

RUSSIAN ECONOMY: TRENDS AND PERSPECTIVES 09'2009

MONTHLY BULLETIN:

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RUSSIAN ECONOMY IN SEPTEMBER 2009: TENTATIVE DATA AND MAJOR TRENDS

In September political background was under the impact of positive developments in the USA-Russia relations. The Administration of Barack Obama has informed about the rejection of plans to deploy a third site of strategic missile defense in the territories of Czech Republic and Poland. Moscow announced the similar rejection of the deployment of additional weapons in the Kaliningrad region, and showed more than usual support to the U.S. position in regard to Iranian issue (for more details, see section "Farewell to the third site of strategic missile defense in Eastern Europe"). In the report released by the EU Commission, responsibility for the Russia-Georgia armed conflict in August of the last year is vested on both parties (Tbilisi is responsible for the outbreak of hostilities), though both parties have a partial disagreement with the Commission conclusions, the publication of the report will not complicate relations between Moscow and Brussels. In this background, in September Russian government took a number of actions aimed at attracting foreign investment to the Russian economy, in the energy sector among other areas.

Macroeconomic situation in Russia in September 2009 continued to show signs of stabilization. This is largely based on the stability of demand and prices for basic commodities of Russian exports in foreign markets. Average price of Urals oil in September (1-24 September) amounted to USD 67.8 per barrel, which was slightly lower than the August price (USD 72.2), but higher than the price in July (USD 64.6). As a result, according to the RF Central Bank, the positive export surplus for January-September totaled to USD 74.8 billion dollars (48.3% as compared with the relevant period of the last year, while export surplus for January-July 2009 was at the level of 42.9% from the same period of the last year). Foreign currency reserves of the RF Central Bank on September 25 reached USD 412.7 billion (68.9% of the pre-crisis maximum indicator, which is 6.1 p.p. higher than the minimum crisis indicators of March 2009 - USD 376).

According to Rosstat tentative estimates, index of consumer prices in September may remain at zero level, in this case, zero inflation rate will be recorded in Russia for the second consecutive month. Accumulated inflation from the beginning of the year will amount to 8.1% (instead of 10.6% over the same period of the last year). The growth in food prices has considerably declined as compared with the last year (6.6% within January-August 2009 against 11.3% in January-August 2008), while prices for non-food goods in this period was even higher than the prices growth within January-August 2008 (7.6% versus 5.8%). The growth of consumer prices in August was restrained at the zero rate by both, moderate growth in prices for petrol (2.1%), and the continued decline in prices for fruit and vegetables (at 2.3%). One can expect a slight increase in inflation should be only by mid-October. However, the price growth rate will be insignificant in view of the present dynamics of growth of monetary supply M_2 .

As of September results, the ruble rate has declined both, against dollar (from RUR 31.57 as of August 30 to RUR 30.09 as of September 30, i.e., increased by 4.7%), and against EURO (RUR 45.3 to RUR 44.0, i.e., by 2.9%). Strengthening of the ruble would be even greater, if the Central Bank of Russia has not performed massive sales of foreign currency at the last days of the month (USD 2.7 billion). However, in our view, the current level of oil prices implies, that in the future such massive intervention will be a one-time occurrence, and ruble will remain «in free floating» within the range of RUR 30-31 against USD 1 without

serious efforts on the part of the Central Bank (for details, see «Inflation and monetary policy»).

Within September the Central Bank twice (on September 14 and 29) reduced the refinancing rate (by 0.25 p.p. and 0.5 p. p., respectively); as a result, the interest rate has dropped from 10.75% at the beginning of the month to 10%. Low inflation allowed the Bank to continue mitigation its credit and monetary policy (since the beginning of the year the refinancing rate has been reduced by 3 p.p.). This decision was affected by the continuing low credit activity of the banks, hindering economic recovery. It is possible that before the end of the year the Central Bank will go to another interest rate decrease, but the potential of such policy looks close to exhaustion. Further reduction may again make a real interest rates negative, and the massive budget spending at the end of the year may lead to inflation growth.

Within the last few months of 2009 there was a significant growth of the budget deficit, which increased the instability of the budget system and the risks of expansion of public borrowings, including those in the foreign markets. According to the Ministry of Finance, federal budget revenues in 8 months of 2009 amounted to 17.8% of GDP, which is 6.6 p.p. below the indicators of 2008, while expenditures exceeded the level of the last year by nearly 7 p.p. and reached the level of 22.5% of GDP. One of the major problems at the end of the year may become irregular budget spending: in the first 8 months of this year, there were spent a little over 57% of the estimated annual federal budget.

The situation in the real sector also shows indicators of recovery, or at least stabilization. However, the trends here seem to be very unstable. Thus, if the July data showed some positive dynamics of industrial production, in August this trend was discontinued. According to September market surveys, one can imply that as of the month results, there will be noted a positive trend in the industry. Enterprises' estimated reduction in demand were getting improved since August 2008: a third of Russian companies estimate the demand for its products as normal (earlier only a quarter of producers had the same estimates). In September 2009 Positive dynamics of demand has allowed the companies to start the most intense production since the beginning of the crisis. The scope of dismissals has decreased by 9 points within the month and became the most restrained since October 2008. Accessibility of sredits for the industry remained at the level reached in August: 41-42% of companies regard an opportunity to get credits as normal.

Herewith, according to the surveys, the producers are not optimistic in terms of sustainability of such trends. Estimates of demand and sales are rather prudent, and assessments of stocks of finished products are stable, which also points to the reluctance of companies to make large reserves in the hope of increasing demand in future. Moreover, there is a growing trend of prices growth for the products of producers: in September, only 7% of companies reduced the prices for their products (in December 2008 there were 30% of them).

Review of GDP and the industry within January - August demonstrates that the major negative impact on the dynamics of the industry is provided by a reduced domestic investment and consumer demand. Capital investments in January-August 2009 amounted to 81.1% versus the same period of preceding year. Herewith, consumer demand has increased in recent months: within January-August of 2009, retail trade turnover has decreased by 4.7%, including food products - by 2.4%, while non-food goods - by 6.9%. However, only in August of 2009, sales of food products decreased by 6.2%, while non-food products - by 13,1%, as compared with the corresponding month of the last year.

The decline in industrial production within January-August against the relevant period in 2008 amounted to 14.0%. Herewith, it should be noted that in the background of a moderate reduction in the mining sector (96.8% against the level of the last year) and the production

and distribution of electricity, gas and water (93.4% the level of the last year), the main contribution to this indicator was made by industrial production reduction – 80.2% versus the same period of the last year. Manufacture of machinery and equipment in January-August 2009 against the same period in 2008 has decreased by 33/1%.

One can speak so far about the effect of import substitution only in regard to the II quarter of the year: the share of domestic goods in the formation of resources for retail trade in the II quarter of 2009 increased to 60% versus 56% in the I quarter of this year against 55% in the IV quarter of 2008, but sustainability of this trend in the III quarter of 2009 seems unlikely.

Therefore, in the background of the apparent stabilization of indicators related to the external sector, there are no ground to speak about Russian economy recovery growth. ●

POLITICO-ECONOMIC RESULTS AS OF SEPTEMBER 2009

S.Zhavoronkov

In September 2009, both, Dmitry Medvedev (for the first time), and Vladimir Putin (repeatedly) have informed of their intention to participate in presidential elections in 2012 . However, Medvedev's statement, at first glance sensational, has not inspired a support from any well-known administrative or political figures, which means that in the opinion of the Russian elite, his chances in the elections are not so high. In his turn, Mr. Medvedev has made series of interviews and statements in September, aimed to confirm that he has no political program, which can be regarded as an alternative to Putin's policy or even to the general trend in the development of Russia, pursued in the recent years.

The top news in September 2009 had much more ideological, rather than actual nature.

In September, basing on the results of a traditional meeting of Mr. Putin with a group of foreign political analysts ("Valdai Club"), a number of analysts stated, that during their meeting Putin has made it clear, that in 2012 he is going to return to the position of the Russian President, making an agreement with Dmitry Medvedev on the powers allocation with regard to the situation. Nobody argued against this information. Dmitry Medvedev, in his turn, during his visit to the United States has admitted for the first time, that he is going to participate in the president's elections again, «*if I perform well, if I manage well , if the people of Russia trust me, why not?*»... However, Medvedev has specially pointed out, that he is ready to work after 2012 in any other position and has no plans for Putin's resignation as a Prime Minister, but is going to "have it agreed with him". *There is a certain number of potential candidates, and it happened, that indeed, we both are going to have quite a good rating, if nothing wrong happens. It does not mean, that we anticipate anything for sure, but in view of our high responsibility, we should agree with each other on some issues "...*

It is remarkable, that the only person with at least some official status, who supported D. Medvedev's nomination to the presidency in 2012, was I. Jurgens¹, the Head of the Institute of Contemporary Development (INSOR), known for his projects of «soft democratization». In September 2009, despite the assurances of both, Medvedev and Putin , he was speaking about a competition between them at the presidential elections in 2012. In his interview to Reuters, Jurgens assumed, that if V.Putin goes again for the presidency in 2012, he risks to become a «*dying leader, Leonid Brezhnev's style*». Mr. Jurgens has reasonably assumed, that the appointment of Mr. Putin in 2012 will inevitably lead to his re-assignment in 2018, and in 2024, when in theory two more terms are expired, he will be 72 years old. According to Jurgens, the best way to avoid such a scenario is an «*open, transparent competition between Putin and Medvedev*» in the elections of 2012 . Currently, Jurgens estimates the chances of success in favor of Putin as "70 to 30", but as to his opinion, later the situation can be changed.

Jurgens's assumptions are difficult to be discussed seriously, as currently there is no political competition in the effective political system of Russia. Political competition in such a system, if it somehow occurs, would mean at least political extinction for the loser and expropriation of assets for his support group. Moreover, replacement of a personality

¹ Medvedev himself has already for six months formally headed INSOR supervisory board. However, during that term he visited "his" institution only once and did not support any of its initiatives.

cannot induce the change of the system as a matter of fact (it would not happen, even if there were public declarations about such changes, and even more without such declarations). In view of the RF political elite estimates of the competition between Medvedev and Putin, as well as Medvedev's victory, the loneliness of Mr. Jurgens' statements is rather eloquent.

In September, D. Medvedev has made a large number of various presentations to different mass media. The most complete presentation was published in the official Kremlin Website and in the online newspaper gazeta.ru. The publication was started with a request to send proposals, addressed to Medvedev, to the president's e-mail address and, therefore, to participate in the discussion. However, later in the article it was mentioned, that Medvedev already has the answers to questions how *"to make our society more rich, free and attractive, so it would be able to provide to everybody a better education, a more attractive job, a good income and comfortable sphere for personal life and creative activity"*.

This publication, as well as practically all other presentations on behalf of the of the country top officials in recent years, express a specific point of view on the state, led by them within the recent time. It looks that the Russian leaders have picked up their positions just now and therefore, nobody questions the effectiveness of their previous country management. They mention three negative periods in the history of the country: Peter time (in other places it is generalized to tsarism in general, and is called "Imperial"), the Soviet period and 90-s of the preceding century. Problems of the first two periods were due to *"... the impressive indicators of the two greatest national modernizations in the history - Peter's (imperial) and Soviet one - have been paid by ruin, humiliation and destruction of millions of our countrymen,"* for which, incidentally, *"... we have no rule to judge our ancestors"*. The third period, which has replaced the former one, was so bad because of the "semi-paralyzed state" (none of its formal characteristics are provided). The forthcoming term is characterized only by the following phrase: *"... we did not do everything that was necessary to be done in previous years, and many things were done in a wrong way"*, but there is no specification, what mistakes have been made. Further on, some current problems of modern Russia and the ideal picture of the country as it should be, as it should look like, are provided. Sometimes the existing officials are mentioned in a negative way, sometimes - modern business and civil society. The closest attention is paid to *"the eternal problems of Russia"* referred to as *"age-old economic backwardness, a habit to exist due to the export of raw materials, actually due to exchanging it for finished goods"* *"paternalistic attitudes, widespread in society"*, *bribery, theft, mental and spiritual laziness, alcoholism* are described most extensively in different parts of the article.

An ideal situation to which we should strive *"within the forthcoming decades"*, has the following features. In the economic sphere: *"... Russia should become a country, which prosperity is ensured not so much by natural resource, but by intellectual resources, such as "smart" economy, creating the unique knowledge, export of new technologies and innovational products ... First, we will become one of the countries leading in the efficiency of production, transportation and energy utilization. We'll produce and introduce in the internal and external markets new types of fuels. Secondly, we'll keep up nuclear technology and raise it to a qualitatively new level». Thirdly, Russian experts will improve information technologies, will achieve a major impact on development of global publicly available networks, using supercomputers and other necessary material base. Fourth, we will have our own ground and space infrastructural dissemination of all types of information, our satellites will "see" the whole world to help our citizens and people from all over the world to communicate, travel, to be engaged in research work, agricultural and industrial production. Fifth, Russia will take a leading position in the production of certain types of medical equipment, sophisticated diagnostic tools, medicines for the treatment of virus, cardiovascular, cancer and neurological diseases"*.

In the sphere of politics: *“The expansion of modern information technologies... provides unprecedented opportunities for the realization of fundamental political freedoms , such as freedom of speech and assembly. To identify and eliminate centers of corruption. For direct access to the place of actually any event. ... Russian political system will be extremely open, flexible and intrinsically complex. ...Like in many other democracies, the parliamentary parties, periodically replacing each other in power will become the leaders in the political struggle . Parties and their coalitions will form federal and regional executive authorities (but not vice versa), to nominate candidates for the position of the Head of the state, Heads of regions and local authorities.*

“The political system will be updated and improved in a free competition between open political associations. Meanwhile international consensus on strategic issues of external policy, social stability, national security, constitutional order, protection of the national sovereignty, rights and freedoms of citizens, protected property rights, rejection of extremism, support for civil society, all forms of self-organization and self-government. A similar consensus exists in all modern democracies ... “.

How one should assess the program outlined by Dmitry Medvedev for the forthcoming “decades”? Even an attempt to speak of the “decades” (and in the event the people’s elections of governors are cancelled, even for a “Century” !) causes a lot of questions, as Mr. Medvedev’s authority will be terminated in 2012, and he is not sure, whether he is going to try to extend it. In the economic sphere “Medvedev’s program” is much less concrete, than the vast majority of framework documents, issued in recent years in Russia on behalf of the President or the Government. It is close to the positive image of the future in a science fiction, especially in terms of prospects in new fuels development and breakthroughs in medicine. Strictly speaking, there is nothing to discuss, still to wish success to Mr. Medvedev and to the nation.

But in terms political sphere Medvedev’s program looks scary. That is because of the way Medvedev has written. *“... This year we started to move towards the creation of such political system. Political parties were given more opportunities to influence the formation of executive power structures in the federal entities and municipalities. Formal requirements on a number of parties’ formation were relaxed . Conditions of candidates’s nomination for election to the Duma were made easier”.* Meanwhile, the results of the “started movement” are as follows: the abolition of existing rights of citizens to form a government through elections (the abolition of election pledges, which caused a predictable rejection to register any candidate for the regional and municipal elections, except for those nominated by the parliamentary parties, prohibition of public organizations’ lists of candidates for municipal elections, the extension of government authorities terms etc.) and empowering the citizens by useless advisory rights and sleeping rights, like a human right to propose candidates for Governor directly to the President through the leading party in regional elections (whereas the President is not obliged to assign those Governors) or decrease in the number of political parties from 50 to 45 thousands of members (in the absence of precedents of new parties’ registration within many years).

There was found a place for a protest against the judicial reform and the reform of law enforcement bodies in the article by D. Medvedev *“... An effective judicial system can not be imported ...There is no place for frog leaps and campaigns in the formation of a new judicial power, as well as for all the discussions, that the system itself is rotten and it’s easier to recruit new judicial and law enforcement bodies, than to change the current ones. We have no “new” judges, as there is no “new” public prosecutors, police, intelligence personnel, public officials, businessmen, etc. It is necessary to create normal conditions for the law enforcement body’ operation, strongly getting rid of the corrupted ones . “* Along with an appeal to create a situation, when there are only good judges and law enforcers in the

country, rather than bad ones, Medvedev told his readers a “legal novel”: :”.. *At the end, the judicial system has the ability to sort out public interests and selfish interests of a corrupted bureaucrat or businessman*”.

In fact, we can comment, that D. Medvedev’s articles and speeches in September can be regarded as doubtless and expressed rejection from the initiatives of various advisers on democratization of the RF political system, presented under the slogan, typical for current political slogan, that Russia has already reached a high level of democracy and moves onward. Herewith, the same statements demonstrate, that the authorities generally realize an alternative way of the country development, but neither Medvedev, nor Putin are ready to discuss it seriously.

In September 2009, the government leaders, the Vice-Premiers I. Shuvalov and A. Kudrin, have made statements about a tentative privatization of some public companies (Rosneft, Sovcomflot, VTB, and other companies have been mentioned), but the details of these declarations - in particular, an intent to sell only small stocks of shares, while maintaining public ownership for a controlling share, makes questionable both, the appearance of strategic investors, interested in these companies, and a real interest of such investments for the budget. It was not just Kudrin’s slip of tongue, that privatization and reducing of the state’s presence in economy will take place in a “medium-term perspective”, as in forthcoming years, the state, on contrary, will strengthen its presence in the companies.

A few major economic conflicts have been developed in Russia. Thus, the conflict between the largest Russian debtor - the structures of O. Deripaska - and Alfa-Bank development was going on as follows: in September, Alpha Bank laid a claim to the arbitration court on bankruptcy of its key subsidiaries - SUAL and “Rusal Krasnoyarsk Aluminum Plant” for the debts exceeding USD 73 mln. OAO “Russian Aluminum” first announced the “raiding”, but within a day was able to find funds to repay debt. Thus, as has been confirmed, there is nothing wrong in enforced debt collection (in case of real risk of enforced collection, the funds are found amazingly promptly). The story of Airline “KD avia” is a different, in some way a counter-example. In September 2009, as it was proved, the company’s license has been revoked, though earlier the RF government has promised its financial support in the amount of RUR 4 bln. The company has not got the money, moreover its bankruptcy case was sent to the court (the situation with the bankruptcy of Air Union was developing in a similar way a year ago). Despite of numerous attempts to create some “strategic lists”, the criteria for government assistance and the possibility (impossibility) of bankruptcies of enterprises, the economic future of enterprises, caught in a problematic situation, is determined by their lobbying power (as well as by the power of their competitors or counterparts).



INFLATION AND MONETARY POLICY

N.Luksha

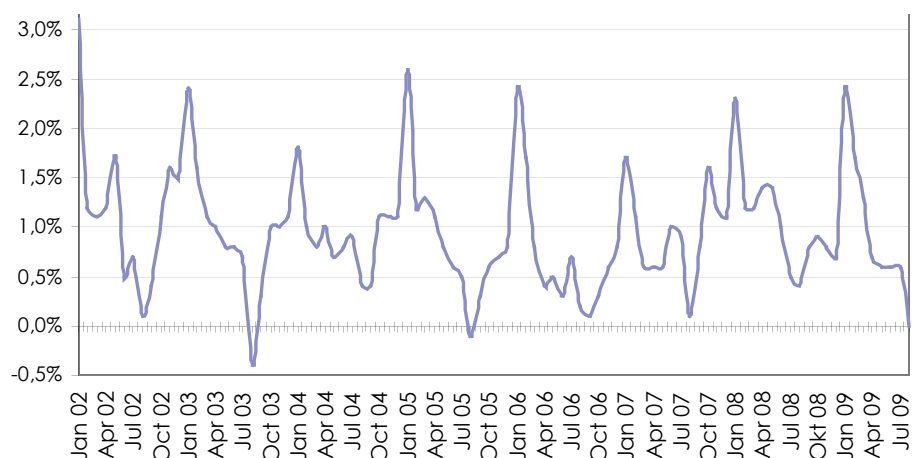
The results of August reflect a 0% growth in consumer prices, the lowest since the beginning of the year, and a 0.1 % deflation during the final week of the month. Since the beginning of the year, accumulated inflation had remained below the previous year's level (8.1 and 9.7%, respectively). In August, the real effective exchange rate of the ruble dropped 1 %, while the international reserves of the Bank of Russia rose 1.9 % to 409.6 billion USD. The value of the bi-currency basket slightly increased (+0.5 %), to 37.75 rubles. The Bank of Russia continued the policy of softening its monetary policy: on 15 September it again decreased the rate of refinancing, this time by 0.25 p.p., to 10.5% per annum. Also, the Central Bank simultaneously reduced its interest rates on credits to commercial banks and deposits therewith.

In August, the commercial price index amounted to 0 % (see Figure 1). The biggest contributor to the price rise in August was the growing prices of nonfood items (+0.6 %). Nevertheless, this growth was neutralized by the cheapening of food commodities (-0.9 %).

The growth rate of prices for nonfood items was the same as in July. As in the previous months, the highest price rise in this category of commodities was for motor petrol (+3.6 %) and tobacco products (+3.6 %). A more modest contribution to the price rise in August was made by the growth in prices for clothes and footwear on the eve of the new school year (by 0.7 and 0.6 %, respectively).

In August, food commodities became much cheaper (-0.9 %), mostly due to the seasonal drop in prices for fruit and vegetable products. The price drop in this category of commodities amounted to 11 %, while in July prices went up 3.2 %. But for this factor, the rise in prices of food commodities would have been 0.4 % by the results of the month. The price drop involved some other food commodities, such as macaroni products, milk and dairy products, sunflower oil and butter, which all continued to cheapen. The traditional storing up food for winter pushed up the price of granulated sugar (+6.2 %).

The growth rate of prices for payable services to the population dropped more than twofold on July, to 0.4 % by the results of the month. The tariffs for gas supply in the housing and utilities sector went up (+4.1 %). The end of the summer holiday season boosted prices for services in the sphere of foreign tourism (+1.4 %). Educational services also became more expensive (+0.9 %). By contrast, prices for sanatorium and health-resort services slightly dropped (-0.2 %).



Source: Rosstat.

Figure 1. The growth rate of the CPI in 2002 – 2009 (% per month)

Thus, the rise in consumer prices temporarily stopped. Traditionally, August is the month of the lowest inflation rate, resulting from the seasonal drop in prices for fruit and vegetable products. At present, the rise in consumer prices for the August – September period remains below the previous year's level.

It is expected that by the results of September price rise will be zero. Inflation will be contained by the same factors as in August. Also, the growth rate of motor petrol prices will continue its slow-down due to the seasonal drop in demand and the negative expectations concerning the dynamics of whole-sale fuel prices. Inflation can be expected to moderately rise only from mid-October. However, judging from the existing growth rate dynamics of the M_2 (in January – July 2009 the narrowing of the M2 monetary base amounted to 2.8 %, while in the corresponding period of 2008 it had broadened by 7.1 %) and the limitations imposed by internal demand, the growth rate of prices will be insignificant

In the final decade of September, the RF Ministry for Economic Development lowered the minimum inflation forecast rate for 2009 from 11.6 % to 11 %. The maximum inflation forecast rate of 12 % remained unchanged which can be explained by the risks dealing with the possible rise in motor petrol prices and prices of some food commodities (particularly sugar). So far as the long-term prospects are concerned, on 23 September 2009 the Government approved a draft of the main directions of monetary policy for 2010 – 2012. The draft set a task of lowering the rate of inflation to 9–10 % in 2010, to 7–8 % in 2011 and to 5-7 % in 2012. However, such an optimistic long-term forecast is unlikely to strongly influence short-term inflationary expectations.

In August 2009, the base consumer price index¹ amounted to 0.5 % (vs. 1.% in August 2008).

By the results of August, the broad monetary base² increased by 1.5%, to 4,921.6 billion rubles. As of 1 August 2009, the volume of the broad monetary base amounted to 4,850.5 billion rubles. Let us consider the dynamics of the broad monetary base component by component.

As of 1 September 2009, cash in circulation, including cash held at credit institutions, amounted to 3.9 trillion rubles (a one-month drop of 0.7 %); 598.4 billion rubles was held on the correspondent accounts opened by credit institutions with the Bank of Russia (+43 %); mandatory reserves amounted to 125.3 billion rubles (+34 %); banks' deposits with the Bank of Russia held 270.8 billion rubles (-30 %); and the value of Bank of Russia's bonds held by credit institutions amounted to 20.2 billion rubles (+4.1 %).

In August 2009, there was a considerable growth in the excess reserves of commercial banks³: by the results of the month, their growth amounted to 889.4 billion rubles (a 8.1 % rise). Even after having dropped by almost one third, the volume of banks' deposits is still very considerable. As regards correspondent accounts, their volume at the end of August was record high since January 2009. By now the banking sectors has accumulated a lot of excess liquidity.

By and large, August saw some positive shifts in the banking sector. Thus, according to the Central Bank's head S. Ignatiev, the growth of bad loans in the Russian banking

1 The base consumer price index reflects the level of inflation on the consumer market with the exception of the seasonal (prices for fruit and vegetable products) and (tariffs on the regulated types of services, etc.). This index is calculated by the RF Statistics Service.

2 Russia's broad monetary base includes ready cash put by the Bank of Russia into circulation; balances held on Bank of Russia's accounts for the mandatory reserves allocated from the funds borrowed in national currency by credit institutions; the funds held in the correspondent accounts opened by credit institutions with the Bank of Russia; and the funds deposited by banks with the Bank of Russia.

3 The excess reserves held by commercial banks at the RF Central Bank is the sum of the funds held in the correspondent accounts of commercial banks, their deposits with the Central Bank, and the Central Bank's bonds held by commercial banks.

system has become slower. In August, the volume of past-due credit debts of corporate borrowers increased by 5 % - a minimum one-month rise since the beginning of the year. According to the RF Central Bank, the proportion of category 4 and category 5 debts (hopeless debts) in the portfolios of Russia's biggest banks amounted to 8.1 % (vs. 5.1 % as of 1 April 2009). The capital adequacy index remains sufficiently high throughout the banking system. It amounts to approximately 19 % - much higher than the 10% norm established by the Bank of Russia.

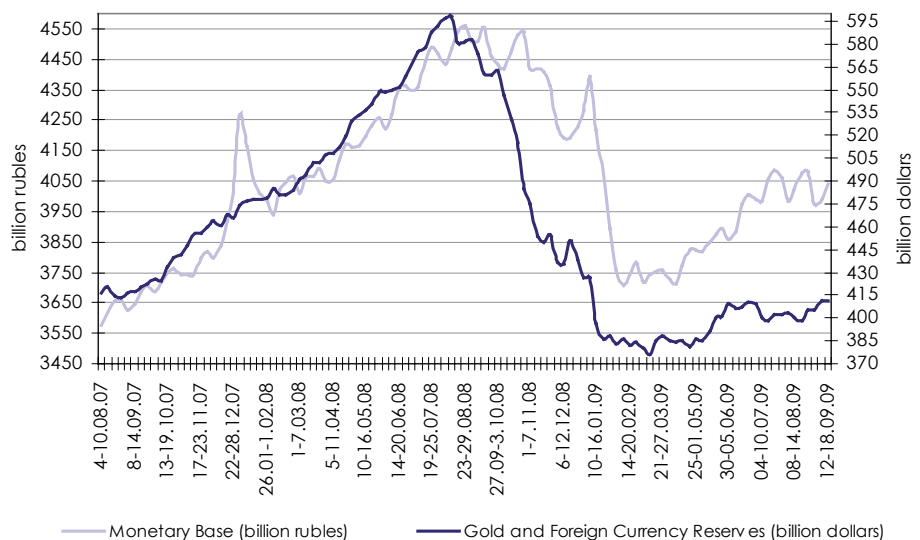
August also saw further stabilization of the credit portfolio. After a half-year-long credit contraction (in February – July 2009 banks' corporate credit portfolio shrank by 4.3 %), the growth of banks' corporate portfolio resumed. By the results of the month, it amounted to 0.7 %. Moreover, crediting was increased not only by banks with state participation but also by private credit institutions. It should be noted that the rates of credits granted to non-financial institutions somewhat declined. Thus, according to the RF Central Bank, in July these rates dropped by 0.7 p.p., to 14.7 %. By comparison with the beginning of 2009, the rates of credits declined on average by 2.7 p.p.

However, it is far too early to affirm that the upsurge in crediting is considerable and long-term. The growth trend has not come into the sphere of consumer crediting as yet, while the intensification of corporate crediting involves only the biggest banks (it should be noted that the growth of banks' corporate portfolio in August was mainly due to the RF Savings Bank which had increased its portfolio by 1.9 %).

The 0.7 % drop in the volume of ready cash in August and the growth of mandatory reserves by 34 % resulted in the broadening of the narrow monetary base (ready cash plus the mandatory reserves)¹ by 0.1 % (see *Figure 2*).

In August, the volume of the international reserves of the RF CB increased by 7.6 billion USD, to 409.6 billion USD at the end of the month. It should be noted that August saw two sharp upsurges in the volume of reserves. Both of them took place in the final third of the month. The first considerable volume increase amounted to 6,6 billion USD. This jump could be explained by a considerable rise in the volume of foreign-currency correspondent accounts opened by credit institutions with the Bank of Russia. As is stated above, this volume increased, in August alone, by 43 %.

In the final three days of August, the CB's international reserves grew by 4.7 billion USD. In all probability, this was due to the inflow of the funds received in the course of the distribution, between IMF shareholder countries, of special drawing rights (SDRs), which took place on 28 August 2009.



Source: RF CB.

Figure 2. The dynamics of the narrow monetary base and of the RF foreign currency reserves in 2007 - 2009

1 It should be remembered that the broad monetary base is not a monetary aggregate but a characteristic of the Bank of Russia's liabilities in national currency. The narrow monetary base is a monetary aggregate (one of the characteristics of the volume of money supply) completely controlled by the RF CB.

The purpose of such distributions is to bolster the reserves of shareholder countries and to provide the world economy with additional liquidity. In the course of the distribution Russia received 4.4 billion SDRs, which corresponds to 6.8 billion USD.

According to the preliminary data of the RF CB, in August 2009, the volume of net capital outflow amounted to 9 billion USD. In the January – August 2009 period, the amount of outflow exceeded 50 billion USD. The RF CB expects that net capital outflow in 2009 will total 40 billion USD. According to the existing draft of monetary for 2010 – 2012, the Central Bank expects net foreign capital outflow to decrease next year to 10 – 25 billion USD under each of the four scenarios it has developed.

In August, the ruble continued to weaken (-1 %). By the results of the month, the real effective exchange rate of the ruble amounted to 127.74¹ (see Figure 3).

By the results of August, the nominal dollar – ruble exchange rate dropped by 0.6 %, while that of the Euro rose by 1.4 %. The dollar fell to 31.57 rubles, while the Euro climbed to 45.43 rubles. As a result, in August the ruble weakened against the bi-currency basket² by 17 kopecks, and the value of the basket grew to 37.75 rubles.

In its draft of the main directions of monetary policy for the next three years, the RF Central Bank a forecast of ruble exchange rate behavior during that period of time. Under three of the four scenarios included in the draft (with the price of oil being 58, 68 and 80 USD per barrel), the Bank of Russia expects the balance of payments to be positive, which means that that the ruble would not weaken in the nearest future. Only one scenario (with the price of oil being around 45 USD per barrel) leaves room for a negative balance of payments and a drop in reserves. It should be noted that the Central Bank's forecast does not contradict the forecast made by the Bank of America Securities – Merrill Lynch on 17 September 2009 (see *Table 1*).

Table 1

THE RUBLE-DOLLAR EXCHANGE RATE FORECAST FOR 2009 - 2010

Date	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010
Ruble-dollar exchange rate	33.95	31.16	30.64	30.61	29.44	29.26	27.1	26.64

Source: Bank of America.

Furthermore, the CB's draft reflects its resolve to complete the creation of conditions for a free ruble floating, which envisages curtailing intervention on the foreign exchange market. The Bank of Russia has already been pursuing this policy for months. August was no exception: the CB's net purchases during that month amounted to 1,2 billion USD and 0.2 billion Euro. However, judging from the comments made by First Deputy Chairman of the Central Bank A. Uliukaev, it is unreasonable to expect the Bank of Russia to completely abstain from intervening on the foreign exchange market. The task of the CB will be to even up strong volatility, not to completely eradicate it.

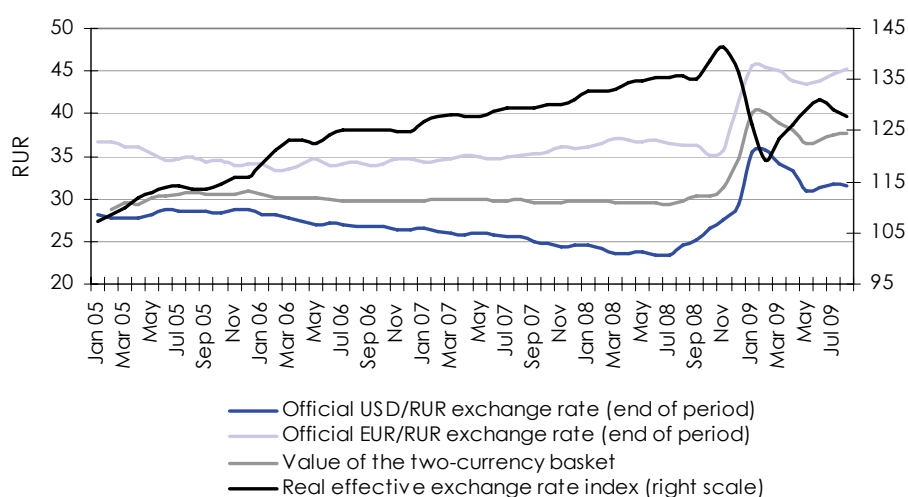
The end of September proved him right. On 29 September the CB embarked on a massive purchase of dollars which removed 2 billion USD from the market. On 30 September, the CB's purchases of foreign exchange amounted to 700 million USD. These events bear witness to a considerable change in mood on the foreign exchange market. In the summer, despite all the “verbal interventions” of the Central Bank, market participants were expecting a second wave of ruble devaluation and were busily hoarding foreign exchange.

1 The January 2002 level is taken as 100.

2 The bi-currency basket is the operational reference point used by the RF CF when carrying out its foreign exchange policy. At present, the proportion of the Euro in the basket amounts to 45 %, while that of the dollar – to 55 %.

The recent interventions of the Bank of Russia became necessary after the bankers had revised their forecasts. However, the present level of oil prices makes us to believe that such interventions will remain isolated events and that the ruble will continue its free floating in the ruble-dollar exchange rate corridor of 30-31 ruble per dollar – without any serious efforts on the part of the CB.

On 14 September 2009, the Bank of Russia once again cut its key interest rates including the rate of refinancing. The latter was reduced by 0.25 p.p. to 10.5 % per annum. All the other interest rates on RF CB credit operations were also cut down (see *Table 2*).



Source: RF CB, author's estimates.

Figure 3. The dynamics of the exchange rate indices of the ruble in January 2005 – August 2009

Table 2

INTEREST RATES ON CB RF CREDIT OPERATIONS

	Term	from 10.08.09	from 15.09.09
Lombard auctions (minimum interest rates)	14 days	8.25	8
	3 months	9.5	9.25
	6 months	10	9.75
	12 months	10.5	10.25
Direct REPO auctions (on-exchange and off-exchange) (minimum interest rates)	1 day	7.75	7.5
	7 days	8.25	8
	90 days	9.5	9.25
	6 months	10	9.75
	12 months	10.5	10.25
Overnight credits	Overnight	10.75	10.5
Cross-currency swap operations (ruble part)	1 day	10.75	10.5
Lombard credits (at fixed interest rate)	1 day	9.75	9.5
	7 days	9.75	9.5
	30 days	9.75	9.5
Direct REPO (at fixed rate)	1 day	9.75	9.5
	7 days	9.75	9.5
	12 months	10.5	10.25
Credits secured by non=marketable assets and guarantees (at fixed interest rate)	Up to 90 days	9.75	9.5
	From 91 days to 180 days	10.25	10
	From 181 days to 365 days	10.75	10.5
Deposit operations (at fixed interest rate)	Tom-next, spot/next and call deposit	5.5	5.25
	One-week and spot-week	6	5.75

Source: RF CB.

Thus, the RF CB has taken a number of measures designed to soften its monetary policy. It should be noted that the aforesaid reduction in interest rates is their sixth cut since April. All told, the rate of refinancing and interest rates on RF CB operations have been reduced by 2.5 p.p. since the beginning of the year. This policy is clearly necessitated by the persistently low credit activity of the banks seriously hampering the recovery of economic growth. However, any decisions on further reduction of interest rates will depend on the dynamics of inflation and on the indices of the industrial and economic activity of the market. It is noteworthy in this respect that the Bank of Russia First Deputy Chairman A. Uliukaev indicated, in early September, that he did not exclude the possibility that the Bank could cut interest rates by another 1 percentage point before the end of the year. ●

FINANCIAL MARKETS¹

N.Burkova, E.Khudko

In September, positive trends were dominating in the dynamics of the Russian financial market. Optimistic expectations of the US Federal Reserve System and International Monetary Fund on the prospects for the global economy recovery, continued strengthening of the national currency and positive financial performance of a number of the Russian largest companies have provided incentives for an increased business activity of investors and the growth of the Russian stock market. Herewith, the decline of the global market oil prices, as well as the sustained “negative” rating of Russia, estimated by Standard & Poor’s international rating agency were restraining the stock quotations. Positive trends were particularly expressed in the government securities market, where the investors’ activity has increased nearly two-fold. Corporate bond market continued its extension and the index of corporate bonds has grown. The major negative trends in the corporate bond market were still a record number of actual defaults and a lack of confidence of investors in securities of small companies.

Government securities market

Within September, the on-going RUR strengthening, optimistic statements of government officials on the Russian economy recovery, the sustained situation with ruble liquidity, a significant increase in trading volumes in the OFZ market have resulted mainly in the downward trend in the yields in the market of government securities. Herewith, the growth in activity was observed at the both, primary and secondary federal loan (OFZ) market.

As of September 27, the Russian Eurobonds RUS-30 yield to maturity has decreased as compared with the level of August 30 from 7.03 per cent to 6.29 per cent per annum (by 10.53 per cent), RUS-28 – from 7.70 per cent to 6.6 per cent per annum (by 13.38 per cent), RUS-10 – from 3.87 per cent to 3.28 per cent per annum (by 15.25 per cent) and RUS-18 – from 5.42 per cent to 5.19 per cent per annum (by 4.24 per cent). As of the same date, the downgrading trend was also observed in the yields of external currency debt bonds. Thus, the yield of the seventh tranche of external currency debt bonds has decreased from 4.00 to 3.57 per cent per

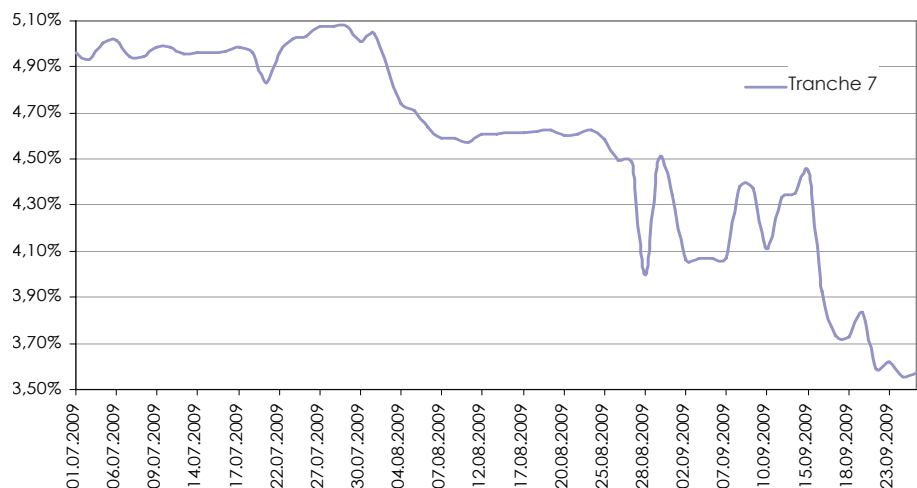
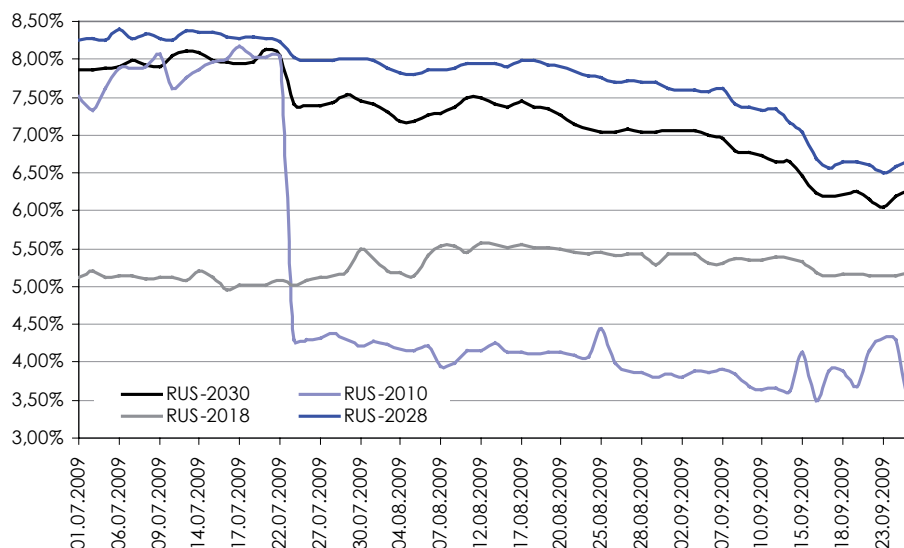


Fig. 1. Minfin bonds' yields to maturity in July – September 2009 Source: “Fin market information Agency data”

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



Source: "Fin market" information Agency data

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

annum (by 10.75 per cent) (see Figs 1-2).

Within the period from August 31 to September 27, the total turnover of the OFZ secondary market amounted to approximately RUR 131.93 billion with an average daily turnover of RUR 6.60 billion (about RUR 91.48 billion with an average daily turnover of RUR 3.39 billion in August), which corresponds to the growth of an average monthly turnover nearly two-fold.

Within August 31 through September 27, there were eight auctions

on OFZ additional placements (against five auctions a month before) at the primary OFZ market. Thus, on September 2, there were held two auctions on OFZ additional placements, series 25067 and 25068 for the amount of RUR 15 bln and RUR 10 bln, the actual placement volume was RUR 14.92 bln and RUR 6.33 with an average weighted yield of 11.62 per cent and 12.15 per cent per annum accordingly. On September 9, there were two auctions on OFZ additional placements, series 25066 and series 25068, for the amount of RUR 15 bln each, actual placement volume reached RUR 14.92 bln and RUR 12.42 bln with an average weighted yield of 10.73 and 12.42 per cent per annum, accordingly. On September 16 there were held two auctions on additional OFZ placements, series 25067 and 25068 for the amount of RUR 15 bln each, the actual volume was RUR 8.29 bln and RUR 14.82 with an average weighted yield of 10.77 and 11.58 per cent per annum. On September 23, there were two auctions on OFZ placement, series 25069 and 26202 for the amount of RUR 10 bln each, actual placement volume reached RUR 9.4 bln and RUR 5.52 bln with an average weighted yield of 10.57 and 11.50 per cent per annum, accordingly.

Therefore, the total actual amount of placements within the period under review amounted to 82.28 per cent of the planned amount (versus 57.8 per cent a month earlier), what is a sign of significant increase of the investor's interest in the primary OFZ market. Furthermore, in this period there were several auctions on OFZ additional placements in the secondary market (see Table. 1). The total actual placement in the secondary market for the period amounted to 24 per cent of the estimated volume (versus 21 per cent a month earlier). This trend reflects the overall upgrading dynamics in the market of government securities.

Table 1

AUCTIONS FOR OFZ ADDITIONAL PLACEMENTS IN THE SECONDARY MARKET

Auction date	Issue	Auction type	Issue volume, RUR, mln.	Nominal placement amount, RUR, mln	Average yield
02.09.2009	OFZ-25068-PD	Add. placement	3 672.21	1 016.10	12.10
03.09.2009	OFZ-25067-PD	Add. placement	75.15	75.15	11.58
03.09.2009	OFZ-25068-PD	Add. placement	2 656.11	455.00	12.11

Table 1, cont'd

Auction date	Issue	Auction type	Issue volume, RUR, mln.	Nominal placement amount, RUR, mln	Average yield
04.09.2009	OFZ-25068-PD	Add. placement	2 201.11	1 605.00	12.11
07.09.2009	OFZ-25068-PD	Add. placement	596.11	596.11	12.10
09.09.2009	OFZ-25068-PD	Add. placement	2 579.89	1 240.08	11.78
10.09.2009	OFZ-25066-PD	Add. placement	314.36	314.36	10.57
10.09.2009	OFZ-25068-PD	Add. placement	1 339.81	1 339.81	11.74
16.09.2009	OFZ-25067-PD	Add. placement	6 706.01	1 223.04	10.73
17.09.2009	OFZ-25067-PD	Add. placement	5 482.98	200.50	10.28
17.09.2009	OFZ-25068-PD	Add. placement	182.68	182.68	11.50
18.09.2009	OFZ-25067-PD	Add. placement	5 282.48	98.20	10.73
21.09.2009	OFZ-25067-PD	Add. placement	5 184.28	150.00	10.73
22.09.2009	OFZ-25067-PD	Add. placement	5 034.28	175.00	10.73
23.09.2009	OFZ-25067-PD	Add. placement	4 859.28	1 550.00	10.66
23.09.2009	OFZ-26202-PD	Add. placement	4 478.61	2 433.17	11.47
24.09.2009	OFZ-25067-PD	Add. placement	3 309.28	143.66	10.65
24.09.2009	OFZ-26202-PD	Add. placement	2 045.44	704.95	11.46
25.09.2009	OFZ-26202-PD	Add. placement	1 340.49	277.78	11.46
Total:			57,340.54		

Source: "Finmarket" information Agency data

As of August 30, the OFZ market volume has amounted to RUR 1,296.03 bln at face value and to RUR 1,125.85 bln at the market value. (RUR 1,195.86 bln and RUR 1,022.41 bln accordingly, as of August 30). The duration of the OFZ market portfolio has made 1,640.94 days, having decreased by 94.47 days as compared with the preceding month (as of August 30).

Stock market

Stock market situation

Improved rates of the majority of the global stock market indices, positive expectations in terms of global economic prospects, reduced lower inflation rate as per the estimates of the Ministry of Economy, as well as the reduced refinancing rate of the RF Central Bank since September 15 (from 10.75 to 10.5 per cent per annum), growth of the RF foreign currency and gold reserves, positive financial performance of a number of the largest Russian companies for the first six months of the year on the one hand, in the background of the RF Ministry of Finance estimates of budget deficit in the amount of 5.9 per cent of GDP as per results of 8 months of 2009 results, licenses revocation from a number of banks, confirmed rating of Russia by Standard & Poor's agency in early September at the level of BBB with the "negative" forecast on the other hand made for a volatile dynamics in the Russian financial market within the month under review.

Thus, in August, a general volatile dynamics was observed in the MICEX index in the background of an upgrading market trend. (See Fig. 3). The minimum value the MICEX index has reached on September 2 - 1,076.69 points (against 1,034.08 points in the preceding month). The maximum value the MICEX index has reached on September 16, having reached 1,217.67 points (1,120.54 per cent points in the preceding month).

In general, within the period from August 31 to September 27, the MICEX index has increased by 6.89 per cent, what makes about 7.6 53 points in absolute terms (within the year, from September 28, 2008 to September 27, 2009, the MICEX index has upgraded by 10.08 per cent). Over the same period the turnover of trades in shares, included in the

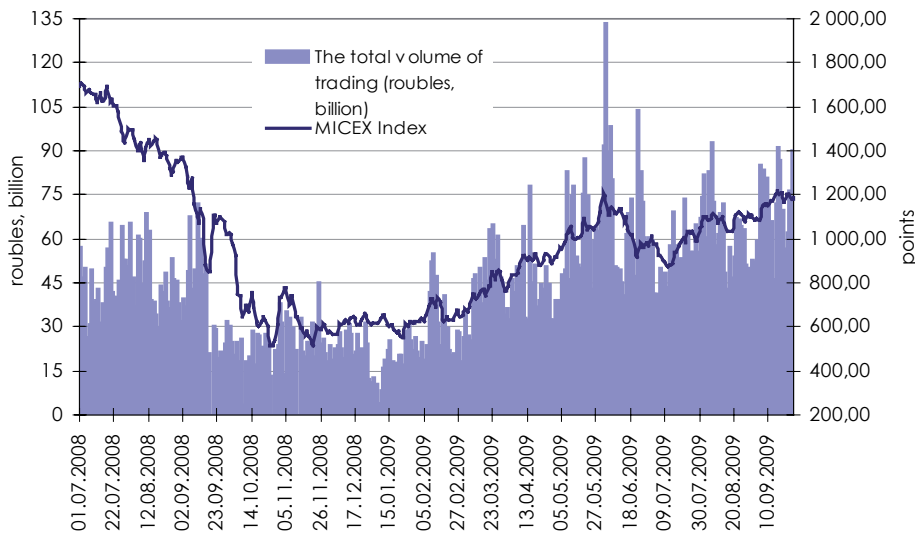


Fig. 3. Dynamics of MICEX Index and trading volume

MICEX index, made about RUR 1,390.67 bln at an average daily turnover of RUR 69.53 bln (against RUR 1723.05 billion with an average daily turnover of RUR 62.82 billion in the preceding period). Therefore, the investors' average daily activity in the stock market in September has grown as compared with the preceding month nearly by 9 per cent. The indicators of maximum and minimum daily turnover in the

market trades in September made, accordingly, RUR 91.09 bln (as of September 16), and RUR 46.10 bln (on September 14).

As of the month results (from August 31 through September 27), the “blue chips” securities yields have shown an upgrading trend. The leaders of the downgrading rates were “Mosenergo”, the value of which has grown by 42.05 per cent, “Sberbank” (by 25.71 per cent) and VTB Bank (by 25.40 per cent). Some lower rates of growth were observed in the shares of “Rosneft” (12.05 per cent), GMK “Nornickel” (by 11.28 per cent) and “Gazprom” (by 9.01 per cent) and LUKOIL (by 1.22 per cent). Herewith, downgrading rates were observed in by the shares of “Tatneft” (by 4.81 per cent), “Surgutneftegas” (by 6.15 per cent) and “Rostelecom” (by 7.89 per cent). (See Fig. 4). In August the MICEX turnover leaders were: “Sberbank of Russia” (36.36 per cent of the total turnover), “Gazprom” (23.53 per cent of the total turnover), GMK “Nornickel” (6.90 per cent), VTB Bank (6,01 per cent) and “LUKOIL” (5.90 per cent). The total share of transactions with the shares of those five «blue chips» was about 78.7 per cent (all «blue chips» - 85.77 per cent) of the total trades in shares at the MICEX stock market during the period from August 31 to September 27.

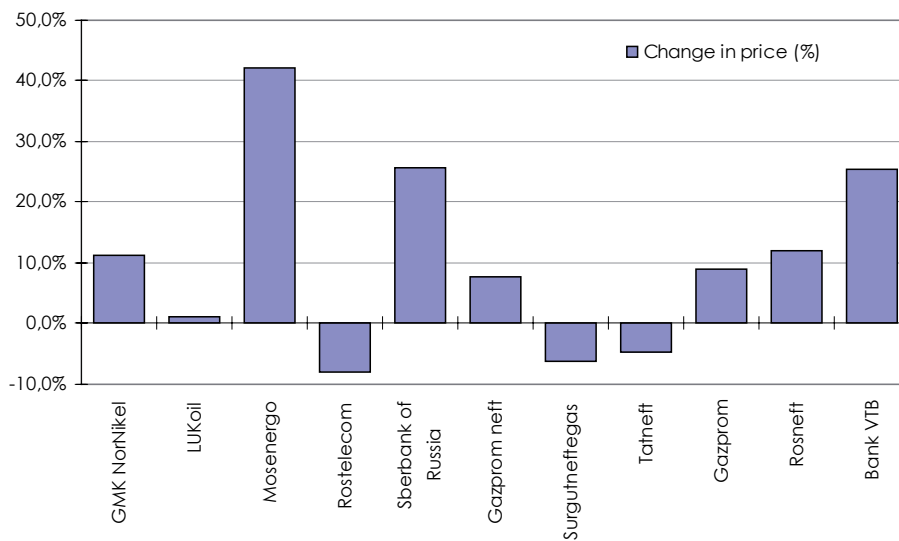


Fig. 4. Dynamics of the Russian Blue Chips from August 31 to September 27, 2009

According to MICEX information, as of September 27, the top five leaders of the domestic stock market in terms of capitalization were: “Gazprom” – RUR 4,201.10 bln (RUR 3,964.60 bln a month earlier), “Rosneft” – RUR 2,477.1 bln (RUR 2,145.92 bln in preceding month), “LUKOIL” - RUR 1,347.82 bln (RUR 1,359.21 bln in preceding month), “Sberbank of Russia” - RUR 1,272.98

bln (against RUR 1,047.18 bln) and “Surgutneftegas” - RUR 885.61 bln (RUR 959.96 bln in preceding month) .

Futures and Options Market

In September the total turnover in the MICEX (futures) market has decreased nearly twice as compared with the preceding month. As opposed to that, the number of transactions has grown 6.8-fold due to the significant growth of trades with the MICEX index.

Thus, in the period from August 31 through September 27 the total turnover in the MICEX (futures) market made approximately RUR 41.75 bln (28,405 of transactions, 1.13 mln of contracts), against approximately RUR 81.51 bln (4,196 transactions, 2.4 mln of contracts) in August. The largest volume of trading in September, as a month earlier, was observed in foreign currency futures, amounting to RUR 31.74 billion (592 transactions, 1 mln of contracts). Herewith, contracts for the US dollar were in the first place in terms of trading in the MICEX futures market section, followed by futures contracts for Euro and for Euro/USD rate.

It should be noted, that prices of futures contracts, concluded for October for RUR/USD futures in the short-term MICEX market were made within RUR/USD 30.5-32 for October, within RUR/USD 30.5-32.3 for November, RUR/USD 31-32.3 for December, and within RUR/USD 32.5-33 for June 2010.

As a result of a sharp increase in the futures trading turnover for the MICEX index, the greatest number of transactions within the month (25,968 transactions) were made in futures with the stock market instruments (983 transactions in August); the volume of trades in those instruments reached RUR 6.9 bln (nearly six times more than in preceding month). Herewith, futures for the MICEX index, leading in the short-term MICEX market were followed by the supply futures for «Gazprom» and «Sberbank of Russia» shares. It should be noted, that the value of the MICEX index (the price of concluded contracts) made on average 1 180–1 200 points for December 2009, 1190-1230 points for March 2010. The volume of trades with commodities futures has downgraded by over 60 per cent (from RUR 5.06 bln to RUR 3.11 bln). There were no transactions in futures for interest rates in September.

A similar situation was noted in RTS FORTS futures market, where the investors' activity has significantly increased as compared with the preceding month by 25 per cent. Thus, within August 31 through September 27, the total turnover in the RTS futures and options market made approximately RUR 1,201.18 bln (5,8986 thou. transactions, 42.93 mln contracts) against about RUR 1,599.84 bln (8,186 thou. transactions, 54.57 mln of contracts) in August. Like before, futures enjoyed the greatest demand: the volume of trades in the period under review made RUR 1,132,21 billion (5,822 thousand of transactions, 41.03 mln of contracts). Herewith, prices of futures contracts, concluded in RUR/USD in the RTS FORTS short-term market for December 15, 2009 were within the range of RUR/USD 31–32.5, for December 15, RUR/USD 31.5–33.5 for March 15, 2010, RUR/USD 32.5-34 for June 15, 2010.

The value of futures for the RTS index (based on the prices of recent contracts) for December 15, 2009 was estimated at 1,100 -1,200 points, for March 15, 2009 – 1,000–1,230 points and 1,100-1220 points for June 15. Options enjoyed far less demand, the turnover made about RUR 68.97 bln (73.71 thousand transactions and 1.9 mln of contracts). The maximum daily turnover in the short-term RTS futures market in September made RUR 80.5 billion (as of September 24), and minimum was RUR 36.83 bln. (on September 7).

External factors behind the Russian stock market dynamics

In September the Russian financial market dynamics, as a month earlier, was largely dependant on the situation in the global financial markets. Among the basic factors of

positive global market indicators, affecting the Russian market in September, one should mention:

- optimistic expectations of US FRS and IMF in regard to global economy recovery;
- "big twenty" decision to continue measures of the global economy support;
- the publication of positive macroeconomic news from the United States (in particular, the growth of the production orders and reduced unemployment rates);
- the decision of the European Central Bank to suspend the interest rate at the level of 1 per cent (as a result of stabilization factors in the European economy), British central Bank – at the rate of 0.5 per cent per annum, Bank of Japan – 0,1 per cent, as well as US FRS – within the range of 0–0,25 per cent per annum;
- Goldman Sachs Group Inc. Analysts upgrading the ratings of a number of US manufacturing companies from «neutral» to «attractive»;
- the decision of the British to continue the package of incentives and, in particular, to exercise the redemption of assets amounting to GBP 175 billion;
- Irish Government intention to repurchase of bad assets of national banks in the amount of EURO 77 billion;

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

- the peak deficit of the US federal budget as of 11 months of 2008–2009 financial year (USD 1.38 trillion);
- unemployment growth in Europe and USA;
- global oil price decline (below USD 70 per barrel.);
- information on reduced credit volume by Chinese banks;
- reduced investment in the US construction.

All these factors have generally resulted in the volatile dynamics of the global stock indices, as compared with the indicators of early 2009, as well as of the preceding month results. Thus, as of results of September, the markets of some developing countries have shown high volatility, but the upgrading trend was prevailing, what has resulted in the indices growth by 1-5 per cent. A similar trend was observed in the markets of European countries, where those indices were demonstrating growth rate by 1-3.5 per cent. Herewith, there was observed a decline in the basic Chinese stock market index Shanghai Composite by 0.76 per cent, as well as Japan index Nikkei-225 by 2.55 per cent (See Table 2 and Fig. 5).

Table 2

DYNAMICS OF THE GLOBAL STOCK INDICES (AS OF SEPTEMBER 27, 2009)

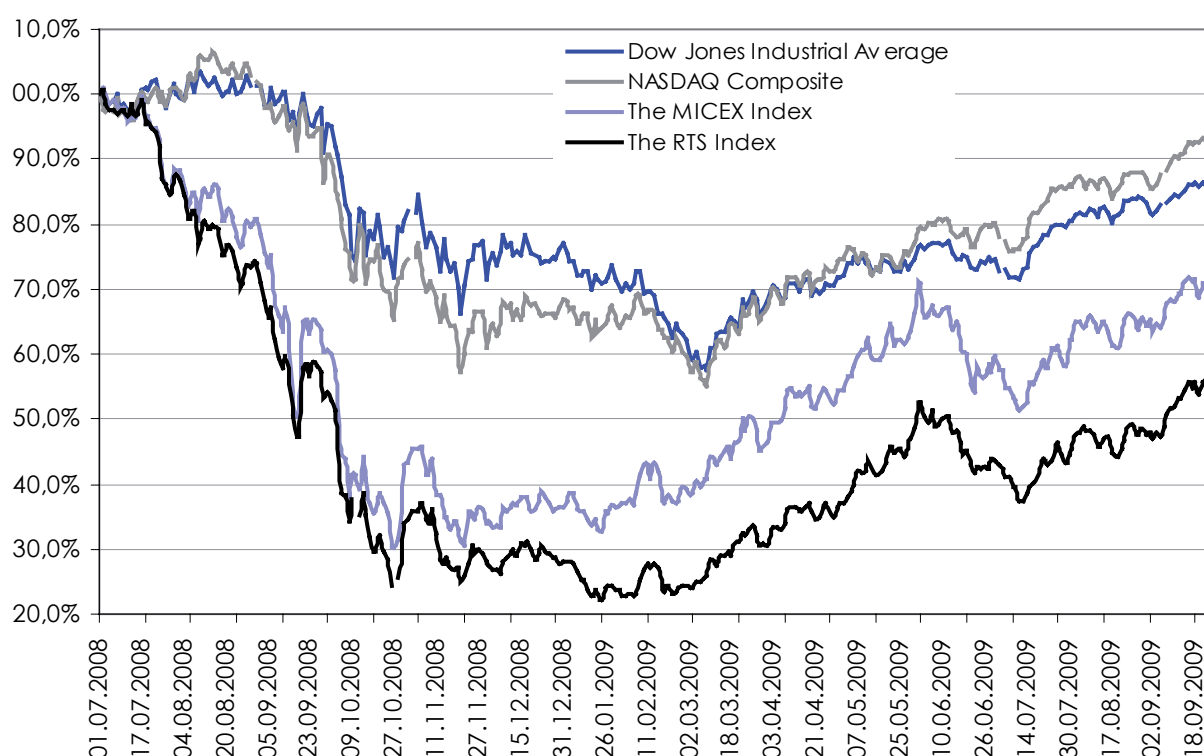
Index	Ticker	Value	Dynamics within the month(%)	Dynamics since the year beginning(%)
MICEX (Russia)	MICEXINDEXCF	1 187.86	6.89	91.74
RTS (Russia)	RTSI	1 225.29	12.47	93.91
Dow Jones Industrial (USA) Average (USA (USA))	DJI	9 665.19	1.27	10.13
NASDAQ Composite (USA)	NASD	2 090.92	3.06	32.59
S&P 500 (USA)	SPX	1 044.38	1.50	15.62
FTSE 100 (UK)	FTSE	5 082.20	3.53	14.61
DAX-30 (Germany)	DAX	5 581.41	1.16	16.03
CAC-40 (France)	CAC	3 739.14	1.25	16.20
Swiss Market (Switzerland)	SSMI	6 236.91	0.41	12.69
Nikkei-225 (Japan)	NIKKEI	10 265.98	-2.55	15.87
Bovespa (Brasil)	BUSP	60 355.73	4.60	60.73
IPC (Mexico)	IPC	28 759.98	0.56	28.51
IPSA (Chile)	IPSA	3 319.50	3.02	39.69

Table 2, cont'd

Index	Ticker	Value	Dynamics within the month(%)	Dynamics since the year beginning(%)
Straits Times (Singapore)	STI	2 662.82	0.76	51.16
Seoul Composite (South Korea)	KS11	1 691.48	5.20	50.42
ISE National-100 (Turkey)	XU100	47 624.97	0.14	77.28
BSE 30 (India)	BSE	16 693.00	4.84	73.03
Shanghai Composite (China)	SSEC	2 838.84	-0.76	55.91
Morgan Stanley Emerging Markets Free Index	EFM	723.45	6.51	58.08

* – Versus index indicator valid on August 30, 2009.

Рис. 5. Dynamics of the main USA and Russian stock indices (in % to the indicators of July 01, 2008)



Corporate News

OAO "VTB Bank"

On September 4, OAO "VTB Bank" has disclosed unconsolidated financial reporting, developed under RAS for August 2009: Assets on September 1 amounted to RUR 2 816 billion (versus RUR 2 551 billion as of January 1, 2009); net losses for 8 months of 2009 amounted to RUR 16.58 billion, as compared with those of RUR 9.71 billion within 7 months of 2009 (the increased net loss in August is basically caused by expenditures for the reserves accumulation for corporate loan portfolio).

On September 18, OAO VTB Bank has provided a loan in the amount of USD 400 million to OOO "Novourenyoy Gas Chemical Complex" for the term of 3 years under the guarantee of Gazprom for project implementation on completion the construction of Novourenyoy gas-chemical complex, which is planned for production start-up in 2012. Moreover, in the framework of the program for the support of the Russian regions, OAO VTB Bank has provided to Omsk city administration a credit in the amount of RUR 350 million. The

assets will be addressed at priority expenditures of city budget: wages, social security and public utilities payments.

ОАО «Газпром»

On September 9, ОАО “Газпром” has completed the construction of the second line of the gas pipeline Minsk - Vilnius - Kaunas - Kaliningrad. On September 28, ОАО “Газпром” started the construction of gas pipeline “Dzhubga - Lazarevskoe – Sochi”, as well as Adler TPP.

On September 11 analytical agency Thomson Reuters has recognized Gazprom the best Russian company in terms of relations with investors.

On September 14, ОАО “Газпром” has set up a program of guaranteed European securities for the total amount of USD 4 billion, which will allow Gazprom to improve liquidity and short-term cash flows management. The debut tranche is in the amount of USD 600 million with a maturity term of 3 months and the yield of 3.4 per cent per annum is allocated in the framework of this program. Moreover, in September, ОАО “Газпром” has informed of its bond participation in the loan and allocation of USD 1 250 million and EURO 850 million on September, 22.

On September 23, ОАО “Газпром” has completed the acquisition of 51 per cent of the shares of ООО «SeverEnergiya» worth of USD 1.6 billion. The balance 49 per cent are owned by the Italian partners (the joint company ENI and Enel).

Moreover, on September 24, ОАО “Газпром” and the Ural Federal Region have signed a Memorandum on Cooperation, providing assistance in the implementation in the Region the Energy Strategy of Russia until 2030. On September 24, ОАО “Газпром” and the Yamal-Nenets autonomous region have also signed a cooperation agreement in 2010, developed with due regard to the strategic interests of the parties in the area, associated with the implementation of the comprehensive program for the integrated development of hydrocarbon deposits of the Yamal Peninsula and adjacent water areas.

ОАО «Газпром нефть»

On September 9, ОАО “Газпром Нефть” has disclosed its consolidated financial reporting for the II Quarter and the first six months of 2009 under US GAAP standards: in the first six quarters of 2009, revenue has decreased by 47 per cent as compared with the first six months of 2008 and amounted to USD 9,365 million, net profit amounted to USD 1,534 million, which is lower than the indicator of the same period of 2008 by 57 per cent, whereas the EBITDA rate made USD 2,459 million, which is by 55 per cent lower than the EBITDA rate of the first six months of 2008.

On September 15, ОАО “Газпром Нефть” and the Omsk region Administration have signed a General Agreement on Cooperation for 2009-2011, aimed at the socio-economic development of the region, investment incentives, industrial, and R&D activities promotion in the territory of the Omsk region.

ОАО «ЛУКОЙЛ»

On August 31, ОАО “ЛУКОЙЛ” and the ANC “Bashneft” have concluded a cooperation agreement on the supply and refining ОАО “ЛУКОЙЛ” oil to Ufa refineries, and counterdeliveries of oil products and petrochemicals for export and domestic market of the Russian Federation.

On September 1 ОАО “ЛУКОЙЛ” has completed the acquisition from Total company 45 per cent of shares in the refinery in Netherlands in the amount of USD 600 million.

On September 16, ОАО “ЛУКОЙЛ” and the Vietnamese state-owned corporation «PETROLIMEX» have signed a memorandum of understanding to negotiate the conclusion of long-term contract for the supply of fuel oil by LUKOIL in 2010 and in subsequent years,

information exchange on potential investment projects in Vietnam, which both companies are interested in, etc.

On September 18 OAO “LUKOIL” and the Ministry of Economic Development have signed an agreement on cooperation between international organizations of the fuel and energy sector and foreign oil companies, participation in conferences, forums and other public international events on energy issues. Moreover, on September 18, OAO “LUKOIL” and Stavropol region have signed a cooperation agreement on active counteraction of the parties for project implementation on construction a gas-chemical complex for production ethylene, its derivatives, etc.

OAO «Mosenergo»

On September 23, OAO “Mosenergo” and BNP Paribas bank have signed an agreement on opening a credit line with a limit of EURO 186 million for the term of up to 13.5 years, under the guarantee of SERV, the Swiss export agency, for the funding of contracts between OAO “Mosenergo” and ALSTOM Ltd.(Switzerland), OOO “Alstom” and OAO “EMAlliance” for the construction of PGU-420 TPP-26 in the framework of investment program of OAO “Mosenergo”.

NC «Rosneft»

On September 1, NC “Rosneft” has disclosed consolidated financial statements, developed under U.S. GAAP for the II quarter and first six months of 2009: in the first six months of 2009, EBITDA has declined by 49.9 per cent as compared with the first six months of 2008 and amounted to USD 5,892 million, net profit has amounted to USD 3,672 million, which is 46.6 per cent less than in the relevant period in 2008.

Sberbank of Russia

In September, Sberbank of Russia continued to provide credits to domestic enterprises in the framework of the program on the support to priority sectors of the economy of Russia. In particular, Sberbank of Russia has provided the loan / credit line to OAO Mordovtsement “(RUR 2 billion), to OAO “Gorky Zelenodolsk Plant” (RUR 900 million), to OAO “VimpelCom” (RUR 10 billion), to ZAO “Gidromashservis”(RUR 800 million), to ZAO “Russian-German Leasing Company” (RUR 2.72 billion), to IC Tsirikidze O.O. (brand name “Spring”, EURO 11 million), to ZAO “Promstroy Group” (USD 10 million) and to OOO “UralInvest “(RUR 590 million).

On September 10, Sberbank of Russia has disclosed the consolidated financial reporting, developed in accordance with IFRS for the first six months of 2009: net profit amounted to RUR 6,0 billion, against RUR 67.0 billion in the first six months of 2008, assets as of June 30, 2009 amounted to RUR 6 581.1 billion. On September 22, Sberbank of Russia has disclosed the financial results for 8 months in 2009, developed under RAS: net profit amounted to RUR 7.4 billion against RUR 92.7 billion within 8 months of 2008.

On September 14, Sberbank of Russia has informed on the opening of an affiliate in India in the framework of international expansion program, defined in the strategy of the Sberbank of Russia through 2014.

Corporate bonds market

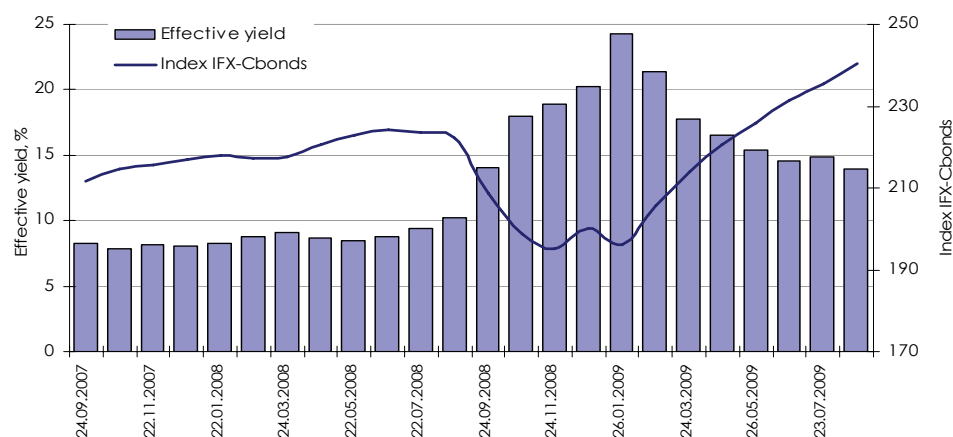
The volume of the Russian domestic stock market (as per nominal value of shares in circulation, denominated in national currency) is continuously growing in the last months and in September it amounted to RUR 2,107.4 bln (716 emissions made by 439 emitters),

which exceeds the relevant indicator of preceding month by RUR 3.3 per cent¹. The number of emissions has significantly increased, whereas the number emitters has reduced (for comparison, in late August there were 711 emissions, made by 443 companies). This trend confirms, that the same emitters tend to diversify their debenture issues, issuing a number of emissions under different placement terms. Also currently there are two issues of bonds, nominated in US dollars and one in Japanese yens in circulation. The investors' activity in the secondary market of corporate bonds remained practically unchanged, the value of transactions within August 31 – September 25 has made RUR 62.3 bln, and the total number of transactions reached 23.4 K².

Since January of the current year the index of the Russian market of corporate bonds IFX-Cbonds is continuously growing. Within the period from August 27 through September 25, the index has grown more than to 5.1 points (or 2.1 per cent), having reached the highest level since the beginning of its assessments. The effective yield has decreased again from 13.93 to 13.44 per cent within the period under review (see Fig. 6). The duration of corporate bonds market portfolio as of September 25 has made 372 days, what is by 21 days less as compared with the late August of the current year.

In September of the current year the number and the total volume of registered issues of corporate bonds has significantly increased. In the period from August 27 through September 25 there were registered 23 bond issues for the total amount of RUR 104.3 bln (for comparison, between July 24 to August 26 there were registered 18 issues of corporate bonds totaling to RUR 83.2 billion). The majority of the reported placements were made by 5 emissions of OAO “Severstal” shares for the total amount of RUR 45 bln, 6 emissions of OAO “ROSBANK” commercial bank shares for the total amount of RUR 30 bln, 5 emissions of OAO “Glavstroy” shares for the total amount of RUR 10 bln, and an emission of OOO “AIF-Media-Press-Finance” shares for the total amount of RUR 10 bln³.

After an active growth in the total volume of corporate bonds issues in August, there was a reduction in the amount and volume of the placed issues. Thus, in the period from August 27 to September 25, there were placed 22 bonds issues, totaling to RUR 81.0 billion (for comparison, from July 24 to August 26 there were placed 27 bond issues, totaling to RUR 152.0 billion (See Fig. 7). During the period under review the largest bond issues were



Source: Cbonds data

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

placed by OAO “Russian Railways” (two series of bonds amounting to RUR 40 billion), OAO “LUKOIL” (six series of bonds amounting to RUR 30 billion), OAO «Mortgage Credit Agency» (four series of bonds for RUR 28 billion) and OAO «Severstal» (two series of bonds for RUR 25 billion) and OAO «Interregional Distribution Company of the South» (one

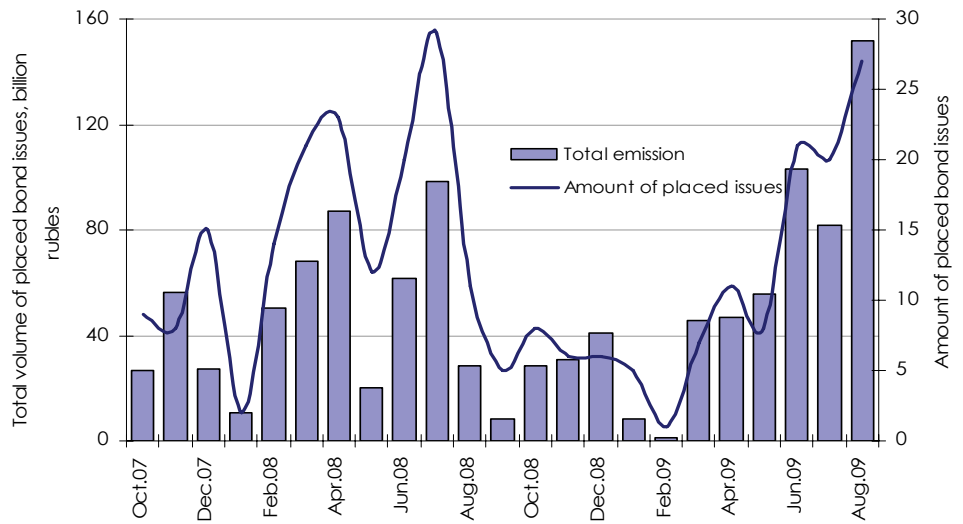
- 1 As per Rusbonds information
- 2 As per «Finmarket» information agency
- 3 As per Rusbonds company.

series of bonds for RUR 6 billion). Herewith, two emitters have placed two debut issues of corporate bonds, totaling to RUR 26 billion.

In the period under review there was again a large number of issues, recognized invalid due to non-placement of any security. Thus, in the period from August 27 to September 25, the Federal Service for Financial Markets of Russia has recognized as invalid

five issues of corporate bonds, offered for open placement (versus five bonds issued within July 24 – August 23)¹. Within August 27 through September 25, 12 emitters had to redeem bonded loans totaling to RUR 17.3 billion. However, two emitters have announced a technical default on repayment of their bonds, totaling to RUR 5.0 bln. In October 2009, 23 issues of corporate bonds redemption for the total amount of RUR 37.3 bln are expected².

There is still an outstanding issue of liabilities' performance of the issuers to the bonds' holders, especially in the payment of the accrued coupon interest. Thus, within August 27 – September 2, a real default on offer (redemption) was announced by 4 (10 emitters within July 24 – August 26), the default on payment the coupon interest was announced by 16 emitters (16 emitters in the preceding period again)³. The real default to repay the nominal value of the bonds within the period under review was announced by 2 emitters for the total amount of RUR 2.5 bln (7 emitters in preceding period, the scope of non-performed obligation was RUR 7.95 bln). On one bonds issue the emitter has reached an agreement with the bonds holders on the debt restructuring.



Source: Rusbonds data.

Fig. 7. Dynamics of primary placement of corporate securities in national currency

1 FSFM data.
 2 As per Rusbonds data.
 3 Cbonds data.

REAL ECONOMY SECTOR: TRENDS AND FACTORS

O.Izryadnova

Low dynamics of the Russian economy is connected with the contraction of the internal investment and consumer demand. Investments in fixed assets over January-August 2009 made 81.1% of the figure of the corresponding period of the previous year. As compared with January-August 2008 the retail trade turnover reduced by 4.7%, and the volume of paid services rendered to the population – by 3.5%. The situation is aggravated by the drop of the standard of life of the population. The real wages decreased by 3.3% versus January-August 2008 and the real incomes of the population – by 0.7%.

In concordance with the forecast for the social parameters of the development made by the Ministry for Economic Development the real disposable incomes in 2009 will reduce by 4.1% versus the level of 2008, and the real wages – by 4.6%. Under such dynamics of the growth of the incomes of the population the expected level of the poverty of the population will go up from 13.1% in 2008 to 14.0% in 2009. As a result of the year the expected number of the unemployed will make 6.8 million of people (9.3% of the number of the economically active population) versus 4.5 million of people (6.5%) in the previous year.

Economic situation in January-August 2009 was defined by low level of the domestic business activity and the reduction of the solvent demand.

The reduction of the rate is registered by the Federal State Statistics Service in nearly all kinds of economic activity. The reduction of the demand in the industry made 14.0% over January-August versus the corresponding period of 2008. The absolute decrease in the volumes of production predetermined the contraction of the demand for the services of natural monopolies. The volume of transport freight turnover reduced by 15.1% in January-August versus January-August 2008, including that of railway transportation – by 17.6%, the electricity, gas and water production and distribution decreased by 6.6%. Under the influence of the contraction of the investment programs the workload in construction has reduced by 18.5%.

The trend for the contraction of the consumer demand at the internal market which has been in effect in February 2009 remains one of the burning problems. Over January-August 2009 the retail trade turnover reduced by 4.7%, including that of foodstuffs production – by 2.4% and of foodstuffs goods – by 6.9%. At the same time only in August 2009 as compared with the previous month the sales of foodstuffs goods reduced by 6.25 and the sales of non-food goods – by 13.1%.

The dynamics and the structure of the consumer market was significantly influenced by the decrease of the real wages by 3.3% versus January-August 2008 and by the decrease of the real incomes of the population – by 0.75. The situation is aggravated by the contraction of the volumes of consumer crediting. The volume of credits issued by banks to the natural persons will reduced by 8.3% by the end of August versus the beginning of the year down to RUR 3682.2 billion.

Since the beginning of the year the consumer inflation made 8.1% versus 9.7% in January-August 2008. It should be noted that the prices index for foodstuffs made 106.6% versus 111.3% in January-August 2008 and for non-food goods – 107.6% versus 105.8%. The transformation of the price proportions accounted for the changes in the consumers' behavior. The share of expenditures of the population for the purchase of goods remained at quite a

low level and made 68.9% in January-August versus 71.5% a year ago. The incomes of the population decreasing the main proportion of the expenditures fall for the purchase of the foodstuffs and the goods of primary necessity. As a result the proportion of foodstuffs, including beverages, and tobacco goods in the structure of the retail trade increase up to 48.9% in January-August 2009 and exceeded the figure of the corresponding figure of 2008 by 3.3 percentage points.

The dynamics and the structure of expenditures of the population is significantly affected by the negative signals from labor market (*table 1*). Against the background of the decrease of the level of wages and the incomes of the population the high level of the unemployment retains. In August 2009 as compared with August 2008 the number of the employed in the economy decreased by 1.8 million of people and made 70.3 million and the total number of the unemployed (calculated on the basis of ILO methodology) reached 6.3 million of people or 8.3% of the economically active population. The number of the officially registered employed in the state employment bodies reached 2.1 million of people and increased by 0.5 million of people as compared with the beginning of the current year. The level of registered unemployment in August of the current year made 2.85 versus 1.7% in the corresponding period of 2008.

The situation is aggravated by the growth of the number of those employed that were transferred for part-time work, sent to forced holidays and having idle time up to 1.6 million of people. Besides, the negative effect of such factor as the limited interprofessional mobility, narrowing of the possibilities for secondary and informal activity is intensifying.

Table 1

DYNAMICS OF MAIN INDICES OF SITUATION AT LABOR MARKET IN 2008–2009

	2008					2009	
	total	Quarters				I	II
		I	II	III	IV		
Number of the employed in the economy (by the end of the month), million of people	70.9	69.9	71.4	71.9	70.4	68.2	69.4
Number of the unemployed (on average over the month), thousand of people	4.8	5.1	4.3	4.5	5.4	6.8	6.5
Level of unemployment, as percentage to the economically active population	6.4	6.7	5.6	5.9	7.1	9.1	8.6
Number of the unemployed registered at the bodies of the state employment service, thousand of people	1.4	1.6	1.4	1.3	1.4	2.0	2.1
Level of registered unemployment, as percentage to the economically active population	1.8	2.1	1.9	1.7	1.8	2.6	2.8
Average monthly nominal accrued wages of employees of the organizations, RUR	17290	15424	16962	17556	18966	17441	18419
Arrears of wages (RUR million, on average per quarter)	3337.7	2857.3	2756.3	2801.7	4935.3	6575.3	8486.7
As percentage to the corresponding period of the previous year							
Number of the employed in the economy (by the end of the month)	100.6	100.8	101.2	100.7	99.6	97.7	97.1
Number of the unemployed (on average over the month)	104.4	96.5	94.2	105.6	123.7	135.0	152.0
Number of the unemployed registered at the bodies of the state employment service, thousand of people	89.7	89.7	89.3	88.9	91.1	141.9	157.4
Average monthly nominal accrued wages of employees of the organizations	125.9	128.0	129.2	129.0	119.5	112.8	108.0
Average monthly accrued wages	110.3	113.4	112.5	112.2	105.0	99.2	96.1
Arrears of wages	77.5	62.0	60.7	65.8	129.2	230.1	307.9

Source: Federal State Statistics Service

The prevailing part of the employed population is concentrated in the organizations that do not belong to the subjects of small business. In July 2009 there worked 35.9 million of people or 53.95 of the total number of the employed. Besides, 1.9 million of people (equivalent of full-time employment) were attracted to these organizations on conditions of working for more than one employee or according to civil legal agreements. The total number of the workplaces filled for the full employment of employees defined as the sum of the employees on books, by-workers and employees working according to civil legal contracts made 37.6 million of people in July 2009 and was below the level of July 2008 by 1.5 million of people or by 3.8%. The process of liberation of the employees has affected nearly all the kinds of activities. In the processing industries the number of filled vacancies reduced by 11.3%, in construction – by 11.1%, in minerals extraction – by 6.0%, in agriculture – by 5.2% and in trade – by 3.6%. In August of the current year the tension coefficient (number of the unemployed registered in the state employment services per one vacancy) increased as compared with the corresponding month of 2008 from 1.0 to 2.1.

The dynamics of the economy was significantly affected by the intensification of the recession in the processing industries, for which the anticipating growth rates versus extractive industries and GDP were characteristic in 2007-2008. The monthly dynamics of the output being unstable in January-August of the current year the volume of the output of the processing industries made 80.2% of the figure of the corresponding period of 2008, of the minerals extraction – 96.8%, of electricity, gas and water production and distribution – 93.4%.

Index of industrial production in fossil fuels production in January-August 2009 made 97.9% of the corresponding period of 2008 and the production of the primary fuel and energy resources – 90.4%.

In January-August 2009 there was 156.7 million of tons of crude oil processed at Russian petroleum refineries, which is 99.4% versus January-August 2008, including 20.5 million of tons (98.8%) in August 2009. The proportion of oil processing in the volume of its production made 48.1% versus 48.1% in January-August 2008. In January-August 2009 the index of oil products production was at the level of 99.8% of the corresponding period of the previous year, in August 2009 the figure being 101.9%.

According to the data of the Central Dispatch Office of the Fuel and Energy Complex of the Ministry of Energy of the Russian Federation, in January-July 2009 the total volume of drilling for oil reduced and reached 95.4% versus the level of January-July 2008, the figures for exploitation drilling being 97.8% and for exploration drilling – 57.3%. In the first half of 2009 the investments in fixed assets for large-scale and medium-scale enterprises for the kind of economic activity “production of crude oil and oil-well gas” made RUR 228.3 billion, the index of physical volume of the investments being 77.5%.

Use of the investments in fixed assets by medium- and large-scale enterprises by the kind of activity “production of natural gas and gas condensate” over the first half of 2009 was at the level of RUR 65.8 billion or 80.1% versus the level of the previous year, which is accounted for by the slow-down of the works due to the lack of the demand for the gas.

Index of electricity, gas and water production and distribution in January-August 2009 versus the corresponding period of the previous year made 93.4%, the figure for August 2009 being 88.9%.

Over January-August 2009 there was 639 billion of kWh of electric energy produced, which makes 93.6% versus the level of the corresponding period of 2008, the consumption being 629.0 billion kWh, which is by 6.4% below the corresponding period of 2008. The balance of cross-flow of export and import supplies of the electric energy in January-August 2009 is estimated to be 9.8 billion of kWh (by 44.% below the level of the previous year), which is connected with the decrease of export to Finland and CIS countries.

On August 17, 2009 there was an accident at Sayano-Shushenskaya hydro power plant with the total stop of plant's operation. In order to restore the electricity supply in the region reserve facilities at the heat power plant of Siberia to the amount of 1463 megawatt was put into operation and the cross-flow of the electricity from the European part of the unified electric systems was mobilized.

In January-August 2009 the production of machinery and equipment versus the corresponding period of 2008 reduced by 33.1% and in August 2009 the production reduced by 25.5% versus August 2008. The drop of the production is observed for all the subcategories of goods of this class. The production of mechanical equipment in January-August 2009 made 96.2% versus the corresponding period of 2008, which was connected with the specific features of the production cycle in this group of goods and uneven distribution of signed contracts.

A considerable reduction of promising projects in construction continues to have a negative effect on the production of machinery and equipment used in housing and road construction. In January-August 2009 as compared with the corresponding period of 2008 the production of excavators reduced by 86.3%, of truck crane – by 85%, of loaders for building – by 77.1%.

As a consequence of the contraction of the investment programs of industrial enterprises there is a reduction in the volumes of machine-tool production by 65.4%, of the equipment for metallurgy production, in particular blast furnaces and steel-smelting furnaces equipment – by 63.6%, of rolling equipment – by 54.6%.

In January-August 2009 versus the corresponding period of the previous year production of machinery and equipment for agriculture and forestry dropped by 29.4%. The main contribution to the dynamics was made by the reduction of production of wheel tractors – by 49.1%, of forage harvesters – by 41.3%. Among the factors limiting further drop of the production was the increase of the import duty rates for import grain harvesters as well as fulfillment of other measures by the Government of the Russian Federation on stimulation of the demand for the domestic agriculture equipment.

In August 2009 as compared with the same month of the previous year Index of electric, electronic and optical equipment production made 68.9%, in January-August 2009 – 63.0%.

Index of production of transport vehicles and equipment in January-August 2009 made 58.6%, in August 2009 – 45.8% versus the corresponding periods of the previous year.

The decrease of freight transportation turnover by railways was accompanied by the reduction of the investment projects from OJSC Russian Railways and private carriers, in which connection the decrease in the production of the railway equipment was observed. Thus, in January-August 2009 the production of passenger and freight cars was observed. Thus, in January-August 2009 the production of freight and passenger cars went down by 56.9% and 32%, correspondingly and of mainline diesel locomotives – by 21.9% versus the corresponding period of the previous year.

In January-August 2009 the production of passenger cars went up by 62.6% and of trucks – by 71.6% versus the corresponding period of 2008.

The metallurgy production and production of finished metal goods in January-August 2009 made 77.4% versus the level of January-August 2008, and the index of metallurgy production – 77.0% (index of finished metal goods production – 77.5%).

The demand of the internal market for the metal was secured by the development rates of metal-consuming sectors of machine-building, construction, defense industries and fuel and power complex.

As a result of the change in the situation at the external markets and the decrease of the demand at the internal market the index of timber production and production of wooden goods in January-August 2009 was at the level of 75.6% versus the corresponding

period of 2008, of pulp and paper production, publishing and printing – 84.1%, for the production of rubber and plastic goods – 85.1%, for the production of other non-metal mineral products - 70.6%.

Over January-August 2009 in the sector of consumer goods index of textile and sewing production made 78.4% versus January-August 2008, the index of leather, leather goods and footwear production – 92.5%, index of foodstuffs production, including tobacco and beverages – 97.9%.

The sustaining trend for the decrease of the volumes of production of goods of light industry in the environment of unstable economy is accounted for by both the difficulties for the enterprises connected with the replenishment of liquid funds (due to the increase of the period for the return of the monetary means by the enterprises, problems with short-term crediting) and the pent-up consumer demand.

Despite the sustaining negative dynamics of the production in the light industry it is observed that the prerequisites for the stabilization of the situation are being formed and the situation in the light industry is being improved. The process for import substitution has strengthened which is testified by the decrease of pressure from import and from the situation with the demand – high-quality domestic goods are in demand. The proportion of the domestic goods in the formation of the resources of retail trade in the 2nd quarter 2009 increased up to 60% versus 56% in the 1st quarter of the same year and 55% in the 4th quarter 2008.

On the basis of the analysis of the figures for January-August 2009 the Ministry for the Economic Development prepared estimations for the resulting indices of 2009 and developed the forecast for 2010 and for the planning period of 2011 and 2012. In concordance with the estimation of the Ministry for Economic Development the expected level of the GDP will make 91.5% in 2009 versus the figure of 2008 the investments in fixed assets decreasing by 20%, retail trade turnover – by 6.0%, the volume of paid services rendered to the population – by 5.5%. The expected level of the inflation is forecast to be in the range of 11–12%.

According to the forecast of the social parameter of the development up to the end of the year it is envisaged that the real disposable incomes will decrease by 4.1% versus the level of 2008 and the real wages – by 4.6%. Under such dynamics of the incomes of the population the expected level of poverty of the population will go up from 13.1% of the total number of the population in 2008 to 14.0% in 2009.

As a result of the year the number of the unemployed will reach 6.8 million of people (9.3% of the total number of the economically active population) versus 4.5 million of people (6.5%) in the previous year and the number of the officially registered unemployed will go up to 2.2 million of people versus 1.4 million of people in 2008.

The recovery of the economic growth is forecast to start in 2011, it should be noted that it will begin owing to the acceleration of world prices for hydrocarbons and the increase of the volumes of their export. ●

RUSSIAN INDUSTRY IN SEPTEMBER 2009

S.Tsukhlo

The slow-down in the dynamics of the Russian industry in August has been successfully overcome in September. The level of sales continued to recover which enabled the enterprises to shift to the growth of the production which has been the most intensive since the beginning of the crisis and the lowest level of redundancies of the staff. However the forecasts for the demand as well as the production plans have not changed which is the evidence of the enterprises being uncertain as to the sustainability of the positive trend. The availability of the credits remained at the previous level. The crisis made the enterprises change the attitude towards the estimations of the current labor efficiency to a more critical one.

Official Statistics in August

According to the data of the Federal State Statistics Service, in August 2009 the industrial production in the Russian Federation has reduced by 12.6% versus last August and by 3% versus July of the current year. After exclusion of the seasonality the Center for Macroeconomic Analysis and Short-term Forecasting estimated the growth of the industry in August versus July to be 0.4%. The experts' estimations of the official statistics in August were quite unanimous: "the upsurge has ceased", "there is a slow-down", "no significant growth in August", "however there is no serious worsening", which fully testifies the conclusion of our previous published work¹, "in August the Russian industry has slowed down a bit".

In September, according to the fresh data received by the IET the growth of the industry has recovered.

Demand for Industrial Goods

In September the rate of the decrease of the demand has decreased (upon exclusion of seasonality) by 5 points at once and as a result became the best (that is the lowest) since August 2008, when, according to the dynamics of Industrial optimism index by the IET², the Russian industry started to fall in the pit of the crisis. As compared with the minimum of the crisis (November 2008) the rate of the demand decrease improved by 39 points by September 2009. Thus, after a pause in August the sales continued to recover. It should be noted that it is the case in nearly all the branches of industry (except chemistry and light industry).

However the forecasts for the demand (upon exclusion of seasonality) did not change in September and remained at the level of August 2009 – which has been the best month of the crisis for this index so far. And the initial data demonstrated the growth of the pessimism at the enterprises concerning the sales in October-November and turned out to be the worst forecasts since February 2009. One can only hope that this decrease in the forecasts is accounted for by the traditional anticipation of the national holidays in January.

The estimations of the current demand (satisfaction with sales) demonstrate that the Russian economy has reached the new level of understanding the situation. For the second month in the row there is one third of the Russian enterprises that regard the demand for

1 Russian Economy: Trends and Prospects. 08. 2009. Moscow. IET.

2 Index is the simple average of the balances (difference in responses) of four questions of the monthly questionnaire of the IET: real change in the demand; estimation of the demand; estimations of the stocks of the finished goods; plans for production changes. Index may vary from -100 to +100 points. The positive values of the index signify that the positive estimations prevail.

their production as normal. Earlier (during the previous eight months of the crisis) one quarter of the producers had such an opinion. The highest satisfaction with the sales in August-September was observed in non-ferrous metallurgy (62% of enterprises), foodstuffs production (55%) and chemistry industry (45%).

Stocks of Finished Goods

Balance of estimations of the stocks of finished goods has been +12 points on average starting from May 2008 and has obviously reached the level of reasonable sufficiency, which was characteristic for 2004-the first half of 2006, the period in which the activity of the Russian industry was not at its highest point. The proportion of the enterprises with normal stocks of finished goods has also reached the level of the specified period. Thus, with every month it becomes more and more obvious that the enterprises have overcome the problem of the excessive stocks, and the stabilization of their estimations testifies that they have no desire to work for the storehouse hoping for the sales growth rates to return to the previous levels soon.

Production Output

In September 2009 the positive dynamics of the demand enabled the enterprises to start the production growth that has been the most intensive since the beginning of the crisis fall (September 2008). Obvious positive changes are demonstrated by all the September indices of the real production in the industry. As compared with last November (the peak of the crisis according to the dynamics of production) the rates of the change of the index has improved by 56 points and has become definitely positive for the first time – according to the estimations of the enterprises, the obvious growth has begun in the industry. The highest growth rates are currently demonstrated by the timber industry, foodstuffs production, machine-building industry and non-ferrous metallurgy.

However the production plans (as well as the forecasts for the demand) remained at the level of August of +6 b.p. in September, which is now below the real growth rates in September. Such a situation testifies the uncertainty of the producers as to the sustention of the positive trend.

Prices of Enterprises

In September 2009 the intensity of the growth of prices at enterprises continued to grow and reached as a result the values that have been the highest since September 2008. Only 75 of the producers reduced their prices last month, whereas in December 2008 there were 30% of such. As a result the balance of changes (growth rates) of prices reached the values that are record-breaking for the previous 13 months. The reduction of the sales prices in September was characteristic only for construction industry, while the most intensive growth was observed in metallurgy, foodstuffs production and chemistry industry.

Pricing plans of the enterprises also put into question whether the real trends of August and September will sustain. The enterprises that are not sure in the stable growth of demand and output will be able to reconsider their pricing policy in the forthcoming months and shift to slower growth of prices than now.

Dismissals: Real Dynamics and Plans

As compared with the beginning of 2009 in September the enterprises corrected their policy of employment. The intensity of dismissals reduced by 9 points over the month and has become the lowest since October 2009. Now only one quarter of the industrial enterprises dismissed the employees, whereas in January there was more than a half of such enterprises. The proportion of the reports on the staff hiring went up to 12% and has become the record

since July 2008. Nevertheless, the dismissals still prevail in all the branches of industry, except timber processing and foodstuffs production.

The intentions to reduce the number of the staff also prevail over those to increase it in the enterprises' plans. As compared with August there have been no fundamental changes registered on the whole in the industry. The most intensive dismissals are possible in the construction industry, machine-building, timber processing, chemistry and petrochemistry.

Labor Efficiency

The crisis made the enterprises to pay more attention to the problem of the growth of labor efficiency. Before the beginning of the crisis (unfortunately, the monitoring of the index started only in May 2008) two thirds of the enterprises were quite satisfied with the efficiency of their employees, especially in chemistry and petrochemistry (87% of enterprises), non-ferrous metallurgy (82%), industry of construction materials and foodstuffs production (73% for both). The figures were regarded most strictly in machine-building industry, in which only 56% of the plants considered the production for one employee as normal.

However the following four quarters made the enterprises to reconsider the attitude to the estimations of the labor efficiency thoroughly. By April 2009 the satisfaction with the efficiency had dropped by 21 points and the enterprises that consider their efficiency as below the norm prevail in the industry. The corrections were most serious in the ferrous metallurgy in which the dissatisfaction with the efficiency went up to 93% while a year ago there were only 10% of such estimations. In machine-building industry the dissatisfaction has reached 58% and in the industry of construction materials – 56%. Chemistry and petrochemistry passed the peak of dissatisfaction in the 1st quarter 2009 (72%), the light industry – in the 4th quarter 2008 (47%). Industry of construction materials and non-ferrous metallurgy were characterized by the maximum of this index in the 3rd quarter 2009 (70 and 42%, correspondingly). It is the foodstuffs production that is characterized by the most favorable estimation of its labor efficiency, in which the satisfaction with it was in the range of 71-74% in all the quarters of the crisis and does not differ at all from the pre-crisis estimations.

However, the fact that the bottom of the crisis has been reached and the decisive measures in the field of employment seem to have changed the situation with the estimations of the labor efficiency in the Russian industry in the 3rd quarter 2009. The balance has again shifted towards the satisfaction with the volumes of the production per one employer.

Industry Crediting

In September banks and the government managed to retain the availability of the credits for the industry at the previous level: for the second month in the row 41-42% of enterprises consider their possibility for getting a credit as normal. At present the banks prefer to credit metallurgy first (66% of enterprises have normal availability), foodstuffs production (65%) and chemistry industry (65%). The situation in the light industry is opposite.

However the price of credits in rubles is high: in the best case (that is in case of the lowest rate) the banks offer the money at 18.4% per annum on the whole throughout the industry. Small- and medium-scale business is offered credits at 19% per annum and very large – at 12-16%. If the rate of the credit is weighted against the size of the enterprise, the chemistry and petrochemistry is to be credited at 15%, metallurgy - at 16%, foodstuffs production – at 17%, machine-building – at 17% and the light industry – at 21% per annum. ●

FOREIGN TRADE

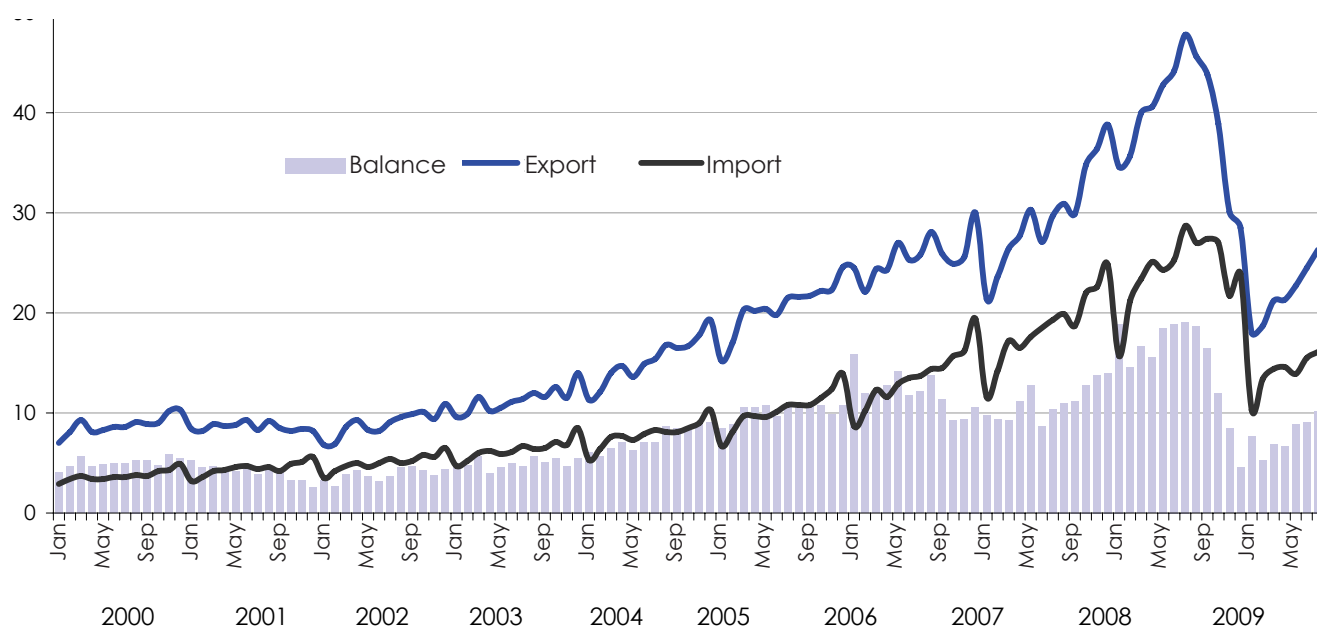
N.Volovik

Despite a considerable worsening of the main indices of the foreign trade as compared with the previous year in the recent months of 2009 the trend for their recovery has evolved. The main current trend of the development of the Russian foreign trade is strengthening of the positive trade balance. By the end of the year the formation of the Customs Union of Russia, Kazakhstan will have finished by the end of the year. Starting with January 1, single custom tariffs for import and single Customs Code will come into the effect 2010 in the territory of three countries.

In July 2009 as compared with July 2008 the Russia's foreign trade turnover calculated on the basis of the balance-of payments methodology has reduced by 44.2% and made USD 42.4 billion. The volume of the Russian export in the same period, and USD 26.3 billion, which is by 44.5% less than in July 2008. The volume of import in the Russian Federation made USD 16.1 billion, which is by 42.8% below the corresponding figure of July 2008 (fig. 1). The main factor defining the dynamics of the Russian export is still the situation at the world trading markets (table 1).

The first half of July 2009 was characterized by a sharp drop of prices for oil. The price of oil grade Brent fell to the level which had been the minimum for the previous one and a half months (below USD 60 per barrel). A significant pressure on the dynamics of oil prices was put by the growing dollar. The decrease of oil prices was also assisted by the data on the growing reserves of petrol in the USA and on the presence of considerable reserves of crude oil whereas the demand for the energy carriers still remains considerably lower than a year ago. Starting with the middle of July the drop of prices at the oil market ceased and the oil quotations returned to the level of USD 70 per barrel.

World prices for oil grade Urals in July 2009 reduced by half as compared with the July of the previous year and made USD 64.5 per barrel reducing by 5.1% versus the level of June



Source: Central Bank of the Russian Federation

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

2009. Average price of the Russian oil in the period of monitoring from August, 15 to September, 14 inclusive made USD 69.58581 per barrel. Thus, the export duty for oil starting from October, 1st has increased by 0.9% from USD 238.6 per ton to USD 240.7 per ton. The growth of the rate is negligible, such an increase will not affect the export profitability on condition that prices for oil in October will not go on decreasing. The market price of Urals by the end of September made USD 64.4 per barrel. Export duty rate for light oil products will increase from USD 173.1 per ton to USD 174.5 per ton and for dark oil products – from USD 93.2 per ton to USD 94 per ton starting with October, 1st.

The situation at the world market of non-ferrous metals turned out to be more than favorable: the price of aluminum, copper and nickel reached the maximum level of the recent 8-9 months. The executives of London exchange predict that in 2009 and in the following 2010 the volume of biddings will increase by 2%. At London metal exchange it is held that the growth of volumes will be accounted for by the volatility of prices, high level of demand from Chinese consumers and growing attractiveness of the exchange for the investors. These two factors – the Chinese and the investors – had a considerable effect on prices in July.

At the beginning of July due to high volumes of stocks of aluminum it could have been assumed that the recovery of prices for aluminum will go on slower than the growth of prices for other metals at the exchange. In fact by the end of the month the price of this metal went up till the level of November 2008. Aluminum has gone up in price for 11 bidding sessions in the row, which has been the longest growth for 22 years. As a result the average monthly price of aluminum in July went up by 6% versus that of June.

Average monthly prices for copper in 2009 increase successively. The average for copper at London Metal Exchange went up by 4% in July versus June and by 69.8% versus December 2008. Besides the reasons for the growth that are general for all the metals, the market of copper was affected by specific factors as well. Thus, the representatives of German copper producer Aurubis claimed that the orders from the local consumers have risen recently and the export has stabilized. On the whole, European traders observe some increase of demand for that metal in the region. The consumption of copper in Asia is also growing: Chinese cable industry perceived a considerable support from the fulfillment of governmental projects increasing the production of copper.

Nickel in the period from December 2008 to July of the current year also demonstrated a considerable growth – its price at London metal exchange its price went up by 65%. Prices for this metal returned to the level of September 2008. Thus, though as compared with the previous year the ferrous metal have become cheaper, the recovery rates are still not high enough.

Table 1

AVERAGE WORLD PRICES IN JULY OF THE CORRESPONDING YEAR

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Oil (Brent), USD/barrel	18.8	28.4	24.62	25.7	28.25	38.2	56.4	72.5	75.09	139.23	65.74
Natural gas, USD/1 million BTU	2.363	4.01	3.15	2.94	5.021	6.034	7.554	6.305	6.539	11.22	3.608
Petrol, USD/gallon	0.6	0.935	0.732	0.804	0.896	1.306	1.601	2.271	2.182	3.313	1.771
Copper, USD/ton	1744.8	1864.2	1541.4	1589.0	1730.3	2813.0	3614.0	7712	7962.7	8415.3	5215.5
Aluminum, USD/ton	1403.5	1565.9	1412.2	1338.4	1434.9	1710.0	1779.0	2513	2730.7	3071.2	1668
Nickel, USD/ton	5273	8202.0	5956.8	7143.1	8790.6	15038	14581	26585	33373	20160	15985

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

According to the data of the Bank of Russia, over seven months of 2009 the Russia's foreign trade turnover made USD 250.7 billion (55.9% versus January-July 2008), including export of USD 152.2 billion (53.6%), import of USD 98.4 billion (59.9%).

The main reason for the decrease of the price value of the Russian export was the drop of average prices for the main kinds of raw materials, exported by Russia, whereas the physical volume of export supplies reduced but negligibly.

At the same time in July of the current year the export supplies of products of the majority consolidated kinds of foreign economic activity were observed to increase. Export of metallurgy goods has been recovering, which in July as compared with the previous month went up by 10.3%, which was connected with a considerable growth of export of non-ferrous metals by 50.2%. For the second month in the row the export of timber and pulp and paper goods has been increasing. The export of the goods of chemistry industry and caoutchouc is observed to be increasing. The trend for the recovery of the export of machine-building production has evolved.

The reduction of the price volume of the import is accounted for by the considerable decrease in the physical volumes of the goods import to Russia (*table 2*).

Thus, there is a considerable gap between the dynamics of the volumes of import and export. Over the first seven months of the current year the decrease of export in annual terms made only 9% whereas import over the same period decreased by 44.4%.

TABLE 2

EXPORT AND IMPORT INDICES IN JULY 2009 (JULY 2008 = 100)

	Price index		Index of physical volumes		Index of prices	
	export	import	export	import	export	import
Total	55.5	56.2	99.2	56.6	67.9	94.1
Non-CIS countries	55.0	57.4	102.0	54.6	65.8	98.2
CIS countries	58.6	48.8	83.5	70.1	82.0	73.1

Source: Ministry for Economic Development

After the drop of the end of 2008 for the majority of kinds of goods import volumes remain at the low level. The recovery of the import is observed for only 3 trading groups: for chemistry industry production; tanning raw materials, furs and goods thereof; textile goods and footwear. In July 2009 the import of such goods went up as compared with the previous month by 7.7%, 48.4% and 44.3%, correspondingly.

The trading balance continues to increase. According to the data of the Central Bank in July the trading balance made USD 10.2 billion, which is by 1.2 billion more than the figure of the previous month. The strengthening of the trading balance in July was assisted by the stable external demand and the growth of export prices.

In September 2009 the Ministry for Economic Development increased the forecast for the export from the Russian Federation in 2009 by USD 12 billion – up to USD 286 billion, and in 2010 – by USD 32 billion – up to USD 308 billion. The Ministry has improved the forecast for export mainly due to the influence of external factors.

The estimation of import for 2009 has somewhat lowered – down to USD 188.5 billion from USD 190 billion. For the period of 2010-2012 the forecast for this index was raised a bit.

After the end of the meeting of the committee of the Customs Union in Alma-Ata on September 25, 2009 the countries that participate in the Customs Union – Russia, Belorussia and Kazakhstan – announced that the work on agreement and unification of the unified customs tariffs.

The decision on the creation of the Customs Union was adopted by the Presidents of the European and Asian Economic Cooperation on October, 6 2007. They also adopted the

plan of actions according to which during 2007-2010 they had to create the agreement and legislation base.

The formation of single customs territory suggests the abolition of the customs borders between the countries of Customs Union and the transfer of all kinds of the state control except the passport control to the customs border of the Union. It is planned that at Russia-Belorussia border the control will be abolished already with July 1, 2010 and at Russia-Kazakhstan border – with July 1, 2011.

At the meeting that took place in Alma-Ata the project of the unified Customs Code was approved together with the projects of contracts that will be submitted for consideration and signing by the heads of the states that participate in Customs Union.

At the meeting of November 27, 2009 the leaders of three countries as it is expected will approve the date for the unified Customs Tariffs to come into effect – on July 1, 2010.

The functions of foreign trade regulation of three countries will be transferred to the committee of the Customs Union also from January 1, 2010. It will deal with the changes in the import duties of three countries as well as it will make changes to the trading assortment of the foreign economic activity, establish tariff privileges and quotas, define the system of tariff preferences, introduce non-tariff measures for regulation, carry out special protective antidumping and compensatory investigations. The decisions of the committee will be applied equally in the territory of all three countries. The mechanism for adoption of the decisions will be the following: in order for the decision to be adopted two thirds of the votes are necessary. At the moment Russia has 60% of votes, Belorussia and Kazakhstan have 20% each (proportionally to the formation of the budget of the Customs Union).

Incomes of the members of Customs Union from import will be distributed according to macroeconomic criteria. Now their nature is being discussed: GDP, foreign economic activity, the volume of trade turnover etc.

The adoption of the Unified Customs Tariff and Code is the key decisions for the Customs Union, but there are other problems: for instance, unification of the agreements on free trade (Russia has such agreements with Serbia and Montenegro). Besides, a court body should be created in which the decisions of supranational customs bodies could be appealed. There is also no mechanism for distribution of customs duties. Export duties in Belorussia and Kazakhstan are practically extinct, which Russian exports more than 300 positions which are levied with customs duties. Export agreement between the members of the Union envisages collecting the duties depending on the country from which the raw materials originate. There is a separate agreement on Russian oil and oil products export with Belorussia – on their export to the third countries Belorussia levies them with the duty rates that are in effect in Russia. The precise mechanism for the distribution of export duties will be regarded at the second stage of the creation of the Union.

The sides have also approved the directions for the unified negotiation group on accession of Russia, Kazakhstan and Belorussia to the World Trade Organization and once again testified that they are going to access it simultaneously. At the moment it is quite difficult to make forecasts as to when the members of the Customs Union will become the members of the WTO. ●

THE STATE BUDGET

E.Fomina

By the results of the first 9 months of 2009, the Russian economy is beginning to demonstrate the first signs of recovery. However, so far as the sphere of state finances is concerned, the situation with returning the country's budgetary system to its pre-crisis stability remains rather complicated and ambiguous. Most afflicted with the problem of disbalance is the federal budget, the principal implementer of the pension and other social liabilities and the main financier of the anti-crisis program. Thus, the first 9 months of 2009 saw a significant rise in its deficit, which increases the instability of the budgetary system and the risks of the scale of state borrowing being further expanded, including on the external financial market.

An analysis of the major parameters of the implementation of the general government's budget in January – July 2009

The key precondition of macroeconomic stability is an adequately balanced state of the budgetary system of a country. In Russia, the effects of the crisis have considerably changed the parameters of the revenue side of her budgetary system and shifted the priorities of their expenditure (see *Table 1*). Thus, in 2004 – 2008, budget funds were predominantly expended on investment, while in the current year the structure of expenditure became socially oriented. By the results of the first 7 months of 2009, the volume of the revenue side of *the general government's budget* dropped by 8.6 p.p. of GDP on the corresponding period of 2008, while the expenditure side, on the contrary, grew by 7.7 p.p. of GDP. According to the RF Federal Treasury, the general government's budget suffered a deficit of 2.7 p. p. of GDP, while in the corresponding period of 2008 the general government's budget had been implemented with a record-high surplus of more than 13% of GDP.

Table 1

THE IMPLEMENTATION OF THE REVENUE AND EXPENDITURE SIDES OF THE BUDGETS OF ALL LEVELS OF GOVERNMENT IN JANUARY – JULY 2008 - 2009

	2009		2008.		Difference in p.p. of GDP
	in billion rubles	in % of GDP	in billion rubles	in % of GDP %	
Federal Budget					
Revenue	3805.8	17.8	5676.8	24.8	-7.0
Expenditure	4698.8	21.9	3557.9	15.5	+6.4
Deficit (-) / Surplus (+)	-893.1	-4.2	2118.9	9.3	-13.5
Consolidated budgets of RF subjects					
Revenue	3397.9	15.9	3678.9	16.1	-0.2
Expenditure	3155.5	14.7	2936.0	12.8	+1.9
Deficit (-) / Surplus (+)	242.4	1.1	742.9	3.2	-2.1
Budget of general government					
Revenue	7353.7	34.4	9700.1	43.0	-8.6
Expenditure	7929.1	37.1	6626.3	29.4	+7.7
Deficit (-) / Surplus (+)	-575.4	-2.7	3073.8	13.6	-16.3
Reference: GDP, billion rubles	21374.8		22537.0		

Source: RF Ministry of Finance, IET estimates.

Since the beginning of the current year, the resources of Russia's budgetary system has been formed under the extremely negative impact of the world financial crisis. The situation is further aggravated by the generally weakened state of the Russian economy. Another negative factor is the persisting dependence of the resource part of the budget on the prices set for Russian exports on foreign markets, which strongly influences the process of its formation.

Because of the significant drop in the prices of major energy carriers on world markets and the decline in demand for the products of the oil and gas complex on the part of importer countries, there was a considerable fall in the volumes of mineral extraction tax and the amount of revenues from external economic activity received by the budgets. By comparison with the corresponding period of 2008, the inflow of the said taxes into the general government's budget declined by 2.2 and 3.6 p.p. of GDP, respectively.

At the same time, the final months of 2009 were marked with the emergence of a positive dynamics in the growth of the prices for energy carriers on world markets by comparison with those in late 2008 – early 2009. The volume of oil extraction also stopped to decline. With the improvement of the price situation, the Russian authorities increased the rate of the export duty for crude oil. Thus, in January – June 2009 the rate fluctuated between 100 and 153 USD per ton of crude, but in July it went up to 222 USD. Although the rate-hike will inevitably increase the revenues from external economic activity, it is clearly insufficient to put an end to the existing downward trend reducing the inflow of the above taxes into the Russia's budgetary system by comparison with the previous year (*Table 2*).

In January – July 2009, the inflow of organizations profit tax into the general government's budget considerably declined, to 3.5 % of GDP vs. 7.3 % of GDP in the corresponding period of 2008. Despite the relative stabilization achieved by enterprises in some sectors of the economy, the financial situation of Russian enterprises remains, by and large, very difficult: the real sector's financial result of the first 7 months of 2009 amounted to 1,859.3 billion rubles – almost two times less than in the corresponding period of 2008. To make matters worse, the proportion of loss-making enterprises grew by 6.6 p.p. to approximately 36 % of the total number of enterprises. By the results of the first 7 months of 2009, the worst financial results were achieved by chemical plants and enterprises producing electrical equipment and means of transportation. That is why it is too early to claim that the general recovery of the real sector of the economy has already begun.

The shrinkage of the inflow of organizations profit tax into the general government's budget was also caused by the changes introduced into the RF Tax Code in the part of administering the organizations profit tax, which came into force in early 2009. The most significant of these changes is the increase of the depreciation bonus¹ from 10 to 36 % and the reduction of the rate of the organizations profit tax by 4 %.

Table 2

THE DYNAMICS OF THE LEVEL OF THE TAX BURDEN AND OF THE INFLOW OF MAJOR TAXES INTO THE RF GENERAL GOVERNMENT'S BUDGET IN JANUARY – JULY 2008 – 2009, IN % OF GDP

	2009	2008	Difference in p.p. of GDP
Level of tax burden (1+2+3)	37.3	43.2	-5.9
Inflow of taxes (1), including:	28.3	30.9	-2.6
Organizations Profit Tax	3.5	7.3	-3.8
Personal Income Tax	4.4	4.1	+0.3
Single Social Tax*	2.2	2.1	+0.1

¹ The depreciation bonus should be understood as the possibility to charge to costs in a current tax period part of the original cost of the fixed assets being placed into operation.

Table 2, cont'd

	2009	2008	Difference in p.p. of GDP
VAT	5.4	6.4	-1.0
Excises	0.9	0.9	0.0
Mineral Extraction Tax	2.4	4.6	-2.2
Insurance contributions to mandatory pension insurance (2)	3.6	3.3	+0.3
Revenues from external economic activity (3)	5.4	9.0	-3.6

* without insurance contributions to mandatory pension insurance.

Source: RF Ministry of Finance, Rosstat, IET estimates.

In parallel with the significant drop in the inflow of profit tax and mineral extraction tax, the volume of budget revenues from VAT for January – July 2009 also shrank in relative terms: the inflow of this tax into the general government's budget amounted to 1 p.p. of GDP (*Table 2*). However, it should be acknowledged that the parameters of the VAT inflow in the current year and in 2008 are not fully correlatable. Thus, in July 2009, the general government's budget received only 195.7 billion rubles from this tax vs. 517.9 billion rubles in July 2008. Apart from the fact that the taxable base has narrowed, such a significant drop in the inflow of VAT in the current year can be attributed to the changes introduced to the procedure for its payment into the budget. In 2008, July was the month when VAT had to be paid for the whole Q2, while in the current year it is possible for this tax to be paid in equal installments throughout the quarter, and many taxpayers made use of this amendment. The said measure increased the evenness of the VAT inflow and its refunding throughout the year.

The rise in the inflow of personal income tax registered in the first month of the current year continued in the middle of 2009. The volume of the PIT inflow into the general government's budget rose to 4.4 % of GDP, an increase of 0.3 % of GDP compared to the corresponding period of the previous year. The existing dynamics of the PIT inflow is caused by GDP's reducing at a greater rate than the real disposable income of the population. Thus, according to preliminary estimates, in the first 7 months of 2009 the real disposable income of the population (income minus CPI-adjusted mandatory payments) dropped by 0.9 p.p. on the corresponding period of 2008, while the volume of GDP declined by approximately 10%. In its turn, the pre-indexation of the wages fund of civil servants also contributes to the rise in the PIT inflow.

Notwithstanding the fall in budget revenues in the first half of the current year, the rather frugal expenditure of budget funds typical of the first months of 2009 gave way, in June – July, to their active usage. As a result, in the first 7 months of 2009 the general government's budget expenditures shot up to 37 % of GDP vs. 29.4 % of GDP in 2008 (*Table 3*).

Table 3

THE IMPLEMENTATION OF THE EXPENDITURE SIDE OF THE GENERAL GOVERNMENT'S BUDGET
IN JANUARY – JULY 2009, IN % OF GDP

	January – July 2009		January – July 2008		Difference in p.p. of GDP
	billion rubles	in % of GDP	billion rubles	in % of GDP	
Total Expenditure,	7929.1	37.0	6626.3	29.4	+7.6
including					
Nationwide issues	682.1	3.1	657.2	2.9	+0.2
Including of servicing state and municipal debts	132.7	0.6	106.3	0.5	+0.1

Table 3, cont'd

	January – July 2009		January – July 2008		Difference in p.p. of GDP
	billion rubles	in % of GDP	billion rubles	in % of GDP	
National defense	612.8	2.9	498.7	2.2	+0.7
National security and law enforcement	642.5	3.0	550.5	2.4	+0.6
National economy	1245.2	5.8	849.6	3.8	+2.0
Housing and utilities sector	417.5	2.0	413.1	1.8	+0.2
Protection of environment	13.9	0.1	13.4	0.1	0
Education	965.3	4.5	856.9	3.8	+0.7
Culture, cinematography, mass media	166.5	0.8	150.9	0.7	+0.1
Health care and sports	832.6	3.9	750.8	3.3	+0.6
Social policy	2350.4	11.0	1 885.2	8.4	+2.6

Source: RF Treasury, IET estimates.

According to the preliminary results of the first 7 months of 2009, the general government's budget expenditures under the "Social Policy" budget item were by 2.6 % of GDP higher than during the corresponding period of 2008. The volume of allocations earmarked for implementing the state liabilities under the "National Economy" budget item remains high – 5.8 % of GDP vs. 3.8 % of GDP in 2008. There was a rather considerable growth of expenditures under the "National Defense" and "National Security and Law Enforcement". The volumes of budget outlays under these items are 0.6 – 0.7 p.p. of GDP higher than in the previous year.

The implementation of the RF federal budget in January – August 2009

According to the RF Ministry of Finance, in the first 8 months of 2009, the revenues of the federal budget amounted to 17.8 % of GDP (by 6.6 p.p. lower than in 2008). At the same time, the expenditures were by almost 7 p.p. of GDP higher than in the previous year - they shot up to 22.5 % of GDP.

The rise in the volume of allocations from the federal budget was heavily contributed to by the wide-scale implementation of the anti-crisis measures designed to support the real sector of the economy through the use of various instruments, such as:

- the already carried out additional capitalization of a number of big enterprises and banks – "Sberbank of Russia", OJSC "Rossel'khozbank", OJSC "Rosagroleasing" and OJSC "RZhD";

- the already rendered direct state assistance to such projects as the innovation – oriented federal target programs and other infrastructural projects;

- state guarantees are being granted as security for credits taken by strategic enterprises and enterprises of the defense – industrial complex (295 enterprises of federal significance, 1,148 enterprises of regional significance);

Another contributor to the rise in the federal budget's expenditures is the timetable of the pension indexations planned for 2009. Thus, this year's first indexation took place on 1 March when the basic part of the labor pension was increased by 8.7 %. On 1 April 2009 the size of the insurance part of the old age labor pension grew up by 17,5 %. On 1 August 2009 the average size of the insurance part of the labor pension was also increased by 221 ruble, to 5,855 rubles; the average size of the old-age labor pension grew by 236 rubles, to 5,855 rubles; the average size of the disability pension grew by 130 rubles, to 4,048 rubles; and the average size of the breadwinner-loss pension was increased by 161 rubles, to 3,323 rubles.

The unevenness of the implementation of the expenditure side of the federal budget has been apparent for a number of years. In 2009, the necessity to contain inflation and to cope with the shrinkage of effective demand transformed this issue into one of the major problems. The only way to solve it is to increase the responsibility of both the budget managers and the recipients of budget funds for the regular and targeted use of budget resources. However, during the first 8 months of the current year the federal budget's revenue and expenditure for 2009 was implemented only by slightly more than 57 %.

The drop in the volume of the federal budget's receipts in January – August 2009 by comparison with the corresponding period of 2008 was caused by a number of external and internal factors. On the one hand, certainly important was the reduction in the profits of the oil and gas sector, which resulted in a decrease in the mineral extraction tax inflow and in the inflow of revenues from external economic activity. On the other hand, the consequences of the world financial crisis had an adverse effect on the state of the Russian economy. As a result, the federal budget's revenues from oil and natural gas considerably dwindled.

Table 4

THE MAJOR PARAMETERS OF THE RF FEDERAL BUDGET IN JANUARY – AUGUST 2009

	January – August 2009		January – August 2008		In % of budget revenue and expenditure	Difference	
	billion rubles	in % of GDP	billion rubles	n % of GDP		billion rubles	p.p. of GDP
Revenues, including:	4427.0	17.8	6405.1	24.4	65.9	1978.1	-6.6
Revenues from oil and gas	1635.0	6.6	2995.2	11.4	79.5	1360.2	-4.8
Allocations to Reserve Fund and National Prosperity Fund (Stabilization Fund)	8.6	0.03	888.7	3.4	–	880.1	-3.4
Expenditures, including::	5607.9	22.5	4101.6	15.6	57.4	1506.3	+6.9
interest expenditures	116.5	0.5	101.8	0.4	49.5	14.7	+0.1
non-interest expenditures	5491.5	22.0	3999.9	15.2	57.5	1491.6	+6.8
Surplus of federal budget	-1180.9	-4.7	2303.5	8.8	38.5	-1122.6	-13.5
Non-oil and gas deficit	-2816.0	-11.3	-691.7	-2.6	55.9	-2124.3	-8.7
Estimated GDP	24925.8		26289.0				

Source: RF Ministry of Finance (preliminary estimation), IET estimates.

According to preliminary estimations, in the first 8 months of 2009 the federal budget was implemented with a deficit of 4.7 % of GDP., while the non-oil and gas deficit amounted to more than 11 % of GDP. Thus, the budget deficit has a noticeable dynamics of monthly growth, and it is absolutely unclear whether it would be possible to contain the deficit of the federal budget within the limits of 7.4 % of GDP by the results of the year.

At the present time the deficit of the federal budget is covered from the Reserve Fund: in the first 8 months of 2009 the Fund's resources were allocated to balance the federal budget and to cover a major oil and gas transfer. These allocations amounted to nearly 1.8 trillion rubles. As of 1 September 2009, the volume of the Reserve Fund amounted to approximately 2.8 trillion rubles.

Table 5 illustrates the dynamics of the government's receiving and spending its revenues from oil and natural gas in January – August 2009. The total volume of the money inflow into the Reserve Fund in the first 8 months of 2009 amounted to 8.6 billion rubles. At the same time, the volume of the oil and gas transfer to the federal budget during these 8 months amounted to 1,749 billion rubles.

Table 5

THE DYNAMICS OF THE FORMATION AND USAGE OF THE FEDERAL GOVERNMENT'S REVENUES FROM OIL AND NATURAL GAS IN JANUARY – AUGUST 2009, IN BILLION RUBLES

Index denomination	Funds remaining as of end of 2008	Approved in 2009 budget	Received in Jan –Feb 2009	Used in January – August 2009		Funds remaining as of end of July 2009
				on balancing federal budget	on covering oil and gas transfer	
Federal budget's revenues from oil and gas	x	2057.2	1569.4			x
Directions of use of revenues from oil and gas:	x	x				x
Oil and gas transfer	x	2531.1	1748.9			
Reserve Fund	4027.6	5147.5	–	1723.6	179.4	2811.3
National Prosperity Fund	2584.5	x	8.6	–	–	2863.1
Total	6612.1	x	1757.5	1723.6	179.4	5674.4

Source: RF Federal Treasury.

In addition to dipping into the Reserve Fund, it is planned that in 2009 part of the deficit will be covered from internal loans. At present, decision makers actively discuss the possibility of increasing the volume of borrowings for the purpose of slowing down the rapid fall in the volume of the Reserve Fund. At the same time, it is known that Russia has decided not to take the IMF low – interest credit (8.84 billion dollars at 1 % interest) which it could have attracted under her quota in the International Monetary Fund. This decision of the Russian Government indicates that the situation with covering the deficit of the state budgets is not critical and that it can be controlled without considerably increasing the volume of external borrowing.

Table 6 illustrates the dynamics of the federal budget's funds being spent in the first 7 months of the current year. The presentation is based on the adopted functional classification of the Functional Classification of Budget Expenditures. Under most of the budget items as well as by the results of the previous months of 2009, federal funds were used at lower rates by comparison with 2008. As a result, in January – July 2009 the expenditure side of the amended federal budget was implemented only by about 48 % - vs. almost 51 % in the corresponding period of 2008. By comparison with the corresponding period of the previous year, the lag of performance was most pronounced under the “Social Policy” and “Nationwide Issues” (8.5 and 8 p.p., respectively). The rate of federal expenditure implementation under the “Health Care and Sports” budget item lagged by 7 p.p. behind the results of the previous year. However, the rate of budget fund expenditure under the “Culture, Cinematography and the Mass Media”, “The National Economy” and “Education” budget items exceeded the rate achieved in 2008 by 5, 2.6 and 2 p.p., respectively.

Table 6

THE CASH-BASED EXECUTION OF THE FEDERAL BUDGET FOR JANUARY – JULY 2009, AS A PERCENTAGE OF BUDGET REVENUE AND EXPENDITURE FOR THE WHOLE YEAR

	January – July 2009	January – July 2008
Total expenditure	48.1	50.7
including		
Nationwide issues	41.9	49.9
Servicing of state and municipal debts	43.8	48.8
National defense	50.3	48.9

Table 6, cont'd

	January – July 2009	January – July 2008
National security and law enforcement	51.8	51.4
National economy	44.9	42.3
Housing and utilities sector	28.9	31.0
Protection of environment	44.8	47.4
Education	51.4	49.4
Culture, cinematography and Mass Media	51.9	46.9
Health care and sports	43.9	50.9
Social policy	47.3	55.8
Interbudgetary transfers	50.1	54.2

Source: RF Ministry of Finance; IET estimates.

It is expected that in the remaining months of 2009 the implementation of the expenditure side of the federal budget will be accelerated to approximately 850 – 900 billion rubles per month. The expenditure peak will be reached in December, when up to 1.5 billion rubles might be spent. The wide scale use of state finances is traditionally planned for the end of the year. It is also envisaged that additional allocations will be made to the Pension Fund of Russia in connection with the forthcoming pension indexation planned for 1 December 2009, when the basic part of the labor pension will be increased by 31.4%. Such an uneven spending of budget allocations can exert some inflationary pressure on the ruble in the final months of 2009. ●

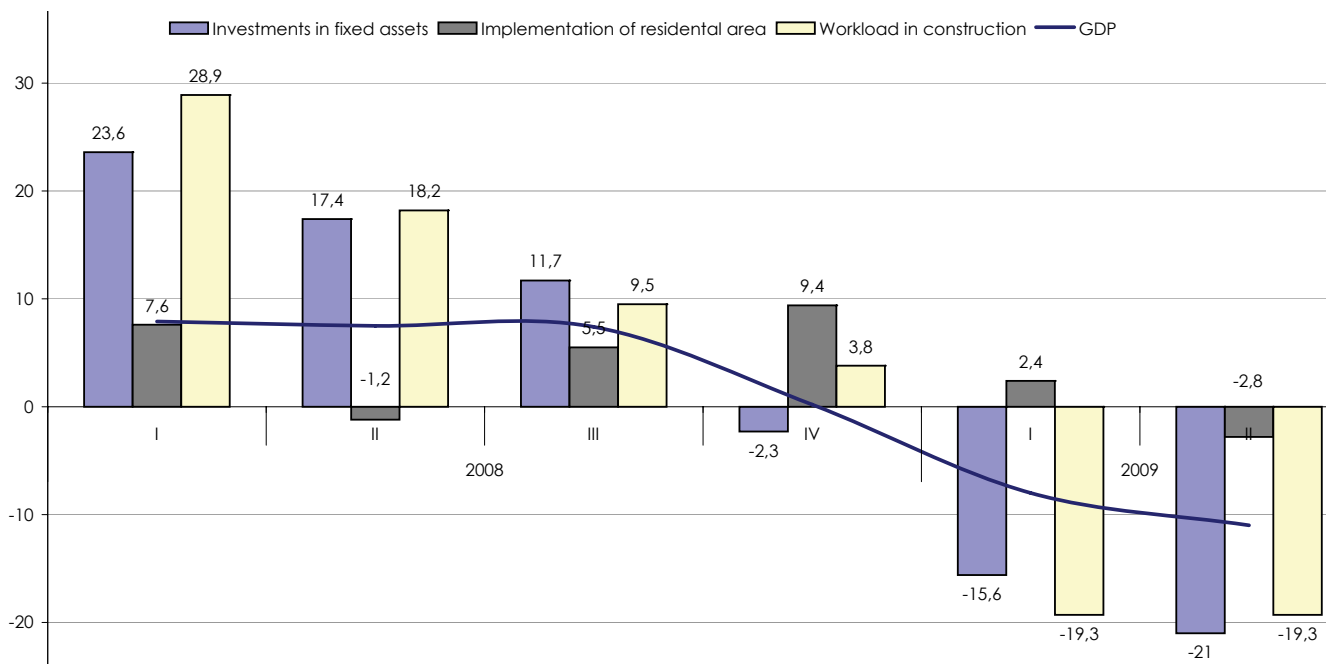
INVESTMENTS IN REAL SECTOR OF ECONOMY

O.Izryadnova

The drop of the investments in fixed assets and the contraction of the reserves have a significant effect on the current economic situation and the prospects for the development by the end of the year.

In January-August 2009 investments in fixed assets went down by 18.9% as compared with the corresponding period of 2008 and the volume of workload in construction – by 19.3%. Under the existing dynamics the drop of the investments in fixed assets as a result of the year may reach 20% and will have a prevailing influence on the structure of the internal demand.

The slow-down of the economic growth rates changed the situation in the investment sector. Starting with the 4th quarter 2008 there has been the intensification of the drop of investments versus the GDP dynamics observed. In the 1st quarter 2009 the investments contracting by 15.6%, the GDP decreased by 9.8% versus the corresponding period of the previous year, and in the 2nd quarter, the figures were 21.0% and 10.9%, correspondingly. As a result of the 1st half of 2009 the volume of the investments in fixed assets on the whole throughout the economy has reduced by 18.9%, and at large-scale and medium-scale enterprises – by 10.3%. in the segment of small-scale enterprises the decrease of the investments in fixed assets exceeded 30%. As a result of the 1st half of 2009 the proportion of the investments in fixed assets decreased by 1.0 percentage points versus the corresponding period of the previous year and made 16.9% of the GDP (fig. 1)



Source: Federal State Statistics Service

Fig. 1. Growth Rates of the GDP, Investments in Fixed Assets, Workload in Construction and Housing Implementation in 2008–2009, as percentage to the corresponding period of the previous year

The curtailment of the construction of production and infrastructure objects against the background of the sudden slow-down of the implementation of housing down to 102.4% in the 1st quarter and the drop of 2.8% in the 2nd quarter versus the corresponding period of the previous year was characteristic for the 1st half of the current year.

It should be noted that, first, the absolute volumes of investments in housing construction reduced by RUR 39.0 billion as compared with the 1st half of 2008 and, second, the trend for the decrease of the share in housing construction in the structure of the investments in fixed assets down to 6.0% in the 1st half of 2009 versus 7.85 in the corresponding period of the previous year has intensified.

The expenses for the construction of the buildings and structures in the 1st half of 2009 went up to 54.4%, exceeding by 4.5 percentage points the figure of the corresponding period of the previous year (*table 1*). The trend for the decrease of the proportion of expenditures for machinery and equipment has intensified. Whereas in the 1st quarter 2009 this figure was at the level of 32.2%, in the 2nd half of 2009 it reduced down to 29.5%. It should be noted that against the background of sharp drop in the domestic production of the capital goods the investments in the purchase of the importer machinery, equipment, transport vehicles (not taking into account ht subjects of small-scale enterprises and parameters for informal activity) in the 1st half of 2009 made RUR 156.3 billion or 23.3% of the total volume of investments in machinery, equipment and transport vehicles versus 19.4% in the 1st half of 2008. In the environment of the crisis the investments in the purchase of the imported equipment and machinery went up by RUR 10.2 billion versus the corresponding period of the previous year, which allowed to weaken the negative influence of the sharp contraction of the domestic production of machinery, equipment and transport vehicles.

Table 1

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

	2008				2009	
	total	I quarter	I half of the year	January-September	I quarter	I half of the year
Investments in fixed assets, total	100	100	100	100	100	100
Including as broken by kinds of fixed assets:						
Residential area	7.5	8.1	7.8	7.6	6.0	6.0
Buildings and constructions	52.4	48.5	49.9	51.3	51.6	54.4
Machinery, equipment and transport vehicles	33.0	34.5	34.1	33.6	32.2	30.7
Others	7.1	8.9	8.2	7.5	10.2	8.9

Source: Federal State Statistics Service

The rates of the economy dropping the change of the role of the budget funds in the sources of financing the investments in fixed assets was observed. Absolute increase in the volumes and proportion of the federal budget in the sources of financing of the investments in fixed assets was one of the conditions that alleviated the negative consequences of the sharp limitation of the own funds of enterprises for the purposes of investments. In January-June 2009 there was RUR 364.7 billion financed at the expense of the budget funds (16.7% of the total volume of the investments in the economy), including RUR 142.9 billion (6.5% of the total volume of the investments in the economy) at the expense of the federal budget and RUR 200.5 billion (9.2%) – at the expense of the budgets of subjects of the Federation (*table 2*).

Table 2

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

	2008	Including			2009	
		I quarter	I half of the year	January-September	I quarter	I half of the year*
Investments in fixed assets, total	100	100	100	100	100	100
Including by sources of financing:						
Own funds	40.0	46.2	44.3	42.8	40.9	40.1
Of which:						
profit	18.6	20.5	20.5	20.1	18.1	16.9
Attracted funds	60.0	53.8	55.7	57.2	59.1	59.9
Of which:						
Banks' credits	11.1	10.4	10.5	11.0	13.4	12.0
Including the credits of foreign banks	2.4	1.6	1.8	1.7	4.3	3.7
Loaned funds of other organizations	6.5	6.9	6.7	6.8	9.2	8.2
Budget funds:	21.0	11.8	14.9	16.8	13.0	16.7
Of federal budget	8.1	2.8	4.4	5.5	4.1	6.5
Of budgets of the subjects of the Russian Federation and local budgets	10.4	8.3	9.3	10.0	8.1	9.2
Others	21.1	24.3	23.2	22.3	23.3	22.8
Of which the funds received for share participation in construction	3.3	3.7	3.5	3.5	2.2	2.3
Including the funds of the population	1.5	1.4	1.6	1.7	0.9	1.0
Investments from abroad in the total volume of investments	4.6	5.3	5.3	4.8	6.7	5.7

*Preliminary data.

Source: Federal State Statistics Service

The demand for goods and services of the Russian enterprises from the government was supported through the realization of the planned investment projects in the sphere of transportation, telecommunication etc, fulfilled within the framework of FTP and FTIP as well as large infrastructure projects of the Investfund. In the environment of the crisis the government envisages stimulating the innovations in the economy through the fulfillment of the technological federal target programs the expenditures for which were either retained at the planned level or were reduced at the minimal extent. Besides the work on the determination and support of priority investment projects aimed at the technological modernization of the processing industries that will be able to guarantee the competitiveness of the Russian economy at the stage of post-crisis growth was intensified. In order to stimulate private investments in innovations it is envisaged to grant the state support for the fulfillment of programs for innovation development of the companies, the financial support for the programs of technological re-equipment of enterprises etc.

In 2009 taking into account the optimization of the volume and the structure of the expenditures of the federal budget it was planned to direct RUR 708.0 billion from the funds of the federal budget to direct to the construction of objects and fulfillment of the measures included in the federal targeted investment program (FTIP), RUR 158.4 billion of which were envisaged for the financing of the objects included in the state defense order. It was envisaged to direct RUR 503.2 billion for financing of the objects included in federal

target programs (program part of FTIP), of which RUR 99.9 billion were allocated for the state defense order.

In concordance with the List of the construction sights and objects for the federal state needs approved by the Decree of the Government of the Russian Federation from December 31, 2008 No 2058-r and included in the federal targeted investment program for 2009 it was envisaged to allocate the government investments for financing of 2444 construction sights, objects and conduction of events. It was planned to put 1186 objects in commission.

As a result of the changes made in the List of the construction sights and objects of the federal targeted investment program (Decree of the Government of the Russian Federation from May 7, 2009 No 604-r) in 2009 it is planned to direct RUR 651.74 billion of the means of the federal budget for the construction of the objects and fulfillment of the measures included in FTIP. Although as a result of the correction of the budget the volume of the state investments was lowered as compared with that planned for 2009 earlier by more than RUR 56 billion, it is envisaged that it will be sufficient to retain the necessary level of the demand from the state.

As a result of the adopted decisions it is planned to direct the means at the amount of RUR 442.89 billion (67.9% of the total volume of FTIP) for financing of the objects included in the federal target programs. For the construction of objects and fulfillment of the measures within the framework of non-program part of FTIP it is planned to allocate the means at the amount of RUR 208.85 billion, which makes 32.1% of the total volume of FTIP.

According to the data of the Federal State Statistics Service, which are monitored by Rosstat, in 2009 it is envisaged to finance 2649 construction sights, objects and measures versus 2801 objects in 2008. Out of these it is planned to put 1395 objects in implementation in 2009 versus 1349 objects a year ago. By August, 1st 875 objects were fully financed (*table 3*).

According to the data of the Federal State Statistics Service, as a result of January-July 2009 there were 15 objects put into commission, including 8 objects put into commission to the full extent, and 7 objects – partially. It should be noted that putting 1 of these objects to the full capacity and 4 objects partially was not the part of the program in 2009, being planned for the following years.

Table 3

OBJECTS ENVISAGED BY TARGETED INVESTMENT PROGRAM AND VOLUMES OF STATE INVESTMENTS IN 2009 (NOT TAKING INTO ACCOUNT CONSTRUCTION SIGHTS AND OBJECTS INCLUDED IN THE STATE DEFENSE ORDER)

	Number of objects in 2009		Implementation in January-April 2009		Limit of the state investments for 2009		Financed from the federal budget in January-July 2009	Investments used at the expense of all sources of financing
	total	Including with implementation date in 2009	To full capacity	Partially	total	Including from the federal budget		
	units				RUR billion			
Total	2649	1395	8	7	593.7	532.0	262.0	127.9
including:								
Transportation complex	284	1123	-	-	201.0	194.9	120.3	47.7

Table 3, cont'd

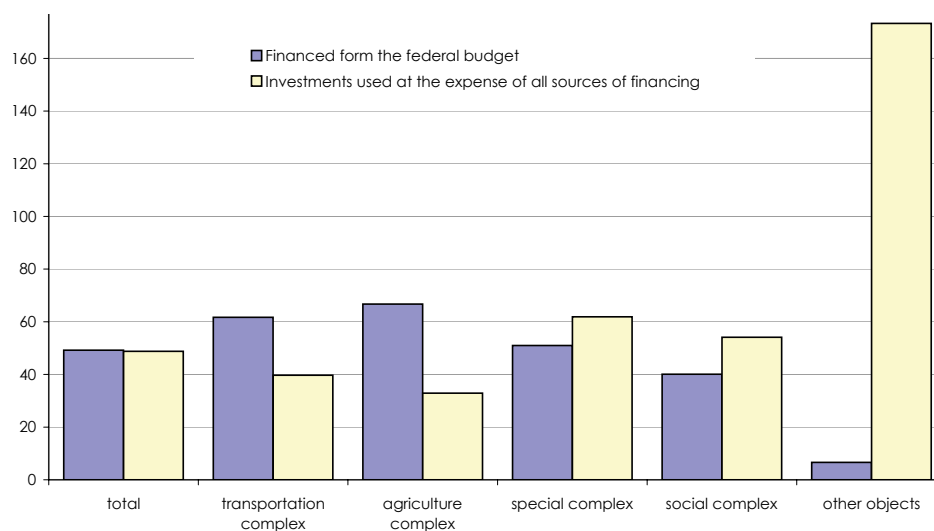
	Number of objects in 2009		Implementation in January-April 2009		Limit of the state investments for 2009		Financed from the federal budget in January-July 2009	Investments used at the expense of all sources of financing
	total	Including with implementation date in 2009	To full capacity	Partially	total	Including from the federal budget		
Agriculture complex	419	268	-	-	11.8	11.4	7.6	2.5
Special complex	364	188	1	1	129.6	92.1	47.0	29.1
Social complex	1428	707	6	6	226.6	210.9	84.6	45.8
Other objects	154	109	1	-	24.7	22.8	1.5	2.6

Source: Federal State Statistics Service

In January-July 2009 financing of budget allotments envisaged for fulfillment of FTIP (not taking into account construction sights and objects included in the state defense order) made RUR 262.0 billion or 49.2% of the annual limit versus 51.3% in the corresponding period of the previous year.

The annual limit of state investments in agriculture complex (66.7%) and transportation complex (61.7%) were financed to a considerably higher extent than on average construction sights and objects for state needs (*fig. 2*). In special complex budget allotments were financed at about average values (50.1%), and in social complex the level was significantly lower (40.1%). The peculiar features of the use of the funds is defined by the highest level of the investments disbursement within the special complex (61.9%), the level of usage of the funds within the programs of social (54.1%) and production (39.2%) complexes being lower. The average value of usage of the investments at the expense of all sources of financing makes 48.8%.

When the structure by territory is considered, the use of the limit of funds envisaged for financing FTIP construction sights and objects that is above average in Russia was observed in North-Western, Urals, Siberian and Privolzhsky federal okrugs. In Central federal okrug the use of budget investments is significantly below the average figure (*table 4*).



Source: Federal State Statistics Service

Fig. 2. Level of State Investments Financing and Usage in January-July 2009

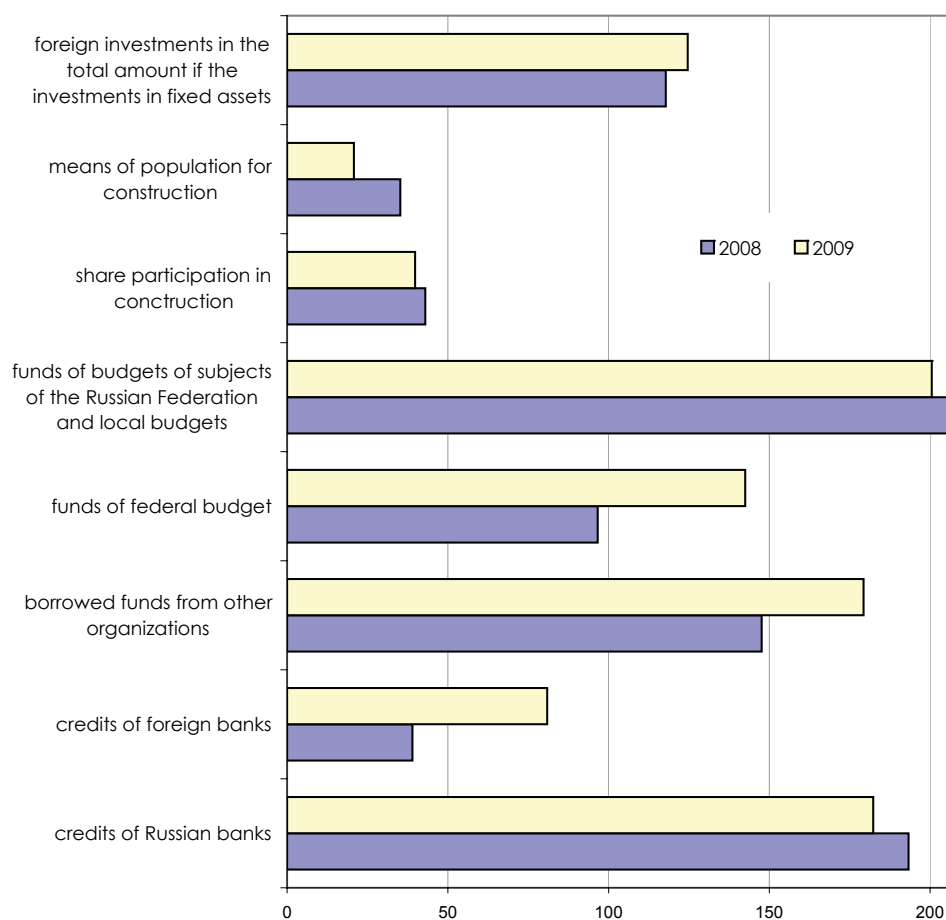
Table 4

USE OF FUNDS FOR CONSTRUCTION SIGHTS AND OBJECTS FOR FEDERAL STATE NEEDS

	Limit of allotments at the expense of all sources of financing, RUR billion	Limit of state investments for the year, RUR billion	Really used at the expense of all sources of financing	
			RUR billion	As percentage of the year limit
Russian Federation	593.73	532.1	127.8	21.5
Central federal okrug	232.2	217.8	35.37	15.2
North-western federal okrug	100.3	84.9	34.32	34.2
Southern federal okrug	105.0	82.9	20.77	19.8
Privolzhsky federal okrug	20.8	19.8	4.95	23.8
Urals federal okrug	19.6	18.8	5.94	30.4
Siberian federal okrug	31.0	29.6	8.87	28.6
Far Eastern federal okrug	85.0	78.3	17.6	20.8

Source: Federal State Statistics Service

Contraction of the internal market and the drop of the economy's revenues defined sharp contraction of the volumes and share of the own funds of the enterprises in the structure of the sources of financing of investments in fixed assets. In the 1st half of 2009 large- and medium-scale enterprises used RUR 878.5 billion versus RUR 967.9 billion in the corresponding period of the



Source: Federal State Statistics Service

Fig. 3. Structure of Funds Attracted for Financing of Investments in Fixed Assets in the 1st half of 2008 and 2009, as RUR billion

previous year. The sharp deficit of own funds was compensated by the attraction of the banking credits and borrowed funds. In the 1st half of 2009 RUR 263.3 billion or 20.0% of the borrowed funds of RUR 1310.2 billion was accounted for by the banks' credits.

Structure of banks' credits in the sources of financing of the investments in fixed assets was subject to considerable changes. Whereas in January-June 2008 the share of credits issued by foreign banks was 16.8% of the total sum of banks' credits, in the corresponding period of 2009 the figure went up to 30.7% in the 1st half of 2009 as compared with the corresponding period of the

previous year the credits of foreign banks went up by 2.1 times the credits of domestic banks decreasing in absolute terms. As a result the proportion of investments from abroad in the total amount of investments in fixed assets increase up to 5.7% and made RUR 124.6 billion. The formation of this trend occurred against the background of the sustention of the trend for the net outflow of the capital and made USD 27.6 billion. In the 1st half of 2009 foreign investments made USD 32.1 billion (69.1% versus January-June 2008), including the direct investments of USD 6.1 billion (55.0%).

The shortage of own funds and slack participation of the domestic banking sector in financing of the investments in fixed assets made the circle of the borrowing enterprises enlarge. In the 1st half of 2009 the volume of the borrowed funds of other organization for financing of the investments in fixed assets (insurance and investment companies, trading enterprises etc.), made RUR 179.3 billion and was practically equal to the amount of credits of the domestic banks in the structure of sources of financing of the investments in fixed assets.

Financial crisis defined the peculiar features of the investors' behavior at the market of housing construction. In January-June 2009 it was observed that the absolute reduction of funds aimed at share participation in construction both by the organization and the population. In January-June 2009 the share of funds received for share participation in construction made 2.3% of the total volume of investments, of which 1.0% was the means of the population.

The structure of investments in fixed assets by kinds of economic activities was formed under the influence of the trends that evolved at the end of 2008 (*table 5*).

As a result of the 1st half of the year on the whole throughout the economy the structure of investments in fixed assets was influenced by the sudden aggravation of the recession in agriculture (75.3% versus the 1st half of 2008), in communication (68.6%), in education (83.0%), health care (85.0%), in operations with real estate (77.6%).

Table 5

STRUCTURE OF INVESTMENTS IN FIXED ASSETS AS BROKEN BY KINDS OF ECONOMIC ACTIVITIES
(NOT TAKING INTO ACCOUNT SUBJECTS OF SMALL BUSINESS AND PARAMETERS
OF INFORMAL ACTIVITY)

	2008					2009
	Total over the year	including				January-March
		January-March	January-June	January-September	October-December	
Total	100	100	100	100	100	100
Of which by kinds of economic activities:						
Agriculture, hunting and forestry	3.9	3.6	4.3	4.2	3.4	2.9
Industry	42.0	46.0	44.7	44.1	38.4	47.1
Minerals extraction	16.6	21.6	19.8	18.3	13.7	20.7
Including fossil fuels extraction	15.1	19.9	18.2	16.7	12.6	18.5
Processing industries	16.5	18.6	17.6	17.5	14.8	19.1
Electricity, gas and water production and distribution	8.9	6.8	7.3	8.3	9.9	7.3
Construction	2.4	3.4	3.8	2.7	2.0	3.2
Wholesale and retail trade, servicing of motor vehicles and motorcycles, repair of items of private use and household appliances	2.7	2.5	2.7	2.7	2.7	2.7
Transportation	21.9	19.1	19.2	20.4	24.2	22.6
Communication	4.1	4.5	4.2	4.1	4.1	3.0
Financial activity	1.2	1.1	1.0	1.2	1.2	1.5

	2008					2009
	Total over the year	including				January-March
		January-March	January-June	January-September	October-December	
Operations with real estate, rent and services rendering	11.7	12.5	12.1	11.9	11.3	10.2
Education	2.2	1.4	1.7	1.8	2.8	1.1
State management, provision of military security; compulsory social security	2.0	0.9	1.4	1.6	2.7	1.1
Health care and rendering social services	2.6	1.6	1.9	2	3.5	1.5
Rendering of other social, personal and utilities services	2.9	1.9	2.5	2.8	3.4	2.8

Source: Federal State Statistics Service

Investment activity in the branches of infrastructure is one of the indicators of the growth potential, since the activity in this sector of the economy is mainly oriented towards the solution of the problems in the future. The drop of the investments in the development of the railways transportation in the 1st half of 2009 by 31.8% versus the corresponding period of the previous year was a worrying factor of the investments' dynamics. The absolute decrease of the scale of the investments had extremely negative effect on the adjacent productions of capital goods. The positive dynamics of investments in transportation was supported by the increase in the volumes of financing of priority projects on the development of the pipeline transportation. As compared with the 1st half of 2008 investments in pipeline transportation went up by 1.29 times, their share in the structure of investments in fixed assets on the whole throughout the economy increasing by 4.1 percentage points up to 10.6%. It should be noted that successful fulfillment of the programs for the development of pipeline transportation is directly connected with the dynamics of the development of adjacent productions of metallurgy and machine-building complexes.

Against the background of contraction of the internal market the investments in the retail trade as compared with January-June 2008 reduced by 25.7%, in wholesale trade – by 33.4% and in the trade with motor vehicles – by 30.8%.

Changes in the structure of investments in fixed assets by kinds of economic activities in the industry in the 1st half of 2009 were defined by the decrease of the rates of the investment activity in extractive and processing industries by 15.2% and 10.6%, correspondingly versus the 1st half of 2008. It should be noted that against the background of sustention of the positive dynamics of the investments in fixed assets in electricity, gas and water production and distribution (115.5% versus 1st half of 2008) the proportion of the investments in industry in the total volume of investments in fixed assets in the economy made 44.9% and has increased by 6.5 percentage points versus the critical drop in October-December 2008.

In the production of fossil fuels the drop of investments versus January-June 2008 made 17.1%. The efficiency of investment activity being low in recent years and the unfavorable trends of reproduction of mineral and raw materials base being formed together with the new oil fields being put into operation it is the aggravation of the fall of the investments that define additional limitations for overcoming of the negative trends of the crisis. It should be however noted that with the increasing of the prices for fossil fuels at the world market the profitability of their production in the 1st half of 2009 went up to 34.4% versus 18.9% in the 1st quarter of the current year, and the profitability of assets up to 5.4% versus 2.2%, correspondingly.

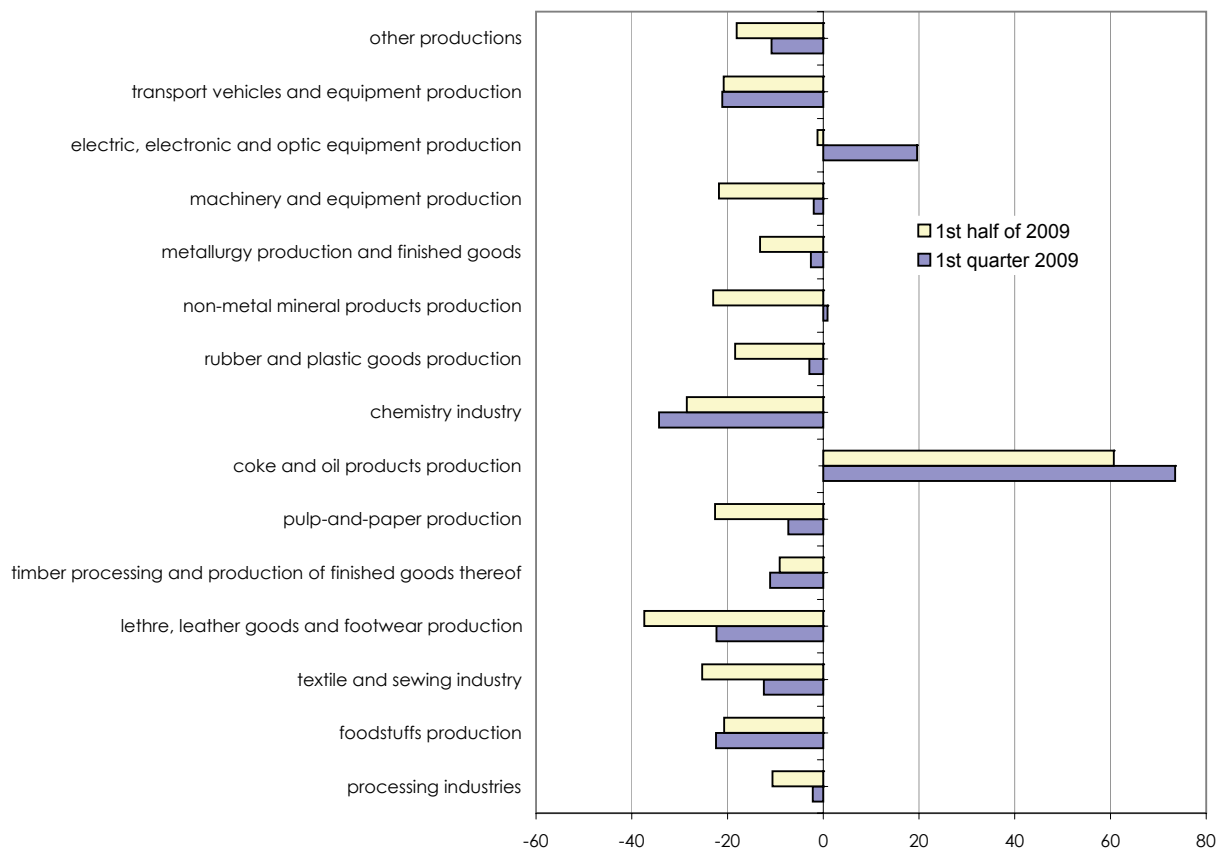
In the 1st half of 2009 the proportion of the processing industries in the structure of investments in fixed assets on the whole throughout the economy made 17.6%, and in the

investments in industry – 40.0%. The investment activity in processing industries was mainly supported by the increase of the investments in oil products production (164.8% versus January-June 2008). The production with the deepest drop of the investment activity include chemistry production (71.5% versus January-June 2008), foodstuffs production (79.3%), leather and footwear production (62.6%), textile production (74.7%) and pulp and paper production (77.4%) (fig. 4).

The analysis of the dynamics and structure of the investments demonstrates that low proportion of investments in machine-building is characteristic for the Russian economy. The proportion of investments in production of capital goods made 3,6% in the 1st half of 2009 and reduced by 0.4 percentage point as compared with the corresponding period of the previous year. The change in the proportion of the investments in machine-building was mainly defined by the contraction of investments in transport vehicles by 20.8% as compared with the 1st half of 2008 and in machinery and equipment production – by 22.8%.

Under existing age, technological and reproduction structure of the fixed assets low rates of investments in machine-building production remains the factor that limits the development of production of final and intermediate goods.

In January-August 2009 investments in fixed assets reduced by 18.9% versus the corresponding period of 2008. In the environment of uncertainty of the development of the economic situation and difficulties with the crediting it is not expected that the activity in the sphere of investments in the 2nd half of 2009. The reduction of investments in fixed assets is forecast to be at the level of 20% as a result of the year by the Ministry for Economic Development.



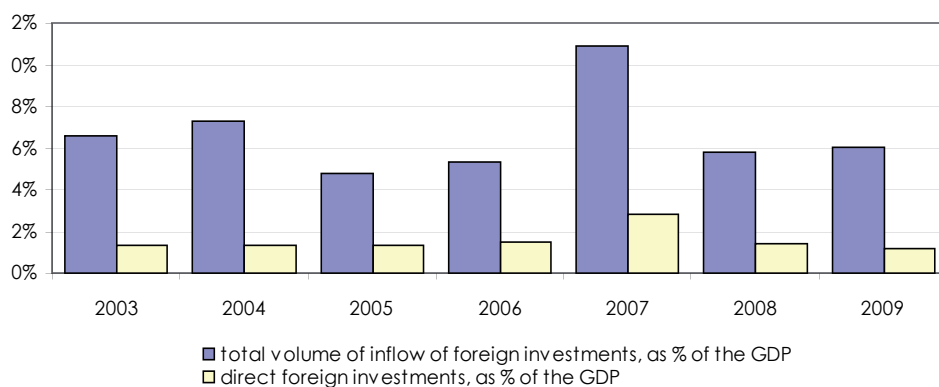
Source: Federal State Statistics Service

Fig. 4. Change in the Dynamics of Investments in Fixed Assets as Broken by Kinds of Activities of Processing Industries in 2009, as percentage to the corresponding period of the previous year

FOREIGN INVESTMENTS IN RUSSIAN ECONOMY

E.Ilyukhina

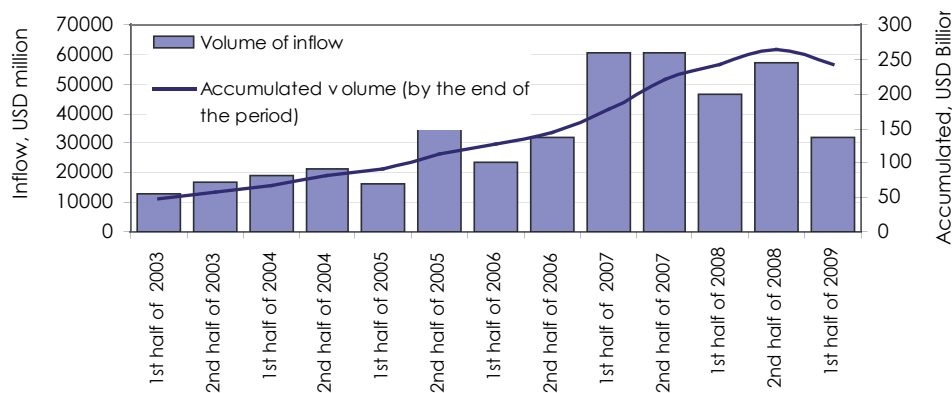
In the first half of 2009 the inflow of the foreign investments in to the Russian economy corresponded to the volumes of the withdrawn capital. The proportion of the direct investments in the structure of the foreign investments received in the 1st half 2009 reduced down to 19%. The foreign investments are concentrated in the industry, in the sphere of trade, in the transportation and communication. In the industry the foreign investors are mostly attracted by processing branches of industry. As to the geographical structure, the biggest volume of investments was directed from Luxemburg, the Netherlands and Cyprus, which account for 36.8% of the total investments in the Russian economy.



Source: Federal State Statistics Service

Fig. 1. Level of inflow of foreign investments into the Russian economy in the 1st halves of 2003-2009 (as percentage of the GDP)

accumulated foreign investments in Russia, including the investments from CIS-countries made USD 242.5 billion, which corresponds to the figure of July 1, 2008 and is by 8.4% below the level reached by January 1, 2009.



Source: Federal State Statistics Service

Fig. 2. Dynamics of Volume of Foreign Investments in the Russian economy (not taking into account the bodies of monetary and crediting regulation and banking sector)

In the 1st half of 2009 the foreign investments in the Russian economy made USD 32.2 billion, which is by 30.9% below the figures of the corresponding period of 2008 (the first half of 2008 was also characterized by the drop of 22.9% versus the corresponding period of 2007). The level of the inflow of the foreign investments (as percentage of the GDP) remains low. As on July 1, 2009 the

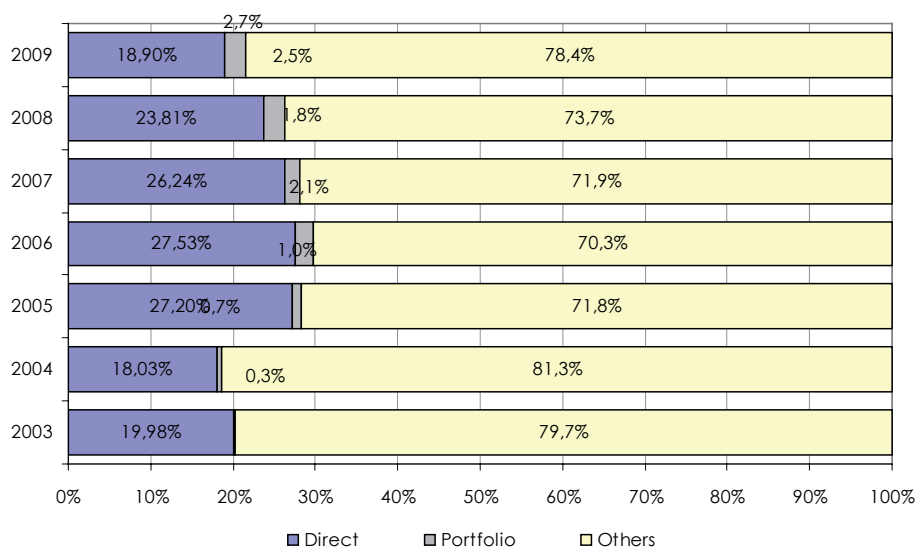
Despite the fact that in the 1st half of 2009 there were USD 31.8 billion withdrawn in the form of profits of foreign investors transferred abroad and in the form of payment of interest rates for credits and credits repayment, which was 7.1% below the figure of the corresponding period of 2008, in the 1st half of the current year the volume of

the withdrawn capital corresponds to the volume of the received foreign investments – 98.9% (73.6% in the first half of 2008).

The same as in the previous years, it is the other investments that hold the leading positions in the structure of the foreign investments received by the Russian economy.

In the 1st half of 2009 the rates of the decrease of foreign investments were above those for the corresponding figures of other and total foreign investments, which resulted in the decrease of the proportion of the direct investments down to 18.9%. Direct foreign investments as a result of the period under consideration made USD 6.1 billion or 55% of the level of the corresponding period of 2008.

In the 1st half of 2009 structure of investments attracted to the Russian industry as broken by branches of industry is characterized by the decrease in the investments into the industry, together with trade and catering and a considerable growth of investments in transportation and communication.



Source: Federal State Statistics Service

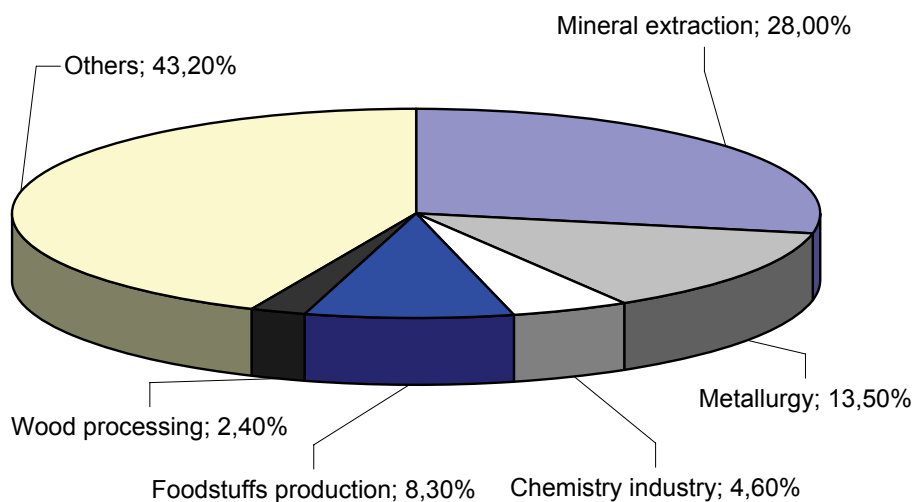
Fig. 3. Structure of Foreign Investments into the Russian Economy in the 1st halves of 2003-2009

Table 1
STRUCTURE OF FOREIGN INVESTMENTS IN RUSSIAN ECONOMY AS BROKEN BY BRANCHES
IN 1ST HALVES OF 2006–2009

	As USD million				As percentage to the total			
	2006	2007	2008	2009	2006	2007	2008	2009
Industry	11 353	26 295	21 078	13 230	48.5	43.6	45.3	41.1
Transport and communication	3 946	3 550	1 096	6 511	16.9	5.9	2.4	20.2
Trade and catering	5 092	25 973	13 479	7 995	21.8	43.0	29.0	24.9
Operations with real estate, rent and services rendering	1 240	2 071	7 101	2 670	5.3	3.4	15.3	8.3
Finances, credits, insurance, pension provision	1 387	1 232	1 672	1 025	5.9	2.0	3.6	3.2
Other branches of industry	3 892	1 222	2 104	732	1.6	2.1	4.4	2.3

Source: Federal State Statistics Service

As compared with the 1st half of 2008 in 2009 over the same period the volumes of foreign investments in the sphere of transport and communication went up by 5.9 times. Foreign investments in trade and catering reduced by 40.7%, investments in industry reduced by 37.2%, in the operations with real estate – by 2.7 times. Against the background of the decrease of the total investments and the reduction of investments in other branches, the proportion of transportation and communication went up from 2.4% to 20.2%.



Source: Federal State Statistics Service.

Fig. 4. Structure of Foreign Investments in Industry in 1st Half of 2009

in foodstuffs production remained approximately at the level of the 1st half of 2008 (the growth of estimated to be 1.1%). Thus, the structure of foreign investments in the industry in the current year is as represented in *fig. 4*.

In the first half of the current year the proportion of the direct foreign investments in the structure of investments in industry has reduced to 25.7% (33.2% in the 1st half of 2008). The proportion of portfolio and other investments in industry over the period under consideration of 2009 is estimated to be 70.2% and 4.1% (2.1% and 4.7%, correspondingly, in the 1st half of 2008).

In the 1st half of 2009 industry accounted for 55.8% of the direct, 63.8% of portfolio and 36.8% of other investments in the Russian economy (63.2%, 85.6% and 38.2% in the 1st half of 2008).

Table 2

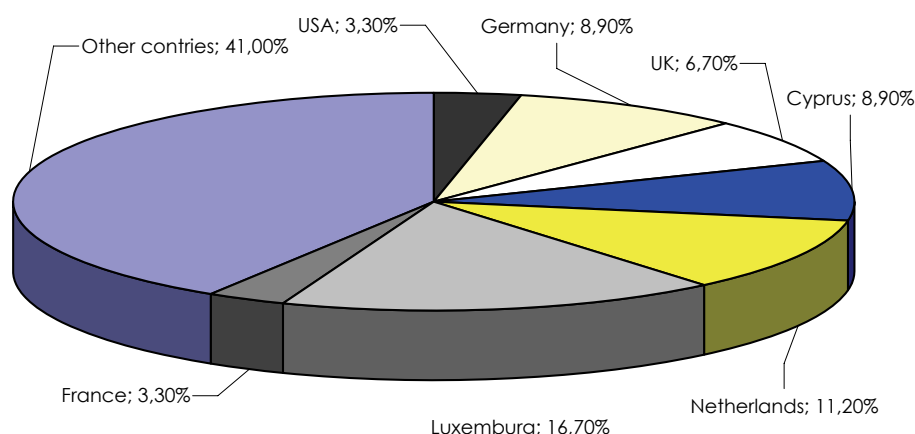
Structure of Foreign Investments in Industry in 1st Half of 2009

	As USD million			As percentage to the 1 st half of 2008		
	direct	portfolio	others	direct	portfolio	others
Industry	3396	550	9284	48.5	55.7	70.9
including:						
• Minerals extraction	1620	340	1744	57.4	by 12.1 times	102.2
• Metallurgy	266	7	1507	161.2	15.9	28.2
• Chemistry industry	74	0,4	536	115.6	1.5	20.9
• Foodstuffs production	138	–	963	64.8	–	110.1
• Other branches	1298	202,6	4534	34.8	22.8	174.5

Source: Federal State Statistics Service

In the 1st half of 2009 there was 26.6% of foreign investments of direct investors directed in extraction industry (25.5% in the 1st half of 2008). There was 27.9% of the direct foreign investments into the Russian economy directed to the processing industry (18.7% in the 1st half of 2008), 17.9% - to the trade and catering (9.6% in the 1st half of 2008), 14.4% - to the operations with real estate and services rendering (14.2% in the 1st half of 2008).

Whereas in the 1st half of 2008 it was the electricity, gas and water production and distribution that was the sphere of priority for the portfolio investors, it accounting for 74.8% of the total portfolio investments into the Russian economy, in the current year the major part of the portfolio investments was directed to minerals extraction – 39.4%, financial activity – 33.5% and processing industry – 15.7%.



Source: Federal State Statistics Service.

Fig. 5. Geographic Structure of Foreign Investments received by the Russian Economy in the 1st Half of 2009

The biggest volume of other investments in the 1st half of 2009 was accounted for by the processing industry, which made 29.4% of the total volume of other investments in the Russian economy (32.6% in the 1st half of 2008). The sphere of trade and catering made 27.4% of the total volume of other investments (36.2% in the 1st half of 2008), transport and communication making 24.9% (2.45 in the 1st half of 2008).

As to the geographical structure of foreign investments attracted in the 1st half of 2009, the leading position in the list of the biggest capital exporting countries is held by Luxembourg, which has increased its investments in the Russian federation by 2.4 times as compared with the 1st half of 2008 up to USD 5.4 billion. Considerable rates of growing investments from Luxembourg against the background of the reduction of those from other capital exporting countries resulted in the proportion of Luxembourg in the geographical structure of investments going up from 4.9% in the 1st half of 2008 to 16.7% in the current year.

The leader of the previous year, Cyprus, which accounted for 23.3% of the total foreign investments in the Russian Federation in the 1st half of 2008, reduced, as a result of the 1st half of 2009 its investments into the Russian economy by 3.8 times down to USD 2.9 billion. Over the period under consideration it was observed that the investments from the Netherlands (by 37.1% down to USD 3.6 billion), the UK (by 4.8 times, down to USD 2.2 billion), from Germany (by 13.6%, down to USD 2.9 billion) and France (by 55%, down to USD 1.1 billion) decreased.

The structure of investments from three leading countries whose investors directed the biggest amount of capital in the Russian economy in the 1st half of 2009 as broken by branches of industry can be represented in the following way:

Table 3

STRUCTURE OF FOREIGN INVESTMENTS FROM THE LEADING CAPITAL EXPORTING COUNTRIES IN THE 1ST HALF OF 2009 (DATA FOR THE 1ST HALF OF 2008 ARE PRESENTED IN BRACKETS).

	Luxembourg		Netherlands		Cyprus	
	As percentage to the total	As percentage to the total investments into the branch	As percentage to the total	As percentage to the total investments into the branch	As percentage to the total	As percentage to the total investments into the branch
Processing industry	5.1 (no data)	3.0 (no data)	6.2 (8.4)	2.4 (3.6)	13.6 (11.0)	4.2 (8.9)
Trade and catering	61.0 (65.8)	40.9 (11.2)	56.1 (no data)	25.3 (no data)	9.5 (34.0)	3.4 (27.3)

Table 3, cont'd

	Luxemburg		Netherlands		Cyprus	
	As percentage to the total	As percentage to the total investments into the branch	As percentage to the total	As percentage to the total investments into the branch	As percentage to the total	As percentage to the total investments into the branch
Transport and communication	17.6 (8.6)	14.5 (17.9)	no data	no data	4.9 (1.5)	2.2 (15.1)
Minerals extraction	no data (16.7)	no data (8.4)	19.2 (29.5)	18.6 (37.0)	26.4 (6.7)	20.5 (16.0)
Operations with real estate, rent and services rendering	8.5 (no data)	17.1 (no data)	no data	no data	17.0 (25.4)	18.2 (38.7)
Financial activity	no data	no data	no data	no data	15.3 (6.8)	42.7 (44.0)

Source: Federal State Statistics Service

In the 1st half of 2009 10 biggest investing countries accounted for 83.6% of foreign investments into the Russian economy accumulated by July, 1 (86.6% in the 1st half of 2008), including: 80.1% (86.9% in the 1st half of 2008) of direct accumulated investments, 96.9% (92.6%) and 85.0% (86.0%) of portfolio and other accumulated investments, correspondingly.

As compared with the data by the end of June 2008 the biggest growth of accumulated foreign investments (by 1.5 times) was observed for those from France, and the biggest drop – for those from Cyprus (by 29.1%).

Table 4

CHANGE IN THE ACCUMULATED FOREIGN INVESTMENTS AS BROKEN BY LEADING INVESTING COUNTRIES AS ON 01.07.2009 Г.

	As percentage to 01.07.2008				As percentage to 01.01.2009			
	Total	Direct	Portfolio	Others	Total	Direct	Portfolio	Others
USA	84.9	84.3	82.0	85.8	91.1	86.2	129.8	89.2
Germany	122.8	128.0	48.1	119.6	93.3	93.7	50.0	93.1
France	148.4	118.9	383.3	158.2	103.8	104.4	by 23 times	103.4
UK	78.4	89.8	89.3	75.4	79.8	79.0	94.1	78.5
Cyprus	70.9	61.6	82.0	99.4	70.8	63.0	106.0	885.6
Luxemburg	120.3	127.8	78.0	120.6	106.7	80.4	96.0	107.8
Other countries	124.0	116.1	120.2	129.8	102.2	87.6	155.8	81.2
Total	100.1	81.1	169.3	115.0	91.6	77.6	207.7	99.4

Source: Federal State Statistics Service

MARKET OF THE REAL ESTATE IN THE RUSSIAN FEDERATION

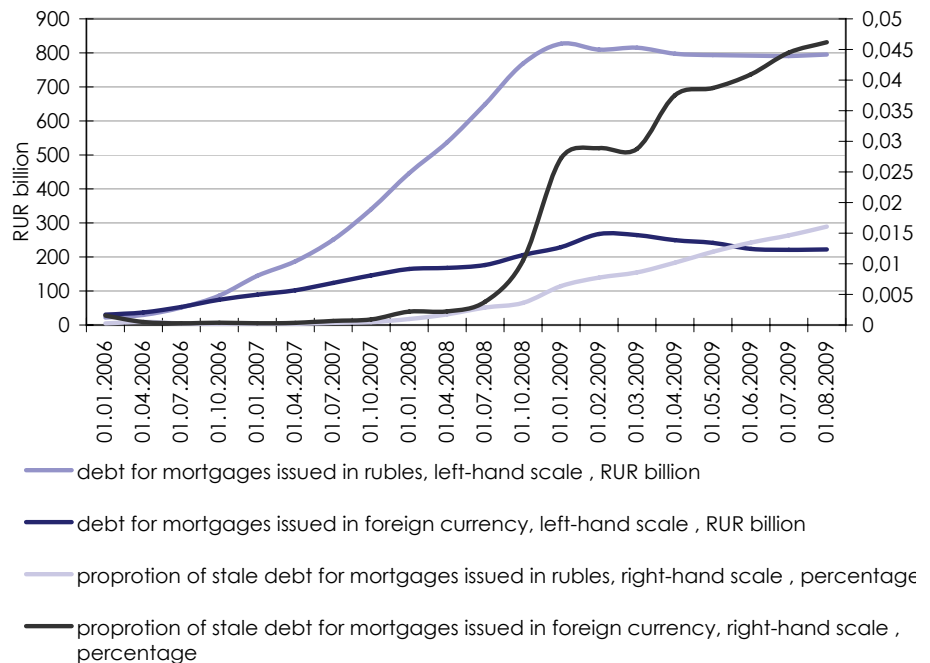
G.Zadonsky

In September 2009 open joint-stock company Agency for Home Mortgage Lending (AHML) reduced the basic interest rate for refinancing of the standard mortgages from 10.8% to 10.55%. The stale debt for housing credits and mortgages continues to increase. The mortgages are concentrated in a small number of large banks, AHML dominating at the market of refinancing of the mortgages. The costs of construction went up by 23% versus the 2nd quarter 2008, and the price at the primary market – by 3.9%.

Over the first seven months of the current year, according to the data of the Central bank of the Russian Federation, there were 76 039 housing credits of RUR 1 197.885 billion and 54 726 mortgages of RUR 1 017.142.

The reduction of the volumes of outstanding debt both for mortgages and for housing credits that was observed in July 2009 ceased.

The stale debt, in contrast, continued to grow both in volume and compared with the outstanding debt. As on August, 1st the stale debt for housing credits increased up to 2.09% of the outstanding debt and made RUR 25 074.0 million; the stale debt for mortgages went up to 2.26% and made RUR 23 028.0 million. Starting with September 15, 2009 the refinancing rate of the bank of Russia was lowered by 0.25 percentage point down to 10.5% per annum. From September 15, 2009 open joint-stock company Agency for Home Mortgage Lending (AHML) reduced the basic interest rate for refinancing of the standard mortgages from 10.8% to 10.55%. Taking into account the changes made the threshold values of the rate are equal to the following – see *table 1*:



Source: data of the Central Bank of the Russian Federation

Fig. 1. Dynamics of Outstanding and Stale Debt for Mortgages Issued in Rubles and in Foreign Currency

Table 1

THRESHOLD VALUES OF OJSC AHML, AS PERCENTAGE

	The private insurance being present	There being no private insurance
Minimal value	10.55	11.25
Maximal value	12.51	13.21

Source: AHML data

According to the data of the Central Bank of the Russian Federation, the average weighted interest rate for the mortgages issued in rubles and for the credits issued within the month remained the same as in June and were equal to, correspondingly, 14.65 and 14.7%. The average weighted interest rate for the mortgages issued in foreign currency from the beginning of the year went down from 13.5% to 13.3% in June. The average weighted interest rate for the housing credits issued in rubles since the beginning of the year went up from 12.6% to 12.8%, and for the credits in foreign currency – reduced from 13.8% to 13.7%. The average weighted interest rates for the credits refinanced by AHML from the beginning of the year reduced down to 14.17% and for those refinance over the month – down to 13.49%.– до 13,94%.

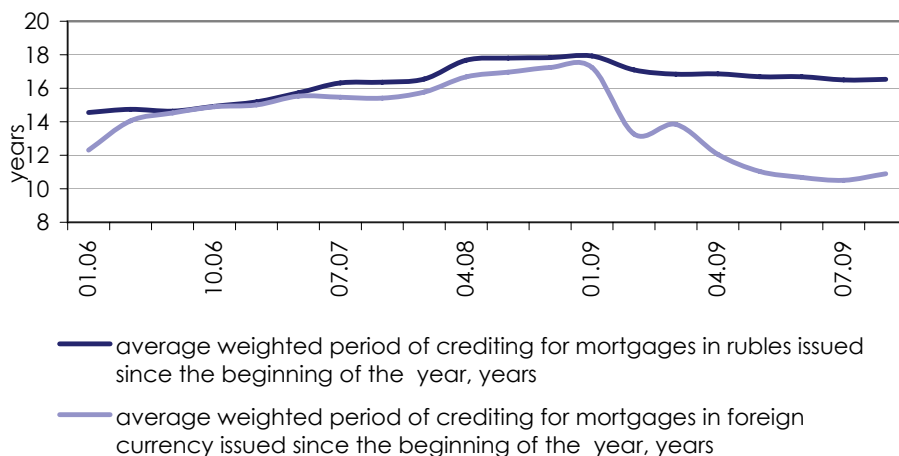
According to the data of Kreditmart the average market rate of mortgage credits decreased in August 2009 and made 20.29% (20.32% in July 2009). Over August the rates for mortgage products with floating rate reduced and made 19.13% (19.75% in July 2009) for mortgages in rubles and 9.66% for mortgages in US dollars (9.86% in July 2009).

Table 2

AVERAGE MARKET RATE OF CREDITS OFFERS, AS RUR

Credit product	cur- rency	2009					
		June		July		August	
		Min %	Max %	Min %	Max %	Min %	Max %
Credit for flat purchase at secondary market of housing	RUR	18.42	20.29	18.74	20.65	18.53	20.72
	USD	14.12	16.17	14.04	16.13	13.81	16.21
Purpose mortgage for the present object of immovable property	RUR	19.85	21.49	20.99	22.64	20.99	22.64
	USD	15.06	16.53	15.25	16.72	15.25	16.72
Credit for purchase of a house with a land plot at secondary market	RUR	18.31	19.76	18.57	20.31	18.57	20.31
	USD	15.27	16.75	15.49	17.04	15.49	17.04

Source: Kreditmart data



Source: data of the Central Bank of the Russian Federation

Fig. 2. Average Weighted Period of Crediting for Mortgage issued from the Beginning of the Year

credits. Average period for housing loans in rubles issued from the beginning of 2009, according to the data of the Bank of Russian, is maintained at the level of 14.8 years (187 months), and for loans in foreign currency went up from 8.36 to 8.63 years (103.5 months). The data for mortgages are presented in *fig. 2*. The distribution of the banks that issued mortgages in the 1st and 2nd quarter 2009, ranked according to the amount of assets is presented in *table 3*.

The proportion of the foreign currency in stale debts and in the volume of issued mortgages still demonstrates the trend for the decrease and, according to the data of the Bank of Russia, made 21.83% and 6.39%, correspondingly, by July, 1st. The proportion of the foreign currency in debt and in the volume of issued housing credits is at the level of 20.0% of the debt and remains at the level of 6.9% in June and in July in the volume of issued housing

Table 3

NUMBER OF CREDITING ORGANIZATIONS THAT ISSUED MORTGAGES IN 2009, BROKEN BY GROUPS OF ORGANIZATIONS

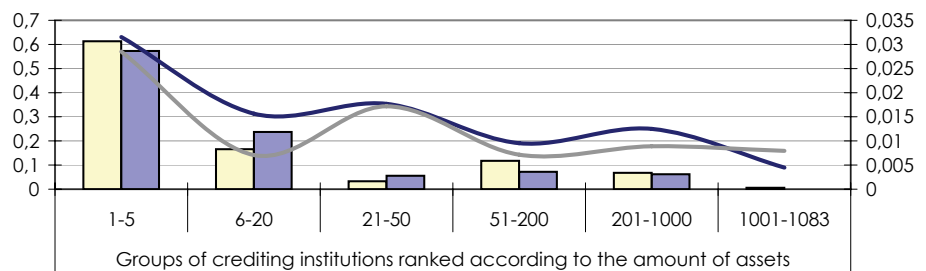
Number of banks in the group	Groups of crediting organizations, ranked according to the amount of the assets (descending)						Итого
	1–5	6–20	21–50	51–200	201–1000	1001–1083	
Number of crediting organizations that issued mortgages in the 2 nd quarter, units	5 out of 5	14 out of 15	23 out of 30	117 out of 150	398 out of 800	11 out of 83	568
Number of crediting organizations that issued mortgages in the 1st quarter, units	5 out of 5	15 out of 15	22 out of 30	117 out of 150	400 out of 800	10 out of 83	569

Source: data of the Central Bank of the Russian Federation

According to the data of the Central Bank of the Russian Federation, as on July 1, 2009 61.33% of the volume of issued mortgages was concentrated in five largest banks: Sberbank, VTB-24, Bank of Moscow, Rosselkhozbank, Gazprombank.

Next group of 15 banks (Alfa bank, Raffeisen bank, Uralsib etc.) accounts for 16.59% of the volume of issued mortgages, whereas the share of the most numerous group (800 banks) account for only 6.79%. The leading group of the banks have the quality of the mortgages is the worst, the proportion of stale debt being 3.15% of the volume of the debt, other groups having less than 2% of such. In August 2009 AHML refinanced 1 766 mortgages at the sum of RUR 1 706.55 million.

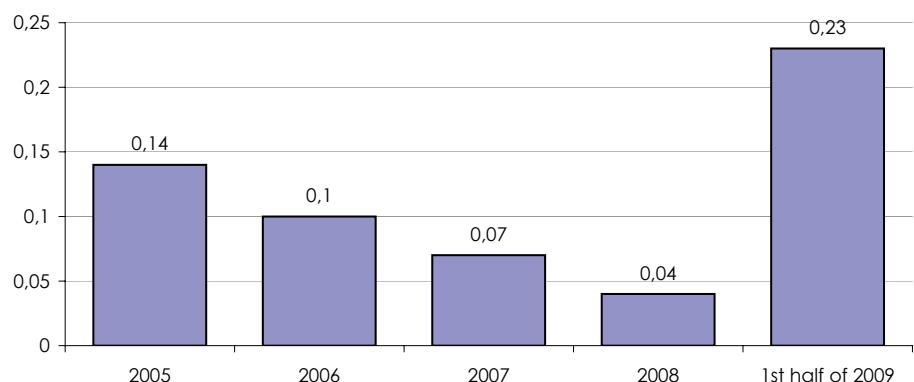
As on September 18, 2009 the Agency refinanced 152 385 of mortgages of the sum fo RUR 122.468 billion according to their Standards. In the environment of the crisis the mortgages continue to concentrate in the OJSC Agency for Home Mortgages Lending (fig. 4).



Legend for Figure 3:
 - Yellow bar: Share of the group in the amount of mortgages issued in the 2nd quarter 2009, as percentage, left-hand scale
 - Blue bar: Share of the group in the amount of mortgages issued in the 1st quarter 2009, as percentage, left-hand scale
 - Dark blue line: Share of stale debt in outstanding debt in the group as on 01.07.09, as percentage, right-hand scale
 - Grey line: Share of stale debt in outstanding debt in the group as on 01.04.09, as percentage, right-hand scale

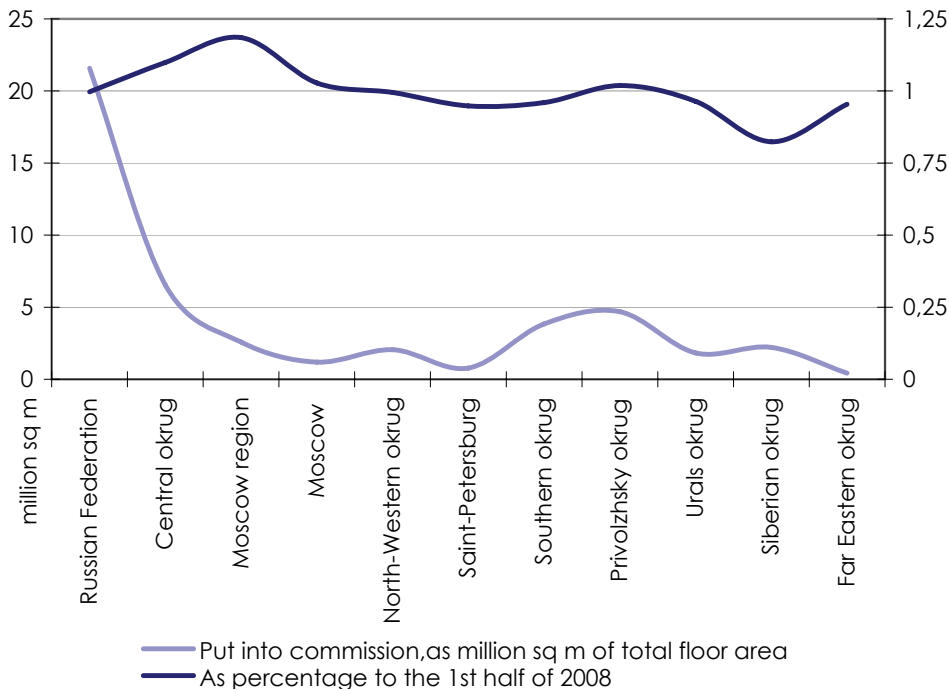
Source: data of the Central Bank of the Russian Federation

Fig. 3. Dynamics of Issued Mortgages and Stale Debt by Groups of Crediting institutions Ranked According to the Volume of Assets in the 1st half of 2009



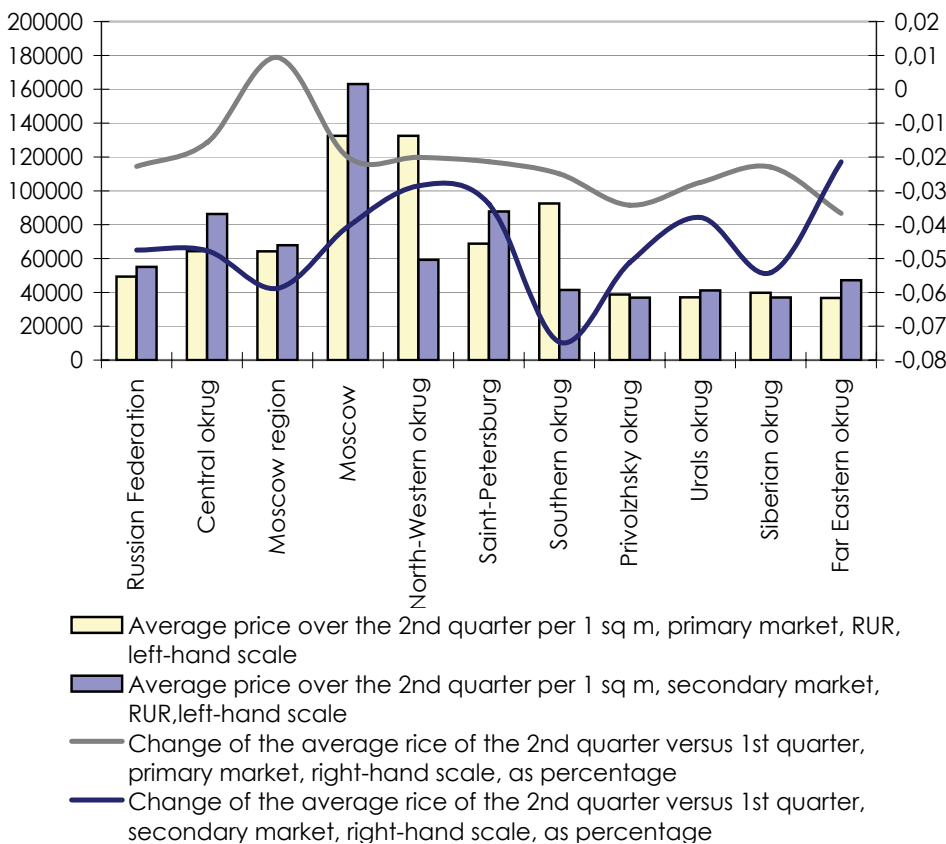
Source: data of the Central Bank of the Russian Federation and AHML, calculations by AHML

Fig. 4. Share of AHML at the Market of Mortgages



Source: data of the Federal State Statistics Service

Fig. 5. Construction of Housing in the 1st half of 2009, as Broken by Subjects of the Russian Federation



Source: data of the Federal State Statistics Service

Fig. 6. Average Prices at Housing Market Over the 2nd Quarter 2009 per 1 sq m, as Broken by Subjects of the Russian Federation and their Change versus the 1st Quarter 2009

As on July 1, 2009 the debt for the purchased claims for mortgages by the crediting organizations made, according to the data of the Central Bank of the Russian Federation RUR 107 776.0 million.

In July 2009 organizations of all form of property built 44.6 thousand of new flats, in January-July 2009 – 278.5 thousand of flats of the total floor area of 21.58 million of sq m, which made 99.7% of the total floor area made in the 1st half of 2008. Over the 1st half of 2009 only Central federal okrug exceeded the figure for the same period of 2008 (fig. 5). According to the data of the Federal State Statistics Service, average prices at the market of housing per 1 sq m of the total floor area reduced in the 2nd quarter versus the 1st quarter by several percentage points, excluding the growth of the price for 1 sq m at the primary market of Moscow region (fig. 6).

According to the data of the Federal State Statistics Service, average real price of construction of housing over the 2nd quarter 2009 went up by 23% as compared with the corresponding period of 2008 (table 4),

whereas the average price of housing at primary market over the same period decreased by 3.9%.

Table 4

AVERAGE REAL COST OF CONSTRUCTION OF 1 SQ M OF THE TOTAL FLOOR AREA OF
RESIDENTIAL BUILDINGS, RUR

	Residential accommodation buildings without additional buildings, storey and built-in rooms and not taking into account residential buildings built by the population at the expense of own and borrowed		
	total	In rural area	In towns and urban settlements
2008			
1 st quarter	21720	22056	21707
2 nd quarter	23360	24219	23336
1 st half of the year	22612	23038	22598
3 rd quarter	26475	27759	26420
January-September	24200	25270	24161
4 th quarter	28692	26173	28868
Year	26622	25886	26662
2009			
1 st quarter	28814	28597	28826
2 nd quarter	28763	29994	28673
1 st half of the year	28790	29358	28754

Source: data of the federal State Statistics Service

The Government of the Russian Federation adopted the decision on giving next tranche of the state guarantees to the Agency on Home Mortgage Lending for RUR 36 billion. It is also envisaged to increase the period of credits that AHML can receive from Vnesheconombank from 5 to 10 years. The Agency plans to spend the means of Vnesheconombank (credit line of RUR 40 billion) on the program for construction of the housing of economic class according to the following scheme: AHML will give credits to the banks at the rates of 12-15% per annum, the banks will give the means to the borrowers and after the house is put into commission the sale of flats will start, including on mortgage contracts. It is planned to give the purpose loans to the banks for the period of up to 18 months, but the return of the means after the end of construction envisages the return supply of the AHML with the mortgages. Correspondingly, the Agency will return credits to Vnesheconombank from the means obtained from the paying off the mortgages taking into account pre-term repayment.

The Government of the Russian Federation adopted the Decree no 732 from 14.09.2009 “On maximum rate of payment for the issue of the extracts on buildings, constructions, premises or on the object of unfinished construction, which state technical registration took place before the Federal Law “On state cadastre of immovable property” came into effect by the body or institution in charge of storage of the registration and technical documentation”.

The State Duma adopted the Law prolonging the effect of “country-house amnesty” for another five years up to March 1, 2015.

VTB 24 attracted about RUR 6 billion for 3 months through REPO of the Central Bank on collateral of its ruble mortgages. At the site of VTB 24 there appeared a list of 307 mortgage flats that can be purchased from the borrowers who have difficulties and take on conditions of mortgage.

In September 2009 the Mortgage Agent of the Moscow Bank for Reconstruction and Development placed two issues of mortgage securities with the mortgage cover of A and B

classes of the total sum of RUR 2 217 293 thousand. The rate of the coupon of senior issue, which has the guarantee of AHML, makes 8%.

Courts of general jurisdiction refuse to accept claims on exaction of debt from the banks to the troublesome borrowers by the place of the registration of the banks in a number of cases, despite there being a statement that the disagreements between the bank and the borrower are to be solved by the place of the registration of the banks in the contract in a number of cases. A number of lawyers consider such statements in the agreement as shackling.

The Central Bank is going to abolish the norm N19, which earlier prevented many large retail bank, whose volume of deposits exceed 50% of the capital, from issuing mortgage bonds. ●

SPECIFICS OF INSURANCE CONTRIBUTIONS TO NON-STOP BUDGETARY FUNDS ADMINISTRATION

A.Kireeva

In July 2009 the Federal Law No.212-FZ of 24.07.2009 “On the insurance contributions to the Pension Fund of the Russian Federation, Social Insurance Fund of the Russian Federation, the Federal Fund for Mandatory Medical Insurance and Territorial Funds of Mandatory Medical Insurance”, implying among other things, changes in administration of payments, addressed to the non-budgetary funds. The new method of administration of insurance contributions needs refinement and improvement, in particular, improvement is needed in terms of strengthening the guarantees of small businesses’ rights , reduction the time frames of field audits, carried out in regard to this category of taxpayers, establishing rules for mandatory suspension of execution of decisions of non-budgetary funds for the period of appeal (both judicial and extrajudicial).

One of the most significant developments in the fiscal area this summer was the replacement of the Unified Social Tax by individual «insurance contributions» to the non-budgetary funds, which occurred as a result of the Federal Law No. 212-FZ as of 24.07.2009 «On the insurance contributions to the Pension Fund of the Russian Federation, Social Insurance Fund of the Russian Federation, Federal Fund for Mandatory Medical Insurance and Territorial Funds of Mandatory Medical Insurance». Let us regard the specifics of these contributions to the non-budgetary funds administration, significantly different from «tax» payments, deducted according to the RF Tax Code provisions. The main difference between contributions for non-budgetary funds from taxes, collected according the standards of the RF Tax Code, is their individual onerousness (their amount is important, for example, in the assessment of the amount of insurance and accumulative parts of pensions).

Moreover, insurance contributions, unlike other taxes, are not the revenue of total coverage and have an explicit targeted purpose. Due to their non-tax nature, they are not covered by the Tax Code and the provisions of Part 1 of the Tax Code, relating to the administration of fiscal payments, are not related to insurance contributions to the non-budgetary funds.

For this reason, the legislator had to repeat all basic provisions of Part 1 of the Tax Code in the text of the Federal Law No. 212-FZ as of 24.07.2009 «On the insurance contributions to the Pension Fund of the Russian Federation, Social Insurance Fund of the Russian Federation, Federal Fund for Mandatory Medical Insurance and Territorial Funds of Mandatory Medical Insurance» (hereinafter - the Law).

In the process of forming of a new system of insurance contributions’ administration it was necessary to decide the following questions:

- what authorities should be authorized for the administration;
- what is their scope of authority for the enforced collection of taxes and prosecution they should be granted;
- what procedural benefits should be granted to the representatives of small business.

In principle, there are several options for the allocation of authority for administration of compulsory insurance contributions (for details, see our paper “Tax Administration. The main outcomes of the reform”¹):

- insurance contributions are administered by a tax authority. An attempt to implement this approach was taken with the introduction of the UST. After that tax introduction, authorities of non-budgetary funds have lost a significant share of the powers connected with registration of taxpayers and control over their activities, and since 2006 non-budgetary authorities were completely deprived of their tax relations members’ status. Herewith, the idea of transferring all administration powers to the tax authorities has been realized inconsistently, because Pension Fund, without any rights to effect field audits, still retained the right to collect the arrears and bring taxpayers to responsibility².

- Insurance contributions are administered jointly by a tax authority and non-budgetary funds. In fact, this very model was used during the existence of the UST.

- Each of these options has serious failures, but the most unfavorable to the taxpayers is the option, when the bodies of non-budgetary funds are able to administer the payments themselves.

Providing the non-budgetary funds the power for administration of insurance payments, firstly, leads to a sharp increase of the administrative burden on organizations and individual entrepreneurs. Thus, if previously they had to implement the Law with one supervising body, now their number is tripled. Total duration of control and verification activities in regard to one person also increases. In 2006, due to increased restrictions in regard to the frequency of tax audits³, verifying tax authorities have moved from targeted to a predominantly comprehensive audits, which cover both, payments to non-budgetary funds and other taxes. However, currently the inspections verifying insurance contributions acquire the nature of additional targeted tax audits.

The taxpayers’ risks, connected with the enforced collection of debts increases as well: if before the right to commit these actions belonged only to one body, now it belongs to a number of them. The volume of reporting, which should be presented by the taxpayer for business accounting, is increased as well. If within the UST effect (until 01.01.2010) information, necessary for the individual business accounting was to be filed once a year by March 1, in 2010 the documents should be submitted twice a year (the reporting periods are established for six months and a calendar year), and since 2011, information should be provided four times a year (quarterly, by the 1-st day of the second calendar month, following the reporting period)⁴.

Secondly, transfer of administration and supervision responsibilities to non-budgetary funds involves an extension of the staff number (because they need to recruit their own staff of inspectors). Therefore, in turn, it entails additional administrative costs for the state. According to some experts⁵, only Pension Fund staff (without taking into account the needs of the Federal Social Service (FSS)) will need to be extended by 10 thousand public officers. Herewith, their «automatic» transfer from tax inspections is unlikely, because tax inspectors monitor not only UST payments, but a number of other taxes as well.

1 «Tax administration. Basic results of the reform.» Zolotareva A.B., Kireeva A.V., Kornienki N.Yu., edited by Sinelnikova-Muryleva S.G. and Trunina I.V., 3 volumes. – M.: IET. 2008.

2 On the basis of Article 25 of the Law No. 167-FZ as of December 15, 2001 “On Mandatory Pension Insurance in Russia”.

3 No more than two field audits per year.

4 See Para. 2 of Art. 11 of the Federal Law No. 27-FZ as of 01.04.1996 “On the individual (personalized) registration in the system of compulsory pension insurance”

5 In particular, experts of “Pepelyaev, Goltsblat and Partners” company. See, eg., <http://taxpravo.ru/news/taxpravo/article2157532125308565586421631567279>

Nevertheless, administration of compulsory insurance contributions according to the Federal Law No. 212-FZ as of 24.07.2009 is passed right to the non-budgetary funds.

Since 01.01.2010, according to Part 1 of Art. 3 of the Law, the authority to control the correctness of assessment, completeness and timeliness of payment (transfer) of insurance contributions should be performed by:

- the RF Pension Fund and its local agencies - in regard to insurance contributions for compulsory pension insurance, paid to the RF Pension Fund and insurance contributions for compulsory health insurance, paid to the fund of mandatory medical insurance;

- the RF Social Insurance Fund (SIF) and its local agencies, related to insurance contributions for compulsory social insurance for temporary disability and maternity, paid to the RF Social Insurance Fund. Mandatory medical insurance funds (federal and local ones), in contrast to the Pension Fund and the FSS, have no independent authority to administer the insurance payments. From an economic point of view, there is no logic in such a distribution of powers, but this can partly be explained by the practice in the period of UST. During this period, as noted above, the Pension Fund and the FSS had separate powers of administration, whereas health insurance funds had none.

In view of necessity to define the scope of authority and responsibilities of supervising authorities, the Law has duplicated provisions of Art. 31 and 32 of the RF Tax Code in regard to the powers, provided to the tax authorities. Thus, the bodies of non-budgetary funds have got the right to:

- carry out desk and field audits;
- collect arrears, penalties and interest at the expense of cash assets and property of the taxpayer. As a general rule, collection is performed through the court (except for cases, stipulated in paragraph 4 of Art. 18 of the Law)¹;

- assess the amount of insurance contributions, payable to the funds by estimated way (i.e., with a possibility of reconciliation)²;

- apply to the court with a petition, a list of which is open (they have the right to sue «in other cases, stipulated by federal laws on specific types of compulsory social insurance»);

- lay a claim to the court for the bankruptcy of the taxpayer. Earlier, the right to represent interests of the Russian Federation in the affairs of the bankruptcy belonged exclusively to the tax authorities, which seems to be right: the tax authorities register and liquidate legal entities, as well as on the rights of the creditor and on behalf of the State they are involved in making decisions on the application of bankruptcy procedures. For comparison, Art. 408 of the Customs Code does not provide the custom authorities the right to claim for bankruptcy of an entity, having arrears in tax payments, but non-budgetary funds for some reason have got this right.

All of basic procedural shortcomings were transferred from the Tax Code to the new Law, including the following ones:

- there are no time limits on arrears from non-payment or partial payment of insurance contributions;

- there is no procedure for writing off bad debts;

1 Those cases include cases of transactions requalification, as well as cases of recovery of arrears from the parent or subsidiary companies, the accounts of which accumulated earnings of the debtor.

2 Reconciliation is made on the basis of available information about the insurance contributions payer, as well as data on other similar payers of insurance contributions in case of the payer's refusal to provide access to officials of the supervising authority over the payment of premiums to the site (office), of the payer, absence of insurance payer or improper records keeping in violation of the established order, making it impossible to estimate insurance contributions.

- there is no "waiting period", necessary to complete the recovery of debts from the accounts of the organization and the transition to recovery at the expense of its property. The lack of this period provides an opportunity to recover such debts at the expense of the property immediately after their occurrence;

- the rules relating the liability of officers of non-budgetary funds for the damage caused to the audited entities are not clearly defined;

- Art. 42 of the Law stipulates the establishment of the forms of intent to commit an offense. According to Art. 40 of the Law, violations may be committed intentionally or by negligence. However, the officials of non-budgetary funds (outside of criminal investigations) are unable to establish the form of intent. Therefore, the establishment of legal relationship between the form of intent and the fine for non-payment of contributions is not applicable;

- Art. 45 of the Law provides a basis for a suspension limitations term for violations related to insurance contributions payment, such as "Law resistance" to the audit (Paragraph 2 of Art. 45 of the Law No. 212-FL is similar to Para. 1.1. of Art. 113 of the Tax Code). Since the legislators did not disclose, what exactly is meant by active resistance, this concept can be interpreted arbitrarily. Consequently, there are risks of violations of the rights of contributions payers.

There are also distinct disadvantages in the Law, not typical to the tax laws. In particular, the Law:

- allows the concurrent review of the decision to involve the payer to liability and to a higher authority, and the court, which creates the risk of making mutually exclusive decisions by different authorities and increases the administrative costs of the state (Para. 2, Article 54 of the Law). For comparison, Para. 5 of Article. 101.2 of the Tax Code establishes a mandatory pre-trial appeal against the taxpayer liable to tax authorities. According to this paragraph, the decision on the prosecution for tax offenses, or the decision to refuse the prosecution of tax offenses may be subject to judicial review only after an appeal to the tax authorities. In case of an appeal such decision through the courts the term to sue is estimated from the date when the person against whom the decision was issued learned of its entry into force;

- contains no regulations on mandatory suspension of enforcement of decisions of non-budgetary funds for the term of appeal review. (For comparison, such regulations appeared in the Tax Code since 2006. According to Art. 101.2 of the Tax Code, appeals on the decisions of the tax authority, not entered into force, suspend execution thereof);

- contains no provisions governing the procedure of information request about the payer from the third parties (the right of tax authorities to obtain information about the taxpayer is established by Art. 93.1 of the Tax Code. Non-budgetary funds, in contrast to the tax authorities, are not granted this right. They can obtain documents only from the audited entity on the basis of Art. 37 of the Law).

- Contains no provisions governing the exchange of information with law-enforcement agencies (there is no legal equivalent to Para. 3, Article 32 of the Tax Code and Art. 36 of the Tax Code). Since the duty to report to the law-enforcement agencies about the facts of detected large arrears on insurance contributions in regard to the bodies of non-budgetary funds is not defined, they are able to Law at their own discretion. This, in turn, increases the risks of corruption;

- contains no provisions constituting the presumption of innocence (or honesty) of the payer (in Para. 7 of Art. 3 and Para. 6 of Article. 108 of the Tax Code, unlike the Law, such rules are explicitly defined).

Evaluating the specifics of payments to non-budgetary funds administration, it should be noted that the Law partially comprised the principles outlined in the earlier adopted

Federal Law No. 294-FZ as of 26.12.2008 "On Protection of Rights of Legal Entities and Individual Entrepreneurs in the procedure of the state and municipal control (supervision)".

Thus, this law was followed by the Law No. 212-FZ, stipulating that field audits should be carried out no more frequently than once in three years (according to the Tax Code - not more than twice a year). However, it did not set up the limit, stipulated by the Law "On protection of legal entities rights..." in terms of grounds for unscheduled audits. The Law No. 212-FZ does not contain the concept of an unscheduled audits. According to Para. 3, Article. 33 of the Law, the local agencies of the RF Pension Fund and the local agencies of the RF Social Insurance Fund conduct field audits of insurance contributions payers *on the basis of annual plans, jointly developed by these bodies* for field audits of insurance contributions payers. However, this does not mean that the possibility of conducting unexpected audits is impossible.

Also from the Tax Code there were transferred the regulations regarding the order of the extension of field audits, which were incompliant with the logics of the Law "On protection of legal entities rights ...". If the Law "On protection of legal entities rights..." admits the possibility of extending the audit for very short term (no more than 20 days), Para. 18 of Art. 35 of the Law No. 212, following Art. 89 of the Tax Code indicates that a field audit may be suspended and, therefore, extended the total term of up to 6 months.

Law No. 212-FZ did not include the provision of the Law "On protection of legal entities rights ..." on enhanced protection of the interests of small business during audit activities. Thus, according to the Law "On protection of legal entities rights..." spontaneous audits of small business entities should be authorized by the prosecutor's office, the timeframes of the planned field audits can not exceed fifty hours per year for small businesses and fifteen hours for individual entrepreneurs. In exceptional cases this term can be extended to small businesses and individual entrepreneurs for fifteen hours maximum (Article 13 of the Law).

There are no individual requirements to the field audits in regard to small businesses and other entities in the Law No. 212-FZ. It is necessary to draw attention to the following issue. The Law "On protection of legal entities rights..." is applicable to all types of audits, conducted by state and local authorities, except for tax audits, as well as some other audits, the list which is established by Para. 3, Article 1 of the Law "On protection of rights ...". Since the audits, conducted by non-budgetary funds are not tax audits, and are not identified as an exception to the general rule in Para. 3 of Art. 1 of the Law "On protection of legal entities rights...", we can assume that this law should apply to them in full. However, as was shown above, these two laws regulate the audit procedure in different ways. Therefore, we can conclude that there are inconsistencies between these two laws in terms of the level of guarantees of the rights of audited entities.

Taken together, the above suggests that the new order of administration of insurance contributions is incompliant with the general logics of the reforms in tax administration policy, pursued over the past ten years. If in the process of other administrative reforms (not only in the tax area) the legislator proceeds from the need to transfer to the system of cooperation between state agencies and citizens, based on the principle of "one window", here there is a clear waiver from this principle. On the basis of the reviewed data, now it is difficult to make definite conclusions, in whose interests the reform of insurance premiums administration is implemented. However, we can assume that all participants of the legal relationships related to collection of mandatory insurance payments in this situation are only extra-budgetary funds are interested, as they receive extra funding, more HR resources and, most importantly, the more influence on the audited organizations. It is difficult to say, if there are any benefits in it to the pension system in general, as well as to the social and mandatory health insurance.

In any case, a comparative analysis of the norms of tax legislation and legislation in the field of mandatory insurance suggests that the latter needs to be refined and improved. In particular, the refinement is desired in strengthening the guarantees of the rights of small businesses, reducing the timeframes of field audits carried out in regard to this category of taxpayers, development of regulations for mandatory suspension of execution of decisions of non-budgetary funds for the term of appeals review (both judicial and extrajudicial ones).

The issue of coordination of tax, law enforcement and extra-budgetary funds actions require additional regulations (currently, coordination is established only for jointly planned audits of the RF Pension Fund and Federal Social Service). In particular, the issue of plans development of comprehensive audits to be performed by non-budgetary funds should be reviewed. It is also necessary to regulate the exchange of information between law enforcement agencies and their possible involvement in the audits, performed by non-budgetary funds (similar to the way it is done during tax audits). ●

OIL AND GAS SECTOR

Yu.Bobylev

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

The contraction of the demand for oil in the developed countries as a result of the financial and economic crisis in the current year was compensated by the growth of the demand in the developing countries and primarily in China and the reduction of oil production in OPEC countries and other oil producing countries (Norway, the UK, Mexico). In recent years the recovery of the economic growth had a positive influence on the dynamics of oil prices. As a result world prices for oil have increased from USD 40 per barrel in December 2008 to USD 65-70 per barrel in September of the current year. In this environment at the OPEC conferences that took place in March, May and September it was decided to retain the quotas for the production of oil that were established from January 1, 2009 (in December 2008 OPEC adopted the decision to reduce oil production starting with January 1, 2009 by 4.2 million of barrels per day as compared with the level of September 2008). Versus the average level of the previous year the average price of Russian oil grade Urals at the world (European) market in January-September 2009 made 60% (table 1,2).

Table 1

WORLD PRICES FOR OIL IN 2007–2009, AS USD PER BARREL

	2007	2008 1 st quarter	2008 2 nd quarter	2008 3 rd quarter	2008 4 th quarter	2008	2009 1 st quarter	2009 2 nd quarter	2009 3 rd quarter (esti- mation)
Price for oil grade Brent, the UK	72.5	96.9	121.4	114.8	54.9	97.0	44.4	58.8	68.4
Price for oil grade Urals, Russia	69.4	93.3	117.5	113.2	54.1	94.5	43.7	58.1	68.2

Source: OECD International Energy Agency.

Table 2

AVERAGE MONTHLY PRICES FOR OIL IN 2009, AS USD PER BARREL

	2009 Janu- ary	2009 February	2009 March	2009 April	2009 May	2009 June	2009 July	2009 August	2009 1–24 Sep- tember
Price for oil grade Brent, the UK	43.6	43.1	46.5	50.3	57.5	68.6	64.6	72.8	67.9
Price for oil grade Urals, Russia	43.2	42.5	45.3	48.9	57.1	68.4	64.6	72.2	67.8

Source: OECD International Energy Agency.

In 2009 oil production in Russia after the period of the slow-down of its growth rates in 2005-2007 and the drop in 2008 has stabilized. In January-August 2009 the increase in oil production versus the corresponding period of the previous year made 0.4% (*table 3*). It was the start of exploitation of several large oil fields (in the north of the European part of the country and in the Eastern Siberia), decrease of the ruble exchange rate and coming into effect of a number of amendments to the Tax Code of the Russian Federation that are aimed to the alleviation of the tax load on the oil sector, stimulation of the deeper development of the oil fields in operation as well as the development of new oil fields had the positive influence on the dynamics of oil production. At the same time the production of gas dropped sharply (by 19.3% as compared with January-August of the previous year), which was the result of the decrease of the external and internal demand (the consequences of economic recession and relatively warm weather) as well as the forced reduction of gas supplies to Europe at the beginning of 2009 because of the conflict with Ukraine. In January-June 2009 the export of the natural gas reduced by 43.1% as compared with the corresponding period of the previous year (it should be noted that gas supplies to non-CIS countries reduced by 45%). The specific nature of gas pricing has played some role: world prices for gas follow the prices for oil with some lag which stimulated the importers to postpone the purchase of the Russian gas hoping to buy it at a lower price in future.

Table 3

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

	2002	2003	2004	2005	2006	2007	2008	2009 January- August*
Oil, gas condensate including	109.0	111.0	108.9	102.2	102.1	102.1	99.3	100.4
Primary oil processing	103.3	102.7	102.6	106.2	105.7	103.8	103.2	99.4
Car petrol	104.9	101.2	103.8	104.8	107.4	102.1	101.8	101.4
Diesel fuel	104.7	102.0	102.7	108.5	107.0	103.4	104.1	97.8
Furnace fuel oil	107.1	100.3	97.8	105.8	104.5	105.2	101.9	100.8
Natural gas	101.9	103.4	101.6	100.5	102.4	99.2	101.7	80.7

* As percentage versus January-August 2008

Source: Federal State Statistics Service

Despite the contraction of the demand for oil in Europe, which was accounted for by the economic recession, Russia managed to retain the achieved level of oil export. In January-June 2009 oil and oil products export in natural terms was even somewhat above the level of the corresponding period of the previous year. This may be accounted for by the decrease of oil supplies from other producers – Norway, the UK, OPEC countries. In Norway and the UK this is connected with the objective drop of oil production as a result of exhaustion of the exploited fields, in OPEC countries – with the execution of the decisions adopted by the cartel on the decrease of the volumes of oil production by its member countries.

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- June *
Oil, total	113.9	117.8	115.0	98.4	98.0	104.0	94.0	100.2
including: to non-CIS countries	109.9	118.9	116.3	99.1	98.0	104.8	92.6	101.3

Table 4, cont'd

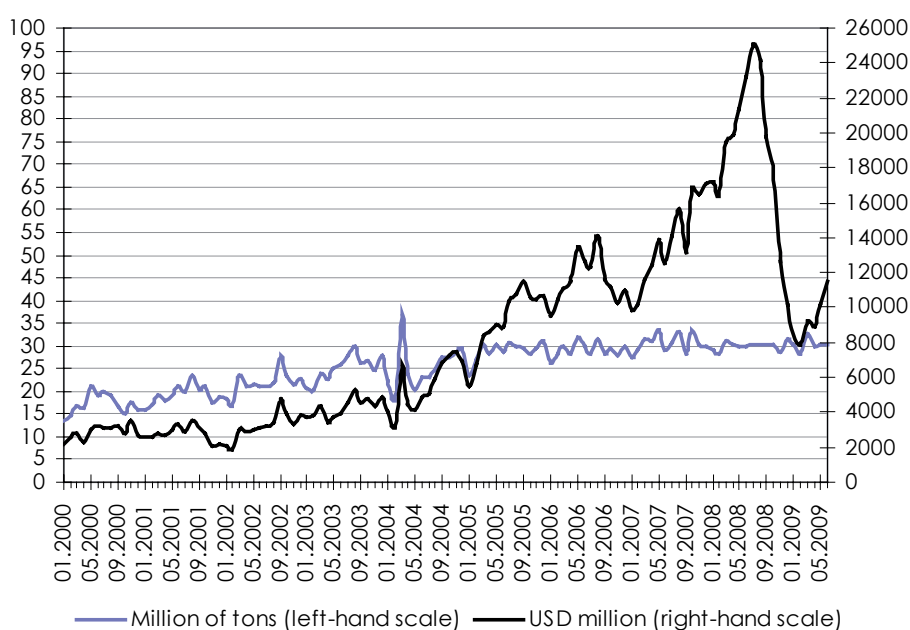
	2002	2003	2004	2005	2006	2007	2008	2009 January- June *
to CIS countries	137.3	112.4	108.3	94.9	98.0	99.4	102.6	94.2
Oil Products, total	118.5	103.6	105.5	117.9	106.3	108.0	105.0	105.8
including:								
to non-CIS countries	119.1	102.6	104.9	119.1	104.5	107.6	102.0	106.5
to CIS countries	102.8	132.3	117.9	94.6	148.8	115.3	152.2	98.8
Gas, total	102.4	102.0	105.5	103.7	97.6	94.6	101.8	56.9

* As percentage to January-June 2008
Source: Federal State Statistics Service

At the same time lower level of world prices for oil as compared with the previous year lead to a considerable drop of incomes from export. The total revenues from oil export in the form of the main kinds of oil products (car petrol, diesel fuel and furnace fuel oil) in January-June 2009 made USD 56.2 billion or 47.8% as compared with the corresponding period of the previous year (fig. 1).

Internal prices for oil and oil products (producers' prices) in dollar terms, which dropped significantly at the end of 2008 – the beginning of 2009 under

the influence of world prices for oil and ruble exchange rate, have been growing steadily in recent months and have significantly exceeded the level of the end 2008 (table 5). Internal prices for oil have also increased considerably. The gap between the levels of world and internal prices for oil is accounted for by the presence of the export duty rate and additional transport expenditures for export. Internal prices for gas remain in the sphere of the state regulation and are established by the government which pursues the policy of their step-by-step increase up to the level that will make the profitability of gas supplies to internal market and for export equal.



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

Fig. 1. Oil and Oil Products Export in Natural Terms and in Terms of Prices in 2000-2009

Table 5

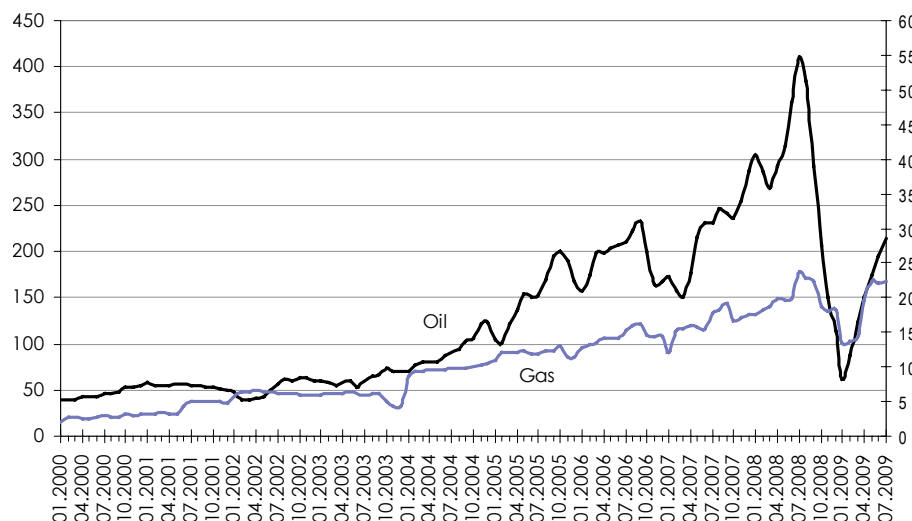
INTERNAL PRICES FOR OIL, OIL PRODUCTS AND NATURAL GAS IN DOLLAR TERMS IN 2005-2009
(AVERAGE PRODUCERS' PRICES, AS USD PER TON)

	2005 December	2006 December	2007 December	2008 December	2009 January	2009 March	2009 June	2009 July	2009 August
Oil	167.2	168.4	288.2	114.9	62.2	122.9	194.7	213.4	213.2
Car petrol	318.2	416.5	581.2	305.1	244.3	318.8	481.5	523.5	546.2
Diesel fuel	417.0	426.1	692.5	346.5	306.2	343.1	382.1	337.4	378.4

Table 5, cont'd

	2005 Decem- ber	2006 Decem- ber	2007 Decem- ber	2008 Decem- ber	2009 Janu- ary	2009 March	2009 June	2009 July	2009 August
Furnace fuel oil	142.7	148.8	276.5	125.0	107.2	145.9	210.8	230.7	251.9
Gas, USD/ thou cu m	11.5	14.4	17.6	18.1	13.5	14.5	22.0	22.5	21.8

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



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

Fig. 2. Average Producers' Prices for Oil and Gas in Dollar Terms in 2000–2009, USD per ton, USD per thou. cu. m

In 2009 the amendments to the Tax Code of the Russian Federation aimed at the reduction of the tax load on oil sector of economy. The change in the formula for calculation of the coefficient C_p that reflects the dynamics of the world prices for oil and applied to the basic rate of severance tax when producing oil, as well as the decrease of the basic rate of the severance tax in real terms as a result of the inflation have considerable lowered the applied severance tax

rate. Besides, starting with the current year the requirement for the application of the direct method for the control of the quantity of the produced oil at particular subsoil plots for the application of the established severance tax privileges for the oil fields with a high level of exhaustion was excluded, which allowed to apply the privileges mentioned for all the exhausted oil fields. In order to create necessary conditions to develop new oil fields the sphere of application of tax vacations from the severance tax has been considerably broadened. Starting with this year the oil fields in the territory of Nenetsk autonomous okrug and Yamal peninsula, at the continental shelf of the Russian Federation to the north from the Northern polar circle, as well as in Azov and Caspian seas were ascribed to the oil fields subject to this privilege.

In July 2009 the additional measures for tax stimulation of oil production were adopted. According to the decree of the Government of the Russian federation from July 16, 2009 no 574 a special reduced export duty rate for oil produced in the Eastern Siberia at the rate of 5% of the customs value of the exported oil for the period of up to 9 months from the moment of its coming into the effect (in 2 months after the date of promulgation). At the end of July the Presidium of the government of the Russian Federation approved the project of amendments to the Tax code of the Russian Federation in concordance with which the tax vacancies from the severance tax are granted for the development of the oil fields situated in water area of Black and Okhotsk seas (for the oil fields in the Black sea till the accumulated oil production in the subsoil plot reaches 20 million of tons or for the period of 10 or 15 years depending on the kind of the license for the right to use subsoil, for the oil fields

in Okhotsk sea – till the accumulated volume of oil production reaches 30 million of tons or for the period of 10 or 15 years).

On August 21, 2009 at the meeting in Krasnoyarsk krai the Chairman of the Government of the Russian Federation, V. V. Putin, commissioned the federal executive bodies with the preparation of the projects of legislative acts on distribution of zero severance tax rate I the whole territory of Yamalo-Nenetsk okrug (at present this privilege is established only for the oil fields in the territory of Yamal peninsula). As it is assumed, this privilege will be granted in the form of tax vacancies and may come into effect starting with 2010.

In the nearest future it is expected that the level of world prices for oil will remain quite favorable for the Russian oil producers. According to the forecast of the USA Department of Energy, published in September. The world price for oil defined as the average price of oil basket imported into the USA will make USD 66.7 per barrel in the 4th quarter 2009 and USD 69.4 per barrel in 2010. ●

MUNICIPAL REFORM: AN ONSLAUGHT OF THE “VERTICAL OF POWER”

I.Starodubrovskaya, N.Mironova

The summer and autumn of 2009 saw the launching of the mechanism of practical implementation of both the previously adopted decisions on curbing the autonomy of municipal formations and the new initiatives in this sphere. Thus, there was the coming into effect of Article 71.4 of the Federal Law “On the General Principles of the Organization of Local Self- Government in the Russian Federation” which envisages an extrajudicial procedure for dismissing the heads of municipal formations. There were precedents of local self-government bodies being elected under the party-list system even at the rural settlement level. At the same time the authorities put forth new initiatives designed to strengthen control over the formation of municipal electoral commissions.

As we have already pointed out in our previous publications, the expectations cherished by the municipal and expert community as to municipal reform to be deepened after the completion of its transition period were cruelly dashed. In the summer and autumn of 2009 the authorities started to put into effect their new initiatives aimed at limiting the self – government of municipal formations and to practically materialize their previous decisions in this sphere.

Thus, some of the heads of municipal formations were removed from office in a number of regions. Their dismissals became possible after the adoption, in May 2009, of the corresponding alterations to the Law “On the General Principles of the Organization of Local Self – Government in the Russian Federation”¹. The provisions of the new Article 74.1 introduced the procedure entitled in the Law as “The removal from office of the head of a municipal formation”. It became possible to extra-judicially dismiss the head of a municipality on the Governor’s initiative consented to by the deputies of the corresponding representative body. Thus, in parallel with the previously established mechanism for dismissing the heads of municipal formations which envisages that the dismissal could be appealed to a court of justice, a new institution for removing majors from office introduced was introduced into law – enforcement practice. The content and the expected consequences of the introduction of those alterations as well as the process of their discussion in the State Duma have been thoroughly analyzed by us in the previous publications².

It is quite possible that the new institution set against the background of the now habitual conflicts between governors and the heads of municipalities (frequently, such conflicts ended up in criminal courts; only last year 200 Russian mayors were removed from office as a result of criminal persecution³) will not cause a sharp rise in the general number of

1 The said alterations were introduced by Federal Law, of 7 May 2009, No 90 FZ.

2 Starodubrovskaya I., Munitsipal’naia reforma: vertikal’ dostroena (Municipal reform: the vertical is completed) // Vedomosti, 4 February 2009, No 19 (2289); Starodubrovskaya I, Mironova N., Munitsipal’naia reforma i vertikal’ vlasti: okonchatel’nyi diagnoz (Municipal reform and the vertical of power: the final diagnosis) // Russian Economy in 2009: Trends and Outlooks, IET Monthly Review ; Idem, Vremia obmanutykh ozhidanii (A time of dashed expectations) // Obshcherossiiskii Zhurnal Rossiiskaiia munitsipal’naia praktika (Russian Municipal Practice (an all-Russian journal)), No 4, 2009, p. 37 – 42; Idem, Chto by ni stroili, poluchaetsia vertikal’ (Whatever is being built, the result is a vertical) // Rossiiskaia Federatsiia segodnia (The Russian Federation Today (a journal)), July 2009.

3 These data were presented in an interview with *Gazeta.Ru* by Alexander Kynev, head of regional programs at the Foundation for Information Policy Development // *Gazeta.Ru*, 01.06.2009 – 20:33.

dismissals of the heads of municipalities. Simply part of dismissals on criminal charges will be carried out under another, more “benign” scenario.

Although the new institution does not fit well with the Russian legislative system, it was put into action. And immediately, all its major drawbacks such as the vagueness of legally established causes for “removing from office” and the ill-conceived corresponding procedure became apparent. At the same time, the very first cases of this procedure being used reveal that it is frequently interpreted not so much as a legal instrument but as an administrative tool which makes it possible to decide the fate of one’s political opponents.

The first case of the head of a municipal formation being removed from office under the new law took place in early July 2009 in the town of Ozersk, Cheliabinsk Oblast. The dismissal of Mayor Sergei Chernyshev was initiated by the *Fair Russia* faction holding the majority of seats in the town’s council of deputies. According to the head of this faction, “the issue of removing the mayor from office has ripen long ago: he has completely neglected the town; even garbage is not properly collected here in Ozersk”. That the Governor of Cheliabinsk Oblast was not averse to the dismissal of the mayor was orally conveyed to the deputies by Vice – Governor N. Riazanov on his coming to Ozersk for the occasion. In justification for their decision, the deputies gave two reasons, both of them rather questionable. The first stated reason was the mayor’s report for 2008, which the deputies had considered to be unsatisfactory (the usual procedure for such cases is to set up a commission with participation of deputies designed to finish-off the report). The second reason was the dissatisfaction with the 2007 report as well. S. Chernyshev said that although last year’s report had been accepted, the deputies disavowed it “post factum”.

Also, the expression of non-confidence to the mayor turned out to be questionable from the point of view of the procedure of taking this decision, the fact the deputies had been informed in advance by the Ozersk Procurator’s Office. Firstly, the procedure of the double negative assessment of the mayor’s report had been conducted prior to 24 May, before the new Law had not come into force as yet. Secondly, the mayor’s reply had not been heard (he was on a holiday leave), as required by law. As a result, on 16 June the Ozersk Town Court invalidated the dismissal of the head of the Ozersk City Okrug and passed the ruling that the suit filed by the current head of the City Okrug should be satisfied. On 21 July the Cheliabinsk Oblast Court ruled against the deputies’ appeal.

Yet another attempt to remove the Ozersk mayor from office was made in early September, but not enough deputies voted for this. Representatives of law-enforcement agencies once again warned the deputies that their decision would be illegal. This time the law enforcers pointed out that the abuses imputed to the mayor had not been proved and that the Governor had not presented his official opinion with regard to this issue.

The second case of a mayor being removed from office took place on 16 July in Suzdal, where the Council of Deputies took the decision to dismiss the town’s mayor, S. Godunin, on the basis of his “inactivity”. According to the Chairman of Suzdal City Council, V. Malashkin, “Throughout the year, Godunin did not sign and did not publish the decisions passed by the City Council. The deputies have not find any answer to the question why he ignored the decisions of the City Council”. Malashkin also added that this was by far the only reason for Godunin’s dismissal: “there were problems arising during all the three years after him being elected head of the town administration”¹. It should be pointed out that such situations are also ambiguous. The legislations currently lacks sufficient clarity as to what should the head of a municipal formation do when he considers one or other decision taken by the representative body to be inconsistent with a law, and what responsibility

1 Quted from the news archive of the *Mestnoe Samoupravlenie* (Local self-government) newspaper <http://emsu.ru/lg/default.asp?item=12>.

he should bear if he approves such decisions. The mere fact that a conflict arises in such a situation between the mayor of a town and the town council does not necessarily mean that the guilty party is the mayor.

The dismissal of Iu. Vostriakov, Mayor of the town of Tchaikovsky, Perm Krai, which took place in accordance with the decision passed by the City Council on 30 July is so far the only case of the head of a municipal formation being removed from office on the initiative of a governor. The cause of the Krai Governor's initiative and of the decision taken by the City Duma was the systematic failure on the part of the head of the municipal formation to perform his duties with respect to solving issues of local significance. The mayor was blamed of failing to resolve two concrete problems:

- the disorganization of hot water supply to citizens;
- the failure to implement his duties concerning the resettlement of citizens from unsafe dwellings.

According to the Krai Governor's administration, there was no hot water in Tchaikovsky from February to July 2009, which was considered as the most flagrant failure of the mayor to perform his duties. Most likely, such a drastic measure as the dismissal of a mayor was applied in this case because if the issue had been addressed in court proceedings (which is a more lengthy process) it would have been likely that the town would begin the heating season not only without hot water but without heating as well. Like his colleague from Ozersk, the Tchaikovsky Mayor believed that in the process of his being removed from office by the deputies of the City Duma a number of law violations had taken place. He filed an appeal to a court of justice. However, he did not manage to prove the illegality of his dismissal. On 28 September, the City Court turned down the appeal of the ex-mayor¹.

Despite the contradictory results of the first attempts to dismiss mayors, the federal authorities consider this mechanism to be a necessary anti-crisis measure. In any case, it has gained approval at the highest level with Russia's President Medvedev speaking in its favor. According to the President, a governor can be forced to fulfill anti-crisis assignments, while in the case of a mayor this task is more difficult. "The dismissal of the heads of municipal formations is an absolutely normal phenomenon. In some cases this should be done. ... Frankly speaking, I was asked to do this by representatives of the governor corps"².

The tendency of integrating the system of local self-government system into the state power vertical is being promoted through the introduction of further changes in electoral legislation. As is known, two years ago municipal formations received the right to adopt either the mixed system of municipal elections or the purely proportionate one³. Then the federal legislator went still further and introduced, in April 2009, a new regulation according to which municipal elections under the proportionate system can be participated in only by the local branches of the political parties which have the right, under the Federal Law, to take part in elections. It should be noted that previously this right had been also granted to electoral associations whose membership was open to public organizations.

Sometimes, the new legislative innovations produce paradoxical results at the grass-root level. Thus, for the first time in the history of Russia's local self-government, the 11 October 2009 elections in the village of Khomutino, Cheliabinsk Oblast, will be held under the party-list system. The village has only 1,400 residents. There have been no active cells

1 Vop'ianov V, Eks-mer ne svernul gurod (The ex-mayor has not manage to knock-down the town) // *Kommersant* (Perm), No 180 (4235) of 29.09.2009.

2 Diomkin D. Medvedev ob"iavil antikrizisnuiu okhotu na merov (Medvedev has opened the anti-crisis mayor hunting season) // 05.08.2009 – 21:05, Slon.ru.

3 This right emerged in Federal Law, of 12.06.2002, No 67 – FZ, as amended 21.07.2005, "On the Basic Guarantees of Electoral Rights and the Right to Participate in a Referendum of Citizens of the Russian Federation" (item 3.1, Article 32).

of any political party there in the past 20 years. Nevertheless, four political parties – Fair Russia, the CPRF, United Russia and the LDPR – have officially nominated their candidates for the local representative body. It should be noted that the candidates nominated by three out of these four parties are employees of the local “Urals” sanatorium. Despite the small size of the Khomutino population, the village has been beset with conflicts between different interest groups since the very beginning of municipal reform. This is exemplified, for example, by the villagers’ having voluntarily opted for the adoption of a system under which the local administration is headed by a hired manager. The adoption of this model made it possible for a compromise candidate suitable for everybody to be appointed to this post. Whatever the difficulties, in any event the balance of interests was always achieved when resolving other problems as well. The adoption of the party list electoral system has practically exploded the situation. It has created a mechanism permitting one of the local groups to establish its control over the territory. This group is the management of the “Urals” sanatorium which provides employment to approximately one-sixth of Khomutino residents. At present, the election preparation process in Khomutino is already beset with scandals, and it is far from clear how the residents will eventually respond to this blatant violation of their interests.

Yet another initiative of “United Russia” is designed to increase the role played by political parties in the formation of municipal electoral commissions. The corresponding alterations to the Federal Law “On the Basic Guarantees of Electoral Rights and the Right to Participate in a Referendum of Citizens of the Russian Federation” were proposed by United Russia deputies V. Pligin, A. Moskalets and V. Timchenko.

At the present time, the formation of the electoral commission of a municipal formation should be carried out by its representative body on the basis of a) proposals made by the political parties whose federal list of candidates has been registered and whose candidates have been elected to the representative body; b) proposals adopted at the meetings of voters having been held at the place of their residence, employment and education; and c) proposals put forth by the previous electoral commission and by the electoral commission of a corresponding subject of the Russian Federation. The formation of the electoral commission of a settlement should be carried out on the basis of proposals put forth by a corresponding municipal raion. It is now proposed that one half of each municipal electoral commission should be formed by the Oblast electoral commission, and the remaining half – by the political parties admitted to the distribution of authority. It is also proposed that the numerical composition of municipal electoral commissions should be increased to 8 – 12 persons (at present they consist of 5 – 11 members) and that okrug electoral commissions should be abolished¹.

¹ The possibility that local electoral commissions could be liquidated was not welcomed by experts, because if this commissions are “abolished”, territorial electoral commissions would become too heavily burdened.

ON THE STRUCTURE AND EFFECTIVENESS INDICES OF MONEY ALLOWANCE FOR THE RF ARMED FORCED SERVICEMEN¹

E.Trofimova

The system of remuneration for military service existing in Russia is ineffective. It does not guarantee the necessary level of social protection for the absolute majority of servicemen, their family members and retirees. This state of affairs clearly undermines the will of Russian citizens to serve under contract in the Armed Forces of Russia. The only way to man the army with volunteers is by changing the existing structure of money allowance.

During the post-Soviet period, the structure of remuneration for military service was repeatedly transformed: the pay rates for military position and military rank were changed, various bonuses were introduced and cancelled, benefits were monetized, etc. However, money allowance (MA) for the main body of military servicemen still causes serious concern². The low level of MA was the main cause of the failure of the Federal Target Program “*The transition of a number of formations and units to being manned by servicemen enlisted for military service under contracts*” for 2004 – 2007³.

The greatest flaw of MA is that its size (for the absolute majority of servicemen including the central apparatus) is much lower than the average wage (AW). The regular increases in pay are organized in such a way that most of the servicemen rise in MA always lags behind rise in AW. Even the latest rise in MA by 8.5 % from 1 August 2009 has preserved all the systemic shortcomings of the MA structure: the majority of servicemen in line units have had their MA increased very moderately (barely enough to compensate for the existing level of inflation)⁴. A substantial pay rise is granted only military officials from the central apparatus of the Ministry of Defense. Still luckier are the “top managers”: a corresponding order of the Minister of Defense has completely abolished the bonus ceiling previously established for them..

During a meeting of the RF Ministry of Defense Collegium on 17 March 2009 it was stated that “the volume of the money allowance fund of the Armed Forces has increased more than tenfold since 2000”. However, this statement explains nothing because during that period MA of the majority of servicemen increased to a much smaller degree. For example, “the average size of the salary of a RF Armed Forces lieutenant, expressed in conventional

1 The methodological part of the research was performed with the financial assistance provided by the Russian Humanities Foundation (RGNF) under Project No 08-02-000-38a “*Improvement of the Methodology for Assessing the Socio-Economic Significance and Rationality of the Russian Army’s Switchover to the New Method of Manning*”.

2 Trofimova E.V. O novoi sisteme denezhnogo dovol’stviia voennosluzhashchikh Vooruzhennykh Sil RF // Ekonomiko-politicheskaia situatsiia v Rossii. 2009. Ianvar’. (On the new system of money allowance for RF Armed Forces servicemen // The Economic - Political Situation in Russia. January 2009. P. 36 – 39.

3 Tsymbal V. I. Ocherednoi etap reformy sistemy komplektovaniia voennoi organizatsii RF: obobshchennaia voenno-ekonomicheskaiia otsenka // Ekonomiko-politicheskaia situatsiia v Rossii. 2008. March. (The current phase of the reform of the system of manning the RF military organization: a generalized military – economic assessment // The Economic - Political Situation in Russia. March 2008. P. 53 – 59.

4 Naumov I. Podschitali – razocharovalis’ // Nezavisimoe voennoe obozreniie (Disappointed by the results...// The Independent Military Review. 31 July 2009.

units amounted to approximately 200 dollars, while at present it amounts to 494 dollars”¹, which means that it has risen only 2.5 times. As early as 2007, in order “to increase the effectiveness of use” of the MA fund, the RF MoD took the decision that cash bonuses should be granted to servicemen - at the expense of the funds “having been released due to the under-manning of established posts”. However, the bonuses were to be granted not to all servicemen but only to the personnel of the central apparatus². The new order issued by the MoD will make it possible to allocate part of these funds to the servicemen “outside of the central apparatus of the RF Ministry of Defense” as well³. This can be considered as the Minister of Defense’s reasonable response to the needs of the majority of servicemen.

The Order of the RF MoD, of 2 August 2008, No 400 “On the Money Bonuses to RF Armed Forces Officers”, according to which the money income of some of the servicemen have considerably increased, concerns only 10 % of the officers. It cannot decisively influence the young people’s motives to enlist in the Armed Forces⁴. So what are the prospects? Judging from mass media publications and not from official documents, President D. A. Medvedev has said that in the period up to 2020 “our Army and Navy will continue to be manned on a mixed basis, with three out of four servicemen being to be drafted”⁵. As the low level of MA results in a continual dwindling of the number of contract servicemen, the shortage of contractees in the Russian Armed Forces is compensated for by boosting the number of draftees⁶. However, this compensation will inevitably have adverse effects on the combat efficiency of the RF Armed Forces, because yesterday’s students by definition are incapable of replacing professional militarymen. The Chief of Ordnance for the RF Armed Forces, V. A. Popovkin, believes that one of the main tasks faced by the RF Armed Forces is the “creation and production of high-precision weapons”⁷. The future serviceman will be provided with new “navigation and communication systems and a new personal weapon system”. Both officers and soldiers should be psychologically (as well as intellectually and physically) ready to handle the new equipment. Are today’s draftees capable of this? And will they agree to learn how to use this technology? It is obvious that in conditions “when the technology of modern warfare is radically changing by comparison with the warfare of the 19th century and that of the first half of the 20th century”⁸ it is preferable to have a professional army.

What shall we do first? We believe that it is better to start with changing the structure of MA for servicemen. Today, this structure is determined by “The Procedure for the

1 Mukhin V., Svezho predanie ot kollegii Minoborony (What the Collegiums of the Ministry of Defense are telling us is simply hard to believe) // Nezavisimoe Voennoe Obozrenie (The Independent Military Review). 27 March 2009.

2 Order of the RF Ministry of Defense, of 1 November 2007, No 450 “On the Measures Designed to Implement, at the RF Ministry of Defense, Decree of the RF President, of 26 December 2006, No 1459”.

3 Order of the RF Ministry of Defense, of 28 March 2009, No 115 “On the Additional Measures Designed to Increase the Effectiveness of the Use of Servicemen’s Money Allowance Fund and the Wages Fund of the Civilian Personnel of the RF Armed Forces”.

4 Anisimov V., Prikaz No 400 (Order No 400) // Venno-Promyshlennyi Kur’er (The Military – Industrial Messenger). *-14 July 2009.

5 Mokhov V., Doprizyvnaia podgotovka – vopros politicheskii (The pre-draft training is a political issue) // Krasnaia Zvezda (The Red Star). 24 April 2009.

6 Semenchenko V., Vozvrashchenie prizyva (The draft is coming back) // Voenno-Promyshlennyi Kur’er. 5-11 August 2009.

7 Interview with Chief of Ordnance for the RF Armed Forces V. A. Popovkin // Ekho Moskv (The Moscow Echo). The “Military Council” program. 19 September 2009. <http://echo.msk.ru/programs/voensovet/620479-echo.shtml>

8 Gaidar Ye., Sotsialino-ekonomicheskii progress i transformatsiia sistemy komplektovaniia vooruzhennykh sil (Socio-economic progress and the transformation of the manning system of the armed forces) // Mirovaia Ekonomika i Mezhdunarodnye Otnosheniia (The world economy and international relations). 2004. No 8. P. 67.

Provision of Money Allowance to Servicemen of the RF Armed Forces” put into force by the RF Minister of Defense’s order of 30 June 2006 No 200. The term “procedure” is hardly applicable to the existing allowance system, as is testified by numerous mass media publications. Yet another confirmation of the inconsistency of the so-called Procedure is the afore- said statement of the Government concerning its forthcoming alteration. There is a lot of proposals for overcoming the drawbacks of the existing system of MA. Some of these recommendations emphasize the necessity that the new system of MA should be based on the principle of equality between militarymen and the other citizens of Russia in the sphere of political rights and social guarantees with the specific features of military service being taken into account¹. However, for this goal to be achieved, the existing attitude towards people carrying out military service under contract or under conscription should change, and this change should be reflected in the structure of their incomes. The crux of the matter is to create a system of payment for the military’s work that would guarantee adequate remuneration (full compensation) for all the limitations imposed by the special nature of military service.

The creation of a new system of MA for servicemen is expected to be greatly pushed forward by a crucial draft law being prepared by the RF MoD in cooperation with concerned federal executive bodies. The draft federal law devoted to reforming the structure of money allowance for military servicemen should be presented to the RF Government before 1 October 2009². According to the information on the intentions of the draft-law’s developers, money allowance for contract servicemen will consist of the three following components:

- 1) payment for military rank and payment for military position;
- 2) Compensational payments for special conditions of service;
- 3) Several stimulus bonuses – longevity pay, a performance bonus, etc³.

While agreeing with the suggested consolidated structure of MA for contract servicemen, we would like to emphasize that the issue of its implementation must be considered without delay.

Payment of stimulus bonuses is designed to stimulate a person to further improve his performance. Compensatory payments, in our opinion, should compensate a person for the inconveniences of military service. These payments should be subdivided into two categories: payments for “special conditions of service”; and payments for “extraordinarily hard conditions of life”.

The issue of MA effectiveness is very important. Apparently, MA effectiveness should be determined with the help of individual and generalized systemic indices.

The individual indices of MA effectiveness characterize the degree to which military service meets the various requirements of a specific person – soldier or officer. When signing his contract, each serviceman would assess these indices with regard to his own situation. In order to simplify research, all the individual indices influencing the size of MA should be conventionally subdivided into three categories:

- (1) – what is individually necessary for the serviceman while carrying out his duties and in his private life;
- (2) – what is necessary for the serviceman’s family;
- (3) – what will be necessary for the ex-serviceman pensioner irrespective of the time-duration of his service the character thereof (under a contract or under conscription).

1 Smelik R. G. *Voinskii trud v sisteme rynochnykh otnoshenii* (The military’s work in the system of market relations). Novosibirsk, 2004. P. 81.

2 Denisov V., *Prestizh voennoi professii: material’nyi aspekt* (The prestige of the military profession: the material aspect) // *Krasnaia Zvezda* (The Red Star). 20 March 2009.

3 Gavrilov Iu., *Oborona v rubliakh i kvartirakh* (The defense issue as expressed in rubles and apartments) // *Rossiiskaia Gazeta* (The Russian Gazette). 5 March 2009.

An approximate range of such indices could be developed on the basis of numerous publications devoted to this issue and of the experience of other states¹.

The systemic indices of MA should indicate to what extent the money allowance of a serviceman corresponds to the requirements addressed to all the wages in the economy and to the incomes from other types of activity. They should also indicate to what extent MA is capable to uphold the respectability of the social status of servicemen and their families. The reference points can be as follows: the size of payments set by the State; the subsistence level in the region in question; the size of incomes in society (e.g., the size of the nationwide AW). The effectiveness indices of MA are conventional. Some of the systemic indices are presented in *Table 1*.

Table 1

THE SYSTEMIC EFFECTIVENESS INDICES OF MA FOR SERVICEMEN

Categories of systemic indices	Системные показатели
Intradepartmental (with regard to the RF MoD) and interdepartmental (with regard to all "power" agencies)	The ratio between the incomes of the best paid 10% of servicemen and the incomes of the least paid 10% of servicemen. Values in the region of 14 are considered to be dangerous
	MA per 1 family member of servicemen of different ranks, per month, in rubles
	The ratio between the highest MA of the highest - ranking officer and MA of a private contractee, in %
	The ratio between the number of servicemen with MA below the subsistence level and the total number of servicemen, in %
	The ratio between the number of servicemen with MA below the AW and the total number of servicemen, in %
Comparison with the standard of living of the whole population of the country	The ratio between MA and AW, in %. Sociological surveys indicate that a 18% gap between MA for servicemen and AW could greatly increase the attractiveness of military service ¹ .
	The ratio between MA and the subsistence level, in %
	The ratio between MA per 1 family member of a serviceman, per month and the subsistence level, in %
	The ratio between the number of servicemen with money incomes below the subsistence level and the total number of the country's population, in %
	The ratio between the number of servicemen with money incomes below AW and the total number of the country's population, in %
Comparison with the standard of living of federal civil servants	The ratio between the average salary of a civil servant and the average MA of a serviceman, in %
	The ratio between the number of civil servants and the number of servicemen with incomes below AW, in %
Comparison with the standard of living of servicemen of other states	The ratio between MA of Russian servicemen and MA of servicemen of other states, in %

When applied to the existing "system" of MA, the said indices indicate that the effectiveness of MA, for example, of a private serving under contract is low. Such an MA amounts to about two minimum wage amounts. Moreover, in Q1 2009 it fell short of two subsistence

1 Gorgola E. V., *Osnovy sotsial'no-ekonomicheskoi politiki gosudarstva v Vooruzhennykh Silakh sovremennoi Rossii* (The foundations of the State's socio-economic policy concerning the Armed Forces of contemporary Russia). [A Monograph] Moscow – Yaroslavl. 2004. P. 143 – 151. Annexes 10, 11, 18-22.

wage amounts. It is almost two times smaller than AW. Such an MA cannot be attractive to young people.

If the State grants an adequate MA to its military, it would face much less problems in manning the Armed Forces. According to the mass media and RF human rights organizations, in particular the committees of soldiers' mothers, military commissariats resort to various illegal measures in order to provide manpower to the Armed Forces¹. There is only one way to put an end to this practice: the conditions of life in the army must be made normal notwithstanding the fact that military service involves numerous difficulties, discomfort and danger. In times of peace the serviceman must afford to buy proper food and proper clothes, to meet the hygiene demands and to have a family. He must have a right to protection and the right of access to information, etc. We believe that once these conditions are met, military service will no longer be a bugbear for our youth and will become more attractive to the citizens of Russia. ●

1 Tel'manov D., Dyrka v serdtse dlia otsrochki ot prizyva // Gazeta (A hole in the heart to get a draft deferral // The Gazette. 14 July 2009; Klin B., Otsrochka studentu ne pomozhet (Draft deferrals will not help students) // Izvestiia, 14 July 2009; Konstantinova S., Kulishova E., Kolesnichenko Podi-ka posluzhi... (You better go and serve... // Noveye Izvestiia. 8 July 2009;

FAREWELL TO THE THIRD STRATEGIC SITE OF THE US NATIONAL MISSILE DEFENCE IN EASTERN EUROPE

V.Tsymbal, V.Zatsepin

On September 17, the US President has informed on the rejection of the planned deployment of the third USA strategic National Missile Defence placing radar in the Czech Republic and 10 silo based missile interceptors in Poland. In 2007, when the implementation of that plan was started, many experts in the RF research institutions, including the IET, were estimating the possible consequences of deploying US NMD in Europe and expressed their opposition. Now the results can be summarized.

Background strategic missile defense system (NMD) goes back to the 80-th of the last century, when R. Reagan Administration has launched the Strategic Defense Initiative (SDI) - an attractive idea to return to the United States strategic invulnerability, which was lost after the World War II due to appearance of the Soviet nuclear weapons as well as intercontinental ballistic missiles (ICBMs) for their delivery. At that time, the idea was not implemented, although work on SDI project has urged a number of important scientific achievements and technologies.

Soon there occurred a collapse of the USSR and «partnership» relations between the US and the new Russia were established. However, the idea of SDI was not abandoned, but merely amended. As Mr.S. Rogov, Director of the Institute of USA and Canada stated, a turning point in the 1998 was the report of Donald Rumsfeld commission, who asserted that «Iran and North Korea in three years could develop ICBMs with nuclear warheads.» And although this assertion was not justified even ten years later, it became an incentive for the unilateral US withdrawal from the ABM Treaty in 2002, as well as for the new anti-missile systems development and deploying of the two missile defense sites in the United States (Alaska and California). Active work was conducted on creation mobile versions of national defense: marine, aviation and space ones (on the latter research is in progress). Each year US spent about 10 billion dollars for strategic missile defense.

Moreover, in 2006 it was announced of the deployment of a third strategic missile defense site in Eastern Europe. Russian leaders, having understood it as a threat to the security of the RF, announced in response of the deployment of “Iskander” prestrategic missile systems in Kaliningrad region. There were also other proposals for an asymmetric response. Under the increased tension, a new arms race could be developed, which could prevent the development of the Russian economy and undermine international security.

Experts of military economy laboratory IET together with researches from other institutions have analyzed the emerging processes, and the leadership IET made all efforts to bring the results to the attention of those could take the situation under control. Our key arguments are given below.

First, one can see from the history, the USA did not act alone but together with its strategic allies. This means that the hypothetical attempt to destroy the potential of the Russian strategic forces with due regard to the estimated deterrence would not be carried out solely by the United States. But then a response stroke with surviving missiles could be aimed at all participants of the preemptive stroke. That was the logic of deterrence strategy. So intercepting missiles flying westward through Eastern Europe justifies the deployment of missile defense system was reasonable just in the location, where he was selected for the third strategic point. And Iran is, of course, has nothing to do with this. Other op-

tions of the use of missiles from the territory of Poland should be also taken into regard, for example, a destruction of the most important Russian satellites, launched in a period of threat, as well as elements of command and control of the Russian nuclear weapons in a feedback stroke.

US President Ronald Reagan liked the Russian proverb “trust, but check you must» proverb. But nobody discussed a possibility of checking the missiles «stuffing» in Poland with the Russian experts, while the option of equipping them with nuclear warheads to increase the efficiency could not be excluded. Eligibility of this option is confirmed by continued development of the new generation of small nuclear weapons in the US. It should be noted, that the US missile “Nike-Hercules « had been equipped with a nuclear warhead, decommissioned 40 years ago, as the Americans were shocked at the possibility of those warheads over their own territory. When placing the same missiles in Poland this circumstance could be disregarded.

Second, the attention was paid to the fact that in the previously operated NMD complexes, for example, in the Nike-Hercules complex, as well as in the Soviet surface-to-air missile complexes, there was an option of long-range strokes at ground targets. And in general, in the mines, nominally intended for anti-missile defense, allocation of other offensive missiles is possible. Moreover, the first two stages of the American anti-shock missiles are copied from ICBM Minuteman-3 complex. Power supply capacity of missile defense complex. Planned to be deployed was more than that of Pershing-2 « missile complex, deployed by USA in Western Europe in early 80's. Herewith one of the major reasons for USA and USSR twenty years ago to reject that class of missile systems was that it took them extremely little flight time to reach the targets (less than 10 minutes), making them a destabilizing type of weapons.

It would be a mistake to ignore the above threats, hidden behind the tentative threat from Iran.

As evidenced by a fragment of one of the interviews with E. Gaidar, it was understood not only by the Russian part:

“To the surprise of many others, you are actively criticizing American plans to deploy NMD elements in Eastern Europe”.

-I am working on this issue, trying to explain in Europe and the US, how it looks from the Russian side.

—**To whom are you trying to explain it?**

—To those, who are involved in the decision-making process. I can't tell more.

—**However, unlike the situation in Kosovo, this issue seems to be of little concern to our common people.**

—Our common people, western people, even high-rank diplomats are not aware of many technical details. I was the Prime Minister of a nuclear state, I know how decisions are made. I am trying to explain it to my American friends, who understand that I can be suspected in many other things, but not in anti-Americanism.

—**But in the last 15 years the US has never changed their plans in order to maintain dialogue with Russia**

—That's true. And this is a dangerous issue. I'm trying to explain at the technology level the consequences of what they are doing. When I explain it to the people informed and involved in decision-making process with the technical details, my American colleagues turn pale and drop their jaws. I'm not kidding.

—**What exactly do you tell them?**

—I am telling how the missile flight time affects the decision-making mechanism. What kinds of weapons are proposed to be used, new developments in this field. I can not go into more details.

—**And no political aspects?**

—Politics has nothing to do with it. To me it's important, who will be the decision-makers. Some American politicians do not realize, how dangerous their actions are. I do not even think that the Americans could blow a stroke at the Russian centers of nuclear weapons control. I cannot believe it for a second. But I understand how it looks from Russian Military Headquarters. Not because those who work there are stupid, but because this is their job, they have to think this way. You are getting paid for one job, I am paid for another one, and to they are paid for the third mission.

—**Having agreed with the Russian initiative, the US hurts the ambitions of Poland and the Czech Republic.**

—Spit upon ambitions, when it comes to the existence of humanity! Too bad that only few people realize it. I'm afraid only some people in the world do understand it.

—**Is understanding getting better as a result of your explanations?**

—Sharply. I am not a magician. The fact that I have a conversation with someone, does not immediately affect the official position. But it becomes an issue for discussion. For example, the Committee on International Relations of the United States Congress has blocked the allocation of funds for the bill on the financing the NMD bases in Czech Republic and Poland.

I should say that estimates and recommendations of IET experts were regarded ambiguously in Russia, there were both, criticism and support. Even a brief publication in the IET works on this subject was spotted by RIA-Novosti agency, and then reprinted, for example, in the newspaper Moscow News and the Ukrainian edition of "Chetverta Vlada and was quoted in other publications.

Two years and two months after the interview with E.T. Gaidar the common sense has overcome. Herewith, beyond any doubt, a crucial role here played the changes in political leadership of the United States in 2008. The US President Barack Obama and his pragmatic Secretary of Defense Robert Gates have overcome resistance of their military-industrial complex, as well as the requests from the Polish and Czech politicians, expecting financial assistance from the US and were able to break the 15-year tradition in the implementation of US plans to the detriment of other States, in this case Russia.

And although the improvement of missile defense has not been suspended either on the US, or on the Russia's part, one would like to believe that new opportunities are open for the development of real partnership relations between our countries. ●

REVIEW OF THE MEETINGS OF THE GOVERNMENT OF THE RF IN SEPTEMBER 2009

M.Goldin

In September at the meetings of the Presidium of the Government of the Russian Federation the following important issues were considered among others: the results of execution of the federal budget over the first half of 2009; the project of the Federal Law “On making changes to the federal law “On the federal budget for 2009 and for the planning period of 2010 and 2011””; results of execution of Federal Target Programs and the Federal Targeted Investment Programs in the first half of 2009; the project of the federal Law “On the federal budget for 2010 and for the planning period of 2011 and 2012”.

On **September, 3rd** at the meeting of the presidium of the Government of the Russian Federation the report of the Ministry of Finance of the Russian Federation A. Kudrin on the results of execution of the federal budget in the first half of 2009 was heard.

According to the report the execution of the federal budget in the 1st half of 2009 occurred in the environment of slowing down the economy’s growth rates which lead to the drop of the federal budget revenues. In the 1st half of 2009 the volume of the GDP made RUR 17 927.8 billion, which is 10.1% below the level of the corresponding period of the previous year. The revenues of the federal budget over the 1st half of 2009 made RUR 3 172.2 billion. In their turn, the expenditures of the federal budget over the accounting period according to cash execution made RUR 721.6 billion. The biggest share of revenues paid into the budget in the 1st half of 2009 - 55.9% - was accounted for by the tax earnings.

It should be noted that the biggest part of revenues of the federal budget was formed at the expense of the following taxes: VAT (29.9%), earnings from customs duties (28.5%), severance tax (12.1%) and tax on organizations’ profits (3.7%).

In the 1st half of 2009 non-tax earnings of the federal budget made RUR 1 398.9 billion, which is by RUR 310.4 billion (or by 28.5%) more than the sum envisaged by the forecast for the 1st half of 2009. In the structure of non-tax earnings the earnings from payment of customs duties made 64.5%, revenues from the management of Reserve Fund and the Fund for National Welfare – 19.7% of the total volume of non-taxation earnings.

On the whole the cash expenditures of the federal budget over the accounting period made RUR 3 893.8 billion or 39.8% versus the specified budgets expenditures and revenues for 2009. Cash non-interest expenditures of the federal budget in the 1st half of 2009 made RUR 3 807.4 billion or 39.9% versus the specified budget revenues and expenditures (RUR 2 920.6 billion or 40.4% versus the specified budget revenues and expenditures in the 1st half of 2008).

On **September, 10th** at the meeting of the Presidium of the Government of the Russian Federation the project of the federal law “On making changes to the Federal Law “on the federal budget for 2009 and for the planning period of 2010 and 2011” (further referred to as the Bill) submitted by the Ministry of Finance of the Russian Federation was considered. The Bill was mainly developed due to the federal Law form July 18, 2009 no 181-FZ “On the use of securities of the Russian Federation to increase the capitalization of banks” (further referred to as the law) coming into effect. The Law envisages the measures for financial support of the banks (increase of capitalization) by exchanging the federal bonds for privileged stocks of such banks. Coming of this Law into effect obviously suggests that additional sums should be taken into account in the expenditure list of the federal budget.

In total it is envisaged to exchange the federal bonds worth up to RUR 150 billion for the privileged stocks of banking crediting organizations.

On **September, 15th** at the meeting of the Presidium of the Government of the Russian Federation the report by the Minister for Economic Development E. Nabiullina on the process of execution of the federal targeted programs and fulfillment of the federal Targeted investment Programs in the first half of 2009 was heard.

In 2009 the total planned volume of the financing of the Federal Target Programs (FTP) makes RUR 840.74 billion. In the first half of the year FTP measures were financed at the rate of RUR 238.3 billion at the expense of the federal budget (28.3% of the budget allotments in 2009), which is by RUR 31.5 billion higher than in the corresponding period of 2008. By the direction of “capital investments” there was really RUR 130.18 billion financed (26.7% of the year budget), including:

- The volume of budget investments that made RUR 97.05 billion (26.3 %);
- The volume of subsidies for co-financing of the objects of capital construction of the state property of the Russian Federation and municipal property, included in the federal target programs, which made RUR 33.13 billion (28.0%).

Objects and measures of FTIP were financed at the expense of the federal budget in the 1st half of the year at the rate of RUR 123.0 billion (not taking into account the state defense order), which makes about 26.0% of the total volume of the budget investments envisaged for fulfillment of FTIP in 2009.

On **September, 23rd** at the meeting of the Presidium of the Government of the Russian Federation the report of the vice-chairman of the Government of the Russian Federation, A. Kudrin, was heard, which was devoted to the project of the federal Law “On the federal budget for 2010 and for the planning period of 2011 and 2012”.

According to the project of the federal law, in 2010-2012 it is envisaged to decrease the incomes of the federal budget from 17.2% of the GDP in 2009 to 16.1% in 2010, 15.5% in 2011 with the following decrease in 2012 down to 15.0% of GDP.

It should be noted that the expenditures of the federal budget are planned to be reduced from 25.5% of the GDP in 2009 to 22.9% in 2010, 19.5% in 2011 and to 18.0% of the GDP in 2012.

The total volume of expenditures of the federal budget in 2010 was defined at the level of RUR 9 886.9 billion (22.9% of GDP), in 2011 – RUR 9 389.8 billion (19.5% of GDP), in 2012 – RUR 9 681.0 billion (18.0% of GDP). In real terms the decrease of the expenditures is planned to be 9.5%, 12.1% and 3.6%, correspondingly, versus the estimations for 2009.

The main sources for financing the deficit of the federal budget in 2010 are the means of the Reserve fund, in 2011-2012 – the means of the Fund for National Welfare and other sources for financing the deficit of the federal budget.

At the same time the total balance of financing sources will make RUR 691.0 billion in 2010, RUR 1 171.7 billion in 2011 and RUR 798.5 billion in 2012. Balance for internal sources of financing the deficit of the federal budget will make RUR 261.5 billion in 2010, RUR 657.3 billion in 2011, RUR 223.6 billion in 2012. The balance for external sources of financing of the deficit of the federal budget will make RUR 429.6 billion in 2010, RUR 514.4 billion in 2011 and RUR 574.8 billion in 2012.

On **September, 23rd** the Government of the Russian Federation approved the indexation of the excise rates for alcohol and tobacco goods for 2010-2012 suggested by the Ministry of Finance of the Russian Federation. Thus, according to the bill the rates of excises for alcohol goods with the proportion of the ethanol up to 9% inclusive, ethanol-containing products and wine will be indexed by on average 30%, beer – by 50%. As to cigarettes (cigarettes with a cardboard holder) the bill envisages the increase of ad valorem component of the excise rates calculated base on maximum retail prices by 0.5% annually, and the specific

component of the rates for filter-tipped cigarettes – by on average 30%, and for cigarettes without filter – by 50%.

The expected increase of the excises rates will occur at higher rates than the previous indexations. However in the environment of the decrease of the real incomes of the population and the worsening of the financial situation at the enterprises of the branch there is a danger that such a considerable indexation will shift the production, at least the production of liquors to the shadow sector of the economy, which will in its turn reduce the total tax earnings in this branch.

Besides, in concordance with the mentioned bill, the period for payment of liabilities on excises will change, for instance the bill envisages the unified date for the payment of excises. These measures are aimed at the improvement of administration of the tax and at the increase of collection.

The Government of the Russian Federation approved the bill “On making changes to part one of the Tax Code of the Russian Federation concerning the regulation of payment of arrears for taxes, duties, fees and fines”. Within the framework of the amendments made it became possible to give deferment or credit to the taxpayer in connection with the threat of insolvency (bankruptcy) in case the tax is paid at once. The risk of bankruptcy, however, should be testified by papers. Besides, the maximum volume of investments tax credit given to the taxpayer in case he conducts research and development, experimental and design works pr technical re-equipment was raised from 30 to 100% of the property value.

In our opinion, these measures for support of the taxpayers which found themselves in a difficult financial situation in case they are duly executed will assist the enterprises in avoiding the bankruptcy and will stimulate the enterprises tp renovate the assets. ●

REVIEW OF ECONOMIC LEGISLATION

I.Tolmacheva

In September the following changes were made: the Government of the Russian Federation defined the Internet address for the site where the notifications on open contests and auctions for the right to sign the agreement for transfer of rights for unified technologies; the procedure for estimation of the contest applications for the right to conclude state and municipal contracts for supplies, works and services for state and municipal needs; starting with September 15, 2009 the refinancing rate of Bank of Russia was lowered, changes were introduced to the procedure for making monthly monetary payment substituting the set of social services (a social service).

I. Direction of the Government of the Russian Federation

1. "ON OFFICIAL SITE FOR PLACEMENT OF NOTIFICATIONS CONCERNING OPEN CONTESTS AND OPEN AUCTIONS FOR THE RIGHT TO CONCLUDE THE CONTRACT ON TRANSFER OF THE RIGHTS FOR UNIFIED TECHNOLOGIES, OF NOTIFICATIONS ON TRANSFER OF RIGHTS FOR UNIFIED TECHNOLOGIES WITHOUT CONDUCTION OF CONTESTS OR AUCTIONS, OF NOTIFICATIONS CONCERNING CONDUCTION OF OPEN CONTESTS FOR THE RIGHT TO CONCLUDE AGREEMENTS ON EXECUTION OF SUPPLEMENTARY WORKS ON COUPLING THE UNIFIED TECHNOLOGIES TO THE STAGE OF PRACTICAL APPLICATION TAKING INTO ACCOUNT THE NEEDS OF THE CONCERNED PARTY" from 14.09.2009 No 1310-r

At the Internet address www.technology.gov.ru the information notifications on the transfer of the rights for the unified technologies without conduction of a contest or an auction will be placed as well as the notifications on conductions of open contests or open auctions and notifications on conduction of open contests for the right to conclude contracts on coupling the technology to the stage of the practical application taking into account the needs of the concerned party. It is Rospatent that is to be the federal executive body authorized to support the site.

II. Decrees of the Government of the Russian Federation

1. "ON ESTABLISHING THE REGULATIONS CONCERNING ESTIMATION OF APPLICATIONS FOR THE PARTICIPATION IN THE CONTEST FOR THE RIGHT TO CONCLUDE A STATE OR A MUNICIPAL CONTRACT FOR SUPPLY OF GOODS, EXECUTION OF WORKS, RENDERING SERVICES FOR STATE AND MUNICIPAL NEEDS" from 10.09.2009 No 722

Comes into effect on November 1, 2009

The approved regulations define the procedure for estimation of applications according to a number of criteria (contract price, functional and quality characteristics of goods, qualification of a contestant etc.), for instance they regulate the calculation of the applications rating by each of the estimation criteria. It is also established that the estimation of an application is made with the use of no less than two estimation criteria, one of which is the contract price, which significance cannot be less than 35% of the total significance of all the criteria.

III. Orders, letters, instructions

1. Order of the Central Bank of the Russian Federation “ON REFINANCING RATE OF THE CENTRAL BANK OF THE RUSSIAN FEDERATION” from 14.09.2009 No 2287-U

Starting with September 15, 2009 the refinancing rate of the Bank of Russia is established at the rate of 10.5% per annum. It should be remembered that starting with August 10, 2009 the refinancing rate of 10.75% per annum was established.

2. Order of the Ministry for Health Care and Social Development of the Russian Federation “ON MAKING CHANGES TO THE PROCEDURE OF MAKING MONTHLY MONETARY PAYMENTS TO SOME CATEGORIES OF CITIZENS OF THE RUSSIAN FEDERATION APPROVED BY THE ORDER OF THE MINISTRY FOR HEALTH CARE AND SOCIAL DEVELOPMENT OF THE RUSSIAN FEDERATION FROM NOVEMBER 30, 2004 N 294” from 15.06.2009 No 307n

Registered in the Ministry of Justice of the Russian Federation on 17.09.2009 No 14799

Changes were made to the procedure of making monthly monetary payments that substitute a set of social services (a social service).

It is established that the application on refusal from the set of social services or application on renewal of rendering the set of social services is submitted in the period from January 1, of the year following the year of submission of the application and is valid till December 31 of the year in which the citizen will apply for renovation of rendering the social services or, correspondingly, for refusal from receipt of a set of social services.

In case the citizen that receives the set of social services submitted the application on refusal from the receipt of social services before October, 1st, then starting with January, 1st of the year following the year of submission of the mentioned application and till December, 31st of the year when the citizen will apply for renovation of rendering of social services the sum of monthly monetary payment is paid without the deduction of the costs of the set of social services.

In case the citizen has not applied for the refusal from the receipt of the set of social services or submitted the application for renovation of rendering the set of social services, then starting with January 1st of the year following the year of submission of the application mentioned and till December 31st of the year in which the citizen applied for the refusal from the set of social services the sum of monthly monetary payment is paid with the deduction of the cost of the set of social services.

3. The Order of the Ministry for Health Care and Social Development of the Russian Federation “ON MAKING CHANGES TO THE PROCEDURE OF RENDERING THE SET OF SOCIAL SERVICES TO SOME CATEGORIES OF CITIZENS ESTABLISHED BY THE ORDER OF THE MINISTRY FOR HEALTH CARE AND SOCIAL DEVELOPMENT OF THE RUSSIAN FEDERATION FROM DECEMBER 19, 2004 N 328” from 15.06.2009 No 309n

Registered in the Ministry of Justice on 18.09.2009 No 14805

The procedure for rendering social services to some categories of citizens has been specified. The procedure is supplemented with the statement according to which the citizens that receive the set of social services (a social service) in concordance with the Federal Law “On state social assistance” can submit an application on refusal from the set of social services (a social service) for the period from January, 1st of the year following the year of refusal from the receipt of social services and till December, 31st of the year in which the citizen will apply for renovation of submission of the set of social services (a social service). The application states to which extent (fully or partially) the citizens wants to start using social services again and starting with January 1st of which year the part of the sum of monthly monetary payment is to be paid. ●

REVIEW OF REGULATING DOCUMENTS CONCERNING TAXATION OVER AUGUST–SEPTEMBER 2009

L.Anisimova

1. According to the letter of the Federal Tax Service of the Russian Federation from September 3, 2009 No 3-6-03/356 the situation with the application of the regressive scale of the single social tax in case of the reorganization taking into account the decisions stated in the Decree of the Presidium of the Supreme Arbitrary Court of the Russian Federation. As the Supreme Arbitrary Court of the Russian Federation explained, if the labor relations are to be continued with the employees all the payments to the employees made according to the labor contracts before the reorganization should be taken into account when defining taxation base for the single social tax.

2. According to the letters of the Ministry of Finance of the Russian Federation from August 24, 2009 No 03-11-11/169 and the Federal Tax Service of the Russian Federation from September 1, 2009 No ShS-22-3/684@ the procedure for calculation of the maximum volume of incomes limiting the application of the simplified taxation system in 2009 was clarified.

Paragraph 4 article 346.13 of the Tax Code of the Russian Federation establishes the criterion allowing application of the simplified taxation system for the organizations with the incomes below RUR 20 million, and paragraph 2 article 36.12 establishes the procedure for indexation of this maximum sum envisaging the application of deflation coefficient established annually. In concordance with the order of the Government of the Russian Federation from 25.12.2002 No 1834-r the Ministry for Economic Development of the Russian Federation published the deflation coefficient for the following year no later than on November, 20th in the Russian newspaper upon agreement with the Ministry of Finance of the Russian Federation.

In concordance with the Decree of the Supreme Arbitrary Court of the Russian Federation from 12.05.2009 No 12010/08 the deflation coefficient is not applied to the basic criterion (that is RUR 20 million), but calculated as accumulation index by multiplication of all the deflation coefficients in the period from the date of establishment of the basic criteria.

Thus, taking into account the statements of paragraph 2 article 346.12 and paragraph 4 article 346.13 of the Tax Code, the Federal Tax Service of the Russian Federation defines that the amount of the maximum incomes limiting the application of the simplified taxation system in 2009 makes RUR 57.9 million (RUR 20 million x 1.538 x 1.34 x 1.241 x 1.132) taking into account the corresponding orders of the Ministry for Economic Development from 03.11.2005 No 284 for 2006 (1.132), from 03.11.2006 No 360 for 2007 (1.241), from 22.10.2007 No 357 for 2008 (1.34), from 12.11.2008 No 395 for 2009 (1.538).

Since, in the opinion of the Ministry of Finance of the Russian Federation the multiplication of the deflation coefficient results in the repeated indexation of the base, the Ministry for Economic Development together with the Ministry of Finance of the Russian Federation at present considers the possibility for making addenda to the mentioned Orders of the Ministry for Economic Development stating that the deflation coefficients are established with the account for the deflation coefficient for the previous years.

The position of the Ministry of Finance and the Ministry for Economic Development seems rather arguable since the Tax Code of the Russian Federation does not envisage the reservations concerning the deflation coefficient. In connection with the adopted decision

of the Supreme Arbitrary Court of the Russian Federation the Ministry of Finance and the Ministry for Economic Development will require the changes in the text of the tax Code of the Russian Federation.

3. According to the letter of the Ministry of Finance of the Russian Federation from September 14, 2009 No 03-02-07/1-425 the issue on the adoption of the decision as a result of the field tax inspection of the documents received during the cross-inspection.

The Ministry of Finance of the Russian Federation clarifies that according to the Federal Law from 27.07.2006 No 137-FZ “On making changes to part one and part two of the Tax Code of the Russian Federation in connection with the execution of the measures on improvement of the tax administration” cross-inspection has been abolished.

At the same time according paragraph 2 clause 4 article 101 of the Tax code of the Russian Federation when examining the materials of the tax inspection all the presented evidence including the documents that were earlier obtained from the person against whom the tax inspection had been done earlier, documents submitted to the taxation bodies when making office or field inspections of this person and other documents the tax body has are considered. That is why in the opinion of the Ministry of Finance of the Russian Federation the decisions on field tax inspections and additional measures of tax control can be made on the basis of all the materials that the tax body has.

4. According to the letter of the Ministry of Finance of the Russian Federation from September 11, 2009 No 03-07-11/222 the position of the Ministry of Finance of the Russian Federation on the issue of the taxation of the sums received by the taxpayer from the customers of goods in the form of interests for illegal use of somebody else’s means with VAT is clarified.

Responding to a private enquiry the Ministry of Finance stated its position that such interests from illegal use of somebody else’s funds should be regarded as expenditures for purchase of goods and, correspondingly, be included in the price of goods thus forming the VAT taxation base. This position, it seems, is based on the practice of calculation of cost price of the goods according to the rules of the accounting (in practice before the Tax Code of the Russian Federation, when all the expenditures connected with the production and sale of goods should be divided between direct and indirect and included in the cost of the goods and participate thus in the formation of sales price). However in concordance with subparagraph 2 paragraph 1 article 265 of the Tax Code of the Russian Federation the expenditures in the form of interests for debt liabilities of any kind are not included in the expenditures for production and sale of goods.

That is why, in our opinion, the position of the Ministry of Finance of the Russian Federation is rather arguable. First, the Tax Code of the Russian Federation (paragraph 3 article 43) defines the interests as preliminary states (established) income. The definition can be fully applied to the interests considered above. According to paragraph 3 article 486 of the Civil Code of the Russian Federation the customer must pay interests when the contract of purchase is not fulfilled, “If a customer does not pay timely for the goods transferred in concordance with the contract of purchase the seller has a right to request the payment for the goods and interests in concordance with article 395 of the Tax Code of the Russian Federation”. And according to the article 395 of the Civil Code of the Russian Federation the interest rate is determined in advance, “when the debt is recovered in the court the court may satisfy the claim of the creditor basing on the banks’ interest rates on the day of suing or on the day of making the decision. These regulations are applied when other interest rate is not established by the law or the contract”. Thus, the considered interests for the use of somebody else’s means is defined by the Civil Code of the Russian

Federation as interests for separate liability, evolving from the violation of the conditions of the contract of purchase. That is why it does not belong to the expenditures for goods production and sale.

The interests for the use of somebody else's funds as any interests accrued for the separate liability on the basis of article 265 of the Tax Code of the Russian Federation does not participate in the formation of the price of goods and does not influence the VAT taxation base.

5. According to the letter of the Ministry of Finance of the Russian Federation from September 10, 2009 No 03-11-09/307 the question on the procedure of payment of the single tax on the imputed income before the taxpayer is taken off the books in the tax body is clarified.

The single tax on the imputed income is paid in concordance with chapter 26.3 of the Tax Code of the Russian Federation. In concordance with article 346.27 the tax is calculated on basic monthly profitability (conventional, potentially possible) in terms of price for one or other unit of the physical index that characterize a defined kind of entrepreneurial activity in different comparable situations, which is used for the calculation of the imputed income. The taxpayer cannot stop paying the tax at will, since due to the reasons mentioned the liability of a taxpayer to pay the single tax on the imputed income arises independently of the really obtained income from the entrepreneurial activity. In order not to pay the single tax on the imputed income, as it is clarified by the Ministry of Finance of the Russian Federation, the taxpayer has a right to apply for taking him off the books as a taxpayer of the single tax on the imputed income.

6. According to the letter of the Ministry of Finance of the Russian Federation from September 10, 2009 No 03-05-04-01/72 the procedure of payment of the tax on property in case rooms in communal apartment have been privatized is clarified. The Ministry of Finance of the Russian Federation draws the attention to the fact that since according to the law of the Russian Federation from 04.07.1991 No 1541-1 "On privatization of the housing fund of the Russian Federation" did not define the specific features of privatization of the living rooms in the communal apartments, there are two schemes for privatization of the housing existing in practice in the regions: privatization of the communal flats to the common share property (Saint-Petersburg, Murom, Kostroma, Vladimir oblast, Volgograd oblast etc.) and privatization of separate rooms in communal flats (Moscow, Bryansk, Belgorod oblast etc.). When privatizing the communal flats to the common share property, as it is noted by the Ministry of Finance of the Russian Federation, statements of article 16 of the Housing Code that define the room as a separate living space and, consequently, separate object of civil rights, were not taken into account, that is local authorities made decisions on privatizing of a communal apartment to be share property not in full concordance with the legislation that was in effect at that moment.

That is why the Ministry of Finance explaining the procedure for payment of the tax on property for the privatized flat in both cases suggests basing on the legislative acts of the subjects of the Russian Federation and municipal formations on privatizing of residential areas that are in effect in the territory. According to article 5 of the Law No 2003-1 the sum of the tax on the property of the natural persons is calculated by taxation bodies making registration of the rights on the immovable property and deals with it and bodies of technical inventory.

7. According to the letter of the Ministry of Finance of the Russian Federation from 02.09.2009 No 03-05-06-02/87 the question on payment of the land tax by the tenants

of apartment buildings is clarified. Article 16 of the Federal Law from 29.12.2004 No 189-FZ “On the Housing Code of the Russian Federation coming into effect” establishes that the land plot on which an apartment building and other objects of immovable property that are included in it are situated, which was formed and registered in the state cadastre, is transferred gratuitously to the common share property of the owners of premises in the apartment building. The right for common share property belongs to the owners of the premises in the building according to the law irrespectively of its registration in the Unified state register of rights for the immovable property and deals with it (paragraph 3 of the Decree of the Plenary Session of the Supreme Arbitrary Court of the Russian Federation from 23.07.2009 No 64). Thus, as it is explained by the Ministry of Finance of the Russian Federation, if a land plot, on which an apartment building is situated, is formed and it was subject to the state cadastre registration, the owners of living and untenable area of this building in proportion to the area occupied are the taxpayers of the land tax. It should be noted that according to paragraph 4 article 397 of the Tax Code of the Russian Federation the taxpayers that are natural persons pay the land tax and the advance payments for the tax on the basis of notification on taxation sent by a tax body.

8. According to the letter from 03.09.2009 No 03-03-06/1/567 the Ministry of Finance of the Russian Federation provided explanation for a private enquiry on the possibility for inclusion to the expenditures the sums of the lessee’s payments paid to compensate for the expenditures of the lessor on taxes and insurance fees if such a compensation is envisaged by the contract of lease when calculating the profit tax. For instance, the Ministry of Finance of the Russian Federation clarified the following. In concordance with paragraph 2 article 614 of the Civil Code of the Russian Federation the rent is established for all the rented property as a whole or for each of its constituent parts in the form of defined sum of payments, the share from the profit from the use of the rented property, rendering services by the lessee (in natural form) on the basis of barter, for the improvement of the state of the leased property. The Ministry of Finance of the Russian Federation notices that according to the Civil Code of the Russian Federation the parties can also envisage in the contract other forms for payment for the rent that are not mentioned in the article. At the same time there is no direct answer to a private enquiry of the taxpayer. Developing the position of the Ministry of Finance of the Russian Federation it should be noted that the rent is established for the use of the property that is basing on the conditions of contract the lessee should pay to the lessor the equivalent in monetary or in natural form. In concordance with the Tax Code of the Russian Federation the taxes cannot be the subject of liabilities that is why the contract should not envisage the compensation of the taxes paid by the lessor by the lessee. The lessor does not have a right to levy his tax liability on anybody else. At the same time the cost of the rent is defined according to the contract, the rent forms the base for the profit and its rate is defined by the situation at the market. That is why the lessor has a right to pay the due taxes on his own from the received profits according to the procedure defined by the Tax Code of the Russian Federation.

9. According to the letter from 07.09.2009 No 03-04-07-02/13 the Ministry of Finance of the Russian Federation concerning the taxation with the single social tax and the insurance contributions for the compulsory pension insurance for the benefit of the manager – single founder of the legal entity – clarified that in concordance with the existing legislation the single social tax is paid to the fund of labor remuneration (that is relations registered by the labor contract) and for the services rendered by natural persons according to civil legal contracts. For the payments that are not registered with such contracts no single social tax and insurance contributions for the compulsory pension insurance is paid. The Ministry

of Finance of the Russian Federation drew attention to the fact that the taxation bases for single social tax and the contributions for the compulsory pension insurance still coincide though these payments are regulated by different laws.

10. According to the letter of the Ministry of Finance of the Russian Federation from 01.09.2009 No 03-07-14/92 it is clarified that when purchasing goods (works, services, property rights) at the expense of sums of payment (partial payment) received for the forthcoming delivery of goods (works, services, property rights) the VAT taxpayers have the right to accept for the deduction the VAT sums presented by the suppliers for the goods (works, services, property rights) taken on books before they are sold. That is VAT paid to the budget from the sums of advances can be reduced (compensated) by the sums of the tax on the purchased material resources accepted for the deduction. Let us clarify the position of the Ministry of Finance of the Russian Federation with the example. For the goods worth RUR 200 the advance payment of RUR 100 was received. The seller receiving RUR 100 of advance payment is to pay RUR 15.25 of VAT to the budget. For the production of goods worth RUR 200 the materials of RUR 90 were spent. The VAT component makes RUR 13.73. The liability of a taxpayer seller when paying VAT from advance payment makes RUR 1.52.

11. According to the letter from 02.09.2009 No 03-03-06/1/560 the Ministry of Finance of the Russian Federation explained that the expenditures for the business trips of the employees to the affiliated and dependent societies for the resolution of the production issues can be taken into account in the taxation base for the profit tax in concordance with the statements of the article 264 of the Code. Since the business trip is formalized by the decision of the management of the company for the specified period it is not the work of travelling nature. For the work of travelling nature no business trip is formalized.

12. According to the letter of the Ministry of Finance of the Russian Federation from 28.08.2009 No 03-01-15/9-432 the procedure for the filling the documents for the confirmation of payments made with the payment cards through the Internet is clarified.

In concordance with the Federal Law from 22.05.2003 No 54-FZ "On application of controlling cash equipment when making cash monetary payments and (or) payments with the use of payment cards" the organizations (excluding crediting ones) and individual entrepreneurs have to give to the customers (clients) cash checks printed by the controlling cash equipment at the moment of payment or issue documents on payment on accountable forms. Slips from credit cards are one of such kinds of accountable.

According to the orders of the Bank of Russia from 16.01.2004 No 1376-U the possibility for conclusion of the acquiring contract between a bank and an organization (internet shop) is envisaged. According to such a contract the organization sets up an account in the bank to which the payments from customers' credit cards will be transferred, including those who are not the clients of this bank. The procedure for issuing and conducting of the operations with the credit cards is established by the Statement of the Central Bank of the Russian Federation from 24.12.2004 No 266-P. In concordance with paragraph 1.9 of the Statement, in the territory of the Russian federation the crediting organizations make payments with the organizations of trade (services) for operations conducted with the use of the payment cards which are not the clients of the crediting organizations mentioned. In order to conduct such payments the technologies of interbank communications are used. That is why the document on payment with the use of the payment card is the basis for making payments according to the operations mentioned and (or) serve as confirmation of their conduction.

13. According to the letter from 07.09.2009 No 03-04-06-02/65 the Ministry of Finance of the Russian Federation clarified that the monetary compensation for untimely payment of wages is not a form of labor remuneration and, consequently, no single social tax and no insurance contributions for compulsory pension insurance is accrued from these sums.

For instance, the Ministry of Finance of the Russian federation clarified that article 236 of the Labor Code of the Russian Federation establishes that in case the employer has violated the established date for the payment of the wages the employer must pay the wages with the interests (monetary compensation) at the rate of no less than 1/300 of the refinancing rate of the Central Bank of the Russian Federation of the sums paid not in time for every day of the delay starting with the day that followed the established day of payment for the real settling, inclusive.

The payments mentioned belong to the material responsibility of the employer and are made according to the law irrespectively of there being present or there being no corresponding statements in the labor contract, collective labor contract or agreement.

14. According to the letter of the Federal Tax Service of the Russian Federation from August 24, 2009 No 3-1-07/674 the procedure for the determination of the VAT rate and making changes to the invoice when presenting invoices in foreign currency is clarified in detail. At the same time the Federal Tax Service of the Russian Federation draws attention to the fact that the invoices can enlist the sums in foreign exchange only in cases of according to the conditions of the deal the liability is to be paid in foreign currency according to the procedure and conditions established by the law or in the conventional procedure.

15. According to the letter of the Federal Tax Service of the Russian Federation from August 31, 2009 No ShS-22-3/672@, it is clarified that the maximum sum of the profit for the transfer for the simplified taxation system (changes made by the Federal Law from 19.07.2009 No 204-FZ) has been changed. In 2009 the maximum amount is established at the rate of RUR 45 million and can be applied upon submission of the application for the transfer to the simplified taxation system from 01.01.2010. The limitation of RUR 60 million for the right of application of the simplified taxation system comes into effect on 01.01.2010.

16. According to the letter of the Federal Tax Service of the Russian Federation from August 25, 2009 No ShT-7-6/428@ the electronic form for the submission of tax declarations, accounting reports and other documents that serve as a basis for calculation and payment of taxes and fees, in electronic form (on the basis of XML) (version 5) is established.

17. According to the letter of the Federal Tax Service of the Russian Federation from August 25, 2009 No ShT-7-6/429@ the electronic form for the submission of tax declarations, accounting reports and other documents that serve as a basis for calculation and payment of taxes and fees, in electronic form (on the basis of XML) (version 5) for agriculture tax is established.

18. According to the letter of the Ministry of Finance of the Russian Federation and the Federal Tax Service of the Russian Federation from August 27, 2009 No ShS-22-3/669@ the question on the submission of “zero” taxation declarations for the single tax on the imputed income for some kinds of the activities is clarified.

Basing on the norms of chapter 26.3 of the Tax Code of the Russian Federation, the real execution of entrepreneurial activity subject to the system of taxation in the form of the single tax on the imputed income (consumption of resources) is the circumstance with which the Code connects the liabilities of taxpayers to submit tax declaration for the single

tax on the imputed income. The taxpayer has to register as a taxpayer of the single tax on the imputed income according to the start of the resources consumption irrespectively of the profit from it and can abolish the tax registration according to the end of their use.

If in the period of the operation the taxpayer does not have real values of physical indices of basic profitability, he reflects this in his tax declaration, submitting “zero” declaration.

19. According to the letter of the Ministry of Finance of the Russian Federation from August 27, 2009 No 03-05-05-04/11 the procedure for payment of the transportation tax is clarified if the transport vehicle was re-registered by the same taxpayer within in a month in another subject of the Russian Federation.

The Ministry of Finance of the Russian Federation noted that in concordance with the Tax Code of the Russian Federation (paragraph 3 article 362) in case the transport vehicle is registered or taken off the register within the taxation (accounting) period, the calculation of the sum of the tax (sum of advance payment for the tax) is made taking into account the coefficient defined as a ratio of the number of full months during which the transport vehicle was registered for the taxpayer in the corresponding subject to the number of calendar months in the taxation (accounting) period. It should be noted that the month of registration of the transport vehicles, as well as the month of taking the vehicle off the books are regarded as full months. In case of registration and taking off the books of the transport vehicle within one calendar month the month mentioned is taken into account as one full month.

20. According to the letter from September 10, 2009 No ShS-20-3/1336 the Ministry of Finance and the Federal Tax Service of the Russian Federation clarified the procedure for calculation of the tax on property of natural persons in case the property is in share ownership of several persons or in common property. In case of shared ownership the tax is calculated in proportion to the shares, and in case of common property – at equal sums depending on the number of the owners.

21. According to the letter of the Ministry of Finance of the Russian Federation from August 24, 2009 No 03-05-04-02/62, the Ministry for Economic Development from 21.08.2008 No D23-234, letter of the Ministry for Health Care and Social Development, Federal Service on Surveillance for Consumer Right Protection and Human Well-being from September 9, 2009 No 01/13128-9-32 it is clarified that the functional subsystems of the Unified system for warning and elimination of emergencies belong to the bodies of the service for elimination of the aftermaths of the emergencies, which are the security forces. That is why the land plots that are in the state or municipal property that are granted for the permanent (unlimited) use to the federal state health care institutions within the jurisdiction of the Ministry for Health Care and Social Development of Russia, on which they, according to their statute, conduct works on providing state sanitary and epidemiological control, are limited in turnover as those given for the provision of security, and, consequently, are not subject to the taxation with the land tax in concordance with subparagraph 3 paragraph 2 article 389 of the tax Code of the Russian Federation.

22. According to the letter of the Ministry of Finance of the Russian Federation from August 24, 2009 No 03-03-06/2/159 the explanation of the inclusion of the payment for the moral damage to employees to the non-operating losses for the purposes of taxation of profit. Only the economically substantiated expenditures are to be included in the list of non-operational losses. The list of non-operational losses is given in article 265 of the Tax Code of the Russian Federation. In concordance with subparagraph 13 paragraph 1 article

265 of the Code the expenses in the form of the fines, fees or (and) other sanctions for the violation of the agreements or debt liabilities as well the expenses for the compensation of the made damage that were recognized by the debtor according to the decision of the court are to be included in the list of non-operational losses.

Compensation of the moral damage, in the opinion of the Ministry of Finance of the Russian Federation, cannot be equated with the compensation of the caused (material) damage and does not meet the conditions of paragraph 1 article 252 of the Code. This position of the Ministry of Finance can be supplemented with the reference for paragraph 2 article 1101 of the Civil Code of the Russian federation, according to which the amount of the compensation for the moral damage is defined by the court depending on the nature of the caused physical and moral sufferings. That is these are interpersonal relations that are not based on agreements or liabilities (which are the basis for the entrepreneurial activity). ●

REVIEW OF BUDGETARY LEGISLATION

M.Goldin

In September changes were made to the Budget Code of the Russian Federation and the legislations that regulate the fulfillment of the budget process.

According to the Federal Law from 22.09.2009 No 218-FZ “On making changes to some legislative acts of the Russian Federation and recognizing some legislative acts of the Russian federation as invalid” changes were made to the Budget Code of the Russian Federation and other legislation acts concerning the issues of budget formation and expenditures.

The amendments made a number of significant changes:

1. The norm on inclusion of 100% of the profits from the severance tax on the hydrocarbons (excluding combustible natural gas) to the federal budget was established in the Budget Code of the Russian Federation. At present, in concordance with the Budget Code 5% of the payment of the tax mentioned is to be paid to the budgets of subjects of the Russian Federation.

It is obvious that this measure on consolidation of the profits from severance tax will result in the increase of its revenues especially against the background of improving prices for energy carriers at the world markets. And although in the environment of the economic crisis and severe budget limitations the regions lose one of the taxation sources to replenish their own budgets this will hardly have a serious effect on the balance of the latter. As it is demonstrated by the budget statistics, the volume of inpayments to the budgets of the Russian federation from severance tax has not exceeded 1.5-2% over the last two years in the structure of the total earnings of the regional budgets. Moreover, the lost incomes can be expected to be partially compensated as a result of the envisaged increase of excise rates for alcohol, motor fuel and transportation tax.

2. From January 1, 2010 to February 1, 2012 the statements of the Budget Code of the Russian Federation, according to which the profits from the management of the Reserve Fund and the Fund for National Welfare were directed to the formation of these funds were suspended. At present the means of the Reserve Fund and the Fund for National Welfare are deposited at the Bank of Russia, and the means of the Fund for National Welfare are additionally deposited at Vnesheconombank.

The profits from management of the means the Bank of Russia transfers annually to the federal budget at the rate fixed as on January 15 of the year following the year of placement. Vnesheconombank transfers the profits from fund management quarterly, in the quarter that follows the quarter of placement. Then the incomes mentioned are directed for the formation of the corresponding funds.

In this connection the action of the norms of the Budget Code in concordance with which the profits from management of the means of the funds are directed to the formation of the corresponding funds will be suspended from January 1, 2010 up to the moment that will follow the return of the profits from the management of the means of the Fund for National Welfare placed in Vnesheconombank over the 4th quarter 2011

and the profits from management of the means of the funds placed in the Bank of Russia over 2011.

In our opinion in the existing economic situation such a measure on regulating the mechanism of profits distribution from funds management will contribute to the attraction of additional means to the budget.

3. The proportion of the profit established by the Federal Law from July 10, 2002 No 86-FZ “On the Central Bank of the Russian Federation (Bank of Russia)” which is directed by the Central Bank to the federal budget was increased from 50% to 75%. ●