1	100.3	100.9
Freight transportation turnover	100.7	105.1	102.9	101.4	93.6	83.7	81.2	82.5
Retail trade turnover	113.5	117.2	114.8	114.9	108.6	99.9	94.4	97.0
Paid services rendered to the population	104.9	107.7	105.6	105.3	102.0	98.5	94.3	96.6
Foreign trade turnover	132.2	148.8	147.9	149.3	95.4	56.4	55.4	55.6*)
Real disposable monetary incomes	102.7	107.8	106.0	106.6	94.2	99.8	100.2	100.0
Real wages	109.7	113.4	112.5	112.2	102.5	99.2	95.4	97.2
Average annual number of the employed in the economy	100.6	100.8	101.2	100.8	99.7	97.1	–	97.0
Number of the unemployed	104.3	96.5	94.2	105.6	123.0	135.0	152.0	142.8

*) preliminary data

Source: Federal State Statistics Service

Contraction of the internal market proceeded against the background of simultaneous reduction of the savings and final consumption of households.

The share of expenditures for final consumption in the structure of the GDP decreased continuously over January-September 2008 and made 61.2% in the 3rd quarter. The situation changed fundamentally in the 4th quarter 2008 – 1st quarter 2009. Against the background of the reduction of incomes it was the relative stability of the households' consumption and the growth of the government liabilities on social support of the population that were the factors limiting the drop of the GDP. This was attained owing to the decrease of savings volumes. In the 1st quarter the share of expenditures for final consumption reached 80.3% (versus 67.0% in the corresponding period of 2008), and of gross accumulation – 12.2% (versus 19.9%).

Table 2

 STRUCTURE OF USE OF GROSS DOMESTIC PRODUCT IN 2007–2009,
 AS PERCENTAGE TO THE TOTAL

	2007	Quarters				2008	Quarters				2009 I
		I	II	III	IV		I	II	III	IV	
GDP	100	100	100	100	100	100	100	100	100	100	100
Including:											
Expenditures for final consumption	66.0	70.9	67.2	62.9	63.8	66.0	67.0	64.9	61.2	69.0	80.3
of households	48.2	50.0	48.5	46.3	47.8	48.5	47.9	47.4	45.5	51.8	56.3
of state management	17.2	20.2	18.1	16.1	15.4	16.9	18.5	17.0	15.2	16.7	23.4
Gross accumulation of fixed assets	24.3	18.1	22.7	28.1	26.3	26.2	19.9	25.8	28.8	26.5	12.2
Net export	8.6	10.0	8.8	7.2	8.7	12.4	12.4	10.4	9.5	4.8	6.0
For reference:											
Proportion of investments in fixed assets in the GDP	20	13.6	18.7	19.8	25.8	21	15.2	20.2	20.7	26.8	15.2

Source: Federal State Statistics Service

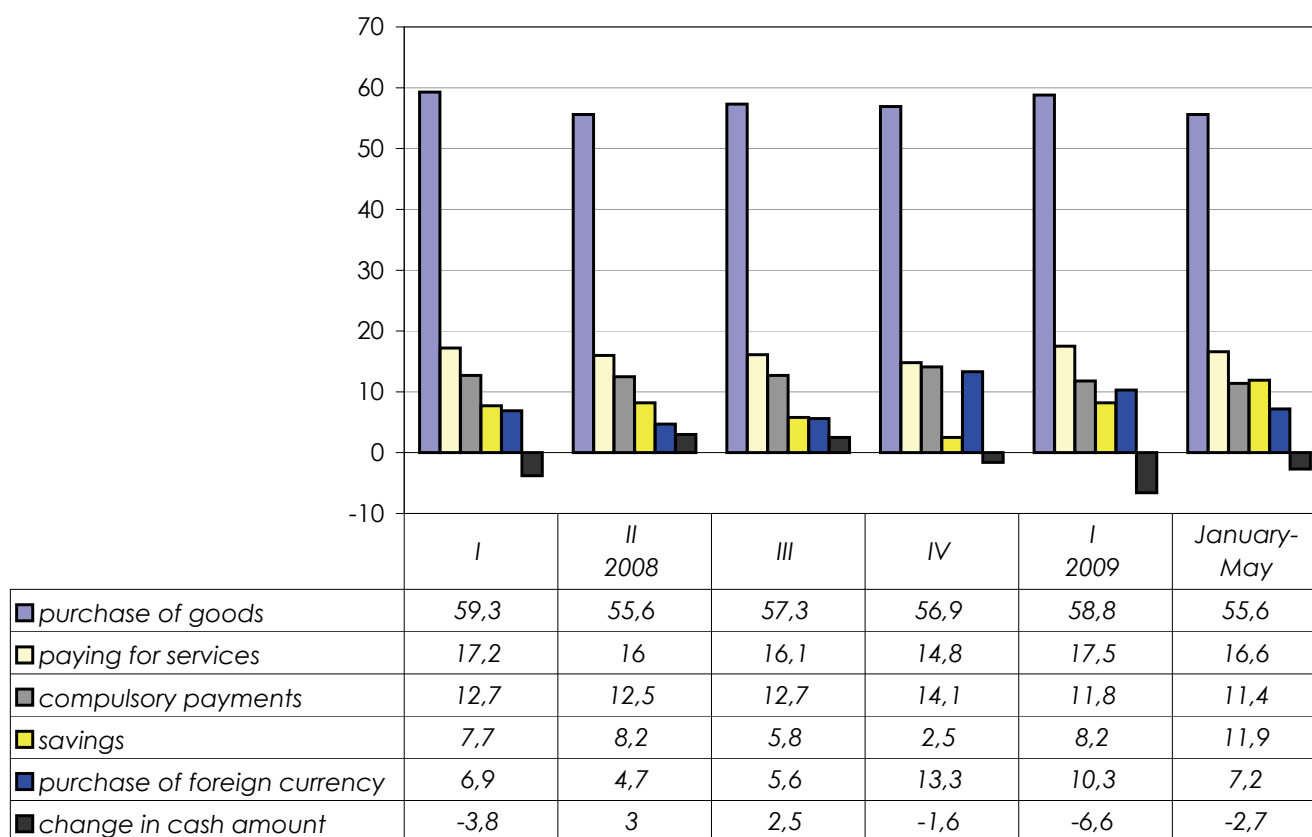
Over January-June 2009 the investments in fixed assets reduced by 18.2% versus the corresponding period of the previous year, and workload in construction – by 19.3%. The slow-down of the rates of the investments in fixed assets throughout 2008 and at the beginning of 2009 was accompanied with the structural changes in the use of the national savings. Starting with the 4th quarter 2008 the process of transformation of savings in the investments in fixed assets has intensified, this, however, had no positive effect on the economy and did not interrupt the drop of the GDP. Aggravation of the decrease in the investment activity in the 2nd quarter 2009 up to 20.0% versus the corresponding period of 2008 was accompanied with the reduction in the volume of construction of residential buildings. In the 2nd quarter 2009 the implementation of the floor area of residential buildings made 97.2% versus the level of the 2nd quarter of the previous year, and the resulting figure for the 1st half of the year was 99.7%. the dynamics of the investment activity and the workload in construction was influenced both by the intensifying trend for the reduction of the accessible financing and by the contraction of the orders and the increase of the volumes of unfinished construction.

The retail trade turnover decreased by 3.0% in the 1st half of 2009 versus the corresponding period of the previous year, the volume of the paid services rendered to the population – by 3.4%, the real disposable monetary incomes of the population being stable at the level of January-June 2008 and the real wages decreasing by 2.8%. it should be noted that in the 2nd quarter of the current year the level of real wages made 95.4% versus the level of the 2nd quarter 2008. This changed considerably the structure and the dynamics of the

retail trade turnover. The total amount of the retail trade turnover decreasing by 5.6% as compared with April-June 2008, the sales of non-food goods dropped by 9.2%, the rates of turnover of the market of foodstuffs being near to stabilization (100.2%). In the 2nd quarter the reserved consumers' behavior of the population was not influenced by the trend for the slow-down of the growth rates of consumer prices versus the preceding quarter of the current year. The situation was aggravated by the contraction of volumes of the consumer crediting. Whereas the volume of credits issued to the natural persons by banks increased by nearly 1.35 times in 2008 and made RUR 4017.2 billion by January 1, 2009, by May 2009 the figure had reduced by 5.2% and was equal to RUR 3810.6 billion.

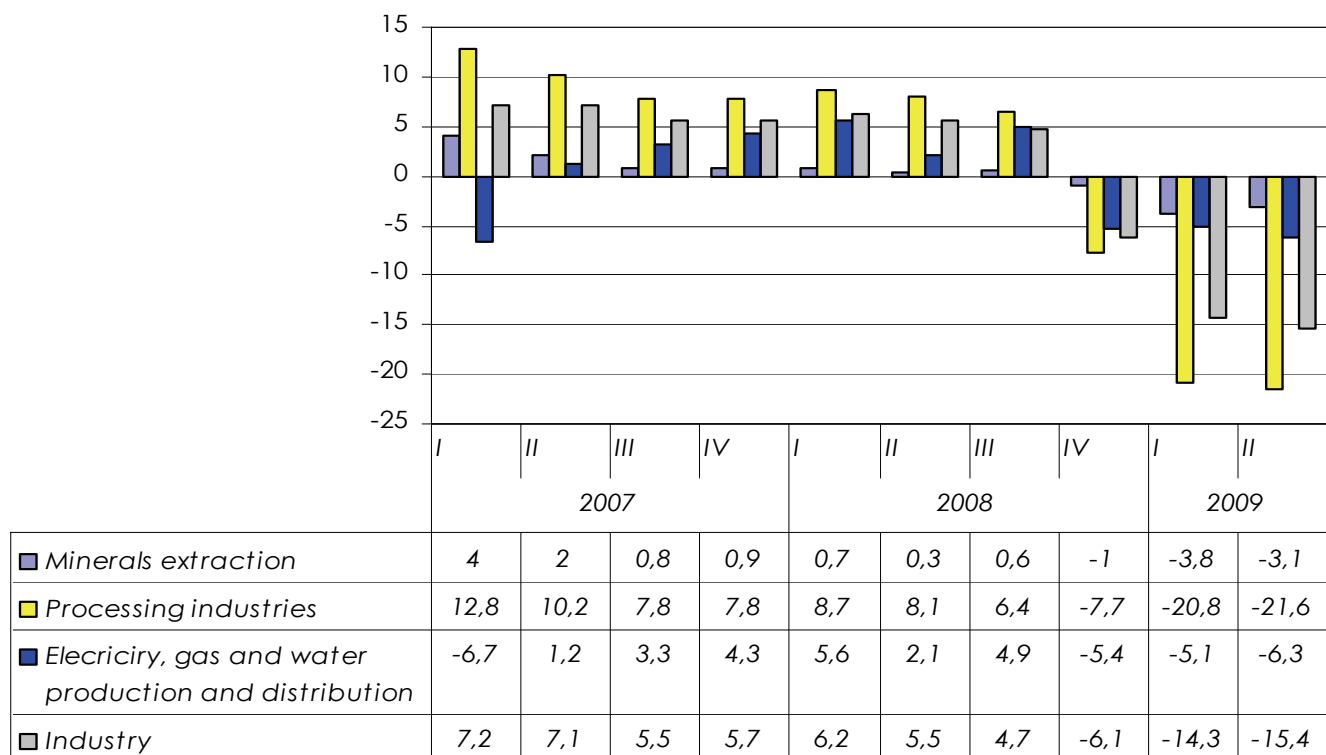
In January-May 2009 the proportion of expenditures for current consumption reduced down to 55.6% of the total incomes of the population as compared with 57.8% in the corresponding period of the previous year. The proportion of the saving in the incomes of the population has started to expand since February 2009. It should be noted that whereas from November 2008 to January 2009 the proportion of the saving in the form of deposits and securities reduced systematically, the process of transformation of savings in purchase of the currency intensifying, starting with February 2009 the trend for the growth of the organized form of savings has recovered, the volumes of purchase of currency gradually reducing. Over January-May 2009 the proportion of savings in the incomes of the population made 11.9% versus 8.2% in the 1st quarter 2009 and 2.5% in the 4th quarter 2008, the expenditures for purchase of foreign currency being, correspondingly, 7.2% versus 10.3% and 13.3%.

The structure of expenditures of the population was significantly affected by the change in the situation at the market of accommodation. The incomes of decreasing, the investment activity of the population dropped considerably. The proportion of expenditures for the



Source: Federal State Statistics Service

Fig. 1. Structure of Use of Incomes by Population in 2008-2009, As Percentage to the Total



Source: Federal State Statistics Service

Fig. 2. Changes in Growth Rates of Industry As Broken by Kinds of Economic Activity in 2007-2009, as Percentage to Corresponding Period of Previous Year

purchase of the immovable property made 3.0% in the 4th quarter 2008 (the average figure over the year being 6.0%) versus 11.0% in the corresponding period of the previous year. The means of the population directed to the investments in participation by shares in construction reduced to RUR 8.9 billion in the 1st quarter 2009 versus RUR 12.4 billion in the corresponding period of the previous year. The contraction of the incomes of the population, the increase of interest rates, the difficulties with obtaining accredit, increase of the debt for credits issued to the population to purchase housing define high risks both for the banking sector and for the population.

In the 2nd quarter 2009 the recession of the industrial production is observed to aggravate. Over the 1st half of 2009 the index of industrial production made 85.2%, the figure being 85.7% in the 1st quarter and 84.6% in the 2nd quarter. It is in the processing industries where the most serious recession is registered. Over six months of the current year the output in processing industries made 78.7% of the corresponding figure of the previous year, output in extractive industries – 96.6%, in electricity, gas and water production and distribution – 94.4%.

Against the background of the decrease of rates of the domestic production, in the 1st quarter 2009 the dynamics of the domestic market was supported by the use of the stocks of finished goods accumulated in 2008. In the 2nd quarter the recession of the domestic production aggravating and the stocks of the finished goods exhausting, the situation was aggravated by the retaining of the trend for import contraction.

In the 1st quarter 2009 the proportion of import in formation of trading resources o the retail trade made 44% and reduced by 2 percentage points versus the corresponding period of the previous year. The aggravation of the recession in the domestic production of consumer goods which is not compensated by import supplies forming 34% of the retail trade turnover of foodstuffs production and 53% of turnover of non-food goods can have a negative impact on the dynamics and the structure of the consumer market.

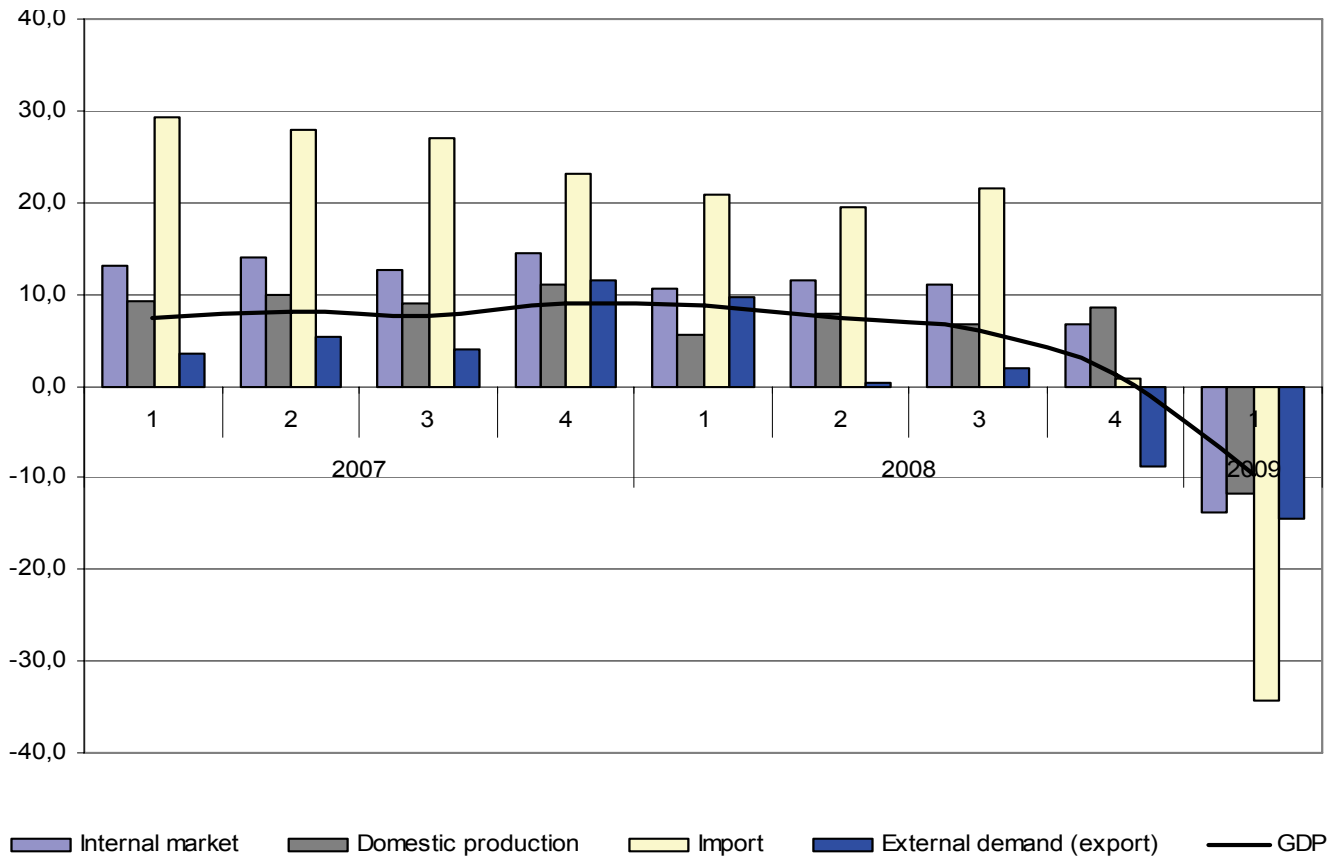
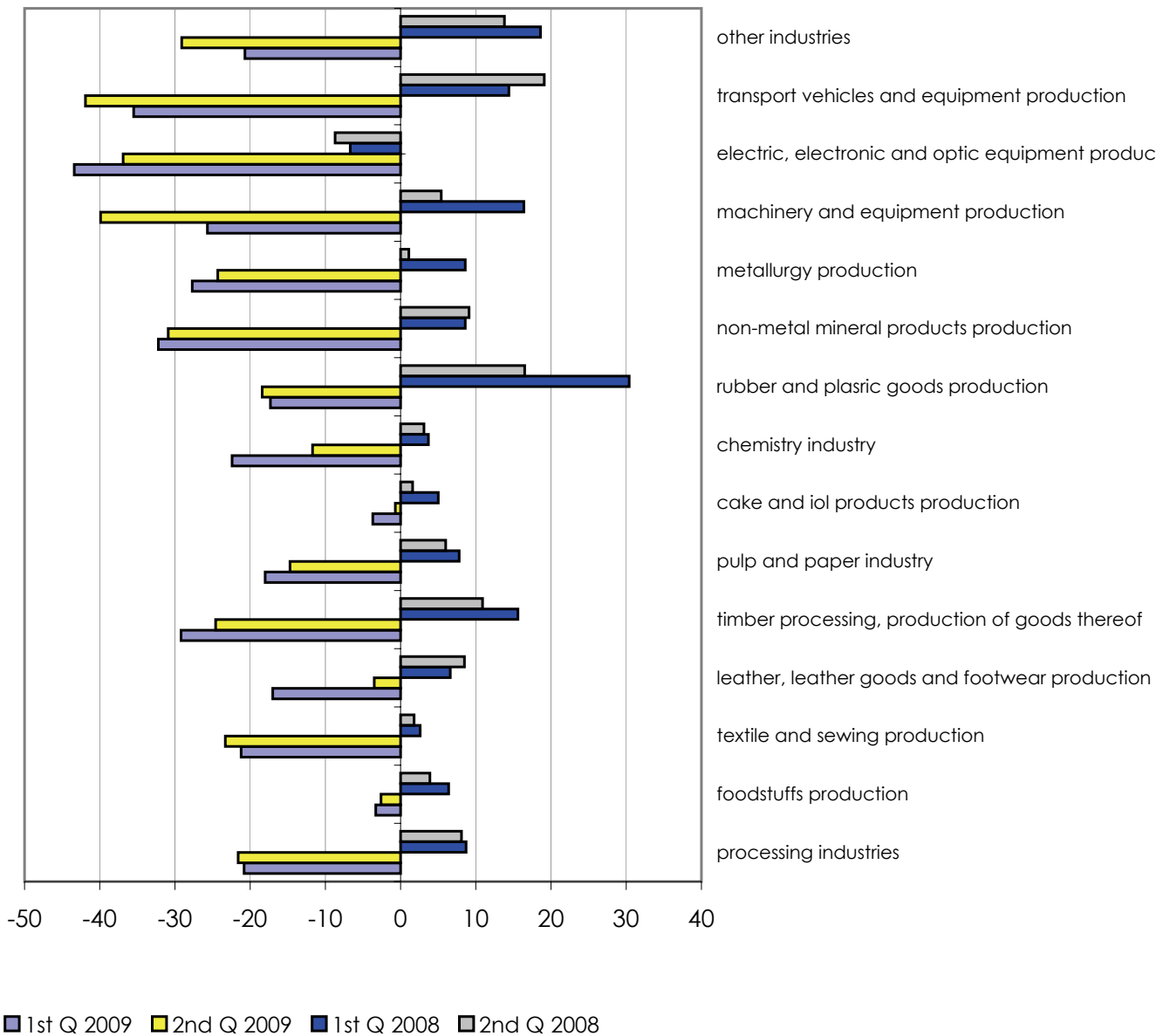


Fig. 3. Changes in GDP Dynamics as Broken by Components of Internal and External Demand in 2007-2009, as Percentage to Corresponding Quarter of Previous Year

The slow-down of the production rates that was initially registered in the kinds of economic activities orientated for the export has rapidly spread to processing industries. It should be noted that the recession in the kinds of activities orientated to final consumption is more significant than in the production of intermediate goods (See page 32).

The output rates of processing industries fluctuating considerably by kinds of economic activities, a sharp decrease of the output of investment goods is a prevailing factor that has a negative impact on the level of the business activity of the adjacent industries on production of materials and other kinds of intermediate goods.



Source: Federal State Statistics Service

Fig. 4. Changes in Rates of Output of Processing Industries in 2008 and 2009, As Percentage to Corresponding Quarter of Previous Year

RUSSIAN INDUSTRY IN JULY 2009

S.Tsukhlo

In July the situation in the Russian industry has definitely improved. However the positive changes in the dynamics of demand, output, employment and estimations of stocks has not influenced the production plans of enterprises for forthcoming months yet. This is the evidence of enterprise having doubts in further sustention of the current positive dynamics of production and demand. In July the availability of credits for the Russian industry has not changed.

Official Statistics in June

According to the data of the Federal State Statistics Service the index of the production growth versus the corresponding period of the previous year has grown by 5 percentage points at once – from -17.1% in May to -12.1% in June. Thus, the drop of the industry in June, if one is guided by the state statistics, was minimal for 2009 (the previous minimum of -13.2% was registered in February). However the scales of the curtailment of the production in June should not be overestimated in the opinion of the Center for Macroeconomic Analysis and Short-Term Forecasting: in June 2009 there was one workday more than in the previous year, and in May it was vice versa. As a result, in June average daily production index went up by 2 percentage points versus June 2008 (up to -16.9% against -18.7% in May). Taking into account seasonal and calendar factors in June there were 2.9% more goods produced than in May 2009.

Demand for Industrial Goods

According to the results of the survey among the enterprises conducted by the IET, in July the rates for the decrease of the current demand for the industrial goods changed for the better – over the month the balance of estimations cleared from the seasonality went up by 12 points, making now -18 balance points. Thus, the demand is still decreasing but not at such intensive rates as in the 4th quarter 2008 and in the 1st half of 2009 when the average intensity of demand decrease made, correspondingly, -26 and -31 balance points. The comparable change in the rates of the decrease of the demand occurred in January, when the industry got over the November-December shock and came, as it turned out, to the plateau of quite high but still stable rates of sales decrease. The slow-down of the demand decrease rates was registered in July in all the branches of industry. It is likely that in forthcoming months one more improvement of the dynamics of demand will be registered.

The forecasts for future demand also improved in July, though not as considerably (only by 3 points) as real sales. Nevertheless, the result has turned out to be the best for the period of crisis. As to the level of branches of industry, the forecasts for sales in metallurgy, industry of construction materials, light industry and foodstuffs production improved.

However, the changes in the estimations of the demand has had nearly no effect on the estimation of sales volumes. The satisfaction with the sales increased only by 3 points (up to 26%) in July, which, it should be noted is the maximum figure for the period of crisis. The highest values of the index are retained in the foodstuffs production (57%, 58% in June) and non-ferrous metallurgy (52%, 34% in June). The situation in ferrous metallurgy is opposite (0%, 3% in June).

Production Output

Obvious improvement in the dynamics of the demand in July resulted in the corresponding changes in the estimations of the output dynamics. The data cleared from the seasonality have demonstrated that the decrease rate of the output in July is zero, which has been the best result for this indicator since October 2008. At the level of branches of industry, the survey registered the growth of the demand in the ferrous metallurgy, machine-building and timber industry. The most intensive decrease of the production is retained in the industry of construction materials production.

However the slow-down of the demand decrease rates was unexpected (or probably seemed unreliable) for a considerable number of enterprises which were not able to (or would not risk to) correct their dynamics of the output. As a result the interval between the estimations of output changes and the estimations of demand changes has increased in the Russian economy, the former lagging behind, up to 13% versus 7% in June. Average figure for this indicator was 6% in the month of crisis from November 2008 to June 2009. However the majority of the enterprises (58%) still reacted adequately to the improvement of demand increasing the output, and 29% of enterprises took a risk and raised the output faster than the demand for their production grew. In the previous 8 months of the crisis the output anticipated the demand at, on average, 23% of the enterprises.

Production plans of enterprises has changed little in July as compared with June, the planned rates of production being as a result worse than the real changes of the output. Such a ratio of planned and real changes in the demand is rare for 17 years of surveys and testifies that the producers have doubts in the stability of the current growth rates of the demand. This, however, seems to be quite normal for the current situation. The growth of production in forthcoming months is planned only by the ferrous metallurgy and foodstuffs production.

Prices of Enterprises

In June the pricing policy of the enterprises reacted quite adequately to the positive dynamics of sales. First, the entrepreneurs for the second time over the current crisis tried to interrupt the trend for the decrease of sales prices. In July the balance of real changes of prices went up by 4 points as compared with the previous local minimum value (in May), but still remained negative – on the whole in the industry the enterprises decreasing the prices prevailed. The growth of prices (positive balance) was observed only in the non-ferrous metallurgy and timber industry, chemistry and petrochemistry, and the most intensive decrease – in ferrous metallurgy and in the industry of construction materials.

Second, after 4 months of continuous decrease – from +10 to -2 (that is to the intentions of their absolute reduction) – in July the balances of the pricing plans of the industry went up by 4 points at once and left the field of negative values – the enterprises hope to stop decreasing prices in the forthcoming months. The decrease of prices may persist only in the industry of construction materials and fuel industry and the most intensive growth is likely in timber industry and ferrous metallurgy.

Stocks of Finished Goods

In July the estimation of stocks of finished products decreased by 7 points by the scale “above the norm – norm – below the norm” and as a result returned to the pre-crisis level. The industry encouraged by the considerable slow-down of the demand decrease rates and the stable improvement of forecasts for its changes has significantly corrected the estimations of its stocks. Thus, by the end of the first half of 2009 the shock of the first months of the crisis had been overcome both psychologically and physically (if one

considers the stocks of finished products). Now there are two scenarios of further change of the estimations of finished goods.

The first scenario (pessimistic) envisages further decrease of the balance of estimations down to negative values (“insufficient stocks”) and will be grounded on the hard experience of 1990-ies. Then the Russian enterprises facing more than once the critical overstocking of warehouses (in 1993-1994, 1995-1996 and 1998) successively diminished the scale of overstocking and used every opportunity to minimize the stocks, preferring having insufficient stocks to their rational excess. This model had been retained in the Russian industry up to the beginning of 2001, until the industry checked the stability of the growth and the fact that small excess of goods in the environment of development is more profitable than their shortage. Thus, in order to overcome the chronic pessimism and transfer to new model of stocks management the enterprises required more than two years of rapid post-default growth of both the demand and the output. The second scenario (optimistic) is based on the recent prosperous years when the industry under any current dynamics maintained a little excessive stock of the finished goods. The excess of the stocks had always been retained by the enterprises since they were sure that the difficulties of sales were temporary and the growth of the demand would recover. According to this scenario the industry having overcome the shock of the end of 2008 - the beginning of 2009 will transfer to maintaining the estimations (but not the volumes) of its stocks at the level of little excess. These estimations will be formed taking into account all the aspects of the current economic situation: dynamics of demand and output, forecasts for them, the optimism of the government.

Real Dynamics and Plans of Dismissals

In July intensity of dismissals in the industry followed the changes in the demand and reduced: after the changes of 1-2 points in 5 previous months rates of reduction of the number of staff in July reduced by 4 points at once and became the best (that is the lowest) for the current crisis since October 2008. In July the growth of the intensity of dismissals is registered only in ferrous metallurgy, industry of construction materials and light industry.

However, it seems that in August-September the enterprises do not intend to consolidate the positive results of July. The plans for dismissals for next 2 months have worsened in the industry as compared with the plans of the previous months and even as compared with the real dismissals in July. This gives another evidence of the Russian industry having doubts as to the sustention of positive changes of July. It is only timber industry and non-ferrous metallurgy that are going to continue reducing the intensity of dismissals.

Crediting of Industry

In July the availability of credits to the Russian industry has ceased to grow and decreased by 2 points as compared with May. The change is certainly negligible but sufficient to draw conclusion that the situation with credits has not improved despite constant and various efforts of the government. However one should not conclude that the industry is strangled with the shortage of credits. According to the estimations of the enterprises, the shortage of credits occupies the 6th place (21% of citations) among 13 obstacles for the growth of the production, which are monitored by the IET.

At the level of branches of industry the banks demonstrate the most favorable attitude to the foodstuffs (50% of enterprises have considered the availability of credits as normal for last 3 months) and chemistry (46%) enterprises. The same indicator for the industry of construction materials makes 24%, and for the light industry – 15%.

In the environment of the crisis and the credit contraction the structure of the use of the loans in industry has also changed (see table 1). Investments in the production have been subject to the most considerable changes: the frequency of use of credits to re-equip the production has reduced from 47% to 24%, to expand the production – from 30% to 17%. Other directions for the use of credits have either maintained the shares or increased them. Still 2/3 of the enterprises use their credits to replenish liquid funds. The proportion of the credits used to pay wages has increased up to 27%, that used to settle the debt to suppliers – to 17%, while that to pay the debt to other banks – to 7%. It should be noted that one fifth of the industrial enterprises reported that they have no credits in July 2009.

Table 1

DIRECTIONS OF CREDITS' USAGE IN INDUSTRY (AS PERCENTAGE TO THE NUMBER OF RESPONDENTS)

	2003	2004	2005	2006	2007	2008	2009
No credits	12	8	10	9	9	9	20
For research and development, know-how, purchase of licenses	2	6	6	2	1	6	6
To re-equip production	22	31	36	36	36	47	24
To expand production	13	23	24	25	27	30	17
To replenish liquid funds	66	68	70	62	57	65	66
To organize sales	2	1	2	1	1	3	1
To pay wages	27	27	22	26	19	19	27
To fulfill export contracts	8	7	11	12	7	6	7
To pay debts to other banks	6	9	7	9	5	5	7
To pay debts to suppliers	14	9	11	13	9	11	17

Note. In 2009 the survey was conducted in July

FOREIGN TRADE

N.Volovik

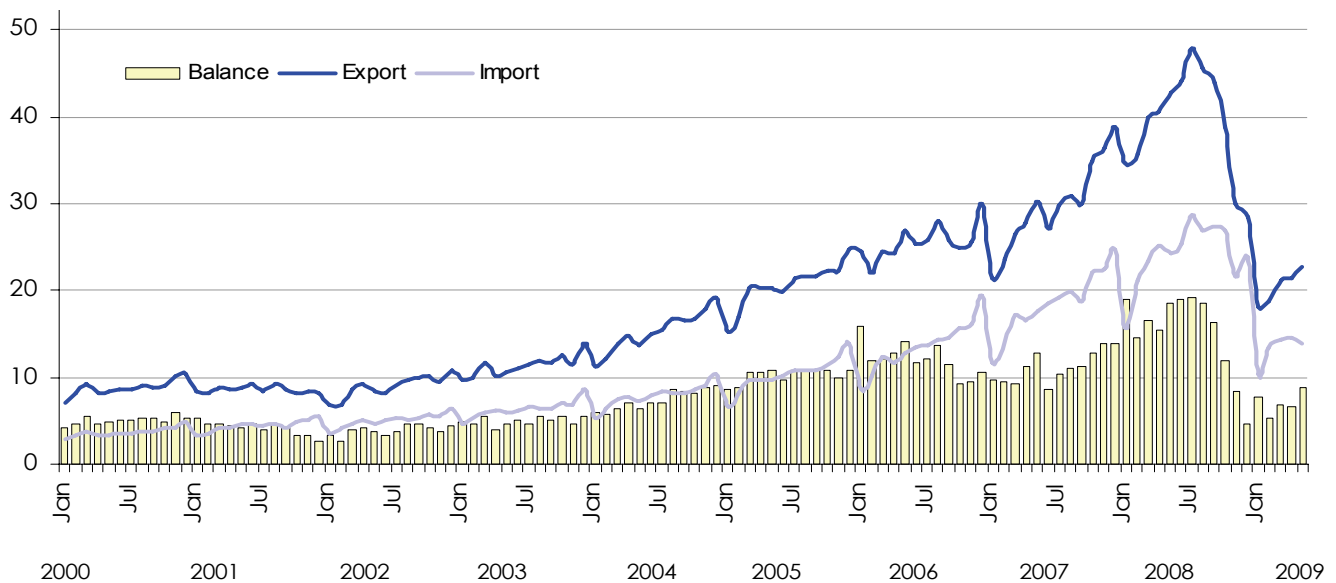
As compared with high figures of January-May 2008 the main indicators of the Russian foreign trade have worsened considerably in the first five months of 2009. The reduction of export is mainly accounted for by the drop of prices for oil and other raw materials. Import supplies reduced because of the drop of incomes in the economy and the weakening of the ruble. Besides, additional degressive trends were connected with the introduction of a number of protectionist measures by the Government. As a result of a new rating of the World Economic Forum Russia is included in the list of the countries with the most closed economy (109 number in the rating, decrease by 6 points over the year).

In May 2009 Russian foreign trade turnover calculated according to the balance-of-payments methodology made USD 36.6 billion, which is 45.4% lower than in May 2008. The value volume of export reduced down to USD 22.7 billion, by 46.6% as compared with May 2008, and value volume of import – to USD 13.9 billion, having reduced by 43.3%.

In May 2009 the balance of foreign trade of the Russian Federation was positive, being USD 8.8 billion, having reduced by 51.1% versus last May.

After in the middle of February 2009 the lowest point of USD 34 per barrel was reached, in April futures for oil grade WTI and Brent of the Northern Sea were traded at a considerably higher level of USD 48-54 per barrel and reached USD 58-60 by the beginning of May.

At the beginning of June the price for crude oil went up to USD 70 per barrel. On June 30, 2009 the price for oil at world exchanges reached the maximum figure for the previous 8 months – the price of future contracts for oil grade WTI for August made USD 73.4 per barrel at electronic bidding at New-York goods exchange. This happened against the background of drop of dollar exchange rate against other world currencies and the



Source: Central Bank of the Russian Federation

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

reduction of supplies of the raw materials from Nigeria due to attacks of the rebels to the objects of oil infrastructure.

At the market of non-ferrous metals there are the indicators of the stabilization observed in the recent months. As compared with April, in May the growth of prices for non-ferrous metals was observed: by 2.8% - for aluminum, by 3.7% - for copper, by 13.2% - for nickel.

On the whole over 5 months of 2009 as compared with the corresponding period of 2008 at the world market oil became by 51.9% cheaper, petrol – by 49.2%, gas – by 56.1%, aluminum – by 50.5%, copper – by 52.4%, nickel – by 60.9%.

Table 1

AVERAGE MONTHLY PRICES IN MAY OF THE CORRESPONDING YEAR

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Oil (Brent), USD/barrel	14.51	15.91	27.50	28.71	25.21	25.34	37.9	47.8	68.68	67.64	119.4	58.63
Natural gas, USD/1 million BTU	2.187	2.349	3.724	4.220	3.254	5.984	6.465	6.497	7.97	7.94	11.44	3.901
Petrol, USD/gallon	0.513	0.529	0.957	1.095	0.767	0.835	1.342	1.44	2.072	2.293	3.22	1.71
Copper, USD/ton	1736.2	1539.9	1834.7	1708.2	1596.2	1667.5	2720.0	3254.0	8022.0	7682.2	83825	4568.6
Aluminum, USD/ton	1370.6	1317.9	1464.7	1536.7	1344.3	1397.6	1615.7	1746.0	2852.0	2797.4	2902.9	1460.5
Nickel, USD/ton	5058.3	5239.5	10141.4	7115.7	6764.0	8351.9	11068	16930.0	21038	52179.1	25735	12635

Source: calculated on the basis of data of London Metal Exchange (UK, London), intercontinental oil exchange (London).

According to the data of the Central Bank of the Russian Federation in January-May 2009 the foreign trade turnover of the Russian Federation made USD 168.3 billion (or 55.5% versus January-May 2008), including export of USD 101.4 billion (52.6%), import of USD 66.8 billion (60.7%). The balance of foreign trade turnover reduced as compared with the corresponding figure of the previous year by more than half – by 58.2%, but remained nevertheless positive of USD 34.6 billion.

The main reason for the reduction of the value volume of the Russian import in January –May 2009 as compared with January-May 2008 was the drop of the average prices for the main kinds of raw materials, exported by Russia, whereas the physical volumes of export supplies remained practically at the level of the previous year. Index of average export prices in May 2009 made 57.5%, whereas the index of physical volume over the same period – 97%.

In January-May 2009 the physical volume of foodstuffs export to non-CIS countries has increased considerably – by 5.1 times as compared with the corresponding period of 2008. At the same time value volume of foodstuffs supplies went up by 2.6 times. The proportion of foodstuffs in the Russian export made 2.9% in January-May 2009 (0.6% in January-May 2008). In the structure of export to CI countries the proportion of foodstuffs and agriculture raw materials in the same period reached 11.2% (6.5% in January-May 2008).

Over 5 months there were 5.47 million of tons of wheat and wheat and rye mixture worth USD 897 million exported to non-CIS countries. Last year over the same period the figures were 1.04 million of tons worth USD 331.4 million.

The main reason for such growth of export was an extraordinary good harvest obtained in 2008 (108 million of tons), the internal consumption being stagnant. The decrease of the internal prices for grains stimulated sharp increase of export since the very beginning of the season. Later a sudden devaluation of the ruble made export even more attractive and

the shipping continued at a steadily high level up to April. Russia produces comparatively cheap grain and export mainly the wheat of the fourth class, which fully corresponds to the flour-grinding needs of the Middle East countries.

The increase of the Russian export is also accounted for by the record-breaking level of the world trade with the grain in the past season. For instance, a new record of the world trade was registered for wheat trade. Syria, Iran, Turkey and Pakistan, which are not traditional importers of grains, purchased considerable amounts of Russian grains. Besides, Russia managed to increase its share at the market of Egypt, which is traditionally the largest importer of wheat. Whereas in the season of 2007/08 Russia supplied 3.4 million of tons of wheat of the total 7.7 million of tons purchased by Egypt, in the past season about 4.8 million of tons out of 9.5 million of tons of the grain import by Egypt was accounted for by Russian export.

According to the data of the analytical center Rusagrotrans, the Russian share in the supplies of the grain to the world market made 14% from July 2008 to July 2009. Only the USA supply more wheat and barley to the world market, namely 17%. The third place is occupied by Ukraine – 12.4% (19 million tons of grain), and the fourth – by Canada with 12% of the market.

Decrease of the value of the Russian importer in January-May 2009 was accounted for by the drop in the physical volumes of the import supplies whereas average prices for imported goods remained practically unchanged. In April 2009 as compared with April 2008 index of the physical volumes of import reduced by 52.7%, whereas the index of average prices of import goods reduced rather little and made 96.9%.

High rates of the reduction of the Russian import were accounted for by the sharp drop of the GDP, decrease of the real disposable incomes of the population, weakening of the ruble exchange rate against the main currencies. According to the data of the Ministry of Industry and Trade, real disposable incomes of the population reduced by 0.4% in January-May 2009 as on the corresponding period of 2008 (107.7% in January-May 2008 versus the corresponding period of 2007). As compared with April 2009 in May 2009 incomes reduced by 6.4%. According to the calculations of the Ministry for Economic Development of the Russian Federation, on the whole over January-May (on the basis of May 2009 on December 2008) real weakening of ruble against dollar made 7.8%, against Euro – 7.4%. the weakening of the real effective ruble exchange rate is estimated to be 5.7% over first five months of the current year.

Besides the government has introduced and/or increased customs duties for some goods, for instance for the cars import.

As a result of the action of all these factors the import of passenger cars in the Russian Federation reduced by 71.9% in January-May 2009 versus the corresponding period of the previous year – down to 225.8 thousand. Over this period there were passenger cars worth USD 3513.2 million imported in Russia, including 207 thousand worth USD 3389 million from non-CIS countries, 18.7 thousand worth USD 124.2 million – from CIS countries.

One more barrier has appeared on the way of import of the used cars of foreign models in Russia. Starting with July 15, 2009 the used transport vehicles imported to the country will be subject to phytosanitary control. This is envisaged by the new list of the goods subject to quarantine and goods subject to the state phytosanitary control established by the Federal Service for Veterinary and Phytosanitary Surveillance (Rosselkhoz nadzor) and approved by the Federal Customs Service. The list includes all the types of passenger cars and trucks, tractors and some kinds of special equipment – from truck cranes to fire-engines.

The newly made list is based on the monitoring of the goods subject to quarantine at admission points through the boundary of the Russian Federation as well as on the data

of the laboratory examinations. The result of this research was that some of the goods that were earlier subject to the compulsory veterinary control are now excluded from the list. For instance, from now on there will be no need in Rosselkhoznadzor's approval when importing meat-meal and fish flour as well as different kinds of the construction materials - pebble, gravel and crash stone as well as "natural sand of all kinds".

The list of the goods "which import is carried out on the basis of foreign quarantine certificate" now along with dried mushrooms, raw flax and green tea include "transport vehicles used previously". The Rosselkhoznadzor's statement explains the reason for inclusion of the used cars in the new list: "In 2007 and 2008 when conducting the inspection there were found 4290 units of the equipment that contained biological material and soil, alive and dead insects. There were 14 cases of dangerous quarantine objects found – Asian cotton worm, American white butterfly, gipsy moth, Japanese beetle". All the insects mentioned are dangerous pests for agriculture plants and wood species.

The mentioned measure will not influence on the market of the used cars of foreign models, wince it was nearly "killed" by the introduction of new duties in January 2009. Over 6 months of 2009, according to the data of Autostat analytic agency, legal entities have imported 10000 used cars of foreign models in Russia, which is by 97% less than in the first half of 2008 (there were 284000 new cars imported in the first half of the year). There are no data on import of cars by the natural persons, but, according to the estimations, it is also very low.

At the beginning of July 2009 within the framework of the World Economic Forum the presentation of new report on the situation in the world trade took place. The specialists on the international trade made the rating of openness of the national economies. Possibilities for trade in 121 countries of the world have been analyzed in it. It turned out that it is Singapore that is the country with the most open economy that favors the development of the foreign trade. The second place is held by Hong Kong, the third – by Switzerland. Besides, ten leading countries include Denmark, Sweden, Canada, Norway, Finland, Austria and the Netherlands.

Russia belongs to the countries with the most closed economies and is in the 109th place of the rating, sinking by 6 points over the year. Such weak positions in the rating are accounted for by the limited accession to the Russian market and a complex system of import duties. In the opinion of the experts, it is the situation with transportation that is the best in Russia – the authors of the rating have estimated particularly high the quality of railway infrastructure. The services at the Russian customs gained quite high result, but the customs procedures seemed too complicated to the experts. As to the value of import the Russian Federation occupies 102nd place, and the value of export – 111th.

All other countries of the former Soviet Union (excluding Tajikistan) hold positions above the Russian ones in the rating. Thus, Estonia occupies 22nd place, Lithuania – 40th, Latvia – 44th, Moldova – 52nd, Ukraine – 71st and Kazakhstan – 93rd. ●

STATE BUDGET

I.Sokolov, E.Fomina

The fulfillment of the main priorities of the state socio and economic policy requires a considerable amount of budget expenditures. At the same time over the first half of 2009, which is characterized by a relative worsening of the external economic situation with prices and demand for the main kinds of mineral resources used as sources of power, a significant reduction of the monetary flows redistributed through the budget system occurred. The misbalance between the revenue part of the federal budget and the adopted expenditure liabilities has aggravated, which increases the risks of the expanding the scales of the debts, which, in its turn, may further lower the stability of the country's financial system.

Analysis of the main parameters of the execution of the budget of the enlarged government over January-May 2009

The scale of the government participation in anti-crisis management of the Russian economy is primarily defined by the volume of the resources redistributed through the budget system. As a result of five months of 2009 the volume of the revenues of the budget of enlarged government has reduced by 6.2 percentage points of the GDP as compared with the corresponding period of 2008, the expenditures, in contrast, increasing by 8.3 percentage points of the GDP (see table 1). Thus, for the first time over 5 months of the current year there has been registered a deficit of the budget of enlarged government (-1.1 percentage points of the GDP). It is obvious that in case the existing situation at the world trade markets persists in the forthcoming months of 2009 there will be further aggravation of the misbalance of the budget of the enlarged government observed.

Table 1

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

	2009		2008		Deviation as percentage of the GDP
	As RUR billion	As percentage of the GDP	As RUR billion	As percentage of the GDP	
Federal Budget					
Revenues	2641.4	18.6	3700.2	24.0	-5.4
Expenditures	3118.0	21.9	2388.5	15.5	+6.4
Deficit (-) /Surplus(+)	-476.6	-3.3	1311.6	8.5	-11.9
Consolidated Budgets of the Subjects of the Russian Federation					
Revenues	2309.0	16.2	2460.2.3	16.0	+0.2
Expenditures	2056.9	14.5	1862.0	12.1	+2.4
Deficit (-) /Surplus(+)	252.1	1.8	330.4	3.9	-2.1
Budget of the Enlarged Government					
Revenues	5048.2	35.5	6410.8	41.7	-6.2
Expenditures	5210.9	36.6	4357.3	28.3	+8.3
Deficit (-) /Surplus(+)	-162.7	-1.1	2053.4	13.3	-14.4
For reference: GDP, as RUR billion.	14219		15390		

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

Such a considerable decrease of revenues of the budget system of the country was a result of the influence of negative aftermaths of the global financial crisis and the weakening of the Russian economy which structure of export is still based on the export of raw materials which is highly unstable towards the external shocks. This is testified by the dynamics of the considerable decrease of the volumes of severance tax earnings and the profits from foreign economic activity. The inpayments of these taxes in the budget of the enlarged government reduced by 2.1 percentage points of the GDP and by 3.5 percentage points of the GDP, correspondingly, as compared with the corresponding period of 2008. The main reason for the reduction is a sharp drop of prices for mineral resources used as sources of energy due to the contraction of the demand for the production of oil and gas complex from importing countries suffering from the aftermaths of the global recession. Besides, it should be noted that in the 1st half of the current year the contracts of the foreign trade that were signed at the end of 2008 – the beginning of 2009 were to be executed, which was the peak of the crisis, when the prices for mineral resources used as sources of energy decreased considerably. Later some correction of oil and gas tax earnings to the budget system is possible owing to some improvement of the situation with prices for mineral resources used as sources of energy (table 2). The changes in severance tax administration have also influenced the amount of oil and gas earnings in the 1st half of 2009:

- the volume exempted from severance tax for oil production has been increased from USD 9 per barrel to USD 15 per barrel;
- starting with 2009 the quantity of the produced oil for the purposes of taxation is defined in units of pure mass;
- the list of the plots for which zero tax rate of the severance tax is applied has been expanded;
- the procedure for taking off the value of the license for the use of entrails for all the oil companies was changed.

Table 2

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

	2009	2008	Deviation as percentage of the GDP
Level of tax burden (1+2+3)	33.9	41.1	-7.2
Tax earnings (1), including:	25.7	29.7	-4.0
tax on organizations' profits	4.0	7.4	-3.4
incomes tax on natural persons	4.2	3.8	+0.4
single social tax*	2.3	2.1	+0.2
value added tax	5.7	5.6	+0.1
excises	0.9	0.9	0.0
severance tax	2.4	4.5	-2.1
Insurance fees for the compulsory pension insurance (2)	2.8	2.5	+0.3
Profits from foreign economic activity (3)	5.4	8.9	-3.5

* not taking into account the contributions into compulsory pension insurance

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

The decrease of the earnings of oil and gas sector resulted in the decrease of earnings from the profit tax. Besides, the financial situation of many Russian enterprises of

other branches of economy remains difficult. As a result of January-May 2009 the earnings from profit tax to the budget of the enlarged government reduced to 4.0% of the GDP versus 7.4% of the GDP a year ago (table 2). Such a considerable reduction in the earnings from the profit tax was mainly due to further growth of the proportion of unprofitable organizations in the economy and the reduction of the net balanced financial result of the activity of enterprises and organizations: over five months of 2009 the financial result of the real sector was RUR 1257 billion, which is half as much as the corresponding figure over the similar period of the previous year. It should be noted that the share of the unprofitable organizations in the total number of organizations increased by 6.8 percentage points and was equal to approximately 38%.

Also, the contraction of the taxation base was influenced by some amendments and addenda to chapter 25 of the Tax Code of the Russian Federation coming into effect at the beginning of 2009 that concern the administration of the tax on organizations' profit and the improvement of the situation for the taxpayer, among which it is the increase of the amortization premium (ascription of a part of the initial value of the fixed assets to the expenditures) from 10 to 30% that has the biggest effect. Besides, starting with 2009 the rate of the tax on the organizations' profit was lowered by 4 percentage points (earlier 24, however against the background of the decrease of the profit at enterprises of the real sector this measure which was aimed at stimulating the investment growth of the companies has a very limited effect.

Against the background of a considerable reduction of the earnings from the tax on organizations' profit and severance tax, the volume of the budget revenues from VAT over January-May 2009 demonstrate some relative increase of earnings: the growth of the earnings from this tax to the budget of the enlarged government was 0.1 percentage point of the GDP. At the same time in absolute terms there was some reduction of earnings from VAT, the reasons for which are the executed measures for the improvement of the calculation and the administration of tax, including the abolition of the requirement to pay VAT in monetary terms while non-monetary ways of calculation, the exemption of the VAT payment for the technological equipment, granting the right to make VAT deduction from advance payments as well as the reduction of the volumes of production and commercial activity in the economy.

The positive dynamics of earnings from the incomes tax on natural persons is worth noticing: as a result of 5 months of 2009 the volume of earnings to the budget of the enlarged government reached 4.2% of the GDP, which is 0.4% of the GDP more than the figure for the corresponding period of the previous year should be noted. The explanation of this phenomenon consists in the anticipating rates of the reduction of the GDP as compared with the rates of the reduction of the personal incomes. Thus, according to preliminary estimations, the real disposable incomes of the population (profits deduced by the compulsory payments corrected by the index of consumer prices) in the 1st half of 2009 remained at the level of the corresponding period of the previous year, while the volume of the GDP in real terms reduced by 10.1% over the same period. At the same time, in 2009 a number of privileges contracting the taxation base for the tax on incomes of natural persons came into effect: the amount of the deduction for a child was increased up to RUR 1000, the sum of the income over the year under which such a deduction is applied was also increased (up to RUR 280 000); the sums of payments for education of employees and the compensation for the employees for the credit payments for purchase and construction of the housing were exempted from the taxation. The acceleration of the decrease rates of the level of personal incomes expected in 2009 in combination with the privileges mentioned should result in the contraction of the base for the incomes tax on natural persons.

Table 3

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

	January-April 2009		January-April 2008		Deviation as the percentage of the GDP
	as RUR billion	as percentage of the GDP	as RUR billion	as percentage of the GDP	
Expenditures, total	5210.9	36.6	4357.3	28.3	+8.3
including					
General state issues	457.9	3.1	456.5	3.0	+0.1
Including for the state and municipal debt service	92.2	0.6	78.0	0.5	+0.1
National defense	445.1	3.0	345.7	2.3	+0.7
national security and law enforcement	441.8	3.0	375.3	2.4	+0.6
National economy	752.2	5.1	517.0	3.4	+1.7
housing and communal services	253.2	1.7	237.1	1.5	+0.2
Environment protection	9.2	0.1	7.6	0.05	+0.05
Education	606.6	4.1	534.0	3.5	+0.6
Culture, cinematography, mass media	103.3	0.7	97.2	0.6	+0.1
Health care and sport	546.6	3.7	481.4	3.1	+0.6
Social policy	1594.4	10.8	1305.5	8.5	+2.3

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

The reduction of the revenues at the beginning of the year being obvious, the dynamics for the increase of the expenditures of the budget of the enlarged government sustained primarily due to the increase of the expenditures of the federal budget taking into account large-scale financing of the anti-crisis program of the Government. A considerable increase in the expenditures is mainly accounted for by the necessity to support the aggregated internal demand. Thus, the Government intends to execute the liabilities that were taken earlier and planned for 2009 to the full extent; however their realization over the year proceeds at slower rates as compared with the parameters of the previous year.

The expenditures of the budget of the enlarged government made 36.6% of the GDP over January-May 2009 versus 28.3% of the GDP in 2008 (table 3).

Considerable volumes of the financing account for the article "National economy": 5.1% of the GDP in 2009 versus 3.4% of the GDP in 2008. The financing by the article "Social policy" has reached a record-breaking level over the first five months of the current year, which makes 11% of the GDP versus 8.5% of the GDP in 2008. The substantial increase of the volume of the government means are annually directed to financing of the articles "National defense", "National security and law enforcement". The liabilities of the state to finance these purposes were executed at the total volume of 6.0% of the GDP over 5 months of 2009, which is 1.3 percentage points higher than the figures of 2008 for these directions in total.

Execution of the Federal Budget of the Russian Federation in January-June 2009

According to the live data of the Ministry of Finance of the Russian Federation the revenues of the federal budget over the first half of 2009 were equal to 17.7% of the GDP, which is 5.2 percentage points lower than the figure of 2008, while the expenditures

exceeded the level of the previous year by 6.3 percentage points of the GDP and reached the level of 22.0% of the GDP.

The reduction of the volume of the profits of the federal budget in the period of January-June 2009 both in the absolute and in the relative terms as compared with the corresponding period of the previous year was a result of both the external and internal factors. On one hand, it was due to the decrease of the oil and gas revenues, the result of which was the reduction in earnings from the severance tax and the decrease of revenues from the foreign economic activity. On the other hand, the aftermaths of the financial crisis had a negative effect on the situation in the Russian economy, leading as a result to the reduction of revenues of the federal budget other than oil and gas revenues.

Table 4

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

	January-May 2009		January-May 2008		As per-centage to the rev-enues and expendi-tures of the budget	Deviation	
	As RUR billion	As per-centage of the GDP	As RUR billion	As per-centage of the GDP		As RUR billion	As per-centage of the GDP
Revenues, including:	3168.3	17.7	4370.7	22.9	47.2	1202.4	-5.2
Oil and gas revenues	1053.5	5.9	1716.8	8.9	51.2	663.3	-3
Expenditures, including:	3921.9	22.0	2995.6	15.7	40.1	926.3	+6.3
expenditures for interests payments excluding expenditures for interests payments	85.7	0.5	74.9	0.4	36.5	10.8	+0.1
Surplus of the federal budget	3836.3	21.5	2920.7	15.3	40.2	915.6	+6.2
Deficit not connected with oil and gas	-753.6	-4.2	1375.1	7.2	24.6	-621.5	-11.4
Estimation of the GDP	-1807.1	-10.1	-341.7	-1.8%	35.3	-1465.4	-8.3
	17868.8		19112.8				

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

A significant increase of the expenditures over the period of the current year under consideration versus the similar period of 2008 is accounted for by the large-scale financing of a number of anti-crisis measures aimed at supporting the real sector of the economy, accelerated indexation of social payments due to be executed in 2009 as well as by lower nominal volume of the GDP in the current year.

The unevenness of the execution of the federal budget with regard to expenditures which was observed for the several previous years, in 2009 against the background of the sustaining need of financial support of the branches of the Russian economy has a negative effect on the economic dynamics. Thus, over the 1st half of the current year only 40% of the means of the federal budget was spent, and nearly 8% was financed in June of the current year, which was due to the final approval of the anti-crisis program of the Government by the Prime Minister and the start of its accelerated execution.

According to preliminary estimations of the execution of the federal budget over 6 months of 2009, the budget is executed with the deficit of 4.2% of the GDP, the volume of non-oil-and-gas deficit being more than 10% of the GDP. Thus, if the dynamics of the accumulation of the budget deficit continues in the second half of the current year, one can with good reason assume that the deficit of the federal budget may well be above the established mark of 7.4% of the GDP.

At present the deficit of the federal budget is covered by the means of the Reserve fund: over the year RUR 1.6 trillion of the means of the fund was withdrawn. As on July, 1st

the volume of means in the Reserve Fund was equal to nearly RUR 3 trillion. Table 5 demonstrates the dynamics of earnings and expenditures of oil and gas funds over January-June 2009. The total amount of earnings over 6 months of 2009 to the Reserve Fund of the Russian Federation and to the Fund of the National Welfare made RUR 275.1 billion (1.5% of the GDP), while the financing of the budget balance used about RUR 1435.4 billion (8% of the GDP). As a result of the 1st half of 2009 the volume of the Reserve Fund taking into account some differences in exchange rates decreased by 26.6% or by RUR 1070.1 billion. It should be noted that the rates of the reduction of the volume of the fund exaggerate a little the scale of the problem of provision the stability of the federal budget, since the volume of the funds transferred from the fund over the 1st half of 2009 (all in all about 9% of the GDP) considerably exceed the deficit of the budget over the corresponding period, which is equal to 4.2% of the GDP. Consequently, the excessive volumes of the transferred funds have not been used and are now on the accounts of the Treasury.

Table 5

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

Index	Remainder of the funds by the end of 2008	Established by the budget 2009	Received over January-May 2009	Used over January-May 2009		Remainder of the funds by the end of June 2009
				to provide the balance of the federal budget	to provide gas and oil transportation	
Oil and gas revenues of the federal budget	x	2 057.2	1097.2			x
Directions of use of oil and gas revenues:	x	x				x
• Oil and gas transfer	x	2 531.1			1265.6	
• Reserve fund	4 027.6	5 147.5	205.0	1435.6	168.4	2957.5
• Fund of National Welfare	2 584.5	x	70.1	–	–	2 813.9
Total	6612.1	x	1372.3	1435.6	1434.0	5771.4

Source: Federal Treasury

In addition to the Reserve Fund in 2009 it is planned to cover a part of the deficit with the internal; loans. Out of RUR 530 billion the Ministry of Finance of the Russian Federation placed the bonds at the sum of RUR 115 billion, and taking into account the liabilities settled over the period, internal loans added RUR 176.7 million to the budget. The possibility of some increase of the external state debt is also being considered.

Table 6 demonstrates the dynamics of execution of the expenditures of the federal budget according to the classification of the budget expenditures by functions. As one can see from the data presented in the table the evenness of the cash execution of the budget remains at the level of 2008. Some improvement of the figures is observed for the directions of “National defense” (2 percentage points) and “Social policy” (1.4 percentage points). The lowest figures of the use of the funds envisaged by the federal budget as a result of 5 months of 2009 is registered the articles “Housing and communal services” (16.6% versus 19.2% a year ago) and “Health care and sport» (24.5% versus 23.6% a year ago).

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

	January-May 2009	January-May 2008
Expenditures, total	31.9	32.2
including		
General state issues	28.2	27.0
Including for the state and municipal debt service	36.5	34.5
National defense	35.0	35.7
National security and law enforcement	26.5	25.9
National economy	16.6	19.2
housing and communal services	28.9	29.4
Environment protection	29.9	29.3
Education	28.7	34.1
Culture, cinematography, mass media	24.5	23.6
Health care and sport	33.0	31.6
Social policy	34.5	36.2

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

It should be acknowledged that the measures of the government support though they somewhat contribute into the alleviation of the negative aftermaths of crisis phenomena, nevertheless cannot create the basis for the necessary structural renovation of the Russian economy. The adopted mechanism for the fulfillment of the measures declared by the Government is a statement rather than a purpose program. At the same time, the absence of the connection between the measures for support of the sectors of the economy and the achievement of particular results, in our opinion, lowers the efficiency and the transparency of the program that is being fulfilled.

When fulfilling the state programs for the reanimation of the domestic economy it is important to prevent the expansion of the government intervention in the spheres of the economy that do not have such needs. In our opinion, the mechanism for the support of the real sector of the economy is not used to a sufficient extent with the help of the instruments of state-private partnership.

Main events in the Sphere of Budget Policy in July 2009:

On June 1, 2009 the State Duma has approved the first reading of the bill "On making changes to the Budget Code of the Russian Federation and article 45 of the Federal Law "On the Central Bank of the Russian Federation (Bank of Russia)", according to which the period for submission of the project of the federal budget for 2010-2012 to the State Duma of the Russian Federation is prolonged by more than a month – up to October, 1st, instead of August, 26th as it is at present. In the environment of the crisis and low predictability of the main forecast parameters of the budget planning this measure seems to be quite reasonable, since it reduces the risks of financial and economic miscalculations, diminishing the gap between planning and coming into effect of the law on the federal budget.

However the bill envisages establishing the indices for the execution of the federal budget, budget revenues and expenditures and limits for budget liabilities only for 2010, which in fact is the return to one-year budget and contradicts the aim of strategic budget planning that was declared earlier. Besides, the measure will decrease the transparency of middle-term prospects that are rather vague, worsening understanding of the

fiscal policy that will be pursued by the Government of the Russian Federation in the forthcoming years by the society. It should be noted that distinct targets of the pursued government policy are very important for reanimation of the domestic economy.

On July 10, 2009 the Ministry of Finance of the Russian Federation declared the ways of finding additional revenues for the budget system. The possibilities and consequences of increasing severance tax with regard to gas, transportation tax and the state duties rate being considered, the increase of excises additional to the level established for 2010 is one of top priorities. The total effect for the budget from the indexations suggested by the Ministry of Finance of the Russian Federation is expected to be at the level of RUR 241 billion, of which approximately RUR 90 billion will be accounted for by the excises for alcohol-containing products. For this purpose, the Ministry of Finance of the Russian Federation suggests increasing the rates for alcohol-containing products by 20% versus the established rates for all groups of goods excluding the beer, for which the rates are planned to be increased by threefold versus the level of 2009.

In our opinion, the expected volume of the additional earnings only due to the increase of excise rate seems to unlikely even when compared with the real earnings in 2008, when about RUR 120.5 billion was collected with this group of excisable goods. Taking into account the possible reduction of the volumes of production and sales of the alcohol-containing goods in 2009 as well as 10% level of rates indexation versus the level of 2008 envisaged by the Tax Code it can be expected that the amount of the earnings from excises for alcohol-containing products will not exceed the level of 2008 in 2009 in absolute terms. Consequently, the possibility for additional revenues of the amount of RUR 90 billion (exceeding by 75% the level of 2008) in fact is connected only with the forthcoming indexation of rates, since one cannot really count on the expansion of the taxation base for alcohol-containing products.

In this connection it should be acknowledged that though the rates for the alcohol-containing products have been indexed in recent years at lower rates than the inflation in the country, from the fiscal point of view only negligible increase of excise rates for alcohol products containing more than 9 per cent of ethanol by volume and for beer may seem reasonable. In the environment of the decrease of the real incomes of the population and the worsening of the financial situation of the enterprises of the branch, a large indexation will contribute to further growth of the shadow sector of the economy which in its turn will reduce general taxation earnings of the budget. At the same time the measures suggested by the Ministry of Finance of the Russian Federation aimed at non-tax counteraction to illegal turnover of alcohol-containing products, excluding the requirement to introduce minimum retail prices for vodka and alcoholic beverages, established by the producing enterprises will hardly result in considerable positive effects.

The threefold increase of the excise rate for beer will result in some increase of the retail price. Thus, in 2009 the share of excise and VAT in the price of a bottle of beer of 0.5 l makes about RUR 1.77. In case the rate is increased by threefold, this share will be equal to RUR 5.31, which will make each bottle by RUR 3.5 more expensive. This will be especially noticeable for the beer of middle and low price segment (up to RUR 20-23 per the bottle of 0.5 l), which consumption is the most popular. And although the beer belongs to goods of low elasticity to price, this measure may result in additional decrease of the volume of the demand in this segments, and, consequently to some contraction of the taxation base of excises and VAT.

On July 21, 2009 at the meeting devoted to the main directions of the budget policy and main characteristics of the social budget for 2010-2012 the Prime Minister of the Russian Federation, Vladimir Putin declared, that in 2010 the rate of the pensions in the

Russian Federation will increase by 45.9% and the average rate of the retirement old-age pension will exceed RUR 8 thousand. It is also expected that starting with next year the procedure for the definition of the pension rate will change towards the increase when accounting the real labor contribution of the employees when calculating the pension rate. At present the improvement of the pension system and the increase of pensions remains one the top priorities of the budget policy and hence the liabilities taken up by the government in this sphere are to be executed to full extent, including from the means of oil and gas funds. ●

ANTI-CRISIS EFFECT OF BUDGET EXPENDITURES

L.Freinkman

As A. Klepach, the Deputy Minister of Economic Development, has recently recognized, unsatisfactory economic results of the 2009 first six months were directly provoked by the ineffective measures of the budget support to the economy and slow federal budget execution.

How much is this criticism motivated? At the first glance, significant upsurge of federal expenditures has been observed. Within 5 months they have increased (in nominal terms) by RUR 730 bln, or by 30 per cent as compared with the relevant period of the preceding year. The budget deficit has amounted to about a half of trillion rubles, (against the federal budget surplus of RUR 1.3 trillion in 2008). Why the effect of the surplus expenditures is so small?

There are several factors, which have caused a sharp reduction of the impact of budget policy on the real sector. One of them is the slow budget execution, despite the impressive growth of expenditures. Within 5 months only 31 per cent of the funds, provided by the Law on the Federal Budget for 2009, has been spent. The expenditure rate for such important budget items, as the national economy and housing utilities sector, which provide a significant potential impact on the total demand was even lower - respectively 27 per cent and 16.5 per cent of the annual plan. In accordance with the Budget Law, monthly expenditures should amount to RUR 815 bln, but meanwhile they were significantly lower for all months, except for April. (Fig. 1).

In general, the budget execution rate was slightly lower than in preceding year. Therefore, if current trends are sustained, an inadequately large share of government expenditures will be initiated at the end of the year, when it can no longer significantly impact the economic dynamics in 2009. In 2008, 40 per cent of the annual budget expenditures were carried out in the IV Quarter of the year. Despite some known solutions, addressed at increasing the flexibility of the public procurement procedures and at the enhancement of opportunities to

provide advanced payments to the state subcontractors, currently there are no grounds to believe that the situation will be significantly changed this year. It can be assumed, that the main upsurge of expenditures will be carried out with a significant delay, after the most severe phase of the crisis, in a period, when the most difficult stage of recession will be over.

The main reason for the slow implementation of the government anti-crisis

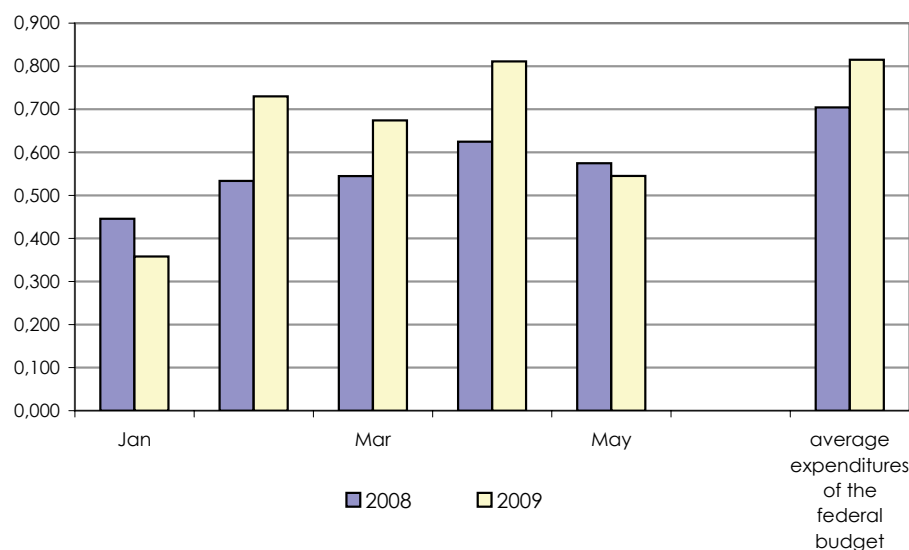


Fig. 1. Monthly expenditures of the federal budget within 2008–2009, RUR trillion

program, in our view, is its structure, in which an irrationally large part of effort is aimed at the support of the existing companies and organizations, rather than at the final demand (as well as the overall economic dynamics). Preparation of the program took so much time due to its basic principle of organization, i.e., the allocation of various subsidies to enterprises, rather than expanding the effective programs of public procurement, construction and welfare benefits. Compilation of various lists of public support recipients was implemented under a pressure from numerous lobbyists and took nearly six months. The final version of anti-crisis program was approved by the Prime Minister only in June.

Another factor, undermining the anti-crisis impact of the budget expenditures is related to the budget expenditures structure. The basic part of implemented expenditures' growth was allocated (Fig. 2) to: defense and security, to national economy and transfers to the regions. It's difficult to estimate the stimulating effect of surplus expenditures on the defense, but as to the two other targets of expenditures, their impact on slowing economic recession was apparently rather limited.

The growth of transfers to the regions to a large extent was of compensation nature for the losses of regional budgets proceeds and could not lead to the commensurate increase in expenditures of the Federation Subjects. Indeed, with an increase of transfers to RUR 294 billion rubles within 5 months, as compared with the previous year, regional expenditures increased only by RUR 195 billion, which is 30 per cent less than the growth of transfers. The greatest share of the increase in regional expenditures was addressed to fund social needs and it can be assumed, has provided the direct and efficient impact on the support of domestic demand. Regional social expenditures have grown by RUR 85 billion, the total expenditures on education and health care (including the territorial funds of health insurance) increased by RUR 90 billion. However, the opportunities of expanding the regional budgets in the current year under the effective law are 3 times less than the level of expenditures, planned in the estimated federal budget.

Moreover, the execution of regional budgets is even slower than that of the federal budget. Regional expenditures have increased within 5 months on 2009 only to 10.5 per cent, as compared with the last year. As a result, despite the crisis and common complaints about the shortage of assets, the total regional governments have demonstrated a fairly significant surplus of RUR 252 billion, what makes 12 per cent of all expenditures made by them since the beginning of the year (i.e., the accumulated reserves are sufficient to fund all budget expenditures of the Federation Subjects for 3 weeks). In other words, regions, above all, the wealthiest ones, even more than the federal center, are shifting their expenditures towards the end of the year.

The growth of federal expenditures for the national economy was formed so far from

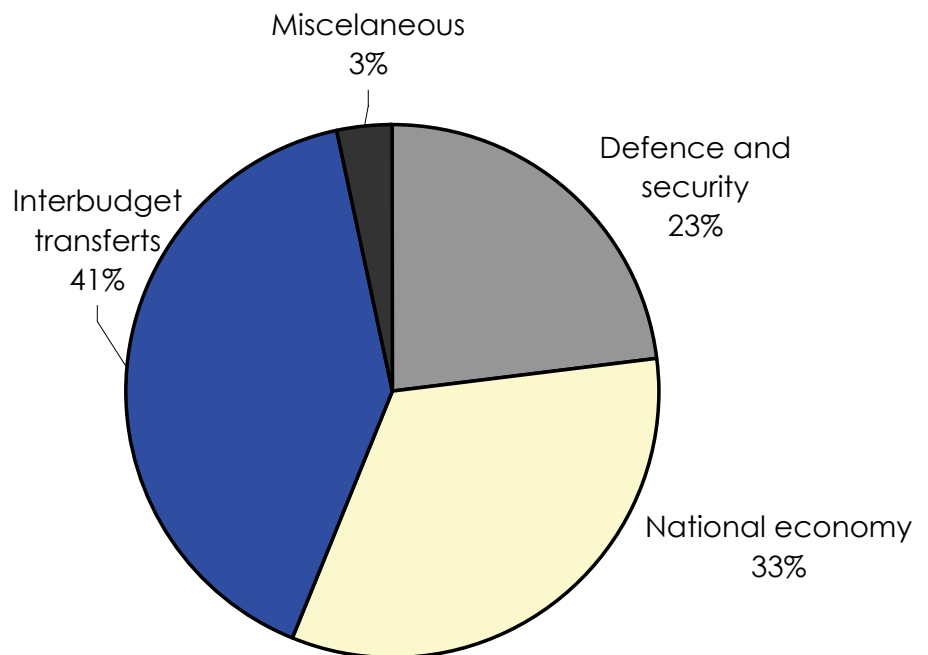


Fig. 2. Structure of federal budget growth in 2009 versus 2008

two roughly equal shares. One of them is an increase in support to such industries as agriculture, transport and road facilities (total growth within 5 months reached RUR 110 billion, as compared with the relevant period of the preceding year). Together with the social expenditures, such programs have traditionally been the core of any program in the anti-crisis fiscal measures. With all the skepticism of economists in respect to, for example, agriculture support measures, such program is a proven tool for smoothing the most serious consequences of the economic crisis. It can be assumed, that their share in Russian program should be higher, but their implementation during crisis should be pursued more aggressively.

The second part of the actual increase in budget expenditures on the economy is related to the surplus funding of «other issues of national economy» (the corresponding growth is by RUR 124 billion). This is a rather nontransparent expenditure line. Our analysis shows, that the bulk of the expenditures, financed under this budget line, is related to contributions of the Government to the statutory funds of the large public companies, such as the Russian Agricultural Bank (RUR 45 billion), Federal Network Company and other electric power companies (RUR 37 billion), large enterprises of aviation industry (RUR 22 billion). These budget expenditures make, probably an important part of the long-term government strategy, but it is difficult to expect an immediate anti-crisis effect from them. Those assets will be spent by their recipients for a sufficiently long period of time during which they will, at best, help to maintain the liquidity of bank system.

In our view, namely this is part of the budget expenditures has become an important source of recent growth in the liquidity of banks, in particular, the excessive bank reserves (grown by nearly 40 per cent in April-June, Fig. 3). In this regard, the effective fiscal policy works in favor of strengthening the stability of the financial sector, but the way it is pursued is indirect and rather costly. Since the improvement in liquidity has not yet led to an increase in crediting the real sector, it is too early to speak of a serious anti-crisis impact of such expenditures.

When analyzing the structure of the budgets of this year, both federal and regional ones, there comes under notice the low growth in spending for housing facilities. In the plans of regional governments (for the main source of budgetary expenditures on housing facilities in the regional budgets) for the current year there is foreseen the increase of such costs only by 5.9 per cent, which is half of the inflation rate. Budget execution within 5 months of 2009 was even lower, the growth made only 4.4 per cent in consolidated expenditures of the regions.

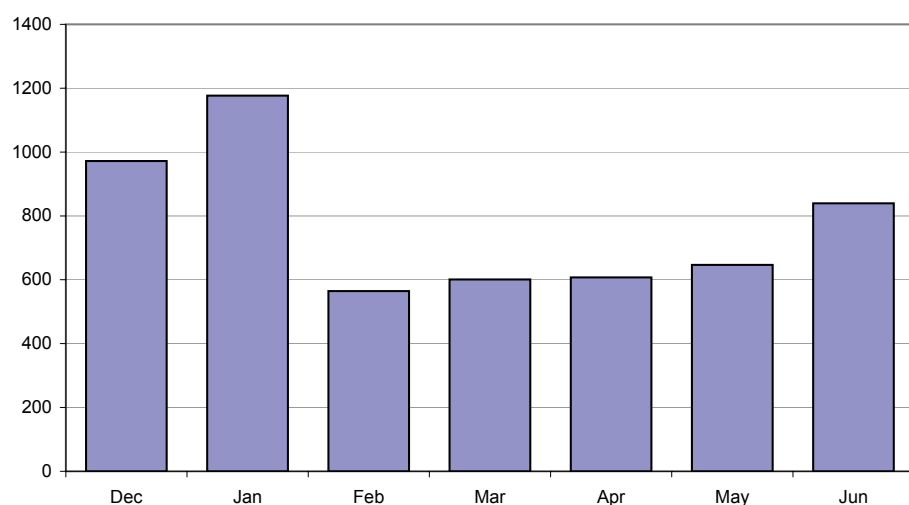


Fig. 3. Surplus reserves of commercial banks as of beginning of each month within December 2008 – first six months of 2009, RUR bln

It would seem that the expansion of housing repairs and utilities should be a high priority during the crisis. On the one hand, such costs are visible to the people and more popular in political terms than subsidies to the banks and oligarchs. On the other hand, such programs are quite labor taking and provide wide opportunities to directly support employment in the construction sector -

one of the most affected sectors during this crisis, and through it - a number of related industries.

Moreover, the increase of investments in the repair of housing utilities would be in full compliance with the declared priorities of the Government activities, including the improvement of housing utility conditions to the population and support to the small business. Nevertheless, none of this is not yet happening.

Another important institutional reason for the constraints in the execution of the budget expenditures rate (which in today terms means the reduction of anti-crisis effect on public expenditure) is associated with the state system of public procurement in the country. The existing system at the same time is corrupted and slow. The effective set of rules is unnecessarily strict and superfluous, which in most cases makes any attempt to conclude a contract for the supply of works and services to the state turns it in an “endurance test”. Herewith, the effective system leaves room for manipulation in terms of its formal compliance with all established rules and regulations. It seems that if there is political will, the effectiveness of national procurement could be greatly enhanced by making it both, more flexible in terms of decision-making and the transparency of the results of those decisions. There is a successful international experience in this area, which could be used in Russia, if desired.

Therefore, in our view, it looks, that in comparison with the well-organized program of effective program for the fiscal crisis suppression incentives, currently the budget system has demonstrated inability to implement timely the priorities of macroeconomic policy and is characterized by low efficiency of expenditures targeting. In the effective system the growth of budget expenditures within the first months of the current year should have been, in the rough estimates, by 2/3 higher than those we have run yet, and the share of expenditures, providing direct and immediate anti-crisis effect, should be 1.5 times higher than the levels, observed in the outcome of the federal budget execution for the first 5 months of the current year. ●

MARKET OF HOUSING MORTGAGE IN THE RUSSIAN FEDERATION

G.Zadonsky

By June the volumes of housing loans had ceased to decrease, though the level of crediting remains low as compared with the previous year. There evolved a trend for the decrease of credit rates. The proportion of the stale debt in the debt remaining for mortgages is still increasing.

According to the data of the Central Bank of the Russian Federation, from 1 January to 1 June 2009 there were 47 432 housing loans issued of the sum of RUR 54 093 million. Out of this sum RUR 43 885 million was accounted for by mortgages (34 786 mortgages). The dynamics of the credit issuing is represented in fig. 1. In April and May 2009 there were housing credits worth RUR 22 664 million issued, out of which RUR 19 447 are accounted for by mortgages. These data testify that the volumes of crediting ceased to decrease, though issue of credits remains at a considerably lower level than in 2008.

Starting with July 13, 2009 the Bank of Russia decreased the refinancing rate by 0.5 percentage points down to 11.0% versus the rate of 13% per annum that was in effect from December 1, 2008. Following the decrease by the RF Central Bank, open joint-stock company Agency for Home Mortgage Lending (AHML) reduced the rates for mortgage credits, thus, the minimal rate is now equal to 11.05%, and the maximum depends on there being the private insurer for the borrower and is 13.71% without insurance and 13.01% - with insurance.

According to the data of the Central Bank of the Russian Federation, the average weighted interest rate for the mortgages in rubles issued from the beginning of the year remained

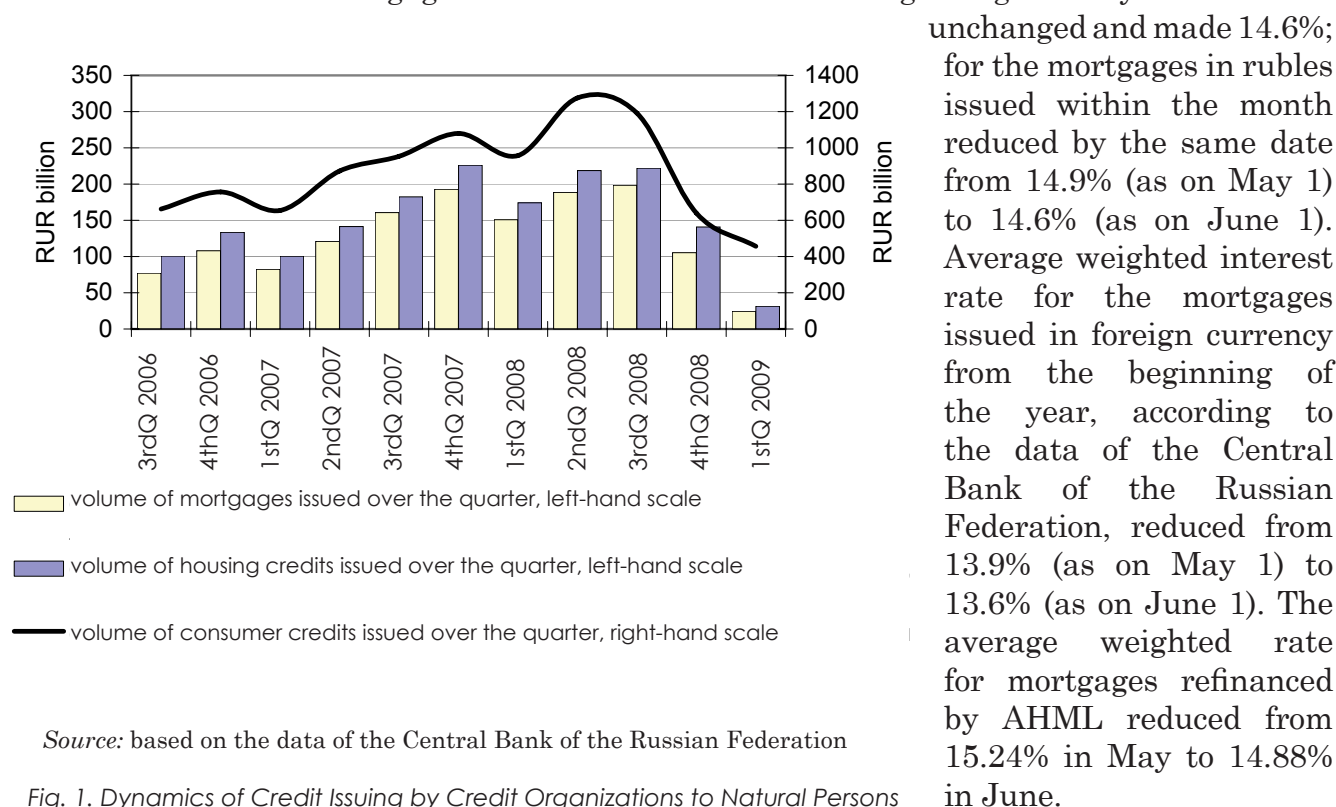


Fig. 1. Dynamics of Credit Issuing by Credit Organizations to Natural Persons

Table 1

AVERAGE MARKET RATE FOR CREDITS IN RUBLES AND DOLLARS, AS PERCENTAGE

Credit product		April 2009		May 2009		June 2009	
		Min	Max	Min	Max	Min	Max
Credit for purchase of accommodation at the secondary housing market	Credit in rubles	18.40	19.89	18.48	19.92	18.42	20.29
	in dollars	14.33	16.27	14.21	16.18	14.12	16.17
Purposeful credit on security of the present object of housing	Credit in rubles	20.64	21.70	20.68	21.74	19.85	21.49
	in dollars	14.91	16.25	14.91	16.31	15.06	16.53
Credit for purchase of a house with a land plot at a secondary housing market	Credit in rubles	18.26	19.83	18.61	20.10	18.31	19.76
	in dollars	14.68	16.45	14.73	16.29	15.27	16.75

Source: according to the data of Kreditmart

According to the data of Kreditmart the average market rate for mortgage credits in June 2009 reduced by 0.23 percentage points and made 19.69% (19.92% in May 2009). As compared with January 2009 (18.22%) the growth of average market rate for ruble credits made 1.47 percentage points. As compared with May 2009, the average market rates for credits in dollars increased in June and in absolute terms the average rate was 15.65% (14.49% in January 2009). As compared with January 2009 the growth of the average market rate for credits in dollars made 1.16 percentage points.

Average weighted crediting period for the mortgages in rubles issued since the beginning of the year has increase a bit, according to the data of the Central Bank of the Russian Federation, and made 200.6 months by 1 June (16.72 years), and for credits in foreign currency there was a decrease of down to 125.3 months (10.4 years). Average weighted period of crediting for housing loans issued in rubles and in foreign currency since the beginning of the year have, according to the data of the Central Bank, continued to decrease and were equal to 189.7 months (15.8 years) for housing credits in rubles and to 104.4 months (8.7 years) for credits in foreign currency.

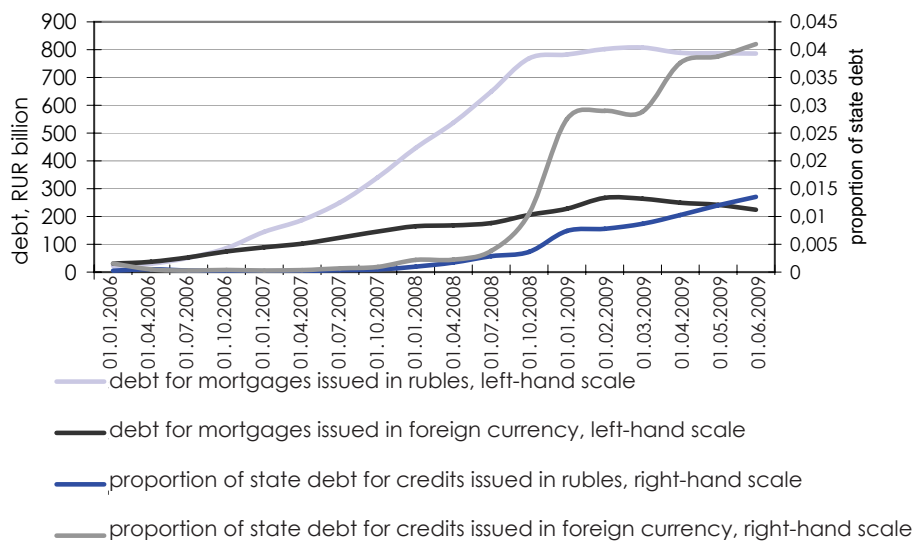
The proportion of mortgages in foreign currency in both the volume of the issued credits and in the outstanding debt continue to decrease and by 1 June, according to the data of the Central Bank of the Russian Federation are equal to 22.2% in the outstanding debt and 5.92% in the volume of mortgages issued since the beginning of the year. The same trend persists for the housing credits on the whole.

The proportion of the stale debt in the outstanding debt for mortgages issued in foreign currency continues to grow at higher rates than that for mortgages issued in rubles. Since the beginning of 2009 the growth of the volumes of outstanding debt for mortgages both in ruble and in foreign currency was substituted with the reduction. The trends for the housing loans in general are similar. The proportion of the stale debt in the outstanding debt for housing loans made 1.61% on June, 1st, for mortgages – 1.96% (fig. 2)

As a result of 2008 the net profit of open joint-stock company “Agency for home mortgage lending” made RUR 1.012 billion, which exceeds the profit of 2007 by 60% (RUR 664 million).

Open joint-stock company “Agency for home mortgage lending” established the conditions for the refinancing of the mortgages for a year in advance, for the period from the 4th quarter 2009 to the first half 2010, including.

The optimistic variant of the Agency’s business plan for the second half of 2009 envisages that in 2009 the contracts of the refinancing of the volume of RUR 112.3 billion will be made, including the contracts of RUR 66.5 billion to pay off the mortgages, of RUR 4.6 billion to launch new projects of mortgages, of RUR 41.2 billion to pay off the mortgages for the housing finished in concordance with the project on stimulating the construction and crediting the borrowers at the primary market.



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

Fig. 2. Dynamics of Outstanding and State Debt on Mortgages in Rubles and Foreign Currency

In August 2008 in concordance with the requirements of the Federal Antimonopoly Service to AHML and 50 insurance companies, the Agency allows the credits (loans) issued after July 1, 2009 not having the private insurance for borrowers. The refinancing rate for such credits will be higher than for the similar contracts if there is the contract for private insurance by the value of the insurance margin of 0.7% which will be in effect up to the end of 2009.

In July 2009 the Federal Antimonopoly Service started the proceedings concerning the violation of the antimonopoly legislation in concerning two other banks and a number of insurance organizations.

In June the increase in the number of the credits refinanced by AHML made 1 752 credits of the sum of RUR 1 941 68 million. On June 30, 2009 the remaining debt made RUR 147 968 million.

According to the amendments to the national project “Affordable and comfortable housing for the citizens of Russia” considered at the Board on the realization of the priority national projects by the President of the Russian Federation, as soon as 2012 a quarter of the Russian families will be able to afford a flat at the mortgage rate of 10%. The basis for this will be the increase in the implementation of the residential buildings of economy class from 5% out of planned 52 million sq.m. to 25% of the planned 65 million sq. m. in 2012. As a result the coefficient of the availability of the housing (the ratio of the average market price of a standard flat of 54 sq. m. and the average income of a family of three people) will decrease from 5.3 of the annual income in 2008-2009 to 4 by 2012.

The data by AHML will allow estimating the coefficient of accessibility of the housing offered by real mortgages refinanced by AHML in March-June 2009.

Table 2

COEFFICIENT OF ACCESSIBILITY OF HOUSING BASED ON MORTGAGES REFINANCED BY AHML

Name of a federal okrug	03.2009	04.2009	05.2009	06.2009
Central	3.68	3.24	2.92	3.01
North-Western	3.31	3.26	3.28	3.22
Southern	3.62	3.45	3.61	3.09
Privolzhsky	3.30	3.22	3.23	3.02
Urals	3.32	3.10	3.11	2.95
Siberian	3.18	2.87	3.11	2.93
Far Eastern	3.35	3.12	2.87	2.67
Total throughout the Russian Federation	3.34	3.14	3.17	3.02

Source: based on the data of OJSC AHML

Amendments to the legislative acts presented at the meeting of the Presidium of the Government of the Russian Federation envisage the reduction of the period of registration of the mortgages for buildings and land plots by half from one month to 15 days, and of registration of accommodations – down to 5 workdays. The amendments were aimed at the acceleration of the turnover of immovable, reduction of costs and liquidation of the corruption in the sphere of “acceleration” of the registration.

The head of Sberbank has suggested improving significantly the procedure for acceleration of the recovery in out-of-court way of the immovable property, mortgaged by corporate banking credits, which was introduced in the banking policy at the beginning of the year.

The board of directors of Sberbank approved the deal on uniting the credit histories of Infocredit (which main stockholder is Sberbank) with the bureau Expirian-Interfax and creation of a new bureau, whose joint base will have approximately 14 million of credit histories. Currently the National bureau of credit histories and Equifax Credit Services have approximately 20 million credit histories each, Infocredit has approximately 7-8 million of credit histories, Expirian-Interfax – about 7 million and Russian Standard – about 3.5 credit histories.

The holders of the bonds of Moscow regional mortgage agency have mounted suits to different courts trying to abolish the decision of Odintsovo court from December 2008 on the confiscation of the bonds of Moscow regional mortgage agency without success. The Agency has already allowed several defaults, the latest on July 22, when the company could not pay the coupon of the bond of the 1st series “in connection with lack of the necessary amount of monetary funds”.

VTB 24 intends to start a special program which will allow taking loans at the bank on privileged conditions at 10-11% per annum in rubles and with the initial contribution of 20% for the purposes of buying flats, which are in mortgage and with which there are problems with paying off the credit. ●

SMALL BUSINESS IN RUSSIA: STATE AND PROBLEMS

O.Izryadnova, E.Fomina, D.Kazantsev

Comparative analysis of the situation at small-scale enterprises demonstrates that starting with the 4th quarter 2008 there is an absolute decrease in the volume of the turnover, number of the employed and the investments in fixed assets observed at these subjects of entrepreneurial activity. The measures of the support for small- and medium-scale enterprises adopted and fulfilled in the 2nd quarter 2009 are oriented to stimulate the growth of the number of the economic entities in the Russian economy and to increase the availability of the financial resources for them. At the same time the measures to assist the modernization of the production facilities at existing small- and medium-scale enterprises, which contradicts the solution of the task of formation modern innovation and production structure of the Russian economy.

1. Situation at Small-Scale Enterprises in 1st Quarter 2009

As on April 1, 2009 the number of the small-scale enterprises registered on the whole throughout Russia made 227.6 thousand against 282.7 thousand as on January 1, 2009.

Table 1

DYNAMICS OF THE NUMBER OF ENTERPRISES AND THE NUMBER OF EMPLOYED AT SMALL-SCALE ENTERPRISES IN THE 1ST QUARTER 2009, NOT TAKING INTO ACCOUNT MICRO-SCALE ENTERPRISES

	Number of Enterprises, thousands		Number of employees (without those combining jobs), thousand of people	
	January 1, 2009	April 1, 2009	January 1, 2009	April 1, 2009
Russian Federation	282.7	227.6	6217.1	5741.7
Central Federal Okrug	82.1	73.1	1678.4	1674.5
North-Western Federal Okrug	31.4	31.1	812.7	668.8
Southern Federal Okrug	39.9	27.4	872.5	707.7
Privolzhsky Federal Okrug	58.8	47.1	1406.5	1295.3
Urals Federal Okrug	11.2	13.8	360.8	402.1
Siberian Federal Okrug	45.4	25.6	842.4	736.3
Far Eastern Federal Okrug	13.9	9.5	243.8	256.9

Source: Federal State Statistics Service

Against the background of sharp change in the functioning of the Russian economy under the influence of the global financial crisis and its spread in the real sector of the economy starting with the 4th quarter 2008 the gradual reduction in the number of work places at small-scale enterprises has been observed. The number of the employed has reduced by 475.4 thousand of people and was equal to 5.7 million of people as on April 1, 2009. The level of employment in the small business is considerably differentiated throughout the territory of the Russian Federation and has a serious influence on the situation at the regional labor market. As a result of the 1st quarter 2009 the most significant reduction of the employment was observed in Southern (164.4 thousand of people), North-Western (143.9 thousand of people), Privolzhsky (111.2 thousand of people), Siberian (106.1 thousand of people) federal okrugs. In Urals and Far Eastern federal okrugs, for which higher

figures of the level of employment in small business are characteristic, the number of the employed increased by, correspondingly, 41.3 and 13.1 thousand of people.

The analysis of the distribution of the registered small-scale enterprises by kinds of economic activities demonstrate that in the 1st quarter 2009 in the industry (divisions C+D+E) the number of the registered small-scale enterprises made 40.2 thousand, that is reduced by nearly 6 thousand since the beginning of the year. As a result, the number of the work places decreased by 55.9 thousand of people.

The business activity in the economy decreasing, the drop of the investment in fixed assets aggravating and the workload in construction decreasing, in the 1st quarter 2009 the number of the employed at the small-scale enterprises in construction decreased by 141.0 thousand of people.

It should be noted that in concordance with the Program of anti-crisis measures the adoption of the law allowing the educational and scientific organizations to create small-scale enterprises will partially solve the problem of employment of the graduates of the institution for professional education and will also contribute to the spread of the practice for purposeful contract preparation of the senior students on the basis of contracts with the enterprises. With the creation of more than 2.5 thousand of the small-scale enterprises it is expected that up to 30 thousand of workplaces will be made and primarily for the graduates of higher educational institutions.

The prevailing part of the enterprises and the workplaces at the small-scale enterprises is accounted for the trading enterprises and by the services for operations with the real estate. On the whole over the country the small-scale trading enterprises gave work for 14.2% of the employed in the kind of activity "wholesale and retail trade, repair of motor-vehicles, motorcycles, household appliances and items of private use". In the 1st quarter 2009 the number of the employed at small-scale enterprises decreased by nearly 229.9 thousand of people. It should be noted that the reduction of the number of the employed was observed in nearly all the federal okrugs and in all kinds of economic activities and was accompanied by the reduction of the scale of production and services output.

Table 2

TURNOVER OF SMALL-SCALE ENTERPRISES BY KINDS OF ECONOMIC ACTIVITY IN CURRENT PRICES, AS RUR BILLION, EXCLUDING MICRO-SCALE ENTERPRISES

	2008	Including by quarters				2009 I
		I	II	III	IV*	
Total:	10093.5	2072.9	2550.1	2751.9	2718.6	1832.5
Agriculture, hunting and forestry	170.7	32.8	35.2	50.7	52	37.7
Fishing, fish breeding	23.1	4.8	6.1	6.5	5.7	5.1
Industry	1418.7	280.6	365.8	403	369.3	242.2
Minerals extraction	59.8	10.5	13.9	19.7	15.7	7.9
Processing industries	1311.3	258.7	340.9	372.1	339.6	219.1
Electricity, gas and water production and distribution	47.6	11.4	11	11.2	14	15.4
Construction	1228.4	183	300.1	353.6	391.7	161.7
Wholesale and retail trade, repair of motor vehicles and motorcycles, household appliances, items of private use	6095.5	1332.5	1551.3	1615.8	1595.9	1120.6
Hotels and restaurants	106.7	23.1	28.4	27.9	27.3	32.0
Transportation and communication	306.7	61.7	75.1	94.4	75.5	61.9
Operations with real estate, rent and services rendering	627.4	131	157.9	168.3	170.2	142.8

* – according to authors' calculations

Source: Federal State Statistics Service

Starting with the 4th quarter 2008 in the majority of kinds of economic activities there is either the decrease in the turnover of small-scale enterprises or the sharp reduction in the increase of the turnover as compared with the previous year observed. It is obvious that in the 1st quarter 2009 as compared with the 1st quarter 2008 the decrease of the workload in construction by 19.3%, the retail trade turnover by 1.1%, the wholesale trade turnover – by 4.7% in the Russian economy had a negative effect on the nature of functioning of the small-scale enterprises.

On the whole as a result of the 1st quarter 2009 the turnover of small-scale enterprises made RUR 1832.5 billion or 12.4% of the turnover of all kinds of activities in the Russian economy, while the share of turnover of small-scale enterprises in the kind of activity “construction” made 31.8%, in fishing and fish breeding – 21.1%, in agriculture – 17.4%, in trade 16.4% and in the industry – 6.1%.

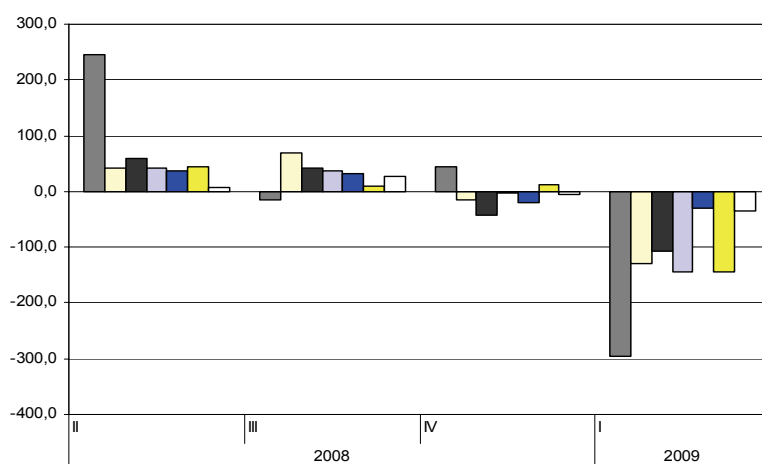
The structure of the turnover of small-scale enterprises was by nearly 55% formed by the enterprises of wholesale and retail trade and the change of the situation at the internal consumption and wholesale market had a prevailing effect on the positions of small business.

The decrease of the scale of operation of small-scale enterprises is most obvious in Central, North-Western federal okrugs, which account for nearly half of the absolute reduction of the turnover of the small-scale enterprises on the whole in Russia.

The contraction of the scales of economic activity has changed the situation in the investment sector. As a result of the 1st quarter 2009 the volume of investments in fixed assets on the whole throughout the economy has reduced by 15.6% including by large and medium-scale enterprises – by 5%. The most considerable decrease of the investments in fixed assets – by more than 40% - was observed in the segment of small-scale enterprises. The total volume of investments in fixed assets by the small-scale enterprises in the Russian Federation made RUR 41.4 billion in the 1st quarter 2009 while

the absolute volume of investment financing decreased by RUR 6.5 billion as compared with 1st quarter 2008 (in nominal terms).

As compared with the corresponding period of the previous year in the 1st quarter 2009 the change in the structure of investments in fixed assets by the small-scale enterprises as broken by regions was defined by the increase in the share of the Central, Southern, Urals federal okrugs the investment support for small business in Privolzhsky and Siberian federal okrugs reducing (fig. 2).



Federal Okrug	2008				2009
	II	III	IV	I	
Central Federal Okrug	245,8	-14,2	44,0	-296,9	
Noth-Western Federal Okrug	40,7	69,1	-16,1	-129,0	
Southern Federal okrug	59,2	41,8	-43,5	-106,0	
Privolzhsky Federal Okrug	42,5	37,8	-3,4	-143,7	
Ural Federal Okrug	36,0	31,3	-20,7	-30,0	
Siberian Federal Okrug	45,3	9,0	11,1	-144,4	
Far Eastern Federal Okrug	7,8	26,9	-4,9	-36,0	

Source: Federal State Statistics Service

Fig. 1. Change in Volumes of Turnover of Small-Scale Enterprises Versus the Previous Quarter As Broken by Federal Okrugs in 2008-2009, in Current Prices, as RUR billion

Table 3

VOLUME OF INVESTMENTS IN FIXED ASSETS BY SMALL-SCALE ENTERPRISES IN 2008-2009, AS RUR BILLION, IN CURRENT PRICES, EXCLUDING MICROENTERPRISES

	2008					2009
	total	including				I quarter
		I quarter	II quarter	III quarter	IV* quarter	
Russian Federation	317.4	47.9	73.0	91.5	105.0	41.4
Central Federal Okrug	55.2	11.8	11.1	14.9	17.3	11.6
North-Western Federal Okrug	20.9	4.2	5.4	6.4	4.9	2.6
Southern Federal Okrug	67.2	7.0	14.4	23.6	22.2	8.3
Privolzhsky Federal Okrug	84.9	12.9	17.0	24.8	30.2	8.9
Urals Federal Okrug	23.3	2.7	6.3	7.2	7.2	3.4
Siberian Federal Okrug	60.1	8.2	17.2	12.8	22.0	5.7
Far Eastern Federal Okrug	5.8	1.2	1.6	1.8	1.2	0.9

* – according to authors' calculations

Source: Federal State Statistics Service

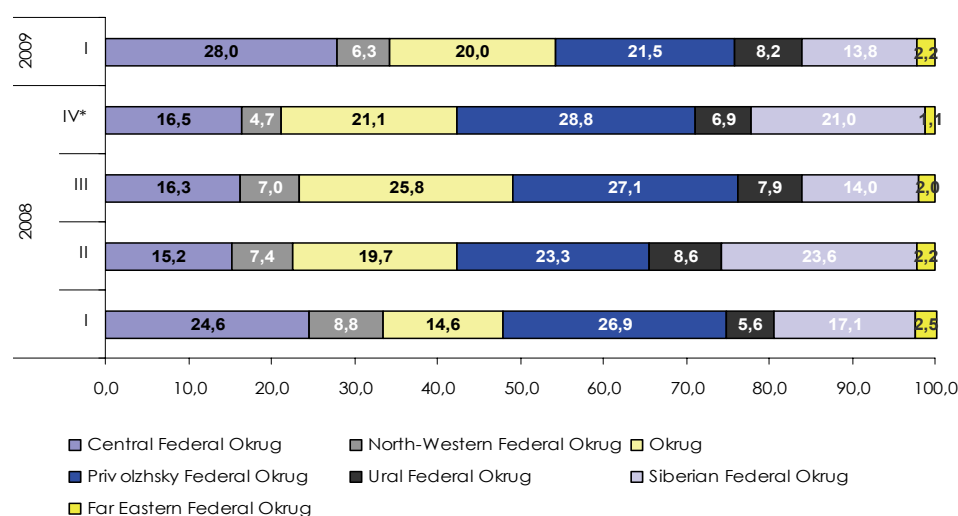
In January-March 2009 more than 3/5 of the structure of investments in fixed assets as broken by the kinds of economic activity was accounted for by the constructions, operations with the real estate and wholesale and retail trade. The investments in fixed assets of small-scale enterprises made 18.0% in industry and 8.2% in agriculture.

The key direction of the Program of anti-crisis measures is the support of small- and medium-scale business. In 2009 there will be RUR 40.5 billion allocated in 2009, which is by 11 times more than in 2008. In the current year the expenditures of the federal budget for the state support of the subjects of the small entrepreneurship will be increased up to RUR 10.5 billion, that is RUR 6.2 billion will be additionally allocated to the funds planned earlier.

In 2009 there is for the first time the possibility for advance transfer of subsidies from the federal budget for the development of small- and medium-scale business – up to 60% during 1st-3rd quarter of the current year.

The distribution of subsidies from the federal budget for the development of small- and medium-scale

entrepreneurship will be carried out in direct proportion to the share of small- and medium-scale enterprises operation in the territory of the region. When defining the level of co-financing the calculated budget security of a subject of the Russian Federation will be taken into account. This means that up to 80% of the expenditures for support of small- and



* according to authors' calculations.

Fig. 2. Structure of Investments in Fixed Assets of Small-Scale Enterprises as Broken by Federal Okrugs, as percentage to the total

medium-scale entrepreneurship will be financed in 78 subjects of the federation from the means of the federal budget.

Table 4

INVESTMENTS IN FIXED ASSETS OF SMALL-SCALE ENTERPRISES AS BROKEN BY KINDS OF ECONOMIC ACTIVITIES, AS RUR BILLION, IN CURRENT PRICES, EXCLUDING MICRO-SCALE ENTERPRISES

	2008					2009
	total	including				I quarter
		I quarter	II quarter	III quarter	IV*	
Total:	10093.5	2072.9	2550.1	2751.9	2718.6	1832.5
Agriculture, hunting and forestry	170.7	32.8	35.2	50.7	52	37.7
Fishing, fish breeding	23.1	4.8	6.1	6.5	5.7	5.1
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Hotels and restaurants	106.7	23.1	28.4	27.9	27.3	32.0
Transportation and communication	306.7	61.7	75.1	94.4	75.5	61.9
Operations with real estate, rent and services rendering	627.4	131	157.9	168.3	170.2	142.8

* – according to authors' calculations.

Source: Federal State Statistics Service

The requirement for the compulsory quota (up to 20%) for small-scale entrepreneurship in the state orders was applied not only for the state but also for municipal customers. This will allow, according to estimations, increasing the demand for the production of small-scale enterprises up to RUR 25 billion.

2. Measures to support and assist the development of small- and medium-scale business in Russia

In the 2nd quarter 2009 not only did the Government of the Russian Federation and the social organizations actively participate in the fulfillment of the measures for support of the small- and medium-scale entrepreneurship in Russia but also considered new initiatives and suggestions on improving the infrastructure for creation and further functioning of the small- and medium-scale enterprises. The strengthening of the support for this sector of the economy originates from the necessity to adapt the small- and medium scale enterprises to functioning in the environment of the crisis. The sector of small and medium business that is developing rapidly is one of the main reserves for the growth of the national economy.

The measures to improve the situation of enterprises of micro-, small- and medium-scale business concerned different aspects of their activity and can be conditionally divided in three following blocks.

Measures in the field of financial and fiscal stimulation

The same as at the beginning of the current year, in the 2nd quarter there remains a problem of availability of credit resources for the enterprises of small- and medium-scale

business, that is why the rendering of financial support was a top priority in the complex of measures to support small- and medium-scale enterprises, and the following measures may be highlighted:

- The decision on the increase of the volume of financial support to the small business up to RUR 40 billion (from RUR 30 billion that was declared earlier)¹ was adopted. It should be remembered that this measure can be conducted through financing of credit organizations and economic entities with open joint-stock company Russian Development Bank (further referred to as RusDB). The following funds were the sources for financial support of regional banks for the crediting purposes: the funds of the federal budget, allocated for the support of the small- and medium-scale enterprises; funds of Vnesheconom-bank; loans and credits by RusDB, attracted at both the internal and external markets². The number of the presented applications for the participation in the program testifies the vivid interest of regional financial institutions in receiving funds for these purposes. As on the beginning of the 3rd quarter 2009 75 banks made applications for participation in the program for crediting of small and medium business. The total volume of applications made RUR 12.5 billion³.

- The decision on correction of the parameters for the credits issued by RusDB as compared with the planned parameters was made: the credits are to issued for the period of no less than one year with the interest rate equal to the refinancing rate of the Central Bank of the Russian Federation added by 3 percentage points, whereas the banks themselves will receive the credits according to this program at the interest rate of 10.5-10.7% per annum. That is why additional negotiations with partner banks taking into account new conditions for crediting should take place.

- Additionally, the RusDB has started to develop the model for financing of business-incubators, business centers, educational institutions and other organizations that render property and other kinds of support to small business. At present the “pilot” deals with some microfinancial and leasing organizations are made with the prospect for their further increase in circulation, and the scheme of work with factoring companies is developed and the conditions for crediting are defined.

- The decision on introduction the program of refinancing of credit portfolios of partner banks was made. The essence of this way of crediting is that the portfolio of credits formed by the partner bank which have already been given to the subjects of small- and medium-scale entrepreneurship can be used to secure new financing in RusDB. It should be noted that the direction of the received funds only for further crediting of small- and medium-scale enterprises is the prerequisite for such refinancing⁴.

- RusDB is planning to start the development of the mechanism for securitization of the credit portfolio of small business to search for new effective forms of financing. The success of this process will also depend on the stability of the general financial situation in the country, readiness of the legislative base and the banking community to such innovation form of work with the subjects of small- and medium-scale business.

- The additional financing of regional guarantee funds under which guarantee the small business will be able to get the loans. To replenish such funds RUR 3.5 billion has already been allocated, and the decision to allocate additionally RUR 15 billion has been made.

1 <http://premier.gov.ru/anticrisis/>

2 “Statement on rendering support to small- and medium-scale entrepreneurship by open joint-stock company RusDB and the procedure for selection of their participants”.

3 <http://premier.gov.ru/anticrisis/>

4 <http://www.cbr.ru/publ/MoneyAndCredit/krukov.pdf>

As a result of fulfillment of the program for crediting of small business the rates for credits are to become more acceptable for entrepreneurs especially against the background of those that are currently suggested by banks (about 20-30% per annum). However the realization of the mechanism for distribution of funds for crediting small- and medium-scale business in practice proceeds very slowly as a result of which as on the beginning of July 2009 there had not been any credits issued for these purposes. Besides the procedure for selection of regional partner bank sets a strict list of requirements for financial institutions that aspire for the state support. It is most likely that “small” banks will not meet the declared requirements whereas in the developed countries it is the “small” banks that serve as the basis for crediting of small business.

As for the measures for fiscal stimulation for subjects of small- and medium-scale business the following can be highlighted:

- Changes are made by the State Duma of the Russian Federation to articles 346.12 and 346.13 of part two of the Tax Code of the Russian Federation which are aimed at the increase of availability of the application of the simplified taxation system for small business. This is fulfilled due to the increase of the maximum level of incomes limiting the right to transfer to the simplified taxation system up to RUR 45 million (currently taking indexation into account it makes RUR 23.07 million), as well as at the due to the increase of the maximum level of taxpayer’s incomes up to RUR 60 million when the right to apply simplified taxation system is concerned (currently taking into account indexation it is equal to RUR 30.76 million). According to the estimations, this measure will double the number of small-scale enterprises and consequently it will considerably diminish the tax burden on the taxpayers that currently apply the general scheme of taxation. Besides, the fulfillment of this measure will contribute to legalization of some shadow incomes of small-scale enterprises.

- At the end of June the Federal Law “On making changes to article 2 of the Federal Law “On application of cash equipment when making monetary payments and (or) payments with the use of credit cards” was passed in the second and the third readings. According to the law the entrepreneurs paying the single tax on the imputed income now receive the right of voluntary application of cash equipment in their operation in case they issue on demand of customers the documents testifying the purchase (purchase receipt, bill etc). This measure will reduce considerable the expenditures of entrepreneurs for the purchase and further servicing of cash equipment. It should be noted that the measure that is in effect from the beginning of 2009 on granting the subjects of the Russian Federation the right to establish reduced tax rate for the simplified taxation system in the range from 5% to 15% depending on the kind of activity has not been widely spread so far. In the opinion of experts of the public organization Opora Russia the existing measure is applied by only 14% of entrepreneurs. In case the privilege is applied also by the payers of the single tax on the imputed income (and this is more than a half of entrepreneurs), the scale of the effect may increase significantly which will result in the significant loss of tax earnings for the government.

Measures of property and infrastructure support

The measures of property and infrastructure support for small business, decisions on which were taken already in the 1st quarter of the current year, were considerably improved and supplemented as to the part of their realization in the 2nd quarter 2009, for instance:

- The access of small- and medium-scale companies to state and municipal order has been simplified. At present three electronic platforms for conducting the bidding on placement of the state orders opened (in Tatarstan, Moscow and on the basis of Sberbank) and there is a prospect for further increase of the number of electronic platforms up to 5-7. This measure should allow involving small- and medium-scale business in state order.

Besides. Such a form for organization of state purchases in case it is executed properly will increase the transparency of pricing and create the conditions for healthy competition;

– The Government of the Russian Federation, following the decision on the decrease of the fee for connection to electric net adopted in the 1st quarter 2009, signed the decree on the improvement the procedure for connection that will allow decreasing the expenditures of entrepreneurs: from now on when connection to the voltage of up to 100 kilowatt one can make an advance payment of 5% of the required sum, and for the payment of the remaining sum the installment interest-free plan for three years is given¹.

Over the 2nd quarter of the current year there were no considerable improvements with the fulfillment of the privileged privatization for conscientious entrepreneurs who rented the municipal property for longer than three years which gives the priority right to purchase the municipal premises. The necessary regional regulating acts that specify the statements of the federal legislation were adopted only in 62 subjects of the Russian Federation, and in 36 of these subjects they were found to be improperly executed. The regional lists of the property were made only in 36 subjects of the Russian Federation; they include about 25 thousand of objects of the general area of 6 million sq. m.

Measures to decrease the administrative pressure

In the 2nd quarter 2009 a number of measures on decreasing the administrative pressure on the sector of small business were approved and came into force. However their effect will be noticeable only after some time. Thus, the measures of decreasing the administrative pressure on the enterprises of small business include the following:

– New procedure for launching small and medium business was adopted. Thus, from 1 July the Federal Law No 294 “On protection of rights of legal entities and individual entrepreneurs when executing state and municipal control (surveillance)”, in accordance to which the entrepreneur does not have to get permission to organize his business in the surveillance bodies any more – it is sufficient to notify them on the beginning of the operation of the enterprise. However this statement concerns only a limited sphere of activity: hotel and everyday services, textile and sewing production, timber processing, commercial transportation, publishing and a number of other activities. Moreover, this law regulates the number of control checks and their duration: the maximum acceptable time for the examinations for micro-scale enterprises should not exceed 15 hours, and for small-scale enterprises – 50 hours². In our opinion, this measure is of vital importance among the measures to support the sector of small business. It is suggested that mainly the examination of the documents will take place which is not very difficult for entrepreneurs and does not distract them from financial and economic activity.

– In order to prevent the cases of ungrounded intervention to the operation of enterprises of small- and medium-scale business in all the subjects of the Russian Federation there were created the departments to guarantee the due surveillance in this sphere. A new department is created in the Prosecutor’s General Office of the Russian Federation, which is called the department of surveillance over execution of the legislation on the state control, which functions include the provision of guarantees for prevention of violations of the law when conducting control measures in the field of

1 <http://www.siora.ru/ru/node/10403>

2 In concordance with paragraph 2 article 13 No 294-FZ “On protection of the rights of legal entities and individual entrepreneurs when conducting government control (surveillance), municipal control”

entrepreneurship, for instance, when forming the Consolidated plan for conduction of planned inspection and agreement upon non-planned field inspections.

The measures of support for the small- and medium-scale business adopted and executed in the 2nd quarter 2009 are primarily oriented to stimulating of the growth of the number of economic entities in the Russian economy and to increasing the accessibility of financial resources for them. At the same time the measures described above do not include the measures assisting the modernization of the production facilities of the existing small- and medium-scale enterprises, which considerably slows down the fulfillment of the strategic task of formation of modern innovation and production structure of small and medium-scale entrepreneurship in Russia.

3. Review of the Legislation of the Russian Federation in the Sphere of Regulation of Small Business

Enhancement of possibilities to apply simplified taxation system

The Bill No 100239-5¹ introduces the changes in article 346.12 of the Tax Code of the Russian Federation, which defines the taxpayers that have the rights to apply the simplified taxation system. In the version of paragraph 2 of this article that was earlier in effect it is stated that “the organization has the right to transfer to the simplified taxation system if as a result of nine months of the year in which the organization submits the application for transferring to the simplified taxation system the incomes defined in concordance with article 248 of the present Code do not exceed RUR 15 million”. After the President signed the bill under consideration on June 19, 2009 the sum was increased by threefold, and now the organization has the right to apply the simplified taxation system if its incomes do not exceed RUR 45 million.

The same bill envisages that the taxpayer is deprived of the right to apply the simplified taxation system only in case if its incomes as a result of the taxation period exceed RUR 60 million. In concordance with the version of paragraph 4 article 346.13 currently in effect this threshold sum makes RUR 20 million.

In concordance with the Federal Law from 24 July 2007 No 2009-FZ “On development of small and medium-scale entrepreneurship in the Russian Federation” and the Decree of the Government of the Russian Federation from 22 July 2008 No 556 the subjects of small- and medium-scale enterprises are commercial organization and individual entrepreneurs corresponding to the following conditions:

1) the total proportion of the participation of the state, municipal formations, non-residents and legal entities not belonging to the subjects of medium- and small-scale enterprises, in the authorized (statutory) capital (share fund) should not exceed 25%;

2) average number of employees should not exceed:

- 250 people – for medium-scale enterprises;
- 100 people – for small-scale enterprises;
- 15 people – for micro-scale enterprises.

3) the earnings from the sale of goods (works, services) not taking into account the value added tax or balance value of assets over the calendar year should not exceed:

- RUR 60 million for micro-scale enterprises;
- RUR 400 million – for small-scale enterprises;
- RUR 1000 million – for medium-scale enterprises.

Though the authors of the law use as a quantitative criteria for ascription of the enterprise to subjects of small- and medium-scale enterprises in addition to the number of employees the volume of incomes and not the volume of profit, it can be assumed

1 [http://asozd.duma.gov.ru/main.nsf/\(Spravka\)?OpenAgent&RN=100239-5&02](http://asozd.duma.gov.ru/main.nsf/(Spravka)?OpenAgent&RN=100239-5&02)

that the considered changes in the Tax Code of the Russian Federation that expand the possibilities for application of the simplified taxation system will allow transferring to the use of the simplified taxation for the majority of the enterprises of sector of small and medium business.

Reform of Single Social Tax In the Address of the President of the Russian Federation¹ that took place on November 5, 2008, the special attention was paid to the preparation of the program for the development of the pension system of Russia in concordance with the strategy developed by the Government of the Russian Federation. At the meeting of the Government of the Russian Federation that took place on October 1, 2008 and was devoted to the consideration of the “Concept for long-term socio-economic development of Russia up to 2020”, the Chairman of the Government announce among other issued the decisions in the sphere of the national pension system, the realization of each of which requires the increase of the state financing in this sphere. The increase of the volume of financing of pension system, in its turn, requires to find additional sources of financing. The solution of this question was pronounced by the Chairman of the Government, “in order to achieve these goals it has been decided to transfer from the single social tax to the insurance contributions at the single rate of 26%. The insurance contributions will not be made for the annual wages of more than RUR 415 thousand [...] Taking into account the contributions for medical and social insurance the general rate of the tariff will not increase 34% of the labor remuneration fund”².

At present according to the general rule (that is if the annual income of the employee does not exceed RUR 280 thousand) the total rate of social allocations as a result of payment of single social tax makes 26%, out of which:

- 14% – for compulsory pension insurance;
- 6% – for financing the payment for the basic part of the pension;
- 3.1% – to the fund of the compulsory medical insurance;
- 2,9% – to the fund of social insurance.

The regressive taxation rate is applied to the incomes of the employee if they exceed RUR 280 thousand.

In post-reform period the total amount of social allocations as a result of payment of contributions in three funds will make 34% of the total amount of the employee’s incomes under RUR 415 thousand a year, which are planned to be distributed in the following way:

- 26% – for compulsory pension insurance;
- 5.1% – to funds of compulsory medical insurance;
- 2.9% – to the fund of social insurance.

There will be no contributions charged on the employee’s income exceeding RUR 415 thousand.

The fulfillment of the reform of the single social tax is regulated by the bill No 195768-5 “On insurance contributions to the Pension Fund of the Russian Federation, to the Fund of Social insurance of the Russian Federation, the Federal fund for compulsory health insurance and the regional funds for compulsory health insurance”³ that on July 18, 2009 was sent to the President for him to sign.

In concordance with article 58 of this bill new tariffs for insurance contributions are to come into effect on January 1, 2011. And though the single social tax is abolished on

1 http://www.kremlin.ru/appears/2008/11/05/1349_type63372type63374type63381type82634_208749.shtml

2 <http://www.government.ru/content/governmentactivity/mainnews/archive/2008/10/01/1254237.htm>

3 [http://asozd.duma.gov.ru/main.nsf/\(Spravka\)?OpenAgent&RN=195768-5&123](http://asozd.duma.gov.ru/main.nsf/(Spravka)?OpenAgent&RN=195768-5&123)

January 1, 2010, throughout 2010 the contributions to the Pension fund of the Russian Federation and to the funds of health and social insurance are to be paid at the rates existing in the current time.

The reform of the single social tax that is regulated by the bill under consideration and envisages its substitution with the system of allocations to the funds of pension, health and social insurance may have a positive effect in providing the national pension system with financial resources. At the same time, the increase of the rates of the insurance tariffs starting with 2011 will have the increase of the financial burden, including that on the small- and medium-scale enterprises as a direct consequence, which will be especially noticeable in the context of crisis phenomena in the economy. ●

OIL AND GAS SECTOR

Yu.Bobylev

In January-July 2009 the situation in oil and gas sector of the Russian economy was characterized by a notable increase of world prices for oil and stabilization of oil production. The increase in prices for oil, decrease of ruble exchange rate and the adopted measures for tax stimulation have considerably improved the financial state of the oil sector as compared with last quarter of the previous year. At the same time as a result of reduction of the internal and external demand the volumes of production and export of the natural gas have reduced considerably.

In January-July 2009 the reduction of the demand for oil in the developed countries, which was the result of the financial and economic crisis, was compensated by the growth of the demand in the developing countries and primarily in China and reduction of oil production in OPEC countries and other oil producing countries (Norway, the UK, Mexico), the result being the growth of oil prices from USD 40 per barrel in December 2008 to USD 60-70 per barrel in June-July of the current year. Under these conditions at OPEC conferences taking place in March and May 2009 it was decided to maintain the quotas of oil production for member countries of the organization that were established from January 1, 2009 (in December 2008 OPEC made decision to reduce oil production by 4.2 million of barrels a day versus the level of September 2008 from January 1, 2009). As compared with the average level of the previous year the average price of oil grade Urals made 56% at the world (European) market in January-June 2009 (tables 1, 2).

Table 1

WORLD PRICES FOR OIL IN 2007-2009, AS USD/BARREL

	2007	2008 1 quarter	2008 2 quarter	2008 3 quarter	2008 4 quarter	2008	2009 1 quarter	2009 2 quarter
Price of oil grade Brent, the UK	72.5	96.9	121.4	114.8	54.9	97.0	44.4	58.8
Price of oil grade Urals, Russia	69.4	93.3	117.5	113.2	54.1	94.5	43.7	58.1

Source: OECD International Energy Agency.

Table 2

AVERAGE MONTHLY PRICES FOR OIL IN 2008-2009, AS USD/BARREL

	2008 July	2008 De- cem- ber	2009 Janu- ary	2009 Feb- ruary	2009 March	2009 April	2009 May	2009 June	2009 July, 1-23
Price of oil grade Brent, the UK	133.2	40.4	43.6	43.1	46.5	50.3	57.5	68.6	63.2
Price of oil grade Urals, Russia	130.1	39.9	43.2	42.5	45.3	48.9	57.1	68.4	63.3

Source: OECD International Energy Agency.

Oil production in Russia after the period of slow-down of its growth in 2005-2007 and its decrease in 2008 and in the first half of 2009 has stabilized (table 3). It was the beginning of exploitation of several large oil fields (in the north of the European part of the country and in the East Siberia), decrease of ruble exchange rate and several amendments in the Tax Code

of the Russian Federation coming into effect, which are aimed at the decrease of tax burden on the oil sector, stimulation of deeper exploitation of oil fields and development of new oil fields that had a positive influence on the dynamics of the oil production. At the same time the gas production has suddenly (by 20.8% as compared with the first half of the previous year) decreased, which was the result of the contraction of internal and external demand (as a result of the economic recession and relatively warm weather), as well as of the forced reduction of its supplies to Europe at the beginning of 2009 as a result of conflict with Ukraine. According to the data of open joint-stock company Gazprom, in the 1st half of 2009 the sales of gas within the country reduced by 6.3%, supplies to Europe decreased by 32.2%, and export to CIS-countries – by 53.9%. It was partially accounted for by the specific nature of gas pricing: world prices for gas follow the prices for oil with some lag, which encouraged the importers to postpone the purchase of the Russian gas, hoping to purchase it at lower prices in future.

Table 3

 OIL, OIL PRODUCTS, NATURAL GAS PRODUCTION IN 2002-2009,
 AS PERCENTAGE TO THE PREVIOUS YEAR

	2002	2003	2004	2005	2006	2007	2008	2009 January-June*
Oil, gas condensate included	109.0	111.0	108.9	102.2	102.1	102.1	99.3	100.1
Primary processing of oil	103.3	102.7	102.6	106.2	105.7	103.8	103.2	99.2
Car petrol	104.9	101.2	103.8	104.8	107.4	102.1	101.8	101.5
Diesel fuel	104.7	102.0	102.7	108.5	107.0	103.4	104.1	97.3
Furnace fuel oil	107.1	100.3	97.8	105.8	104.5	105.2	101.9	100.0
Natural gas	101.9	103.4	101.6	100.5	102.4	99.2	101.7	79.2

* As percentage to January-June 2008 r.

Source: Federal State Statistics Service

Despite the decrease of demand for oil in Europe due to the economic recession, Russia managed to maintain the attained level of oil export. In January-April 2009 the total export of oil and oil products in natural terms was even a bit higher than that of the corresponding period of the previous year. This can be accounted for by the decrease of oil supplies from other producers – Norway, the UK, OPEC countries. In Norway and the UK it is connected with the objective drop of oil production resulting from the exhaustion of the exploited oil fields, in OPEC countries – with the adopted by the cartel decisions on the decrease of oil production by the member countries of the organization.

Table 4

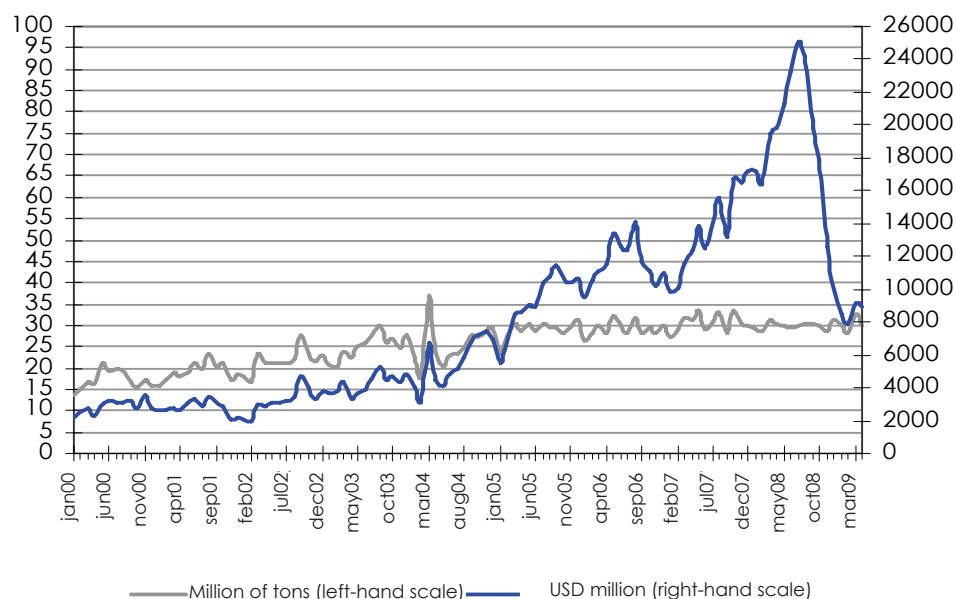
 OIL, OIL PRODUCTS AND NATURAL GAS EXPORT FROM RUSSIA IN 2002-2009,
 AS PERCENTAGE TO THE PREVIOUS YEAR

	2002	2003	2004	2005	2006	2007	2008	2009 January-April*
Oil, total	113.9	117.8	115.0	98.4	98.0	104.0	94.0	98.7
including:								
to non-CIS countries	109.9	118.9	116.3	99.1	98.0	104.8	92.6	98.8
to CIS countries	137.3	112.4	108.3	94.9	98.0	99.4	102.6	98.5
Oil products, total	118.5	103.6	105.5	117.9	106.3	108.0	105.0	108.7
including:								
to non-CIS countries	119.1	102.6	104.9	119.1	104.5	107.6	102.0	108.8
to CIS countries	102.8	132.3	117.9	94.6	148.8	115.3	152.2	107.7
Gas, total	102.4	102.0	105.5	103.7	97.6	94.6	101.8	47.0

* As percentage to January-April 2008

Source: Federal State Statistics Service

At the same time lower level of world prices for oil as compared with the previous year resulted in considerable reduction of export earnings. The total revenues from export of oil and the main kinds of oil products (car petrol, diesel fuel and furnace fuel oil) made USD 34.6 billion in January-April 2009 or 47.3% of the corresponding period of the previous year (fig. 1).



Source: calculated on the basis of Federal state Statistics Service

Fig. 1. Oil and Oil Products Export in Natural and Value Terms in 2000-2009, as million of tons, as USD million

Internal prices for oil and oil products (producers' prices) in

dollar terms, which reduced considerably at the end 2008 – the beginning of 2009 under the influence of the drop of oil prices and the drop of ruble exchange rates, have been growing steadily in recent months as a result of the increase of world prices for oil and in June exceeded the level of December 2008 (table 5). Internal prices for gas have also notably increased. At the same time internal prices for oil and gas in Russia remain considerably below the world ones. The gap between the level of world and internal prices for oil is accounted for by the export duty rate and additional transportation costs of export. Internal prices for gas remain regulated established by the government, which is currently pursuing the policy of their gradual increase up to the level which will secure equal efficiency of gas supplies to internal market and for export.

Table 5

INTERNAL PRICES FOR OIL, OIL PRODUCTS AND NATURAL GAS IN DOLLAR TERMS IN 2005-2009 (AVERAGE PRODUCERS' PRICES, AS USD PER TON)

	2005 Decem- ber	2006 Decem- ber	2007 Decem- ber	2008 July	2008 Decem- ber	2009 Janu- ary	2009 March	2009 June
Oil	167,2	168,4	288,2	410,2	114,9	62,2	122,9	194,7
Car petrol	318,2	416,5	581,2	810,3	305,1	244,3	318,8	481,5
Diesel fuel	417,0	426,1	692,5	902,8	346,5	306,2	343,1	382,1
Furnace fuel oil	142,7	148,8	276,5	392,8	125,0	107,2	145,9	210,8
Gas, USD/thou. cu. m	11,5	14,4	17,6	23,8	18,1	13,5	14,5	22,0

Source: calculated on the basis of data of the Federal State Statistics Service

Starting with January 1, 2009 amendments to the Tax Code of the Russian Federation that are aimed at the reduction of the tax burden on the oil sector of the economy came into effect. In the formula for the calculation of the coefficient C_p , which reflects the dynamics of world prices for oil and is applied to the basic rate of the severance tax when producing oil, the price minimum that is not levied with tax has been increased from USD 9 per barrel to

USD 15 per barrel. Such a change in the formula for calculation of Cp coefficient as well as the reduction of the basic rate of the severance tax in real terms as a result of the inflation resulted in a considerable decrease of the applied severance rate for oil production.

Starting with the current year the requirement to use direct method of control over the quantity of the produced oil for some earth plots has been lifted so that the established privileges for severance tax at oil fields with high extent of exhaustion and at the oil fields of East Siberia oil and gas province (within the boundaries of the Republic Sakha (Yakutia), Irkutsk oblast and Krasnoyarsk krai) can be applied. This will enable to spread the privileges mentioned to all the exhausted fields which will provide longer period of their exploitation, additional production of oil and additional tax earnings. This will also allow application of the severance tax privileges at new small oil fields of East Siberian oil and gas province and other privileged regions.

In order to create necessary conditions to develop new oil fields the sphere of application of “tax vacations” from severance tax has been expanded significantly. Since 2009 the oil fields situated in the territory of Nenetsk autonomous area (north of Timano-Pechor oil and gas province) and on Yamal peninsula, oil fields on the continental shelf of the Russian Federation situated to the north of the Northern polar circle as well as the oil fields situated in Azov and Caspian seas belong to oil fields to which such a privilege is applied.

In July 2009 additional measures of tax stimulation of oil production were adopted. According to the decree of the Government of the Russian Federation from July 16, 2009 No 574 “On introduction of changes in the customs tariff of the Russian Federation regarding crude oil” special reduced export duty rate for oil produced in East Siberia was introduced. This rate is established for 13 oil fields of the region at the rate of 5% of the customs value of the exported oil. The rate is established for the period of nine months from the moment the decree comes into effect (in two months after publication).

On July 23, 2009 the Presidium of the Government of the Russian Federation approved the project of amendments to the Tax Code of the Russian Federation, which provide tax vacations from severance tax when developing oil fields situated in offshore waters of Black Sea and the Sea of Okhotsk. For the oil fields in the Black Sea tax vacations are given till the accumulated volume of oil production at an earth plot is 20 million of tons or for the period of 10 or 15 years depending on the kind of license for exploitation of entrails, and for the oil fields in the Sea of Okhotsk – till the accumulated volume of produced oil is 30 million of tons or for the period of 10 or 15 years.

In future in order to stimulate the oil production it is reasonable to further enhance and improve the application of “tax vacations” mechanism or to introduce reducing coefficients applied to the tax rate and primarily when the oil is produced in the zones of continental shelf and when small oil fields are developed. It is also advisable to develop and introduce special taxation regime for new oil fields which will be based on taxation of the additional profit. Application of such a regime will allow creating necessary conditions for development of such oil fields, whose exploitation is connected with higher capital, exploitation and transportation costs.

In the forthcoming future it is expected that a relatively favorable for the Russian producers level of oil prices will be maintained. According to the forecast of the Ministry of Power of the USA published in July the average price of the oil basket imported to the USA will make USD 66-67 per barrel in the 3rd-4th quarters of the current year. ●

ABOUT THE NATIONAL REPORT ON AGRICULTURAL DEVELOPMENT AND ANTI-CRISIS MEASURES IN THE AGRARIAN SECTOR

R.Yanbykh

The National report on the progress and outcomes of State Program for agricultural development in 2008 is the first document analyzing the results of Program's implementation. Additional anti-crisis measures proposed in the report are mostly superficial. The global financial crisis has had an impact on the farm sector development to which the government responded by adopting anti-crisis measures. But none on them envisages support to small business – the basic reserve for rural economy's growth.

The Federal Law “On agricultural development” adopted in 2006¹ cardinally changed approaches to the state support of domestic farm sector. According to this law the procedure of providing support is to be specified in the State Program and is not to be considerably revised in the following 5 years. A National report on the progress and outcomes of State Program for agricultural development and regulation of agricultural and food markets till 2012 is to be published annually in order to monitor the results of support measures envisaged in the State Program.

The first such National report was prepared by the RF Ministry of Agriculture this year. It not only describes situation in the farm sector but also reviews actual results of the State Program's implementation in 2008 in general and by specific parts. The comparison of Program's target indicators with the attained ones allows to estimate the rationality and efficiency of support measures.

Similar to the State Program, the National report consists of several sections describing goals of the State Program and dynamics of agricultural development (Part I), target and attained indicators of sustainable development of rural areas (Part II), creation of general conditions for farming (Part III), development of priority sub-sectors (Part IV), ensuring of the sector's financial sustainability (Part V), regulation of agricultural and food markets (Part VI), outlook for agricultural development in the following year (Part VII) and proposals for amending the State Program taking into account anti-crisis measures (Part VIII).

The core of the State Program and the respective part of the National report both by the extent of participation and the amount of funding are the measures for ensuring financial sustainability of agriculture including replenishment of authorized capitals of “Rosselkhozbank” and “Rosagroleasing” open joint-stock companies. The initial 5-year budget of this section amounted to 292.7 billion rubles or 53% of the total State Program's funding from the federal budget.

In 2008 allocations for ensuring financial sustainability of agriculture amounted to 79.9 billion rubles (67% of the total funds allotted under the State Program in 2008), of

¹ State program for agricultural development and regulation of agricultural and food markets in 2008-2012 was worked out in compliance with Article 8 of Federal Law “On agricultural development” (№ 264-FL of December 22, 2006) and highlights the goals and guidelines for the sector's development and regulation of agricultural and food markets in the medium term, input supply and mechanisms of implementing the envisaged measures, target indicators and outlook for the sector's development.

them contributions to authorized capitals of “Rosselkhozbank” and “Rosagroleasing” – to 45.5 billion rubles (38% of the State Program’s budget in 2008).

In 2008 the financial sustainability of agriculture improved as compared with 2007. Profits of corporate farms grew, outstanding credit indebtedness reduced, the share of loss-making farms decreased. Financial sustainability was evaluated using a set of indicators one of which was the profit/loss from marketing farm products. At the same time the situation differs greatly by the RF regions. In 18 of them agricultural output was marketed at a loss, in 21 - profitability did not exceed 10%, i.e. was very low.

The task of making credits more available for farm producers was carried out quite successfully. In 2008 the amount of respective short-term credits and loans grew by 59% and exceeded the State Program’s target indicator 1.9 fold.

Short-term subsidized credits were received not only by farms but also by processors of farm products. In 2008 the latter accounted for 49% of the total amount of short-term credits and 44% of subsidies from the federal and regional budgets.

The distribution of subsidized credits by regions was not even. For instance, Belgorod oblast and Tatarstan accounted for 22% of all subsidized short-term credits, 19% of subsidies allotted under this clause and only for 8% of the gross agricultural output. The Republic of Bashkortostan stands out among other RF regions where the subsidies received are well below their share in farm output that is rather high.

Investment credits were primarily received by corporate farms (94% of all credits). In 2008 13 thousand corporate farms got subsidized investment credits. Still, in some RF regions just a few farms benefited from subsidized credits (e.g. in Karachaevo-Cherkesskaya Republic – only 7 corporate farms out of 138).

The State Program also envisages **measures for supporting smallholder farming**. In 2008 the output of individual private farms grew by 27.2%, that of household farms – by 2.2% while the number of *operating* agricultural consumer cooperatives increased up to 3.3 thousand.

The development of smallholder farming was facilitated by better access to subsidized credits. In 2008 the amount of credits to smallholder farms changed insignificantly as compared with 2007 while the amounts of subsidized credits and respective subsidies were up 1.5 fold. The amounts of credits and loans received by smallholders in Russian credit institutions and agricultural credit consumer cooperatives in 2008 reached 48.3 billion rubles while the target indicator was 30 billion rubles. 5100 agricultural consumer cooperatives were set up of which 912 are processing, 2450 – purchase, supply and marketing and 1738 – credit cooperatives. In 2008 the number of *operating* cooperatives increased by 1137.

The bigger number of operating agricultural consumer cooperatives allowed to increase their role in crediting smallholder farms, processing and marketing of their output, input supply. The development of cooperatives is most successful in Volgograd, Tjumen and Belgorod oblasts, Republics Sakha (Yakutiya) and Mordoviya.

The setting up and development of agricultural credit consumer cooperatives is hindered by the shortage of own financial resources, low solvency (primarily due to the shortage or complete lack of mortgage potential), and absence of privileges when getting credits (credit cooperatives have no access to subsidized credits). The priority National project “Development of agrifood sector” envisaged possibility of financial support to credit cooperatives through “Rosselkhozbank’s” contributions to their share funds. But such investments were not included in the State program as a separate measure.

The principal creditor of smallholder farms was “Rosselkhozbank”. It accounted for 69.5% of the total credits granted.

Subsidies allocated **for technical and technological modernization** enabled farm

producers to buy 23.9 thousand tractors, 9.6 thousand grain harvesters and 3.2 thousand fodder harvesters in 2008. Mainly energy-intensive machinery was purchased that allowed to attain target 2009 indicators of energy capacity per 100 hectares of areas planted already in 2008. But due to the crisis the demand for machinery largely fell. In late 2008 – early 2009 the purchase of machinery by farm producers decreased 4-5 fold. After a long break barter transactions again take place. For instance, Chelyabinsk tractor plant started to accept condensed milk as an offset for machinery¹, etc.

In 2009 due to the global financial crisis the State Program was amended. The RF Ministry of Agriculture prepared a set of anti-crisis measures in the agrifood sector including the following:

- the percent of subsidizing credits from the federal budget was raised from 2/3 to 80% of the Central Bank's discount rate (for milk and meat producers – up to 100%);
- subsidizing of prolonged short-term credits (loans) for 6 months was introduced;
- 17 billion rubles were allocated to the RF Ministry of Agriculture for additional credit subsidizing (12.1 billion rubles for investment credits and 4.9 billion rubles for short-term credits);
- a proposal is made to extend the term of investment credits by 3 years and to subsidize credits for refunding investment credits;
- in 2009 45 billion rubles were allocated to the authorized capital of “Rosselkhozbank” enabling it to extend credits to the amount of 411 billion rubles;
- 25 billion rubles were allocated to the authorized capital of “Rosagroleasing” for the purchase of machinery;
- amendments were made in provisions regulating insurance of farm producers aiming to improve reliability of insurance companies;
- 34 agribusiness entities were included in the list of strategic backbone companies of the Russian Federation;
- the quota for poultry meat imports was cut down to 952 thousand tons while the rates of customs duty on out-of-quota supply of poultry meat and pork were raised;
- the customs import duty on butter was raised from 0.22 to 0.35 EUR per kg, that on dried milk – up to 20% of the customs value.

However, the set of anti-crisis measures failed to include any arrangements for supporting small farm business. Initially only 7.9% of all the State Program's funds (43.8 billion rubles out of 551.3 billion rubles) were envisaged for its development and after the adoption of anti-crisis measures (in particular, the enlargement of “Rosselkhozbank's” authorized capital) this share became even smaller (5%).

One can state that a set of problems persists that hinders the development of small-scale farming.

First, credits and loans received by smallholder farms in 2008 accounted for 11.3% of all credits and loans granted for the development of agricultural production that is far below their contribution to commodity agricultural output (56.6%). State support is still largely biased towards large corporate farms and holdings.

Second, the extent of smallholder farms' participation in activities under the State Program cannot be considered sufficient. Only 13.6% of operating individual private farms and 2.5% of household farms became participants of the Program².

1 The Moscow Times, April 13, 2009. № 4124.

2 When calculating this indicator only actually operating, i.e. engaged in agricultural production, smallholder farms were considered. According to data of the 2006 All-Russian Agricultural Census there were 126.3 thousand individual private farms and 14.9 million household farms actually engaged in domestic farming.

Table 1

AMOUNT OF CREDITS (LOANS) RECEIVED BY SMALLHOLDER FARMS IN 2008,
MILLION RUBLES (%)

Amount of credits (loans)				
Credit funds (loans) transferred to the borrowers' loan accounts in 2008	Including by credit institutions			
	"Rosselkhoz-bank"	Savings Bank of Russia	Other banks	Credit cooperatives
48 256 (100)	33 553 (69.5)	9 945 (20.6)	1 721 (3.6)	3 036 (6.3)

Source: Form GPS-20 of January 27, 2009 for 2008. RF Ministry of Agriculture.

Third, a strong regional differentiation is observed. For instance, in Khabarovsk kray 90% of operating farmers benefited from the State Program while in Leningrad, Moscow and some other regions the respective share was less than 5%.

Fourth, not all agricultural cooperatives are working. According to estimates of the RF Ministry of Agriculture only 65% of agricultural cooperatives submit reports (72% of credit ones, 57% of processing and 63% of supply and marketing cooperatives). This means that the cooperative network is still underdeveloped, its turnover is small and participation therein of individual private and household farms is not sufficient.

And finally, the potential of agricultural consumer credit cooperatives is not yet properly used. At present loans issued by credit cooperatives account for only 6.3% of credit resources received by smallholder farms (*table 1*).

Besides, one should mention the imperfect system of getting subsidies for interest rebate.

The under-valuation of smallholders' role can result in further degradation of rural areas. Small business has more opportunities for mitigating negative effects of the economic crisis, offering alternative employment and absorbing surplus labour from cities. In the crisis situation it would be rational to enlarge amounts of subsidies to support smallholder farms and to simplify the procedures of granting credits, subsidy application and payment. These procedures should become easier both for borrowers and for administrative bodies that under the current system cannot serve hundreds of thousand small farm producers and thus are limited in providing support to the sector. At the level of RF regions/municipalities it's necessary to actively form funds (guarantee, mortgage, security funds, etc.) to facilitate crediting through ensuring of reliable and available security for credits granted to smallholder farms.

Measures for adjusting the State Program for agricultural development proposed in the National report are mostly superficial (alteration of target indicators, modification of the subsidy payment mechanism, etc.) and are not targeted at the cardinal overcoming of the global crisis' negative effects (the drop of production, shortage of circulating capital). Their objective is rather to guarantee the RF Ministry of Agriculture's top officials from quite a possible failure to achieve the planned sector development indicators next year.

PROBLEM OF PERSONALITY IDENTIFICATION OF MILITARY PERSONNEL OF THE RUSSIAN FEDERATION¹

V.Zymbal

So-called “new face” of the Armed Forces (AF) of the Russian Federation envisages a lot of changes. Some of them seem to be important, others – not. But from the point of view of a “citizen wearing uniform” many “small” things are vitally important. One of such things is the problem of establishing of the civil rights of the military and the legally strict way in which they are reflected in their personal documents.

The first anniversary of the five-day war with Georgia is coming nearer. Over the elapsed time our express estimation of the war included in the last-year IET publications have been confirmed². Recently the commission of the European Union specially formed to investigate causes and circumstances of the war recognized the Russia retaliatory military operation as competent³. Only the reproach of it being “disproportionate” remained, though it is difficult to judge this due to vagueness of such wording. Every war starting as a continuation of the policy goes on according to its internal laws. Understanding this, the NATO leaders, in contrast to the EU, refrain from official estimation of the war and has recently started renewal of the partner relationships with the Russian Federation that were interrupted in August 2008. It is also worth noticing that during the visit of B. Obama to Moscow American delegation contrary to the expectations of Saakashvili and his associates avoided the issue of war.

After August was the military reform that is so necessary has accelerated in Russia. The families of the deceased have been presented with condolences and have received compensations. The most distinguished participants of the war have been rewarded. Many have received monetary disbursement, though not all of those who deserved them. There remain the offended especially among the conscripts who were sent to the war against previous assurance of it being undue. There are no corresponding marks in their military cards. But it is not less important that the violation of the rights of the military, especially those who are abroad with uncertain status, without necessary documents and necessary marks in them continue. In this connection let us consider the situation with the personal documents of the military personnel.

The main document where the fact that the citizen is a member of this country is stated is the passport. In case a citizen does not have it, there may often evolve many inconveniences and socio-economic expenses. It is widely know that the passport of the Russian Federation was introduced by the order of the President of the Russian Federation from 13.03.1997 No 232 instead of the Soviet passport “in order to create necessary conditions for provision of constitutional rights and freedoms of citizens of the Russian Federation **before the corresponding Federal Law**⁴ on the main document testifying the identity of the citizen of the

1 Research has been conducted in accordance with the methodology developed with the financial support of the Russian Foundation for Humanities within the framework of project No 08-02-00038a.

2 See V. Zymbal Military and economic express-analysis of the military operation in the Caucasus // Economic and political situation in Russia. Moscow. IET. August 2008

3 Uwe Klussmann “Zerschmetter Traum” (EU Investigation is hard for Saakashvili.) Spiegel. 15.06.2009. Russian translation at www.inosmi.ru. For comments see article B. Kaimakov “Both a liar and an aggressor!” (in Russian)VPK (Bulletin of Defense Industry) № 24 24–30 June 2009.

4 Hereafter the bold type in the quotations is by the author

Russian Federation in the territory of the Russian Federation is adopted”. The corresponding federal law has not been adopted year, which confirms the outstanding permanency of all the temporary things in Russia.

According to the decree from 8.07.1997 No 828 the Government of the Russian Federation has approved the Passport regulations. According to paragraph 1 of the Regulations, “**all the citizens of the Russian Federation** upon attaining the age of 14 years and living in the territory of the Russian Federation **must have a passport**”.

The military service is not forgotten in the Regulations. Paragraph 5 mentions that page 13 of the passport should include the mark “relating to the military service of the citizens that attained 18 years by the corresponding military commissariats and regional bodies of the Federal Migration Service”. As a consequence of paragraph 7, “upon attaining the age of 20 and 45 years by a citizen (excluding the military personnel serving upon the conscription) the passport is to be changed. The military personnel serving upon conscription receive or change the passports upon the end of the established term of the military service on conscription”.

The Regulations include the possible cases for temporary requisitioning of the passport from the citizen and the direct prohibition for its requisitioning in all other cases:

«21. The passport of a person under custody or sentenced to imprisonment is temporary requisitioned by the body of preliminary inquiry or by the court and added to the personal files of the person mentioned. Upon discharge or serving the sentence in the form of deprivation of liberty the passport is returned to the citizen.

22. It is prohibited to requisition of the passport from the citizen besides the cases envisaged by the **legislation** of the Russian Federation”.

Table 1

PROCEDURE FOR CHANGE OF THE DOCUMENTS WHEN CONSCRIPTING

According to the instruction approved by the order of the Ministry for the Defense No 400 from 6.09.1999	According to the instruction approved by the order of the Ministry for the Defense No 400 from 2.10.2007
On the day the conscripts are sent to the assembly point the completeness of their presence is checked, they are asked about the state of their health, and it is checked whether they have:	On the day the conscripts are sent to the assembly point the completeness of their presence is checked, they are asked about the state of their health, and it is checked whether they have:
passport; certificate of a citizen who is to be conscripted; corresponding certificates on military occupational specialization received from the educational institutions of Russian Defense Sports and Techniques Organization, primary and secondary vocational training; driving license – for the drivers of transport vehicles; trig clothes and footwear (according to the season).	passport of a citizen of the Russian Federation; certificate of a citizen of the Russian Federation who is to be conscripted;
The certificates of a citizen who is to be conscripted are requisitioned from the conscripts to be sent to the assembly point, and the conscripts are given military cards them putting their signature for it.	that are requisitioned on the same day, the conscripts in return receiving military cards them putting their signatures for it.

The consequence is that any sublegislative act establishing the possibility to requisite the passport from a citizen of the Russian Federation, including military personnel, is **preter-legal!**

However according to the tradition originating in the Soviet times, out military personnel have special documents: identity card (according to the Decree of the Government of the Russian Federation from 12.02.2003 it s given to officers, warrant officers and midshipmen)

and military card (given to all others). But still there exists an opinion that they substitute the passport. Consequently, there appears a temptation to requisite it, especially from the citizen conscripted to the military service, thus acting towards him in the same way as towards the convict. This is also testified by the changes in the procedures for receipt of the military card recently introduced and summarized below in *table 1*.

One may not notice that according to the new instruction of the Ministry of the Defense nobody it seems is interested in the education and specialization of future military personnel. But one cannot help noticing that **their passports are requisitioned**.

In this connection let us pay attention to the general attitude of commanders towards different groups of military personnel. As it follows from the Order of the Ministry of the Defense from 19.11.2007 No 500 “military card of a soldier, sailor, sergeant, first sergeant, warrant officer and midshipman (further referred to as a military card) is the main document for military registration, **proving the identity and the legal situation** of a military man, and the relation to the execution of military service for the citizens being in reserve. A military card is made and given to a citizen of the Russian Federation, who is not in reserve and has not fulfilled military service **when he is conscripted and when he starts military service on contract** in the position of soldier, sailor, sergeant, first sergeant, warrant officer and midshipman; when he enters a military educational institution of professional training; when he is transferred to the reserved of the Armed Forces of the Russian Federation of soldiers, sailors, first sergeants, warrant officers and midshipmen”. It should be noted that when regarding warrant officers and midshipmen, the order contradicts the decree of the Government of the Russian Federation No 91, quoted above. It seems that regular officers are confused as to which document – identity card (according to the decree) or military card (according to the order) – should be issued to whom. But the main thing is the following.

The main document reflecting the legal situation of those of soldier and junior military leaders is the same, namely, the military card. Our commanders do not see any essential difference between the soldier and junior military leaders serving upon conscript or upon contract. And this has a very serious meaning: officers are regarded as having higher and other military personnel lower class or rank. Comparison of the documents (*table 2*) recognized as those proving identity is informative.

Table 2

CONTENT OF DOCUMENTS PROVING IDENTITY OF MILITARY PERSONNEL
IN THE RUSSIAN FEDERATION

Passport of a citizen of the Russian Federation	Identity card	Military card
Personal data: Surname, first name, patronymic, sex, date of birth, place of birth Marks:	Data on military man: surname, first name, patronymic, date of birth; personal number	Data on military man: surname, first name, patronymic, date of birth; nationality (if desired); personal code
On registration at the place of residence and on being taken off the register – made by the registering bodies;	-----	-----
On relation towards military service for citizens who have reached 18 years – made by the corresponding military commissariats and by the regional bodies of federal Migration Service;	Military status, received military rank, data on permission for carrying personal weapon	Group of suitability, mark on administration of the oath, carrying of military service in peaceful time (number of military unit, status, the date of inclusion and exclusion from the list, military service as conscript, on contract or alternative civil service, participation in military operations etc)

Table 2, cont'd

On registration of marriage and divorce – by the corresponding bodies of civilian registration in the territory of the Russian Federation and by the regional bodies of the Federal Migration Service;	-----	Family status
On children (citizens of the Russian Federation under 14 years) – by the regional bodies of the Federal Migration Service;	-----	-----
On previously received documents, proving the identity of a citizen of the Russian Federation in the territory of the Russian Federation – by the regional bodies of the Federal Migration Service;	Information on re-registering of the card	-----
On issuing main documents proving the identity of a citizen of the Russian Federation abroad – by the regional bodies of the Federal Migration Service or other authorized institutions ;	-----	-----
If desired: ITN	-----	-----
Group of blood and Rhesus-factor	Mark on passing dactyloscopic registration, blood group etc	Antropometric information (height, size of head-gear, gas mask, uniform, footwear etc), data on injuries (injuries, contusions, traumas), marks on vaccination

Besides the information listed in *table 2* military card includes much more information: on education, civil specialization, military occupational specialization, government awards, sport rank and sport status, knowledge of types of weapons and military equipment etc.

The fact that military card is substantially different from the passport is obvious. Consequently, when a passport is requisitioned from a conscript, he may suffer from considerable difficulties when executing some of his rights. For instance, he cannot confirm the fact of registration in the place of residence by the document, though his family may need it whole he is doing his service.

It is as much important that when the military man presents the military card as a document substituting for passport, he discloses some information which exceeds the content of the passport. The grounds for separate norms introduced by sublegislative acts enumerated in *table 4* is also not obvious.

Table 3

NORMA STATEMENTS OF SOME SUBLEGISLATIVE ACTS

No, date of the document	Name of the document, existing norm	Comments
Decree No 1495 from 10.11.2007 (version from 23.10.2008)	“On approval of general army regulations of the Armed Forces of the Russian Federation” Regulations on internal service, article 295. The assistant of the person on duty at check-point must: ... let the military of his regiment doing the military service contract pass on demonstration of the military cards of the military, and in case he knows them personally – without its demonstration.	This contradicts what is written concerning the issue of military cards. How a soldier, sergeant, warrant officer serving on contract can get it?

Table 3, cont'd

No 663 from 11.11.2006	Decree of the Government of the Russian Federation "On regulations on conscription to the military service of the citizens of the Russian Federation"	Requisitioning of passport is not envisaged
Order of the Ministry of Defense No 400 from 2.10.2007	On measures to fulfill the decree of the Government of the Russian Federation from 11.11.2006 No 663 in the Armed Forces of the Russian Federation (together with the instruction on preparation and conduction of the measures connected with the conscription to the military service of the citizens of the Russian Federation, mentioned in <i>table 1</i>)	Paragraph 41 of the instruction introduces the regulation on passport requisitioning
No 719 from 27.11.2006	Decree of the Government of the Russian Federation " On approval of the regulations of the military registration"	Military card is mentioned. Requisitioning of passport is not envisaged
Order of the Ministry of Defense No 500 from 19.11.2007	On measures to fulfill the decree of the Government of the Russian Federation from 27.11.2006 No 719 in the Armed Forces of the Russian Federation	Form of the military card and procedure for its use is established
Instruction of the RF Central Bank No 113-I from 28.04. 2004. (Version from 29.11.2006)	"On procedure for opening, closing, organization of work of the foreign exchange offices and the procedures of conducting by the authorized banks some kinds of bank operations and other deals with the foreign currency and the currency of the Russian Federation, cheques (including travel cheques), whose nominal value is noted in foreign currency with the participation of natural persons" . Paragraph 4.7. in accordance with the legislation of the Russian Federation the documents proving person's identity are: 4.7.1. Passport of a citizen of the Russian Federation – for the citizens of the Russian Federation. 4.7.2. Civil passport for travelling abroad – for citizens of the Russian Federation. 4.7.3. Passport of a sailor – for citizens of the Russian Federation. 4.7.4. Identity card for the military or military card – for the military of the Russian Federation.	The consequence of this strange regulation is that the Central Bank of the Russian Federation differs the military from all other citizens of the Russian Federation, assuming at the same time that they have foreign currency.
Order of the Ministry for Internal Affairs from 28.12.2006 No 1105	"On approving the administrative regulations of the Federal Migration Service..." – on issue, substitution and requisitioning of passports 80. It is prohibited to requisition passports from the citizens of the Russian Federation with the exclusion of cases envisaged by the federal laws and other standard legislative acts of the Russian Federation, as well as to take passport as a deposit by the authorities. The passport issued with violation of the established procedure or made on lost (stolen) blank of passport II is to be requisitioned by a body of internal affairs of the Russian Federation or by the department that issued such passport. The act contains: date, place, rank and surname of the person who wrote the act, surname, first name and patronymics of the person to whom the passport was issued, series and number of the requisitioned passport and the reason for its requisitioning. The act is signed by the person who wrote it and is approved by the head of the body for internal affairs of the Russian Federation or by the head of the department. 81. Passport of persons in custody or sentenced for the deprivation of liberty are temporary requisitioned by the body of preliminary investigation and added to personal files of the persons mentioned. Upon discharge or serving the sentence in the form of deprivation of liberty the passport is returned to the citizen according to the established procedure.	It is incompetent to mention other acts since according to the Constitution and the Passport Regulations only the law can serve as the basis for requisitioning. Practice of requisitioning of passports from young citizens of the Russian Federation in course of conscript campaigns and "dragnets" turns out to be illegal. Comparison of reasons and regulations for requisitioning of passport stated in the order of the Ministry for Internal Affairs with what is stated concerning their requisitioning from the conscripts testified illegality of such requisitioning of passports.

Issues of the military being present abroad are worth being considered separately. For all the citizens these issues are regulated by the law "On procedure for leaving the boundaries of the Russian Federation and entrance to the Russian Federation" from 15.08.1996 (version of 9.02.2009) with stipulation on **priority of international con-**

tracts in article 1 and are solved by issuing special documents that are referred to as “to documents proving the identity of a citizen of the Russian Federation out of the boundaries of the Russian Federation”. The list of such documents include: passport (referred to as foreign passport in everyday life and in article 8 part II of the law, not to be confused with the main civil passport), diplomatic passport, service passport and sailor’s passport (sailor’s identity card). **Neither identity card of a military, nor military card is included in the list!**

A more important question is that in cases of going abroad a **military man**, as any other citizen, **according to the law should be made and given one of the documents enumerated above**. It can be made not only by the Federal Migration Service but also by “other federal executive bodies, in which military service is envisaged and which operation is connected with fulfilling of functions and tasks out of the boundaries of the Russian Federation”. There is article 19 in chapter III of the law under consideration, according to which “military men of the Armed Forces of the Russian Federation as well as of federal executive bodies in which military service is envisaged **excluding the conscripts** leave the boundaries of the Russian Federation on formal permission of the commanders according to the procedure established by the Government of the Russian Federation”. It should be understood that the law does not envisages conscripts being sent out of the boundaries of the Russian Federation. And the following is stated in the document that defines the procedure in practice. Here we cite article 313 of the Regulations of garrison and sentry duty of the RF Armed Forces, “The sentry commander must get in the military unit ... must receive a warrant for himself with the enumeration of the sentry military personnel with numbers of identity cards, military cards, **foreign passports (in case it is necessary to pass through the boundaries of the Russian Federation)**, weapon samples, their amount, series and numbers, as well as the samples of ammunitions for the sample and its amount at underside, which is testified by the signature of the staff commander of the military unit and by the official stamp...”.

Consequently, according both to the law and to the regulations **military men crossing the boundaries of the Russian Federation must have foreign passport**. And, according to the norms of the international law, they must register in the country of stay.

In this connection a question arises how our soldiers and sergeants that were conscripts crossed the boundary continuing to serve in Southern Ossetia and Abkhazia. It is obvious that they were there without foreign passports. The same applies to those serving on contract. It may be supposed that the circumstance were special in August 2008. But what about current situation? It seems that our military men are out of the boundaries of the Russian Federation illegally.

Another question that evolved a long time ago and now has become more acute concerns the stay (up to 2017 according to the agreement) of the Russian sailors in the Ukraine at the base of the Black Sea Fleet of the Russian Federation. There, the officers, as well as sailors who only have military cards are required¹ to have documents testifying the legality of their stay in Ukraine when they come out of the boundaries of the military units. The question consequently arises as to who should solve the problems of the military men of the Russian Federation: Ukrainian or Russian authorities?

The questions mentioned above are burning issues and military men often face them. The absence of legally strict answers for these questions results in numerous violations of the law registered both by offices of public prosecutors and by the human rights activists.

In conclusion let us note that recently there appeared another reason to consider prob-

1 P. Vladimirov Order against agreement (in Russian) // Red Star (Krasnaya Zvezda) № 101 from 6.06.09.

lems raised by human rights activists and considered here. The Ministry of Defense of the Russian Federation has developed projects of two new laws: “On military service of citizens of the Russian Federation” and “On military service in the Russian Federation”. According to the ideas, these projects are to pass rapidly through all the stages of law making and come into effect in January 1, 2010. Alas, it is apprehended that the current unlawful “procedure” for personal identification of military men will be fixed in them.

And it seems that the solution is so simple: abolish the substitutes for the civil passport, confining to the marks on 13th and other vacant pages of the civil passport that are necessary: on administration of the oath, on further service in military organization of the Russian Federation (without further details), on being in the reserve and finally on taking off the register. It is also advisable to include in passport the number of personal file of the military man, where all the information that now overfills his military card should be reflected in detail, and regularly inform the military men on notes in his personal file – upon his signature, so that he may know, for instance, that his participation in military operations has not been forgotten.

It is crystal clear that such a procedure for proving identity of military men if it is executed will result in saving funds and will correspond to the legislation. ●

ROLE OF PROTECTION OF INTELLECTUAL PROPERTY RIGHTS IN THE EXPANSION OF RUSSIAN HIGH-TECH EXPORT

A.Pakhomov, Yu.Potanina

The legislation in the field of protection of the intellectual property (IP) is constantly perfected in Russia and the efficiency of the law enforcement practice is raised. Over the past five years the general level of piracy in the segment of imported software has dropped significantly. However in connection with the rapid growth of the internal market the resulting losses of the rightholders continue to grow, which creates serious economic, political and image problems. Basing on the state policy of the growth of the export of high-tech commodities the priorities in the policy of the IP protection should be defined which would take into account the interests of private owners of the IP and right holders from the public sector.

At the current stage of the development of the market economy in Russia the objects of the intellectual property (IP) included in the non-material assets of enterprises are becoming an important element of economic relations. As it is demonstrated by the world practice one of the factors that contribute into expansion of the trade with the results of the intellectual activity is the regulated system of protection of the IP right-holders. Moreover, the comparison of the situation in Russia and abroad demonstrates that the protection of the rights of the IP owners, the fight with the spread of pirate commodities and the foreign trade with the objects of intellectual properties are closely connected. High estimations of the level of piracy and counterfeit in the country and measures taken because of them by the foreign right holding organizations to protect their rights considerably influence the conditions of competition at the internal market contributing to the growth of the export by the member companies of these organizations in Russia.

The companies owned by the state prevailing at the Russian market of high-tech IP objects, 70% of financing of which is made from the budget, the system for estimation and registration of the intellectual property at enterprises being in fact absent, the innovation potential is used ineffectively. The proportion of the non-material assets makes about 0.3% of all non-liquid assets of the Russian organization, that's why it is logical that the Russian proportion in high-tech production of the world is only 1%. According to the estimations of the WTO, export of high-tech commodities for whose production intellectual resources were used made only 1.5% of the total Russian export (for reference, 3.5% in India, 6% in Brazil, 15% in China).

At the international market it is the production of the domestic public sector, including defense and industry complex, nuclear, rocket and space, aviation industries that is competitive. According to some estimations, taking into account weapons export, the proportion of high-tech goods in the total Russian export did not exceed 2.5% and made no more than USD 5 billion a year in 2007.

At the same time in 2007-2008 the export of high-tech services developed rapidly, growing by 4.6 times and reaching USD 5.3 billion. The highest rates were characteristic for the export of computer services (increase of 10.5 times), license payments and

royalty (increase of 6 times), engineering and technical services (of 6.5 times) and others¹. In 2004-2008 the export sales of ready program solutions also went up steadily, their share in the foreign trade with the Russian software projects making 24.5% in 2008 and their growth rates exceeding even the corresponding figures for computer services.²

The protection of IP rights is an important instrument for stimulation of export of innovative goods and services. It is the absence of the developed infrastructure of managing IP objects (patenting, audit, estimation etc.) that is one of its weak points in Russia, the result being the private companies producing innovative commodities having doubt concerning their own protection and commercial use of innovations. The expenditures for patent registration of the intellectual products abroad are high for small and medium-scale firms as compared with the budgets for these purposes in foreign companies. According to the data of the UN, over the past few years about 15 thousand of inventors migrated out of Russia because of this, selling their developments to foreign companies. According to estimations, patents fees from these inventions made USD 3-4 billion in foreign countries³.

According to the data of Federal Service for Intellectual Property, Patents and Trademarks (Rospatent), only 10% of the results of economic activities with the potential for protection (that is IP objects that have the potential for registration), developed with the budget financing are registered and no more than 2% of innovations are included in commercial turnover. On the whole as at the beginning of 2009 the Russian Federation has the rights for only 370 results of intellectual activity. The countries with the innovation economy have patents for every fourth national invention, which provides effective sale and right protection in other countries of the world. Russia patents only every 60th invention that was officially declared nation-wide.⁴

Without adequate protection of IP rights a number of commodities of so-called Russian strategic export (including domestic defense and industry complex) is at first copied illegally and then produced and sold abroad. As a result this can lead to the Russia producers being pushed from the traditional markets. The growth of the pirate commodities makes the work of the domestic inventors at the domestic market the promising inventions being applied abroad and the “brains draining”.

High level of the piracy in Russia creates additional image problems influencing negatively the attraction of the foreign technologies, cutting edge practice and investments. Effective participation of the country in the international trade requires the creation of the system for IP rights protection which would take into account the measures adopted in this sphere in the developed countries. At the same time to avoid the deepening of the technological lag from the developed countries and the strengthening of their position at the Russian market it is necessary to approach the issues of IP rights protection systematically in order to regulate the conditions for the competition of the Russian producers to import suppliers. At present the system of requirements to the Russian exporters of the objects of the IP seems to be stricter than that to the new foreign technologies accessing the market. The balance policy in this sphere should support the effective export of the results of the intellectual activity created in the public sector and by the domestic companies.

The necessity of a systematic approach to the protection of IP rights is testified by the situation existing, for instance, in the software branch in Russia. In recent years the Russian market for information and communication technologies (ICT) has been growing rap-

1 See Shafiev R.M., On influence of intellectual resources on the international specialization of Russia (in Russian) Bulletin for foreign and commercial information, 23 June 2009, p. 2

2 Russian industry for export development of software. Report on the results of the fifth annual survey by Russian Software Developers Association (Russoft), Moscow, 2008, p.7.

3 Vedomosti, 21 August 2008 .

4 Rospatent site, www.fips.ru

idly, its volume, according to the data of the Ministry for Information and Communication of the Russian Federation increased on average by 23% in 2007-2008, and export by more than 70%¹. Against the background of the reduction of the rates of ICT branches in the developed countries (for example, in the USA the annual growth of the volume of the market of software makes 1.6%) Russia catches the eye of the largest international rightholders that produce software.

Pirate production of software is characteristic for many countries and regions of the world to various extents. This is testified by the data of the Global Software Piracy Study which starting with 2004 is annually conducted by the Business Software Association (BSA) together with the international research corporation International Data Corporation (IDC)². In May 2009 the results of the Sixth Annual **BSA and IDC** Global Software Piracy Study for 110 countries and 7 regions were published, the results of which are represented in *table 1*.³

Table 1

MAIN RESULTS OF THE SIXTH ANNUAL BSA AND IDC GLOBAL SOFTWARE PIRACY STUDY IN SOME COUNTRIES, 2008

Average world level of piracy	41% (38% in 2007) The indicator was calculated on the basis of the indices for countries defined as a percentage of the estimated number of pirate software in the country in the total number of the installed software.
Regional average level of piracy	Countries of Northern America, Western Europe, Latin America and EU: 21%, 33%, 65% and 35%, correspondingly (have not changed as compared with 2007). Countries of Central and Eastern Europe, Middle East and Africa: 66% and 59% (reduced by 1–2%). Countries of Asia-Pacific region: 61% (+2%) due to the rates of IT market growth in China and India. EU countries: the highest figures observed in Greece (57%), Italy (48%), Iceland (46%). BRIC countries: 75% (+2%), including Brazil – 58%, Russia and India – 68%, China – 80%
10 countries with the highest level of piracy	Georgia (95%), Armenia, Bangladesh and Zimbabwe (92%), Moldova, Azerbaijan, Sri-Lanka (90%), Yemen (89%), Libya (87%), Pakistan (86%)
10 countries with the lowest average level of piracy	USA (20%), Japan and Luxembourg (21%), New Zealand (22%), Austria (24%), Belgium, Denmark, Sweden, Switzerland (25%), Australia (26%)
Total losses by rightholders	USD 53 billion (USD 47.8 billion in 2007) Estimated number of pirate programs installed in the country multiplied by the average cost for a unit of license production. It is hypothesized that the losses of the legal producers are proportional to the level of piracy and the losses of the right holders are equal to the total cost of the pirate software in the country
10 countries with the highest level of financial losses for rightholders	USA (USD 9.1 billion), China (USD 6.7 billion), Russia (USD 4.2 billion), India (USD 2.8 billion), France (USD 2.8 billion), Great Britain and Germany (USD 2.2 billion each), Italy (USD 1.9 billion), Brazil (USD 1.6 billion), Japan (USD 1.5 billion). The large turnover of software market (the USA, the UK) the level of piracy being relatively low leads to significant losses

Source: Sixth Annual **BSA and IDC** Global Software Piracy Study, Washington, D.C., May 15, 2009, pp.12–13. Сайт BSA <http://global.bsa.org>.

1 See internet site of CNews-Analytics <http://www.cnews.ru>.

2 BSA is the largest organization of foreign right holders with high influence of US transnational companies (Microsoft, Adobe, Apple, Oracle etc).

3 Sixth Annual **BSA and IDC** Global Software Piracy Study, Washington, D.C., May 15, 2009. BSA site <http://global.bsa.org>.

It should be noted that one of BSA aims is to lower the demand for pirate goods, the licensed analogues of which the participants of the organization export of the developing countries and the countries with transitional economy. For the ICT markets of these countries high level of piracy is characteristic, and the financial losses of some participants are high in the countries with the rapidly developing economies.

According to the results of the Sixth Annual **BSA and IDC** Global Software Piracy Study from 2004 to 2008 the level of piracy in the segment of import software reduced considerably in Russia – from 87% (7th place in the global rating in 2004) to 68%. This country shares 49-53 places with Bulgaria, Brunei, India and Macedonia by this index. On the whole Russia has demonstrated the highest dynamics of the decrease of the level of piracy in the world in this period.

At the same time the financial losses of the rightholders that are members of BSA in the Russian market went up considerably over 2004-2008 – from USD 1.36 to USD 4.2 billion. The growth of the losses when the level of computer piracy decreases is primarily connected, in the opinion of the Association, with the development of the domestic market of information technologies and with the strengthening of ruble against dollar.

These results of BSA and IDC study regarding Russia should be considered in the context of the policy of support to large American national corporations that develop software. In the latest annual Report of the Office of the U.S. Trade Representative on the situation with the protection of the rights of the American IP owners at the foreign markets 12 countries out of 77 were referred to the group of “priority observed”¹. Since in these countries in the opinion of the Administration of the USA the protection of the rights of the American IP owners is ineffective and inadequate they can be subjected to trade and economic sanctions. For instance, Russia which has remained in this group for the past 10 years can be deprived of the status of the country that use the general system of preferences that envisages duty-free import of a number of goods in the USA².

Despite the evident progress made by our country in the field of the IP rights protection and the decrease of the level of piracy (even according to the data of the American right holders³), the Office of Trade Representative clearly underestimates the system work that is carried out by the Russian Government in the field of protection of the rights of IP owners. Such an approach allows preserving the instruments of trade and political influence on Russia and lobbying the interests of American companies at the domestic market.

On the whole the existing Russian legislation taking into account international standards of the protection of the author and adjacent rights gives more and more possibilities to foreign countries to protect themselves. In connection with the development of the technologies and appearance of new kinds of violations in the field of IP the work on the improvement of the legislation and on the increase of the efficiency of the law enforcement practice is carried out constantly in Russia. On the whole this work should be aimed not only at protection of foreign rightholders in the country but also at the formation of the modern intellectual potential of the country including the expansion of its export component.

At the beginning of the year the Russian Federation joined the main documents of the World organization for intellectual property – the Agreement on the author’s right and the Agreement on performances and phonograms, which include the modern standards

1 Office of U.S. Trade Representative Special 301 Report, Washington, D.C., April 30, 2009, pp.2–3.

2 See Pakhomov A.A. “Trade and political aspects of protection of the rights of foreign IP owners in the Russian Federation”, (in Russian) Gazette of the State University of Management, No 7, 2007, p.11.

3 “International Intellectual Property Alliance (IIPA) Submits to the U.S. Trade Representative its Report on Copyright Piracy in 48 Countries”, IIPA press release (Appendix 1), Washington, D.C., February 17, 2009, pp.1–2.

of protection of software and databases as well as other digital technologies. On May 13, 2009 Russia ratified Singapore agreement on the trademark legislation which purpose is creation of more favorable conditions for the users of the system for legal protection of trademarks and services marks as well as the harmonization and simplification of various national systems for their registration.

The adoption of the amendments to the Criminal Code of the Russian Federation that of transfer the actions on violation of the author's and adjacent rights from the category of the crimes of medium gravity to the category of grave crimes extending the sentence for these violations up to 6 years of imprisonment also contributed in the decrease of the level of piracy in Russia. According to the information of the Ministry for Internal Affairs of the Russian Federation in 2008 there was a decrease in a number of the revealed violation of the author and adjacent rights in the Internet (down to approximately 1000 cases in 2008, the reduction of 28% versus 2007) and in the number of the proceedings started in this connection (down to 830, the reduction of 24%)¹.

In order to counteract the politicization of the mentioned problem by the USA and large foreign rightholders the system of IP rights protection in Russia should be based on the balanced policy taking into account the interests of both the public sector in this segment of the market and the private national and foreign rightholders. It is the priorities of the innovative potential aimed at the expansion of the Russia presence at the international markets of high-tech commodities and services as well as the increase of the efficiency of the use of the domestic innovations that could combine these diversified interests in the sphere of RID protection.

The change in the positioning of Russia in the international trade could become another priority. The potential for the increase of sales of high-tech commodities abroad is limited, their list is changed constantly that is why in order to achieve the goal mentioned it is necessary to increase investments in promising intellectual resources². It should be noted that it is unreasonable to expect that the international trade specialization of Russia will change quickly. In the environment of the economic crisis it is the matter of the preservation and commercialization of the existing technologies in the public sector, and of the support of the enterprises' activity in the private sector so that it should preserve the achieved positions at the international market.

Besides the direct financing of the development of the innovative goods, the expansion of the share of Russia in the global production of high-tech commodities and services can be assisted by the purposeful development of the system of technological parks and technology and innovative zones, the net of the venture funds as well as the special programs for the support of the innovation activity. It seems also possible to give grants to Russian inventors to register inventions abroad, to simplify the taxation regime and export control over innovative companies as well as to expand the training of necessary staff.

Taking into account the mentioned priorities one should make decision on state purchase of the innovative import technologies. It should be understood that the dependence from the foreign high-tech developments at all of the stages of the production processes in the public sector will not allow the development of the innovative Russian economy including its export direction.

Infrastructure of innovative economy in Russia is only being formed and a number of its elements have not been activated to the full extent yet. In this connection the priorities in

1 See Proceedings of the Sixth joint meeting of experts within the framework of realization of Memorandum on dialogue about the rights for intellectual property between Rospatent and the European Commission General Directorate on Trade. December 5, 2008 Rospatent site: <http://www.fips.ru>

2 See Shafiev R. M. On the influence of the intellectual resources on the international specialization of Russia. Bulletin for Foreign and Commercial Information, June 23, 2009, p.2.

the field of IP protection, development of the strategies concurred with the rightholders and the instruments of their realization should be defined on the basis of the state policy for the support of high-tech commodities and services export and react flexibly on the trends of the development of the world market for intellectual activity. ●

REVIEW OF MEETINGS OF THE GOVERNMENT OF RUSSIAN FEDERATION IN JULY 2009

M.Goldin

In July at the meeting of the Presidium of the Government of the Russian Federation the issue of the criteria and results of the distribution of allocations to support the measures providing the equilibration of the budgets of the subjects of the Russian Federation were considered. The list of the regions to which the allocations from the means of the federal budget will be given in 2010 was also defined.

On 23 July the Ministry of Finance of the Russian Federation submitted the materials on the criteria and results of the distribution of allocations to support the measures providing the equilibration of the budgets of the subjects of the Russian Federation as a result of the execution of consolidated budgets of the subjects of the Russian Federation in January-May 2009.

The materials contain the project of the decree of the Government of the Russian Federation on approval of the increase of the amount of allocations to the subjects to support the measures providing equilibration of the regional budgets calculated on the basis of unified criteria for the distribution of the mentioned funds. The project of the order was developed in concordance with part 2 article 13 of the Federal Law from November 24, 2008 No 204-FZ "On federal budget for 2009 and for the planning period of 2010 and 2011".

The suggestions on distribution of the allocations among the budgets of the subjects of the Russian Federation were prepared basing on the following criteria:

1. Allocations are not given to the subjects of the Russian Federation that on executing consolidated budgets obtained a shortage of the incomes for financial security of the expenditure commitments of subjects of the Russian Federation;

2. Allocations are not given to the subjects of the Russian Federation which level of the real budget provision exceeds by more than 10% the average figure for Russia, and the proportion of the delayed credit debt averagely weighted over the account period concerning socially important expenditure commitments exceeds 2% of average monthly expenditures for these purposes;

3. The revenues of the subjects of the Russian Federation include tax and non-tax earnings, allocations from the federal budget without compensation (excluding subventions and allocations without compensation granted to make budget investments in objects of the property of subjects of the Russian Federation and municipal property);

4. Estimation of the inpayments of tax and non-tax revenues of consolidated budgets of the subjects of the Russian Federation is made with the unified approach basing on the level of 2008 taking into account the dynamics of the inpayments of the revenues since the beginning of the year by the groups of region. Basing on the share of the organizations' profit tax in the structure of the tax earnings, 15 regions are considered to be the most strongly affected by the crisis situation in the economy;

5. The estimation of the volumes of the expenditure commitments is made basing on the real existing volume of expenditures in 2008 and unified approaches to the definition of the expenditure commitments taking into account their optimization, and of the socially important expenditures – taking into account indexation;

6. The distribution of the allocation among the subjects of the Russian Federation is made pro rata of the shortage of the revenues for the execution of the mentioned expenditure commitments taking into account the level of the real budget security existing as a result of the execution of the consolidated budgets of the subjects of the Russian Federation in January-May 2009 and the index of execution of the measures adopted by the executive bodies of the level concerned in order to provide equilibration of the budgets. The volume of the allocations to a budget of a subject of the Russian Federation during distribution should not exceed 12% of the volume of revenues;

7. The index of equilibration of the regional budgets reflects the measures adopted by the executive bodies of the subject of the Russian Federation to optimize the expenditure of consolidated budgets for 2009 as compared with the real volume of expenditures in 2008 in the environment of the existing financial and economic situation, and to reduce the delayed credit debt of the consolidated budget of the subject over January-May 2009;

8. When defining the coefficient of optimization of the expenditures of the consolidated budgets of the subjects of the Russian Federation the remainders at the accounts of their budgets as on January 1, 2009 that is not appropriated for specific tasks, are taken into account, which allows considering the actions of the bodies limiting the growth of the budget expenditures and forming the reserve funds of the subjects of the Russian Federation aimed at execution of expenditure commitments of the subject in case the revenues are insufficient for their financial provision;

The distribution of allocation in concordance with the criteria mentioned at the sum of RUR 58.2 billion is to be made among 54 subjects of the Russian Federation as a result of execution of consolidated budgets of subjects of the Russian Federation in January-May 2009.

On 23 July the Ministry of Finance of the Russian Federation also submitted the suggestions on making allocations to the subjects of the Russian Federation from the means of the federal budget to support the measures providing equilibration of the regional budgets in order to fulfill the instruction of the President and the Government of the Russian Federation were submitted at the meeting of the Presidium of the Government of the Russian Federation. The materials contain 23 projects of the decrees of the Government of the Russian Federation on approval of the volume of allocations for budgets of some subjects of the Russian Federation. The projects of the decrees mentioned were developed in concordance with part 2 article 13 of the Federal Law from November 24, 2008 No 204-FZ "On the federal budget for 2009 and for the planning period of 2010 and 2011". The list of regions to which the allocations from the means of the federal budget are to be made was defined. ●

REVIEW OF ECONOMIC LEGISLATION

I.Tolmacheva

In July the following important changes were made to the legislation and normative base: the statements concerning the government registration of non-commercial organizations were specified; the State company “Russian highways” (“Autodor”) is created; the Statement on contest for programs for developing universities which are ascribed to the category of “national research universities” is adopted; starting with July 13, 2009 the refinancing rate of the Bank of Russia was reduced to 11% per annum.

I. Federal Laws of the Russian Federation

1. Federal Law from 17.07.2009 No 170-FZ “ON MAKING CHANGES TO THE FEDERAL LAW “ON NON-COMMERCIAL ORGANIZATIONS”

The Law comes into effect on August 1, 2009 excluding separate statement coming into effect on January 1, 2010.

The law specifies statements connected with the state registration of non-commercial organizations. For instance, it is envisaged that the authorized body or its regional body do not have a right to demand presentation of the documents other than the documents mentioned in the given Law necessary for the state registration of non-commercial organization. The period to make decision on refusal for state registration of non-commercial organization of 14 days, and 3 days – for notification of the applicant on refusal and interruption of the state registration (currently the applicant is notified in written form no later than in a month from the date of the receipt of the presented documents).

Starting with 2012 non-commercial organizations must annually place on the Internet or present the mass media with the report on their activity for publishing (report on continuation of their activity).

2. Federal Law from 17.07.2009 No 145-FZ “ON STATE COMPANY “RUSSIAN HIGHWAYS” AND ON AMENDMENTS TO INDIVIDUAL LEGISLATIVE ACTS OF THE RUSSIAN FEDERATION”

Federal law establishes legal state, procedure for formation, reorganization and liquidation of the State company “Russian highways” (Autodor), specific features of executing road operation concerning highways in trust management of this organization, use of land plots. The state company Autodor is a non-commercial organization without membership created by the Russian Federation on the basis of property contributions in order to render state services and execution of other powers in the sphere of road management on the basis of trust management.

In connection with the adoption of the law there were changes and addenda introduced, for instance, in parts one and two of the Civil Code of the Russian Federation, in the Federal Law “On non-commercial organizations”, in the Budget code of the Russian Federation, in the Federal Law “On highways and roads operation in the Russian Federation and on making some changes to some legislative acts of the Russian Federation”.

II. Decrees of the Government of the Russian Federation

1. Decree of the Government of the Russian Federation from 13.07.2009 No 550 “ON SELECTION OF THE PROGRAMS FOR DEVELOPMENT OF UNIVERSITIES THAT

HAVE BEEN ASCRIBED TO THE CATEGORY “NATIONAL RESEARCH UNIVERSITY” ON THE BASIS OF CONTEST”

The Regulations were developed in concordance with article 9 of the Federal Law “On higher and postgraduate professional education” and define the procedure for the contest selection of the programs for the development of universities that are aimed at staffing priority branches of science, technologies and branches of economy.

In accordance with the adopted Regulations the contest selection of the development programs is carried out in order to define universities which are ascribed to the category of “national research university”. The selection of participants of the contest is carried out on the basis of the analysis of the current situation and the dynamics of the development of the university during 3 preceding years which include such criteria as staff potential, infrastructure, certificates of international and national recognition, expected efficiency of the presented development program. Financing of the program of development of the universities that win the contest is directed to purchase of study and laboratory as well as research equipment, increase of the qualification of the research and teaching staff, development of information resources. Financing is interrupted if the Government of the Russian Federation deprives the university of the status of “national research university”.

The Ministry of Education and Science of the Russian Federation and the Federal Service for Surveillance in the field of Agency on Education and Science (Rosobrnadzor) act as authorized bodies.

III. Instructions, letters, orders

1. Instruction of the Central Bank of the Russian Federation from 10.07.2009 No 2259-U “ON REFINANCING RATE OF THE BANK OF RUSSIA”

Starting with July 13, 2009 the refinancing rate of the Bank of Russia is reduced to 1% per annum (earlier, starting with June 5, 2009 – 11.5% per annum). ●

REVIEW OF REGULATORY DOCUMENTS CONCERNING TAXATION OVER JUNE–JULY 2009

L. Anisimova

1. According to the letters of the Ministry of Finance of the Russian Federation (RF Ministry of Finance) from May 21, 2009 No 03-03-05/91 and the Federal Tax Service of the Russian Federation (RF Federal Tax Service) from June 10, 2009 No ShS -17-3/110@ the issue on the procedure for acknowledging expenditures in the form of interests for debt liabilities was clarified. In accordance with the Tax Code of the Russian Federation (RF Tax Code) (paragraph 8 article 272) the expenditures of the contract of debt and similar agreements, which effective period falls for more than one account period, are recognized as made and are included in the list of the corresponding expenditures by the end of the account period (which can be a month, a quarter, half of year, 9 months, year). According to paragraph 1 article 269 of the Code, it is envisaged that refinancing rate in effect for the end of the corresponding account period is the base for definition of the maximum amount of interest expenditures for debt contracts which do not specify fixed percentage rate.

As it is elucidated by the RF Ministry of Finance when defining the maximum amount of expenditures in the form of interest rate, added over the 3rd quarter 2008, the standard for recognizing expenditures in the form of interest which was in effect at the end of the third accounting period (9 months of 2008) is applied, that is the refinancing rate of the RF Central Bank multiplied by 1.5 when making debt liability in rubles and 22% - when making debt liabilities in foreign currency. Thus, although according to the Federal Law No 224-FZ from November 26, 2008 the coefficients mentioned and the interest rate are also applied for legal relations emerging from September 1, 2008, the RF Ministry of Finance has agreed to apply privilege regime when defining the sum of interests for taxation of the organizations with quarterly taxation period regarding such expenditures over the whole 3rd quarter 2008.

2. According to the letter of the RF Ministry of Finance and RF Federal Taxation Service from June 15, 2009 No MN-22-6/471@ it is clarified that the software “Taxpayer legal entity” (“Nalogoplatelschik YuL”) is freely available and can be used when preparing the taxation accounts by the taxpayers themselves and organizations rendering intermediate services during such preparation.

3. According to the letters of the RF Ministry of Finance from June 29, 2009 and Federal Tax Service from July 9, 2009 No ShS-22-3/553@ the rules for signing invoices are clarified.

The RF Tax Code envisages the notion of the authorized representative of the taxpayer, but defines that such a representative can take part in the relations regulated by the legislation on taxes and fees only if it is not stated otherwise by the RF Tax Code. The legislation on VAT (chapter 21 of the RF Tax Code) for organizations envisages the possibility for the rights for signing invoices to be given to the authorized person by the taxpayer. In accordance with paragraph 6 article 169 of the RF Tax Code the invoice is signed by the head and the chief accountant of the organization or by other persons authorized to do so by the order (or another order document) for the organization or by the power of attorney on behalf of the organization.

However there is no such possibility if the invoice is drawn up by an individual entrepreneur mentioning the requisite elements of the certificate on the state registration that was issued specifically for him.

4. According to the determination of the Constitutional Court of the Russian Federation (RF Constitutional Court) from June 22, 2009 No 10-P the question of the payment of the profit tax from the sums of rent payments is clarified.

During a public sitting the RF Constitutional Court has considered the case on the verification of the constitutionality of paragraph 4 part 2 article 250, article 321.1 of the RF Tax Code and paragraph 3 article 41 of the Budget Code of the Russian Federation (RF Budget Code) concerning the procedure for payment of the profit tax from rent payments received by the budgetary institutions. For instance, the RF Constitutional Court has clarified that the rent payments although they are initially paid to the account of budget revenues and only then are transferred to the rent accounts of a budgetary institution, they are given directly to the organization acting as lessor and cannot be considered as targeted budget allocation. Thus, article 250 of the RF Tax Code (qualifying rent payments as extraordinary profits of the organization) is pronounced to be in accordance with the Constitution of the Russian Federation. However such an organization acting as a taxpayer cannot independently pay the profit tax on the sum of the rent payments before these payments are transferred to the accounts of the organization. The tax is levied on the resulting difference between incomes and expenditures of the profitable activity. In order to protect the interest of the government (real owner of the property) and ban the organizations from using the rent payments to cover the losses and expenditures of other non-profitable activity, the RF Budget Code envisages the norm, according to which incomes from the use of the federal property are transferred to the organizations only after the established taxes and fees on these incomes are paid. In such a situation, in the opinion of the RF Constitutional Court, the organization is deprived of the right to pay the profit tax on rent payments independently. In the opinion of the RF Constitutional Court, the procedure of payment of profit tax on the received rent payments is to be specified in the texts of the RF Tax Code and RF Budget Code. As a result, some statements of article 41 of the RF Budget Code and of article 321.1 of the RF Tax Code are recognized as not consistent with the Constitution and specifications to them are suggested to be made by March 1, 2010.

5. According to the letters of the RF Ministry of Finance from June 22, 2009 No 03-11-11/117 and from June 24, 2009 No 03-11-06/2/106 it is clarified that when applying the simplified taxation system and in case of payment of the single agricultural tax the sums of excessively paid (levied) taxes returned (taken into account) to taxpayers from the budget are not taken into account when defining the object of taxation in the form of incomes of the current period. Such a position of the RF Ministry of Finance is fair, since these sums are not the economic profit of the taxpayer – they should not have been taken into account in the period in which the returned debt was accrued.

6. According to the letter of the RF Ministry of Finance from June 24, 2009 No 03-02-07/1-323 the procedure for examination of the taxpayers' appeals in the taxation bodies was elucidated. For instance, it is mentioned that neither the RF Tax Code nor any other document envisages the necessity for the taxpayer to be present during the examination of his appeal by a higher taxation body, though the taxpayer has a right to be present at such an examination.

7. According to the letter from June 25, 2009 No 03-11-06/2/108 the RF Ministry of Finance clarified the question of whether it is legible to ascribe the expenditures made in the form

of investments in rented fixed assets and in their repair to the reduction of the taxable incomes when applying simplified taxation system (“incomes minus expenditures”).

8. According to the letter of the RF Ministry of Finance from June 25, 2009 No 03-03-06/1/428 the issue of whether the lease payments when making the contract of the financial rent (leasing) are not included in the list of the current expenditures when calculating the taxation base since in fact they are a form of payment for the purchased fixed assets (and the purchase of the fixed assets after making the profit tax).

The RF Ministry of Finance notices that the lease payment can be ascribed to other expenditures only in the part in which it is paid for the receipt of the object of the leasing for the temporary ownership and use.

This position of the RF Ministry of Finance from the economic point of view is absolutely right is subjected to the critics of the experts and does not coincide with the position of the regional bodies of the courts. The problem consists in the fact that the text of the Law of the Russian Federation “On financial rent (leasing)” includes the statement according to which “for the purposes of taxation of profits are ascribed in concordance to the legislation on taxes and fees to the expenditures connected with production and (or) sale” (paragraph 4 article 28 No 164-FZ from October 29, 1998).

And though the direct consequence of paragraph 4 article 28 of the Law under consideration is the connection of the procedure for the leasing payments with the legislation on taxes and fees, courts directly apply the norm of the Federal Law No 164-FZ and ascribe the leasing payments to the expenditures of the organization.

9. According to the letters of the RF Ministry of Finance from June 4, 2009 No 03-04-07-01/190 and the RF Federal Taxation Service from June 18, 2009 No ShS-17-3/121@ the issue on the qualification of the benefits and the compensations for the purposes of application of the taxes on the incomes of the natural persons. For instance, the RF Ministry of Finance explains that the list of the profits that are not subject to tax on incomes of natural persons is established in the article 217 of the RF Tax Code, that is not all kinds of the government payments and benefits and are exempted from the taxation. In article 217 paragraph 1 both the state payments exempted and not exempted payments are enumerated. Article 217 of the Code envisages the special norm, marked in paragraphs 3, 8, 34, 36 and 42 of the RF Tax Code, for the exemption of some other benefits from the taxation, for instance, some kinds of compensatory payments, social benefits for poor families, funds of the maternal (family) capital, payments for purchase and (or) construction of the residential buildings, funds in the form of the compensation of the payments for the maintenance of a child in the educational institution by a parent.

That is why the RF Ministry of Finance concludes that the exemption of any other benefits not mentioned in article 217 of the RF Tax Code and in particular in paragraph 1 from the taxation is possible only by addition made to the list of such profits excepted from the taxation.

According to paragraph 3 article 217 in order to recognize some compensation payments the documentary evidence of the made expenditures should be submitted (for instance, when compensating for the expenditures of teachers for the purchase of the books).

10. According to the letter of the RF Federal Tax Service from July 14, 2009 (the same issue is considered in letters of the RF Federal Tax Service from July 14, 2009 No ShS-22-3/564@ and the RF Ministry of Finance from July 6, 2009 No 03-07-15/102) it is clarified that in the corrected version of the Decree of the Government of the Russian Federation from May 26, 2009 No 451 the conjunction “or” was substituted with conjunction “and”

when mentioning short and full name of the seller in invoices. Since the version approved by the Ministry of Finance of the Russian Federation and the Federal Tax Services of the Russian Federation contained the conjunction “or” (which corresponds to the version of the article 161 of the Tax Code of the Russian Federation), the Federal Tax Service of the Russian Federation mentions that it will not recognize the mentioning of only the full or short name of the customer in the invoice as a violation with the result of the refusal of application of tax deductions.

11. Federal Law from July 19, 2009 No 204-FZ introduces new parameters for privileges within which the organization has a right to transfer to the simplified taxation system for the period up to January 1, 2013. Thus, the criteria of the volume of profits over 9 months of the current financial year that gives the right to apply the simplified system will increase from RUR 15 million to RUR 45 million. The criteria of the volume of profits upon attaining of which as a result of the accounting (taxation) period the taxpayer loses the right to apply the simplified system was increased from RUR 20 to 60 million. In order to define the limited profitability which allows applying the patent system for payment of the tax the coefficient that is equal to 30 is introduced. The coefficient is to be used to multiply basic profitability established by the RF Tax Code regarding some kinds of activities for which the single tax on the imputed income.

12. The Federal Law from July 17, 2009 No 165-FZ lifts the limitation of the right that existed earlier of the taxpayer who applies the system of patent purchase for settlements with budgets to attract the employees by conclusion of civil and legislative contracts.

13. According to the letter of the RF Ministry of Finance from June 16, 2009 No 03-04-05-01/467 in connection with the changes introduced to the RF Tax Code the Ministry of Finance gave explanations concerning the period starting with which the natural person starts to have a responsibility to independently calculate and pay the tax on incomes of the natural persons from the incomes from sale of the share of participation in the authorized capital (funds) of the organization. This period starts with January 1, 2009. If a taxpayer receives incomes from the sale of the part in the authorized capital of the organization before January 1, 2009 the responsibility to calculate independently and pay the tax on the incomes of the natural person for the taxpayer as well as to submit the tax declaration on incomes in 2009 does not evolve.

14. According to the letter of the RF Ministry of Finance from June 15, 2009 No 03-04-06-01/136 it is clarified that since according to article 297 of the Labor Code of the Russian Federation the rotational scheme represents the special form for implementation of the labor process far from the place of the permanent residence of employees when their daily return to the place of their permanent residence cannot be made the payment for accommodation of employees attracted to the work by the rotational scheme envisaged by article 297 of the Labor Code of the Russian Federation is similar in its nature to the compensation of employee’s expenditures for the rent of the accommodation connected with the business traveling and with the business trips of the employees, the permanent work of which is of travelling nature.

In concordance with subparagraph 10 paragraph 3 article 217 of the RF Tax Code the payments for the rent of housing and accommodation for the employees working on rotational basis are not to be levied with the tax on incomes of physical persons. The sums mentioned are also not subject to the taxation with the single social tax.

15. According to the letter of the RF Ministry of Finance from June 10, 2009 No 03-03-06/1/392 it is clarified that starting with January 1, 2009 the initial cost of the property subject to depreciation which was revealed as a result of taking the physical inventory is defined on the basis of the market price. Up to this moment the property revealed in the course of physical inventory was entered in records at zero price and no depreciation was accrued.

16. The Decree of the Government of the Russian Federation from July 7, 2009, No 548 and the order of the Government of the Russian Federation from July 7, 2009 No 905-p approve the changes introduced by the Decree of the Government of the Russian Federation from March 19, 2009 No 244. These acts fix the procedure of submission of subsidies to the banks from the funds of the federal budget to compensate for the drop of the profits from the credits issued by the Russian crediting organization to natural persons for the purchase of the cars within the framework of anti-crisis measures.

The problem with taxation consists in the fact that the budget subsidies are given to banks and not to natural persons (see paragraph 4 of the decree of the Government of the Russian Federation No 244 March 19, 2009). One of the conditions for the obtaining of the subsidies by a bank is the conclusion of the credit contracts at privileged interest rate (subparagraph "g" paragraph 4): "the crediting rate envisaged by the credit agreement was defined as a difference between the rate of the crediting organization existing on the date of issue of the credit ... and the size of the discount basing on the two thirds of the refinancing rate of the Central Bank of the Russian Federation existing on the date of the issue of the credit". As to the natural persons, the responsibility to pay the tax on incomes in the form of the saving of the interests is formally preserved. As a matter of fact the credit contracts (in contrast to, for instance, the tariffs on railway tickets) represent personal agreements and the profit in the form of the privileges for the interest rate is the taxable incomes of natural persons received in the form of the material benefit from saving the interests (see subparagraph 1 paragraph 1 article 212 of the RF Tax Code). It is the same as the privileges for the sums received by taxpayers from the means of the budgets of the budgetary system of the Russian Federation to compensate the expenditures (part of expenditures) to pay the interests for loans (credits) according to the RF Tax Code (paragraph 35 article 217). Thus, the adopted anti-crisis decisions concerning the granting of subsidies to the banks turned out to be not as effective a measure to stimulate the purchase of the cars by the physical persons as it could have been expected by the authors of the decision.

17. According to the letter of the RF Ministry of Finance and the RF Federal Tax Service from July 3, 2009 No ShS-22-3/539@ the position of the Supreme Arbitrary Court of the Russian Federation stated in the decision from May 12, 2009 no 12010/08 on reconsideration as a part of surveillance measures of the decision of the Arbitrary Court of Novgorod oblast from February 6, 2008 concerning the case No A44-42/2008 is brought to the attention of taxation bodies in order to be applied in similar situations. The Supreme Arbitrary Court of the Russian Federation has decided that the deflation coefficients used to calculate the incomes that give the right to apply the simplified taxation system should be treated as "prime" coefficient and be applied to the basic rates established by the Tax Code of the Russian Federation, multiplying this basic rate by each of the coefficients separately for all the years since the introduction of the basic rate. The Ministry of Finance of the Russian Federation and the Federal Tax Service of the Russian Federation explained earlier that the coefficient introduced by the Ministry for Economic Development for the corresponding year is composite (absorbing deflation coefficient over the preceding year).

Taking into account the fact that in the period from January 1, 2010 and January 1, 2013, the basic value of the profit is increased up to RUR 45 million, the deflation coefficients in that period will obviously be applied to the new basic rate.

18. According to the letter of the Ministry of Finance of the Russian Federation from June 11, 2009 No 03-03-06/1/395 the issue on the application of the privileges concerning the expenditures of the organization for compensation of the expenditures of the employees for paying the interest rate for loans (credits) to purchase and (or) construction of the housing. The Ministry of Finance of the Russian Federation explained that from January 1, 2009 to January 1, 2012 (the period of action is limited by the Federal Law No 158-FZ from July 22, 2008) in accordance with paragraph 24.1 article 255 of the Tax Code of the Russian Federation the organizations for the purposes of taxation of profit can take into account the expenditures for compensation of the expenditures of the employees for paying the interest rate for loans (credits) to purchase and (or) construction of the housing. The expenditures mentioned are recognized at the rate not exceeding 3% of the sum of the expenditures for labor remuneration on the whole in the organization. These expenditures will also not be levied with the tax on the incomes of natural persons and the single social tax.

19. According to the Letter of the RF Ministry of Finance from July 10, 2009 No 03-03-06/1/458 the explanation on the possibility to recognize the discount of the commodity's price as expenditures of seller for the purposes of taxation is given. It seems that such a position of RF Ministry of Finance does not fully correspond to the notion of the market price and the principles of taxation in the environment of the market. Such a position of the RF Ministry of Finance can result in the formation of additional channel for evasion from taxes.

20. According to the letter of the RF Ministry of Finance from July 6, 2009 No 03-04-06-01/155 it is clarified that the member of the agriculture co-operative society may give a loan to the society and then receive the income in the form of the interest rate. In this case the standard tax deduction can be applied and the tax rate for the incomes of natural persons will make 13%. It seems that the RF Ministry of Finance should not make such peremptory conclusions on the basis of general speculation. As a matter of fact, the producers of agriculture commodities pay the single social tax. The substitution of the wages with the contract on giving the loan and repaying it together with interests may result in evasion from payment of the single social tax. The conclusion of the RF Ministry of Finance which does not take into account the real situation of the particular producers that should be examined by the taxation bodies may result in formation of the legal channel for the artificial minimization of the tax burden by some taxpayers.

21. The Letter of the RF Ministry of Finance from July 3, 2009 No 03-02-08/59 elucidates the procedure for returning of the excessively paid sums of the tax on the incomes of the natural persons to the natural person and of the repaying the interests for the violation of the period in which the excessively paid tax should be returned. The decision on the return of the excessively paid tax should be made by the taxation body within ten days starting from the day of the receipt of the taxpayer's application by the tax body or from the day when the tax body and the taxpayer signed the act on the joint examination of the paid taxes. The period is calculated from the day the application on return was submitted but not before the tax in-office audit was finished or from the moment when such audit should have been finished. If the period for the return of the sums of the excessively paid tax is violated the interests are accrued for each calendar day (paragraph 10 article 78 of the RF Tax Code).

22. According to the letter of the RF Federal Tax Service from June 26, 2009 No 3-2-09/121 clarified that the expenditures for paying-off the cancellation penalty envisaged by the agreement can be included in the number of extraordinary expenditures taken into account when calculating the taxation base according to subparagraph 13 paragraph 1 article 265 of the RF Tax Code. However the transfer order on payment of cancellation penalties does not mean that the payer had agreed with the sanctions. It is a written agreement to pay the debt at the rate mentioned that can act as a document testifying the acknowledging of the penalty by the payer. According to the RF Ministry of Finance the sum of the penalty calculated in concordance with the conditions of the contract is to be taken into account as an extraordinary expenditure on the date of its written acknowledge by the payer or on the date the decision of the court came into effect. ●

REVIEW OF BUDGETARY LEGISLATION

M.Goldin

In July amendments were made to the Federal Law “On Fund for assistance to reforms of the housing and communal sector”; the cases for the subjects of the Russian Federation to return the received federal support were established. The Federal Law establishing the procedure for rendering financial support to subjects of the Russian Federation from the means of the Fund for assistance to reforms of the housing and communal sector was adopted. The Regulations defining the procedure for rendering support to measures within the framework of the administrative reform in 2009 were developed.

Federal Law from July 17, 2009 No 147-FZ “On making changes to the Federal Law “On the Fund for assistance to reforms of housing and communal sector” and to the Federal Law “On participation in share construction of apartment buildings and other objects of immovable property and on amendments to some legislative acts of the Russian Federation” and on invalidation of individual provisions of the legislative acts of the Russian Federation” has supplemented the Federal Law from July 21, 2007 No 185-FZ “On the Funds for assistance to reforms of housing and communal sector” with a new article 23.1. It contains the statements concerning the return of the means of the financial support received from the means of the Fund for assistance to reforms of housing and communal sector (further referred to as the Fund) and envisages the cases when the subjects of the Russian Federation are to return the means, establishes the period, the amount and the procedure for the return of the means of the Fund, defines the distribution of the means returned to the Fund.

Thus, financial support given from the means of the Fund is to be returned to the Fund by the subject of the Russian Federation if:

- 1) the Fund as a result of the monitoring of the executing of the regional targeted programs of carrying out thorough repair works of apartment buildings, regional targeted programs on moving the citizens from the dangerous structures revealed non-purpose-oriented use of the means of the Fund;
- 2) use of the means of the Fund to carry out thorough repair works of apartment buildings, move the citizens from the dangerous structures was made without partial financing from the budget of the subject of the Russian Federation and (or) local budgets;
- 3) formation as a result of the inspection of the remainder of the means received at the expense of the means of the Fund in order to fulfill regional targeted program on resettlement of citizens.

The same legislative act makes a number of changes to the Federal Law from December 20, 2004 No 214-FZ (version of 16.10.2006) “On participation in share construction of apartment buildings and other objects of the immovable property and on making changes to some legislative acts of the Russian Federation”.

Federal Law from July 1, 2009 No 143-FZ “On specific features of the financial support of the subjects of the Russian Federation and municipal formations from the means of the state corporation – Fund for assistance to reforms of housing and communal sector in 2009” established specific features of granting financial support to the subjects of the Russian Federation from the means of this Fund for the period of up to December 31, 2009.

The Federal Law No 143-FZ gives the Supervision Board of the Fund for assistance to reforms of the housing and communal sector the right to define the maximum volume of the

funds given to the subjects of the Russian Federation to carry out thorough repair work of the apartment buildings and to resettle citizens from the buildings in the state of emergency up to December 31, 2009.

The Federal Law under consideration also introduces the restriction for the submission of the repeat application of the subjects of the Russian Federation concerning which the decisions on granting financial support from the means of the Fund were made, excluding the cases of giving the means to resettle the citizens from the buildings in state of emergency.

Besides, the Fund receives the right to demand the preschedule return of the deposits from the credit organizations and to sell the securities that the Fund owns.

The Decree of the Government of the Russian Federation from July 22, 2009 No 596 “On procedure for the preparation of socio-economic forecast of the development of the Russian Federation” defines the Regulations for the preparation of the socio-economic forecast for the development of the Russian Federation for the next financial year and for the planning period.

In concordance with the approved Regulations, in order to prepare the forecast the Ministry of the Economic Development of the Russian Federation together with the federal executive bodies concerned elaborates:

- Scenario conditions that contain the most probable external and internal conditions, characteristics of socio-economic development of the Russian Federation, corresponding to the aims of socio-economic development for the next financial year and planning period, including, for instance, prices for oil grade Urals, growth rates of the world economy, ruble exchange rate against dollar and other indices;

- Main parameters, which contain the forecast quantitative characteristics that correspond to the scenario conditions and reflect the level of socio-economic development of the Russian Federation in the next financial year and in the planning period, including the dynamics of prices for goods (services), deflation indices, number of citizens employed in the economy, real wages etc.

The forecast is developed in several variants and is formed for the Russian Federation in general, for subjects of the Russian Federation and for kinds of economic activity.

Decree of the Government of the Russian Federation from July 15, 2009 No 562 “On rendering support to the administrative reform conducted by the federal executive bodies and supreme government executive bodies of the subjects of the Russian Federation in 2009” develops the regulations for rendering support to the measures within the framework of the administrative reform envisaged by the Concept of the administrative reform of the Russian Federation for 2006-2010 in 2009.

In concordance with the regulations the budget allocations for conduction of the administrative reform are given on the basis of the decision of the Government of the Russian Federation, which project is submitted by the Ministry of Economic Development of the Russian Federation. For instance, the Ministry of the Economic Development of the Russian Federation defines the procedure and the conditions for the contest selection; approves the guidelines for estimation of the programs, plans and projects of federal executive bodies and supreme executive bodies of the authorities of the subjects of the Russian Federation presented for the contest selection; carries out contest selection; approves the guidelines for distribution of funds for the support of the conduction of the administrative reform. The means for the support of the conduction of the administrative reform are directed to execution of such measures as formation of the single system of granting of the state (municipal) services in the territory of a subject of the Russian Federation, monitoring the quality of the state management, improvement of the state control. ●