

RUSSIAN ECONOMY: TRENDS AND PERSPECTIVES 10'2009

MONTHLY BULLETIN:

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RUSSIAN ECONOMY IN OCTOBER 2009: TENTATIVE DATA AND MAJOR TRENDS

Political background of October was under the impact of the most important event, the election of local authorities, held on October 12. According to the statements of independent and political observers, the elections were held with numerous violations. Three opposition parties, represented in the Duma - Liberal Democratic Party (LDPR), Communist Party (KPRF) and "Just Russia" have declared that the elections were falsified in favor of «United Russia» and left the Duma session hall. Expert assessments of sociologists (Public opinion Foundation (FOM) and "Levada-Center") and statistical estimates of independent observers have demonstrated a significant overstatement of voters turnout in the official results of the Central Election Committee. In view of those assessments, the problems with the real attendance and the scandal in Duma can be regarded as the signs of potential instability in the political system. Herewith, it is worth noting that the indicators of socio-economic perception of the Russians population (according to the surveys of FOM and "Levada Center") in October continued to improve (after the failure observed in the early months of 2009).

Major trends in macroeconomics were based on a significant growth in oil prices: in October 2009, prices have reached the maximum level since October 2008, having sometimes exceeded USD 80 per barrel. This dynamics allows to expect further growth of trade surplus and has a significant impact on RUR dynamics. Within October RUR got strengthened against major foreign currencies (USD has declined from the level of RUR 30.008/USD 1 on 1.10.09 to RUR 29.048 /USD 1 by 31.10.09, and the EURO, accordingly - from RUR 43.88 to RUR 43.06). As a result, the value of two-currency basket was overcoming the annual minimum: at the request of Alexander Ulyukayev, First Deputy Chairman of the Central Bank, on October, 23 the RF CB supported RUR at the level of RUR 35.5 to the two-currency basket (against RUR 36.35 by the end of September). Herewith, the monitor had to make purchases, exceeding USD 11 bln in October.

The latter, in turn, urged the record monthly growth of international reserves since May 2009: by 23.10.09 they amounted to USD 429.3 bln (an increase by USD 16.6 within a month), which makes 71.8 % of the pre-crisis maximum. Further changes in the RUR exchange rate will depend on a number factors. If the oil price stays high, it will contribute to further strengthening of the ruble. However, accumulated liquidity in the banking sector, growth of government expenditures at the end of the year, as well as growth of monetary supply (for example, in August monetary supply growth amounted to 1.4 % ; according to the RF CB estimates, monetary supply growth within the current year will make 4-5 %) will limit RUR growth.

Inflation within the first three weeks of October stayed at the zero rate again, therefore, as of October results, a three-month period of zero inflation for the first time can be observed in Russia (since the beginning of the year inflation amounted to 8.1%). As in the preceding month, it was based on the lack of seasonal price growth for fruit and vegetables, stagnant demand, as well as, apparently, strengthening of the ruble, contributing to the profitability of import.

Inflation, maintained at the level of zero, allowed the Central Bank to announce the reduction of the refinancing rate to 9.5 % once again on October 29.

Growth of the RF stock market indices in October can be regarded as one more indicator of trends, prevailing in the international financial markets. In general, within the period

from September 28 to October 25, the MICEX index rose by 14.92% (within the previous year from October 26 to October 25, 2009 the MICEX index rose times 2.7). The average daily level of investors' activity in the stock market in October increased as compared with the preceding period by 9.5%. Those trends demonstrate, in particular, a significant growth in capital inflows to the stock markets of developing countries, including Russia, observed within September - October.

Growth of budget expenditures was continued in October. In particular, within the framework of further amendment of the federal budget estimates, the government has allocated RUR 150 bln. (0.4% of GDP) in addition to the previously approved amount for the forthcoming surplus capitalization of banking sector. The dynamics of the budget deficit monthly growth causes doubts in the possibility to keep the deficit within 7.4% of GDP as of the current year results. According to our estimates, it can reach about 8.9% of GDP. The total deficit for 9 months amounted to 4.7% of GDP. As of January-September results, the non-oil budget deficit reached 11.8% of GDP.

Real sector continues to demonstrate signs of stabilization. Industrial business surveys disclose further improvement of assessments and expectations in the dynamics of demand: if the current estimates of demand are still negative (nevertheless, they reached the level of July-August 2008), the balance of expectations in the dynamics of demand is positive now (positive estimates exceed the negative ones). Production capacity utilization in industry in October reached the level of 70%. Increased production, noted by producers, was urged by increased credit accessibility (48% of business managers in October against 42% in September have informed, that credits were available). However, large stocks of finished products and the intention of businesses to get rid of them could restrain growth potential in the industry. These circumstances were obviously reflected in the reduction of companies' sale prices growth in October as compared with September.

However, a review of data for January-September 2009 demonstrate, that, along with positive trends (growth of external demand, positive balance of financial results of enterprises), negative impact on the industry continues due to the low levels of investment and reduction of purchasing power. Thus, while in the period from January to August 2009 retail trade turnover decreased by 4.7% against relevant period of the preceding year, the reduction within January-September was already 5.4%.

Industrial output in January-September amounted to 86.5% of the same period in 2008. In the III quarter positive dynamics versus the preceding quarter was observed in industrial output (against a decline in production by 11.0% against the same quarter of the last year, 14.3% decline in the II quarter and 15.4% decrease in the I-st quarter). Herewith, it is worth to take into regard, that the production growth in the III-rd quarter of 2008 started to slow down. The indices in machinery and equipment manufacturing sector continue to decline: if the decline as of January-August results amounted to 33.1%, the relevant indicator of January-September increased to 36.1%.

It should be noted, that despite the continued reduction of import in annual terms, the structure of import suffers from significant unfavorable changes: thus, the share of investment goods in the import structure in the II quarter of 2008 amounted to 23.9%, while in the II quarter of the current year it decreased to 18.1%. It indicates that in reality consumer and intermediate goods import has a trend to grow, despite reduction of the total imports.

Therefore, in general, in October the trends, noted in September became more explicit: at the background of further improvement in external sector and stabilization of macroeconomic indicators, there is still a lack in internal resources to inspire production recovery. Further RUR strengthening is able only to aggravate the problems and moreover, provokes explicit instability in foreign currency exchange market in case of sharp decrease of oil prices.

POLITICO-ECONOMIC RESULTS OF OCTOBER 2009

S.Zhavoronkov

The main event in October 2009 was a scandal around the results of the elections to the Moscow City Duma, accompanied with a significant fraud, even as compared with preceding elections; as a result only United Russia and KPRF have passed legislature. Within the month, even the «system parties», such as KPRF, LDPR and «Just Russia» faced with the real prospect of a bipartisan Duma in 2011, demonstrated various forms of protest. Dmitry Medvedev, to whom these parties tried to appeal, on the contrary, has approved the outcome of elections, which is consistent with his previous political declarations.

A series of regional elections in a single day of voting was a major event in October 2009, though the elections were held only in three regions (Moscow, Tula and Mari El regions). The elections to Moscow City Duma, which are often regarded as some kind of primaries of parliamentary elections, have become one of the main October events. It's not quite fair, since the parliamentary elections will take place only in two years, meanwhile the voter turnout in regional elections is considerably less (no more than one third of voters as compared with nearly two-thirds in parliamentary elections), and the results of elections in Moscow earlier had some differences from the all-Russia election campaign (in particular, due to greater number of votes for the Liberal Parties). Herewith, there are some reasons for general conclusions: though more than 5 per cent of voters reside in Moscow (the largest RF Subject), the results of the elections of 2007 throughout the country and in Moscow differ insignificantly. Anyway, Moscow elections set up some standards for election campaign, given their maximum publicity.

For greater clarity, first, we would like to provide the announced results of elections in two other regions. In the republic of Mari El the United Russia party has gained 64.5 per cent of the votes, the KPRF - 18.9 per cent, the LDP - 7.6 per cent, «Just Russia» - 3.9 per cent, the «Right Cause» – 2.3 per cent. in Tula region the United Russia gained 55.4 per cent, KPRF - 18.3 per cent, «Just Russia» – 14 per cent, Liberal Democratic Party – 6 per cent, the «Right Cause» – 1.9 per cent, «Yabloko» – 1.6 per cent, «Patriots of Russia» - 0.8 per cent. As compared with 2007, in Tula and Mari El the rating of «United Russia» has decreased by 4 and 6 p.p., KPRF chances have grown by 9 and 5 p.p., in Tula the rating of «Just Russia», has grown by 4 p.p., while other ratings remained virtually unchanged. As to the outcome of elections in other regions (for example, in March 2009, the rating of «United Russia» never improved).

In Moscow in 2007 the results of «United Russia» were among the lowest in the country (55 per cent). At this time in Moscow, «United Russia» has gained according to official figures 66.3 per cent, KPRF - 13.3 per cent, LDPR – 6.1 per cent, «Just Russia» – 5.3 per cent, «Yabloko» – 4.7 per cent, «Patriots of Russia» – 1.8 per cent. Thus, only two parties have been elected to the Moscow City Duma, «United Russia» and the KPRF, and given the candidates of «United Russia» have won in all single-member districts, there are more than 90 per cent of representatives of that party in the Moscow City Duma. An active election campaign (though without campaigning against the «United Russia») was arranged by KPRF, the LDPR and «Just Russia», while the dismissed from elections opposition parties were distributing a lot of printed materials, campaigning against the «United Russia», headed by Yu. Luzhkov. However, the campaign itself was not notable for anything other than authorized by the Supreme Court of Russia withdrawing from the election of all the

opposition candidates in single-member districts under false pretenses. To this end, the Supreme Court has reviewed its own decisions made in previous years¹. Therefore, the assumption that the initiative of D. Medvedev to abolish the electoral deposits associated with the intent to prevent the election of independent candidates, and therefore not to admit the election observers of the candidates was confirmed, as the right to designate observers have only the participants of the elections.

The counting of votes showed the same global and flagrant fabrication of the votes, carried out in three major ways: removing the monitors from polling stations on the eve of the closing of voting, voting by an absentee from election by the same person at different sites and a simple rewriting of protocols of the territorial election commission, even despite the available protocols of the observers. As a result, polling stations were divided into two groups: a group with a voter turnout of about 20 per cent and the rating of «United Russia» about 45 per cent and the group with a turnout of about 35-40 per cent and the rating of «United Russia» about 70-80 per cent. In the first group of polling stations to the Moscow City Duma, except for «United Russia» and KPRF, LDPR, «Just Russia», and «Yabloko» is on the verge of passing. Moreover, these differences are observed in the districts, which are often located next to each other, i.e., we are not talking about some kind of geographical or social differences. In many districts the results of «United Russia» are recorded at the level of 90 per cent and higher.

Election results for various major parties showed that there is a possibility of transfer from from four-parties to a two-party system: LDPR and «Just Russia» in particular are on the verge of passing the threshold, and the reason for this is not a sort of fierce unwillingness of the authorities to see them in the Parliament or the legislatures, but in their sustained backlog from KPRF. This gap persists in the vast majority of regions under the current elections procedure, when the rating of the party in power is raised at any cost. In this case, the KPRF is guaranteed the second place (while, in accordance with the law, at least two parties should be present in the parliament). However, presence in the state Duma, is only a relative consolation to the Communists, when the number of their mandates is getting sharply reduced.

Another outcome of the elections was the final disappearance of «systemic liberals from the political stage». Promoting itself as «the party of Medvedev», its members did not even participate in Moscow elections, and in Tula and Mari-El they were not even close to the passing threshold. «Yabloko», whose reputation was ensured by the membership in a group in the Moscow City Duma, formed in 2005 due to joining of all liberal forces, this time was acting as a spoiler and focused on criticism of the Communist Party of «Just Russia» and non-parliamentary liberal members of «Solidarity» movement, as well as actively campaigning for the extended term for Luzhkov as a Mayor of Moscow, which can be regarded as indirect campaigning for the party of power. There is neither reputation among the «systemic liberals», that would excuse the lack of success in the elections, nor the election results, which could justify the lack of reputation.

The results of the election campaign to the Moscow City Duma have caused a big political scandal, which continued throughout the month. Factions of KPRF, LDPR and «Just Russia» have left the conference hall of the State Duma, then returned, but during the month created information occasions, demanding from the executive branch as a minimum, the review of the elections, as a maximum - the resignation of Yuri Luzhkov,

1 The Electoral Committee has put forward an absurd, not directly defined by the law and almost never practiced before requirement for candidates to indicate in signature sheets that they had not previously tried, and are not municipal deputies (in the law this requirement is applied to those who have a record of conviction or to municipal deputies) . Having left the decision in force, the Supreme Court has ignored its own decision in 2005, confirming the uselessness of such information.

the Mayor of Moscow and V. Churov, the Head of the Central Election Committee. As a result, the disgruntled ones were honored by the meeting with Dmitry Medvedev, «United Russia» was congratulated on the occasion of the deserved and honest victory, and the electoral system was assessed as a highly advanced one. The negligence of the authorities in regard to systemic parties can be understood, because they have accepted the rules of the game long ago, providing an imitative nature of their activities to a great extent; for example, it is not accidental, that even in this month the Communist Party found the time to debate about Stalin and criticism of the OSCE. These simulation actions include the lack of parallel counting of votes that are replaced by bright, but the fragmentary evidence of violations at the sites among those parties¹. However, none of the elections, held in recent years (including the parliamentary and presidential ones) did not cause such a long protest campaigns of systemic parties. One cannot exclude, that they somehow they can reconsider their policy with regard to the threat of two-party election to the State Duma in 2011.

Some time earlier, even before the elections, D. Medvedev has presented program assessments in a conversation with journalists of TV «First Channel», summarizing the results of the year of struggle with the economic crisis. The assessments were optimistic. «... *Negative expectations, which were made before, in social terms became lower than expected. At some city-forming enterprises, we were forced to take responsibility in the mode of direct management*». Mr. Medvedev has appreciated the efforts of the regions in addressing problems of unemployment, but added that they «*have to be pushed*».

Macroeconomic policy of the RF Government has been approved by Mr. Medvedev. «*As a result of quite reasonable of anti-crisis measures, we managed to avoid the worst outcomes in terms of unemployment, as well as in terms of direct financial impact of the crisis, in terms of the banking system and real sector ... Nearly all kinds of donations were preserved... the situation with ruble is absolutely smooth and stable*». Some criticism was heard only in the context of delays in the provision of government guarantees to banks to expand credits to the real sector. Short-term and medium-term objectives were mentioned: to reduce inflation to 5-7 per cent, the preservation of social liabilities and the growth of budget expenditures on agriculture. Long-term (for 10-15 years) objective is «*modernization of the economy ... social life, political system.*»

Some development is noted in the power structures of Russia. Thus, the Deputy Prosecutor General Vladimir Grin has refused to confirm the indictment in the high-profile corruption case, the main culprit in which is A. Bulba, the State Drug Control General, close to A. Cherkesov, the former Head of the Agency. Indictment was returned to the Investigation Committee of the Prosecutor's Office. Since the defendants in the case have been in custody already for seven months longer period than provided for the RF Criminal Code, they have higher chances for their release with regard to the recent decisions of the RF Supreme Court, which has decided, that the extension of detention needs new circumstances.

In October, there were noted indicators of weakened position of Rashid Nurgaliev, Minister of Internal Affairs. V. Syusyura, the Minister of Buryatia Internal Affairs and his two deputies were arrested as suspected of smuggling at their former place of work in the Azov-Black Sea Department of Internal Affairs at transport (and the Minister was presented with a fait accompli, - the order for his dismissal had to be issued after his arrest). But B. Lesnyak, Minister of Internal Affairs of Tuva was dismissed from office for appearing in his office «Evsukov» for shooting by a drunk employee with human victims.

1 The continuous monitoring at 3 thousand of elections sites in Moscow with regard to labor cost of an observer at RUR 1000 (even assuming that the number of volunteers is zero and there were no observers from other parties, which is obviously not the case) would cost no more than RUR 3 million. This is a tiny part of pre-election budget of the Communist Party.

In the Ministry of Defense there happened, on the contrary, strengthening of the position of A. Serdyukov, the Defense Minister. As V. Shamanov, Commander of the airborne troops, who recently began to overshadow the Minister, was warned about incomplete professional competency after the press has disclosed the inspection information showing the use of his official position in attempts to defend his son in law, declared a wanted man in the course of commercial conflict.

The situation in the North Caucasus remains unstable. YU.-B. Yevkurov, the Head of Ingushetia has dismissed the Government of R. Gaysanov and appointed a new Head of the Government of Ingushetia A. Vorobyov the Security Council Secretary, who has long been one of the real leaders of the security forces in the Republic. The former government, working in the republic for a few months during Evkurov's recovery after the attack, was accused of failure to combat corruption, although in fact, the fault might be in the excessive self-reliance of R. Gaysanov (initially Evkurov's recovery was in doubt), or the need for increased federal control over him. The first municipal elections were held in Ingushetia, though there was no serious struggle during them and all the candidates of the party in power have won.

In October 2009, M. Aushev, one of the leaders of the independent society, grouped around the site «Ingushetiya.org» was murdered. Recently there were many repeated attacks against him - just two weeks before the murder there was an attempt of his abduction by some vehicle. After appointment of the new Head of the Republic, Aushev has openly stopped the opposition activity, but continued actively to be engaged in human rights support and his relation to Evkurov was not quite clear. After the murder of Aushev there are the discussions about the exhaustion of the dialogue with the authorities and sounded calls for a civil disobedience campaign in the country are resumed, similar to those heard in the past year, which led to the resignation of the former Head of the republic M. Zyazikov.

R. Kadyrov, the Head of Chechnya continued litigation with the human rights defenders. Moscow court has found actions of Oleg Orlov, the Head of «Memorial» community wrongful, having fined him, however, for a minor fee in the case on protection of honor of Mr.Kadyrov. However, at the end of the month Kadyrov after several attempts has brought against a criminal case against Orlov. The international human rights defense community, on the contrary, has awarded Orlov prestigious prize of A.D. Sakharov. It was announced in Chechnya on the prevention a terrorist attack against Kadyrov, but there happened a scandal - it became clear that the bomber, suspected earlier was abducted by security service.

Experts and journalists actively commented the activated diplomatic relations with China: still back in September 2009 the Heads of Russia and China have approved a program of cooperation between the regions of the Far East and Eastern Siberia and northeast China for 2009-2018. It contained the idea of creating in the territory of Russia manufactures on production and transportation of minerals, electricity, etc. with the actual regime of exterritoriality: the possibility of free movement of the Chinese labor force and a special tax regime for these companies. However, there is no legislative framework for that idea yet.

In October, Gazprom and CNPC have signed another agreement to supply the Russian gas to China (the first one was signed in 2005) and indicated there huge amounts of gas supply – up to 70 billion cubic meters of gas per year (which is comparable to European exports); however, as four years ago, there is no agreement either on the timing, or on the price.

United Shipbuilding Corporation and Yantai China-Singapore Concern have signed an agreement of intent to build a shipyard in the Far East for the production of drilling

platforms, and herewith, the Russian party gets 75 per cent of its shares, but the timing and amount of funding are also not specified. In general, the results of the Russian-Chinese diplomacy can be defined as «virtual».

Herewith, in October Russia has achieved its first success in four years in approval of the project Nord Stream pipeline from the authorities of Denmark and speeded up negotiations on the agreement with the authorities of Finland. Denmark became interested in the economic effect from the project, and Finland was encouraged, among other things, by the delay in raising tariffs on timber exports, and perhaps some preference in the field of electricity, in which Finland is extremely dependent on Russia. However, there should be also the consent of Sweden (where the opposition to the project is strong) and of Germany as the final destination, which is so doubtless as earlier after the recent elections and changes in parliamentary coalition. ●

INFLATION AND MONETARY POLICY

N.Luksha

In September 2009, for the second consecutive month, the zero inflation was sustainable. Thus, the accumulated inflation since the beginning of the year remains at the same level of 8.1 per cent, which is lower than 10.6 per cent in 2008. In September the real effective ruble exchange rate has grown by 1.1 per cent, while the foreign currency reserves of the Bank of Russia increased by 0.9 per cent to USD 413.4 billion. The two-currency basket value has fallen down by 3.7 per cent to the annual minimum of RUR 36.35. In September, the outflow of capital was reduced to USD 6 billion. The Bank of Russia continued its policy of monetary policy mitigations: since September 29 the refinancing rate once again was lowered by 0.5 p.p. to 10 per cent per annum. At the same time the interest rates on loans and deposits of commercial banks in the CBR were lowered by 0.25-0.75 p.p. On September 29, the Bank of Russia has published a draft of "Guidelines for a uniform national credit and monetary policy for 2010 and the term of 2011 and 2012."

In September the consumer price index growth rate remained unchanged made 0 per cent in monthly terms (see Figure 1.). Like in preceding month, the greatest input in prices was made by non-food products (+ 0.7 per cent). Zero inflation rate was sustained due to reduced prices for food stuffs (-0.8 per cent).

In September, the growth rate of prices for non-food products has increased slightly as compared with August. Like in previous months, the highest increase in prices in this group of commodities, which however, slowed to 1.5 times as compared with August, was observed for gasoline (+2.4 per cent). Continued growth was observed in clothes (+1.2 per cent) and footwear (+1.3 per cent). Reduced prices were noted only in medicines (-0.3 per cent).

In September, there was continued reduction in the cost of food products (-0.8 per cent). The greatest decline in prices has affected fruit and vegetables, which fell down by 11.5 per cent. Among the foods that have fallen in price in August, only sunflower oil was further declining (-0.8 per cent). The largest leap-frog in prices was recorded for sugar (10.4 per cent).

In September, the growth rate of prices for commercial services has decreased four times as compared with the preceding month to +0.1 per cent. This was contributed by lower prices for a few types of services: foreign tourism (-3 per cent), health and resort services (-1.9 per cent) and passenger transport services (-1.5 per cent), prices, prices of which were affected by the end of the mass leave period. Some contribution to the reduction of prices for commercial services was made by cheaper insurance services (-0.4 per cent) and communication services (-0.1 per cent). The utmost growth in prices in September was noted among educational services (+3.4 per cent) and pre-school education (+1.1 per cent).

We would like to note, that in the first three weeks of October, inflation was also sustained at the zero growth rate. Therefore, for the first time in 10 years, within two and a half consecutive months zero inflation is sustained in the country. In August 2003 and 2005 there has been deflation, however, in September prices started to grow. Following August zero inflation, the September positive inflation has occurred.

During this fall, the stagnation in prices was contributed by the decreased income of population. Thus, in September, the decline in real disposable income has amounted to 4.9

per cent as compared with September 2008. In August 2009 the downfall in income was even more severe, accounting for 8 per cent as compared with August of preceding year.

Another important anti-inflation factor was the strengthening of the ruble, which began in mid-August. Depreciation of the dollar and Euro against the ruble has reduced pressure on the prices of imported goods included in the consumer basket. Moreover, the strengthening of the ruble is to the benefit of producers, focused on the domestic market, due to which they can more easily reimburse some costs in foreign currency and thus keep the selling prices at the same level.

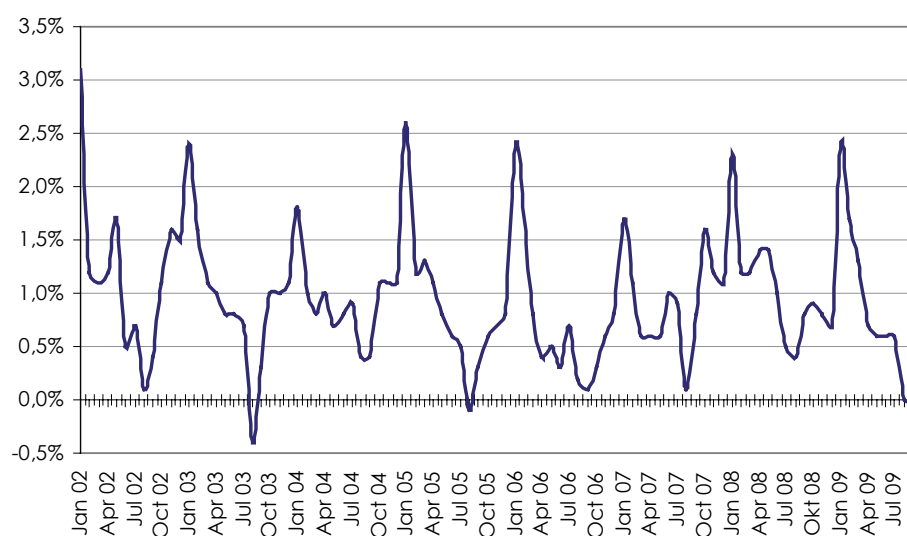
As we have noted, the main contribution to the reduction in prices in September, like in August, has made cheaper fruit and vegetables. Usually after a price decrease in August, in late September prices for fruit and vegetables have grown. But this year, falling prices for fruit and vegetables come with some delay due to frost and drought in the southern parts of the country. We would like to remind that in July there was an unusual upsurge in summer prices for fruit and vegetables, which started to fall down only in late August. Moreover, the unusually warm autumn delayed the traditional surge in prices for this kind of food products.

In October we can expect inflation close to zero level, because the pIt is also worth mentioning the impact of a reduced monetary supply, as compared with the preceding year (the monetary supply M2 within the term of January-August 2009 has decreased by 1.4 per cent over the same period in 2008 it has by contrast, rose by 9.5 per cent).

In October we can expect inflation close to 0 level, because the price index within the month was influenced by the same factors as the month before. The basic indicators are the continued reduction of fruit and vegetables cost and a small rise in the cost of non-food products (e.g., gasoline), which previously have made a major contribution to the prices growth.

It is interesting to compare the impact of the crisis on the price dynamics in Russia and other countries, including the EU and the United States. According to recent Federal State Statistics Service estimates of consumer price indices in 36 countries, within eight months of this year several EU countries experienced deflation: the level of prices in Ireland fell by 1.5 per cent, in Greece - by 0.6 per cent in Portugal - by 0.4 per cent, in Spain and Italy – by 0.1 and 0.3 per cent respectively. In some countries prices rose, but only slightly: for example, in Austria, prices rose by only 0.2 per cent, in Belgium - by 0.3 per cent. In Germany and France - less than 1 per cent. In general, in 27 EU countries the growth in consumer prices was 0.8 per cent. In the United States, prices rose by 2.7 per cent.

Since the beginning of the year all prices for goods and services rose in the former Soviet Union countries, namely in our country - by 8.1 per cent, in Ukraine - by 8.2 per cent, and in Belarus – by 7.5 per cent. As for food staffs, there was deflation



Source: Russian Statistical Agency

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

in the EU countries (-1.4 per cent), whereas in Russia, by contrast, prices were growing (+6.1 per cent).

An upsurge of inflation in our country at the beginning of the year was provoked by the policy of “smooth devaluation” of ruble, pursued from the middle of December 2008 to January 23, 2009. The effect of devaluation, which was extinguished only in the II quarter of the year, led to higher prices of imported goods and their domestic counterparts.

An additional factor to different price processes in our country and in European countries have differences in the competitive environment. Thus, in Europe, where competition is strong enough, the crisis led to a fall in demand and thus lower prices, whereas the Russian economy is characterized by monopoly and the lack of competition. Prices are rising mainly in sectors where there is no competition, namely: gas, electricity, oil, utilities and railway services (according to the Ministry of Economic Development estimates, prepared in October 2009, the growth rates for the thermal energy, utilities and railway transportation in 2010 amount to 10-15 per cent). Thus, inflation in Russia was in 2009, to a greater extent is a structural, rather than monetary in nature.

The basic CPI¹ in September 2009 has made 0.5 per cent (versus 1.4 per cent in the relevant period of preceding year).

As of September 2009 results, the monetary base (in broad definition²) has declined by 2.4 per cent and amounted to RUR 4,803.7 billion. As of September 1, 2009, the volume of the monetary base in a broad definition has reached RUR 4,921.6 bln. Let us consider the dynamics of the monetary base in broad definition by components.

As of October 1, 2009, cash in circulation with regard to the fund balances in credit organizations made RUR 3.9 trillion (decline by 3.9 per cent within the month), correspondent accounts of credit organizations in the Bank of Russia made RUR 545.4 billion (-8.9 per cent), mandatory reserves made RUR 153.9 billion (+22.8 per cent), banks’ deposits with the Bank of Russia made RUR 216.9 billion (-20 per cent), the value of shares of the Bank of Russia with credit organizations made RUR 18.4 billion (+8.9 per cent).

In September 2009, excessive reserves of commercial banks have decreased³; this indicator has declined by RUR 780.7 bln, or 12.2 per cent. Reduction of correspondent accounts took place due to the transfer of surplus foreign currency, accumulated in summer in anticipation of the second wave of devaluations, in the more profitable instruments after the removal of restrictions on foreign assets accumulation for the banks. Despite that fact, there is an excessive liquidity in the banking system.

As we wrote in our previous review, the positive developments of August bank lending system were insignificant and short-term. Thus, according to A.G. Ulyukayev, the First Deputy Chairman of the Central Bank, within a month and a half since the beginning of autumn corporate portfolio of banks decreased by 2.5 per cent, or RUR 300 billion. It is worth reminding, that in August, after a six-month credit decline, growth of corporate portfolio of banks has been resumed for the first time (0.7 per cent as of the month results). However, in the fall this trend was not continued.

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

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

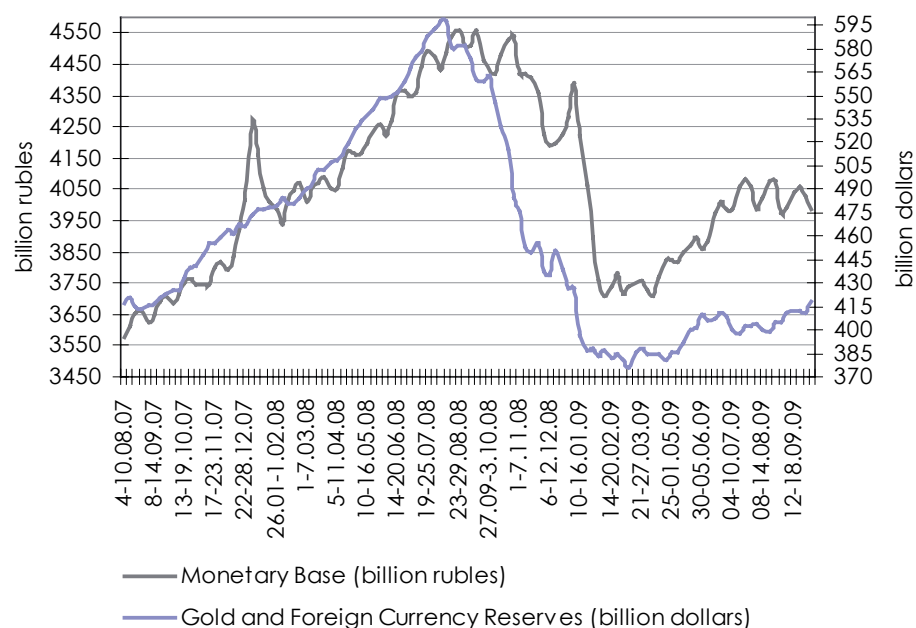
3 The excessive reserves of commercial banks with the RF CB refers is the amount of correspondent accounts of commercial banks, their deposits with the RF CB and the CB bonds of commercial banks.

According to the Central Bank, in September the rates on ruble credits to non-financial institutions were decreased by 0.6 p.p. to 14.5 per cent. As compared with the beginning of the year, the rates on credits have fallen to 2.9 p.p. However, despite the fact that the rates have declined, they still remain high. We would like to note, that in mid-October, the bankers have notified the government that are ready further to reduce rates to 8.12 per cent for the «trustworthy borrowers». Meanwhile, the credit activity of banks remains low.

G. Melikyan, First Deputy Chairman of Bank of Russia said that in September for the first time since the beginning of the year the banks have reduced the amount of arrears. Thus, arrears with the Russian banks (excluding Sberbank) for September has reduced to 2.3 per cent and in non-financial sector - by 4.3 per cent. Nevertheless, reduced overdue debt should be regarded as a result of active debt restructuring, rather than the evidence of positive developments in the banking sector. Thus, according to A. Simanovsky, Director of the Central Bank department for bank regulation and supervision, on September 1, a quarter of the 20 largest Russian banks loans was restructured. Therefore, those loans that were to be repaid have been restructured and thus were excluded from the category of «bad debts».

It is worth mentioning, that according to the estimates of G. Melikyan, the share of bad debts (the fourth and fifth quality category) in the total credit portfolio of the Russian banks in September was about 10 per cent, twice more than in April. Therefore, despite some positive changes in the banking sector, the sustained high risks and uncertainty do not allow to expect rapid growth in corporate and consumer lending in the short term.

In September, the reduction of the volume of cash in circulation by 1 per cent and reduction of mandatory reserves by 22.8 per cent has led to decrease of monetary base in narrow definition (cash plus mandatory reserves)¹ by 0.2 per cent (see Fig. 2).



Source: RF Central Bank

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

Herewith, the volume of international reserves of the Central Bank of Russia in September has increased, amounting to USD 413.4.

According to the RF Central Bank, the net outflow of capital from Russia in the III Quarter of 2009 exceeded the expectations of the Bank of Russia (less than USD 10 billion), amounting to USD 31.5 billion: of which in July – USD 16 billion in August – USD 9.4 billion, and in September - USD 6 billion. Thus, in the III Quarter the total outflow was almost at the level of the first Quarter (USD

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

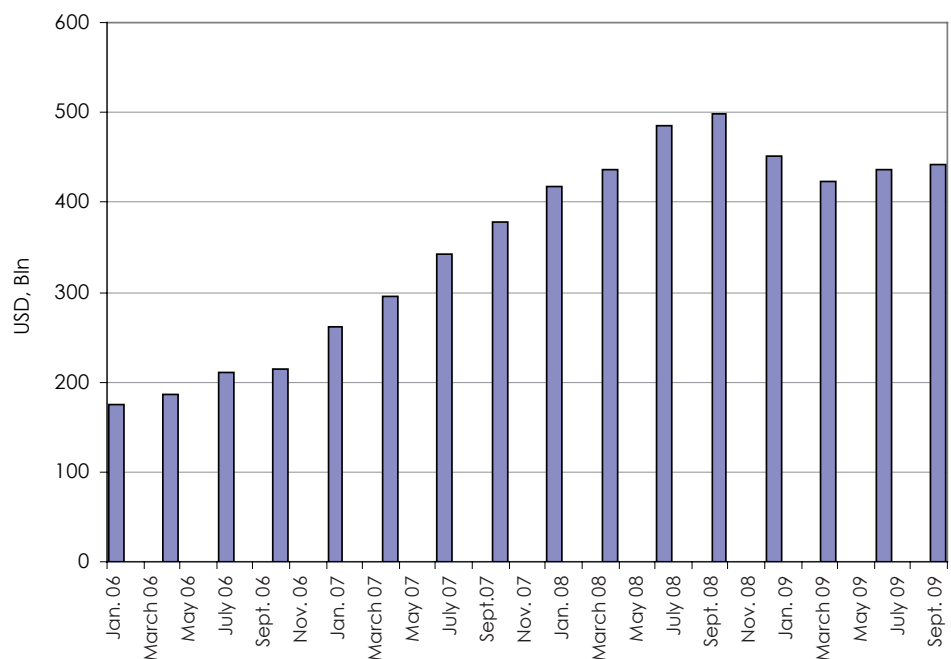
35.2 billion). Possible reasons for accelerating the outflow of capital in the III Quarter have been, first, the removal of restrictions to accumulate foreign assets for the banks from July 1. It is worth reminding; in July 30 largest banks in the country withdrew from the foreign currency accounts of the Central Bank about 75 per cent of total assets. Second an upsurge in capital outflow in summer can be explained by devaluation expectations, which decreased by September. Third, in this period payments were made on external debts. In general, within January-September 2009 the amount of capital outflow amounted to USD 62.3 billion.

According to the RF Central Bank, on October 1, 2009 the total foreign debt of Russian banks and companies amounted to USD 441.2 billion (see Fig. 3). The external debt of banks and companies is being increased (+1per cent) for second consecutive quarter. In III quarter the debt of banks decreased by USD 4 billion, or 2.8 per cent, to USD 137.7 billion, whereas the debt of companies, by contrast, grew by USD 10.7 billion, or 3.7per cent, to USD 303.5 billion, having reached the maximum indicator for the year. Herewith, 78 per cent, or USD 237 billion of the total debt of the real sector accounts for loans. Since early 2009, the total corporate external debt declined by 1.5 per cent: the debt of the banks declined by 17per cent, and the debt of non-banking sector, by contrast, grew by 8 per cent.

Due to continued growth of corporate external debt, Central Bank intends to develop a bill that would limit the amount of foreign borrowing by companies, namely, the possible decrease of the limit interest rate on foreign currency loans (to 3 per cent), which can be attributed to the products cost.

In September ruble has strengthened by 1.1per cent. As of the month results, real effective RUR rate has grown to 129.15¹ (See Fig. 4).

As per September results, RUR demonstrated a significant strengthening against USD and the EURO, the nominal rates which fell against the ruble by 4.7 per cent and 2.8 per cent respectively. The dollar has declined to RUR 30.09. And the Euro - up to RUR 44.01. As per results of September, ruble has grown regard to the two-currency basket² by 3,7per cent. The basket value has declined to RUR 36.35 and reached the minimum indicator for the year. The high price of oil USD 65-75 per barrel in the last two months of III quarter was the major factor in RUR



Source: RF Central Bank

Fig. 3. Corporate External Debt in January 2006 – September 2009

1 The level of 2002 is taken for 100.

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

strengthening. In order to prevent its excessive strengthening, the Central Bank held a large-scale foreign exchange intervention in September: the net dollar purchases amounted to USD 2.7 billion. Moreover, the strengthening of ruble contributed to the weakening of U.S. currency in the international currency market Forex from USD 1.42 for EURO 1 to USD 1.46 for EURO 1 on September 30. In October, dollar continued its decline (USD 1.5 for EURO 1 on October 23).

It is worth noting that the dollar was declining not only in Russia. A number of developing countries, including Korea, Thailand, Malaysia, Taiwan, Singapore, Indonesia, Philippines and Hong Kong were affecting large-scale foreign currency interventions aimed at maintaining the dollar. Strengthening the national currency is a disadvantage for those countries (which is true for Russia as well) for several reasons: on the one hand, in times of crisis expensive national currency affects, first of all, the national exporters of these countries, on the other hand, the bulk of their foreign currency reserves are denominated in USD.

In addition to high oil prices, an equally important role in the dollar decline in the world markets has played a psychological factor, based on the message in a British newspaper «The Independent» on alleged negotiations between Russia, China, Japan, France and the countries of Persian Gulf to replace dollar in payments for oil. Despite the fact that officially this information has not been confirmed, rumors had an impact on investors' behavior, they immediately responded by selling dollars and increased demand for gold.

Further changes in the ruble exchange rate will depend on a number of factors. If the oil price stays high, it will contribute to further ruble strengthening. The trend to the dollar weakening in the world markets will also influence the ruble rate. However, the growth of ruble will be curbed by accumulated liquidity in the banking sector, the growth of government spending at the end of the year, as well as growth in monetary supply (for example, in August monetary supply growth amounted to 1.4 per cent). According to the estimates of the Central Bank, monetary supply growth as of the year results will amount to 4-5 per cent.

It is worth mentioning that in the Draft Guidelines for monetary policy over the next three years, the Central Bank presented its vision of the dynamics of macroeconomic indicators that influence the ruble rate. In all scenarios, worked out for 2010 (in case of oil price at USD 45, 58, 68 and USD 80 per barrel) the Central Bank expects a trade surplus. In the worst case capital outflow will be slightly higher than earnings from exports, which will lead to a reduction in foreign currency reserves of the Bank of Russia by USD10.8 billion. However, reserves reduction by such amount should not have a serious negative impact on the ruble. In other scenarios, the balance

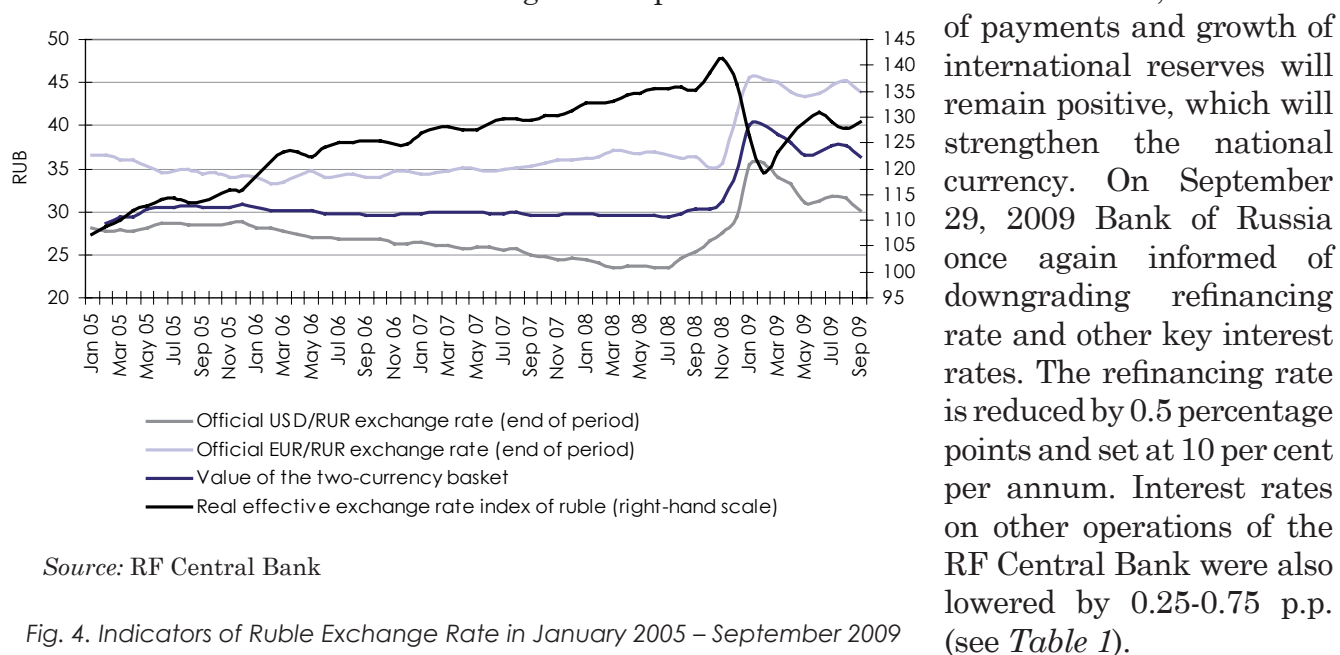


Table 1

INTEREST RATE UNDER RF CENTRAL BANK CREDIT OPERATIONS

	Term	From 15.09 09	From 30.09.09
Lombard credits (lowest interest rates)	14 days	8	7.25
	3 months	9.25	8.75
	6 months	9.75	9.25
	12 months	10.25	9.75
Direct Repo through an auction (Stock Exchange and OTC) (minimum interest rate)	1 day	7.5	7.25
	7 days	8	7.25
	90 days	9.25	8.75
	6 months	9.75	9.25
Overnight credits	12 months	10.25	9.75
	Overnight	10.5	10
«Foreign currency swop» (RUR share)	1 day	10.5	10
Lombard credits (under fixed interest rate)	1 day	9.5	9
	7 days	9.5	9
	30 days	9.5	9
Direct Repo (under fixed interest rate)	1 day	9.5	9
	7 days	9.5	9
	12 months	10.25	9.75
Credits, secured by assets or warranty (Credit, secured by assets or warranty)	Up to 90 days	9.5	9
	From 91 to 180 days	10	9.5
	From 181 to 365 days	10.5	10
Deposit operations (Credit, secured by assets or warranty)	«tom-next», «tom-next», «on demand»	5.25	4.75
	«Week 1», «Spot-week»	5.75	5.25

Source: RF Central Bank

Therefore, the Bank of Russia for the seventh consecutive time has mitigated the interest rate policy, and in September - twice with an interval of two weeks. This step is intended to promote the credit environment, and consequently, economic activity in the country. The reasons for lower rates was the continuing trend to decelerate inflation and to reduce devaluation expectations. As the refinancing rate is directly linked to the dynamics of inflation, A. Ulyukaev, First Deputy Chairman of the Central Bank of Russia does not exclude the possibility of lowering the refinancing rate below 9 per cent in the next year. The Central Bank expects inflation for next year not to exceed 9 per cent.

On September 29 the Bank of Russia has published a draft framework for the consolidated national monetary policy for the next three years. According to the document, the Bank of Russia, as in previous years, is going to pursue its key objective to curb inflation (in 2010 – to 9-10 per cent, in 2011 – up to 7.8 per cent, in 2012 - up to 5.7 per cent). In the coming period, the Central Bank expects to complete the creation of conditions for the application of the targeted inflation and the transition to the free flexible ruble rate. The Bank of Russia has developed 4 options of the forecast, depending on the dynamics of oil prices – USD 45, 58, 68 and USD 80 per barrel. Growth rate of monetary base in narrow definition (depending on the behavior of oil prices) in 2010 could reach 8-17 per cent, in 2011 - 11-19 per cent, in 2012 - 13-19 per cent. In the framework of three options developed by the monetary program, one can expect an increase of foreign currency reserves. The reduction of such reserves is possible in case of decrease of oil prices below USD 45 per barrel.

FINANCIAL MARKETS¹

N.Burkova, E.Khudko

In October, positive trends were dominating in the dynamics of the Russian financial market. The growth of the global market oil price, exceeding USD 80 per barrel, successful financial performance results of many large international companies as of the nine months of 2009, further strengthening of national currency and reduced inflation estimates in the TF for 2009 have contributed to higher business activity among investors and growth of the Russian stock market. Herewith, the growth of the RF internal and external debts, as well as the assessment of the RF banking system as the 8th risk group by Standard & Poor's rating agency were restricting the quotations. Positive trends were particularly expressed in the corporate securities market, where investors' activity has grown by 10 per cent.

Sustained trends were observed at the domestic market of corporate bonds: the market trading volume and investors' activity were stable at the secondary market. The basic negative factor was the peak number of actual defaults, though the emitters more often reach an agreement on the debt restructuring with the securities owners.

Government securities market

Within October, the growing RUR, statements of the government about the reduced inflation rate, measures taken to improve the situation with ruble liquidity, i.e., the RF Central Bank unsecured auction for RUR 30 bln and Ministry of Finance of budgetary funds in the amount of RUR 60 bln at the banks' deposits significant increase in trading volumes in the OFZ market have resulted mainly in the continued downgrading trend in the yields of market of government securities. Herewith, a decline in activity was observed at the both, primary and secondary federal loan (OFZ) market as compared with preceding month, but the demand for RUR has been sustained.

As of October 27, the Russian Eurobonds RUS-30 yield to maturity has decreased as compared with the level of September 27 from 6.29 to 5.70 per cent per annum (by 9.38 per cent), RUS-28 – from 6.67 per cent to 6.09 per cent per annum (by 8 per cent), RUS-18 - from 5.19 per cent to 4.99 per cent per annum (by 3.85 per cent) and RUS-10 – from 3.28 to 0.81 per cent per annum (4-fold). As of the same date, the downgrading trend was also observed in the yields of external currency debt bonds. Thus, the yield to redemption of the seventh tranche of external currency debt bonds has decreased from 3.57 to 3.25 per cent per annum (by 8.96 per cent) (see Figs 1-2).

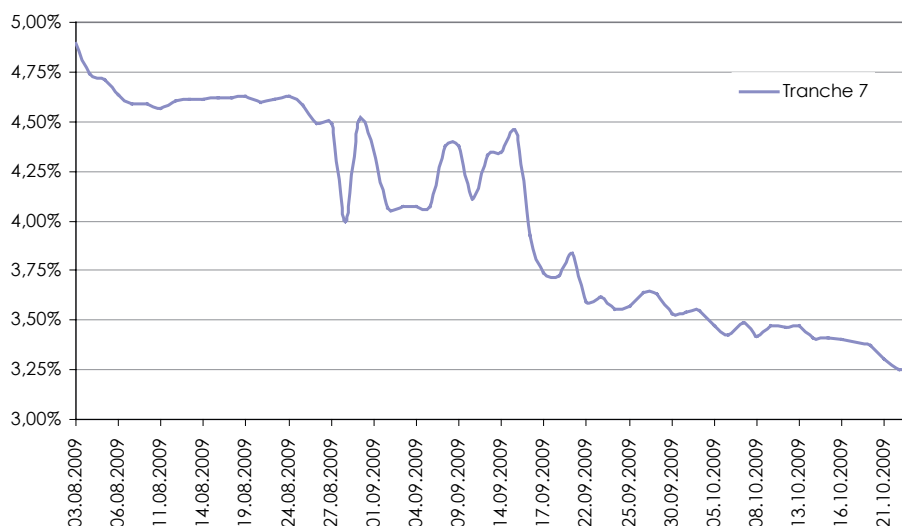
Within the period from September 28 to October 25, the total turnover of the OFZ secondary market amounted to approximately RUR 124.16 billion with an average daily turnover of RUR 6.21 billion (about RUR 131.93 billion with an average daily turnover of RUR 6.60 billion in September), what corresponds to the growth of an average monthly turnover nearly by 6 per cent.

Within September 28 – October 25, there were six auctions on OFZ additional placements (against eight auctions a month before) at the primary OFZ market. Thus, on September 30, there were two auctions on OFZ placement, series 25070 and 26202 for the amount of

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.

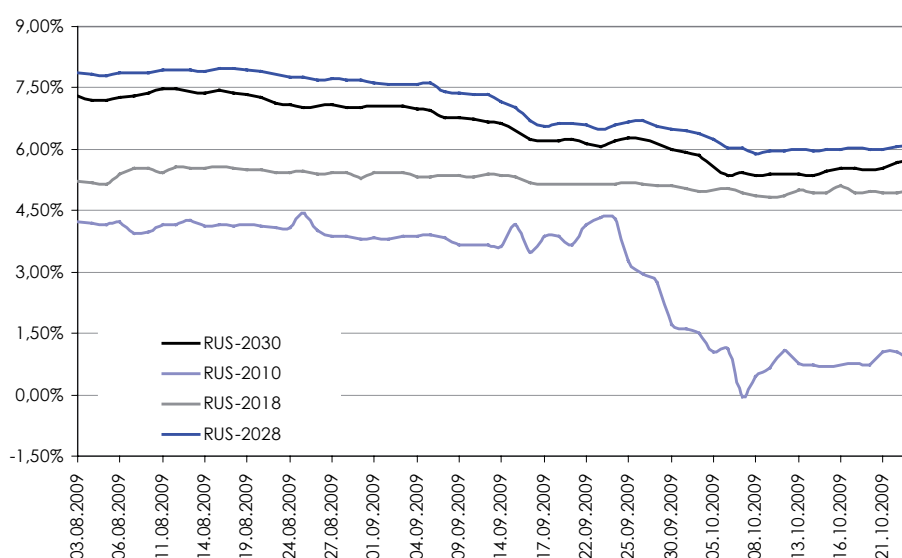
RUR 10 bln each. Actual placement volume was RUR 5.31 bln and RUR 5.81 bln with an average weighted yield of 10.20 and 11.30 per cent per annum. On October 7, there were two auctions on OFZ placement, series 26202 and 25069 for the amounts of RUR 10 bln and RUR 15 bln, an actual placement volume reached RUR 8.90 mln and 14.85 bln with an average weighted yield of 9.75 and 9.84 per cent per annum. On October 14 there was held an auction on additional OFZ placement, series 25070 for the amount of RUR 15 bln, the actual placement volume reached RUR 10.75 bln with an average weighted yield of 8.60 per cent per annum. On October 21, there was an auction on additional OFZ placement, series 25202 for the amount of RUR 10 bln, actual placement volume made RUR 5.51 mln with an average weighted yield of 8.56 per cent per annum. Therefore, the actual volume for the period under review was

RUR 73.04 versus the estimated level of 82.28 per cent, which demonstrates an insignificant decline if the investors' 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 20 per cent of the estimated volume (versus 24 per cent a month earlier). This trend reflects the overall downgrading dynamics in the market of government securities.



Source: "Finmarket" information Agency data

Fig. 1. Minfin bonds' yields to maturity in August – October 2009



Source: "Finmarket" information Agency data

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

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
29.09.2009	OFZ-26202-PD	Add. placement	1 062.71	676.71	11.43
29.09.2009	OFZ-25067-PD	Add. Placement	3 165.62	95.35	10.65
30.09.2009	OFZ-25070-PD	Add. placement	4 690.42	430.29	10.19

Table 1, cont'd

Auction date	Issue	Auction type	Issue volume, RUR, mln.	Nominal placement amount, RUR, mln	Average yield
30.09.2009	OFZ-26202-PD	Add. placement	5 248.81	386.00	11.26
01.10.2009	OFZ-25070-PD	Add. placement	4 260.13	2 548.64	10.15
01.10.2009	OFZ-26202-PD	Add. placement	4 862.81	4 036.10	10.20
01.10.2009	OFZ-25067-PD	Add. placement	3 070.27	100.00	10.58
01.10.2009	OFZ-25069-PD	Add. placement	600.15	100.00	10.53
02.10.2009	OFZ-25070-PD	Add. placement	1 711.49	911.49	10.12
02.10.2009	OFZ-26202-PD	Add. placement	150.00	150.00	11.14
02.10.2009	OFZ-25067-PD	Add. placement	2 970.27	737.00	10.57
02.10.2009	OFZ-25069-PD	Add. placement	500.15	100.00	10.53
05.10.2009	OFZ-25069-PD	Add. placement	400.15	400.15	10.54
05.10.2009	OFZ-25067-PD	Add. placement	2 233.27	2 233.27	10.56
05.10.2009	OFZ-25070-PD	Add. placement	800.00	800.00	10.12
07.10.2009	OFZ-25069-PD	Add. placement	152.35	152.35	9.73
07.10.2009	OFZ-26202-PD	Add. placement	1 096.25	1 096.25	9.72
14.10.2009	OFZ-25070-PD	Add. placement	4 254.99	2 624.94	8.55
15.10.2009	OFZ-25062-PD	Add. placement	17 908.14	1 884.87	8.50
15.10.2009	OFZ-25070-PD	Add. placement	1 630.05	1 415.05	8.52
16.10.2009	OFZ-25062-PD	Add. placement	16 023.27	2 285.00	8.46
16.10.2009	OFZ-25070-PD	Add. placement	215.00	165.00	8.45
19.10.2009	OFZ-25062-PD	Add. placement	13 738.27	177.00	8.43
19.10.2009	OFZ-25070-PD	Add. placement	50.00	10.60	8.40
20.10.2009	OFZ-25062-PD	Add. placement	13 561.27	1 715.90	8.42
20.10.2009	OFZ-25070-PD	Add. placement	39.40	39.40	8.43
21.10.2009	OFZ-25062-PD	Add. placement	11 845.37	108.00	8.40
22.10.2009	OFZ-25062-PD	Add. placement	11 737.37	140.00	8.40
Total			127, 977.95	25,519.35	

Source: "Finmarket" information Agency data

As of October 25, the OFZ market has amounted to RUR 1,372.84 bln at face value and to RUR 1,283.33 bln at the market value. (RUR 1,296.03 bln and RUR 1,125.85 bln accordingly, as of September 27). The duration of the OFZ market portfolio has made 1,657.32 days, having decreased by 16.38 days as compared with the preceding month (as of September 27).

Stock market

Stock market situation

Improved rates of oil prices in the global market and stock indices, positive expectations in terms of inflation rate from 11-12 per cent to 11–11,6 per cent in 2009 and to 9-10 per cent in 2010, reduced refinancing rate of the RF Central Bank since September 30 (from 10.5 to 10 per cent per cent per annum), growth of the RF foreign currency and gold reserves within the month, despite the growing unemployment rate, license revocation from a number of banks, RF banking system rating as the 8 risk group by the Standard & Poor's agency (among 10 risk groups, where the first group is characterized by the lowest risk), as well as the RF external debt growth up to USD 487 bln within the III Quarter of 2009.

Thus, in October, 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 October - 1,175.83 points (against 1 076.69 points in the preceding month). The maximum value the MICEX index has reached on October 21, having reached

1,373.20 points (1,217.67 per cent points in the preceding month).

In general, within the period from September 28 to October 25, the MICEX index has increased by 14.92 per cent, what makes about 177.23 points in absolute terms (within the year, from October 26, 2008 to October 25, 2009, the MICEX index has been upgraded times 2.7). Over the same period

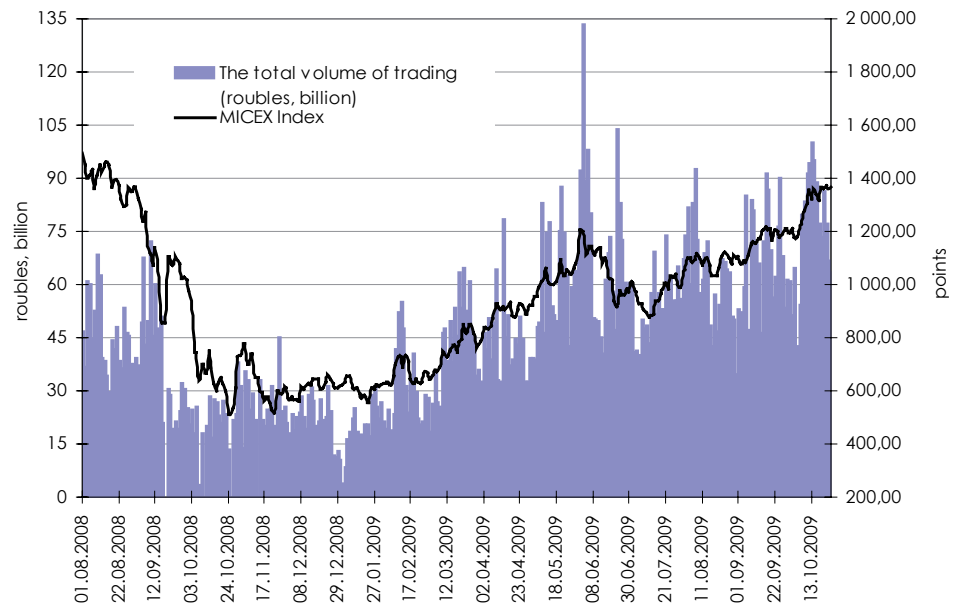


Fig. 3. Dynamics of MICEX Index and trading volume

the turnover of trades in shares, included in the MICEX index, made about RUR 1,522.24 bln at an average daily turnover of RUR 76.11 bln (against RUR 1,390.67 billion with an average daily turnover of RUR 69.53 billion in the preceding period). Therefore, the investors' average daily activity in the stock market in October has grown as compared with the preceding month by 9.5 per cent. The indicators of maximum and minimum daily turnover in the market trades in October made, accordingly, RUR 99.91 bln (as of October 13), and RUR 42.22 bln (on October 5).

As of the month results (from September 28 through October 25), the "blue chips" securities have shown an upgrading trend. The leaders were "Rostelecom" shares, which value has grown by 27.89 per cent and "Gazprom Neft" (by 26.18 per cent). Some lower rates were demonstrated by LUKOIL shares (1.69 per cent), Sberbank of Russia (by 15.87 per cent), "Tatneft" (13.42 per cent), "Nornickel" (by 13.05 per cent), Surgutneftegas (13.00 per cent), "VTB Bank" (by 12.57 per cent). They were followed by Gazprom shares (7.15 per cent) and Rosneft (6.67 per cent). At the same time, some decline was observed in the shares of Mosenergo (by 1.76 per cent) (See Fig. 4).

In October the MICEX turnover leaders were: "Sberbank of Russia" (35.07 per cent of the total turnover), "Gazprom" (25.52 per cent of the total turnover), "VTB Bank" (7.05 per cent), GMK "Nornickel" (6.57 per cent) and "LUKOIL" (5.98 per cent). This significant increase in the volume of transactions with shares of VTB Bank has led to its displacement from fourth to third place among the top five leaders. The total

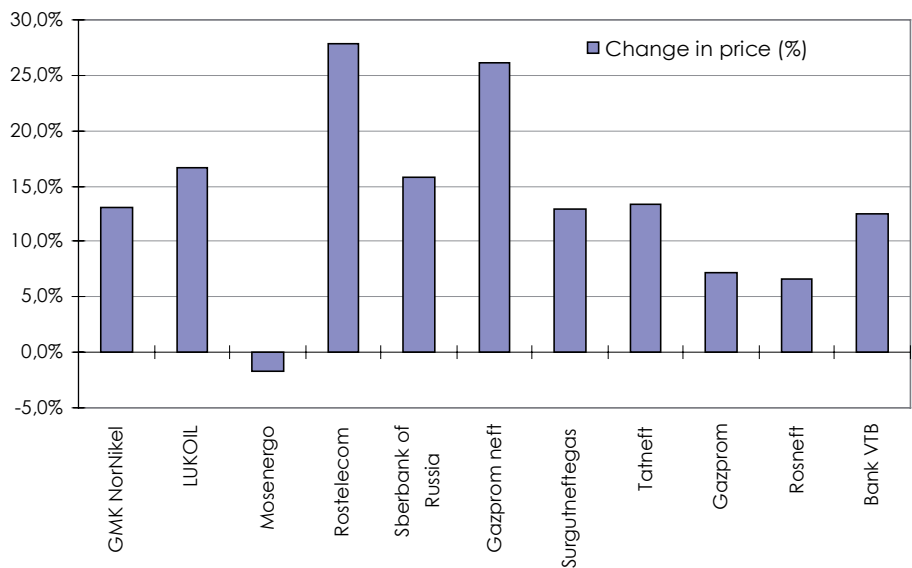


Fig. 4. Dynamics of the Russian Blue Chips from September 28 to October 25, 2009

share of transactions with the shares of the five «blue chips» was about 80.19 per cent (all «blue chips» - 87.84 per cent) of the total trades in shares at the MICEX stock market during the period from September 28 to October 25.

According to MICEX information, as of October 25, the top five leaders of the domestic stock market in terms of capitalization were: “Gazprom” – RUR 4 599.53 bln (RUR 4 201.10 bln a month earlier), “Rosneft” – RUR 2 623.58 bln (RUR 2 347.71 bln in preceding month), “LUKOIL” - RUR 1,623.25 bln (RUR 1,269.30 bln in preceding month), “Sberbank of Russia” - RUR 1,047.18 bln (against RUR 1,272.98 bln) and “Surgutneftegas” - RUR 1,032.65 bln (RUR 885.61 bln) .

Futures and Options Market

In October the total turnover in the MICEX (futures) market has increased by 7 per cent as compared with the preceding month. Thus, in the period from September 28 through October 25 the total turnover in the MICEX (futures) market made approximately RUR 44.83 bln (73.35 thousand of transactions, 2.4 mln of contracts), against approximately RUR 41.75 bln (75.35 thousand of transactions, 1.2 mln of contracts) in September. The largest volume of trading in October, as a month earlier, was observed in foreign currency futures, amounting to RUR 26.42 billion (388 thousand of transactions, 0.86 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 is worth noting that prices of futures contracts, concluded in October for RUR/USD futures in the short-term MICEX market were made within RUR/USD 29.5-30.4 for November, RUR/USD 29.4-30.5 for December, RUR/USD 30 -30.9 for January, RUR/USD 30-3.5 for March and April 2010, RUR/USD 30,3–31 for June 2010 and RUR/USD 31–32.5 for September 2010.

A sharp increase in trading volume in futures for the MICEX index has urged the greatest number of transactions (71.14 thousand transactions) per month with the futures contracts on equity instruments (25.99 thousand transactions in September). The volume of trading in them reached RUR 14.89 billion (or 2.2 times more than a month earlier). Herewith, futures for the MICEX index were leading in the short-term MICEX market, followed by futures for «Sberbank of Russia» and «Gazprom» shares. It should be noted, that the value of the MICEX index (the price of transactions) for December made on average 1,200–1,300 points and 1,250–1,350 for March.

Trading volume in futures for commodity assets within the period fell down by 6 per cent (from RUR 3.11 billion to RUR 2.93 billion). In addition, in October a transaction was concluded for the volume of RUR 600 million (60 contracts) with an estimated futures interest rate, a three-month MosPrime Rate.

Similar trends were noted in RTS FORTS futures market, where the investors' activity has significantly increased in October as compared with the preceding month - by 36 per cent. Thus, throughout September 28 – October 25, the total turnover in the RTS futures and options market made approximately RUR 1,633.42 bln (7.67 mln of transactions, 45.52 mln of contracts) against about RUR 1,201.18 bln (5.90 mln of transactions, 42.93 mln of contracts) in September. Like before, futures enjoyed the greatest demand: the volume of trades in the period under review made RUR 1,582.24 billion (7.59 thousand of transactions, 42.2 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 29.4–30.5 RUR/USD, for March 15 – RUR/USD 30–31, for June 15, 2010 - RUR/USD 33.4-33.

The value of futures for the RTS index (based on the prices of recent contracts) for December 15, 2009 and for March 15, 2010 was estimated on average at 1 250–1 450 points, and 1.300–1.450 points for June 15, 2010. Options enjoyed far less demand, the turnover made about RUR 51.18 bln (82.01 thousand transactions and 1.32 mln of contracts). The maximum daily turnover in the short-term RTS futures market in October made RUR 106.56 billion (as of October 22), and minimum was RUR 55.29 bln. (on October 5).

External factors behind the Russian stock market dynamics

In October 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 October, one should mention:

- growth of global oil prices (above USD 80 per barrel) as a result of, among other reasons, reducing gasoline stock in the U.S. and the situation with Iran in view of its nuclear program;
- European Central Bank decision to keep the interest rate at the level of 1 per cent and the Bank of Japan - at the level of 0,1 per cent;
- Goldman Sachs agency upgrading the rating of the largest USA banks up to “attractive”;
- Information on the net profit as of nine months of 2009 results of the largest global companies: Alcoa– USD 77 mln, Google Inc. – USD 4.45 bln, IBM and Intel Corp. –USD 8.61 bln and USD 1.86 bln, accordingly, US banks J.P.Morgan Chase, Goldman Sachs and Bank of America –USD 8.45, 3.19 and USD 6.47 bln, accordingly, as well as pharmaceutical company Abbott Laboratories Inc. – USD 1.48 bln;
- high activity in mergers and acquisitions: the acquisition of the Netherlands pharmaceutical companies Crucell NV shares by Johnson & Johnson shares, company Affiliated Computer Services Inc. by the American company Xerox Corp., pharmaceutical companies Belgian pharmaceutical company Solvay SA, Solvay Pharmaceuticals by Abbott Laboratories unit;
- the decision of France and Britain to invest USD 2 billion in the International Monetary Fund in order to support the countries, which were affected by the global financial crisis most of all;
- US FRS statement on the possible tightening of monetary policy for improving the economic situation in the USA;
- information about the intention of the French bank BNP Paribas to involve surplus capital to repay the debt to the government;
- plans to acquire Volkswagen AG 49.9 per cent of Porsche AG company;
- the sale of Hummer brand by General Motors Corp., American automobile Concern to the Chinese company Sichuan Tengzhong Heavy Industrial Machinery Corp.

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

- information on US GDP decline by 0.7 per cent in the second quarter of 2009 and British GDP reduction by 0.4 per cent in the third quarter of 2009;
- the peak deficit of the US federal budget as of 2008–2009 financial year, completed on September 30, 2009 (USD 1.42 trillion, i.e., 10 per cent of GDP);
- unemployment growth and a decline of consumer confidence index in USA;
- plans to reduce 1 thousand of employees by British Airways company;
- reduction of net profit as per 9 months results of 2009 by General Electric Company to 42 per cent as well as up to USD 2.49 billion by companies Boeing, times 63 to USD 44 million.

All those factors have generally resulted in positive dynamics of the global stock indices in October, as compared with the indicators of early 2009, as well as of the preceding month results. Thus, as of results of October, the markets of some developing countries have shown the indices growth by 1-9 per cent. A similar trend was observed in the markets of European countries, where those indices were demonstrating growth within 1-3 per cent. Herewith, there was observed a decline in the basic stock market index Southern Korea Seoul Composite by 3 per cent as of month results (See *Table 2* and *Fig. 5*).

Table 2

DYNAMICS OF THE GLOBAL STOCK INDICES (AS OF OCTOBER 25, 2009)

Index	Ticker	Value	Dynamics within the month(%)	Dynamics since the year beginning(%)
MICEX (Russia)	MICEXINDEXCF	1 365.09	14.92	120.34
RTS (Russia)	RTSI	1 461.30	19.26	131.26
Dow Jones Industrial (USA) Average (USA)	DJI	9 972.18	3.18	13.63
NASDAQ Composite (USA)	NASD	2 154.47	3.04	36.62
S&P 500 (USA)	SPX	1 079.60	3.37	19.52
FTSE 100 (UK)	FTSE	5 242.57	3.16	18.23
DAX-30 (Germany)	DAX	5 740.25	2.85	19.33
CAC-40 (France)	CAC	3 808.24	1.85	18.34
Swiss Market (Switzerland)	SSMI	6 378.06	2.26	15.24
Nikkei-225 (Japan)	NIKKEI	10 282.99	0.17	16.07
Bovespa (Brasil)	BUSP	65 058.84	7.79	73.26
IPC (Mexico)	IPC	30 617.68	6.46	36.81
IPSA (Chile)	IPSA	3 421.95	3.09	44.00
Straits Times (Singapore)	STI	2 715.34	1.97	54.14
Seoul Composite (South Korea)	KS11	1 640.17	-3.03	45.86
ISE National-100 (Turkey)	XU100	51 380.65	7.89	91.26
BSE 30 (India)	BSE	16 810.81	0.71	74.25
Shanghai Composite (China)	SSEC	3 107.85	9.48	70.69
Morgan Stanley Emerging Markets Free Index	EFM	769.78	6.40	68.21

* – Versus index indicator valid on September 27, 2009.

Corporate News

OAo “VTB Bank”

On September 29 OAo “VTB Bank” has granted a credit amounting to USD 300 million to OAo “TMK” Group, the proceeds of which are addressed to the fulfillment of commitments to the holders of the first Eurobond issue. Moreover, in late September - October 2009 OAo “VTB Bank” has provided a credit line amounting to RUR 4,825 million to ZAO “Sukhoi Civil Aircrafts”, a member of “Sukhoi” holding company and to OAo “Ufa Engine Industrial Association”, amounting to USD 34.5 million, the proceeds of which are allocated to business payroll projects, as well as to contractors’ settlements.

On October 5 OAo “VTB Bank” has disclosed unconsolidated financial results under RAS for September 2009: assets as of October 1 amounted to RUR 2,696 billion (RUR 2,551 billion as of January 1, 2009), net profit for nine months of 2009 amounted to RUR 7.92 billion, as compared with a loss of RUR 16.58 billion within eight months of 2009 (an increase in net profit in September was due to an increase in net interest income, positive result of the dissolution of reserves for tentative loan losses, income from trading in securities and income from dividend payments by affiliated organizations). And on October

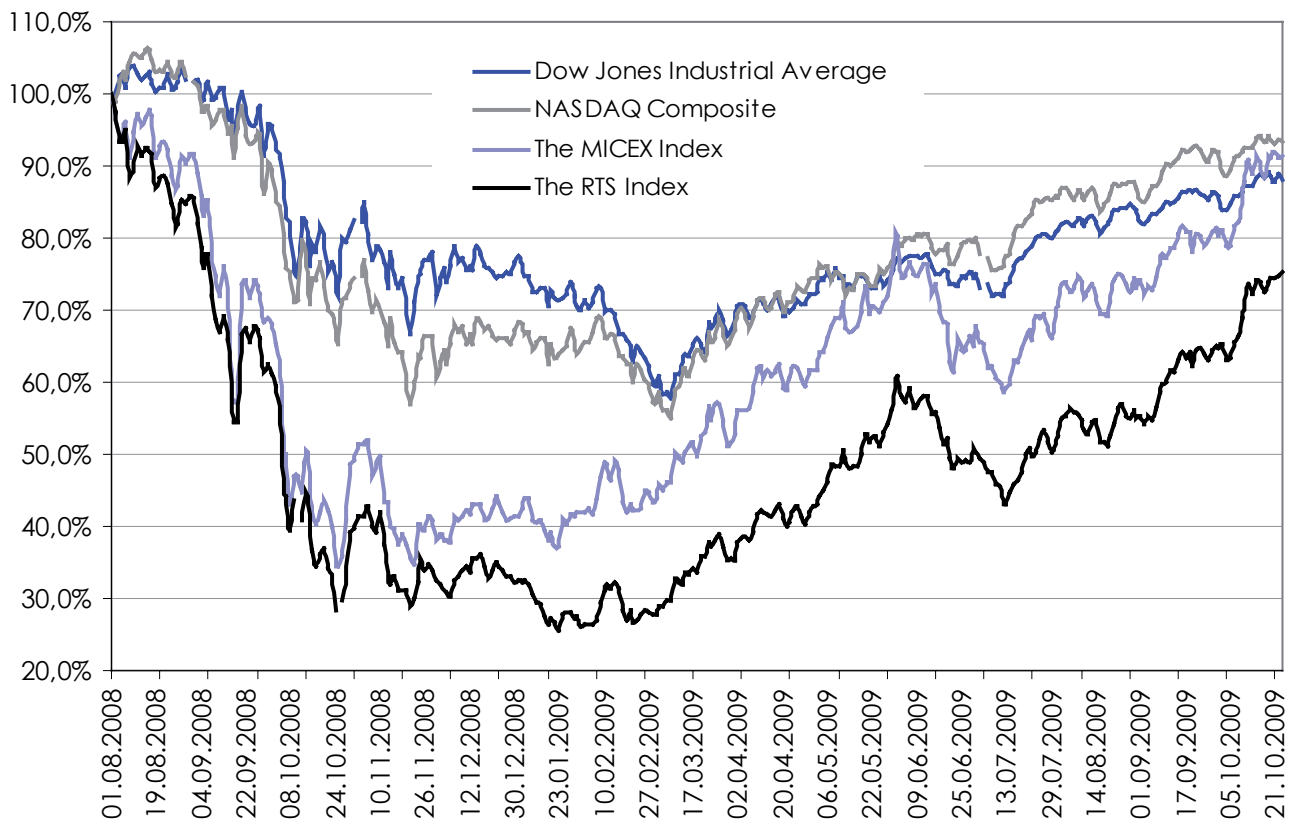


Fig. 5. Dynamics of the main USA and Russian stock indexes (in % to the date 01.08.2008)

21 OAO “VTB Bank” has announced its unaudited financial results under IFRS as of June 30, 2009: the net loss made RUR 31.5 billion; capital adequacy ratio is 16 per cent.

On October 13, 2009 OAO “VTB Bank” and Agricultural Bank of China have signed a new framework credit agreement, providing for the allocation by OAO “VTB Bank” a credit line worth of USD 500 million for a long-term financing of the Russian imports from China under the cover of the export insurance agency PRC SINOSURE.

OAO “Gazprom”

On September 28, OAO «Gazprom» has started the construction of a pipeline «Dzhubga – Lazarevskoye – Sochi, which is included in the RF Government-approved Program of Olympic objects construction and development of Sochi as a Mountain Resort.

On September 30 the Board of Directors has approved the investment program and budget of the OAO “Gazprom” for 2009 in the new version: the total amount of investment will make RUR 761.53 billion (o by RUR 158.91 billion less as compared with the Investment Program approved in December 2008). The new version of the budget provides for the reduction of total revenues and cash flows to RUR 407.9 billion, to RUR 3.3 trillion; liabilities, costs and investments - by RUR 126.8 billion to RUR 3.68 trillion, as well as the growth of financial borrowings by RUR 214.9 billion to RUR 304.9 billion.

On October 14, OAO “Gazprom” and the State Oil Company of Azerbaijan Republic have signed a contract of purchase and sale of natural gas.

On October 15, OAO “Gazprom” and Murmansk region have signed a Cooperation Agreement for 2010-2015, aimed at the development of bilateral relations in the framework of the strategic projects of OAO “Gazprom” in the territory of Murmansk region.

On October 20, OAO “Gazprom” and the State Enterprise “Srbijagas” have signed an agreement to establish joint ventures for the project “Southern Stream” (design, construction and exploitation of the gas pipeline in the territory of the Republic of Serbia) and an

underground gas storage “Banat Yard”(for construction and operation of underground storage with the active volume of 450 million cubic meters).

ОАО «Gazprom Neft»

On October 15 ОАО “Gazprom Neft” has completed an unsecured medium-term transaction with the club of banks totaling to USD 500 million at LIBOR rate plus 5 per cent per annum. Credit funds will be used for general corporate needs of the company.

ОАО «LUKOIL»

On October 8 ОАО “LUKOIL” and the State Corporation “Russian Nanotechnology Corporation” have signed a General Agreement on strategic partnership, providing for cooperation in the commercialization of nanotechnologies and implementation thereof in the oil and gas industry, including companies LUKOIL Group.

From October 15, ОАО “LUKOIL” started to sell new brands of motor fuel: gasoline premium “EKTO Plus» (octane level 95) and “EKTO Sport» (octane level 98).

In addition, on October 15, ОАО “LUKOIL” and Russian Register of Shipping have signed a cooperation agreement, providing for further development of cooperation in the field of design and construction process of the fleet and transport equipment for ОАО “LUKOIL”, as well as issues of security of offshore oil and gas fields.

ОАО «Mosenergo»

On October 7, ОАО «Mosenergo» has disclosed unaudited consolidated intermediary financial reporting, developed under RAS for the first six months of 2009: net profit has grown by 124 per cent as compared with the first six months of 2008 to RUR 2,648 mln.

ОАО «GMK “Norilsk Nickel»

On September 30 ОАО “GMK “Norilsk Nickel” has informed on the timely and full repayment of the Eurobond issue worth of USD 500 million, and paid the coupon income for the last period in the amount of USD 17.8 million.

On October 6, 2009 agency Moody’s Investors Service has confirmed the credit rating of ОАО “GMK “Norilsk Nickel” at the level of «Baa2» with a «stable» forecast as per its financial, operational and latest developments review.

On October 19 ОАО “GMK “Norilsk Nickel» has disclosed financial results under IFRS for the first six months of 2009: profit has decreased from USD 2 682 million in the first half of 2008 to USD 439 million; EBITDA has declined from USD 4 327 million up to USD 1 398 million.

NC «Rosneft»

On October 15, 2009 NC “Rosneft” and the Government of Murmansk Region have signed a cooperation agreement for 2009-2013, Providing for participation in Murmansk region implementation of high investment projects, including integrated development of the Murmansk transport hub.

On October 21, the international rating agency Standard & Poor’s has published a «Study of information transparency of the Russian companies in 2009», according to which NC “Rosneft” has won 1st place in the ranking of information transparency, having risen from the 2nd place in the last year review.

Sberbank of Russia

In October, the Sberbank of Russia continued to provide credits to domestic enterprises in the framework of the program of support for priority sectors of the economy of Russia.

In particular, Sberbank of Russia has provided a credit line to OAO “Sibur Holding” (USD 400 million), to OAO “Congo”(RUR 560 million), to The Ministry of Finance of Nizhny Novgorod Region (RUR 1.5 billion), to OAO ”Jubilee” strategic business unit(RUR 875 million), ZAO “Fertilizer Kirovo-Chepetsk chemical plant”(USD 27 million).

On October 6 Sberbank of Russia and the State Corporation “Russia Nanotechnology Corporation” have signed an agreement aimed at coordinating efforts to ensure the development of innovation infrastructure of the Russian Federation in the field of nanotechnology and implementation of national projects of prospective nanotechnologies and nanotechnology industry.

On October 22 Sberbank of Russia has disclosed financial reporting, developed under RAS for the first 9 months of 2009: the net profit amounted to RUR 9.1 billion against RUR 102.9 billion within 9 months of 2008, assets on October 1, 2009 amounted to RUR 6 723 billion.

OAO «Tatneft»

On October 22, Tatneft has disclosed its consolidated interim condensed financial statements, developed under US GAAP for the first six months of 2009: net profit amounted to RUR 29 686 million (USD 898 million) compared with RUR 21 005 million (USD 877 million) in the first six months of 2008, assets as of June 30, 2009 increased from 3RUR 92 980 million (USD 13 376 million) on December 31, 2008 to RUR 458 780 million (USD 14 662 million).

Corporate bonds market

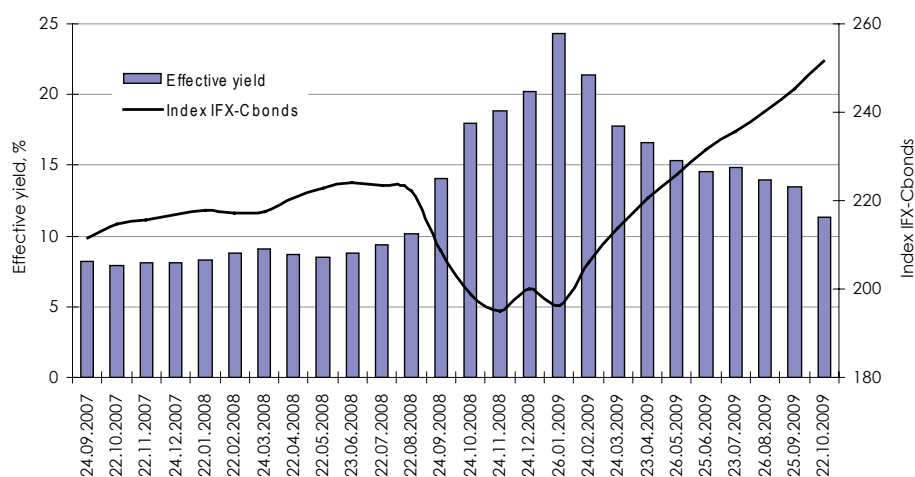
The volume of the Russian domestic stock market (as per nominal value of shares in circulation, denominated in national currency) in October of the current year has not changed and at the end of the month reached RUR 2,083.4 bln (703 emissions by 428 emitters), which is less than the relevant indicator of preceding month by RUR 1.1 per cent¹. The number of emissions and emitters has insignificantly decreased (for comparison, in late September there were 716 emissions, made by 439 companies). Also currently there are in circulation two issues of bonds, nominated in US dollars and one issue in Japanese yens. In the background of practically unchanged investors’ activity in the secondary market of corporate bonds the value of transactions within September 28 – October 23 made RUR 61.0 bln, whereas the total number of transactions has significantly increased and reached RUR 27.1 thousand as compared with 23.4 thousand in the preceding relevant period².

Since January of the current year the index of the Russian market of corporate bonds IFX-Cbonds is continuously growing. Within the period from September 26 to October 22, the index has grown more than by 6.0 points (or 2.5 per cent), having reached the highest level since the beginning of its assessments. The effective yield has decreased from 13.44 to 11.36 per cent during the period under review (see Fig. 6). The duration of corporate bonds market portfolio has started to decline again and by October 22 has made 352 days, which is by 20 days less as compared with late September of the current year.

In October of the current year a significant increase in the number and total amount of registered issues of corporate bonds was noted. In the period from September 26 to October 22 there were registered 30 of bond issues for the total amount of RUR 252.5 bln (for comparison, between August 27 and September 25 there were registered 23 issues of

1 As per Rusbonds information

2 As per «Finmarket» information agency

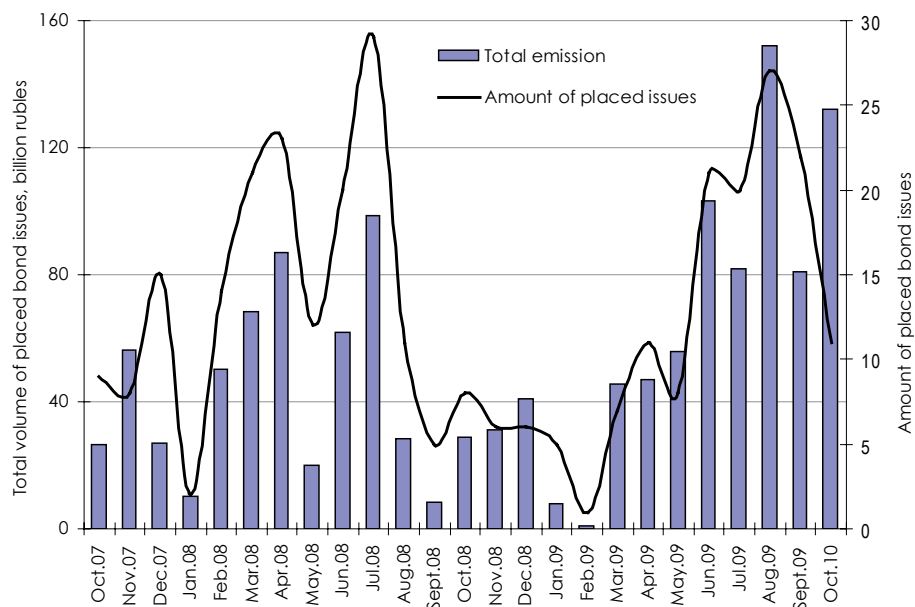


Source: Cbonds data.

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

the total volume of placements has significantly grown as compared with the relevant preceding period. Thus, in the period from September 26 to October 22, there were 11 bonds issues, totaling to RUR 132.1 billion (for comparison, from August 27 to September 25 there were placed 22 bond issues, totaling to RUR 81.0 billion (See Fig. 7). During the period under review the major bond issues were placed by OAO Shareholding Company for Oil transportation “Transneft” (two series of bonds amounting to RUR 100 billion), OAO “Sibinvest” (six series of bonds amounting to RUR 20 billion), OAO «Joint-Stock Financial Corporation «System» (one series of bonds for RUR 20 billion). Herewith, two emitters have placed debut issues of corporate bonds, totaling to RUR 3 billion.

In the period under review there was again a large number of issues, recognized invalid



Source: Rusbonds data.

Fig. 7. Corporate securities primary placement dynamics

corporate bonds totaling to RUR 104.3 billion). The majority of the reported issues were made by nine series of OAO “Evraz Development Bank” for the total amount of RUR 20 bln, two series of bonds of OAO “Sibmetinvest”, totaling to RUR 20 billion, and seven issues of OAO “UTC” bonds, totaling to RUR 10 billion¹.

For the second month in succession there was observed a reduction in the total number of corporate bonds issues, though

the total volume of placements has significantly grown as compared with the relevant preceding period. Thus, in the period from September 26 to October 22, there were 11 bonds issues, totaling to RUR 132.1 billion (for comparison, from August 27 to September 25 there were placed 22 bond issues, totaling to RUR 81.0 billion (See Fig. 7). During the period under review the major bond issues were placed by OAO Shareholding Company for Oil transportation “Transneft” (two series of bonds amounting to RUR 100 billion), OAO “Sibinvest” (six series of bonds amounting to RUR 20 billion), OAO «Joint-Stock Financial Corporation «System» (one series of bonds for RUR 20 billion). Herewith, two emitters have placed debut issues of corporate bonds, totaling to RUR 3 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 September 26 through October 22 the Federal Statistical Service for Financial Markets of Russia has recognized as invalid five issues of corporate bonds, offered for open placement (versus five bonds issues within August 27 – September 25)².

Within September 26 through October 22, 22 emitters had to redeem bond issues totaling to RUR 42.3 billion. However, four emitters have announced

1 As per Rusbonds company.

2 As per FSS of Russia.

a technical default on repayment of their bond loans, totaling to RUR 6.2 bln (three debut issues among them).

In November 2009, 19 issues of corporate bonds redemption for the total amount of RUR 26.8 bln are expected¹.

The issue of the emitters' failure to perform their liabilities in regard to the bonds holders is still sustained, especially in regard to repayment the accumulated coupon interest. Thus, from September 26 through October 22 the default on bonds redemption was announced by 12 emitters (within August 27 to September 25 there were 16 emitters)².

Real default on failure to repay the nominal value of the bond loans within the period under review was announced by 3 emitters for the total amount of RUR 6.2 bln (2 emitters in preceding period, the scope of non-performed obligation was RUR 2.5 bln). On one bonds issue the emitters have reached an agreement with the bonds holders on the debt restructuring. ●

1 As per Rusbonds data.

2 As per Cbonds data.

REAL ECONOMY SECTOR: TRENDS AND FACTORS

O.Izryadnova

In January-September 2009 the economic situation in the country was defined by a cumulative effect of the reduction of the investments in fixed assets by 18.9% and the retail trade turnover – by 5.3% as compared with the corresponding period of the previous year. The social background in the country was determined by the sustaining trends for the decrease of the real incomes of the population by 1.1% and the real wages by 3.5%. The situation is complicated by the sustention of the general unemployment at the level of 7.6% and that officially registered – at the level of 2.7% of the economically active population.

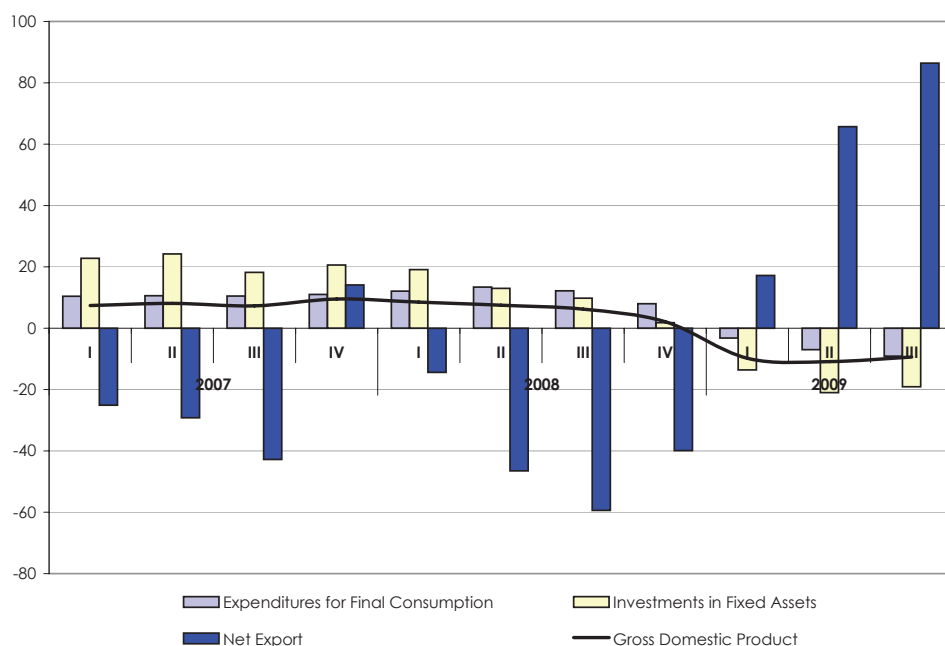
According to the preliminary data of the Ministry for Economic Development, the GDP over January-September 2009 made RUR 28479.2 billion, having reduced by 10.0% as compared with the corresponding period of the previous year. It was the drop of the investments in fixed assets down to 81.1% of the level of January-September 2008 that had a considerable influence on the GDP dynamics. Under the influence of the contraction of the investment programs the workload in the construction reduced by 18.4% and the implementation of the residential area – by 0.6%.

Starting with February 2009 the situation has been aggravated by the contraction of consumer's market. The retail trade turnover over the first nine months of 2009 as compared with January-September 2008 reduced by 5.3% and the volume of paid services rendered to the population – by 4.0% against the background of the contraction of the real incomes of the population by 1.1% and of real wages – by 3.5%.

The recovery of the positive dynamics of the net export (in terms of internal prices), which is due to the gradual improvement of the situation at the world market of hydrocarbons and

the increase of export against the background of continuing reduction in the scale of import supplies versus the figures of January-September 2009 makes the positive influence on the dynamics of the GDP.

During 2009 the macroeconomic situation has been characterized by extreme instability of the main indices. Inertial drop of the beginning of 2009 which was due to extremely unfavorable development of the situation starting with the 4th quarter 2008, in the 2nd-3rd



Source: Federal State Statistics Service

Fig. 1. Dynamics of GDP as Broken by Components Used in 2007-2009, as percentage to the corresponding quarter of the previous year

quarters slackened considerably against the background of the gradual recovery of the world markets of raw materials and adaptation of financial and crediting institutions to the critical phenomena. Starting with the 2nd quarter 2009 the Ministry for Economic Development notes the recovery of the positive dynamics of the GDP versus the preceding quarter, however, the sustention of the trends for the contraction of the investment and consumer markets, as well as the incomes of the population does not give grounds for the positive estimation of the current situation.

Table 1

INDICES OF THE MAIN MACROECONOMIC INDICES IN 2008–2009, AS BROKEN BY QUARTERS, AS PERCENTAGE TO THE CORRESPONDING PERIOD OF THE PREVIOUS YEAR

	2008				2009		
	Quarters				Quarters		
	1	2	3	4	1	2	3
Gross domestic product	108.7	107.5	106.0	101.2	90.2	89.1	90.6*
Expenditures for final consumption of households	112.2	113.4	112.2	108.0	96.8	93.0	90.1*
Investments in fixed assets	123.6	117.4	111.7	97.7	84.4	79.0	80.9
Implementation of residential areas	108.1	99.1	105.7	105.1	102.4	97.2	98.9
Volume of industrial production	106.2	105.5	104.7	93.9	85.7	86.4	89.0
Production of agriculture	105.5	106.9	113.0	115.6	102.3	100.9	98.0
Freight transportation turnover	105.1	102.9	101.4	93.6	83.7	81.3	93.0
Retail trade turnover	117.2	114.8	114.9	108.6	99.9	94.4	90.6
Paid services rendered to the population	107.7	105.6	105.3	102.0	99.1	95.3	93.3
Foreign trade turnover	148.8	147.9	149.3	95.4	56.2	55.0	58.3*
Real disposable monetary incomes	107.8	106.0	106.6	94.2	99.9	102.6	94.9
Real wages	113.4	112.5	112.2	102.5	99.2	96.1	99.8
Number of the unemployed	96.5	94.2	105.6	123.7	135.0	152.1	132.2

* preliminary results.

Source: Federal State Statistics Service

The structure and the dynamics of the used GDP in January-September 2009 is defined by a sharp change in the proportions between the gross national saving and the final consumption. The average gross national saving being 33% of the GDP over the past four years, this figure made 20.2% of the GDP in the first half of 2009 the absolute reduction in the volumes of national savings is accounted for by both the contraction of the net export and the contraction of the gross accumulation due to the dramatic decrease of the stocks of the material liquid funds. Under the existing resources of savings the proportion of the investments in fixed assets went down by 1 percentage point as compared with the corresponding period of the previous year.

Table 2

STRUCTURE OF GDP USE IN 2008–2009, AS BROKEN BY QUARTERS, AS PERCENTAGE, IN CURRENT PRICES

	2008				2009	
	I	II	III	IV	I	II
GDP	100	100	100	100	100	100
Expenditures for final consumption	67.5	64.2	61.5	68.8	81.5	78.0
Of households	48.3	46.8	45.8	51.6	57.0	55.8
Of state management	18.6	16.9	15.3	16.7	23.7	21.6
Gross accumulation	20.0	25.5	29.0	26.5	12.4	14.9
Gross accumulation of fixed assets	16.2	20.8	21.7	27.8	16.5	19.8

Table 2, cont'd

	2008				2009	
	I	II	III	IV	I	II
Changes in stocks of material fixed assets	3.8	4.7	7.3	-1.3	-4.1	-4.9
Net export	12.5	10.3	9.5	4.7	6.1	7.1

Source: Federal State Statistics Service

In the environment of shortage of the resources, the expenditures for final consumption made the prevailing part of the GDP in the 1st half of 2009 – 79.8% versus 65.6% in the corresponding period of 2008. In the environment of the crisis it is the problems of execution of social guarantees and liabilities that are of primary importance. In order to support the life standard of the population and to maintain the social stability the expenses for the government consumption went up to 22.75 of the GDP in the first half of 2009, exceeding by 5.1 percentage points the figure of the corresponding period of the previous year.

The increase in the share of expenses of households in the structure of the GDP as a result of the first half of 2009 up to 56.5% versus 47.5% in the corresponding period of 2008 was supported by the change in the structure of formation of the GDP by the sources of incomes. The proportion of labor remuneration in the GDP went up to 54.9%, exceeding the figure of the 1st half of 2008 by 7.4 percentage points.

Against the background of sharp drop of the production in the 1st half of 2009 the proportion of net taxes on production and import in the GDP made 18.1%, of gross profit and mixed incomes – 27%, versus, correspondingly, 20.9% and 31.6% in the similar period of 2008. Over January-August 2009 the balanced financial result of the activity of organizations made RUR 2354.9 billion and was 45.3% below the figure over the corresponding period of 2008. After an extremely unsuccessful beginning of the year (in January losses of enterprises exceeded the profit by RUR 184.4 billion) starting with February the financial situation of the enterprises started to improve gradually and the balanced financial result became positive, the gap with the figures of the previous year narrowing, the shortage of own and borrowed funds, however, remaining the factor that had a negative impact on the dynamics of the economy.

Table 3

STRUCTURE OF GDP FORMATION AS BROKEN BY SOURCES OF INCOMES IN 2008-2009,
AS BROKEN BY QUARTERS, IN TERMS OF CURRENT PRICES

	2008				2009	
	I	II	III	IV	I	II
GDP	100	100	100	100	100	100
Labor remuneration of employees (including hidden wages and mixed incomes)	48.3	46.8	42.3	45.9	56.2	53.7
Net incomes on production and import	20.5	21.2	20.2	19.1	17.8	18.5
Gross profit of the economy and gross mixed incomes	31.2	32.0	37.5	35.0	26.0	27.8

Source: Federal State Statistics Service

The dynamics and the structure of expenditures of households have been considerably influenced by the inflation background. The accumulated inflation from the beginning of the year made 8.1% versus 10.6% in January-September 2008.

As a consequence of the effect of different factors on the dynamics of prices by separate sectors of the consumer market the structure of the inflation was subject to considerable changes. The moderate growth of the prices for foodstuffs observed from November 2008 developed under the influence of both the decrease of the solvent demand of the population

and the obvious interest of the trading organizations in holding the prices back in order to accelerate the monetary turnover the credit funds being short. The dynamics of prices for non-food goods was formed under the influence of the increase of ruble exchange rate and the contraction of import supplies. The index of prices for foodstuffs over January-September 2009 made 105.8% versus 112.1% in January-September 2008 and for non-food goods – 108.3% versus 106.5%.

Transformation of the price proportions accounted for the changes in consumers' behavior. The proportion of funds in the incomes of the population spent for purchase of goods and payment for services remained at quite a low level and made 70.8% in January-September versus 73.7% a year ago, including 54.6% versus 57.3% for the purchase of goods.

The incomes of the population decreasing, the main part of the expenditures is accounted for by the purchase of foodstuffs and the goods of primary necessity. As a result the proportion of the foodstuffs, including beverages and tobacco in the structure of the retail trade in January-September 2009 went up to 48.7%, exceeding the figure of the corresponding period of the previous year by 3.2 percentage points. In the 3rd quarter 2009 despite the zero inflation in August-September the contraction of the market of foodstuffs made 5.5%, of non-food goods – 12.9% versus the corresponding period of the previous year. On the whole over the period January-September the turnover of the market of foodstuffs reduced by 2.8%, of non-food goods – by 7.8%. The growth of the turnover of the foodstuffs that started in May can be regarded as a positive trend. As a result the growth of the retail trade turnover in the 2nd quarter versus the 1st made 2.4%, and in the 3rd quarter versus the 2nd – 3.6 %.

Besides the component of price, it is the changes in the monetary incomes that influence the dynamics of the retail trade turnover considerably. In January-September 2009 the volume of the monetary incomes of the population was RUR 20 102.3 billion and increased by 10.4% versus the corresponding period of 2008. The population has spent for purchase of goods and payment for services RUR 14 236.4 billion, which is 6.5% more than in January-September 2008, the savings of the population including the purchase of foreign currency growing by 66.7%.

On the whole over January-September 2009 the proportion of savings in monetary incomes of the population made 13.0% versus 7.2% in the corresponding period of the previous year, including in the form of deposits and securities – 2.1% and 3.6%. In the current year the population has used different tools to save its incomes. Whereas in the 1st quarter of the current year 10.3% of the monetary incomes of the population was used to purchase foreign currency, in the 2nd quarter this figure dropped to 3.5%, while the savings in the form of deposits and securities went up to 6.3% of the monetary incomes of the population. In the 3rd quarter 2009 the proportion of expenditures for purchase of foreign currency went up to 6.0% of the monetary incomes of the population, the proportion of savings in the form of deposits and securities decreasing to 1.9%.

When analyzing the expenditure of the population one should take into account the controversial estimations of the current economic situation and sustention of the high tension at the labor market. The growth of the general unemployment against the background of the slow-down of the economic dynamics has been observed since July 2008, and starting with September 2008 it has strengthened sharply under the influence of factors of financial and industrial crisis. The general unemployment reached the maximum value of 7084 thousand of people in February 2009, but starting with March there has been a gradual reduction of the number of the unemployed observed. As on the end of the 3rd quarter the total number of the unemployed made 5764 thousand of people and reduced by nearly 12% as compared with the beginning of the year, though remaining 32.2% above the level of the 3rd quarter 2008. The number of officially registered unemployed in September 2009 made

2035 thousand of people and has reduced by 234 thousand of people versus the maximum value of April of the current year. On the whole over the period January-September 2009 the number of the officially registered unemployed was 47.8% above the corresponding period of the previous year.

The proportion of officially registered unemployed has stabilized on the level of 2.8% of the economically active population starting with June 2009. However it should be taken into account that the total number of employees that were transferred to the regime of part-time working schedule and being on the forced holidays and staying idle caused by the administration for 5 months already and makes 1.6 million of people. In such a situation it would obviously be premature to make conclusions on the normalization of the situation at the labor market, taking into account the sustention of the production drop and the slackening dynamics of the sector of services.

The volume of the industrial production in January-September 2009 made 86.5% of the level of the corresponding period of 2008, including in the processing production – 80.9%, in minerals extraction – 97.0% and in electricity, gas and water production and distributions- 93.1%. The drop of the industrial production in the 3rd quarter 2009 versus the corresponding period of 2008 made 11.0% versus 14.3% in the 1st quarter and 15.4% in the 2nd quarter. Despite the fact that the positive dynamics has been observed for the second quarter in the row both in the processing industries and in the minerals extraction, extremely low characteristics of the 4th quarter 2008 and the 1st quarter 2009 define the general low level of the production.

As compared with January-September 2008 over the same period of the current year the drop of the production was observed in all kinds of the processing production. Low demand for investments accounts the deepening of the recession in machine-building and production of construction materials. In January-September 2009 the output of machinery and equipment made 63.9% of the level of the corresponding period of 2008, the production of transport vehicles and equipment – 58.4%. The contraction of the internal and external markets accounted for the contraction of metallurgy production by 21.1%, of construction materials production – by 28.5% versus January-September 2008. Not such a deep recession was observed in the chemistry production (87.0% versus January-September 2008), rubber and plastic goods production (85.4%), pulp-and-paper production (84.3%). In January-September 2009 there were 176 million of tons of raw materials processed at the Russian oil processing plants or 99.4% versus the level of January-September 2008, index of oil products production making 99.8%.

It should be noted that the production of foodstuffs reduced by 2.0% versus January-August 2008, textile and sewing industry production – by 20.7%, leather, leather goods and footwear production – by 5.5

The contraction of the domestic production versus the background of the reduction of import supplies of nearly all the consumer goods requires special attention since 2/5 of the retail turnover is accounted for the import goods. The proportion of import in the volume of the trading resources in the 1st and 2nd quarters 2009 made 34% versus, correspondingly, 37% and 35% in the same periods of 2008, for non-food goods this share remained in the interval 53-55%. High level of dependence of the consumer market from foreign economic situation defines the peculiar features of solvent demand depending on the level of prices for domestic and import goods, exchange rate and the volume of incomes of the population. The contraction of the demand at the internal market of the consumer goods opens a lot of possibilities for the development of the domestic production, this problem however facing low investment support in particular of small –and medium-scale entrepreneurship, absence of business initiatives on the development of import replacing production that would be adequate to the changes in situation.

Table 4

 STRUCTURE OF TRADING RESOURCES FOR RETAIL TRADE, IN REAL PRICES,
 AS PERCENTAGE TO THE TOTAL

	2005	2006	2007	2008	2009, quarters	
					I	II
Trading resources - total	100	100	100	100	100	100
Own production	55	54	53	55	56	60
Import supplies	45	46	47	45	44	40

Sources: Federal State Statistics Service

When estimating the situation and prospect for coming out of the crisis it should be noted that the general structure of import was subject to unfavorable changes, when the sharp reduction of the share of import of investment goods occurred against the background of re-direction to the import of goods of consumer and intermediate demand. If one is to take into account the rates of the reduction of the domestic production of capital goods, then the fact that import machinery and equipment form up to $\frac{1}{4}$ of the volume of investments in machinery and equipment, as well as lags existing in construction, the cautiousness of the Ministry of Economy when forecasting the growth of investments in 2010 versus 2009 at the level of 101.0% becomes intelligible. It should be noted that even if the growth of investments in fixed assets being that forecast and anticipating versus the GDP dynamics in the planning period of 2011 and 2012, they will make 95.4% of the pre-crisis level of 2008.

Table 5

 PROPORTION OF CONSUMER, INTERMEDIATE AND INVESTMENT GOODS IN THE TOTAL VOLUME
 OF IMPORT IN THE RUSSIAN FEDERATION (CALCULATED ON THE BASIS OF
 BALANCE-OF-PAYMENTS METHODOLOGY), AS PERCENTAGE TO THE TOTAL

	Goods		
	Consumer	Investment	Intermediate
2008			
I quarter	45.0	22.6	32.4
II quarter	41.3	23.9	34.8
III quarter	43.6	24.2	32.2
IV quarter	37.8	24.4	37.8
Annual	41.8	23.8	34.4
2009			
I quarter	45.8	19.3	34.9
II quarter	43.5	18.1	38.4

Source: Federal State Statistics Service

RUSSIAN INDUSTRY ON OCTOBER 2009

S.Tsukhlo

In October Russian industry continued to move along the way out of crisis. The real changes in sales, output, employment, estimations of finished stocks retained the positive dynamics. The forecasts and plans of the enterprises are becoming more optimistic, and the availability of the credits is growing. In industry the excess of facilities and staff is going down and the share of enterprises suffering from their shortage is increasing.

Mysteries of Official Statistics in September

The data of the Federal State Statistics Service on the dynamics of industrial production, that were published on October, 15th, unexpectedly turned out to be positive. As compared with September 2008 the output went down by only 9.%, which is the smallest decrease starting with last December. The corresponding figure of August is -12.6%, of July - -10.8%. Versus August 2009 in September according to the data of the Federal State Statistics Service there was 5.1% more of production made, according to the data of the Ministry for Economic Development (upon exclusion of seasonality) – 0.4%, according to the calculation of the Center for Macroeconomic Analysis and Short-Term Forecasting (upon exclusion of seasonality) – 2.6%. Experts are quite unanimous estimating the official statistics “we have not expected such a big growth”, “the industry started its way out of the crisis indeed”, “industrial shift”, “frontal recovery”. However they are at loss when it comes to explanation of its causes (“statistics presented us with further surprises” http://www.dcenter.ru/pdf/2009/kgb_09-36.pdf). The doubts concerning the reliability of the state statistics of the demand and stocks force to treat the fact that the factor of the changes in the stocks can become a key driving force for the industry coming out of the crisis cautiously. It is hoped that the anti-crisis measures of the Government have eventually started to bring benefit (that is the enterprises finally felt the effect). Some experts try to ascribe the unpredicted September upsurge to the mistakes of the Federal State Statistics Service.

IET surveys enabled to make a conclusion that “August pause in the dynamics of the Russian industry has been successfully overcome. The sales continued to recover, which allowed the enterprises to transfer to the growth of production which is the most intensive since the beginning of the year and the reduction of the staff that is the most moderate” as early as September, 29th (see <http://www.iet.ru/ru/208-opros-sentyabr-2009-2.html>).

The positive dynamics of output in September-October 2009 does not seem to be unexpected or erroneous if all the set of the business surveys of the IET is to be analyzed. Besides the data on the real changes in the output the questionnaire of the harmonized European business survey contains the questions on demand, prices, stocks, employment, plans and forecasts of enterprises, availability of credits, facilities load, financial situation at enterprises, obstacles for the output growth. And 90% of questionnaires is filled by the directors of enterprises who can estimate real (not reported) situation and prospects of their production.

Demand for Industrial Goods

Upon exclusion of seasonality the intensity of the decrease of the demand has lost 6 more points in October and reached the level of July-August 2008. Then the demand (and perhaps the industry as a whole) stood still before the fall of September-November. Over three months the rates of sales changing (the balance of responses in the statistics of surveys) lost

50 points (*fig. 1*). The Russian industry did not face such fall of the demand even in the 1990-ies. The economy required 11 months to overcome it, which, however, is not so bad, if one is to recall the somber forecasts published in winter and spring 2009. In October the positive changes in the dynamics of sales were registered in all the branches except for chemistry, petrochemistry and light industries.

After the stabilization in August-September in October the forecasts for the demand improved by 5 points and became positive – for the first time since the beginning of the crisis the hopes for the growth of the sales has been prevailing in the industry, and it should be noted this has happened before New Year’s holidays. The decrease of the demand is forecast only in the light industry, and the most intensive growth – in ferrous metallurgy, chemistry and petrochemistry.

The satisfaction with the demand secured at a new level: in August-October about 35% of the enterprises consider the existing volumes of sales as normal for the current conditions (*fig. 2*). This value is a new plateau after the bottom of the crisis of the level of 23%. In non-ferrous metallurgy the satisfaction with the demand has already reached 65%, in foodstuffs production – 59%, in chemistry and petrochemistry – 47%.

Stocks of Finished Goods

The balance of estimations of stocks of finished goods has stabilized at the level of excesses that were traditional for pre-crisis time since May 2008. The proportion of responses “normal” has also reached the pre-crisis level. The crisis overstocking has been overcome in all branches of the industry. The estimations of the accumulations at the stocks of finished goods by the enterprises do not allow hoping that their replenishment will support the growth of production in forthcoming months. Moreover, the intentions to decrease the physical volumes of stocks in forthcoming months prevail in the plans of enterprises. 13% of enterprises are ready to increase their stocks, whereas 20% intend to decrease them. The growth of the volumes is possible only in the production of construction materials, timber industry and foodstuffs production.

Goods Output

In October the output growth rates (in case of surveys that turned out to be the difference between the proportions of responses “growth” and “decrease”) has gone up by 4 more points upon exclusion of seasonality and set a new crisis (but positive) record: the output in the Russian industry has not been growing at such intensive rates since June (!) 2008

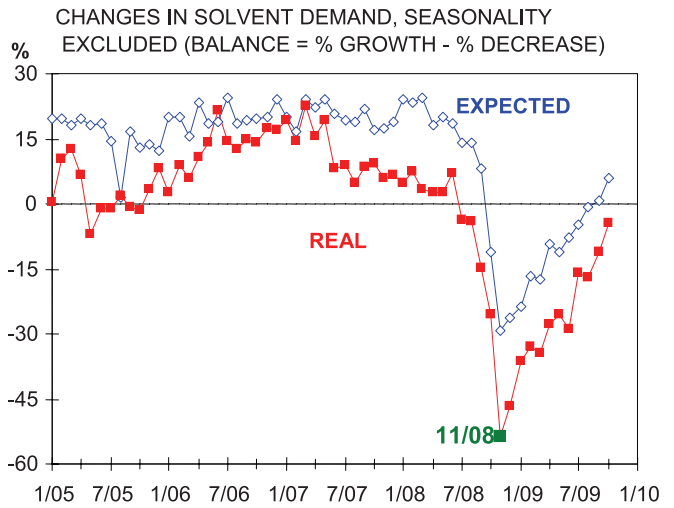


Fig. 1

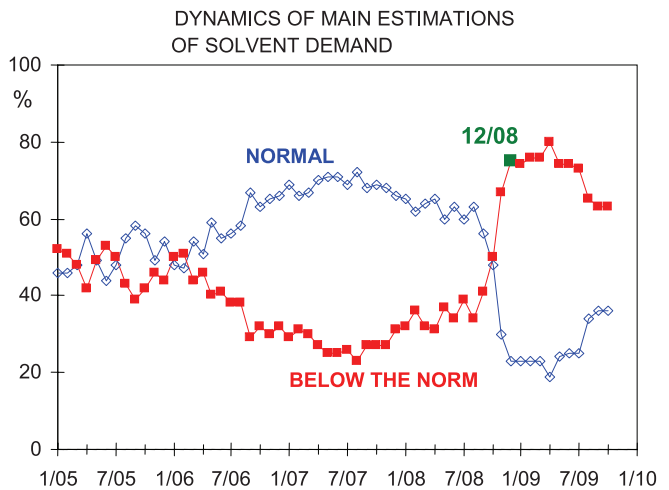


Fig. 2

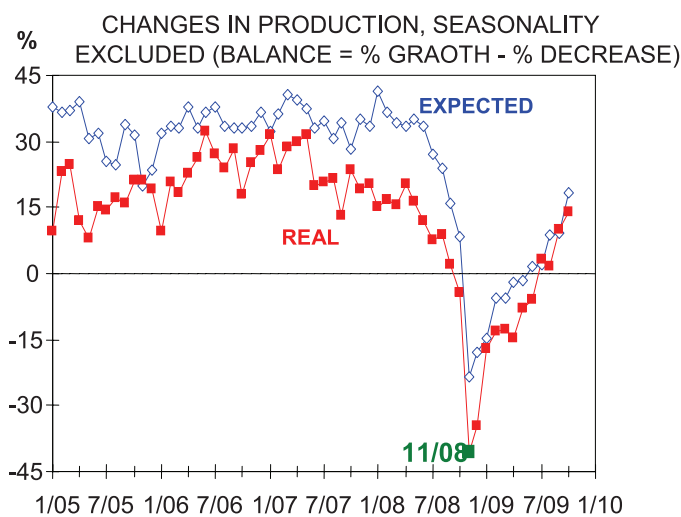


Fig. 3

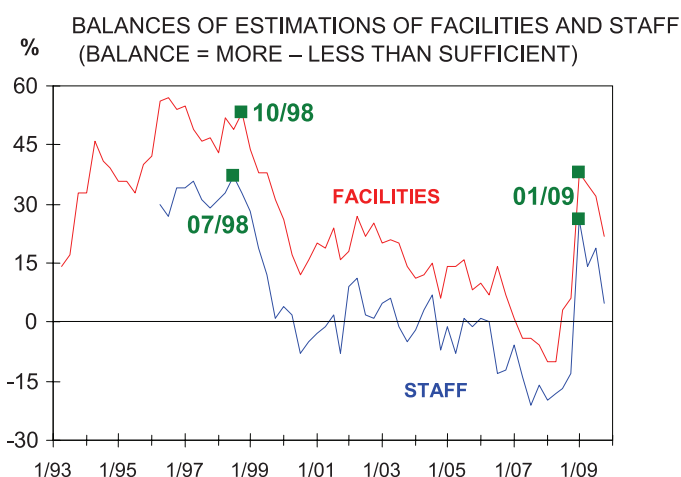


Fig. 4

points (*fig. 4*). Moreover, non-ferrous metallurgy, foodstuffs production and light industry already have a shortage of staff. That is the industry already has quite a moderate excess of the staff for a possible forthcoming growth of production. It seems that the enterprises rushed with redundancies decisions in the first half of 2009, yielding to the somber forecast with which it was pressurized from all the sides and levels. It only remains for us to hope that really unnecessary and low-qualified employees were dismissed in the first place, and the qualified staff remained.

The decreased of the excess of the facilities made 16 points as compared with the beginning of the year (the excess of facilities was +38 then). Since it is nearly impossible to get rid of excessive facilities (the employees can be dismissed) in the crisis (and in Russia it was difficult even before the crisis) this factor will set less limitations for the forthcoming growth of production. The shortage of facilities was registered only in the foodstuffs production.

Prices of Enterprises

In October the enterprises corrected their price policy in concordance with the plans of September and held back the growth of prices. In October the prices went up but not at such intensive rates as in September. Thus, September has so far been the month of

(*fig. 3*). In October the surveys registered the decrease of the output only in the production of construction materials, light, chemistry and petrochemistry industry. The most intensive growth was characteristic for metallurgy and machine-building.

In the 4th quarter the load of facilities in industries went up to 60% and became the highest in the crisis quarters of 2009. In October 2008 the industrial facilities were loaded to the extent of 70%. The equipment is loaded most intensively in metallurgy (82%, 80% in October 2008), timber industry (73%, 77% in October 2008) and foodstuffs production (66%, 75% in October 2008).

However the forthcoming stop of the crisis brings back old problems to the enterprises: the excess of facilities and staff in the industry is going down, their shortage increasing. So far (as on October 2009) the excess of equipment and staff is retained on the whole in the industry, however the excesses has decreased considerably as compared with the peak of the crisis. This is especially true for the excess of staff. Whereas in January 2009 the balance of estimations of excess-shortage of the staff went up by 39 points at once as compared with October 2008 and reached +26 points, by October 2009 the figure had gained 21 points back and is now equal to only +5

the most intensive growth of prices in the current crisis. Such a policy of enterprises can really (in contrast to stocks) support the demand for the production and its output, correspondingly. The slow-down of the growth of prices or their absolute decrease was registered in October in all the branches of industry except for machine-building (there the producers have transferred to the growth of prices for the first time since March 2009) and timber industry (where the obvious growth started after the first such attempt in July-August).

The enterprises' plans for prices decreased by further 4 points in October but remained positive, that is the growth of industrial process in November-December will sustain, being, though, probably less intensive than at present (*fig. 5*). This testifies the fact that the industry intends to further use the price factor in the struggle for the consumer. Such a price policy will prevail in all the branches.

Real Dynamics and Plans for Dismissals

In October the intensity of redundancies in the Russian industry continued to decrease and as a result has become the most moderate starting with July 2008, when the industry just started to feel the effect of the crisis. The improvement of October figures as compared with the critical (and to a certain extent panicking) minimum of January made 42 points, and as compared with more reasonable (that is not so panicking) level of February – 18 points. Nevertheless, the dismissals of employees go on in all the branches of industry except for the ferrous (there the hiring of the staff has started) and non-ferrous (there the number of employees has not changed) metallurgy.

The plans for dismissals for the forthcoming months in the industry are the most moderate. The crisis minimum (the 4th quarter 2008 and January 2009) has been left 18 points behind. Now 21% of the enterprises is planning to reduce the number of employees in November-December, versus 125 of enterprises planning to increase their number. The main part (66%) of the producers intends to retain the number of the staff. The most intensive redundancies will take place in construction industry, chemistry, petrochemistry and light industry.

Industry Crediting

The normal availability of the credits for the industry has grown to 48% and for the first time during the crisis has exceeded the proportion of the enterprises estimating the availability as “below the norm” (*fig. 6*). It seems that the banking sector believed in the

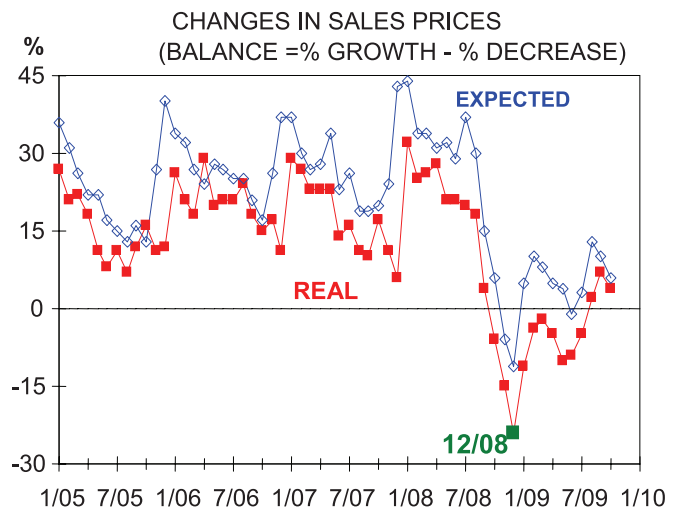


Fig. 5

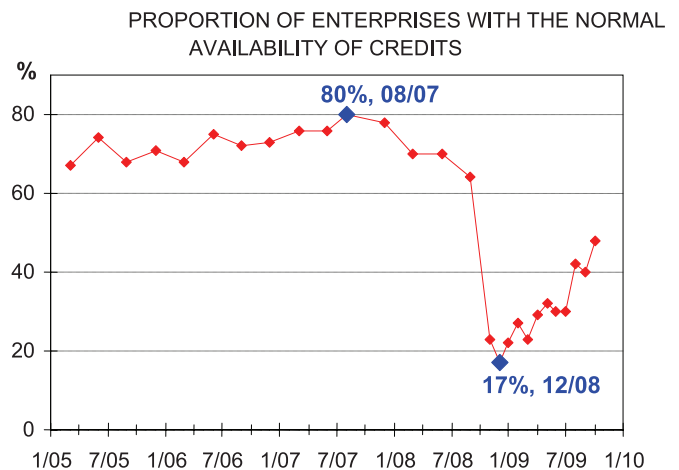


Fig. 6

fact that the Russian industry has started to go out of the crisis and begins to increase its crediting. The conditions are however quite rigid. The minimal suggested rate now makes 18% per annum and reduced by only 0.4 percentage points over the month. Small- and medium-scale enterprises are offered credits with 19% per annum, with the increase of the size of an enterprise, the rate goes down to 14-15% per annum. The rate varies by branches from 16.8% in metallurgy to 18.5% in the industry of construction materials and 19% in the light industry.

The expansion of banking crediting of the industrial enterprises is not connected with the considerable crediting risks. The positive dynamics of the production has had a good effect on the ability of the enterprises to serve the credits. In the 4th quarter the proportion of enterprises that recognize their inability to pay off to the banks reduced to 28% (of the number of enterprises having credits). In April 2009 this figure made 48%. Now it is most difficult to pay debts for the light industry, 48% of which enterprises acknowledged having not enough possibilities to pay off to the banks. In machine-building, timber industry and industry of construction materials there are 37% of enterprises that have problems with paying off the credits, and in chemistry and petrochemistry – 29%. However there are nearly no such enterprises in metallurgy. ●

FOREIGN TRADE

N.Volovik

Leading international organizations noted the signs of the beginning of the normalization of the international trade flows. The improvement of the situation at the world market allows sustaining the trend for the gradual recovery of the Russian export. At the same time there has been no steady growth of the Russian import observed so far. The Russian government continues to work towards protection of the domestic business.

In the joint report of the WTO, OECD and UNCTAD, presented on September 14, 2009, the trade and investment policy of the members of G20 in the period from April 2008 to August 2009 is considered. The policy pursued by these countries is compared with the promises that they gave earlier to restrain from protectionism and to minimize the negative influence of fiscal and financial policy on the trade and investments.

The authors of the report come to the conclusion that “there is no indication of a descent into high-intensity protectionism involving wide-spread resort to trade or investment restriction or retaliation”¹, and assume that the government of G20 are able to keep the protectionist pressure under control.

At the same time some members of G20 increased the tariff and non-tariff barriers especially to protect the metallurgy and automobile industry. The EU and the USA retreated to application of the export subsidies that distort the trade in order to increase the competitiveness of their dairy goods at the world markets. And although the measures for financial stimulation allowed increasing the demand, which in its turn supported the trade, some countries, local and regional governments included the requirements “purchase of national goods” in the anti-crisis package.

It is mentioned in the report that the signs for the “beginning of the normalization” of international trade flows have outlined. In June 2009 the world trade went up by 2.5% as compared with the previous month, and this was true for all the regions except Africa and Middle East. The revival of trade is especially obvious in new industrial countries of eastern Asia. The Chinese package of measures for economic stimulation resulted in the growth of the regional trade. The export is observed to grow versus the figures of the previous month. Nevertheless the volume of the world trade in June 2009 was 19% below its maximum value of April 2008.

The governments managed to attract additional credits and used insurance measures to counteract the sharp reduction in the trade credits which evolved after the credit markets ceased to function normally at the end of last year. This very contraction of the credits availability together with the reducing demand resulted in sharp decrease of trading flows. At the same time high demand for the additional crediting resources of the state agencies indicates that the private banks have not regained the traditional role of the sources for trade financing so far.

The increase of tariff and non-tariff barriers (such as requirements for licensing and labeling) have mainly concentrated in a small number of sectors: agriculture, iron and

1 Report of the WTO, OECD, UNCTAD on G20 trade and investment measures (<http://www.oecd.org/dataoecd/56/48/43689944.pdf>).

steel production, automobile and automobile components, chemistry goods, plastics and textile.

The number of the started anti-dumping investigations (that is the index of protectionist pressure on the government from the national business) did not exceed the figures in the corresponding period of 2008. However the list of countries adopting the preliminary measures which are necessary to introduce anti-dumping duties has changed considerably: the number of anti-dumping investigations in China has increased by nearly 5 times – from 3 to 14. In its turn, China often is a subject of anti-dumping investigations with regard to a wide variety of goods.

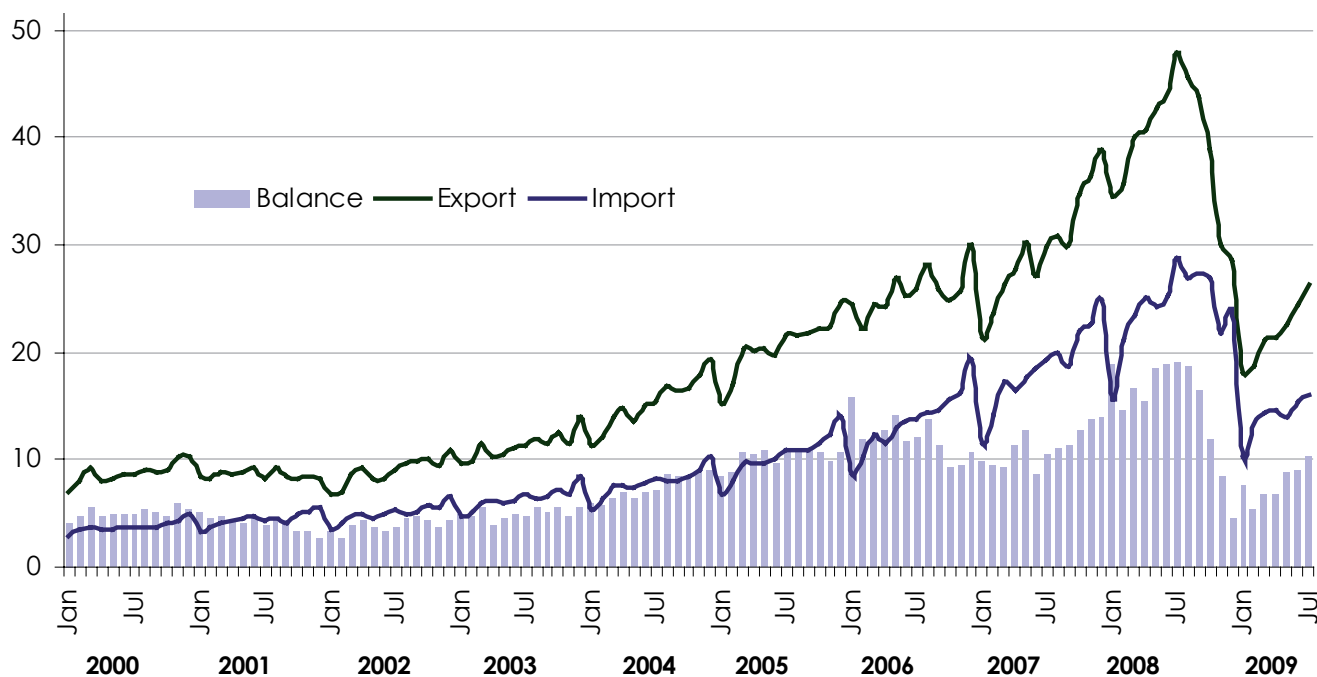
The number investigations necessary to introduce protective measures is observed to grow rapidly – from 2 cases in the first two months of 2008 to 16 cases in 2009. It should be noted that 14 of them were started by India.

The report mentions that due to the lack of the data on the fulfillment of the measures for financial stimulation and the programs of support rendered to the industry and financial sector it is still difficult to estimate their influence on the trade. It recommended to pay attention to the possible long-term consequences for fair competition. It is mentioned in the report that the longer the subsidies will be in the effect, the bigger distortion will be in making decisions for issues of production and investments at the global scale, the bigger the threat of chronic distortions will be and the more difficult it will be to correct these distortions.

Russian foreign trade turnover, as calculated according to the balance-of-payment methodology, made USD 42.7 billion in August 2009. As compared with July 2009 it grew by 0.8%, and versus August 2008 – reduced by 41.3%.

In August 2009 the trend for the increase of the export value volume versus the previous month sustained. Versus July 2009 export supplies went up by 3% and made USD 27.1 billion. This is accounted for by the improvement of the situation at the world market.

In August 2009 the prices for oil which started in the middle of July 2009 continued at the world market. Versus the previous month the price for oil grade Brent went up by



Source: Central Bank of the Russian Federation

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

11.1%. The recovery of the growth of world prices for oil in August is connected with the sustaining expectations for the recovery of the world economy which are supported by the continuing economic growth in India and China, dollar depreciation and continuing growth of world stock exchanges.

The price for oil grade Urals made USD 72.3 per barrel in August 2009, having increased by 12% versus the level of July 2009, as compared with August of the previous year the price dropped by 1.5 times.

The average price for the Russian oil in the period of monitoring from September, 15 to October, 11 inclusive made USD 67.05 per barrel versus USD 69.6 per barrel, which was observed in the period of monitoring from August, 15 to September, 14. This resulted in the decrease of export duty for oil from November 1, 2009, which has been rising steadily in past months. According to the decree of the Government No 850 from October 28, 2009 the export duty rate for crude oil in 2009 will be reduced from USD 240.7 per ton to USD 231.2 per ton. Export duty rates for light oil products go down from USD 174.5 per ton to USD 168.1 per ton, and for dark oil products – from USD 94 per ton to 90.5 per ton.

In August the prices for the main metals were observed to grow considerably. Though the trend for the growth was observed for all the main metals, it was nickel that grew at fastest rates during the month. The growth of prices for nickel, copper, aluminum made 22.9%, 18.2% and 15.9%, correspondingly. Over 8 months of the current year the prices for aluminum went up by 29.7%, for copper – by 100.7%, for nickel – by 102.8%. despite the positive dynamics, in January-August 2009 the prices at London metal exchange still remained considerably below the figures in the corresponding period of 2008: by 1.9 times – for prices for aluminum and nickel, and by 1.8 times – for prices for copper.

Table 1

AVERAGE MONTHLY PRICES IN AUGUST OF CORRESPONDING YEAR

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Oil (Brent), USD/barrel	12.5	20.2	29.4	25.7	27.2	29.9	42.8	61.9	71.7	72.1	118.3	73.06
Natural gas, USD/1 mln BTU	1.858	2.8	4.437	2.91	2.999	4.888	5.212	9.533	6.593	6.309	8.455	3.469
Petrol, USD/gallon	0.4128	0.6476	0.9021	0.776	0.834	0.935	1.152	1.811	2.073	1.968	2.93	1.971
Copper, USD/ton	1627.4	1646.6	1941.7	1499.4	1480.0	1731.0	2835.8	3800.0	7689	7510.5	7645.6	6165.3
Aluminum, USD/ton	1345.4	1421.1	1546.4	1374.9	1292.0	1457.0	1694.3	1868.0	2460	2515.2	2780	1933.8
Nickel, USD/ton	4137.1	6430.8	8092.9	5554	6720.0	9365.0	13723	14894	30872	27600	18581	19642

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

In August the world prices for wheat, barley and rice were observed to decrease. At the same time the prices for vegetable oils, cacao beans, coffee and tea went up. Sugar became much more expensive. Prices for other agricultural goods changed but slightly.

The steady revival of the Russian import has not been observed so far. In August 2009, as compared with the previous month, the value volume of import of goods to Russia reduced by 3.1%. The trend for the decrease of the import of foodstuffs and agriculture goods, production of chemistry industry, metals and goods thereof is sustained. The import of goods of other kinds of economic activity meanwhile remains at approximately the same level without the noticeable trend for the growth. Thus, the import of machinery and equipment went up only by 0.5% in August as compared with July.

The anticipating export growth rates enable retaining and further strengthening of favorable situation with the trade balance. In August 2009 the trade balance reached a record-breaking level for 2009 of USD 11.5 billion.

In January-August 2009 the foreign trade turnover of the Russian Federation calculated on the basis of balance-of-payments methodology reduced by 43.7% versus the corresponding period of the previous year down to USD 293.4 billion. Over eight months of the current year the export went down by 45.6% to USD 179.3 billion, and import – by 40.4% to USD 114 billion.

Versus January-August of the previous year in January-August 2009 export of fuel and energy commodities went down by 48.6%, their share in the structure of export reducing by 3.7 percentage points.

In contrast, export of foodstuffs and agriculture raw materials went up by 28.2% in terms of value due to the increase of the physical volumes of export of grains by 3 times despite the reduction of average contract prices by 43%. Over the last 8 months export of wheat made 9.8 million of tons (USD 1.6 billion) versus 3.9 million of tons (USD 1.1 billion) over the corresponding period of the previous year. The growth of indices is accounted for by the practical absence of export in the first half of 2008. Till June 30, 2008 the export duty rate of 40% but no less than Euro 105 per ton was in effect in Russia. As a result of the current agriculture year (from July, 1st to July, 1st) the export of wheat is expected to decrease due to its high offer at the world market and low level of prices.

The Government of the Russian Federation continues to work towards the protection of the domestic producer. Thus, according to the Decree No 578 from September 28, 2009 “On measures for protection of the Russian producers of stainless steel pipes” a special duty of 28.1% of the customs value of pipes made of stainless steel of external diameter of up to 426 mm inclusive imported into the territory of the Russian Federation is introduced. This concerns, for instance, the steel pipes of different diameter for oil- and gas pipelines and for the work with hydrogen sulfide. Earlier the duty rate for this kind of pipes made from 5% to 20% of customs value depending on their type. The special duty is not applied to the import of pipes made of stainless steel from the Republic of Belorussia and from the developing countries that enjoy the national system of preferences of the Russian Federation with the exception for Brazil and China (including Taiwan and special administrative districts of china, Hon Kong and Macao).

Anti-dumping investigation concerning the import of stainless pipes conducted by the Government of the Russian Federation continued for about 2 years. The investigation was initiated by the largest producers - Volzhsky and Sinarsky pipe plants (members of TMK group), Chelyabinsk pipe Rolling Plant and Pervouralsk new Pipe Plant (ChTPZ group), whose total production makes more than 80% of the total pipe production in Russia. The producers gave the following reason for their initiative – from 2004 to 2006 the proportion of the Russian enterprises in the total volume of consumption of stainless pipes reduced by 15.5 percentage points, the share of import increasing correspondingly. It was China (including Taiwan), Ukraine, Brazil, Japan and countries of European Union (and primarily Italy) that were the main suppliers. The notification presented by the pipeline producers to the Government underlined that the growth of import was accompanied by a considerable disparity of prices, and if in 2004 the average weighted price of a Russian pipe was 31.3% higher that of an imported one, in 2006 it was 1.8 times higher, since the foreign producers enjoy the preferences, grants and subsidies of their governments. With the start of the crisis and the drop of the demand, the load of the Russian assets went down to the minimum value, the proportion of import sustaining. The introduction of a special duty rate is to change the situation: it will make the conditions of competition even and will let the Russian pipe producers strengthen the policy at the internal market.

Starting with September 25, 2009 following the initiative of the Ministry for Agriculture of the Russian Federation the duty rates for imported cheeses were raised. The rate of the duty makes 15% of the customs value but no less than Euro 0.5 per 1 kilo (earlier the limit of the rate was established at the level of Euro 0.3-0.7 per 1 kilo depending on the kind and the price of the cheese). The new duty rate will be in effect for 6 months. This measure is to support the Russian cheese makers.

There is a good material and technical base for making cheese of most popular hard and soft kinds in Russia. In recent years the growth of the volume of cheese production has been observed in all the regions. This is primarily connected with the increase of milk production. At the same time import that made 40% in the structure of cheese supply in Russia in 2008 decreased by nearly 10% due to the crisis.

The duty rates increasing, the Russian producers of cheese hope to gain additional advantages over the foreign competitors. Now the European exporters get Euro 0.5 of subsidies for every kilo of cheese sold outside the Europe. This gives considerable advantages for imported cheese over the domestic cheese. Besides, the increase of the duty rates will stimulate the growth of purchase prices for milk, which should have a positive effect on the milk industry as a whole.

According to the Decree of the Government from 09.10.2009 No 807 "On prolongation of the period of action of import duty rates for some motor vehicles" the period of effect of duty rates for some kinds of motor vehicles was prolonged. Increased duty rates for imported cars envisages for 9 months came into effect on January 12, 2009 and were in force up to October 11, 2009. Import duty rates for passenger cars with the period of exploitation from 1 year to 5 years were increased on average from 25% to 30% of the customs value, the specific rate, calculated in Euro, increasing proportionally. Besides, the period of ascribing passenger cars to the used ones was decreased from seven to five years.

The increase of duty rates for new imported cars and the introduction of obstructive rates for used imported cars is considered to be one of the main anti-crisis decisions in the branch of industry.

However when analyzing the results of the increase of duty rates for the import of new and used cars from January 12, 2009 one can single out several segments in the market of cars which reacted differently to the changes of external conditions. In the segment of cheap passenger cars of primarily the domestic production the contraction of the demand was primarily accounted for by the contraction of the demand for the durable goods from the consumers with low incomes. That is why there has been no obvious import replacement observed in this segment due to devaluation and the increase of duty rates even against the background of obvious weakening of competition with the used imported cars.

In the segment of expensive cars where there were no possibilities for import replacement from the beginning the increase of duty rates affected the sale of cars: in the environment of the decrease of the demand the necessity for the sale of stocks resulted in a number of special discounts and the decrease of prices.

The introduction of duty rates had some effect in the segment of medium prices, where it could support the productions situated in Russia (mainly industrial assembly) putting a stop to the import of used cars which gave some additional advantage to car assembling plants of foreign companies in Russia. ●

THE STATE BUDGET

E.Fomina

According to the data published by the RF Ministry of Finance, federal budget revenue in the first 9 months 2009 amounted to 18 % of GDP, which is by 5.1 p. p. of GDP lower than the corresponding index of 2008; at the same time, budget expenditure was higher than last year by nearly 8 p. p. of GDP, having reached the level of 22.7 % of GDP. Budget deficit reached 4.7 % of GDP (in October 2008, there was a budget surplus of 8.3 % of GDP). The increased volume of federal budget expenditure can largely be explained by the necessity to provide financing for the anti-crisis measures being introduced in the real and financial sectors of the national economy, as well as for the substantial pension indexation which had been planned for the year 2009.

An analysis of the main parameters of the execution of the general government budget in January – August 2009.

The declining rate of growth in the real sector of the national economy in late 2008, followed by recession early this year had a severe negative effect on the situation with regard to state finance. As a result of a substantial drop in the volume of resources being redistributed through the budgetary system, the government's potential for creating budget incentives for the economy was greatly reduced (see *Table 1*). As may be seen by the results of the first 8 months of 2009, the revenue volume of the general government budget dropped by 6.7 p. p. of GDP on the corresponding period of 2008, while the expenditure volume, on the contrary, increased by 8.3 p. p. of GDP. According to the data published by the RF Federal Treasury for January – August of this year, the general government budget deficit amounted to 2.3 % of GDP, while in the corresponding period of 2008 the budget of general government was executed with a historically high surplus – more than 12 % of GDP.

Table 1

THE EXECUTION OF REVENUE AND EXPENDITURE BUDGETS AT ALL LEVELS OF AUTHORITY
IN JANUARY – AUGUST 2008 – 2009

	January – August 2009		January – August 2008		Deviation, p. p. GDP
	billion rubles	% GDP	billion rubles	% GDP	
Federal budget					
Revenue	4,645.8	18.8	6,404.5	24.4	– 5.6
Expenditure	5,580.1	22.6	4,057.3	15.4	+ 7.2
Deficit (–) /Surplus (+)	–934.3	–3.8	2,347.2	8.9	– 12.7
Consolidated budgets of RF subject					
Revenue	3,903.6	15.8	4,124.3	15.7	+ 0.1
Expenditure	3,590.3	14.5	3,388.3	12.9	+ 1.6
Deficit (–) /Surplus (+)	313.3	1.3	736.0	2.8	– 1.5
General government budget					
Revenue	8,648.5	34.9	10,939.7	41.6	– 6.7
Expenditure	9,214.2	37.3	7,634.0	29.0	+ 8.3
Deficit (–) /Surplus (+)	– 565.7	–2.3	3,305.6		12.6
For reference: GDP, billion rubles	24,729.2		26,289.0		

Source: RF Ministry of Finance, IET estimations.

Throughout the current year, the resources of this country's budgetary system have continued to be formed mainly under the influence of an unfavorable external market situation with regard to prices and demand for the Russian exported commodities, as well as the overall weakening of Russia's national economy.

Thus, following the marked drop of prices for the main energy carriers on the world markets and the lowering demand for the products of the oil and gas complex on the part of importer countries in the first half-year 2009, the volumes of budget revenues from tax on mineral resources extraction and from foreign trade have considerably dwindled. At the same time, even given a slight increase of prices for energy carriers, the raised rates of export duties and termination of decline of the volumes of extraction in the last summer months, the positive effect for the budgetary system in the form of increased revenues from tax on mineral resources extraction and foreign trade cannot have really been felt so far (*Table 2*).

Revenues from tax on profit of organizations in the general government budget in January – August 2009 amounted to 3.4 % of GDP against 7% of GDP in the same period of last year. The financial situation of the majority of enterprises remains rather difficult. The package of measures designed to support the real sector of the economy has been introduced only for a limited number of big enterprises, and so has had no large-scale positive effect. In this connection, a certain degree of stabilization in some sectors of the national economy can indeed be noted: in the first 8 months of 2009, the total balance of financial results in the real sector amounted to 2,354.9 billion rubles, which is nearly two times less than the value of the corresponding index in the same period of 2008, while the share of loss-making organizations in the overall number of organizations rose on the same period of last year by 6.7 p. p. to approximately 35 %. The worst financial result by the end of the first 8-months period of 2009, as before, were demonstrated by enterprises producing electrical equipment and means of transportation, as well as by the construction sector and the chemical industry. That is why it is evidently too early to speak of an onset of a large-scale recovery of the real sector, despite the existing trend of macroeconomic stabilization.

Table 2

 DYNAMICS OF THE TAX BURDEN LEVEL AND THE REVENUES FROM THE MAIN TAXES IN RF
 GENERAL GOVERNMENT BUDGET IN JANUARY – AUGUST 2009, AS % OF GDP

	first 8 months 2009	first 8 months 2008	Deviation, p. p. GDP
Tax burden level (1 + 2 + 3)	30.1	38.6	-8.5
Tax revenues (1), including:	20.8	26.4	-5.6
tax on profits of organizations	3.4	7.0	-3.6
PIT	4.3	4.0	+0.3
SST*	2.2	2.0	+0.2
VAT	5.3	5.9	-0.4
Excise	0.9	0.9	0.0
Tax on mineral resources extraction	2.5	4.6	-2.1
Insurance contributions to mandatory pension insurance (2)	3.5	3.2	+0.3
Revenues from foreign trade (3)	5.8	9.0	-3.2

* without insurance contributions to mandatory pension insurance.

Source: RF Ministry of Finance; Rosstat; IET estimations.

Alongside the substantial reduction of the volume of revenues from the taxes on profits and mineral resources extraction, revenue decline in relative terms was also demonstrated by VAT receipts in January – August 2009, but the rate of decline was much lower: the

drop of revenues from this tax in the general government budget amounted to 0.4 p. p. of GDP (*Table 2*). The greatest rate of reduction was demonstrated by the portion of VAT generated by commodities imported into the territory of the Russian Federation (by 25 % against the corresponding period of last year) which, in its turn, happened due to the almost 40 % drop of imports volume. At the same time, the rate of decline displayed by the receipts of domestic VAT remained as a noticeably lower level than the overall level of decline in GDP, which actually represents its tax base. Thus, domestic VAT once again, in the current situation of crisis, asserted its stabilizing function with regard to generating tax revenues for the federal budget.

The volume of revenues from PIT in the general government budget reached the level of 4.3 % of GDP, which is by 0.3 p. p. of GDP higher than the index recorded in the corresponding period of last year. This pattern of revenues from PIT can be explained by the accelerated rate of drop in GDP, as compared to the decline pattern displayed by the population's disposable incomes.

Against the backdrop of dwindling revenue, the expenditure component of the budgetary system was demonstrating an oppositely vectored dynamics. General government budget expenditure increased by 8.3 p. p. of GDP (*Table 3*), and in this connection it can be noted that the spending of state budget resources in recent months has been more active than in early 2009.

Table 3

THE EXECUTION OF THE GENERAL GOVERNMENT EXPENDITURE BUDGET
IN JANUARY – AUGUST 2009, AS % OF GDP

	January – August 2009		January – August 2008		Deviation, p. p. of GDP
	billion rubles	as % of GDP	billion rubles	as % of GDP	
Expenditure, total	9214.2	37.3	7634.0	29.0	+ 8.3
including					
Nationwide issues	770.5	3.1	745.8	2.8	+ 0.3
Of these, servicing of state and municipal debts	149.2	0.6	122.9	0.5	+ 0.1
National defense	685.1	2.8	559.6	2.1	+ 0.7
National security and law-enforcement activity	724.5	2.9	630.2	2.4	+ 0.5
National economy	1583.6	6.4	1007.9	3.8	+ 2.6
Housing and utilities system	517.3	2.1	502.9	1.9	+ 0.2
Environment protection	16.1	0.06	15.9	0.06	0
Education	1051.7	4.3	943.2	3.6	+ 0.7
Culture, cinematography and mass media	192.1	0.8	170.9	0.7	+ 0.1
Public health care and sports	956.5	3.9	870.1	3.3	+ 0.6
Social policy	2716.4	11.0	2187.3	8.3	+ 2.7

Source: RF Treasury, IET estimations.

As can be seen by the preliminary results of the first 8 months of 2009, the greatest deviation of the volume of financing from last year's volumes was displayed by the item 'Social Policy': the funding allocated to it in general government budget was by 2.7 p. p. of GDP higher than in the corresponding period of 2008. A similarly upward trend was displayed by the financing allocated on the execution of government obligations under the item 'National Economy' – up to 6.4 % of GDP in 2009 against 3.8 % of GDP in 2008. A rather substantial growth was noted with regard to expenditures under the items 'National Defense' and 'Education'. The volumes of budget resources being spent in each of these areas are higher by 0.7 p. p. of GDP than those in the corresponding period of the year 2008.

The execution of the RF federal budget in January – September 2009

According to the data published by the RF Ministry of Finance, federal budget revenue in the first 9 months 2009 amounted to 18 % of GDP, which was by 5.1 p. p. of GDP lower than its index recorded in 2008, while at the same time the volume of expenditure was higher than last year's level by nearly 8 p. p. of GDP, reaching the figure of 22.7 % of GDP (Table 4).

The increased volume of federal budget expenditure can mostly be explained by the necessity to provide financing for the anti-crisis measures designed to support the real and financial sectors of the national economy, as well as the considerable indexation of pension payments planned for the year 2009. Growth in expenditure continued in October 2009 when, by way of a scheduled adjustments of federal budget parameters, the RF Government allocated an additional 150 billion rubles (or 0.4 % of GDP) to supplement the previously approved allocation volumes. This decision has had to do with the forthcoming capitalization of the banking sector in order to create incentives for its operation. Besides, it is intended to allocate some additional funding to the support of enterprises belonging (in the main) to the industrial complex, as well as to the acquisition of housing for military personnel.

The month-to-month dynamics of the growing budget deficit is becoming increasingly well-established, which casts certain doubt on the possibility to maintain the level of federal budget deficit within the limit of 7.4 % of GDP (by annual results). According to our estimations, the level of the federal budget deficit, as displayed by the results of the year 2009, may become as high as 8.9 % of GDP.

Table 4

THE MAIN PARAMETERS OF THE RF FEDERAL BUDGET IN JANUARY – SEPTEMBER 2009

	January – September 2009		January – September 2008		as % of budget revenue and expenditure	Deviation	
	billion rubles	% of GDP	billion rubles	% of GDP		billion rubles	p. p. GDP
Revenue, including:	5111.8	18.0	7155.7	23.1	76.1	2043.9	-5,1
Revenues from oil and gas	1995.6	7.0	3430.9	11.2	97.0	1435.3	-4,2
Deductions to Reserve Fund and National Welfare Fund (Stabilization Fund)	8.6	0.03	1324.5	4.3	–	1315.9	-4,3
Expenditure, including:	6463.0	22.7	4594.2	14.8	66.1	1868.8	+7,9
interest	146.4	0.5	130.9	0.4	62.3	15.5	+0,1
non-interest	6316.6	22.2	4463.3	14.5	66.2	1853.3	+7,7
Federal budget surplus (deficit)	-1351.3	-4.7	2561.5	8.3	45.4	-1210.2	-13,0
'oil and gas' deficit	-3346.8	-11.8	-433.7	-1.4	66.5	-2913.1	-10,4
GDP estimations	28478.4		30759.8				

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

So far, the federal budget deficit in the first 9 months of 2009 has been on the level of 4.7 % of GDP, while the amount of the oil and gas deficit amounts to almost 12 % of GDP.

Table 5 demonstrates the dynamics of revenues from the oil and gas sector and the the dynamics of their spending by the federal government in January – September 2009. The total revenue volume allocated in the first 9 months of 2009 to the Reserve Fund and the

National Welfare Fund was 8.6 billion rubles, while the volume of the oil and gas transfer to the federal budget was 2,418 billion rubles.

Table 5

THE DYNAMICS OF THE FORMATION AND USE OF THE OIL AND GAS REVENUES
BY THE FEDERAL GOVERNMENT IN JANUARY – SEPTEMBER 2009, BILLION RUBLES

Indices	Fund residuals, end of 2008	Approved for 2009 budget	Received in January – September 2009	Allocated in January – September 2009		Fund residuals, end of September 2009*
				on maintaining well-balanced federal budget	on oil and gas transfer	
Oil and gas revenues in federal budget	X	2,057.2	1,995.6			x
Areas for allocating oil and gas revenues:	X	X				x
Oil and gas transfer	X	2,531.1	2,418.7			
Reserve Fund	4027.6	5147.5	0	2,023.6	179.4	2,298.0
National Welfare Fund	2584.5	X	8.6	–	–	2,764.4
Result	6612.1	X	2,427.3	2,023.7	179.4	5,062.4

* the residuals are recalculated at the exchange rate as of October 2009

Source: RF Federal Treasury.

Table 6 shows the dynamics of spending the resources of the federal budget in the first 8 months of the current year in accordance with the functional classification of budget expenditures. The federal resources are being spent at a lower rate than last year, but the general deviation of the execution of federal budget expenditure is smaller than the deviations with regard to some specific budget items. Thus, as seen by the results of the first 8 months of the current year, federal budget expenditure was executed at the level of 57 % of the adjusted budget revenue and expenditure, which is only by 0.8 p. p. lower than it was in the corresponding period of last year. The greatest lagging behind in the use of federal budget resources in the first 8 months of the current year, as compared to the corresponding period of 2008, was noted with regard to the items ‘Social Policy’, ‘Public Health Care and Sports’ and ‘Nationwide Issues’. The drop in the expenditure volume in these areas was 8.5 to 9.8 p. p. The opposite trend – that of accelerated spending of federal budget resources by comparison with last year – has been demonstrated by the funding allocated to the items ‘Culture, Cinematography and Mass Media’, ‘National Economy’, and ‘Housing and Utilities System’. These items were overexecuted as of September 2009 by 9.4 – 17.7 p. p.

Table 6

FEDERAL BUDGET EXECUTION IN CASH TERMS IN JANUARY – AUGUST 2009,
AS A PERCENTAGE OF ANNUAL BUDGET REVENUE AND EXPENDITURE

	January – August 2009	January – August 2008
Expenditure, total	57.0	57.8
including		
Nationwide issues	47.4	55.9
Servicing of state and municipal debts	49.6	56.6
National defense	56.2	54.9
National security and law-enforcement activity	58.2	58.7

Table 6, cont'd

	January – August 2009	January – August 2008
National economy	60.7	51.3
Housing and utilities system	55.7	38.0
Environment protection	51.2	54.6
Education	55.6	54.3
Culture, cinematography and mass media	61.9	50.4
Public health care and sports	50.8	60.6
Social policy	56.2	66.0
Interbudgetary transfers	59.0	61.3

Source: RF Ministry of Finance; IET estimations.

It is expected that, in the remaining months of the year 2009, the execution of the expenditure budget will be done at an accelerated rate. A year's end is traditionally the time characterized by a more active use of state financial resources. Besides, some additional transfers to the RF Pension Fund have been envisaged in connection with the forthcoming indexation of pensions from 1 December, when the base component of labor pension will be increased by 31.4 %. Such an uneven temporal distribution of budget allocations may cause a certain inflation of the ruble in the last few months of 2009.

An overview of the implementation of anti-crisis measures, as of October 2009

The drastic changes in the conditions underlying the development of the Russian economy in 2008 – 2009 required a revision of the federal budget's parameters on the basis of their previous dynamics. Thus, in the adjusted federal budget the volume of expenditure was increased to 23.9 % of GDP, against the figure of 17.5 % of GDP stipulated in the budget law's initial wording¹. The main reason for this substantial growth of federal budget expenditure was the newly emerged necessity to implement the program of anti-crisis measures adopted by the RF Government. On the whole, it is intended to allocate in 2009 the sum of 985 billion rubles from the budget to the financing of anti-crisis measures, whereas only 342 billion rubles had been allocated as of October this year

Within the package of measures envisaged in the anti-crisis program, special emphasis should be placed on those aimed at supporting the real sector of the economy and the social sphere, the funding for some of these having already been allocated.

The aid provided within the framework of *measures designed to support the real sector of the economy* takes the form of various types of state support. Thus, the mechanism of additional *capitalization* of strategic enterprises and banks has been widely applied, among others, to 'Rosselkhozbank', 'Vneshekonombank', 'Sberbank of Russia', 'Rosagrolizing', 'Rostekhnologii' 'RZhD', 'FSK', and 'Rusgidro'. As of 1 July 2009, additional capitalization was implemented in the amount of approximately 265 – 300 billion rubles.

Besides, *the mechanism of direct state financing was applied*. Federal budget financing was provided for programs of technological upgrading of strategic enterprises belonging to the military-industrial complex (with allocation of 59 billion rubles out of the planned amount of 70 billion rubles to be spent over the current year), for innovative federal target programs, for the package of measures designed to develop agricultural and fishery infrastructure, the infrastructure for small- and medium-sized businesses, and for investment projects being implemented in the motor industry.

¹ Federal Law 'On the 2009 federal budget and the planning period of 2010 and 2011', No 204-FZ of 30 December 2008.

It is also planned to provide state support to enterprises in the real sector of the economy in the form of *state guarantees against credits* (in the main to system-forming enterprises and those belonging to the defense - industrial complex). *State guarantees* were envisaged for 295 enterprises of federal importance and to 1148 enterprises of regional importance. Out of the sum of 300 billion rubles earmarked for the year 2009, a total of 8.2 billion rubles had been actually allocated by the beginning of Q II.

It was intended to rapidly implement *measures designed to expand the crediting of banks* with state participation. In the first half-year 2009, the total sum of credits granted in the national and foreign currencies amounted to 585 billion rubles, of which: 'Vneshekonombank' received 325 billion, VTB Bank – 113 billion rubles, 'Sberbank of Russia' – 101 billion rubles, 'Gazprombank' – 43 billion rubles, and 'Rosselkhozbank' – 2 billion rubles.

The support of enterprises *through subsidizing interest rates* has also become quite widespread. This form of support is envisaged for dairy cattle and meat animal enterprises, fisheries, and some enterprises in the motor industry. In the first half-year 2009, the sum of 8.6 billion rubles was spent on interest rate subsidizing for enterprises belonging to the agro-industrial complex. Besides, it is envisaged to subsidize the interest rates on credits granted with regard to some specific types of activity, such as refinancing of investment credits, leasing of Russian – made motor vehicles, and exports (through allocating 5.7 billion rubles).

Additional financing from the federal budget was granted in the form of *subsidies and subventions*:

- subsidies to strategic objects belonging to the defense-industrial complex, to help them avoid bankruptcy (3 billion rubles);
- subsidies to enterprises in the light and textile industries;
- subsidies to commercial banks, to compensate their losses of revenues from credits granted to airlines;
- subsidies to air carriers, to compensate their loss of revenues etc.

In order to support some sectors of the national economy, the government applied the *instrument of state procurements*. More federal budget funding than before was allocated to purchases of motor transport vehicles for federal and territorial bodies of authority, as well as to renewal of the state fleet of special-purpose vehicles. As of 1 July this year, approximately 12 billion rubles was allocated to these purposes.

The anti-crisis package, in addition to the support of the real sector, also included some **social measures**. Beside the indexation of social benefits and pensions, other payments are envisaged at rates designed to be ahead of the growing prices, as well as some other measures. Subsidies and subventions to regional budgets from the federal budget are envisaged in order to finance the program of support to regional labor markets and to increase the size of unemployment benefits. As of October 2009, approximately 40 billion rubles was spent on these measures.

In addition, certain measures are envisaged in order to transfer students currently studying on a commercial basis onto budget-funded education programs and to allocate subsidies to support student credits.

Among the socially oriented measures, we can also point to those designed to co-finance a number of special programs in the housing and utilities sector, namely debt restructuring with regard to housing mortgage credits taken by individuals. This measure has taken the form of additional capitalization of the Agency for Housing Mortgage Crediting in the amount of 20 billion rubles and the granting of a credit to the Agency in the amount of 40 billion rubles.

Thus, large-scale financing of the anti-crisis package from the federal budget resulted in a substantial increase in some of the budget items by comparison with their initial size

stipulated in the first wording of the budget law. In particular, expenditure allocated under the item 'National Economy' increased in nominal terms by 60 % (or by 2.1 % of GDP). The sums allocated to the items 'Interbudgetary Transfers' and 'Housing and Utilities System' were increased by 16 % and 20 % in nominal terms (or 2.7 % of GDP and 0.05 % of GDP) respectively.

It should also be admitted that the slump in the national economy was aggravated by the somewhat belated allocation of state financing to the anti-crisis package, which happened, among other reasons, also because the revision of the 2009 budget was unnecessarily delayed, with the adoption of its final version only as late as April; and the actual financing of the measures envisaged in the anti-crisis program was started only in May - June 2009. As a result, the first transfers were received by the recipients of state funding only as late as Q III 2009. ●

AN ANALYSIS OF THE MAIN PARAMETERS STIPULATED IN THE DRAFT FEDERAL LAW “ON THE RF FEDERAL BUDGET FOR THE YEAR 2010 AND THE PLANNING PERIOD OF 2011 AND 2012”

E.Fomina

The dynamics of the main parameters of the federal budget, despite the stabilization, to a certain extent, of the Russian national economy’s basic indices of socio-economic development forecasted for the period of 2010 – 2012 (as compared to the budget indices planned for 2009), is still demonstrative of a continuing decline of revenue and a level of expenditure which is higher than in the pre-crisis period. As a result, the budget for 2010 – 2012 will be implemented with a deficit. However the size of this deficit is expected to be diminishing every year, by 2012 going down to 3 % of GDP against 6.8 % of GDP in 2010. The main source of covering the federal budget deficit will be found domestically, namely the Reserve Fund and the National Welfare Fund. Besides, it will be necessary to attract targeted external borrowings.

In October 2009, The RF Government submitted the draft Federal Law ‘On the RF Federal Budget for the Year 2010 and the Planning Period of 2011 and 2012’. The draft law was developed in accordance with a forecast of the basic macroeconomic indices and the directions of the fiscal and budgetary policies adopted for that period. It should be noted that the draft law, in its expenditure part, contains complete projections for the year 2010 broken into classification items, while the parameter of spending obligations for 2011 and 2012 are presented only as marginal values. The budget format applied in the past years envisaged a detailed stipulation in a draft federal law of the adopted spending obligations for a three-year term, which resulted in a higher transparency of state finance. However, in a situation of instability of some of the macroeconomic indices in the post-crisis period it was decided not to present a detailed by-item break-up of expenditure.

The dynamics of the main parameters of the federal budget, despite a somewhat more stable basic indices of the socio-economic development of the domestic economy as forecasted for the years 2010 – 2012 against those in 2009, demonstrates a continuing decline of revenues and a higher level of expenditure than in the pre-crisis period.

In accordance with the preliminary estimations of the execution of the federal budget in the current year presented in the draft federal budget package for the period 2010 – 2012, the year 2009 represents a certain turning point in the dynamics of the main budget indices. Thus, in particular, this year saw the termination of the multi-year upward trend formerly displayed by revenues, when the federal budget used to be always implemented with a surplus. Thus, by 2008 federal budget expenditure had become as high as over 18 % of GDP, while in 2004 this index was no higher than 16 % of GDP.

Table 1

AN ANALYSIS OF THE ACTUAL AND EXPECTED EXECUTION OF FEDERAL BUDGET REVENUE AND EXPENDITURE IN THE PERIOD OF 2002 – 2012 (AS A PERCENTAGE OF GDP)

	Actual values							Estima- tions	Draft budget		
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Revenue	20.3	19.5	20.1	23.7	23.6	20.4	22.3	17.2	16.1	15.5	15.0
Including oil and gas revenues	15.1	14.1	13.5	13.6	12.7	12.2	11.7	10.0	8.7	8.6	8.5

Table 1, cont'd

	Actual values							Estima- tions	Draft budget		
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
oil and gas revenues	5.2	5.4	6.6	10.1	10.9	8.2	10.5	7.2	7.4	6.9	6.5
Expenditure	18.9	17.8	15.8	16.3	16.1	18.3	18.2	25.5	22.9	19.5	18.0
Including 'oil and gas' transfer	2.9	3.7	2.0	2.3	2.9	4.9	5.1	6.5	4.5	3.7	3.7
Saving of oil and gas revenues	2.3	1.7	4.6	7.8	8.0	3.3	5.4	0.7	2.9	3.2	2.8
Balance of RF federal budget, as % of GDP	1.4	1.7	4.3	7.4	7.5	2.1	4.1	-8.3	-6.8	-4.0	-3.0
Non-oil and gas deficit	3.8	3.7	2.3	2.7	3.4	6.1	6.5	15.5	14.2	10.9	9.5

Source: RF Ministry of Finance, IET estimations.

In the period of 2010 – 2012, in accordance with the submitted budget projections, the volume of available resources in the federal budget will drop to 15 % of GDP by 2012 by comparison with its preliminary estimates made in 2009 (17.2 % of GDP). In 2010 – 2012, the expected substantial decline of federal budget revenue will be caused by the forecasted relative drop of international oil and gas prices, slower growth of the extraction and exports volumes of hydrocarbons, and strengthening of the ruble/USD exchange rate, in combination with the already formed and maintained structure of raw-materials exports. Thus, the draft federal budget envisages a decrease of the volume of oil and gas revenues by 0.7 % of GDP over a three-year period. It should be noted that this reduction in oil and gas revenues is not going to be adequately compensated for by growth of some of the components in the structure of revenue. The volume of budget revenues unrelated to oil and gas revenues will decrease in 2010 – 2012 by 1.5 % of GDP.

At the same time, federal budget expenditure will display a restrictive trend, while remaining in 2010 at a sufficiently high level and amounting to nearly 23 % of GDP, with a subsequent decline to 18 % of GDP by 2012. This dynamics will be largely explained by the planned continuation, in 2010, of implementing the anti-crisis measures.

As a result of the substantial drop of budget revenue, the volume of state spending obligations was planned to be in 2010 – 2012 at a rather high level, resulting in a budget deficit. However, it is expected that every year federal budget deficit will be declining, reaching in 2012 the level of 3 % of GDP (against 6.8 % of GDP in 2010).

The main sources for covering deficit will be domestic ones – the Reserve Fund and the National Welfare Fund. Besides, it will become necessary to attract targeted external borrowings.

Throughout 2010 – 2012, in accordance with the draft federal budget, revenues from the majority of taxes are expected to be lower than in the period of 2006 – 2008. The forecasted decline of revenues will be caused predominantly by the relative worsening of the situation with regard to prices and demand for Russian exported commodities, while federal budget revenue will continue to strongly depend on the situation in the fuel and energy complex. Thus, in accordance with the forecasted values of the basic macroeconomic indices, global oil prices until the end of 2011 will never go up beyond 60 USD/barrel, although in the period of 2006 – 2008 they were fluctuating in the range of 70–120 USD/barrel. One should

also expect a slowdown in the growth rate of oil and gas production and a decline in exports from the oil and gas complex. Besides, the negative effect of the global financial crisis continues to have its impact on the financial status and business activity of enterprises belonging to the real sector of the economy. Thus, the volume of revenues from the 'oil and gas' taxes will not be increasing either (as % of GDP).

Table 2

THE DYNAMICS OF THE STRUCTURE OF TAX REVENUES IN THE FEDERAL BUDGET OVER THE PERIOD OF 2006 – 2012 (AS % OF GDP)

Taxes	Actual implementation			Estimations for 2009	Draft budget		
	2006	2007	2008		2010	2011	2012
Tax on profits of organizations	1.9	1.9	1.8	0.4	0.5	0.5	0.4
VAT	5.6	6.8	5.1	5.0	5.1	5.2	5.3
Excise duties	0.4	0.4	0.4	0.3	0.3	0.3	0.4
Customs duties	8.3	7.0	8.4	5.8	6.2	5.9	5.7
Tax on extraction of mineral resources	4.1	3.4	3.9	2.4	2.5	2.3	2.2
Share of these taxes in federal budget revenue, %	87.0	83.4	87.8	82.2	90.5	91.6	92.9

It is expected that the tax revenues to be received in 2010 – 2012 will be higher than the estimated volume of revenues in 2009 with regard to all the main taxes. In particular, the amount of revenues from tax on profits in 2010 – 2012 will remain at the level of 0.4 – 0.5 % of GDP, which corresponds to the expected revenue level for this tax in 2009. One can hardly rely on any significant growth of the tax receipts by comparison with this year's level, because the consequences of the economic crisis in the form of a worsened financial situation faced by the Russian real sector and decreased investments will continue to be felt for some time, and so the base for tax on profits will grow extremely slowly in the next few years.

As for the revenues received into the federal budget from the value added tax, in the period of 2010 – 2012 no significant changes are expected there. The volume of revenues from VAT will remain at the same level as in 2008 – 2009 and amount to 5.1 – 5.3 % of GDP.

It should also be noted that, despite the substantial indexation of the rates of excises on excisable goods¹, this package of measures will not have, on the whole, any important effect on the collectability of this category of taxes, resulting only in preventing any further reduction of its share in GDP. In accordance with the budget projections for the years 2010 – 2012, the revenues generated by excise duties will remain at the level estimated for the year 2009 – 0.3 % of GDP, with subsequent slight growth of 0.1 percent points in 2012.

Following the decreased receipts in the federal budget, in 2009, of the tax on extraction of mineral resources, this trend will continue to be seen also in the medium term. The level of revenues generated by the tax on extraction of mineral resources in the federal budget will stay at 2.2 – 2.5 % of GDP (against 3.4 – 4.1 % of GDP in 2006 – 2008). The dynamics of revenues from the tax on extraction of mineral resources depends entirely on the level of prices on raw materials markets. Against the backdrop of the relatively worsened situation

1 The rates of excise on alcoholic beverages with ethyl alcohol content of up to 9 % by volume inclusive, alcohol-containing products and wines in 2010 – 2012 will be subject to indexation on the average in the amount of 30 %; those on beer – by 50 %. It is envisaged that the advalorem component of the rate of excise on cigarettes, estimated on the basis of maximum retail prices, will be increased every year by 0.5 %; the specific component of the rate established for filter-tipped cigarettes will be increased on the average by 30 %; and that for cigarettes without filter – by 50%.

with prices for raw materials and a slower rate of their production, it would be reasonable to expect further decline of the share of the tax on extraction of mineral resources in GDP, even despite the fact that from the year 2010 onwards the full 100 % of the tax will be transferred to the federal budget (instead of the former 95 %).

The volume of customs duties received into the federal budget in 2010 – 2012 will be somewhat higher than its preliminary estimation for the year 2009. Thus, the revenues generated by customs duties in the medium term will amount to 5.7 – 6.2 % of GDP (against their level in 2009 of 5.8 % of GDP), although in the previous years their volume was above 8 % of GDP. The dynamics of revenues from export customs duties is close to the forecasted changes in the physical volume of hydrocarbon exports, which is restricted by the extraction and demand volumes.

Some reforming will be introduced with regard to the single social tax (SST). Although the transformation of SST into insurance contributions will take place from early 2010, the aggregate level of its rates in 2010 will remain at the level of 26 %, and only from 2011 onwards it is planned to increase the rate to 34 %¹. This decision has been made in order to avoid an excessive growth of the tax burden shouldered by Russian enterprises in a situation of crisis.

The draft federal budget for the years 2010 – 2012 envisages a gradual reduction in the rate of expenditure growth, although in recent years this rate was higher than the growth rate of GDP. According to the preliminary estimations of the execution of the 2009 federal budget, the level of expenditure is going to reach its historic high of the last few years – 25.5 % of GDP.

On condition that there is going to occur a relative stabilization of the main macroeconomic parameters, the federal budget for 2010 – 2012 was initially planned as a development budget; however, the main projections stipulated in the draft federal law with regard to expenditure confirm that its priorities, as before, will be aimed at social support of the population and targeted subsidizing of strategic enterprises and some sectors of the Russian national economy. At the same time, it is expected that the volume of investments will go down.

In 2010, the volume of federal budget expenditure will be decreased by 2.6 p. p. of GDP. However, if we compare the expected expenditure volumes with their pre-crisis indices, the budget expenditure planned for 2010 – 2011 will appear to be impressive, and only by 2012 its level will go back to the relative levels of the years 2007 – 2008. One of the key reasons for such a noticeable growth of federal budget expenditure is the increased size of its non-interest component.

Table 3

THE PARAMETERS OF FEDERAL BUDGET EXPENDITURE IN 2007 – 2012, BILLION RUBLES

	2007		2008		2009		2010		2011		2012	
	billion rubles	% of GDP	billion rubles	% of GDP	billion rubles	% of GDP	billion rubles	% of GDP	billion rubles	% of GDP	billion rubles	% of GDP
Expenditure – total:	5,986.6	18.1	7,570.9	18.2	9,931.4	25.5	9,886.9	22.9	9,389.8	19.5	9,681.0	18.0
including non-interest expenditures	5,843.5	17.7	7,417.6	17.8	9,728.6	24.1	9,582.9	22.2	No data		No data	

1 From the year 2011 onwards, the following tariffs will be introduced for insurance contributions in off-budget funds: to the Pension Fund – 26 %, to the Social Insurance Fund - 2,9 %, to the RF Mandatory Medical Insurance Fund – 2.1 %, and to the territorial Mandatory Medical Insurance Fund – 3 %.

Table 3, cont'd

	2007		2008		2009		2010		2011		2012	
	billion rubles	% of GDP	billion rubles	% of GDP	billion rubles	% of GDP	billion rubles	% of GDP	billion rubles	% of GDP	billion rubles	% of GDP
Interest expenditures	143.1	0.4	153.3	0.4	202.8	0.5	304.0	0.7	No data		No data	
For reference: GDP	32,987		41,668		40,420		43,187		48,072		53,712	

Source: RF Ministry of Finance, IET estimations.

Further on, we are going to look at the expenditure structure of the RF federal budget for the year 2010 and to compare it with the structure of expenditure in the previous years' budgets.

Table 4

THE DYNAMICS OF THE STRUCTURE OF FEDERAL BUDGET EXPENDITURE
IN THE PERIOD 2007 – 2012 (AS A PERCENTAGE OF GDP)

	Actually implemented		Adjusted revenue and expenditure for 2009	Draft budget		
	2007	2008		2010	2011	2012
Expenditure – total:	18.1	18.2	24.6	22.9	19.5	18.0
including:						
Nationwide issues	2.5	2.0	2.4	2.7		
of these: servicing of state and municipal debts	0.4	0.4	0.5	0.7		
National defense	2.5	2.5	3.0	2.9		
National security and law-enforcement activity	2.0	2.0	2.5	2.5		
National economy	2.1	2.5	4.6	3.1		
Expenditures on social policy and welfare system	2.4	2.4	3.0	2.7		
Interbudgetary transfers	5.8	6.4	8.8	8.6		
Other expenditures (approved conditionally)	-	-	-	-	0.5	0.9

Source: RF Ministry of Finance, IET estimations.

In view of the overall decline of expenditure, the most prominent changes linked to the cuts in funding allocated to the measures being introduced in the national economy and to the social policy. Thus, in 2010 it is planned to reduce expenditures on the national economy by 1.5 p. p. of GDP against their volume of 2009. This drop in expenditure volumes can be explained by the fact that the most sizable measures designed to support different sectors of the national economy within the framework of the RF Government's anti-crisis package have been planned for the year 2009. A certain part of this package is to be implemented in 2010, but it is much smaller. In the 2010 draft federal budget, the sum of 70 billion rubles is reserved for funding these anti-crisis measures, to be distributed by the Government's decision. Besides, the draft budget envisages an exchange of OFZ issued with the purpose of increasing Russian banks capitalization, in the amount of up to 250 billion rubles, for preferential shares in credit institutions.

Besides, the plans for 2010 involve a reduction in the overall volume of allocations for the implementation of Federal Target Programs, which has to do with the completion of some of them, and with attempts to optimize the allocations to the other.

The volumes of funding allocated to social policy are also to be cut by 0.3 p. p. of GDP by comparison with their 2009 indices. This is caused by the need to implement some basic measures designed to raise the budget-funded salaries and wages and other social payments by the end of this year though introducing their accelerated indexation.

It should be noted that some expenditure cuts will be done with regard to the item 'Interbudgetary Transfers', their drop in 2010 being planned in the amount of 0.2 p. p. of GDP. Such dynamics of this index can be explained, first of all, by the decreased volumes of transfers to RF subjects aimed at maintaining the well-balanced status of their regional budgets. Alongside the decrease in transfers to the regions, there will be an increase in the volume of interbudgetary transfers to RF state off-budget funds, and most of all – of those to the RF Pension Fund. The aim of this increase is to cover the previously assumed state obligations and to promote the implementation of measures designed to provide for pension reform.

Besides, expenditures under the item 'Nationwide Issues' (with taking into account the necessity of servicing the state and municipal debts) will be increased from 2.4 % of GDP in 2009 to 2.7 % of GDP in 2010. Growth of budget expenditures on these issues is connected to the increased cost of servicing state and municipal debts (by 0.2 % of GDP). Also, it is planned to implement, in 2010, an additional capitalization of the state corporation 'Olympstroy' in the amount of 102 billion rubles. At the same time, it is noteworthy that, contrary to expectations, the effect the planned measures designed to optimize the operation of the state apparatus (federal ministries and departments) will probably be negligible, resulting in no significant reduction of the expenditures allocated to their implementation.

On the whole, it can be noted that the draft federal budget for the years 2010 – 2012 is formed with due regard for the necessity to maintain a well-balanced budgetary system in this country. In conditions of a significant drop in budget revenue, a policy of restricting the size of state obligations will have to be pursued, in order to prevent any further aggravation of budget deficit.

The substantial growth of expenditure in 2010 was caused by the need to fulfill the previously assumed spending obligations and to implement the anti-crisis measures envisaged in the RF Government's package. ●

ON THE DRAFT FEDERAL BUDGET FOR THE YEAR 2009 AND THE PERIOD UNTIL 2011 IN THE PART OF ALLOCATION OF INTERBUDGETARY TRANSFERS

V.Nazarov

In 2010, the average size of labor pension should be increased to nearly 8000 rubles. This measure will require some additional budget expenditures to be allocated on transfers to the Pension Fund in the amount of 1.9 trillion rubles in 2010. The total sum of funding to be actually transferred to regional and local budgets in 2010 will be approximately 1,122 billion rubles, which in nominal terms is 13 % less than the sum envisaged in the Law on the 2009 federal budget. The volume of the principal channel for providing financial aid to regional authorities – through dotations from the Fund for the Financial Support of Regions for budget sufficiency equalization – will grow by 6 % (by comparison with its volume in 2009) to 397 billion rubles. A somewhat increased share of the Compensation Fund in providing interbudgetary transfers to other levels of the budgetary system is also envisaged (from 17.6 % in 2009 to 20.7 % in 2010). In the part of subsidies, their reduction is planned in the amount of 55.6 billion rubles – to 341 billion rubles (by 14 % as compared to 2009).

Interbudgetary transfers to state off-budget funds

In 2010, the average size of the labor pension is going to be increased to nearly 8000 rubles. In this connection, some radical improvement (by nearly 1.5 times) of the replacement coefficient will occur (the mean pension to salary ratio). While in 2007 it dropped to its historic low of 22.8 %, in 2010 it is going to exceed 36.2 %. This rise will require allocation of some additional expenditure from the federal budget to the transfers to the Pension Fund in the amount of 1.9 trillion rubles, or approximately 4 % of GDP in 2010. These are to be funded by the 'oil and gas' reserves.

It appears that any significant growth of deficit in the pension system and the proposed compensation for it by increased insurance contribution tariffs would be untimely and undesirable.

Firstly, the government is upsetting the budgetary system's balance – to an unprecedented degree and during an economic crisis, which is fraught with negative macroeconomic effects. In face of unpredictability of the world economy's development, it is reasonable to make budgetary obligations flexible – so that it could be possible, on one hand, to prevent a decline of the pension size in real terms (thus ensuring social stability), while on the other to avoid an excessive budget deficit (thus ensuring macroeconomic stability). Instead, the State has assumed certain obligations the sequestration of which in the future, for political reasons, can be achieved only in an indirect way, with the help of a high inflation rate.

Secondly, the load on the wages fund will become heavier. Being a country of catching-up development, Russia would be wise to make its tax burden lower than that in the leader countries. In this connection, it must be understood that the main asset of a new economy is human resources. Consequently, Russia's tax system must create attractive conditions for the labor factor - and much more so than in developed and in the majority of developing countries. The proposals put forth by the government as to increasing, in 2011, the size of insurance contributions will lower the competitive capacity of the labor-intensive sectors of the national economy.

The problems associated with the lack of proper balance in the pension system will inevitably be further aggravated – because of the population’s ageing. In this connection, a responsible financial policy in the pension provision sphere must be aimed at eliminating the currently existing systemic disbalances and at preventing any further growth of poverty among the senior age groups. This policy must be delicate, and it will sometimes be unpopular – but in the long run it is going to ensure that this country’s pension system is indeed a guarantee against destitution in old age. Instead, the State adopts some additional obligations which in the medium term (and in the event of a deteriorating economic situation even in the short term) will have to be funded exclusively by applying the money emission mechanism.

Interbudgetary transfers to other levels of the budgetary system

1) The total sum of money to be transferred to regional and local budgets in 2010 will amount to approximately 1,122 billion rubles, which in nominal terms is by 13 % less than the sum envisaged in the Law on 2009 federal budget, while the total federal budget expenditure in nominal terms is going to drop by 10 %. As a result of the accelerated decline of the volume of interbudgetary transfers to other levels of the budgetary system, its share in federal budget expenditure will decrease in 2009 from 13.2 to 12.7 %. Considering that in the late 1990s the share of dotations from the Fund for the Financial Support of Regions (hereinafter – FFSR) amounted to 14 % of federal budget expenditure, and at present the revenue sources are concentrated mainly in the federal budget, the feasibility is lowering the share of interbudgetary transfers to other levels of the budgetary system in federal budget expenditure appears to be far from indisputable.

However, as far as the financing of the pension system is concerned, the existence of the problems described earlier will probably leave the RF Government with no freedom of maneuver.

2) It is also necessary to note that the system of interbudgetary transfers still remains complicated and tricky. Developed countries organized in the form of a federation, as a rule, practice 1 to 3 major transfers and 3 to 15 smaller transfers from the federal budget to the budgets of territories. In the Russian Federation, in accordance with the draft federal budget for the year 2010 and the period until 2012, more than 87 various transfers are envisaged (with 4 transfers under the dotations subsection; 43 under the subsidies subsection - including federal target programs and subprogram; 21 under the subventions subsection; and 19 under the ‘other interbudgetary transfers’ subsection). So, there arises the question as to whether this system is indeed effective. Similarly to the taxation system, the number of such transfers must be adequate to allow efficient administration. In 35 areas of spending, the volume of financing is less than 1 billion rubles, which means that for one RF subject the financing allocated to a number of items may amount to tens or hundreds of thousands rubles. It is evident that, given the targeted character of the majority of spending areas (subsidies and subventions), the cost of estimating the feasibility of targeted spending of such resources, let alone the assessment of their cost-effectiveness, may become higher than the benefit from the spending itself.

It appears necessary to accurately and comprehensively revise the division of powers between the federal center and the regions in order to fully consolidate some powers to the regions while to transfer part of other powers to the federal level. It is noteworthy that recently the revision of the division of powers between the levels of the budgetary system has been done nearly every year, which has led to a lower predictability of the basic parameters of the budgetary system from the point of view of regional and local authorities, and also has had a negative effect on the quality of managing the state and municipal finances. In this connection, it would hardly be reasonable to introduce any

more significant changes in the division of spending powers in the period of 2010 – 2011. It would be more feasible to use that time for monitoring and assessing the performance of the already existing system of power division.

Beginning from 2012 (when a stable rate of economic growth will once again be reestablished), it will be necessary to envisage opportunities for revising that system once again in order to decrease the number of delegated powers, as well as to consolidate to each tier of authority those powers that would be most naturally and efficiently performed by that particular tier.

Another way to provide a solution to the problem associated with a large number of small-sized targeted interbudgetary transfers and to improve the quality of managing the allocated financial resources would be to pool them into package transfers (consolidated subsidies and subventions). The idea underlying a package transfer is that financial resources thus can be used, within the framework of one interbudgetary transfer, to finance several directions at once. In this connection, the level of authority from whose budget a package transfer is allocated may establish both the formula for distributing that transfer and the terms for spending resources on each item. The level of authority which receives a package transfer may independently select the proportions of funding to be allocated to each of the items included in that package transfer.

It appears feasible to gradually replace the presently existing numerous different subsidies to regions by package interbudgetary transfers. Resulting will be improved quality of managing state and municipal finances, because then the preferences of the local population will be best attended to when achieving national priorities. Due to the high degree of differentiation between the tax potentials and costs of budget-funded services in the regions across the Russian Federation, it will be reasonable to allocate package subsidies at the federal level on the basis of the level of each region's budget sufficiency. However, the equalization progressivity must be much lower than when allocating dotations from the Fund for Financial Support of the Regions. It is intended to allocate package transfers in proportion to the degree to which the budget sufficiency of a given region is below that of the most wealthy region.

In the medium-term period, it appears feasible to achieve the pooling of separate subsidies into (preferably) one multi-branch package transfer, so that the regions could enjoy true (and not only declared) independence in using the available resources for achieving socially significant goals. In this connection, both foreign (Canada, USA) and domestic (Perm Krai) experience can be borrowed when organizing a multi-branch package transfer. One-branch subsidies cannot provide such opportunities, which results in an even higher degree of supervision of regions by federal branch ministries. A multi-branch approach would be needed, with the following specific features:

- the sum of subsidies to the regions has to be determined on the basis of a single methodology, with due regard to their budget sufficiency;
- each of the federal branch ministries, within the framework of its sphere of competence, will have to develop the conditions for spending budget resources across their branch;
- regional authorities will have the right to independently select the area (or branch) to which resources should be allocated.

The principal channel through which financial aid is transferred to regional authorities – the dotations from the FFSR to equalize their budget sufficiency – will be increased by 6 % in nominal terms (by comparison with the 2009 level) and amount to 397 billion rubles. It is necessary to note that in 2010 yet another attempt will be made in order to overcome the trend towards decreasing the share of that Fund in interbudgetary transfers: in accordance with the draft law on the 2010 federal budget, the FFSR's share in the interbudgetary transfers allocated to other levels of the budgetary system will increase to 35 % against 29

% in 2008. However, the initial wording of the draft budget is usually markedly different from its actual final execution. Branch ministries, as a rule, succeed in lobbying subsequent increases in the amounts of subsidies and other interbudgetary transfers. And if the situation with regard to regional finances becomes worse in the course of budget execution, the amount of federal dotations designed to equalize regional budgets and budget credits can also be increased (when a budget credit is granted for a period of 3 years against a $\frac{1}{4}$ rate of refinancing, it becomes largely a substitution for an equalizing dotation). At the same time, the FFSR's size determined on the basis of a corresponding formula, remains unchanged during a financial year. As a result, we have some doubts as to whether the trend towards strengthening the role of that channel for interbudgetary transfers will indeed be realized, as it is stipulated in the draft federal budget for 2010. In the draft federal budgets for the years 2008 – 2010 it was also stipulated that the share of the FFSR in interbudgetary transfers should be increased from 33.6 % in 2007 to 35.6 % in 2008, to 38.8 % in 2009 and to 42.7 % in 2010, but these plans have never been realized in actual practice. It seems that, among all the types of interbudgetary transfers, priority should be given specifically to the FFSR, because its organization is closest to best international practices, and the procedures of distributing funds are relatively transparent.

Besides, if we consider the fact that since 1999 the share of the FFSR in interbudgetary transfers has been significantly decreasing by comparison with its initial level of 73 %, while at the same time the differences in the levels of budget sufficiency between Russia's regions during that period have become much more prominent, the planned increase in the volume of dotations from the FFSR appears to be insufficient. It is also necessary to note that the achievement of the principal goal of the dotations from the FFSR (to provide all regions with comparatively equal opportunities for rendering budget-funded services) is now becoming less easy due to certain attempts to use the Fund for purposes other than those initially ascribed to it, namely to create incentives for regional authorities to increase on their own their tax potential proper and to make adjustments for the impact of the current crisis on the subnational finances. While these additional goals are undoubtedly important, an attempt to provide solutions to all these problems at once by applying a single financial instrument may result in a failure to achieve any of the goals, while the procedure of distributing dotations from the FFSR will become less transparent.

From the year 2005 onwards, **the Compensation Fund (CF)** pools the funds allocated to all the federal spending mandates by legislation. The draft federal budget for the year 2010 and the period until 2012 envisages a certain growth of the CF's share in the interbudgetary transfers to other levels of the budgetary system (from 17.6 % in 2009 to 20.7 % in 2010). The increased share of subventions in interbudgetary transfers can be explained by the 'hardness' of these obligations. The federal center is forced to index them – as a rule, depending on the inflation rate. On the one hand, the striving of the federal center to provide financing for its spending mandates is an undeniably positive factor for the entire budgetary system. On the other, it will be feasible in the medium term (after the economic crisis is over) to test the actual efficiency of the currently existing division of powers, and if necessary to implement the following measures:

a) to no longer delegate some federal powers to the regions, switching over instead to direct financing from the federal budget;

b) to transfer a number of federal powers to RF subjects in full, correspondingly increasing the volume of non-targeted transfers and transfers with non-rigid terms for spending the allocated resources, and/or to expand the revenue proper of the regional budgets. For example, the powers pertaining to covering the cost of housing and utilities services for certain categories of citizens can be delegated to the regions. In this connection, it would be feasible to adopt, on the federal level, some measures designed to ensure social support of

those categories of citizens in the form of increased pensions and social benefits, as well as to increase the funding from the Fund for the Financial Support of Regions. This will make it possible to continue the 'monetization of social benefits' when providing social support to these categories of citizens at the federal level and to create for all the regions adequate opportunities for their additional support through increasing the size of dotations from the FFSR;

c) to consider the possibility of delegating/centralizing some powers on a contractual basis, provided that the terms of such contracts would be clearly defined and legislatively consolidated. It is necessary to note that Russia has had a considerable negative experience of dividing powers on a contractual basis, although foreign experiences quite often provide evidence in favor of that mechanism. Therefore it will be reasonable, in the long run, to once again discuss this issue, with an elaborate legal and economic backing.

In the part relating to **subsidies**, the draft budget for the year 2010 envisages that their size should be decreased in nominal terms by 55.6 billion rubles – to 341 billion rubles (or by 14 % against the level of 2009). The principal directions for spending these resources in 2010 will be as follows:

- The government program for the development of agriculture and regulation of the markets for agricultural products, raw materials and foods for 2008 – 2012 – 24 % of the total sum of the subsidies;

- The implementation of some additional measures aimed at relieving tension on the labor markets of RF subjects – 10.6 % of the total sum of the subsidies;

- The Federal Target Program 'The Economic and Social Development of the Far East and the Trans-Baikal Region in the Period until 2013' – 10.5 % of the total sum of the subsidies;

- Financial backing for the additional medical care provided by district general-practice physicians, district pediatricians, and general practitioners (family doctors) – 6.2 % of the total sum of the subsidies.

Because of the crisis, some significant adjustments have been introduced in the list of priority areas to be co-financed from the federal budget. Thus, substantial cuts (in the amount of 62 billion rubles) were made to the subsidies to the transport system's modernization. Such cuts can by no means be always recognized as fully justified. The subsidies from the federal budget to the road system and the Federal Target Program 'Modernization of the Transport System of Russia (2002 – 2010)' (at present - the Federal Target Program 'The Development of the Transport System of Russia (2010 – 2015)') are very important from the point of view of public welfare, because they are conducive to a better consolidation of this country's territorial and economic space and a higher mobility of the population. The corresponding obligations with regard to implementing large-scale road projects are rather sizable, and so in the majority of cases they cannot be funded exclusively from the regional and local budgets. In this connection, it appears feasible to increase the scale of financing allocated to road construction, with the prospect of creating and further developing urban agglomerations. Thus, for example, instead of supporting the ineffective segments of the motor industry, it would be better to invest in the modernization of the motor transport links between Togliatti and Samara.

At the same time, in order to improve the planning of the allocation of these funds and their more efficient use, it is necessary to pay attention to at least two specific features of the existing procedure of allocating subsidies to the road system. First, the subsidized projects must be linked to the general directions and priorities of territorial development, the development of federal and territorial roads in the regions, as well as to the other mechanism and to the allocated volumes of financial aid (a decision concerning the allocation of subsidies to the road system must be made with due regard for budget sufficiency levels

and the amounts of financial aid being received by a given region in respect of other areas of activity). Secondly, it is necessary to toughen the formal procedure for selecting projects on the basis of the criteria of their social and economic significance when considering the applications for subsidies, and to take into account the possibility of their co-financing by the regions.

At the same time, the planned growth in the amount of subsidies allocated to the regions for the purpose of supporting their agriculture (nearly by 18 billion rubles) does not appear to be justified. The delegation to the regional level of the powers to support agriculture results in a situation where the most active support is provided not to the regions with the most favorable climatic conditions but to those with greatest financial potentials for pursuing such a policy. The allocation of funding from the federal budget to agricultural production on the basis of the co-financing principle may strengthen this trend, and in particular result in rendering support to the most financially powerful regions in their 'trade wars' for agricultural markets waged against regions with fewer financial resources. Therefore the feasibility of such subsidizing seems to be doubtful. A solution to this problem can be provided by centralizing all 'agricultural' subsidies on the federal level and by minimizing the regional expenditures allocated to this item. At the same time, the role of the Russian Federation in co-financing the social development of rural areas must become more prominent.

Substantial volumes of financing are also allocated to implementing measures aimed at lowering tension on the labor markets of RF subjects and at developing small-sized businesses. However, the ultimate effect of such funding will largely depend on the performance of the bodies of authority of each RF subject.

It is also doubtful whether it would really be feasible, by way of a general approach to this issue, to allocate small sums to co-financing some or other regional powers. Evidently, the small scale of co-financing will make it impossible to endow RF subjects with more or less significant additional funding. ●

THE EXCISE DUTIES ON BEER GO UP – AN ASSESMENT OF THE POSSIBLE CONSEQUENCES

I.Sokolov

The structure of revenues from excise duties on the whole range of alcoholic beverages reveals a steady tendency towards increasing the share of the excise tax on beer. This trend in itself is a clear indication of the budget's growing dependency on this type of alcoholic products. The RF Government took the decision to increase the rates of the excise duties on alcoholic products including beer. As it is unlikely that this measure will result in a considerable drop in demand for beer or in decreasing the investment attractiveness of the beer industry, the dynamics of development of beer companies in Russia will not be changed in any dramatic way. However, the rate of their development can be expected to be less spectacular than in recent years.

Although the volume of revenues from excise duties on beer has demonstrated a steady annual growth in absolute terms (see *Table 1*), their share has remained practically unchanged, accounting for approximately 0.07 % of GDP. The existing data for the first half-year of 2009 have given every reason to believe that even if this trend is to change at all, it will change insignificantly – primarily due to the accelerated rate of reduction in GDP in the course of the current year.

The structure of revenues from excise duties on the whole range of alcoholic products reveals a tendency towards increasing the share of the excise tax on beer, which climbed from 16.2 % in 2005 to 24.7 % in 2008. This trend undoubtedly indicates that the above type of alcoholic products has become increasingly important for the state budget.

Table 1

THE DYNAMICS OF REVENUES FROM EXCISE DUTIES ON BEER IN 2005 - 2009

	2005			2006			2007			2008			1st half-year 2009		
	mln rubles	as percentage of excise duties on whole range of alcoholic products	as percentage of GDP	mln rubles	as percentage of excise duties on whole range of alcoholic products	as percentage of GDP	mln rubles	as percentage of excise duties on whole range of alcoholic products	as percentage of GDP	mln rubles	as percentage of excise duties on whole range of alcoholic products	as percentage of GDP	mln rubles	as percentage of excise duties on whole range of alcoholic products	as percentage of GDP
Excise duties on domestically produced beer, mln rubles	14,736.2	15.72 %	0.07 %	17,944.9	18.53 %	0.07 %	21,940.1	18.75 %	0.07 %	29,012.8	23.94 %	0.07 %	13,629.57	25.14 %	0.08 %
Excise duties on imported beer	420.6	0.45 %	0.00 %	572.4	0.59 %	0.00 %	679.7	0.58 %	0.00 %	899.7	0.74 %	0.00 %	443.15	0.82 %	0.00 %
Total revenue from excise duties on beer	15,156.8	16.17 %	0.07 %	18,517.3	19.12 %	0.07 %	22,619.8	19.33 %	0.07 %	22,912.5	24.68 %	0.07 %	14,072.72	26.06 %	0.08 %

Table 1, cont'd

	2005			2006			2007			2008			1st half-year 2009		
	mln rubles	as percentage of excise duties on whole range of alcoholic products	as percentage of GDP	mln rubles	as percentage of excise duties on whole range of alcoholic products	as percentage of GDP	mln rubles	as percentage of excise duties on whole range of alcoholic products	as percentage of GDP	mln rubles	as percentage of excise duties on whole range of alcoholic products	as percentage of GDP	mln rubles	as percentage of excise duties on whole range of alcoholic products	as percentage of GDP
Total volume of revenues from excise duties on alcoholic products, mln rubles	93,751.7			96,854.1			117,001.4			121,193.9			54,002.51		
GDP, bln rubles	21,625.4			26,903.5			33,111.4			41,668.0			17,809.20		

Source: The RF Federal Treasury.

The dynamics of the revenues from excise duties on beer is influenced by the following three factors: the rate on the excise duties; the volume of production and imports; and the level of the excise duties' collectability.

The rates of indexation of excise duties in 2005 – 2009 remained at the level of inflation, with the exception of the year 2008 (see *Table 2*).

Table 2

THE DYNAMICS OF INDEXATION OF THE RATES OF EXCISE DUTIES IN 2005 - 2009

	2005	2006	2007	2008	2009
Inflation (the Consumer Price Index), %	110.9	109.0	111.9	113.3	113.0
Rates of excise duties on beer with ethyl alcohol content of over 0.5 and to 8.6 percent by volume, rubles per liter	1.75	1.91	2.07	2.74	3
% of indexation of rate of excise duty on beer	112.9	109.1	108.4	132.4	109.5

Source: The RF Tax Code; IET estimates.

It is known that beer belongs to the category of products with low price elasticity¹, which means that a rise in prices can have but a limited influence on the dynamics of volumes of beer consumption. Nevertheless, when the current price rise is taken into consideration in conjunction with other factors (the current population decline, the anti-alcohol campaign, etc.), and bearing in mind the present dynamics of beer consumption (see *Table 3*), it can be said with confidence that Russia's beer market is close to saturation.

1 C. A. Gallet estimates the average price elasticity of demand for beer at -0.36, which means that when the price rises 10 %, the demand drops 3.6 % (see C. A. Gallet, The demand for alcohol: a meta-analysis of elasticities // The Australian Journal of Agricultural and Resource Economics, 51, pp.121-135, 2007).

Table 3

 THE VOLUMES OF PRODUCTION AND CONSUMPTION OF BEER IN RUSSIA
 IN 2003 – 2008 (MLN DECILITERS)

Type of products	2003	2004	2005	2006	2007	2008	2009 estimates	2010 forecasts
Production (according to Rosstat)	755	838	910	999	1,160	1,140	1,141*	1,160*
Consumption (according to Bizness–Analitika’s data for January 2009)	743	832	880	960	1,075	1,091	1,104	1,119

* As estimated by the RF Ministry of Finance.

Table 4 illustrates the decomposition of changes in the tax revenues from excise duties on beer by major factor. The data indicates that in recent years the major contributor to the rise in the volumes of revenues from excise duties on beer has been the level of indexation of the excise duty’s rate, which accounts for more than two – thirds of the growth of revenues from excise duties on beer.

Table 4

 THE DECOMPOSITION OF CHANGES IN THE TAX REVENUES FROM EXCISE DUTIES ON BEER, BY
 MAJOR FACTOR, AS A PERCENTAGE OF THE PREVIOUS YEAR

	2005	2006	2007	2008	2008 vs. 2004
Revenues from excise duties on domestically produced beer, including:	+21.9	+21.8	+22,3	+32.2	+140.6
Volume of production	+8.6	+9.8	+16.1	-1.7	+36.0
Indexation of rates	+12.9	+9.1	+8.4	+32.4	+76.8

Source: IET estimates.

The Government of the Russian Federation took the decision to increase the indexation of the rates of excise duties on a number of goods including beer (the Draft Federal Law “On the Introduction of Alterations in Chapters 22 and 28 of Part Two of the Tax Code of the Russian Federation”). Thus, as far as beer with the normalized ethyl alcohol content of over 0.5 and to 8.6 percent by volume is concerned, the excise duty rate is planned to rise from 3.30 rubles per liter, as was established in the RF TC for 2010, to 9.0 rubles per liter. In 2011 and 2012 the rates will amount to 10.0 and 12.0 rubles correspondingly.

The arguments in favor of rising the excise duties are as follows:

- the existing tax rates do not fully correspond to the requirements for growth of tax revenues on the part of the federal budget and the budgets of RF subjects;
- the measures designed to increase the excise duties are being taken in the context of the Russian government’s general policy aimed at intensifying the struggle against alcoholism.

Let us analyze the possible consequences of the rise in excise duties for the beer companies, for the beer consumers and for the budget.

An assessment of the possible consequences of the rise in the rate of excise duties on beer

In order to obtain an objective judgment as to whether or not the rise in the rate of excise duties on beer is reasonable and justified, we should consider the possible consequences of this regulatory measure for all the market participants: for the beer companies and beer consumers on the one hand, and for the state budget on the other.

a) Consequences for beer consumers and for the beer companies (brewers)

It is evident that the rise of the rate of excise duties on beer will result in a growth of the retail price of beer. Thus, in the year 2009 the share of the excise duty and VAT in the price of a half-liter bottle of beer amounts to about 1.77 rubles. If the rate goes up threefold, in the year 2010 this share will amount to 5.31 rubles, which means that the price of each bottle of beer will increase by 3.5 rubles. Although the retail prices of beer are prone to a relatively high regional and brand differentiation, it can be surmised, conventionally, that in the year 2009 the average price of a half-liter bottle of beer in Russia amounts to about 21 rubles (or 42 rubles per liter). Therefore, in the year 2010 the average price of a bottle of beer in Russia can rise to about 26.5 rubles including the producer price having been adjusted 10 % for inflation and the 5.31 rubles in excise duties and VAT. That will mean that the rise in the average retail price of beer caused by the additional indexation of the rate of the excise duties established for the year 2010 (3.3 rubles per liter) will amount to approximately 14.5 %. Bearing in mind the low price elasticity of beer (at the level of -0.36), such an increase in the average retail price of beer can result, theoretically, in an up to 4.1 % drop ($14.5\% * 0.36$) in demand, or by 45 mln deciliters less than it was forecasted for the year 2010 by *Business-Analitika*.

A more likely scenario for the future of beer consumption in Russia is the replacement of expensive brands and sorts by cheaper ones, with the general volume of consumption remaining at the existing level. Therefore it is fairly unreasonable to expect that the planned increase in excise duties will impinge on the interests of a number of adjacent industries providing the beer industry with malt, barley and packaging materials.

The arguments put forth by representatives of the beer companies to the effect that the announced rise in excise duties could undermine the plans for recoupment of investments in development of manufacturing facilities in Russia are not very convincing, because the excise duties on beer belong to the category of indirect taxes. Due to the low elasticity of demand, two thirds of this tax burden are shouldered by the consumer. Therefore the increase in the retail price of beer caused by the rise in the rate of the excise duty will, more likely, hit the consumer's pocket rather than affect the profits of the beer companies by reducing their investment attractiveness.

That the rates of excise duties on beer should be risen is attested by the fact that so far as the USD-denominated rate of excise duties on one liter of beer are concerned, in the year 2008 Russia ranked 55th (by the nominal exchange rate) and 45th (by the PPP) out of the 59 countries under consideration (see *Table 5*).

Table 5

THE RATES OF EXECISE DUTIES ON BEER IN SOME COUNTRIES OF THE WORLD IN 2008

Country	Excise duty on one liter, USD	Rank	Excise duty on one liter, by PPP	Rank
Australia	1.16	10	1.07	14
Austria	0.3	26	0.28	37
Angola	0.34	22	0.47	26
Belgium	0.25	36	0.23	43
Bolivia	0.28	31	0.09	57
Brazil	0.15	45	0.27	38
United Kingdom	1.41	6	1.22	12
Hungary	0.32	23	0.52	23
Venezuela	0.29	28	0.36	32
Vietnam	0.95	12	4.71	3
Germany	0.12	50	0.11	55
Honduras	0.01	59	0.03	58
Greece	0.17	41	0.2	47

Table 5, cont'd

Country	Excise duty on one liter, USD	Rank	Excise duty on one liter, by PPP	Rank
Denmark	0.41	20	0.31	36
India - Andhra Pradesh	0.11	52	0.52	23
India - Karnataka	0.77	14	3.63	4
Ireland	1.19	9	1.04	15
Spain	0.16	43	0.16	52
Italy	0.35	21	0.35	33
Canada - Ontario	0.27	33	0.25	39
Cyprus	0.5	17	0.55	21
Columbia	0.53	16	1.42	11
Costa Rica	0.14	46	0.33	34
Latvia	0.11	52	0.22	44
Lithuania	0.13	47	0.25	39
Luxemburg	0.12	50	0.12	54
Malta	0.26	35	0.37	30
Mexico	0.29	28	0.39	28
Mozambique	0.45	18	1.89	8
Nigeria	0.23	37	0.39	28
The Netherlands	0.3	26	0.25	39
Norway	2.84	1	1.96	7
Panama	0.13	47	0.2	47
Peru	0.42	19	0.89	16
Poland	0.27	33	0.44	27
Portugal	2.52	2	2.94	5
Russia	0.1	55	0.21	45
Romania	0.1	55	0.2	47
Serbia	0.17	41	0.32	35
Slovakia	0.2	39	0.37	30
Slovenia	0.11	52	0	59
USA - California	0.21	38	0.21	45
USA – New York	0.18	40	0.18	51
USA - Texas	0.1	55	0.1	56
Taiwan	0.8	13	1.47	10
Thailand	1.69	5	5.23	2
Tanzania	0.28	31	0.66	20
Turkey	0.54	15	0.84	17
Uganda	1.3	7	6.75	1
Ukraine	0.06	58	0.24	42
Finland	1.28	8	1.13	13
France	0.16	43	0.15	53
Czechia	0.13	47	0.2	47
Sweden	1.06	11	0.84	17
Ecuador	0.32	23	0.55	21
Estonia	0.29	28	0.51	25
South African Republic	0.32	23	0.73	19
South Korea	2.26	3	2.68	6
Japan	1.87	4	1.71	9

Source: SABMiller Russia.

In order to more graphically express the consequences of the intended rise in the rates of excise duties on beer, we have correlated the rates of excise duties on beer in EU countries and Russia with the average retail prices on beer (see *Table 6*).

Table 6

THE SHARE OF EXCISE DUTIES ON BEER IN THE AVERAGE RETAIL PRICE OF BEER
IN EU COUNTRIES AND RUSSIA IN 2008

Country	Excise duty on one liter, Euro	Average retail price of one liter, Euro	Share of excise duty in retail price, %	Place
Austria	0.22	2.24	9.82%	15
Belgium	0.19	1.63	11.54%	11
Bulgaria	0.08	0.79	10.68%	12
United Kingdom	1.02	2.63	38.76%	1
Hungary	0.25	1.35	18.17%	7
Germany	0.09	1.41	6.14%	21
Greece	0.15	1.75	8.55%	19
Denmark	0.34	1.81	18.84%	5
Ireland	0.99	3.75	26.49%	4
Spain	0.10	1.77	5.66%	22
Italy	0.26	1.81	14.28%	9
Latvia	0.10	1.13	9.03%	16
The Netherlands	0.24	1.31	18.69%	6
Poland	0.22	1.69	13.21%	10
Portugal	0.14	1.37	10.08%	14
Russia	0.08	1.16	6.53%	20
Russia (planned for 2010)	0.25	1.46	16.98%	8
Rumania	0.08	0.94	8.75%	18
Finland	1.18	3.48	33.91%	3
France	0.13	1.48	8.92%	17
Czechia	0.11	1.06	10.16%	13
Sweden	0.85	2.37	36.01%	2

Источник: Beer Pricing in Europe. A Taxing Question / A Special Report from Canadean (www.canadean.com); SAB-Miller Russia.

As is seen from *Table 6*, so far as the share of excise duties in the average price of beer is concerned, in conditions of the year 2008 Russia ranked 20th out of the above 22 countries. At the same time, Russia's excise duty on one liter of beer amounted to only 0.08 Euro, which was the lowest rate of excise duties on beer in the countries (shared with Russia by Bulgaria and Rumania). If we extend *Table 6* by the inclusion of the planned rise in the rate of the excise duty on beer to 9.0 rubles per liter in 2010, then Russia, despite all the conventionality of our collation, will rise from the 20th position to the 8th position, considerably outstripping Germany, Belgium and Czechia and slightly lagging behind Denmark (the leading beer producers in the EU) with regard to the share of excise duties in the retail price of beer.

b) Consequences for the state budget

According to the RF Ministry of Finance, in the year 2010 the budgetary system's additional revenues from excise duties on beer should amount to 58 billion rubles by comparison with 2009. Bearing in mind the possible drop in the volumes of production and sales of alcoholic beverages in 2009 and the 10 – percent increase of rate indexation on the year 2008, it can be expected that in the year 2009 the amount of revenues from excises on alcoholic products will only slightly exceed the 2008 level in absolute terms (i.e. approximately 30 billion rubles), which means that in 2010 the total revenue from excise duties on beer will amount to 88 – 90 billion rubles.

According to our estimates (based on the assumption that in the year 2010 the volumes of consumption and production will drop 3.5 – 4.0 percent by comparison with the planned

level – see *Table 3*), the volume of revenues from excise duties on beer should amount to approximately 92 billion rubles.

The planned rise in the rates of excise duties on low – alcohol products also looks reasonable, for it will make the rates of excise duties on pure alcohol in this category of products comparable with the rates regarding beer, and will prevent the demand for beer being replaced by the demand for other low – alcohol products.

In conclusion, it should be noted that such a drastic rise in the rates of excise duties on beer is long overdue and is completely justifiable from the fiscal point of view. Our analysis makes it possible to affirm that this measure will not result in a significant contraction in demand for beer and in a diminishing of the investment attractiveness of the beer industry. This means that the development of beer companies in Russia will continue, although at a slower rate than in the past few years. Moreover, the latter circumstance should be associated with the worsening of the global financial situation and the deceleration of world economic growth – rather than with the forthcoming rise in the rates of excise duties. ●

MORTGAGES IN THE RUSSIAN FEDERATION

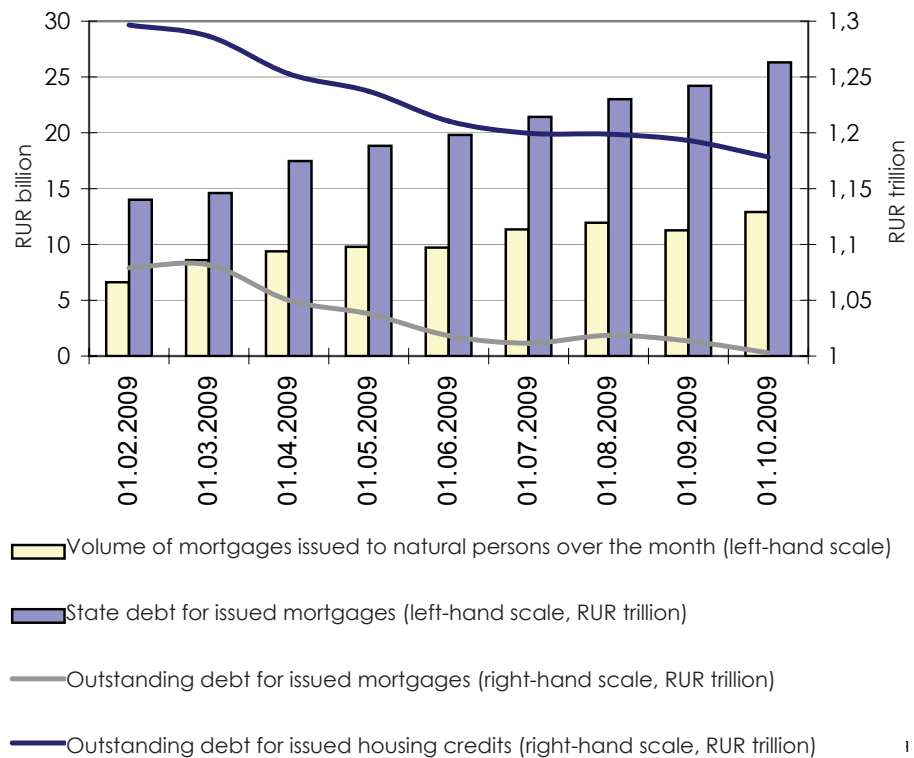
G.Zadonsky

Over the first three quarters of the current year, according to the data of the Central Bank of the Russian Federation, there were 107 964 housing credits of RUR 111.486 billion issued. The mortgages accounted for RUR 91.543 billion. The outstanding debt for housing credits made RUR 1.178 trillion as on October, 1, and for mortgages – RUR 1.003 trillion. The volume of credits issued in three quarters 2009 is 5.9 times lower than the volume of issued mortgages over the same period of 2008. The proportion of stale debt in the volume of outstanding debt is continuing to grow.

The dynamics of issuing the mortgages testifies that there is a trend for the increase of the volume of issued credits (fig. 1). However they are insufficient even to secure the stable level of outstanding debt. Together with this the systematic growth of stale debt is quite obvious. The dynamics of the housing crediting on the whole is similar.

Starting with September 30, 2009 the Central Bank of the Russian Federation once again lowered the refinancing rate by 0.5% and made it equal to 10% per annum. Correspondingly, from September 30, 2009 open joint-stock company Agency for Home Mortgage Lending (AHML) reduced the basic

interest rate for refinancing of the standard mortgages in rubles from 10.55% to 10.05% per annum. If there is a private insurance the range of the refinancing rate by AHML now varies from 10.75% to 12.71%. Starting with July Sberbank, Gazprombank, bank Deltacredit, UniCredit Bank, OTP – bank, ITB-bank, NDB-bank, Absolute Bank, Moscow credit bank have announced the lowering of the rates starting with July. The latter offered the mortgages with 10% per annum in October which is lower than the basic rate of the Agency for Home Mortgage Lending. The changes in minimum and maximum rates for a number of banks and OJSC AHML over just one week of October are demonstrated in Table 1. Nevertheless, the trend for the decrease of the interest rate for mortgages is



Source: data of the Central Bank of the Russian Federation

Fig. 1. Dynamics of Issue of Mortgages, Issued over the Month to Natural Persons by Crediting Organizations

not accompanied with the increase of credits availability and a visible growth of volumes of mortgage crediting.

Table 1

MINIMUM AND MAXIMUM RATES FOR MORTGAGES AND THEIR CHANGES
(CALCULATED AND MONITORED BY KREDITMART FOR AHML) AS ON 12 OCTOBER 2009

Crediting organization	Minimum value of the rate, %	Change over the week, %	Change from the basic period (06.02.2008 r.), %	Maximum value of the rate, %	Change over the week, %	Change from the basic period (06.02.2008 r.), %
AHML	10.05	0.00	-0.20	12.71	0.00	-1.29
Vozrozhdenie	11.00	-8.50	-0.50	21.50	0.00	5.75
Housing Finance Bank	12.00	0.00	2.25	17.50	0.00	4.75
Sberbank	13.50	0.00	3.00	16.00	0.00	4.00
VTB-24	14.10	-1.00	3.10	17.10	-1.00	3.60
DeltaCredit	14.75	0.00	4.50	28.45	0.00	14.95
RosEuroBank	16.00	0.00	4.50	18.00	0.00	1.50
Bank of Moscow	16.50	0.00	5.50	18.50	0.00	5.50
Uralsib	19.00	0.00	8.20	19.50	0.00	6.00
Uniastrum Bank	19.00	0.00	6.50	20.00	0.00	5.50
Credit Europe	19.00	0.00	7.50	26.00	0.00	11.00
Moscow Mortgage Agency	19.70	0.00	8.70	19.70	0.00	4.70
Raiffeisen	20.00	0.00	8.10	23.50	0.00	10.60
Alfa-Bank	20.60	0.00	7.40	25.30	0.00	9.30
Absolute Bank	25.00	0.00	15.00	30.00	0.00	14.00

According to the data of the Central Bank of the Russian Federation, the average weighted interest rate for the mortgages issued in rubles within six months, including September, remained stable and was equal to 14.6%, and for the credits issued over the month reduced from 14.8% in July to 14.4% in September. The average weighted interest rate for the mortgages issued in foreign currency from the beginning of the year went down to 13.1% in September. The average weighted interest rate for the housing credits issued in rubles since the beginning of the year remained unchanged in September and was equal to 14.8%, and for the credits in foreign currency – reduced to 13.5%. The average weighted interest rates for the credits refinanced by AHML from the beginning of the year reduced from 14.17% to 13.88% in September and for those refinanced over the month – from 13.94% to 12.41%.

Average weighted period for housing loans in rubles issued from the beginning of 2009, according to the data of the Bank of Russia, is maintained at the level of 14.8 years (187 months), and for loans in foreign currency it went up to 9.35 years (112.3 months). Average weighted period for mortgages in rubles issued from the beginning of 2009, according to the data of the Bank of Russia, is about 16.5 years (198 months) in September, and for loans in foreign currency it went up to 11.5 years (138.4 months).

The proportion of foreign currency in outstanding debt continues to decrease, making 20.53% by October 1, 2009.

In September 2009 OJSC AHML refinanced 1 982 mortgages at the sum of RUR 1 900.25 million. As on October 2, 2009 the Agency refinanced 153 362 mortgages of the sum of RUR 123604.5 million.

In the 3rd quarter 2009 the proportion of stale debt of mortgage holders that are tracked by AHML has lowered by 0.4 percentage points down to 12.1%.

The bill in accordance to which it is suggested to establish a list of reasons for the court to postpone the sale of mortgage property by a year has been submitted to the State Duma.

Sberbank is going to issue credits to natural persons on more favorable conditions for the purposes of participation in share construction of the objects of immovable property. At the stage of construction the interest rates for the credit depending on the kind of program, the amount of first contribution and the periods of credit will make from 14.75% to 16.25%, after the construction has been finished and the right for the property of a flat has been registered – from 13.25% to 16%.

Sberbank of Russia introduced a new crediting product: refinancing of housing credits for the purposes of paying off (refinancing) the credits, issued by other crediting organizations. This product will enable natural persons who have debts for credits issued by other financial organizations for the purposes of purchase or construction of flats and houses to use the means of Sberbank of Russia to prolong the period of crediting and (or) to reduce the interest rate on the credit. ●

PROSPECTS FOR RUSSIAN CORPORATIONS AT THE WORLD MARKET OF MERGES AND TAKE-OVER

A.Pakhomov

Financial and economic crisis has interrupted further development of investment and business activity of the Russian business abroad. At the same time a number of large- and medium-scale domestic enterprises intent to continue global expansion in the sphere of the deals with merges and takeovers.

As it is supposed by a number of foreign experts starting with 2010 one can expect the direct foreign investments to rise moderately in the world (up to USD 1.4 trillion), and it is forecast that in 2011 the investment expansion of international corporations at the world market will broaden, its scale probably exceeding the corresponding figures of 2008. In the field of M&A it is the projects of agroindustrial complex, pharmaceuticals and services that are the most attractive and this is especially true for the Asian markets. In contrast, the situation in metallurgy, automobile and chemistry industries will remain difficult¹.

Several reasons for the growth of the deals of transboundary M&A in the post-crisis period can be highlighted:

- expansion of sales markets in large countries with the developing market economy;
- possibility for purchase of assets at comparatively low prices and making profit out of large-scale consolidation of the business in promising branches of industry;
- trend for the increase of the extent of internationality of the business in middle-term run which can result in the future in the growth of the direct foreign investments;
- gaining access to new sources of the direct foreign investments and quickly growing markets of new high-tech goods².

It appears difficult to speak of the exact dates for the recovery of the activity of the Russian companies abroad at the extent of the previous period. The new wave of the expansion will be accounted for by the combination of a number of factors: improvement of macroeconomic situation in the country, favorable situation at the world financial and goods markets, processes for consolidation in some branches of the economy, gaining access to new sources of credits, as well as the increase of the quality of the strategic management at the level of corporations.

The situation at the world trading markets improving and the prices for core production growing, which result in the increase of the foreign assets efficiency, some Russian corporations start to resuscitate its plans for promotion of the deals in the field of M&A. thus, as compared with November 2008, when the capitalization of metallurgy holding companies reached its lowest point, by September 2009 the figure went up by 3.5-8 times, whereas the index of Moscow International Foreign Exchange went up by only 2 times over the period. It was the indices of capitalization of TMK group (growth by 7.7 times up to USD 2.7 billion), Evraz group (by 7 times up to USD 12.04 billion) and NMLK (by 5 times up to USD 15.5 billion) that were the leaders of the growth. The reason for this was the increase of the load of facilities, increase of prices for steel and the decrease of costs.

1 World Investment Report 2009 “Transnational Corporations, Agricultural Production and Development”, UNCTAD, Geneva, 2009, p.41–45.

2 Assessing the Impact of Current Financial and Economic Crisis on World Investment Flows. UNCTAD, April 2009, pp.22–23.

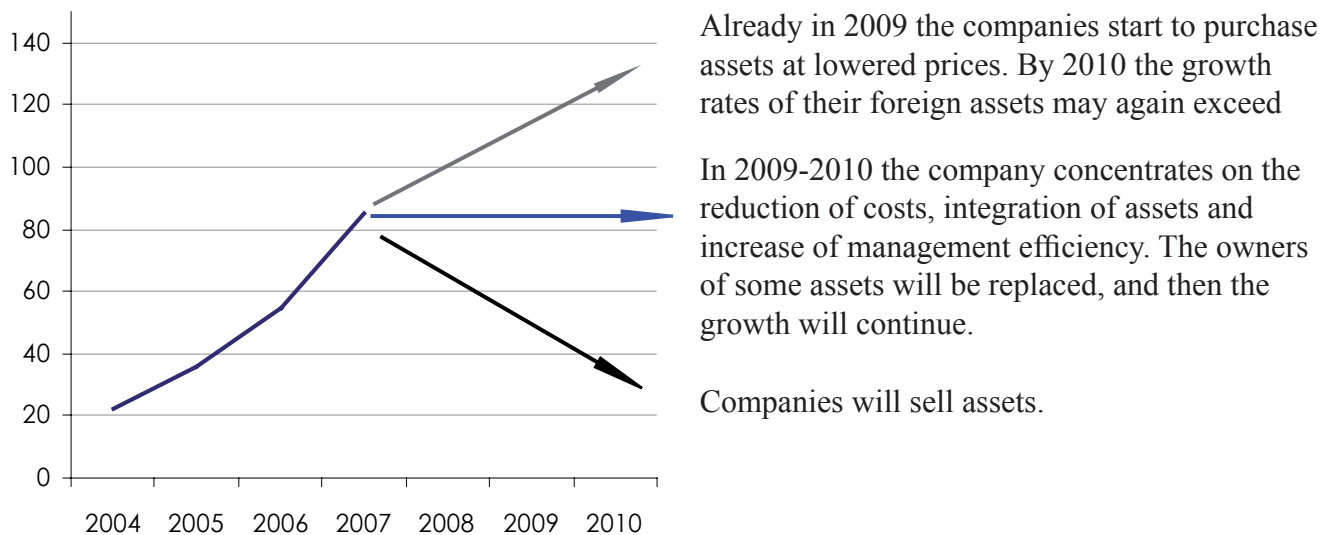
However, in the opinion of the analysts, the reserve for the reduction of the costs has been nearly exhausted and no dramatic growth of prices can be expected. Besides, the load of facilities in Russia is near its maximum level: it makes 95% at NMLK and Evraz and 90% at Severstal. The exception is Evraz group and TMK, since both the corporations have underloaded facilities abroad, which will become profitable once the demand starts recovering at those markets¹.

The load of facilities at the Evraz plants abroad is currently 50%, and at TMK plants – below 40%. The additional advantage of Evraz is its own raw materials, which price at the markets begin to grow (prices for coal have reached USD 160 per 1 ton). At the North American market, where the main foreign assets of Evraz and TMK are situated, the recovery started in August 2009. US Steel and ArcelorMittal renewed the production after a half-year cessation. In contrast, Severstal, which has the unloaded facilities of the volume of 4 million of tons in the USA will hardly gain much from this recovery since its North American assets are of low quality.

The similar trends for the recovery of the foreign expansion are observed at a number of Russian oil and gas companies in connection with the improvement of the situation at the world markets.

According to the forecast of Moscow School of Management Skolkovo concerning the activity of Russian companies in the sphere of M&A in 2009-2010, there are three basic scenarios for the possible unfolding of the situation. According to the worst of them, many domestic corporations will have to sell their branches abroad to pay off to the creditors. The contrasting optimistic scenario suggests that Russian companies will soon get an access to the borrowed funds and will profit from the low prices for assets. It seems that the third scenario is the most realistic: the domestic business will soon face the period for the reduction of expenditures, restructuring and in some cases the change of owners, which will be followed by a renewal of international expansion (see *fig. 1*).

At the same time one should take into account that in the post-crisis period the competition in the field of M&A will intensify considerably primarily due to the stir-up of the



Already in 2009 the companies start to purchase assets at lowered prices. By 2010 the growth rates of their foreign assets may again exceed

In 2009-2010 the company concentrates on the reduction of costs, integration of assets and increase of management efficiency. The owners of some assets will be replaced, and then the growth will continue.

Companies will sell assets.

Source: Russian Business Abroad: Dynamics of Development. Moscow. Moscow School of Management Skolkovo. November 2008. P. 18

Fig. 1. Forecast for Activity of Russian Companies in M&A Field Abroad in 2009-2010 (annual amount of deals)

1 Vedomosti, August 25, 2009

Chinese corporations and companies coming from the countries with rapidly developing economy. At the beginning of the crisis already the Chinese business benefiting from the flexible support of the government structures of the country started buying up the foreign assets in different spheres and primarily in the sector of raw materials. Despite the crisis, in 2008 the Chinese companies concluded 74 deals in the sector of raw materials of the economy (39 deals in 2007), the average price of which made USD 239 million¹.

In 2009 Sinopec agreed to pay USD 7.2 billion for the Swiss company Addax Petroleum, which explores the subsoil, and CNPC bought Mangistaumunaigaz of Kazakhstan for USD 3.3 billion. Before the end of the current year a consortium of Chinese companies is going to make the biggest deal, buying Argentinian oil company YPF for USD 17 billion. At the same time, in June of the current year Chinalco could not increase its share in Rio Tinto, 9% of which it purchased in 2008 for USD 14 billion.

For the recovery of a world economy to occur considerable changes should take place in technological and organizational basis of both the international economy and some countries. The appearance and the place of a country in a post-crisis world does depend on the extent of its succeeding in transformation of structure, adapting to global challenges. The expectation of the recovery of pre-crisis status quo (economy of raw materials oriented towards export) is the most dangerous policy currently.

The success of the Russian companies at the world market of merges and takeovers in post-crisis period to a considerable extent will be defined by the macroeconomic policy pursued in the country, consistent and effective support of the state for the purchase of the foreign assets as well as adaptation of the domestic business to new conditions of international competition.

The idea that Russian companies could buy abroad innovation (high-tech) assets with the support of the Government was suggested by D. A. Medvedev in February 2008, when he was just a candidate for presidential post. Moreover, it was not excluded that even government structures will participate in the buyup of foreign technologies, investing the means of the Reserve Fund and the Fund for National Welfare, although, according to the present legislation, their participation in such deals seems difficult.

The crisis however forced to forget about the idea of purchasing foreign assets. The hopes of the Government that the crisis would be short, which would have allowed saving the reserves and investing them into the cheapened stocks of innovation companies proved to be unjustified.

It was the high technologies that were to become the aim of purchasing both by business and by the Government. Up till now it is 5% of stocks of European aviation and space concern EADS that is one out of few foreign innovation assets in the ownership of Russian entrepreneurs. Initially they belonged to the VTB, but at the end of 2007 they were purchased by the government corporation VEB. On the whole this deal can be regarded as unsuccessful from the commercial point of view, since the mentioned package of stocks is actually blocked. Renova purchased high-tech assets of the Swiss firm Oerlikon (solar batteries production), however due to the crisis its capitalization in 2008 reduced by 85.4%. As a result the share of Renova in Oerlikon was estimated to be USD 360 million by the end of 2008, whereas for stocks purchase the company spent USD 1 billion². The purchase of a share in German Opel corporation by Sberbank can hardly be regarded as investments in high-tech assets, though in case the technology of the German corporation are used in Russia, they are no doubt more modern than the domestic ones..

1 Bulletin for Foreign Commercial Information, March 14, 2009.

2 Vedomosti, April 4, 2009

At the beginning of 2009 the Ministry for Economic Development of the Russian Federation E. S. Nabiullina at the meeting of the Council on foreign economic activity suggested to use the crisis to purchase the enterprises abroad falling in price and called on the Russian companies not to abolish the foreign expansion because of the crisis.

The suggestion of the Ministry for Economic Development for Government support to the enterprises that intend to purchase high-tech assets abroad seems quite reasonable, since the cost of such assets still remains low. First of all, the Russian economy has a need in the operating technologies in the spheres defined as priority ones for innovation development: energy saving, energy efficiency, microelectronics, nuclear energetics, space exploration, as well as strategic telecommunication technologies.

One should use the economic crisis to secure further growth and repositioning of Russia in the world economy. This primarily concerns the presence of the Russian business in CIS countries, where there evolve the conditions for broadening its positions at the market of goods and services, purchasing assets that are falling in price and participation in infrastructure projects.

With this purpose the prescriptive documents of the Government of the Russian Federation envisage creation of a specialized institution for the support of the investments abroad, there having been however no real steps taken towards it. Such specialized national agencies exist in many countries, where they contribute to the fulfillment of the effective foreign projects in M&A sphere. For instance, such structures have been organized in Austria, France, Hungary, Italy, Japan, Norway, Slovenia, Spain (Catalonia), Brazil, Jamaica, Kenya, Oman, Singapore etc.

It is reasonable for the Government to contribute into fulfillment of international projects of domestic business, which correspond to the strategic directions of the development of the national economy. The foreign experience demonstrates that in many rapidly developing countries in the sphere of transboundary deals the priority is given to the projects that increase the provision of these countries with natural resources, contribute into the export of technologies, goods and services, enable effective usage of the results of foreign research, as well as assist the increase of competitiveness of national enterprises and facilitation of their entrance to the world markets.

Besides that, it is necessary to develop special normative and legislative basis concerning the principles of support to investments of Russian companies abroad, supplementing multi- and bilateral agreements in this sphere. This will contribute to the specification of the functions of the Government bodies that are responsible for accounting, forecasting, coordination and support of transboundary deals of domestic corporations, as well as for the definition of the mechanisms and support priorities in the field of the purchase of foreign assets.

In August 2009 the Government approved the Plan of measures for stimulation of innovation activity at enterprises prepared by the Ministry for Economic Development. This document envisages development and fulfillment of measures on purchasing the assets of foreign high-tech companies and (or) on creation of technological unions with them. The corresponding suggestions were to be developed by the Ministry of Industry and Trade, Ministry for Economic Development, Ministry of Telecom and Communication, Ministry of Foreign Affairs and Government Corporation Rusnano¹.

Among the measures for support and stimulation of the enterprises aspiring to invest in the purchase of high-tech assets abroad, it is envisaged to actively use the mechanisms for information and politics and diplomatic support of the business by the corresponding

1 <http://www.newsru.com>, site of the Ministry for Economic Development of Russia <http://www.economy.gov.ru>

federal executive bodies. Besides, the investors will be able to get guarantees for obtaining a credit for purchase of high-tech foreign assets.

At the current stage one can note certain activity of the government in the sphere of the support for purchase of foreign assets in non-CIS countries. For instance, in April 2009 the Russian Government made a decision to purchase 20% of stocks of Indian filial structure Joint-stock Financial Corporation Sistema, operator of Sistema Shyam Teleservices (SSTL) from local stockholders, with which India settled its debt to Russia¹ For these purposes there was RUR 23.73 billion was allocated from the federal budget in 2009².

In the middle of 2009 at the political level the leaders of Russian and Germany discussed the issues of attracting of strategic investors from Russia to participate in co-financing of the local company Infineon which produces microelectronics and in the purchase of ship-building yards Wadan-Werften. However the participants of these deals from the Russian side have not been defined yet.

The particular parameters for purchase of foreign high-tech assets by Russian companies are to be defined by the corresponding economic entities, for which benefit the mentioned purchase is conducted, and the selection of promising project is reasonable to carry out bearing in mind the strategies of the development of promising sectors of the Russian economy.

At the same time 66% of the Russian innovation entrepreneurs would prefer to interact with the foreign venture structures. Such a result was obtained during a survey conducted in 57 regions of the country by the National association on innovation and development of information technologies in 2008. About 58% of the innovation entrepreneurs taking part in the survey do not trust the operation of the Government structures and the venture funds with the Government participation, whereas two years ago the situation was opposite.

It should be underlined that only provided that the macroeconomic policy is well-thought and the realization of Government support to the domestic investors abroad is consistent, Russia will be able to retain and expand its positions when conquering the foreign markets. A lot depends on how the Russian corporations will adapt to post-crisis conditions of operation at the world market. The point is the increase of the efficiency of assets management at the international level.

As a result the main criterion of the foreign expansion of the Russian business is not only the increase of the efficiency at the level of separate corporations, but also their real contribution into the development of some sectors and the national economy on the whole in post-crisis period. ●

1 Russia has a right to use these funds only in the form of rupees in the territory of India (at present about 1 billion of rupees was accumulated on the Russian accounts, with which the state debt of India has been partially settled).

2 As a result in October 2009 SSTL started to develop the net of the mobile communication in Delhi, the result of which was the increase of the total subscriber base in the country exceeded 2 million of people. Up to the end of the current year SSTL is planning to enter another four telecom districts of India, completing the construction of Panindian network in the second half of 2010. "Vedomosti". October 12, 2009.

SMALL BUSINESS IN RUSSIA: STATE OF AFFAIRES AND PROBLEMS

O.Izryadnova, D.Kazantseva, E.Fomina

The figures of the first half of 2009 for the main indices of the development of the small business monitored by the Federal State Statistics Service are considerably below the indicators of the corresponding period of 2008, in the 2nd quarter 2009 the influence of the crisis phenomena has somewhat weakened and the situation at the enterprises of small- and medium-scale entrepreneurship has become more stable as compare with the previous two quarters. However it would be premature to speak of the recovery of the favorable trends observed in this field in the recent years. On the whole one can not say that the situation of the sector of small business improves under the influence of the measures taken by the government, although the effect from the fulfillment of the measures for support of the small- and medium-scale business could have been more considerable if they had been approved and fulfilled in time. The Government adopted a significant number of decisions concerning the financial, property and administrative support of the small business.

On the Situation at Small-scale Enterprises in the 1st half of 2009

As on July 1, 2009 the number of the registered small-scale enterprises on the whole throughout Russia made 227.7 thousands against 282.7 thousand as on January 1, 2009 the number of employees in the sector reducing by 554.6 thousand.

Over the period from April to July 2009 the number of small-scale enterprises remained practically unchanged, some increase of the workplaces having been observed. According to the data as on July 200 the number of the employed at small-scale enterprises went up by 28.9 thousand of people (versus April 2009). The level of employment in the small business is quite differentiated through the territory of Russia and has different influence on the situation on the regional market of labor force. Over April-July 2009 the biggest number of the additional workplaces at small-scale enterprises was created in the Southern, Far Eastern, Privolzhsky federal okrugs, the employment in the small business in Urals and Siberian okrugs stabilizing and the process for the reduction of the number of employees in the Central federal okrug strengthening. The level of employment is considerably influenced by the structural features of distribution small-scale enterprises by kinds of economic activities. It was the territories with the high employment in the segment of small business in the processing production that reacted most acutely to the changes in the macroeconomic situation on the labor market.

Table 1

NUMBER OF ENTERPRISES AND NUMBER OF EMPLOYED AT SMALL-SCALE ENTERPRISES IN 2009,
EXCLUDING MICRO-SCALE ENTERPRISES

	Number of Enterprises, thousands			Number of employees (without those combining jobs), thousand of people		
	01.01.2009	01.04.2009	01.07.2009	01.01.2009	01.04.2009	01.07.2009
Russian Federation	282.7	227.6	227.7	6217.1	5741.7	5771.5
Central Federal Okrug	82.1	73.1	73.1	1678.4	1674.5	1656.1
North-Western Federal Okrug	31.4	31.1	31.1	812.7	668.8	672.4

Table 1, cont'd

	Number of Enterprises, thousands			Number of employees (without those combining jobs), thousand of people		
	01.01.2009	01.04.2009	01.07.2009	01.01.2009	01.04.2009	01.07.2009
Southern Federal Okrug	39.9	27.4	27.4	872.5	707.7	731.6
Privolzhsky Federal Okrug	58.8	47.1	47.1	1406.5	1295.3	1303.7
Urals Federal Okrug	11.2	13.8	13.8	360.8	402.1	402.1
Siberian Federal Okrug	45.4	25.6	25.6	842.4	736.3	736.2
Far Eastern Federal Okrug	13.9	9.5	9.6	243.8	256.9	269.4

Source: Federal State Statistics Service

The general economic situation has had an extremely negative impact on the dynamics of the volumes of production and the investment activity of small-scale enterprises. In the 1st half of 2009 the organizations' turnover reducing by 10.2% on the whole in the economy, and investments in fixed assets – by 18.2%, the drop in the segment of small-scale enterprises is estimated to be at the level of, correspondingly, 16% and 33%.

As compared with the 1st half of 2008 in the current year the absolute reduction of the volumes of turnover of the small-scale enterprises in nearly all the federal okrugs has been observed. The recession of the economic activity of small-scale enterprises above the average level was observed in Siberian (68.3%), Privolzhsky (80.9%) and Southern (80.1%) federal okrugs (versus the figures of the 1st half of 2008). Against their background the figures of Urals (97.3%), Far Eastern (95.0%) and Central (89.4%) federal okrugs seem to be more favorable.

The peculiar features of quarter-by-quarter dynamics should also be noted. The absolute contraction of the scale of turnover of enterprises of small-scale business, which was observed in the 4th quarter 2008 and in the 1st quarter 2009 has ceased. In the 2nd quarter 2009 as compared with the preceding quarter of the current year the increase of the turnover of small-scale enterprises made RUR 232.0 billion, the influence of the Central federal okrug being prevailing – RUR 139.8 billion.

Table 2

TURNOVER OF SMALL-SCALE ENTERPRISES AS BROKEN BY FEDERAL OKRUGS,
IN TREMS OF CURRENT PRICES (RUR BILLION), NOT INCLUDING MICRO-SCALE ENTERPRISES

	2008				2009	
	I	II	III	IV	I	II
Russian Federation	2072.9	2550.1	2751.9	2718.6	1832.5	2064.5
Central Federal Okrug	580.1	825.8	811.6	855.6	558.7	698.5
North-Western Federal Okrug	335.3	376.0	445.2	429.1	300.1	297.8
Southern Federal Okrug	241.0	300.2	342.1	298.6	192.6	248.2
Privolzhsky Federal Okrug	424.6	467.1	504.9	501.5	357.8	363.7
Urals Federal Okrug	171.7	207.7	239.0	218.3	188.3	180.7
Siberian Federal Okrug	255.0	300.3	309.3	320.4	176.0	203.3
Far Eastern Federal Okrug	65.1	73.0	99.9	95.0	59.0	72.2

Source: Federal State Statistics Service, authors' calculations

The interruption of the recession of the volumes of turnover in the 2nd quarter of the current year was supported by the growth of the volumes of investments in fixed assets after their sharp contraction during the preceding two quarters. In the 2nd quarter 2009

the investments in fixed assets made RUR 65.2 billion, exceeding by 23.8 billion the figure of the 1st quarter.

Table 3

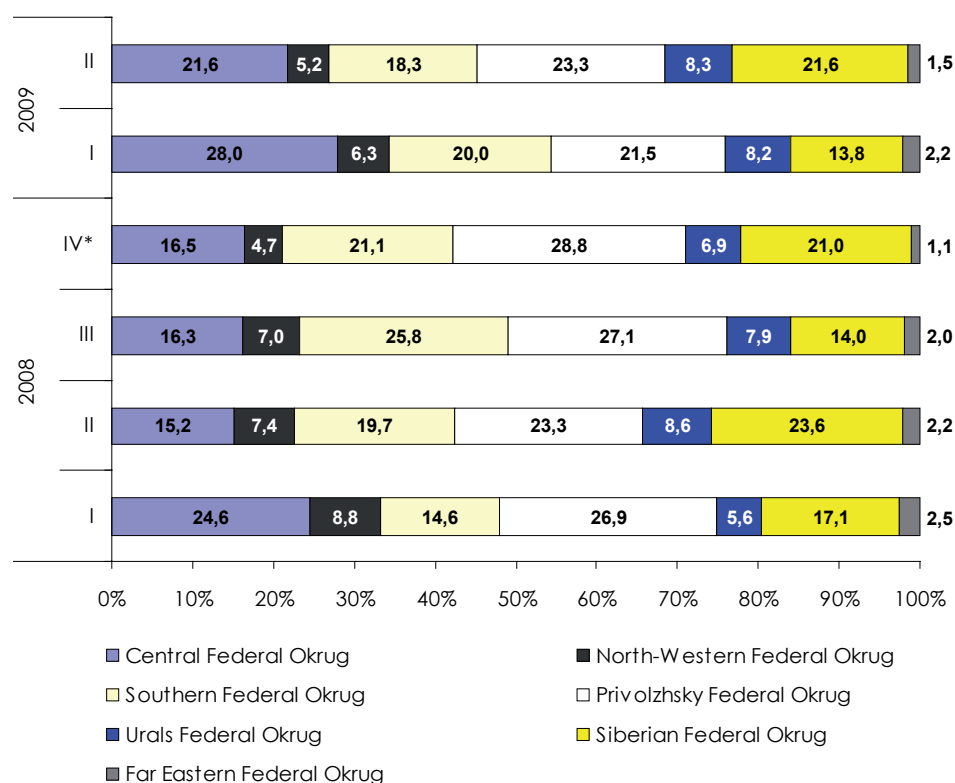
VOLUMES OF INVESTMENTS IN FIXED ASSETS AT SMALL-SCALE ENTERPRISES IN 2008-2009, AS RUR BILLION, IN CURRENT PRICES (NOT TAKING INTO ACCOUNT MICRO-SCALE ENTERPRISES)

	2008				2009	
	I	II	III	IV	I	II
Russian Federation	47.9	73.0	91.5	105.0	41.4	65.2
Central Federal Okrug	11.8	11.1	14.9	17.3	11.6	14.1
North-Western Federal Okrug	4.2	5.4	6.4	4.9	2.6	3.4
Southern Federal Okrug	7.0	14.4	23.6	22.2	8.3	11.9
Privolzhsky Federal Okrug	12.9	17.0	24.8	30.2	8.9	15.2
Urals Federal Okrug	2.7	6.3	7.2	7.2	3.4	5.4
Siberian Federal Okrug	8.2	17.2	12.8	22.0	5.7	14.1
Far Eastern Federal Okrug	1.2	1.6	1.8	1.2	0.9	1.0

Source: Federal State Statistics Service, authors' calculations Росстат, расчеты авторов.

The change in the structure of investments in fixed assets at small-scale enterprises as broken by territories in the 2nd quarter 2009 was defined by the increase of the share of Siberian and Privolzhsky federal okrugs and by the reduction of the share of small business in Central, Southern and North-Western federal okrugs. The increase in the scale of investments in fixed assets in Siberian and Privolzhsky okrugs was one of the factors that supported the employment in the small business, taking into account high tension at the labor market in these territories.

In 2009 for the first time the possibility of advance transfer of subsidies from the federal budget to the regions for the development of small- and medium-scale business is introduced for the first time – up to 60% during the 1st-3rd quarters of the current year that is proportional to the share of small- and medium-scale enterprises operating in the territory of the region. When defining the level of co-financing the calculated provision of the budgets of a subject of the



Source: Federal State Statistics Service, authors' calculations

Fig. 1. Structure of Investments in Fixed Assets at Small-scale Enterprises as Broken by Federal Okrugs, as percentage to the total

Russian Federation with funds is taken into account. Thus, for 78 subjects of the Russian Federation about 80% of expenditures for the support of small- and medium-scale enterprises will be financed at the expense of the federal budget.

The analysis of distribution of the number of the registered small-scale enterprises by kinds of economic activities demonstrated that in the 1st half of 2009 in the industry (divisions C+D+E) the number of the registered small-scale enterprises made 40.2 thousand, that is reduced by nearly 6 thousand since the beginning of the year. As a result, the number of the work places decreased by 60.2 thousand of people.

The business activity in the economy decreasing, the drop of the investment in fixed assets aggravating and the workload in construction decreasing, as a result of the 1st half of 2009 the number of the employed at the small-scale enterprises in construction decreased by 127.4 thousand of people since the beginning of the year.

The prevailing part of the workplaces at the small-scale enterprises is accounted for by the trading enterprises and by the services for operations with the real estate. On the whole over the country the small-scale trading enterprises gave work for 14.2% of the employed in such kinds of activities as wholesale and retail trade, repair of motor vehicles, motorcycles, household appliances and items of private use. In the 1st half of 2009 the number of the employed at small-scale enterprises decreased by nearly 229.8 thousand of people as compared with the beginning of the year.

It should be noted that the quarterly analysis of the employment demonstrates the increase of the number of workplaces by 29.8 thousand in the 2nd quarter 2009 as compared with the preceding quarter, which was mainly at the expense of agriculture (+6.7 thousand), construction (+13.6 thousand) and operations with the real estate (+ 7.8 thousand). At the small-scale enterprises in the industry and trade the trend for the reduction of the number of the employed sustained.

As a result of the comparative analysis, starting with the 4th quarter 2008 in the majority of kinds of economic activities there is either the decrease in the turnover of small-scale enterprises or the sharp reduction in the increase of the turnover as compared with the previous year observed. It is obvious that in the 1st half of 2009 (as compared with the 1st half of 2008) the decrease of the workload in construction by 19.3%, the retail trade turnover by 1.1%, the wholesale trade turnover – by 4.7% in the Russian economy had a negative effect on the nature of functioning of the small-scale enterprises. It was the contraction of the demand on the internal market that had the prevailing influence on the positions of small-scale business in the Russian economy, since nearly 60% of the turnover of small-scale enterprises is formed by the trading enterprises.

On the whole as a result of the 1st half of 2009 the turnover of small-scale enterprises made RUR 3897.0 billion or 12.2% of the turnover of all kinds of activities in the Russian economy, while the share of turnover of small-scale enterprises in the kind of activity “construction” made 31.6%, in fishing and fish breeding – 21.4%, in agriculture – 17.6%, in trade 16.4% and in the industry – 6.0%.

In the 2nd quarter 2009 as compared with the previous quarter the increase of the volumes of turnover was observed in nearly all kinds of enlarged kinds of activities.

Table 4

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

	2008				2009	
	I	II	III	IV	I	II
Total:	2072.9	2550.1	2751.9	2718.6	1832.5	2064.5
Agriculture, hunting and forestry	32.8	35.2	50.7	52	37.7	40.5

Table 4, cont'd

	2008				2009	
	I	II	III	IV	I	II
Fishing, fish breeding	4.8	6.1	6.5	5.7	5.1	7.2
Industry	280.6	365.8	403	369.3	242.2	265.1
Minerals extraction	10.5	13.9	19.7	15.7	7.9	10.5
Processing industries	258.7	340.9	372.1	339.6	219.1	242.3
Electricity, gas and water production and distribution	11.4	11	11.2	14	15.4	12.3
Construction	183	300.1	353.6	391.7	161.7	242.3
Wholesale and retail trade, repair of motor vehicles and motorcycles, household appliances, items of private use	1332.5	1551.3	1615.8	1595.9	1120.6	1241.8
Hotels and restaurants	23.1	28.4	27.9	27.3	32.0	27.3
Transportation and communication	61.7	75.1	94.4	75.5	61.9	64.9
Operations with real estate, rent and services rendering	131	157.9	168.3	170.2	142.8	146.6

Source: Federal State Statistics Service

The increase of the volumes of the turnover at the enterprises of small-scale business in the 2nd quarter 2009 was accompanied by the expansion of the scale of investments in fixed assets as compared with the previous quarter.

Table 4

VOLUME OF INVESTMENTS IN FIXED ASSETS OF SMALL-SCALE ENTERPRISES AS BROKEN BY KINDS OF ECONOMIC ACTIVITIES IN THE 1ST HALF OF 2009, AS RUR BILLION, BY QUARTERS, IN CURRENT PRICES, EXCLUDING MICRO-SCALE ENTERPRISES

	RUR billion		As percentage to the total	
	quarters		quarters	
	I	II	I	II
Total:	41.4	65.2	100	100
Agriculture, hunting and forestry	3.4	9.6	8.2	14.7
Fishing, fish breeding	0.2	0.1	0.4	0.2
Industry	7.5	11.2	18	17.2
Minerals extraction	0.7	2.6	1.6	4.0
Processing industries	6.5	8.5	15.8	13.0
Electricity, gas and water production and distribution	0.3	0.1	0.6	0.2
Construction	13.5	18.3	32.7	28.1
Wholesale and retail trade, repair of motor vehicles and motorcycles, household appliances, items of private use	4.6	11.5	11.2	17.6
Hotels and restaurants	0.1	0.4	0.4	0.6
Transportation and communication	1.6	1.8	3.8	2.8
Operations with real estate, rent and services rendering	10	11	24.2	16.9

Source: Federal State Statistics Service, authors' calculations

Measures to support small- and medium-scale business

The development of small- and medium-scale enterprises is included in the list of projects for fulfillment of the Main directions of the activity of the Government of the Russian Federation for the period up to 2012.

The main purposes for the fulfillment of the project are the following:

1) The increase of the share of small –and medium-scale entrepreneurship in the economy;

2) The formation of the innovation and production structure of small- and medium-scale entrepreneurship.

The target indicators of the projects for the period of 2009-2012 envisage:

- The increase in the proportion of the employed in small- and medium-scale companies versus the employed in the economy by two times (up to 28%);
- The increase of the proportion of the output of small –and medium-scale enterprises in the GDP by 1.5 times (up to one third of the GDP);
- The growth of the number of the small- and medium scale enterprises per one thousand of people by 15% (up to 11.4 companies);
- The increase of the share of the turnover of small –and medium-scale enterprises in non-trade sector of the economy up to 50% of the total turnover of this sector of the economy.

The growth of the number of the subjects of small- and medium-scale business is tightly connected with the clarification of the government policy for the assistance to the development of the entrepreneurship, popularization of the ideas of entrepreneurship and formation of the interest for independent activity in the population. According to the forecast estimations, by 2012 Russia will be able to approach the global indicator by the proportion of the citizens that wants to set up their own business (10%), which will exceed the existing level by 4 times.

In concordance with the Program of anti-crisis measures in 2009 it is planned to allocate RUR 40.5 billion to support of the small and medium-scale entrepreneurship, which is 11 times more than in 2008. In 2009 the expenditures of the federal budget for the government support to the subjects of small-scale entrepreneurship were increased up to RUR 10.5 billion, that is in addition to the funds that were planned earlier RUR 6.2 billion more will be allocated. Taking into account the general contraction of the demand in the economy, the requirement on the compulsory quota (up to 20%) for the small-scale enterprises in state order placement was established and it was applied to the municipal order as well, which will enable to increase the demand for the production of small-scale enterprises. The measures to improve the situation of the enterprises as well as to develop the infrastructure of micro-, small- and medium-scale business are aimed at elimination of different obstacles for functioning and can be divided in three sections.

1. Measures in the field of financial and fiscal stimulation

The special attention in the complex of the government measures aimed at supporting the small attention is paid to the increase of availability of the financial resources to the subjects of small- and medium-scale entrepreneurship. At the beginning of 2009 the minimum rates for credits were in the range from 18.1-24% per annum, while the maximum rates for some offer made 45%. At present the rates for banking credit make about 24% in rubles and 17% in foreign currency. Further decrease of the rates can be reached by the measures of financial stimulation among which are the following:

- Sberbank of Russia has adopted a special program of the support for small –and medium-scale business in Russia in 2009-2011¹. Within the framework of the program the main measures will be carried out in the subjects of the Federation taking into account the regional programs of support of small and medium-scale business currently in effect. The Sberbank's program is aimed at the increase of the availability of the financial resources for small- and medium-scale entrepreneurship, involvement of the able-bodied population in the entrepreneurial activity with their attraction to Sberbank's servicing.

1 <http://www.siora.ru/ru/node/10753>

– The Russian Bank for Development (RusBD) stopped to receive applications for the selection of partner banks for the participation in the program of support to the small business enterprises in July, and started to conclude contracts and transfer sums in August already. On the whole there were 150 banks that applied, and the total volume of applications exceeded RUR 35 billion. The main criterion for the selection was the interest rate, at which the banks are willing to give support to small business, as well as the quality of the credit portfolio formed by the bank that is offered for refinancing, and the experience of work with the small- and medium scale enterprises. According to preliminary estimations, no less than 100 banks meet the requirements for participation in the program

It should be remembered that for these purposes the government allocated RUR 40 billion. They will be distributed according to the new rules in concordance with the limits for the regions. The maximum limits of RUR 800 million will be obtained by Moscow, Saint Petersburg, Bashkortostan, Moscow, Vologda, Novosibirsk oblasts and Altai krai. More than RUR 700 million is allocated to Primorsky, Krasnodar and Krasnoyarsk kraises, Samara and Rostov oblasts. The funds will not only be transferred within the framework of the established limit – the portfolio of credits issued to the small business after October 1, 2008 will be refinanced to stimulate the banks to issue credits to small enterprises.

The final rates for the credits to small- and medium-scale enterprises depend on the crediting policy of the bank, its estimation of risks, qualities of borrowers and operational costs etc. RusBD can limit with the agreement of the partner bank its margin and maximum effective rate for financing. It was initially planned that the interest rate will not exceed 13-14%. Though it is not excluded that the banks will establish additional commission fees and will increase the interest rate for servicing.

The program will enable to direct additional government funds for the purposes of support of small- and medium-scale enterprises. Besides, the program is to encourage separate banks, which continued to issue credits to complicated critical period. However it is unlikely that the funds will be received by entrepreneurs in the current year due to extremely prolonged procedure for the selection of banks and allocation of funds to them. That is why, in our opinion, the effect from the fulfillment of this measure will be less significant than if it had been fulfilled in the first half of the current year. Besides, it should be noted that there is no effective mechanism of control over the observance by the banks of the limitations on the value of interest rates, envisaged by the Program, which will as a result lead to the decrease of the availability of credits;

– besides the banks with the government participation which are actively involved in the work on crediting small- and medium-scale enterprises. For instance the National Trade Bank has allocated RUR 9.5 billion for these purposes, Sviaz-bank – more than RUR 3 billion, Globex bank – about 0.9 billion. In total, the banking sector is ready to give more than RUR 100 billions to the subjects of small- and medium-scale enterprises.

There is also active work carried out to attract foreign sources of financing. For instance, the agreement between Vnesheconombank and the German Bank “KfW” for Euro 200 million in 2009, with further increase of Euro 400-500 million. 14 Russian banks participate in the program and the agreements with half of them have already been signed. Within the agreement KfW gives the Russian banks money in foreign currency on the guarantees of the VEB. As a result for the final consumer the rate for the credit will make 13% per annum in foreign currency. Despite a relatively high interest rate for the credit and the presence of currency risks, there is a demand for this financial product.

– The decision was adopted to allocate additionally RUR 120 billion to refinance the credit portfolio of the small- and medium-scale enterprises and to submit the state guarantees to the banks to credit the enterprises without security. The volume of the state guarantees for the credits to small business is estimated to be RUR 300 billion. It should

be noted that the refinancing within this program will be available for small regional crediting organizations that are in fact aside the main sources for replenishing of resources base. As a result it can be stated that the volume of the financial support to small- and medium-scale enterprises from the government at present remains the most considerable source of resources.

– The bill was submitted to the project that would enable the companies and entrepreneurs that apply the simplified taxation system and pay 6% of incomes at present to apply differentiated rates¹. In concordance with the amendments made earlier to the tax legislation, the subjects of the Federation delegated a right for some categories of taxpayers to establish differentiated rates from 5 to 15%. At present the privileged regime for small business that applies the simplified taxation system will be introduced in nearly twenty regions. Thus, up to 5% of the profit should be paid by the entrepreneurs and companies in Pskov, Lipetsk, Rostov oblasts and Yamal-Nenets autonomous okrug. The government of Kemerovo, Volgograd, Bryansk and Sakhalin oblasts, as well as the Republic of Mordovia introduced 5% decreased rate for the list of the priority kinds of activities defined by the regional law.

However this privileged regime applies only to those who applied the simplified taxation system in “profit” regime (“incomes deduced by expenditures”), and the rate for those paying the debt from the earnings remained unchanged – 6%. According to the mentioned bill the subjects of the Federation can reduce the tax rates for simplified taxation system down to 3% of earnings.

This measure will enable to provide privileged regime for taxation to bigger number of subjects of small business, which as a result will help to reduce tax load on the small business and result in the liberation of a part of funds to conduct additional investments.

2. Measures of Property and Infrastructure Support

The Federal Assembly approved the Federal Law that authorizes the budgetary scientific institutions and higher educational institutions to create small enterprises to put into implementation their innovative developments².

The main aim of the law is to provide real implementation in the production of the results of scientific and technological activity made at the expense of budget funds, the rights for which are in the property of the budgetary institutions of science and education.

At present the majority of the results of the intellectual activity are created at the expense of budget funds by scientific and educational institutions that either have an organizational and legal form of a budgetary institution or the institution of the state academy of sciences. These scientific and educational institutions due to the strictly purposeful nature of financing and strictly limited legal capacity cannot independently make a practical implementation (introduction) of the results of intellectual activity. At the same time they are deprived of the possibility to create operating economic entity which would be able to carry out implementation (application) of the corresponding results of intellectual activities.

The federal law provides the budgetary scientific institution (including those created by the government academies of sciences) as well as the higher educational institutions that are budgetary bodies with the right to act as founders (also together with other persons) of economic entities which operation consists in practical application (implementation) of the

1 <http://www.sme-news.ru/news.asp?SectionId=1&NewsId=43311>

2 According to the report of the press service of the Federal Assembly, Federal Law No 271, from August 2, 2009

results of intellectual activity, the exclusive rights for which are in the ownership of these scientific institutions, without the permission of owners.

The law mentioned gives a closed list of the results of intellectual activities for which fulfillment the economic entities can be created. The programs for computers, databases, inventions, useful models, industrial samples, achievements of selection, layout of IC chips, know-how belong to these results of intellectual activity.

The law is to fill the gaps of the legal regulation of transfer of the state fixed assets for the benefit of infrastructure objects of small- and medium-scale business, as well as the relations connected with the managing the exclusive rights for the results of intellectual activity by scientific and educational institutions and the profits from execution of these rights. According to the estimation by the head of the Committee on education and science of the Federal Assembly of the Russian Federation there are more than two hundred higher educational institutions and research institutions that are ready to create small enterprises now.¹

In our opinion, the fulfillment of the statements of the Federal Law will lift a number of controversies in the existing legislation and will contribute to the development of the infrastructure for small business. However the fact that not all the results of intellectual activity are subjects to the action of the new law, but only those defined by the close list, can limit the effect of its adoption.

The State Duma has adopted the second reading of the project of the Federal Law “On making changes to articles 171 and 53 of the federal Law “on protection of the competition” (concerning the changes in articles 17.1, 19 and 20 of the Federal Law). The bill defines the right to prolong the rent agreements concluded before July 1, 2008 with the subjects of small- and medium-scale entrepreneurship without conducting the tenders up to July 2015².

This law can contribute to making considerable property assistance to small- and medium-scale enterprises from the bodies of local government. However, in our opinion, the effect from the realization of the measures mentioned will not be as large-scale as it is expected. It should be noted that the amendments adopted last November and allowing to prolong the agreements without biddings up to July 2010, though only few regions used this amendments. And it is highly unlikely that the next amendments will fundamentally change the position of those who did not use the right to prolong the agreements of the rent without biddings.

– The Federal Assembly adopted the law “On making changes to article 2 of the Federal Law “On application of check-out equipment when conducting monetary payments and (or) payments with the use of credit cards” and other legislative acts of the Russian Federation”.

The legislation envisages that the organizations and individual entrepreneurs that pay single tax on the imputed income for some kinds of activities will be exempted from the requirement to use check-out equipment when carrying out the kinds of activities established by paragraph 2 article 346.26 of the Tax Code, on condition that the sale receipt is issued on demand of a client, which testifies the receipt of monetary funds for the corresponding goods or service. The sale receipt should contain the information envisaged by the bill. The control over the observance of the requirements on issuing such a document and the right to levy fines is commissioned to the taxation bodies. This measure contributes into the decrease of the financial load on a subject of a small business concerning the

1 <http://www.siora.ru/ru/node/10727>

2 <http://www.siora.ru/ru/node/10646>

purchase and servicing check-out equipment. It should be noted that the interests of customers interacting with small forms of entrepreneurship are also taken into account.

In the middle of October the Ministry for Health Care and Social Development of the Russian Federation submitted to the main ministries and departments the project of the decree, which, among other, envisages payments to the unemployed citizens that set up their own business and creating thus workplaces. The flat payment to such a starting businessman is envisaged to be RUR 58 800. Besides, for every unemployed that he hires he is also to receive RUR 58 800.¹

In concordance with the Federal Law No 209-FZ “On the development of small- and medium-scale entrepreneurship in the Russian Federation” the number of employees of an enterprise of small- and medium-scale business should not exceed the following limiting values:

- a) 250 people – for medium-scale enterprises;
- b) 100 people – for small-scale enterprises;
- c) 15 people – for micro-scale enterprises.

Thus, the envisaged by this Decree level of flat financial assistance to one newly created small- and medium-scale enterprise can reach RUR 14 758 800. If the budget will be able to execute the assistance to small- and medium-scale enterprises to that amount, it can be of great support to small business in the crisis. Taking into account the fact that monthly nominal wages in Russia was a bit over RUR 19 000 by the middle of 2009², such payments will be able to compensate for the paying of employee’s wages during several months.

In order to decrease the workload of the arbitrary judges the Supreme Arbitrary Court of the Russian Federation prepared the suggestions concerning the improvement of the procedure for the consideration of suits of up to RUR 100 000. The Supreme Arbitrary Court suggests considering such cases without the presence of the sides, their positions being submitted in written form and the judge making a decision.³

Such simplified procedures for the consideration of arguments whose participants are often the subjects of small- and medium-scale business will allow decreasing the expenditures for the representation of the sides in the court. However it remains unclear whether the right of the sides to be present in person will be sustained when considering the arguments for the sum of up to RUR 100 000 in case the sides believe that it is important to present the arguments concerning the case in person. In case the sides are deprived of such a right, this measure, though allowing somewhat decreasing the load on both the judges and entrepreneurs, will hardly contribute to objective consideration of the cases. The latter is even more important taking into account that the sum of a suit for so-called “case-based suits” may be below RUR 100 000 but the legal position formulated by the court can be of great importance for further consideration of arguments concerning similar relations.

Measures to Decrease Administrative Pressure

The block of measures of administrative direction supporting small- and medium-scale business was executed quite actively in the 3rd quarter. The following measures can be highlighted among these:

– the bill envisaging wider application of patent taxation system was considered and passed the third reading: the enterprises which annual turnover is within RUR 45 million will be able to use this scheme starting with the next year. This measure will contribute

1 <http://www.klerk.ru/buh/news/162941/>

2 <http://www.gks.ru/gis/tables/UROV-7.htm>

3 <http://www.vedomosti.ru/newspaper/article/2009/09/22/214430>

to the improvement of the situation of the entrepreneurs in charge of small business that could not use patent taxation system before because of them exceeding the acceptable parameters;

– in July of the current year the bill regulating the inspections of small- and medium-scale business. The controlling bodies, excluding the tax inspection, have to publish the plan of inspections beforehand, and agree with the prosecutor's office on non-planned inspection. According to the document now the controlling bodies will be able to check the enterprises no oftener than three times a year. As to non-planned visits, there are only 50 hours a year allotted for them¹. Besides, the law gives some freedom to new companies. The inspectors will be able to start control only in three years from the start of their operation. The grounds for this are also stated – the real fact of damage to the environment, people's health and life, as well as violation of consumers' rights. The prosecutors were commissioned with the rights to issue permissions for inspections starting with May, 1st. the data over the first two months demonstrate that the inspectors get 40% of refusals for their applications. This measure is to save the companies from the lawlessness of the controlling bodies. However there is a possibility for ambiguous interpretation of the time limitations for the inspections, which are not stated clearly enough in the law, which reserves the opportunities for corruption.

Creation of Regulatory Acts by Regions and Municipalities in the Field of Small Business Regulation

In the third quarter 2009 some government bodies of the subjects of the Russian Federation and local governments issued several regulatory acts aimed at further support to the small business. Such support at the regional and municipal level is envisaged to be both in the form of targeted programs and in the forms of different programs of giving subsidies to the enterprises of the sphere of small- and medium-scale business.

Subsidies to Small Business

1. According to the Decree of the Government of Saint-Petersburg from 21.08.2009 No 949 there was RUR 200 million allocated from the city budget to increase the assets of a non-commercial organization "Fund to assist crediting of the small business", which gives services on giving the subjects of small business the guarantees for the credits. The Supplement to the Decree presents the conditions for granting subsidies:

- The Fund gives no less than 50 guarantees for the credits to the subjects of small business;
- The Fund gives the guarantees only to the subjects of small business;
- The Funds presents the accounting on the guarantees issued for the credits to the subjects of small business supplemented by the copies of contracts of guarantees for credits;
- The Fund does not have debts to the budgets of any levels and to the state off-budget funds.

2. According to the Decree of the Government of the Republic of Altai from August 12, 2009 No 184 the Supplement to the Procedure for Granting government support to the subjects of small- and medium-scale entrepreneurship, operating in the territory of the Republic of Altai. The Supplement envisages granting to the subjects of small- and medium-scale business the subsidies to compensate for a part of made and proved by documents expenditures connected with the payment for consulting services.

3. The Decree of the Government of the Republic of Kalmykia from August 17, 2009 No 287 established the Procedure for granting subsidies to the newly formed subjects of small

1 <http://www.siora.ru/ru/node/10643>

business. The amount of the grant is defined basing on the need in monetary funds according to the business-plan but should not exceed RUR 300 000 per one starting entrepreneur. The grants are given on the basis of contest.

The co-financing of the expenditures connected with the beginning of entrepreneurial activity by the starting entrepreneurs a prerequisite for giving a grant, which should be no less than 10% of the issued grant.

The starting subjects of small entrepreneurship which founders belong to the following priority area enjoy the advantageous right for getting a grant:

- The unemployed citizens registered according to the established procedure in the services for the employment of the population;
- The employees that are under the threat of mass dismissals (working part-time, being on holidays without sustention of the wages, working at the enterprises where the mass measures for employees dismissals take place).

The business projects in the following spheres have a priority for getting a government support:

- Agricultural complex;
- Processing productions and opersonal services;
- Construction;
- Tourism and recreation complex.

4. According to the Decree of the Government of Karachai-Cherkess Republic from August 26, 2009 the Procedure for granting subsidies to the subjects of small- and medium scale entrepreneurship fulfilling investment project with the attraction of banking credits was approved. In concordance with the Procedure mentioned the subsidies are granted to the subjects of small- and medium-scale entrepreneurship on gratuitous and permanent basis in order to compensate for the expenditures for payment the interest rates for credits attracted to fulfilled investment projects in the territory of Karachai-Cherkess Republic in concordance with the conditions of the credit agreements. The subsidies are given for the investment projects with the payback period of less than two years, which sources of financing are banking credits and own funds of the borrowers. The sum of crediting resources that is applied for should not exceed RUR 20 million.

5. According to the Decree of the Government of Karachai-Cherkess Republic from August 13, 2009 No 287 the Procedure for giving a grant support to the starting subjects of small- and medium-scale business to set up their own business was established. The support in the form of grants is submitted on a nonrecurring basis at the amount of 70% of the total sum of the testified costs states in the business plan, but no more than RUR 300 thousand.

The other conditions being equal, the following starting entrepreneurs have a priority for the receipt of the support in the form of grants:

a) those carrying out their activity in the field of the industrial production, construction, development of infrastructure, agriculture (farms), enterprises of national trades and handicrafts;

b) those that belonged to one of the following groups of citizens before the government registration:

- The unemployed citizens;
- Graduates of educational institutions;
- The military personnel transferred to the reserve or resigned.

6. The Administration of Tver oblast adopted the Decree from August 4, 2009 No 337-pa, establishing the Procedure for subsidizing the interest rates for the credits attracted by the subjects of small- and medium-scale business from the budget of the oblast. The aim of

such subsidizing was to compensate for the own expenses of the subjects of the small- and medium-scale enterprises to pay off the interest rates on the attracted credits.

The subsidies are given for the credits issued in rubles, at the rate of 75% of the refinancing rate of the Central Bank that was in effect at the moment of signing the crediting contract. The expenditures of the subjects of small- and medium-scale enterprises or parts of them are to be subsidized if:

- they do not exceed RUR 12 million – for fulfillment of the projects in the priority directions in the spheres of production and innovations, in housing and utility services, handicrafts, agriculture, tourism activity and youth entrepreneurship;
- they do not exceed RUR 6 million – for fulfillment of other projects.

A part of the expenditures of a subject on the payment of interest rates for the attracted credits in the period from the date of the conclusion of the crediting agreement but not before January 1st, 2009 up to the date of its actual repayment, but for no longer than 36 months.

The following are the compulsory conditions to get a subsidy:

- The registration of the subject in the territory of Tver oblast as a taxpayer;
- Conducting of the economic activity for no less than 6 months by the date the application for the subsidy is submitted;
- The absence of the debt on payments of taxed and fees to the budgets of all levels by the accounting date preceding the date of application for the receipt of the subsidy;
- The procedure of the cases of bankruptcy or sanctions in the form of annulations or interruption of the effect of the license was not used against the subject of small- or medium-scale business for the last two years (or less, depending on the period of operation);
- The subject of small- or medium-scale business has adopted the responsibility to maintain the general number of the workplaces for the period of no less than 6 months from the moment of the receipt of the support.

The subsidies are not granted to the subjects of small- and medium-scale entrepreneurship if:

- They are at any stage of consideration of the case of bankruptcy, or their operation is interrupted according to the procedure established by the legislation or their property are under arrest;
- They produce and sell excisable goods, sell minerals, act as pawnbrokers, work in the field of gaming, render financial services, including those making operations with securities, involved in insurance or real estate activity;
- They participate in the agreements of share production;
- They are non-residents of the Russian Federation;
- They attract credits to pay the wages, make tax or other compulsory payments, pay for their current credits, loans or leasing agreements;
- They have credits for which the decision was made to render similar support at the expense of any sources of financing and its period has not expired;
- The decision on granting any form of financial support within the framework of Program to these enterprises was made and the period of its action has not expired;
- They have outstanding debt for taxes or other compulsory payments to the budgetary system of the Russian Federation, as well as wages arrears on the accounting date preceding the date of application for subsidies.

7. According to the Decree of the Administration of the city of Cheboksary from August 27, 2009 No 195 the Procedure for giving grants to the starting subjects of small entrepreneurship to set up their own business was established. The co-financing of the expenditures connected with the beginning of entrepreneurial activity by the starting

entrepreneurs a prerequisite for giving a grant, which should be no less than 10% of the issued grant. The amount of the should not exceed RUR 300 000.

The business plans of the starting entrepreneurs are not allowed to participate in the contest if: .

- They have an outstanding debt for tax payments and other compulsory payments to the budgetary system of the Russian Federation;
- They are in the process of reorganization, liquidation or are bankrupt;
- They have submitted untrustworthy information;
- They conduct economic activity outside the borders of the Republic of Chuvashia;
- They produce and sell excisable goods, extract and sell minerals, excluding wide-spread minerals;
- They are crediting organizations, insurance companies (excluding consumers' cooperatives), investment funds, government pension funds, professional participants of the security market, pawnbrokers;
- They participate in the agreements on share production;
- They carry out entrepreneurial activity in the field of gaming business;
- They are not residents of the Russian Federation.

In case the volume of applications for the government support exceeds the limit of budgetary funds envisaged for these purposes, the decision is made to grant support to the contestants, whose business plans gained the biggest number of points, that submitted their applications earlier, and whose field of activity corresponds the following criteria:

- Satisfaction of the market with high-quality and reasonably priced goods;
- Rendering services in the field of housing and communal services;
- Organization of the foodstuffs production, production of industrial goods, goods and services;
- Development of the innovation directions of the business;
- Development of the national handicrafts, trades and production of souvenirs.

8. According to the Decree of the Administration of the city of Khabarovsk form September 10, 2009 No 3293 the Statement on the procedure for giving subsidies to starting subjects of small- and medium-scale entrepreneurship was adopted. The rate of a subsidy given to one starting subject of small- and medium-scale entrepreneurship makes RUR 20 thousand. The starting subjects of small and medium-scale business present the report on the purposeful use of the subsidy with the grounded and documentary proved confirmation of the made expenses during 12 months from the day of getting a subsidy to the Administration of the city.

9. On August 31, 2009 the City Duma of Surgut adopted a Decision No 591-IV DG “On the procedure for granting subsidies to the organizations that form the infrastructure of the support to small- and medium-scale business and the subjects carrying out family business”. The subsidy is granted to the organizations that form the infrastructure of the support to small- and medium-scale business on gratuitous and permanent basis. The subsidy is granted to the organizations to compensate for the expenses or for the non-received profit as a result of giving support to the subjects of small- and medium-scale enterprises, including those carrying out family business, if:

1) they, in concordance with the legislation of the Russian Federation on the development of small- and medium-scale entrepreneurship, belong to small- and medium-scale enterprises;

2) they are registered and conduct their activity in the territory of the municipal formation of the city of Surgut.

The subsidy is not given to the organizations which:

- 1) produce and sell excisable goods, extract and sell minerals, excluding wide-spread minerals;
- 2) were subject to the decision on reorganization or liquidation, to the start of the procedure of recognizing them as insolvent (bankrupt);
- 3) have an outstanding debt for monetary liabilities to the municipal formations, other compulsory payments to the budgetary system of the Russian Federation;
- 4) have not fulfilled the conditions of the previously granted support.

Targeted programs for the development of small business

The following regulatory acts can serve as examples of the programs for targeted support of the small business adopted in the period under consideration:

1. The Decree of the Government of Moscow from August 4, 2009 No 724-PP “On city targeted program for the development and support of small- and medium entrepreneurship in the city for 2010-2012”;

2. The Decree of the President of the Republic Sakha (Yakutia) from August 8, 2009 No 1554 “On approving the Republic targeted program “Development of Tourism and Entrepreneurship in the Republic of Sakha (Yakutia) in 2009-2011”;

3. The Decree of the Government of Kirov oblast from August 25, 2009 No № 22/259 “On establishing the oblast targeted program “Support and development of small business in Kirov oblast in 2010-2014”;

4. The Decision of the Deputies Assembly of Pytalovsk district, Pskov oblast from August 21, 2009 No 205 “On the district long-term targeted program “Development of small- and medium-scale business in Pytalovsk district in 2009-2011”;

5. The Decree of the Administration of Tambov from August 4, 2009 No 5887 “On establishment of the town targeted program for the development of small- and medium-scale business in the town of Tambov in 2009-2011”.

6. The Decree of the Administration of the town of Chelyabinsk from August 7, 2009 No 3099 “On approval of the town targeted program “Development of small- and medium-scale business in the town of Chelyabinsk in 2010-2012”.

Besides, the Administration of Rostov oblast adopted the Decree from August 3, 2009 No 381 “On the approval of the governor’s program for training the management staff for the field of small- and medium-scale entrepreneurship”.

The Decree of the Government of Moscow from August 4, 2009 No 727-PP established the Statement on the procedure to assist self-employment of the unemployed and other categories of citizens. It envisages the conduction of the measures to assist the self-employment, including in the sphere of interaction with the city and district organizations, which provide support to the small business. However the mechanism and the tools for such interaction are not stated in the document.

At the same time it should be noted that a number of measures of the government support to small- and medium-scale enterprises came into effect with a considerable delay in 2009, that is why it is apprehended that the small business did not get the amount of help promised this year. Besides, in our opinion, at present the entrepreneurs do not have detailed and up-to-date information concerning the measures taken by the government to support small- and medium-scale business. This problem is to be solved urgently, for instance, by creating additional information centers. ●

THE RESPONSES TO THE CRISIS IN THE SPHERE OF SCIENCE AND INNOVATIVE ACTIVITY

I. Dezhina

The crisis has made more acute the problems that the sphere of science and innovations is currently faced with. The effect produced by cuts in private and budget-funded financing was not softened by the presence of various organizational-legal and other factors that determine the success of research and innovations. As a consequence, the scope of innovative activity diminished similarly to the number of small-sized innovative businesses, and shortages of staff began to be felt even more strongly. In the second half-year 2009 the government began to implement some measures designed to compensate in part for the negative effect of the crisis. However, so far their success has been rather questionable because they are not introducing any changes in the existing economic environment, which does not favor innovative activity.

The impact of the crisis on the sphere of science and innovative activity could be felt, first of all, in the reduced expenditures in the private sector allocated to research and development, and also in the cuts in the personnel of companies' research and development departments. By late December 2008, the amount of expenditures allocated by private companies to the implementation of innovative projects dropped by nearly 80 % since the onset of the crisis, those allocated by business angels – by 50 %, and those allocated by venture funds – by 40 %¹. According to the data yielded by the annual poll conducted by RUSSOFT (Russian Software Developers Association), the negative effect of the crisis in the IT sector (which at present is one of the most hi-tech sectors in this country) was felt strongly by 20 % of companies, and some negative effect was noted by 63 % of companies. As a result, growth of software exports in 2008 became slower by 19 – 20 p.p., and 2009 – by additional 3 – 5 p.p.².

The companies participating in the projects being implemented within the framework of the Federal Target Program (FTP) 'Research and Development within Russia's scientific complex development priorities for 2007 – 2012' began to fail in fulfilling their financial obligations, which resulted in the cancellation of a number of contracts previously concluded between research institutions (higher educational establishments) and commercial companies. According to the RF Ministry of Education and Science, in 2009 the obligations with regard to off-budget funding of the research and development projects carried on within the FTP's framework will be fulfilled by only 60 – 70 %.

Typically, the cuts in the staff of private companies' research and development departments did not result in their more intense cooperation with state research institutions. In conditions of crisis, when it is necessary to optimize the spending of resources, the already existing problems of interaction have become more evident. On the whole, Russian companies offer a negative estimation of their experiences of cooperating with the research institutions belonging to the state sector of science³. The arguments against cooperation

1 As estimated by NAIRIT. Source: V nadezhdahk nagospodderzhku. [In hopes for state support.] // *Expert Sibir*, 22 December 2008. <http://inno.ru/press/news/document33157/>

2 Makarov V. Potentsial NIR rossiiskogo sektora IT ochen' vysok. [The research potential of the Russian IT sector is very high. 29 September 2009. http://strf.ru/science.aspx?CatalogId=222&d_no=24180

3 Based on the results of the interviews taken by the author of this section in June – July 2009 at a number of hi-tech companies in Moscow.

are the weak human potential of state research institutions and higher educational establishments, where there are practically no scientists belonging to the most productive middle-aged age groups (35 – 50 years), and the slow rate of carrying out the research and development orders. In many cases, problems also arise in connection with the poorly defined distribution of the ownership rights for intellectual property, as well as the quality and form of the outcome of work. As a result, in those cases when there is indeed a need for outsourcing, companies prefer to deal with individual researchers and not with research institutions.

On the whole, as estimated by the RF Federal Agency for Science and Innovation (Rosnauka), as of September 2009 the share of innovations-oriented enterprises reduced by one-third as compared to 2005, while the number of small-sized innovative businesses halved¹.

The second sign of crisis is the low inflow of human resources into the sphere of science. The number of research staff in 2008 increased by 1 % by comparison with 2007, and their number is still growing. A similar situation could also be observed in 1998 – 1999, when there occurred a slight inflow of human resources into the science sector as a result of declining employment in other sectors of the national economy. After the stabilization of 2000 this inflow once again gave way to outflow. The same can be expected to happen after the current crisis is over if the government takes no adequate measures to consolidate the young cadres in the science sector and to attract there specialists from abroad. Such measures become especially important due to the emergence of some new factors which are also conducive to an outflow of young specialists from the sphere of science. Russia acceded to the Bologna Process, and exchange programs flourished – which promoted, instead of circulation of research cadres, an outflow of students from this country. The unexpectedly negative effect on the situation with cadres in the science and innovations sphere was produced by the activity of state corporations. State corporations (Rosatom, Rosnano) attract the most energetic graduates of higher educational establishments and postgraduate schools by offering them salaries which are much higher than those paid at research institutions or small-sized innovative businesses. So, the science and innovations sphere has begun to suffer not so much from an insufficient inflow of young cadres as from the low quality of the available human resources. The problem of large-scale inflow of young people into the science sector is gradually being solved – if one takes a look at the recent changes in the age structure of the research personnel, but their quality is definitely deteriorating. And this is the outcome not only of the departure of more active specialists into private corporations or abroad, but also of the overall weakening of the secondary school system and of the lowering levels of teaching certain disciplines, and first of all natural sciences.

The third sign of a crisis has been the cuts in budget funding of the sphere of research and development. According to different estimations, by October 2009 the sequester of budget expenditures on research and development had amounted to 10 – 30 %, depending on specific departments, programs and the measures to be adopted within the framework of each program. In 2010, some further cuts in expenditure are planned, primarily in the framework of Federal Target Programs and the programs of state research funds.

By comparison, in a situation of crisis the West European countries have elected to pursue another strategy. In the USA, the new president decided that additional budget funding should be allocated to research and development, including the support of fundamental studies. In the EU countries, it is planned to expand the tax and grant-based support of

¹ From the report prepared by I. Bilenkina, deputy head of the Federal Science and Innovations Agency, and delivered at the 10th Russian Venture Fair. Moscow, 24 September 2009.

innovative activities. In the developing world, including the BRIK countries (China, India), the crisis is viewed as an opportunity for attracting additional funding from abroad for the research and development sphere. To achieve this end, the governments take certain steps like making more regular the sections of legislation addressing the issues of intellectual property and granting tax privileges to innovative companies¹.

Against the backdrop of diminishing budget expenditures, the policy of the Russian government towards science and innovations began to be based on the concept of improving the performance of the existing mechanisms and instruments instead of creating new ones. They have started a revision of these instruments and measures, thus making it evident that many components of the innovative infrastructure in this country have indeed been created, however the connections between them are inadequate, and there exist significant gaps between the different links in this chain (thus, for example, the system of support of for the pre-seeding and seeding phases of the development of innovative projects). On the whole, it has become obvious that the system for promoting innovations is inefficient in each of its components. Therefore the course towards the use of the existing mechanisms (after their necessary adjustment) is generally correct, but it cannot be viewed as a rapid response measure.

The new measures designed to compensate for the deteriorating situation in the science and innovations sphere began to be implemented only as late as mid-to-late summer 2009. In August 2009, a new law was passed² stipulating that budget-funded research institutions, including those belonging to the system of the State Academies of Sciences and the budget-funded higher educational establishments may act, in an advisory procedure, as founders of economic societies created for the purpose of commercializing the results of intellectual activity. By way of making their contribution to the charter funds of small-sized companies, such institutions may transfer their rights of ownership to intellectual property entities. The measures envisaged in that law are designed to promote the development of small-sized innovative businesses, but their practical implementation is hindered by their poor compatibility with the other existing norms and the established inventory practice with regard to intellectual property objects. In particular, the contribution to a charter fund is constituted not by exclusive rights to intellectual property objects but only by the right of use. This means that the companies are not going to be independent and will not be able to grant the rights to the results of their intellectual activity to third parties. Besides, this norm endows state research institutes and higher educational establishments with the right to act as founders of several companies at once and to transfer to them the right to use one and the same package of intellectual products. The majority of such products have been created on the basis of budget allocations, and so it is not always easy to define clearly how the actual rights to their use should be distributed; in addition, in many instances those research institutes and higher educational establishments cannot confirm their exclusive right to intellectual property. The system of the Russian Academy of Sciences is plagued with its own specific problems pertaining to the actual ownership of intellectual property rights, which can be claimed both by the Academy itself and by its subordinate research institutions. Another issue is where and on which terms the newly created small businesses are going to be situated, because there is very little free space at the existing incubators and technoparks.

1 Zapadnaia nauka puskaet korni v Indii. [Western science is now rooted in India.] 20 March 2009. http://www.strf.ru/material.aspx?d_no=18415&CatalogId=221&print=1

2 Federal Law 'On making amendments to some legislative acts of the Russian Federation with regard to the issues of budget-funded research institutions and educational establishments creating economic societies for purposes of practical application (or implementation) of the results of intellectual activity.' (No 217 – FZ of 2 August 2009).

For the support of small-sized start-up innovative companies during the start-up phase, it is also intended to create special seeding funds. In particular, by the end of the year 2009, Russian Venture Company (RVC) will have to complete the process of creating a seeding fund in the form of an open-end joint-stock company, with capitalization in the amount of 2 billion rubles. In the seeding fund the volume of investments into projects will be no more than 75 % of the project's cost. In this connection, RVC expects to receive a 25 % share in the venture project funded by it¹. It is expected that as a result of the creation of this seeding fund, as well as the launching of a new program by the Fund for the Support of Small-sized Businesses in the Sphere of Science and Technology aimed at promoting the research and development activity of the small businesses established by state research institutions and higher educational establishments the existing gap in the funding of the «seeding» and early stages of the implementation of innovative projects will be closed. This area of support can be very promising in the long run if it indeed creates a potential for developing some new products and technologies that will help to overcome the crisis and to carry on innovative development.

As a new measure in the human resources policy, we can point to the decision to select, on the basis of a contest, 12 best higher educational establishments to be placed in the category of 'research universities'. These will be designed to provide adequate conditions for a higher quality professional training, including at the expense of supplementary budget funding, as well as through enhancing the 'sciences' component, attracting foreign professors and promising innovative activities. The implementation of this project is planned until 2018. However, the very first practical steps in this direction have shown that it is being implemented in an 'emergency' mode, which inevitable has a negative impact on the actual results. The preparations for the contest were delayed, the higher educational establishments who had become winners were determined only in early October, while the budget funds allocated to these winners will have to be spent before mid-December 2009.

One more new measure is the exemption of the recipients of grants, including the grants provided by the two state scientific funds – the Russian Foundation for Basic Research (RFBR) and the Russian Foundation for the Humanities (RFH) – from income tax². In a situation when the grants allocated to innovative projects are being sequestered (in 2009, for some contests this deduction was up to 30% of the amount of grant), this measure can be regarded as a partial compensation for such losses. However, the situation is, in fact, rather absurd because the charters of the state scientific funds contain no provisions concerning the term «grant», and so they are unable as yet to apply this new law.

On the whole, these anti-crisis and innovation-promoting measures are being introduced by the government at too slow a pace. Besides, one more serious obstacle to the implementation of the new measures is that they have been developed without due regard for the existing normative-legal regulation both of the innovative sphere proper and of the relations that extend beyond that sphere. Therefore, while being very promising and importance in theory, they cannot produce the desired effect in actual practice. ●

1 RBK poseet v oktjabre. [The RVC will sow in October.] // RBK daily ; 174, 24 September 2009, P. 13.

2 Decree of the RF Government of 15 July 2009, No 602, 'On approving the list of Russian organizations whose grants (gratis aid) received by taxpayers and provided for the support of science, education, culture and art in the Russian Federation are no to be subject to taxation.'

MIGRATORY PROCESSES IN 2009

L.Karachurina

The migratory situation as it existed in Russia in the year 2007, when it is compared with the preceding years, indicates that the crisis did not result in any serious alterations in the already established migratory flows, which have been transformed only slightly; the only really important change being a shift to the worse in the legal to illegal employment ratio and in the use of labor. The nearly twofold reduction in the labor migrant quotas established for employers that was effected by the RF Government in December 2008, in conditions characterized by the existence of different employment niches for Russians and migrants (based on different qualification levels and by-sector distributions), gave rise to a new upsurge in shadow migration. This phenomenon has also, to a certain extent, been contributed to by the recent toughening of Russian labor legislation in the part of employee dismissal regulation.

Due to the seasonal character of a significant portion of jobs performed by temporary labor migrants in Russia, summertime is the period when their number increases. In the previous years, the 'high season' for labor migrants used to last from the second half of March until November. The crisis has changed the habitual parameters of labor force flows to and from Russia. The sociological surveys of labor migrants conducted by S. Olimova¹ in Tajikistan have demonstrated that the 'season' this year opened nearly one month later, and this initial stage became more protracted – since migrants were leaving for Russia until June.

Of course, some other (and more important) features of labor migration have also displayed certain changes: the number of migrants, their social and demographic composition, the sums of transfers, the legal to illegal component ratio, their adaptation strategies in Russia, etc. In view of the overall vagueness of statistical estimations that was evident even during the pre-crisis period, in the present situation one must be even more cautious when dealing with migration data. Now, the following sources may be applied as a basis for estimating migration levels:

- the statistical data published by the Federal Migration Service of Russia (RF FMS) (with a two-month lag and without specifying their dynamics) on its official website (Form 1-RD);
- the data published by Rosstat on the results of its monitoring of the socio-economic situation during the crisis period;
- the data published by the RF Central Bank concerning cross-border operations carried on by physical persons (obtained with a lag of three or four months);
- the data provided by the studies conducted in the donor countries (e.g., in the spring 2009 in Tajikistan and Moldova);
- the results of surveys conducted in June 2009 in Krasnodar, St. Petersburg and Moscow by the Center for Migration Studies².

The official statistics on the scale of labor migration in 2009.

¹ S. Olimova, Candidate of Philosophy Sciences, is head of the Public Opinion Department of the Shark Research Center (Tajikistan).

² These will be available in our next issue of this overview.

The FMS's data demonstrate that over the period of January - August 2009, work permits in Russia were issued to 812.4 thousand visa-waiver migrants and to 188.6 thousand migrants with visas. The drop on the previous year (as estimated on the basis of the available FMS statistics for the first 9 months 2008¹) for visa-waiver migrants is nearly 43 %, and is almost the same for those with visas. It can be expected that the results based on the 2009 statistics for a complete year will be approximately the same (or slightly higher), as it was in 2006 when work permits were obtained by 1,014 thousand migrants. Then, expert's estimations pointed to the ratio of legal to illegal components of the labor inflow into Russia being at the level of 15 – 20 % to 85 – 80 %². The next two years, known as the years of liberalization in 'regulating' temporary labor migration, resulted in some changes between the levels of legal and illegal migration, which became 35 – 40 % to 65 – 60 %³. Regretfully, the crisis that struck later and the declared orientation towards replacing foreign employees by Russians once again pushed migration onto an illegal route. Below we cite more than one argument in favor of the assumption that actually there was no reduction of the number of labor migrants on the Russian labor market by 40 – 50 % as compared to the previous year's level.

Furthermore, by the end of the first eight months of that year, the 'use' of the federal quota (without a reserve) was 59 % for the visa-waiver component and 30 % for the visa component, which in a situation of an ongoing crisis is quite conducive to the policy of quota sequestration in the year 2010⁴ initiated in late 2009.

The estimations and indirect indices indicative of changes in the number of labor migrants in Russia

1) According to FMS statistics, labor migration this year failed to demonstrate the formerly typical seasonal 'wave': the average monthly number of work permits issued in the year's first five months (of which three months were 'out of the season') was almost 103 thousand for the visa-waiver contingent and 25 thousand for foreign citizens and persons without citizenship arriving in Russia with visas, while the monthly rates during the «season» (the summer months) were even lower 99.5 and 21 thousand persons respectively (*Fig. 1*). This type of behavior displayed by labor migration statistics was confirmed neither by the observations of the behaviors of migration flows over many years nor by the situation on the labor market, including in the period following the 1998 crisis, nor by the statistics published in the donor republics⁵, nor by the RF CB's reports on the scale of transfers, nor even by certain parameters of the socioeconomic system which during summers were demonstrating a rise on the parameters recorded in winter and spring rather than decline. In particular, construction and production volumes were increasing in the sectors that were most relevant for migrants (however, with a simultaneous decline of consumption (commerce) indices and an aggravating budgetary crisis, which could have begun to influence the workload volumes in the housing and utilities sector).

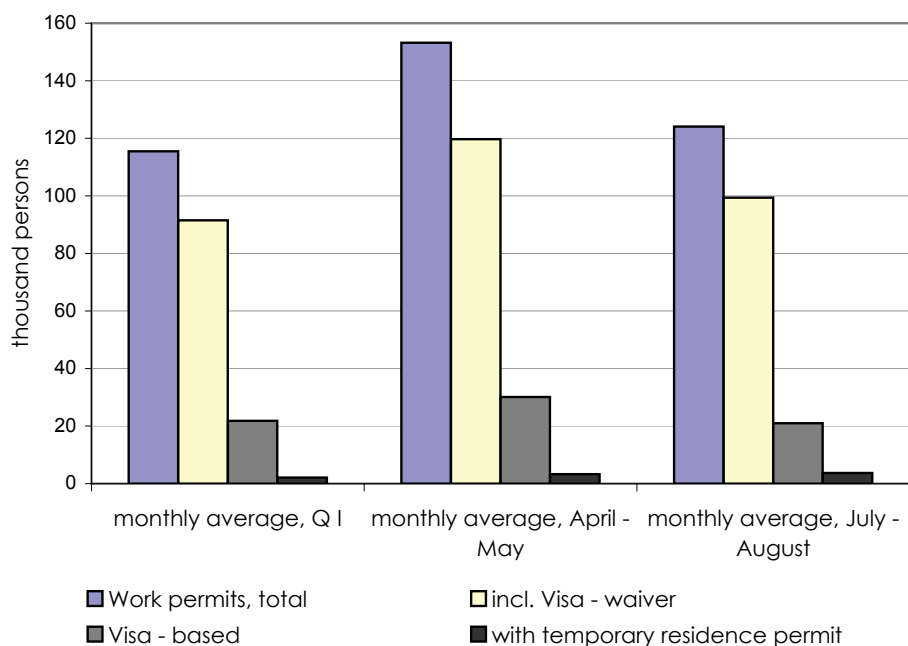
1 No statistics can be found on the official website (<http://www.fms.gov.ru/>) providing for an adequate comparison between the current situation and that existing in the same period of last year.

2 Naselenie Rossii 2006. [Russia's population in 2006.] 14th Annual Demographical Report. Ed. by A. G. Vishnevskii. M.: IDGU – HSE, 2008. P. 236.

3 Doklad o razvitií chelovecheskogo potentsiala v Rossiiskoi Federatsii – 2008: Rossiia pered litsom demograficheskikh vyzovov. [A Report on the development of human potential in the Russian Federation – 2008: The demographic challenges facing Russia.. M.: PROON, 2009. P. 104.

4 It should be reminded that the quotas for visa-waiver foreign labor were as follows: in 2007 – 600 thousand persons, in 2008 – 1156 thousand persons plus 30 % reserve, in 2009 – initially 2726 thousand, including 30 % reserve, later 2726 thousand, including 50 % reserve which was not extended to the regions.

5 See below.



Source: FMS statistics.

Fig 1. Work permits issued to foreign citizens in Russia, January – August 2009

2) In accordance with the results of surveys in Tajikistan and Moldova, the reduction of the number of arriving labor migrants, is estimated to be in the range of 15 – 25 % of the level observed in the summer 2008.

The survey conducted by the Public Opinion Department of the Shark Research Center in Tajikistan¹ indicates that this year the seasonal winter outflow of migrants from Russia into Tajikistan was one-third less than normal because part of the migrants stayed on in Russia in order to ‘see how the situation would

develop’. Therefore the arrival curve in Tajikistan was ‘less steep’ than usual, while the spring departure in search of foreign earnings, on the contrary, was more ‘protracted’. Some of the migrants elected to wait in Tajikistan for the crisis to subside, while at the same time making no plans for reintegrating in Tajikistan and still relying, in a longer term, on their future seasonal earnings in Russia². As a result, the overall number of migrants dropped by 20 %. The volume of transfers into Tajikistan (which serve as the foundation for that country’s economy – up to 30 % of its GDP) became considerably smaller, having dropped in the first half-year 2009 by one-third on the same period of 2008. The data published by the National Bank of the Republic of Tajikistan in July – August revealed growing volumes of money transfers by comparison with May – June (by 32 %) ³. The data collected during the survey demonstrated that ‘migration is influenced not so much by the crisis (its comprehensive impact having been noted by 13.7 % of the respondents) as by the tougher attitude of the Russian law enforcement agencies to migrants, the desire of employers to compensate for their losses resulting from the crisis at the expense of migrants, and the increasing amount of formal and informal payments’ ⁴.

1 S. Olimova. Kogda rabota stanovitsia neeffektivnoi, oni vozvrashchiautsia domoi. [When work becomes ineffective, they return home.] // Rossiiskaia migratsia. No 5 - 6 (36 - 37) August – September 2009. P. 35-38.

2 Russia is the principal ‘recipient’ country for Tajikistan, being a target for 97 % of all Tajik migrants. The total number of emigrants from Tajikistan in 2008 was estimated to be at the level of between 800 thousand and 1 million persons. For Russia, labor migrants from Tajikistan constituted 14 – 16 % of all registered foreign workforce in 2007 – 2008.

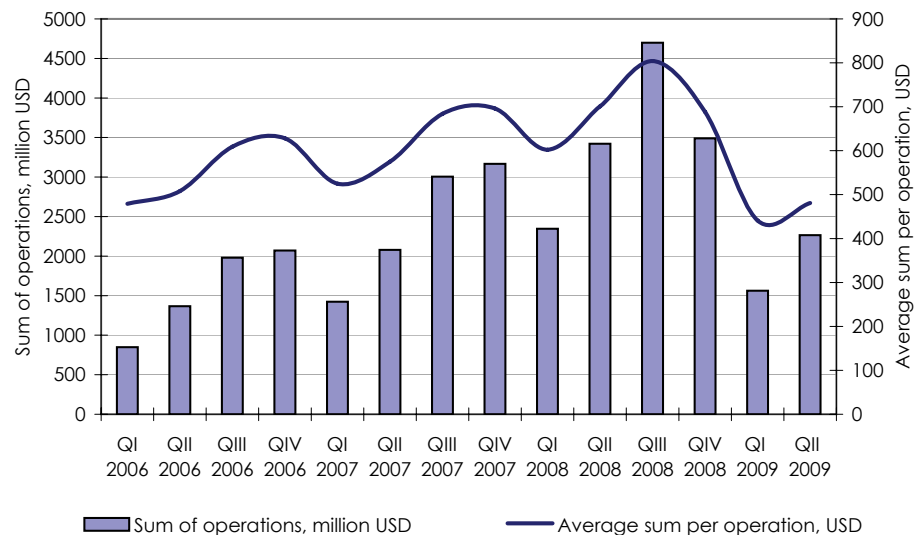
3 S. Olimova’s report delivered at the regional experts’ meeting ‘Partnership of the CIS countries in the sphere of migration: a search for coordinated decisions’ (Moscow: The Institute for Economic Forecasts of the RAS – the Center for Migration Studies, 24 – 25 September 2009).

4 S. Olimova. Kogda rabota stanovitsia neeffektivnoi, oni vozvrashchiautsia domoi. [When work becomes ineffective, they return home.] // Rossiiskaia migratsia. No 5 - 6 (36 - 37) August – September 2009. P. 38.

The survey in Moldova¹ also demonstrated that the number of labor migrants declined by almost 20 %, however there was no large-scale return to their native country². The surveys conducted by CASE-Moldova (Q III 2008 – Q I 2009) and MOM-SBS-AXA (July – August 2008 – March 2009) revealed that, in face of the aggravating problems on Moldova's labor market, migrants cannot come back home, but at the same time they are prepared to ultimately reduce their spending on their own needs, while as far as possible to maintain the amount of their money transfers to their families in Moldova at their former level. Despite such intentions, the data published by the National Bank of Moldova for Q I 2009, as compared for early 2008, demonstrated a nearly 30 % reduction in the sum of money transfers, which is now at the same level as it was in 2007.

3) The data published by the RF Central Bank concerning the size of cross-border money transfers by physical persons demonstrated that the drop in the overall volume of official transfers in Q I 2009 by comparison with Q I 2008 amounted to 33 %, the same drop being observed with regard to their volume in Q II by comparison with the corresponding period of the previous year. These trends observed in Q I and II are not in any way extraordinary (*Fig. 2*). The crisis is evidently indicated by the sharp angle in the curve falling at the point between Q III and IV 2008. On the whole, one could observe the 'normal' rise of the size of transfers by physical persons in Q II on Q I: the 'spring quarter' was by 1.45 'more prosperous' than the winter quarter, which is nearly identical to the picture observed in the first half-year 2007 (both by the rate of growth and in absolute terms) but falls significantly behind the levels observed in the corresponding period of 2008.

The 30 % drop in the volume of transfers on last year can be also viewed as an indirect source of information concerning the number of labor migrants in Russia: considering the general decline in the size of real wages across Russia by 7.4 %³, one can speak of a drop in the number of labor migrants in Russia by 20 %, but not by 40 or 50 %.



Source: data published by the RF Central Bank.

Fig 2. Money transfers from Russia to the CIS countries, based on the statistical data on cross-border operations carried on by physical persons, Q I 2006 – Q II 2009.

1 The report by V. Moshniaga delivered at the regional experts' meeting 'Partnership of the CIS countries in the sphere of migration: a search for coordinated decisions' (Moscow: The Institute for Economic Forecasts of the RAS – the Center for Migration Studies, 24 – 25 September 2009)

2 The number of labor migrants from Moldova, according to the 2004 census and the results of sociological surveys conducted in 2004 – 2008 is estimated to be at the level of 600 thousand, Russia's share being 58 – 63 %. For Russia, labor migrants from Moldova account for 4.5 – 5.5 % of the foreign workforce registered in Russia per annum.

3 March 2009 to October 2008, with a seasonal adjustment. Kapeliushnikov R. I. Konets rossiiskoi modeli rynka truda? [An end of the Russian model of the labor market?] M., 2009. P. 44.

4) One more indirect index for assessing the reduction in the presence of migrants on Russia's labor market can be provided by an analysis of the situation in the construction sector, which has traditionally provided a base for migrants (this being true for all recipient countries) while being at the same time one of the most crisis-prone sectors of the economy. According to different estimations, in Russia this sector employs from 35 to 50 % labor migrants¹. The current crisis has had a significant impact on it, bringing it down, in comparative prices, to 79.3 % (February) – 84.5 % (August) of the levels recorded in the corresponding months of the previous year². Nevertheless, in the key regions receiving labor migrants (the city of Moscow and Moscow Oblast, Krasnodar Krai, and Leningrad Oblast) there was no 50 % drop in migrant employment. It is nearly impossible to imagine that in a situation of a significant slump (although by less than half) the construction sector was 'ousting' only (and exclusively) its labor migrants.

Thus, there exist a number of arguments confirming the fact that the FMS statistics indicative of a lack of any growth in the number of labor migrants arising in Russia during the summer period – or, further more, of a more than 40 % decline in the number of labor migrants – is far from accurate. The reason for this lack of accuracy can be found not so much in the policies being pursued by the FMS as in the generally accepted idea that unemployment growth should be curbed by any means available – this idea now acquiring an almost nation - wide scale. In the context of migration, one such measure would be to resettle, on a temporary basis, the Russian employees who are currently in danger of losing their jobs into other regions; another measure – which is more significant for the labor market – would be to halve the labor migrant quota established for employers, and this measure was actually implemented by the RF Government in December 2008 and extended to the regions. The execution of the norms stipulated in that Decree in a situation when there actually exist different niches for labor distribution between qualifications levels and sectors of the economy, thus making it impossible to fully replace the ones by the others, resulted in a new upsurge of shadow migration and in an end of the liberalization in the sphere of labor migration that was observed back in 2007 – 2008. This is also in part contributed to by the toughening of Russian labor legislation with regard to dismissals, since it has become even more profitable than before for employers to hire illegal migrants (who are consequently deprived of any rights) and to freely manipulate them in accordance with their own needs.

On the whole, the comparison of the 2009 situation with that characterizing the few preceding years has shown that the crisis, while undoubtedly having influenced the labor market and migration, did not result in any significant changes in the traditionally observed migration flows – it only somewhat transformed them and, most importantly, made the ratio between legal and illegal employment and the use of labor even worse than before. ●

1 The official statistics for the year 2008 published by the FMS: 43.7 % of legal labor migrants.

2 Informatsia dlia vedenia monitoringa sotsial'no-ekonomicheskogo polozhenia sub'ektov RF v ianvare – avguste 2009 g. [The information needed for monitoring the socioeconomic status of RF subjects in January – August 2009]. M.: Rosstat, 2009.

BANKRUPTCIES IN 2008–2009: THEIR DYNAMICS AND LEGISLATION

E.Apevalova

Data for the first half-year 2009 reflect an increasing overall number of petitions in bankruptcy being filed, which is indicative of certain changes in the trends observed in 2006 – 2008. The number of decisions made with regard to deeming debtors to be bankrupt in the first half-year 2009 exceeded the corresponding indices recorded in the same period of the previous year by more than 16 %. For the first time in the last 5 years the government has adopted some legislative measures designed to significantly narrow the ‘grey zone’ in the bankruptcy sphere.

The crisis phenomena in the global economy, the considerable growth in recent years of the external borrowings made by Russian companies, the contraction of markets and stagnation in a number of production sectors, a growing number of failing investment projects, and the numerous failures to fulfill contractual obligations that began to occur in 2008 have all revealed the existence of certain problems both in terms of companies’ overall performance levels and their financial status. These were also the causes of the considerably increased number of legal suits initiated in connection with debt recovery and the resulting bankruptcy proceedings.¹

According to the data published by the RF Supreme Arbitration Court, the number of petitions in bankruptcy filed in the second half-year 2008 as a result of economic disputes arising in the framework of civil legal relations was nearly 1.5 times higher than in the first half-year, and the number of petitions concerning disputes in the framework of administrative legal relations nearly doubled by comparison with the first half-year 2008. Over the year 2008, RF arbitration courts initiated 543 thousand legal suits within the framework of civil legal relations, which is by 25 % more than in 2007. In late 2008 and early 2009 the courts saw an increased number of civil legal suits with regard to debt recovery which, in an event of a failure to receive payments against writs of execution, are transformed in bankruptcy proceedings initiated against the debtors.

The dynamics of bankruptcies

The year 2008 saw a continuation of the trends observed in the previous years (2006 – 2007), which demonstrated a significant drop in the total number of petitions in bankruptcy. This had to do with a markedly lowered incidence of absent debtors bankruptcies² which coincided with a growing number of ‘actual’ debtors³. The total number of petitions in bankruptcy filed in 2008 was over 34.3 thousand, which is nearly by one-quarter (or 22.3 %) less than the 2007 level, and approximately 26.3 thousand of these were filed against

1 For further details, see E. A. Apevalova, A. D. Radygin. Bankrotstva v dvukhtysiachnye gody: ot instrumenta reiderov k politike “dvojnogo standarta”. [Bankruptcies in the 2000s: from a raiders’ instrument to a ‘double standards’ policy.] – In: Ekonomicheskaja politika [The Economic Policy], 2009, No 4, P. 91– 124.

2 An absent debtor is an economic subject (or entrepreneur) who has terminated its operation.

3 ‘Actual’ debtors are understood as all the debtors less the absent ones.

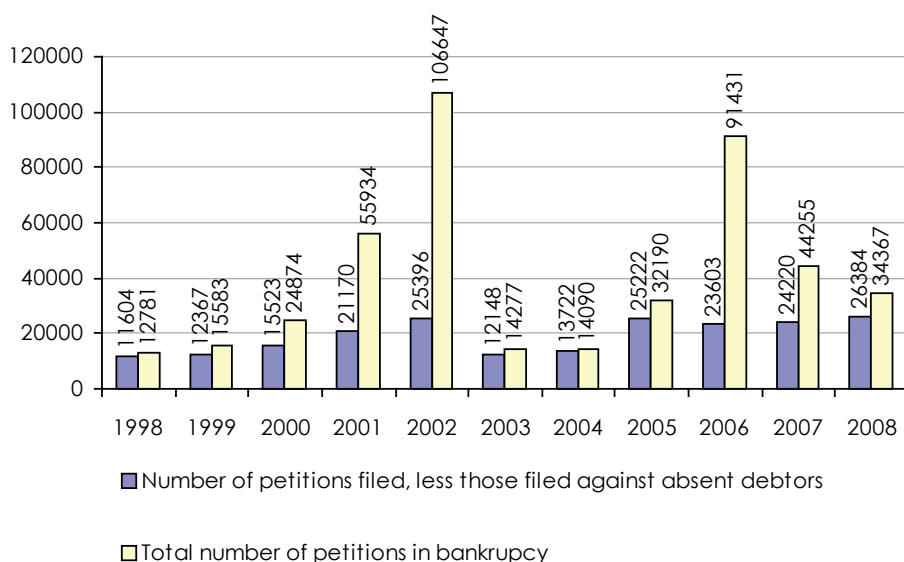


Fig. 1. The number of petitions in bankruptcy filed against debtors

percentage of petitions in bankruptcy filed by empowered bodies remained high (67%). The existing trend towards a declining number of bankruptcies initiated by tax agencies (in 2006 – 87% of all petitions in bankruptcy) appeared as a result of both a more widespread practice of taking legal entities off the register on the basis of the registration body's decisions and the decreasing activity of the state with regard to regulating the number of legal entities and providing the necessary funding to the related activity of tax agencies.

The data for the first half-year 2009 point to certain changes that have occurred in the trends observed in 2006 – 2008, as well as to a rise in the total number of petitions in bankruptcy by 7.7% on the first half-year 2008 (approximately 18.3 thousand petitions in the first half-year 2009 against approximately 17 thousand petitions during the same period of the previous year). In this connection, the significant rise (by more than 88%) in the first half-year 2009 of the legal suits initiated by arbitration courts with regard to failures to fulfill certain obligations or to improper fulfillment of obligations, as well as the increasing companies' total debt volumes (which became as high as 1 trillion rubles), have provided sufficient grounds for assuming that the number of petitions in bankruptcy filed against 'actual' debtors will continue to grow, probably reaching its peak in 2010.

Since 2006, the number of the actually adopted decisions concerning the deeming of debtors to be bankrupt in the first half-year 2009 became for the first time higher than the indices observed in the corresponding period of the previous year by more than 16% (approximately 7.5 thousand decisions in the first half-year 2009 against approximately 6.4 thousand decisions in the first half-year 2008) (see Fig. 2).

Similarly to the situation in 2008, the increasing number of initiated proceedings in bankruptcy in the first half-year 2009 continued to be associated with insufficient application of the rehabilitative measures designed to restore debtor solvency. This is an indication of the fact that during the period of crisis the actual practice of implementing bankruptcy procedures in respect of enterprises has become even more pro-creditor. Throughout the

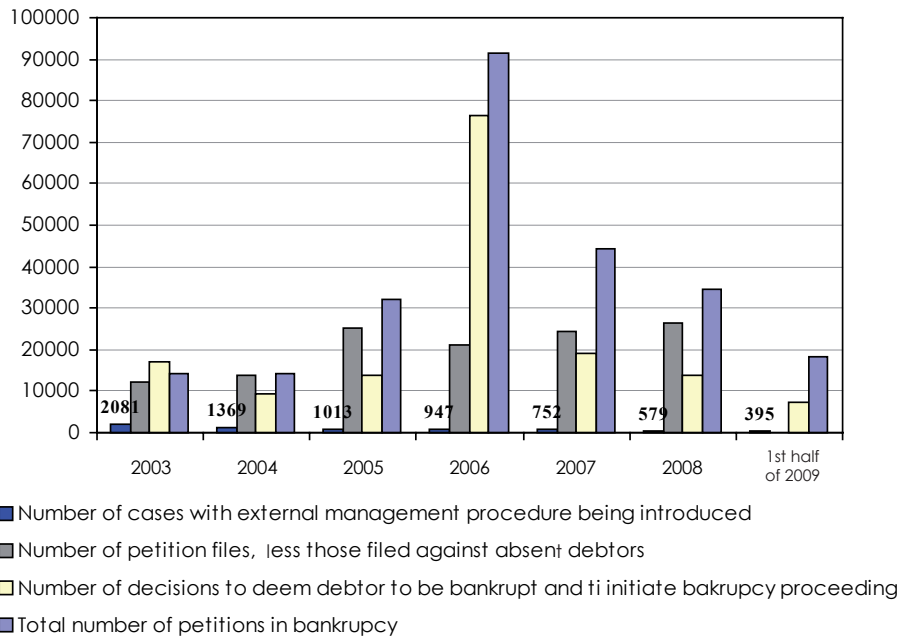
'actual' debtors (in 2007, the number of petitions in bankruptcy falling within this category was 24,2 thousand)¹.

The dynamics of the indices describing the numbers of petitions in bankruptcy filed against debtors in the period from 1998 through 2008 are shown in Fig. 1.

At the same time, in 2008 the number of petitions in bankruptcy accepted by courts rose by almost a quarter (or by 24.1%) on the previous year, and the

¹ Spravka o rassmotrenii arbitrazhnyimi sudami Rossiiskoi Federatsii del o nesostoiatel'nosti (bankrotstve) v 2006 – 2008, 1 polugodie 2009. [Statement on the consideration by the arbitration courts of the Russian Federation of insolvency (bankruptcy) cases in 2006 – 2008, the first half-year 2009.]; Analiticheskaia zapiska k statisticheskomu otchiotu o rabote arbitrazhnykh sudov v Rossiiskoi Federatsii. [An analytical memorandum to the statistical report on the operation of arbitration courts in the Russian Federation.

years 2006 – 2008, the external management procedures resulting in restored debtor solvency were implemented only in approximately 30 – 40 cases per annum. There were very few cases when the financial rehabilitation of an enterprise actually resulted in debt redemption and termination of bankruptcy proceedings (6 – 8 cases per annum). The same is true of the practice of resorting to amicable agreements, since there were only 106 – 126 such cases per annum. In the first half-year 2009 these indices continued to decline (debts were redeemed as a result of financial rehabilitation in two 2 cases; external management resulted in restoring an enterprise’s solvency in 6 cases; and amicable agreements were concluded in 50 cases).



Note. The data on the number of petitions, less those filed against absent debtors, for Q I 2009 are not available.

Fig. 2. Dynamics of the number of adopted decisions to deem a debtor to be bankrupt

Bankruptcy legislation introduced in December 2008 – October 2009

The global economic crisis provided an external stimulus for the long-due changes in the sphere of legal regulation of bankruptcy procedures. The revival of the lawmaking activity was promoted, in particular, by growth of receivables displayed by biggest Russian banks, credits secured by assets of big enterprises and at the same time the deteriorating financial indices of many of these enterprises, and the expectations of increasing numbers of bankruptcies of enterprises in 2009 – 2010. The set of measures that have become traditional in recent years as an alternative to the initiation of bankruptcy proceedings against state corporations and as a means of ensuring that some enterprises are provided with more favorable conditions for their operation¹ has been augmented by some measures of a systemic character.

The greatest changes² were introduced with regard to the activity of commissioners in bankruptcy. In particular, the following issues that have most often given rise to

1 Throughout the years 2004 – 2009, certain measures designed to ensure ‘softer’ conditions for implementing bankruptcy procedures were introduced in respect of a broad range of enterprises, in particular of the following categories: those enterprises that can be recognized as strategically important (February 2007); creditors whose rights are secured by property (December 2008, July 2009); the owners of housing mortgage bonds (December 2004.); bodies of local self-government (August 2004). For further details, see E. A. Apevalova, A. D. Radygin. Razvitie institutes bankrotstva. [The development of the institution of bankruptcy] / *Ekonomika perekhodnogo perioda. Ocherki ekonomicheskoi politiki postkommunisticheskoi Rossii. Ekonomicheskii rost 2000 – 2007 godov.* [The economy in transition. Essays on the economic policy in the post-communist Russia. Economic growth in 2000 – 2007] M.: Delo. P. 485 – 489.

2 Federal Law “On the Introduction of Alterations to the Federal Law ‘On Insolvency (Bankruptcy)’ of 30 December 2008, No 296-FZ.

conflicts during bankruptcy proceedings initiated against enterprises have become better regulated:

- the dismissal of a commissioner in bankruptcy during a bankruptcy proceeding;
- the responsibility of a commissioner in bankruptcy;
- the remuneration of a commissioner in bankruptcy;
- the cost of the procedures applied in a bankruptcy case.

The decision-making concerning the choice of a commissioner in bankruptcy to be appointed, as well as the allocation of additional payments to a commissioner in bankruptcy, has now been placed within the exclusive competence of a creditors' meeting.

The requirements to the operation of self-regulated organizations of commissioners in bankruptcy have been made more strict: their administrative bodies and the scope of competence have been defined; the disclosure of information by them has been made mandatory; their right to create associations empowered to develop their operational standards and responsible for making compensatory payments against the losses inflicted by commissioners in bankruptcy has been consolidated; the state supervision of the activity of such organizations has been strengthened, etc.

In addition, detailed legislative regulation was introduced with regard to the procedure of sale of an enterprise; however, there still remained a limited possibility of a close sale of an enterprise's assets.

Another important set of innovations¹ has been the *increased responsibility of debtors, directors, and owners of entities for their violations of bankruptcy legislation*. Thus, for the first time, alongside the aforesaid persons, the real owners – ‘the persons controlling the debtor’ – can be brought to subsidiary responsibility in respect of the debts of their enterprise. The responsibilities of the *directors and owners of credit institutions in an event of the development of a pre-bankruptcy situation* have been significantly expanded, and some new measures have been introduced in order to ensure their responsibility, including a ten – year ban on their acquisition of shares issued by credit institutions in excess of 5 %, as well as a three – year ban on their being appointed directors of credit institutions.

The desire to satisfy, to the fullest possible extent, the claims of creditors has resulted in introducing the mechanisms for disputing the deals aimed at withdrawal of debtor assets – ‘suspicious deals’ and ‘deals entailing preferential treatment of one of the creditors’. In fact, this is the *first occasion in the last 5 years when the State adopted some legislative measures designed to narrow the ‘grey zone’ in the sphere of bankruptcy*.

The introduction of general systemic measures designed to further develop bankruptcy legislation is accompanied by steps aimed at *increasing state influence (both direct and indirect) during the implementation of bankruptcy procedures and by further limitation of debtor rights*. In addition to changing the status of those ‘mandatory payments’ that become due after the moment of initiating a proceeding in bankruptcy, which results in an increased influence of the State's representatives on creditors' meetings, representatives of the State Registration Agency have been granted the right of direct participation in a bankruptcy proceeding. Simultaneously, the new procedure for appointing a commissioner in bankruptcy allows for determining one candidate on the basis of creditors choice (previously, it was mandatory to appoint three candidates, and still earlier the debtor used to enjoy the right of rejecting one of those candidates).

On the whole, the ‘anti-crisis’ innovations recently introduced in bankruptcy legislation do have some positive aspects, because lack of control over commissioners in bankruptcy and law violations committed by them, withdrawal of assets and violation of creditor

1 Federal Law of 28 April 2009, No 73-FZ, “On the Introduction of Alterations to Some Legislative Acts of the Russian Federation”.

rights during bankruptcy proceedings have long been recognized by economic subjects as important problems complicating their activity. However, these new measures have had no qualitative impact on the existing practice of applying double standards, namely the actual impossibility to initiate a proceeding in bankruptcy against some 'special' companies, no matter what the level of their performance might be – state corporations, strategic enterprises and energy producers, - and the unjustified preservation and even toughening of the 'pro-creditor' model of bankruptcy procedures for all the others.

There can be two directions for further development of bankruptcy legislation: either protection of the interests of biggest banks – that is, strengthening of the pro-creditor orientation (what actually happened in December 2008 – October 2009); or prevention of mass-scale bankruptcies and adoption of measures aimed at promoting the financial rehabilitation of debtors. It is quite possible that in the present situation some differently vectored sets of measures may be adopted. The key factors determining the 'vector' of bankruptcy legislation's development will be as follows: the amount of 'bad debts' and the financial status of Russia's biggest banks on the one hand, and the overall number of bankruptcies of enterprises across the national economy on the other. The greater the number of the enterprises faced with pre-bankruptcy situations (and the associated risk of social tension), the higher the probability of adopting a very comprehensive set of pro-debtor measures designed to reduce that number.

Among the most urgent steps towards preventing mass - scale bankruptcies and enhancing the pro-debtor orientation of bankruptcy procedures, we can point to the more active implementation of measures of financial rehabilitation, financial recovery, and amicable agreements. This will also be promoted by changing the regulation of the procedures of granting delays and installment plans with regard to mandatory payments, by changing the mechanisms for granting guarantees during the procedure of financial rehabilitation, by further altering legislation regulating the sale of debtor property in order to ensure transparency of asset alienation and their highest value with regard to their later distribution among creditors, and by introducing some other measures. ●

TRANSFERABILITY OF AGRICULTURAL LAND: THE PROBLEM OF INSTITUTIONAL ADJUSTMENT

N.Shagayda

In order to facilitate land transfer the government has worked out various mechanisms of cadastral recording, registration of land titles and processing of land transactions. However, there still persists the problem of these mechanisms typically disregarding the specifics of agricultural land plots both by the way of their forming and the composition of their owners. Most hindrances to transfer of agricultural land plots that were formed in the course of privatizing lands of former collective and state farms are currently due to the rigid institutional frameworks that one attempts to apply when managing this transfer.

In the course of privatizing lands of former collective and state farms in the early 1990's specific land plots were formed that unite heterogeneous and physically separated agricultural land plots whose aggregate area is usually measured in thousands of hectares and belongs to hundreds of owners. At the start of reforms special rules were elaborated for regulating the transfer of such plots: it was executed through the consolidation of users' land share titles with further parceling out of land plots. Beginning from 1998 one can observe a trend towards unification of rules applied to different types of land plots. As a result the transfer of agricultural land plots was seriously hindered since transaction costs grew due to the application of general legal norms to specific plots. To encourage the transfer of agricultural lands institutions are needed that will take into account the specifics of these plots' structure and ownership.

In Russia the share of private lands in the structure of land ownership is still below 8%. Among the most important government measures targeted at the expansion of private land ownership in post-socialist Russia one can name the free privatization of former collective and state farms' lands, personal plots for gardening, individual household plots and other individual land parcels and the permission to legal bodies to buy out plots that had been earlier transferred to them for permanent use. In order to facilitate land transfer the government has worked out various mechanisms of cadastral recording, registration of land titles and processing of land transactions. However, there still persists the problem of these mechanisms typically disregarding the specifics of agricultural land plots both by the way of their forming and the composition of their owners.

The examination of ownership for agricultural lands used by corporate farms shows that its structure differs cardinally from the general land ownership situation in the country. About 71% of the respective lands (90.9 million hectares) are privately owned, of them 86.5 million hectares being the common share property of collectives of individuals who can be employees of these corporate farms, their founders or outsiders. The implemented privatization scheme allowed to transfer over 116 million hectares of former collective and state farms' agricultural lands to the ownership of 11.8 million individuals in a short period of time (within 3 years) and without any social disturbances. The beneficiaries were the employees and pensioners of these farms and the workers of rural social infrastructure. Such a prompt transfer had its negative side: all fields (except the ones apportioned to individual private farms), hay and pasture lands of a farm were transferred as one land parcel of 2-7 thousand hectares to a collective of owners consisting of hundreds of individuals. In other words, specific land plots were formed in agriculture. 3 plots typically emerged instead of one land plot of a former collective or state farm. The first of them included state-owned

non-agricultural lands (lands under roads, swamps, buildings, etc.). The second consisted of agricultural lands remaining in state ownership (the so called land redistribution reserve out of which any citizen of Russia or agricultural entity could get land for farming). The farm – successor of a former collective or state farm continued to use these lands without any tenancy agreements or under tenancy agreements up to 5-year term. The third – the largest – land plot was a common share property of a collective of individuals (usually uniting from 300 to 700 persons) each of them having private ownership title to a share of this plot - the so-called land share.

Each of these plots was registered in cadastre books as a single one. However, physically it consists of dozens-hundreds of separated by natural boundaries land parcels. And presently such a specifically formed plot is subject to the same legal framework as a fenced around plot or a plot under a building belonging to one juridical or physical person. Besides, the system of agencies needed for defining the plots' boundaries, cadastral recording and registration of titles is arranged so as if land plots' owners lived in the district center where all these agencies, notaries and cadastre engineers are located. The underestimation of issues regarding access to institutions engaged in land transfer, specific structure of ownership and patterns of forming such plots resulted in extremely high transaction costs associated with adding information to the state register of property titles, dividing plots and effecting transactions. One can surely assert that most problems concerning transferability of agricultural land plots formed in the course of privatizing lands of former collective and state farms are currently due to the attempt to apply narrow unified institutional frameworks to these specific plots. Meanwhile, such plots account for over 65% of the total private land plots' area in Russia.

It should be noted that such a bottleneck didn't appear at once. In the first years of implementing the agrarian reforms the institutions engaged and procedures applied were adapted to the situation, to the specific composition and structure of ownership for agricultural lands. There was a single agency that carried out land reform, registered land plots and titles to them. Then its functions were divided between three agencies, new people got involved in policy-making, new unified institutions were developed that increasingly disregarded these specifics.

There are a lot of examples demonstrating the growth of transaction costs associated with agricultural land transfer. One of them is the rate of state fees for registering land titles. Before the enactment of RF Tax Code they were specified at the level of Federation's constituent members. For instance, in Leningrad region the decision was taken to divide the amount of the fee for registering a title to agricultural land plot between participants in proportion to their share in common property. After the RF Tax Code came into force the situation changed: it set a unified fee that was to be paid by a physical person – owner of land plot. For instance, the cost of making an entry into the Unified State Register of Titles to Real Estate and Transactions Therewith (USRRET) is 250 rubles levied on each owner irrespective of their number. As a result an individual – the single owner of 1000 hectares of land will have to pay 250 rubles while a collective of 100 individuals commonly owning a plot of the same size – 25 thousand rubles. In practice the fee for registering individuals' titles to agricultural land plots was paid by corporate farms – users of the plots. Or it was not paid at all in case the risk of transferring the plot to another user was small. The situation was corrected only at the end of 2008 when the fee levied on each share co-owner of common property was reduced to 50 rubles.

Another example is the measuring of share in common property. In the first years of the reform the share of individuals in agricultural land plots transferred to them in the course of privatization was specified in hectares of average quality land. Later due to the complexity of estimating the area of a real field in hectares of average quality land, the measuring

of shares in score-hectares (quality score attributed to land) was introduced that reflected the quality of a concrete field within the commonly owned plot. The size of a concrete field was multiplied by its quality score, the results for all fields forming the commonly owned plot were summed up and the sum was divided by the number of co-owners thus showing the share of each of them in scores. In case a co-owner wanted to disengage, the size of a plot parceled out to him was determined according to its quality. For instance, if it was a valuable field, the area of the apportioned plot could be 2 hectares, if a pasture – up to 7 hectares. Despite difference in size these plots were of equal worth. This practice existed for 10 years. Probably, it was difficult for a non-competent person to comprehend the principles of calculating score-hectares. But for former collective and state farms' employees everything was clear since they understood well that their equal virtual land shares cannot be equal physically if one compares a field under potatoes and a pasture.

But beginning from 1998 this method considering the quality of land was abandoned and a general rule for all plots was introduced – one started to measure the share in title to them in the form of a fraction the numerator of which was the number of shares in commonly owned plot belonging to one person and the denominator – the number of co-owners. The ones who introduced this norm must have copied the pattern applied to a house/apartment/dacha plot inherited by two brothers: each of them will own $\frac{1}{2}$ of the title to this house/apartment/plot. As a rule, two objects cannot be formed out of this house/apartment/plot and relatives either sell it to an outsider and divide the money or sell their titles to one of the heirs. So the share is typically never parceled out as a separate physical object. Meanwhile the number of owners of a traditional agricultural land plot typically reaches several hundred and the plot consists not of two fields but of dozens-hundreds of them differing by category and area. Each co-owner has the right to disengage and parcel out a physical plot corresponding to his share; consequently the shares of remaining co-owners constantly change. How can one determine, for instance, $\frac{1}{600}$ share of a co-owner in the commonly owned plot of 2300 hectares consisting of heterogeneous parts?

Besides, beginning from 2001 the requirements to documents for cadastral recording were revised by adding a new regulation on description of boundaries in case a part of a plot is parceled out. Let's continue examining the same case: an individual farmer is parcelling out a plot of 3.8 hectares out of the commonly owned plot of 2300 hectares that corresponds to his $\frac{1}{600}$ share in the land title. According to the new rules (that are established not by law but by Roszemcadastre resolutions) the farmer has to submit to the cadastre agency the description of boundaries of not only his plot but also of the remaining common plot. No further division of the original plot is envisaged: two new entrances in the cadastre (and later in USRTRET) are made for the apportioned and the remaining plot the latter receiving a new number. As a result owners of the remaining plot cannot carry out transactions with their shares and the plot itself on the basis of the documents they have: their land share certificates contain the former plot area and its old number. Officials from Roszemcadastre (whose name during this period was altered twice, functions and subordination revised - all these changes affecting its performance) and registration specialists say that knowing the old number stated in the ownership certificate one can learn the new cadastre number and establish the share's size by applying to the registration agency. But to do this the enquirer will have to travel to the district center at least two times, to wait in a queue in two agencies, to leave an application, to receive the reply. Meantime the situation may change again: there are hundreds of common property co-owners each having his own plans.

The requirement to describe two plots – the parceled out and the remaining – may be justified for the person who continues to own both plots. The 2001 regulation matches this case. But how can one require that an individual farmer orders services for describing the

plot of 2296 hectares belonging to other owners and consisting of many fields, hay and pasture lands? As a result the parceling out of physical plots, i.e. the division of common property, has been actually halted having a negative effect on the agricultural land transferability.

Years were needed to revise these norms: the share in land title can now be specified not in the form of fraction (amendment to the Federal Law “On agricultural land transferability” made in 2005), the remaining plot preserves its cadastre number (the Federal Law “On real estate cadastre”, 2008). The period preceding these changes was marked by sufferings of co-owners of specific plots that were subjected to unified but disregarding the reality regulations.

Other examples could be provided. For instance, a transaction with the plot in common ownership is possible only in case of unanimous consent of all the co-owners. This requirement is feasible only if the property belongs to just a few persons. But it has already been noted that there are usually hundreds of co-owners of agricultural land plots. It's often impossible to get a unanimous consent. There are always owners who went away without leaving the address. Besides, not all heirs could have come into an inheritance. Some changes constantly take place in such large collectives. As a result transactions with agricultural land plots whose area totals over 65 million hectares are complicated if not impossible. The requirement of unanimous consent of all co-owners disregarding their number makes corporate farms and individual farmers form new plots owned by persons who can take decisions about their tenancy or sale. To form means to divide the original commonly owned plot into two: one belonging to the owners who want to lease out or sell their land and the other belonging to the owners who do not want or cannot take such a decision. For this purpose it's necessary to negotiate with hundreds of individuals-owners of land shares in the original plot and to persuade them to lease out or sell it. At the second stage on behalf of the owners who agreed one has to parcel out a plot corresponding to their land shares in the original plot, to register the title to the new plot in USRTRET, to conclude the tenancy or sale agreement and to register it too in USRTRET. To do this, one has to pay to a notary (who will draw up warrants from all co-owners and attest the written consents to transaction of their spouses), to land measurement engineers (who will define the boundaries of the new plot) and state fees for registering the titles to the parceled out plot (for each co-owner) and transactions with it. It's necessary to visit the archive to find the entitling document for the original plot (2 times), the newspaper office to place an announcement about parceling out of a plot, the land measurement agency (at least 2 times), a notary (in order to arrange for his visiting the village and then to transport him there each day until all warrants are signed), the department of Rosnedvizhimost (at least 2 times), the cadastre chamber (at least 2 times) and the department of Rosregistration (at least 4 times). From several days (archive) to 4-6 months (defining the boundaries) are needed to pass to a further stage. At any moment a co-owner may die and his warrant gets nullified. In this case one has either to wait for 6 months till the heir comes into an inheritance or to start forming a new plot including land shares of a new group of co-owners that agree to the transaction. Such impediments may re-emerge at any stage. Transaction costs are extremely high even in cases when there is no risk that anybody except the traditional land user will claim for the land and when this traditional user will continue using his plot before the finishing of legal procedure.

Any corporate farm forming its land use basis faces these complications. It's clear that the sector needs new approaches that could ensure land transfer at much smaller transaction costs on the one hand and safeguard the rights of individuals who commonly own plots of agricultural land – on the other. Such an approach could be the one when legal norms permit transfer of a commonly owned plot in case not all its co-owners expressed their

consent but none of them expressed his objections to the transaction. This means that the transfer of a plot should not be stopped if some of its co-owners died and their heirs are not known or haven't come into an inheritance.

But all these proposals are turned down by lawyers who point to the fact that they contradict the customary practice already fixed in the effective RF legislation.

Meantime the utilization of experience of the countries that have a long story of developing land market institutions could help to solve the problem. To illustrate this statement one can compare the practice of dividing land plots in Russia and Germany. To simplify the comparison let's take the case when the original plot is owned by just one person. So, the owner makes arrangements with his neighbor that he will divide his plot and sell one part to him. He orders and pays for works to define the boundaries of the new plot. At the moment when one has to record the parceled out plot in the cadastre, to register title to it and to carry out the transaction the owner dies. In Russia everything will be stopped and return to the initial situation. According to the effective Russian legislation the boundary definition documents cannot be submitted to the cadastre chamber for entering information on the two newly formed plots into the cadastre books even if the owner has given a respective warrant to a third person. This means that the results of boundary definition works cannot be used: the cadastre will continue to recognize only the original plot. Heirs will inherit the original plot. The will of the deceased will be executed only if the heirs wish it.

In Germany a similar situation will be regulated differently¹. In case the will of the deceased is defined and certified by a notary, a part of the plot will be sold to the neighbor even if the heir has not come into an inheritance or does not want to sell the land. The heir will get the remaining part of the plot and money for the sold one.

In Germany legal norms are used that respect the deceased owner's will and ensure the continuation of land transfer transaction the agreement about which has been reached when he was alive. They are acceptable for the society with centuries-long traditions of private land ownership.

The Germany's experience shows that it's feasible to work out such legal norms that would encourage land transfer without infringing the interests of owners and their partners under agreements. It's obvious that Russia has to move in the same direction and should not stick to the schemes that can efficiently regulate only simple cases of land transfer.

Returning to the transfer of commonly owned land plots, it seems to be practical to develop special institutions that do not infringe upon public interests and private rights rather than to apply unified norms in all cases. As regards the discussed issue of transactions with commonly owned plots, it's rational to introduce amendments in the effective legislation that will envisage a specific procedure of parceling out plots of groups of individuals who have taken a unanimous decision to carry out some kind of transaction with them. This procedure may be based on several principles:

- certification of the will of some co-owners to parcel out a plot in correspondence with their shares (i.e. to form a new – parceled out - plot) and to carry out a transaction with it in the agreement on establishing common ownership rights to the parceled out plot;
- possibility to include in this agreement spouses' consent to such a transaction with the plot and their signatures;
- possibility to certify the agreement on establishing common ownership for the parceled out plot in the local administration;

¹ Dr. Burkhard Breig, report at the joint meeting of the RF State Duma's expert councils on construction and land issues and the agrarian committee on May 27, 2009.

– adoption of the legal norm permitting cadastre, title and transactions registration in case all these actions are specified in the agreement on establishing common ownership for the parceled out plot that has been initially signed by all the participants and at the moment of committing these actions – by not less than 80% of available (alive) participants.

This procedure will necessitate amendments to three Federal Laws: FL “On agricultural land transferability”, FL “On real estate cadastre” and FL “On registration of real estate titles and transactions”. The evaluation of transaction costs shows that their reduction will result from lower expenditures on notary services and smaller time needed for transactions’ execution.

The specific structure of agricultural land ownership has a transitional nature. Land shares are being gradually concentrated, common property is being divided, the number of co-owners is decreasing, the size of plots is shrinking down to plots in natural boundaries, i.e. simple plots. This means that there should be transitional norms ensuring the transfer of agricultural land plots within the period when the impact of socialist land use patterns remains still important. ●

REVIEW OF MEETINGS OF THE GOVERNMENT OF THE RUSSIAN FEDERATION

M. Goldin

In October 2009 at the meetings of the Presidium of the Government of the Russian Federation the following issues were discussed: the amendments to the Decree of the Government of the Russian Federation expanding the list of agriculture goods which are subject to purchasing and trade interventions, amendments eliminating collisions in the legislation concerning the banking activity and insurance.

On **October, 8th** at the meeting of the Presidium of the Government of the Russian Federation the project of the Decree of the Government of the Russian Federation “On making changes to the list of kinds of agricultural goods that may be subjects to state purchasing and trade interventions” (further referred to as Project) was considered. The project is aimed at the smoothing of the seasonal fluctuation of prices on dairy market and at the support of profitability of producers of goods by conducting state purchasing and trade interventions at the internal market. Usually the dairy goods are purchased in the period of the seasonal growth of milk production and sold in the period of the seasonal reduction of production for this purpose. However at present the state purchasing and trade interventions can be conducted only regarding the dried and sublimated milk, including skimmed milk. This is defined by the Decree of the Government of the Russian Federation from December 16, 2008 No 959 “On the list of kinds of agricultural goods that may be subjects to state purchasing and trade interventions”.

The Federal Law from June 12, 2008 No 88-FZ “Technological regulations for milk and dairies” coming into effect, the structure of Russian dairy market has changed. According to the Technological regulations one cannot add dried skimmed milk to milk, or the milk obtained from dried skimmed milk cannot be referred to as milk further by the producers. As a result the demand for the dried milk has contracted in 2009. This resulted in the drop of production of dried milk in the first half of 2009 by 37.3% as compared with the corresponding period of the previous year.

In this connection the possibility to carry out purchasing interventions concerning the dried milk is lost. In order to solve the problem of insufficient purchase of the dairy it has been regarded as purposeful to expand the list of purchased goods when conducting interventions by adding the sterilized (ultrapasterized) milk, butter and hard cheese.

In the first place, it is suggested to purchase ultrapasterized milk, since this will allow further using it for catering in pre-school and school institutions, organizations of the social sphere etc.

The authors of the Project also suppose that the adoption of the Decree of the Government of the Russian Federation will not require additional expenditures of the federal budget, since the financing of the measures on conducting purchasing interventions with regard to the dairy goods is carried out within the budget allotments that have already been included in the federal budget.

On **October, 19th** at the meeting of the Presidium of the Government of the Russian Federation the projects of the Federal Laws “On making changes to article 368 of part one of the Civil Code of the Russian Federation” and “On making changes to the Law of the Russian Federation “On organization of insurance business in the Russian Federation” were considered.

The bills are aimed at elimination of collisions between the legislation of the Russian Federation on organization of insurance business and the legislation on banks and banking activity.

In concordance with article 368 of the Civil Code of the Russian Federation by virtue of the banking guarantee a bank, another crediting institution or an insurance organization (underwriter) present the written liability at the instance of another person (principal) on paying to the principal's creditor (beneficiary) of a monetary sum in concordance with the conditions of the liability made by the guarantee on the beneficiary's presenting the written requirement for its payment.

According to the Federal Law "On banks and banking activity" from 02.12.1990 No 395-1 the issue of bank's guarantee belongs to the banking operations that are carried out only on the basis of the license issued by the Bank of Russia. Only crediting institutions, to which banks and non-banking crediting institutions belong, have a right to make banking operation and they are not allowed to carry out insurance activity.

Not being a crediting organization, an insurer cannot get a license from the Bank of Russia to conduct a banking operation. Insurance companies cannot issue banking guarantees, and the deals on issuing banking guarantees by insurance organizations can be recognized as invalid since they contradict the legal capacity of such organizations.

In concordance with article 6 of the Law "On organization of insurance business in the Russian Federation" from 27.11.1992 No 4015-1 issuing of banking guarantees is not among the activities conducted by the insurers, though the possibility of insurers issuing a banking guarantee is mentioned in paragraph 4 article 25 of this law.

According to the project of the Federal Law "On making changes to article 368 of part one of the Civil Code of the Russian Federation" the insurance company is excluded from the list of guarantees that have a right for issuing a banking guarantee. The project of a Federal law "On making changes to the Law of the Russian Federation "On organization of insurance business in the Russian Federation" in its turn excludes the norm on issuing the banking guarantees by insurance organizations. Thus, the above-mentioned collision in the legislation is eliminated. ●

REVIEW OF ECONOMIC LEGISLATION

I.Tolmacheva

In October the following changes were made to the economic legislation: the rules for the organization of activity of multi-functional centers for rendering state (municipal) services were approved, the regulations defining the procedure for payments of insurance contributions to the Fund of Social Insurance of the Russian Federation by the persons starting the legal relations for cases of the temporary incapacity of work and maternity were reconsidered; the refinancing rate of the Bank of Russia was reduced.

I. Decrees of the Government of the Russian Federation

1. “ON SOME MEASURES CONCERNING THE INCREASE OF QUALITY OF STATE (MUNICIPAL) SERVICES RENDERED ON THE BASIS OF MULTI-FUNCTIONAL CENTERS FOR RENDERING STATE (MUNICIPAL) SERVICES” from 03.10.2009 No 796.

Comes into effect on January 1, 2010

In concordance with the “Concept for formation of the electronic government in the Russian Federation by 2010” established by the Decree of the Government of the Russian Federation from 06.05.2008 No 632-r, multifunctional centers are created to provide the complex of interconnected state services by the federal executive bodies, executive bodies of subjects of the Russian Federation and local government bodies basing on the principle of “one window”. In this case the interdepartmental interaction that is necessary to render a state service (including necessary agreements, getting extraction, certificates etc.) is to proceed without the participation of the applicant.

Multifunctional center for rendering state (municipal) services is a state or municipal institution (including autonomous institutions) created by a subject of the Russian Federation or by a municipal formation. No less than 50 state or municipal services of the following directions are to be rendered on the basis of the center:

- a) social support for the population;
- b) registration of rights for the immovable property and deals with it;
- c) definition or confirmation of a civil and legal status of the applicant;
- d) regulation of entrepreneurial activity.

The building of a center is to be situated in a walking distance – no more than 5-minute walk from the stops of public transport. The centre should have an adjacent free parking for cars of the visitors to the center, envisaging also the places for special cars for the disabled.

The director of the center approves the standard for the comfortable servicing of the applicants establishing the requirements for provisioning comfortable conditions for citizens when applying to the center. When adopting the standard the following main requirements are to be taken into account:

- a) the appeal to the center can also be carried out by preliminary registration;
- b) the waiting time in the line for information (consultation) should not exceed 15 minutes;
- c) the waiting time in the line for submission of the documents should not exceed 45 minutes;
- d) the waiting time in the line for receipt of the documents should not exceed 15 minutes.

2. “ON PROCEDURE OF PAYMENT OF INSURANCE CONTRIBUTIONS BY PERSONS THAT HAVE VOLUNTARILY ENTERED THE LEGAL RELATIONS OF COMPULSORY SOCIAL INSURANCE IN CASE OF TEMPORARY INCAPACITY OF WORK AND IN CONNECTION WITH MATERNITY” from 02.10.2009 No 790.

Comes into effect on January 1, 2010

The approved Regulations establish the procedure for payment of insurance contributions by barristers, individual entrepreneurs, members of farming entities, natural persons carrying out private practice (including solicitors), as well as members of family (tribal) communities of the small aboriginal nations of the North that have voluntarily started the legal relations on compulsory social insurance for the cases of temporary incapacity of work or in connection with maternity. In order to be registered as an insured the persons mentioned are to submit an application to the regional bodies of the Fund for Social Insurance of the Russian Federation by the place of residence. The insurance contributions are paid either flat or by parts no later than December, 31 of the current year starting with the year of submission of the application basing on the cost of an insurance year defined in concordance with the existing legislation. The right to get an insurance coverage arises on condition the insurance contributions have been paid for the calendar year that precedes the year when the insured event occurred. The Regulations also contain such statements that envisage the procedure for accounting the paid contributions and presenting reports on accrued and paid contributions.

In connection with the procedure mentioned coming into the effect from January 1, 2010 the Decree of the Government of the Russian Federation, approving the existing Regulations for payment of insurance contributions will become invalid.

II. Instructions, Orders, Letters

1. Order of the Central Bank of the Russian Federation “ON REFINANCING RATE OF THE CENTRAL BANK OF THE RUSSIAN FEDERATION” from 29.09.2009 No 2299-U

Starting with September 30, 2009 the refinancing rate of the Bank of Russia is established at the rate of 10% per annum. It should be remembered that starting with September 15, 2009 the refinancing rate of 10.5% per annum was established ●

REVIEW OF REGULATORY DOCUMENTS CONCERNING TAXATION OVER SEPTEMBER–OCTOBER 2009

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1. According to the Letter from October 5, 2009 No 03-03-06/1/638 the Ministry of Finance of the Russian Federation clarifies the questions on the accounting of the expenses for the medical check-up of employees of a foreign company for the purposes of profit taxation. The Ministry of Finance of the Russian Federation clarifies that for the organizations that according to the legislation have to conduct medical check-ups of some categories of the staff, the expenses for preventive medical check-ups of the staff are regulated by subparagraph 7 paragraph 1 article 264 of the Tax Code of the Russian Federation, that is they belong to other expenditures for the production and sale of goods (as expenditures for securing the normal conditions for the labor and the safety measures envisaged by articles 212 and 213 of the Labor Code of the Russian Federation). The expenditures for conduction of the medical check-ups of other employees of the organization, for whom the medical check-ups are not compulsory, do not reduce the taxation base for the tax on organizations' profit, since they cannot be regarded as justified.

The branches of foreign organizations that carry out their activity in the territory of the Russian Federation and are taxpayers according to the Tax Code of the Russian Federation, that is why they have a right to reduce the taxation base for the profit tax by the sum of expenditures for the medical check-ups of those categories of the staff that have to be regularly examined.

2. According to the Letter of the Ministry of Finance of the Russian Federation from October 5, 2009 No 03-11-06/2/200 the question on the taxation of the funds of the purposeful financing received by a taxpayer that applies the simplified taxation system is clarified.

The Ministry of Finance of the Russian Federation explained that in concordance with subparagraph 1 paragraph 1.1 article 346.15 of the Tax Code of the Russian Federation the taxpayers that apply the simplified taxation system when defining the object of taxation do not take into account the profits mentioned in article 251 of the Code. The list of these profits in subparagraph 14 paragraph 1 of the article includes, for instance, the funds for the targeted financing (their list is explicitly given in the text of the Tax Code of the Russian Federation).

As to the funds (including budget funds), paid within the framework of the civil and legislative agreements for the organization fulfilling works (services), such funds do not belong to the targeted financing and are subject to taxation levied on the recipients.

3. According to the Letter of the Ministry of Finance of the Russian Federation from October 5, 2009 No 03-04-05-01/723 the question on the application of the single tax on the imputed income concerning the incomes from the unpaid use of property (premises) when conducting trading operations was commented.

For instance, the Ministry of Finance of the Russian Federation makes a conclusion that the profits received as a result of conclusion of the agreement on the gratuitous use of the property do not refer to the entrepreneurial activity in the field of the trade and are not to be levied with the single tax on the imputed income. At the same time the Ministry of Finance of the Russian Federation indicates that the statement of chapter 23 of the Tax Code of the Russian Federation does not contain any norms that will enable ascribing the gratuitous use of the property to the profits of natural persons that are to be levied with the tax on incomes of the natural persons.

In connection with such interpretation quite a disputable situation arises – the Ministry of Finance of the Russian Federation does not mention the liabilities concerning other taxes that can arise as a result: VAT and the tax on incomes of the natural persons concerning the entrepreneurial activity – since the gratuitously obtained premises are used to carry out entrepreneurial activity – retail trade.

As a matter of fact, according to paragraph 4 article 346.25 of the Tax Code of the Russian Federation organizations and individual entrepreneurs that pay single tax on the imputed income are not regarded as VAT payers concerning the operations recognized as objects for taxation in concordance with chapter 21 “Value added tax” of the Tax Code of the Russian Federation, which are carried out within the framework of the entrepreneurial activity levied with the single tax on the imputed income, income tax on natural persons (concerning the incomes received from the entrepreneurial activity levied with the single tax), tax on property of natural persons (concerning the property used to carry out entrepreneurial activity levied with the single tax).

However the questions that are similar to those analyzed in the letter of the Ministry of Finance of the Russian Federation have already been analyzed in the court and the court adopted a different position.

Thus, for instance the Decision of the Federal Arbitrary Court of North-Western Okrug from March 15, 2009 concerning the case No A52-4115/2005/2 explicitly states that the gratuitous transfer of the property is to be levied with VAT. At the same time the Federal Arbitrary Court recognized the argument of the entrepreneur that there are no grounds in such cases to apply article 40 of the Tax Code of the Russian Federation on market price as erroneous. As a result, VAT, corresponding fees and fines were accrued.

Taking into account the above mentioned, it should be acknowledged, that the gratuitous receipt of the property for the purposes of carrying out entrepreneurial activity transfers such profit to the independent profits of an individual entrepreneur (the Tax Code of the Russian Federation is a single document, and thus it does not contain internal controversies concerning the qualification of one and the same deal for the different kinds of taxes, for instance, VAT and the tax on incomes of natural persons), according to which the taxation base of individual entrepreneurs is defined as a sum of profits obtained over the taxation period both in monetary and in non-monetary form entrepreneurial or any other kind of activities, deduced by expenditures connected with their raising. That is why we assume that such incomes of natural persons are to be levied within the limits of profits from entrepreneurial activity.

4. According to the Letter of the Ministry of Finance of the Russian Federation from October 2, 2009 No 03-07-08/198 the procedure for deduction of VAT concerning the goods imported into the territory of the Russian Federation according to the customs regimes of output for internal consumption, temporary import and processing outside the borders of the customs territory, in case such goods are used to conduct operations recognized as the object for taxation with VAT in the territory of the Russian Federation. In order to compensate for VAT sums paid while importing the goods they should be taken on books and the confirmation on their import by a customs body should be submitted.

5. According to the Letter of the Ministry of Finance of the Russian Federation from October 1, 2009 No 03-07-11/245 the position of the Ministry of Finance of the Russian Federation concerning the acceptance of the deduction of VAT sums for purchased goods (works, services) in case the taxpayer has no turnover levied with VAT in this taxation period. In the opinion of the Ministry of Finance of the Russian Federation, if there is no taxable turnover in the taxation period, the paid VAT is not to be accepted for deduction – it should be made when the taxable turnover appears.

From the economic point of view, such a position should be undoubtedly supported, though it is not undisputable from the legal point of view¹. In our opinion, the Ministry of Finance of the Russian Federation justly assumes that in contrast to a normal consumer (to which VAT is not compensated) the entrepreneur purchases goods (works, services) for carrying out entrepreneurial activity. The compensation of the paid VAT should be made out of its production (works, services) and not out of the “budget on the whole”. The interruption of this chain can result in the budget compensating VAT to a firm that disappears immediately (so-called short-lived companies). Together with the firm, goods (works, services) it has purchased disappear. Later the same scheme of pumping money out of the budget is again employed. These schemes are highly dangerous since they even do not need natural goods (works, services) on condition that the compensation is made only by submitting document on shipping the goods (consignation note) and VAT payment (invoice for involved VAT). A sort of money machine can evolve as a result.

This can be illustrated by example with numbers. Suppose, there are two firms created: Firm A with the capital of RUR 100 and Firm B with the capital of RUR 200. Firm A billed firm B with RUR 200 for the services rendered and paid the VAT involved of RUR 18 (18% of RUR 100) and applied for compensation of the same sum. Firm B paid the bill sent by Firm A of RUR 200 and applied for compensation of RUR 36 for the paid VAT (18% of RUR 200) and at this moment stopped its operation (formally, shipped the produced goods to the third party with a huge loss, for instance, for RUR 1. Similar cases can in fact be encountered in the practice of courts and are not always solved for the benefit of taxation bodies, since there is a presumption of taxpayer’s innocence. See, for instance, the decision of the Supreme Arbitrary Court of Povolzhskiy Okrug from September 11, 2008 concerning the case No A65-29201/07).

As a result, we have the following: RUR 200 was simply transferred from the account of the firm B to account of firm A, which will demonstrate the profit of RUR 100 and pay RUR 20 (20% of the profit tax). Firm B will not pay the profit tax, since it does not have income. The result of RUR 16 (36-20) was withdrawn from the budget in the form of VAT compensation, the money is “saved” – RUR 200 from firm B was transferred to the account of firm A (the total sum could be transferred from the account of firm B to the account of firm A with the deferred payment, that is when making final payment of the bill after VAT of the turnover of RUR 200 has been compensated, and for the deal to be legally cleared, one can temporarily attract the funds of the third party with their further return and form the minimally taxed turnover for the own production), and the firm B (not having debts to the budget) will just stay “empty”. It can be even liquefied according to the legislation and then distribute the property among the founders without paying taxes (the balance price of the assets being not higher than the contribution to the capital).

Since it is the producer (seller) of goods that pays VAT in the Russian Federation there is no other strategy to protect the interests of the budget than the one suggested by the Ministry of Finance of the Russian Federation. Thus, in order to avoid the danger of “money machine” in the economy of the Russian Federation involved VAT can be accepted for deduction (compensation) **only** if a taxpayer has the taxable profit sin the taxation period and **the evolution of the equal liability to pay VAT**. In case the firm goes bankrupt the paid VAT not compensated due to the absence of the taxable turnover should not be included in the bankrupt estate.

6. According to the Letter from October 12, 2009 No 03-05-05-02/62 the Ministry of Finance of the Russian Federation confirmed its position concerning the taxpayers of the land tax. For

¹ In concordance with paragraph 2 article 173 of the Tax Code of the Russian Federation, if the sum of the tax deductions exceeds the total sum of the tax to be paid, the positive difference between the sum of tax deductions and the sum of the tax calculated by the operations recognized as taxation objects is to be returned to the taxpayer. In concordance with article 163 the quarter is regarded as a taxation period.

instance, the Ministry of Finance of the Russian Federation draws attention to the fact that the persons that are the taxpayers of the land tax are: 1) persons listed in the Single state register for the immovable property and the deals with it as those having the right for the property, right for the permanent (infinite) use or the right for the lifelong inherited ownership of the corresponding land plots (basing on the Federal Law No 122-FZ “On registration of rights for the immovable property and deals with it”); 2) persons that are recognized as equivalent owners in concordance with the Federal Law from 25.10.2001 No 137-FZ “On the Land Code of the Russian Federation coming into the effect”, according to which the government acts, certificates and other documents testifying the rights for the land and issued before the Federal Law No 122-FZ came into the effect are of the same legal power as the records in the Single state register of the rights for the immovable property and deals with it; 3) the persons whose right of property, right for the permanent (infinite) use, or the right of lifelong inherited use of the land plot are testified by the act (certificate or any other document) on the person’s right for this land plot, issued by the authorized body of the government of by the local government (on the basis of paragraph 1 article 388 of the Tax Code of the Russian Federation).

At the same time the Ministry of Finance of the Russian Federation recommends to take into account the position state in the Decision of the Session of the Supreme Arbitrary Court of the Russian Federation from 23.07.2009 N 54.

7. According to the Letter of the Ministry of Finance of the Russian Federation from October 9, 2009 No 03-11-09/343 the question on the kinds of jewelry works (services) that can be transferred to the taxation with the single tax on the imputed income is clarified. For instance, the retail trade on the square of no more than 150 sq m, repair services rendered to the natural persons and the works on production of the goods on order of the natural persons belong to this kind. The entrepreneurial activity on producing jewelry with its further sale is not considered as retail trade service for the purposes of chapter 26.3 of the Tax Code of the Russian Federation and cannot be transferred to the payment of the single tax on the imputed income.

8. According to the Letter of the Ministry of Finance of the Russian Federation from September 29, 2009 No 03-05-05-04/61 it is clarified that the state fee and the payment for the maintenance check-up of the transport vehicle is included in the initial cost of a car as fixed assets. As to the payment for the maintenance check-up, the responsibility to conduct the check-up is established by the Law on road safety. The conduction of the maintenance check-up is not the reason for the evolution of the right to use the transport vehicle, as well as to use roads (see the decision of the Supreme Court of the Russian Federation from 3.08.2001 № GKPI 2001-1225). According to statements of article 16 and 17 of the mentioned Law the owners of the transport vehicles or the persons using them are commissioned with the liability to maintain the transport vehicles used on the roads in the technically fit condition. That is why the expenses for the technical maintenance are rather current operational costs connected directly with not the purchase of the vehicle but with its usage, and that is why they should not be ascribed to the initial cost of the vehicle.

9. According to the Letter of the Ministry of Finance of the Russian Federation from September 28, 2009 No 03-03-06/1/620 the Ministry of Finance of the Russian Federation clarified that the incomes in the form of materials received in the course of repair of the fixed assets in concordance with article 250 of the Tax Code of the Russian Federation refer to other outstanding incomes. The taxpayer has a right to accept the materials received when conducting repair of the fixed assets in the form of scrap metal for tax accounting basing on the cost established by clause 2 paragraph 2 article 254 of the Tax Code of the Russian Federation, that is as incomes in the form of excesses revealed during inventory.

10. According to the Letter of the Ministry of Finance of the Russian Federation from October 1, 2009 No 03-04-06-02/76 the Ministry of Finance clarified that the responsibility to charge the single social tax arises in case a Russian organization concluded a labor agreement directly with a foreigner (non-resident), and this non-resident carries out his work out of the territory of the Russian Federation. If this labor agreement with the non-resident is concluded by a foreign branch of the Russian organization, the responsibility to pay the single social tax does not arise, since such a foreign branch is a tax resident of a foreign state and subject to the tax legislation existing there.

11. According to the Letter of the Ministry of Finance of the Russian Federation from September 25, 2009 No 03-03-06/1/618 it is clarified that for the agreement concluded in the foreign currency (for instance those of foreign trade), the payments for which are made in another currency, there might arise the differences in exchange rates. If the agreement is concluded in conventional units for which the currency exchange rate against ruble is fixed on the date of payment, in case the sum of the payment is deferred to the date of the real sale (taking goods, service, works on books) there arise the differences in the sum. The positive differences in exchange rate and sums in concordance with paragraph 11 article 250 of the Tax Code of the Russian federation are ascribed to the outstanding profits.

This explanation of the Ministry of Finance of the Russian Federation should be supplemented by the fact that according to paragraph 5 article 265 of the Tax Code of the Russian Federation, negative differences in exchange rates and sums are to be ascribed to the economically grounded outstanding expenses, taken into account during taxation.

12. According to the Letter of the Ministry of Finance of the Russian Federation from September 25, 2009 No 03-11-06/2/194 the question on the possibility for application of the simplified taxation system by the state unitary enterprises is clarified (chapter 26.2 of the Tax Code of the Russian Federation). In concordance with subparagraph 14 paragraph 3 article 346.12 of the Tax Code of the Russian Federation the organization the share of participation in which of other organizations exceeds 25% cannot apply the simplified taxation system. The capitals of the state (municipal) unitary enterprise are formed solely by the bodies of the state or municipal government, that is the state or the municipal formation own 100% of the share in the capital and this share is indivisible. The government bodies and municipal formations due to their legal status are not organization, that is why limitations of 25%, established by the Tax Code, do not apply to the state (municipal) unitary enterprises.

13. According to the Letter of the Ministry of Finance of the Russian Federation from September 25, 2009 No 03-03-06/1/616 it is clarified that the expenditures arising when returning the bought ticket in connection with the cancellation of a business trip belong to economically grounded outstanding expenses, taken into account during taxation, and in particular to the group of the expenses recognized by the debtor or those to be paid on the basis of the decision of the court coming into the legal effect, fines, fees and (or) other sanctions for the violation of the contract of debt liabilities, as well as the expenses for compensation of the caused damage (subparagraph 13, paragraph 1, article 265 of the Tax Code of the Russian Federation).

The extrajudicial acknowledgement of the liability to pay by the debtor when violating the contract can be made in the form of the actual payment of sanctions envisaged by the agreement or in the form of the written confirmation of the willingness to pay the fine.

14. According to the Letter of the Ministry of Finance of the Russian Federation from September 25, 2009 No 03-03-06/1/617 the question on whether or not the offset of the

losses when merging with the organization that applied the simplified system of taxation can be made. The Ministry of Finance of the Russian Federation refers to subparagraph 8 paragraph 7 article 346.18 of the Tax Code of the Russian Federation, according to which the loss, arising from the application of the simplified taxation system by taxpayers, is not taken into account when transferring to other taxation regimes.

Since with the take-over the organization is transferred from the simplified system of taxation to the general system of profit taxation, the losses arising in the organization before such a transfer should not be taken into account.

15. According to the Letter of the Ministry of Finance of the Russian Federation from September 25, 2009 No 03-03-06/1/615 it is clarified that the right given to the organizations from 1.01.2009 to 1.01.2012 to take into account of organization's expenditures (at the rate of 3% of the expenses for labor remuneration on the whole throughout the organization) the sums for the compensation to the employees the interest rates paid by employees for the credits (loans) for purchase and (or) construction of housing can be applied (paragraph 24.1 article 255 of the Tax Code of the Russian Federation) even if the housing for which purchase (construction) the loan (credit) was taken is registered as joint ownership of the employee and his (her) spouse.

16. According to the Letters of the Ministry of Finance of the Russian Federation from September 24, 2009 No 03-04-06-02/75 and from October 7, 2009 No 03-04-06-02/78 the question on the responsibility to pay insurance contributions for the compulsory pension insurance by the organizations applying simplified taxation system from the sums of material assistance paid to the employees is clarified. The responsibility to pay contributions for the compulsory pension insurance is established not by the Tax Code of the Russian Federation but by the Federal Law from 15.12.2001 No 167-FZ "on compulsory pension insurance in the Russian Federation". In concordance with paragraph 2 article 10 of the Federal Law the taxation object and the taxation base for the single social tax, established by chapter 24 of the Tax Code of the Russian Federation, is also the object of taxation and the taxation base for the insurance contributions.

In contrast to the normal taxpayers of the profit tax, for whom the sums of material assistance are not regarded as expenditures for the formation of the taxation base for the profit tax and are not levied with the single social tax (subparagraph 3 paragraph 1 article 238 of the Tax Code of the Russian Federation), the organizations that have transferred to the simplified taxation system and not paying the profit tax because of it, should not apply article 238 of the Tax Code of the Russian Federation as well. That is, for such organizations the expenses in the form of the material assistance should be included in the base and levied with the insurance contributions for the compulsory pension insurance and levied according to the established procedure.

17. According to the Letter of the Ministry of Finance of the Russian Federation from September 24, 2009 No 03-11-06/2/193 the question on the absence of the possibility to ascribe the expenses for the servitude (payments, collected by the owner of a land plot due to the social significance of the land plot – for instance the single road passes through it or the sole source of the drinking water is situated in it etc.) to the expenses of the organizations that apply the simplified taxation system. The Ministry of Finance of the Russian Federation draws attention to the fact that the Civil Code of the Russian Federation recognizes the right of the owner of the land plot loaded with the private servitude to require the proportionate payment from the persons for whose benefit the servitude has been established, if not otherwise stated by the federal laws (paragraph 5 article 274 of the

Civil Code of the Russian Federation), but in connection with the absence of the servitude in the closed list of expenditures established by paragraph 1 article 346.16 of the Tax Code of the Russian Federation, such payments do not diminish the taxation base for the simplified taxation system.

18. According to the Letter of the Ministry of Finance of the Russian Federation from September 24, 2009 No 03-03-06/1/610 in response to the private enquiry it is clarified that in case of dismissal of an employee that has not returned the sums that were to be accounted for, the organization has a right when the time limitation for suits has elapsed (proved by documents) to write off the debt to losses when forming the taxation base for the profit tax of the current period, and as a tax agent it has to send a notification to the tax inspection on the impossibility of collecting the incomes tax on natural persons.

19. According to the Letter of the Ministry of Finance of the Russian Federation from October 7, 2009 No 03-11-06/2/203 the situation with the criteria of the maximum profitability that gives the right to apply the simplified taxation system is clarified. For instance, it is mentioned that the problem of the recurring indexation of the base (established by the law to be at the rate of RUR 20 million of the maximum profitability) was eliminated by the law, which is accounted for by the position of the courts, investigating the possibility for multiplication of the correcting coefficients.

At present, 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 applied not to the basic criterion (that is to RUR 20 million) but calculated as a accumulative coefficient by multiplication of all the deflating coefficients for the period from the establishment of the basic criterion. 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 determines that the maximum value of profits limiting the application of the simplified taxation system in 2009 is equal to 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).

Starting with 1.01.2010 the statement of the Federal Law from 19.07.2009 No 204-FZ "On making amendments to part two of the Tax Code of the Russian Federation" will come into effect concerning the interruption of the action of paragraph 4 article 346.13 of the Tax Code of the Russian Federation from January 1, 2010 to January 1, 2013 that regulates the application of the indexation coefficients to the criterion of the profitability. Instead of it the mentioned article is supplemented with paragraph 4.1 that envisages the increase of the maximum level of the taxpayer's profits up to RUR 60 million, exceeding of which as a result of the accounting (taxation) period is one of the reasons for the loss of the right to apply the simplified system of taxation.

20. According to the Letter of the Ministry of Finance of the Russian Federation from October 8, 2009 No 03-11-09/341 the procedure for the application of the simplified taxation system on the basis of the patent is clarified. The patent is issued by a taxation body for the period from 1 to 12 months. The application for the patent is submitted by an individual entrepreneur to the tax body by the place of registration no later than one month before the simplified taxation system on the basis of the patent will start to be applied.

21. According to the Letter of the Ministry of Finance of the Russian Federation from October 9, 2009 No 03-03-07/25 the question on the taxation of the contributions paid by

the members of self-regulating organization is clarified. According to the article 3 of the Federal Law from 01.12.2007 No 315-FZ “On self-regulating organizations”, non-commercial organization created with the aims envisaged by the mentioned Federal Law no 315-FZ and other federal laws based on the membership, uniting the subjects of the entrepreneurial activity basing on the unity of the branch of production of goods (works, services) or the market of the produced goods (works, services) or uniting the subjects of the professional activity of some kind. Town-Planning Code is one of the laws regulating the activity of the self-regulating organizations in the sphere of the architecture and construction design, construction, thorough repair works, engineering exploration etc. Basing on the statements of the article 55.8 of the Town-Planning Code, the organizations that are members of self-regulating organizations, paying the admission fees, fees to the compensation fund, as well as paying regular membership fees are allowed to execute works.

In concordance with paragraph 2 article 251 of the Tax Code of the Russian Federation when defining the taxation base the targeted allotments are not taken into account. For instance, for maintenance of non-commercial organizations and the conduction of the statutory activity in the form of admission fees, carries out in concordance with the legislation of the Russian Federation on non-commercial organizations belong to such targeted allotments the allotments.

Thus, in the opinion of the Ministry of Finance of the Russian Federation, the profits of the self-regulating organizations in the form of the admission fees, fees to the compensation fund as well as regular membership fees that are compulsory conditions for the members of a self-regulating organization to access the execution of works in the corresponding fields of construction, architecture activity, engineering explorations should not be levied with taxes.

According to paragraph 40 article 270 of the Tax Code of the Russian Federation when defining the taxation base for the profit tax the expenses in the form of fees, contributions and other compulsory payments made to non-commercial organizations and international organizations except for those mentioned in subparagraphs 29 and 30 paragraph 1 article 264 of the Code are not taken into account. The subparagraphs 29 and 30 that were mentioned concern the very fees, contributions and other compulsory payments to non-governmental organizations if their payment is a condition for execution of the activity by taxpayers. That is why the expenses of organizations that are member of self-regulating organizations can be taken into account for the purposes of calculation of profit tax among other expenditures connected with the production and sale.

22. In connection with the replacement of the single social tax with the system of the insurance contributions to non-government social funds, the work on the correction of the separate regulatory base securing the functioning of the funds is being carried out. This clarifies the necessity of the adoption of the Decree of the Government of the Russian Federation from October 17, 2009 No 820 “On the procedure for recognizing arrears of insurance contributions as bad debts and writing them off”. It should be remembered that in the structure of the single social tax such sums were qualified as arrears, there were fees and fines applied to them as well as the measures of tax responsibility.

23. According to the Letter from October 2, 2009 No 03-07-11/246 the Ministry of Finance of the Russian Federation clarified the question on the procedure for application of the tax deductions for VAT when transferring the advance payments to the agent that purchases goods on its behalf but at the expense of the principal.

For instance, the Ministry of Finance of the Russian Federation noted that in accordance with paragraph 1 article 168 of the Tax Code of the Russian Federation the invoices when

selling goods (works, services) are drawn by the seller, including the agent. Thus, the sums of VAT of the advance payments made through the agent can be accepted for deduction on condition that there are: 1) the invoices drawn by the seller to the agent upon receipt of advance payments; 2) documents testifying the real transfer of the sums of advance payments for the further delivery of goods by the principal to the agent and by the agent to the seller; 3) copies of the agreement concluded by the agent with the seller that envisages the transfer of advance payments and the agreement signed by the principal with the agent, which also envisages the transfer of the sums mentioned.

24. According to the Federal Law No 218-FZ from 22.09.2009 the normative for withdrawing the funds of the severance tax to the federal budget was changed from 95% to 100%. Later the Federal Law No 229-FZ from 3.10.2009 interrupted the action of the Federal Law No 218-FZ in this part up to 1.01.2010. Commenting on the existing situation, the Ministry of Finance of the Russian Federation and the Federal Treasury of the Russian Federation by the letter 02-04-10/4629; 42-5.4-10/517 from 29.09.2009 clarified that the profits from the severance tax concerning hydrocarbons (excluding the natural gas) are to be transferred to the federal budget at the rate of 100%, starting with January 1, 2010.

25. According to the Letter of the Ministry of Finance of the Russian Federation from September 25, 2009 No 03-07-11/242 the question on the procedure for the acceptance of VAT sum for deduction, which was calculated and paid to the budget by the seller-organization from the sums of advance payments for further supply of the goods, received from the organization reorganized by merging with the organization-seller.

The conclusion of the Ministry of Finance of the Russian Federation, in our opinion, can be briefly summarized as the following: if after the reorganization the situation emerges, according to which VAT has already been paid to the budget, and organization draw the invoice seemingly to itself, then the organization that was formed as a result of reorganization the right for the deduction of VAT is maintained, if the joined organization has already received VAT deduction, and in fact the goods (works, services) were as a result shipped seemingly to itself the sum of VAT is to be recovered in the liabilities of the organization that was formed as a result of reorganization.

26. According to the Federal Law from September 27, 2009 No 220-FZ article 217 of the Tax Code of the Russian Federation was supplemented with paragraph 48, according to which the sums of pension savings, which are taken into account in a special part of the individual account, and paid to the legal successors of the deceased insured, are exempted from the taxation with the tax on incomes of natural persons. That is, the saving part of the retirement pension of the deceased, which was formed on its individual account taking into account the profits from its investments, is exempted from taxation when inherited.

27. According to the Letters of the Ministry of Finance of the Russian Federation from 01.09.2009 No 03-07-15/130, from 03.02.09 No 03-07-08/22, the Letter of the Federal Tax Service of the Russian Federation from October 2, 2009 No IIIC-17-3/180@ with the reference to the invariability of the position concerning this issue from 2001 (the letter of the Ministry of Finance of the Russian Federation from July 30, 2001 No 04-05-11/63) the clarification on the application of VAT to the services on giving meteorological information is made for the second time. For instance, the Ministry of Finance of the Russian Federation clarified that regardless the source, the monetary funds received by the organization as payment for the executed works is earnings from the sold works (services). Thus, the earnings from the selling of the meteorological information, sold by airports to airlines, the enterprises of

air navigation and air control, as well as to the state corporation on management the air traffic is included in the total earnings from the sale of the goods (works, services) and is to be levied with VAT according to the generally established procedure.

28. According to the Letter of the Ministry of Finance of the Russian Federation from 13.08.2009 No 03-05-04-02/55, the Federal Tax Service from October 1, 2009 No IIC-17-3/178@ the position of the Session of the Supreme Arbitrary Court of the Russian Federation concerning the issue on application of the standard price for the land for the purposes of taxation is brought to the attention and is to be regarded as guidelines.

According to the decree of the Session of the Supreme Arbitrary Court of the Russian Federation from July 23, 2009 No 54 (paragraph 7) it is defined that is the cadastre value of a land plot at the moment of the evolution of the disputable legal relations is not established, the arbitrary courts should be guided by the statement of article 65 of the Land Code of the Russian Federation and paragraph 13 article 3 of the Federal Law No 137-FZ, according to which if there is no cadastre value of the land for the purposes of taxation the normative price of the land is to be used.

29. According to the letter of the Ministry of Finance of the Russian Federation and the Federal Tax Service of the Russian Federation from October 1, 2009 No IIC-19-3/155 it is clarified that in concordance with subparagraph 14 paragraph 1 article 251 of the Tax Code of the Russian Federation grants, received from the foreign and international organizations and unions for execution of particular programs established in the subparagraph are not taken into account when defining the taxation base for the profit tax at the recipient organizations on condition the organizations that issue grants are included in the list approved by the Government of the Russian Federation.

The Ministry of Finance of the Russian Federation draws attention to the fact that starting with January 1, 2009, according to the Decree of the Government of the Russian Federation from 28.06.2008 No 485 a new List of international organizations, which grants (gratuitous assistance) are not to be levied with taxes and are not taken into account for the purposes of taxation in the profits of Russian organizations – grant recipients.

30. According to the letter of the Ministry of Finance of the Russian Federation from 01.09.2009 No 03-05-04-01/70 and the Federal Tax Service of the Russian Federation from September 30, 2009 No IIC-17-3/174@ it is clarified that the retired judges that get monthly lifelong sustenance are exempted from the payment of taxes on property of natural persons.

In concordance with paragraph 2 article 4 of the Law of the Russian Federation from December 9, 1991 No 2003-1 “On the taxes on property of natural persons”, the tax on buildings, premises and constructions is not paid, for instance, by pensioners that receive pensions assigned according to the pension legislation of the Russian Federation. Paragraph 5 article 15 of the Law of the Russian Federation No 3132-1 from June 26, 1992 “On the status of judges in the Russian Federation” envisages the peculiar feature of the state pension provision to the retired judges consisting in granting them the right to choose the pension on general conditions or the lifelong monthly sustenance that is not levied with taxes.

At the same time, according to the conclusion of the Court department at the Supreme Court of the Russian Federation, the monthly lifelong sustenance being not pension belongs in fact to the provision of the judges with the pensions by the state.

31. According to the letter of the Ministry of Finance of the Russian Federation from 18.09.2009 No 03-05-04-02/72 and the Federal Tax Service of the Russian Federation from

September 30, 2009 No IIIIC-17-3/175@ the law enforcement practice and the position of the mentioned federal bodies concerning the application of the privileges for the property tax and the land tax envisaged by the Tax Code of the Russian Federation for the all-Russian social organizations of the disabled and the organizations created with their participation, for the social organizations of the disabled not having all-Russian status and organizations created with their participation.

The Ministry of Finance of the Russian Federation and the Federal Tax Service of the Russian Federation on the whole agree with the decisions of the courts that spread the privileges envisaged for all-Russian social organizations of the disabled to the social organizations of the disabled with another status.

In the opinion of the Ministry of Finance of the Russian Federation and the Federal Tax Service of the Russian Federation this corresponds with the legal position of the Constitutional Court of the Russian Federation given in the decree from December 23, 1999 No 18-P, the consequence of which is that all the social organizations of the disabled regardless of the regional sphere of their operation (all-Russian, interregional, regional, local) have equal rights for the receipt of the government support to the disabled and are equal to the law.

At the same time it should be noted that when the norms of the Tax Code of the Russian Federation were in the process of the development the privileges mentioned were envisaged for only all-Russian social organizations of the disabled since these organizations can really protect the economic interests of the disabled since they have the biggest number of members and are represented throughout the whole territory of the Russian Federation. The spreading of the privileges to any social organizations of the disabled regardless of the number of the disabled that created such an organization in practice can be accompanied with the appearance of the channels for the evasion from taxes and the most insecure categories of citizens falling into the sphere of interests of the criminal business.

32. According to the letter of the Federal Tax Service of the Russian Federation from September 30, 2009 No MM-19-3/154 the procedure for the calculation of the tax on the property of the natural persons in case the property is in the shared ownership of several persons or in the joint ownership is clarified. In case of the shared ownership the tax is calculated in proportion to the shares, and in case of joint ownership – in equal sums by the number of owners. At the same time the Federal Tax Service mentioned that the shares themselves are not the objects of taxation, and that is why the Ministry of Finance of the Russian Federation started the legal initiative to make changes to article 2 of the Law no 2003-1 concerning the establishment of the share as an object for taxation. The initiative of the Ministry of Finance of the Russian Federation seems quite doubtful, since it can result in the destabilization of the base and the decrease of the profits of the regional budgets from this source. At present the sum of earnings from the tax on property is directly connected with the value of the property, which provides the relative stability and predictability of the incomes of the regional budgets from this kind of expenses. Besides, low level of the tax load is distributed in proportion to the accumulated income (wealth) of taxpayers. Unfortunately, the author does not have more detailed information on the initiative of the Ministry of Finance of the Russian Federation.

33. According to the letter of the Ministry of Finance of the Russian Federation and the Federal Tax Service from September 28, 2009 No IIIIC -22-3/743@ the procedure of the decrease of the sum of the tax paid in connection with the application of the simplified taxation system by the sum of the of the insurance contributions for the compulsory pension insurance as well as by the sum of the payment of the assistance for the temporary incapacity of work. In

concordance with the article 346.21 of the Tax Code of the Russian Federation the sum of the tax on the whole be two reasons cannot be reduced by more than 50%.

As to the deduction of the insurance contributions for the compulsory pension insurance, the Ministry of Finance of the Federal Tax Service explained, that the Tax Code of the Russian Federation established distinct criteria, upon whose fulfillment the compulsory pension insurance decrease the sum of the tax: the sum of the tax of the simplified taxation system can be reduced only by the sums of the insurance contributions to the compulsory pension insurance, which were calculated and paid over the corresponding period of time. If the real sum of the compulsory pension contribution will be less than the accrued due to non-coincidence of the dates of submission of the declarations for the single social tax and the compulsory pension insurance, as well as the dates of their payment, the sums of the insurance contributions to the compulsory pension insurance paid by the taxpayer after the date of advance payment of tax of the simplified taxation system for the elapsed accounting period, can be accounted in the expenses when calculating the simplified taxation system (advance payments for taxes) over the taxation period on the whole (or the following taxation periods of the current calendar year), since the taxes of simplified taxation system is calculated by accumulative results from the beginning of the year, and are included in the tax declaration over the taxation period (taxation period – from 1.01. to 31.12 of the current year).

The taxpayer that have paid the insurance contributions to the compulsory pension insurance after submission of tax declarations for the simplified taxation system of the elapsed calendar period, can correct the declared tax liabilities submitting the corrected tax declarations to the taxation bodies.

The taxation bodies have a right to decrease the sum of the tax (quarter advance payments for the tax), calculated over the taxation (accounting) period, not only by the sum of the insurance contributions to the compulsory pension contributions, but also by the sum of the allowances paid to the employees in connection with the temporary incapacity of work.

34. According to the Order of the Ministry of Finance of the Russian Federation and the Federal Tax Service of the Russian Federation from September 28, 2009 No MM-7-6/475@ in order to improve the organization of the interaction of tax bodies and banks the forms for Notification of a bank on the opening (closing) the account of a taxpayer and Notification of the bank on the change of details of taxpayer's account. ●

REVIEW OF BUDGETARY LEGISLATION

M.Goldin

In October 2009 only minor changes took place in the field of budgetary legislation: the possibility for conclusion of the government contracts for the treatment of the citizens of the Russian Federation abroad was considerably simplified; the Methodological guidelines for definition of standard calculated costs for rendering state services by the federal institutions and (or) budgetary institutions, as well as standard calculated costs for maintaining the property of budgetary institutions.

According to the Decree of the Government of the Russian Federation from 05.10.2009 No 802 “On making changes to the Decree of the Government of the Russian Federation from December 24, 2008 No 987” the Decree of the Government of the Russian Federation “On measures aimed at fulfillment of the Federal Law “On the Federal Budget for 2009 and for the planning period of 2010 and 2011” was supplemented with a new statement. The amendment established that the recipients of the funds from the federal budget when signing agreements (state contracts) on supply of goods, execution of works and rendering services can envisage advance payments of up to 100% of the sum of the agreement (contract), but not exceeding the limits of budget liabilities that are to be executed from the funds of the federal budget in the corresponding financial year, and from now on it also concerns the agreements on conduction of treatment of citizens of the Russian Federation abroad concluded by the Ministry for Health Care and Social Development of the Russian Federation with foreign organizations. Such an amendment will simplify considerably the conclusion of the state contracts of the type mentioned with the foreign executors.

According to the Order of the Ministry of Finance of the Russian Federation from 22.10.2009 No 105 the Methodological guidelines for definition of standard calculated costs for rendering state services (execution of works) by the federal institutions and (or) budgetary institutions under their jurisdiction, as well as standard calculated costs for maintaining the property of budgetary institutions.

It should be noted that with the approval by the Ministry for Economic development of the Russian Federation the Ministry of Finance of the Russian Federation was commissioned to adopt the methodological guidelines mentioned before March 1st, 2009.

The standard calculated costs are the costs defined for the particular federal executive body (federal state budgetary institution) by calculation in correspondence with the special regulatory legislative act, which establishes the procedure for definition of standard calculated costs for rendering state services (execution of works) by the federal institutions and (or) budgetary institutions under their jurisdiction, as well as standard calculated costs for maintaining the property of budgetary institutions.

The procedures for definition of standard calculated costs are approved by the federal executive bodies (chief superintendants of the funds of the federal budget) according to the Decree of the Government of the Russian Federation from December 29, 2008 No 1065 “On procedure for formation and provision of financial security for fulfillment of the state task by the federal executive bodies and federal state institutions” and should contain the methodological guidelines for recalculation of such standards in every financial year and planning period.

The procedure for definition of standard calculated costs can be adopted in two forms, for each kind of state services (type of work) included in the list of the state services (works) separately. It is also possible to adopt the unified procedure for the definition of standard calculated costs for all the state services (works), rendered (executed) by a federal executive body and (or) by a federal state budgetary organization under their jurisdiction. In this case the Procedure for definition of standard calculated costs can include several sections, each of which can contain the procedure for definition of the standard calculation costs for one kind of state services (works). ●