



RUSSIAN ECONOMY: TRENDS AND PERSPECTIVES 10'2010

MONTHLY BULLETIN:

BASIC DEVELOPMENTS AND TRENDS	2
THE POLITICAL AND ECONOMIC RESULTS OF OCTOBER 2010 (S.Zhavoronkov)	5
INFLATION AND CREDIT AND MONETARY POLICY (N.Luksha)	9
FINANCIAL MARKETS (N.Burkova, E.Khudko)	13
REAL ECONOMY: TRENDS AND FACTORS (O.Izryadnova)	22
RUSSIAN INDUSTRY IN SEPTEMBER 2010 (S.Tsukhlo)	26
FOREIGN TRADE (N.Volovik, K.Kharina)	30
THE STATE BUDGET (E.Fomina)	34
MORTGAGES IN RUSSIAN FEDERATION (G.Zadonsky)	41
FULFILLMENT OF RUSSIA'S FOREIGN ECONOMIC STRATEGY: FIRST RESULTS (A.Pakhomov, R.Volkov)	47
2010 HARVEST: GRAIN MARKET PROBLEMS (N.Karlova)	54
SOCIAL STANDARD OF LIVING IN THE 1ST HALF OF 2010 (S.Misikhina)	59
NEW ASSESSMENT OF SCIENCE MATERIAL BASE (I.Dezhina)	62
FEDERAL AND REGIONAL LAND POLICY: SOME SPECIFICS (E.Apevalova)	65
CAN MILITARY EXPENDITURES BECOME A DEVELOPMENT INSTITUTION? (V.Zatsepin)	69
REVIEW OF ECONOMIC LEGISLATION (I.Tolmacheva)	73
REVIEW OF RF GOVERNMENT MEETINGS IN OCTOBER 2010 (M.Goldin)	75
REVIEW OF REGULATORY DOCUMENTS CONCERNING TAXATION OVER SEPTEMBER – OCTOBER 2010 (L.Anisimova)	77
CHANGES IN REGULATORY BASIS OF BUDGET PROCESS (M.Goldin)	81

BASIC DEVELOPMENTS AND TRENDS

Social and Political Background: there is no choice

The main event in October was the appointment of the new Mayor of Moscow, Sergey Sobyenin, the former Head of the Government Administration. The new Mayor appointment and the procedure of candidates' selection indicated that if President D. Medvedev played the key role in the public conflict with Yuri Luzhkov, the Prime Minister Putin played the key role in the process of the new Mayor appointment. Sobyenin's appointment will contribute to the course on the integration of Moscow administration with the federal structures, which is in line with the overall trend of building a de facto unitary model of the state governance.

The first weeks of the new Mayor in the office were marked by a number of populist statements and actions (the intention to resolve the problem of traffic jams, demolition of "street booths"), accompanied with a caution in the HR policy (except for some dismissed top figures, the majority of Luzhkov's government retained their positions so far) and an expressed tolerant attitude to opposition rallies (for the first time, albeit with reservations, the meeting on October 31 was permitted).

The appointment of Vyacheslav Volodin, one of the top figures of the central administration of the "United Russia" party to the seat of the Government Administration Head can be regarded as an outstanding event. This is perhaps the first time, when a Party Executive takes a high position in the executive power, which can be understood as an indicator of the growing influence of the party system. Herewith, the appointment highlights the political nature of the Government Administration Head, which is acquired under the governance of Mr. Putin, acting in the capacity of the Prime Minister. According to the experts' opinion, the appointment is made to ensure interaction between government administration and party structures in preparation for the electoral cycle of 2001-2012 and a possible return of Mr. Putin to Presidency.

On October 10, elections of local authorities in several regions of the Russian Federation took place. The elections demonstrated a significant potential of the "United Russia" in attracting voters: in the majority of cases, the Party has won over 50% of votes. The elections in two major regions, Novosibirsk and Chelyabinsk were of the greatest interest. In Novosibirsk Region the result of "United Russia", which gained 45% of the votes, was much worse than in previous elections (59%). In Chelyabinsk Region, where the early elections were arranged, the "United Russia" gained 55% of all votes, though the elections were arranged with a great number of violations.

In October, court hearings on the second case against Mikhail Khodorkovsky and Platon Lebedev were completed. The prosecution demanded 13.5 years of imprisonment for Khodorkovsky; in case of meeting these requirements, Mikhail Khodorkovsky will be released from prison only in 2017. Prosecution inconsistency raises numerous public and human rights organizations' protests both in Russia and abroad. The outcome of the second proceedings will have a significant influence on the political agenda of the elections in 2011-2012 and play an important role in the dynamics of the external image of Russia, but at the same time, most likely, it will not have a significant impact on the short-term dynamics in the investment environment.

Macroeconomics and Finance

External background in October was based on the market expectations for a new round of quantitative policy mitigation by the repayment of the long-term bonds of the U.S. Federal Reserve, which was announced in late August. By early October, the weakening dollar and commodity prices reached the local maximum in their expectations, and within a month fluctuated around the achieved values. Oil prices in the last days of September rose from the levels of USD 76-78 per barrel, typical for the previous month, to the new indicators in October – USD 81-85 per barrel. The average monthly price of Brent (ICE) amounted to USD 83.47. This is the maximum value since

April of this year, when the average price reached USD 85.9, but then in May, prices have dropped down by 20-23%. Herewith, in November one can expect further rally in crude oil prices.

Russian stock markets were traditionally winning back the rates of dollar and oil prices: As a result, the MICEX index rose by 4.6% (from 1.456 points on October 1, up to 1.523 points on October 29), and RTS – by 3.6% (from 1.531 points on October 1, to 1,587 points on October 29).

If Euro exchange rate against ruble in October was reflecting the strengthening of European currencies against the US dollar (RUR 41.44 per Euro on October 1 and RUR 42.73 per Euro on October 30, the average monthly value made RUR 42.08 per Euro instead of RUR 40.15 Euro in September), the US dollar exchange rate against the ruble has demonstrated a significant volatility, and after a sharp weakening at the beginning of the month (from RUR 30.51 per USD 1 on October 1 to RUR 29.63 against USD 1 as of October 8), the US dollar rate has actually returned to the original values and even exceeded them by the end of the month (RUR 30.78 per USD 1 as of October 30).

USD strengthening against RUR at the background of its weakening against other major foreign currencies demonstrates the pressure of internal factors: high demand for foreign currency on the part of corporate borrowers for the purpose of foreign debts redemption, inflation expectations and fears related to the reduction of the positive balance of payments. However, high oil prices in September-October give hope that the balance of payments can be improved.

Favorable conditions of commodity markets urged an intensive growth of foreign currency and gold reserves: from September 24 through October 15, they have been increased by 3.3% (from USD 487.7 billion on September 24 to USD 503.7 billion on October 15), surpassing the psychologically important threshold of USD 500 billion, but in the second half of October, those reserves have sharply decreased to the mark of USD 495.6 billion.

Those positive trends in the Russian economy do not allow, however, to talk about reduced uncertainty in the estimation of its medium-term prospects. At the background of a new round of rising oil prices in the markets, there is a growing understanding that the dynamics of oil prices is not supported by fundamental factors: there are huge excessive capacities in the oil industry, whereas the economic recovery in the developed countries is sluggish, while in China a slowdown in growth rates is observed.

Inflation slow-down has become one of the major “domestic” macroeconomic news in October: consumer price growth has returned to the pace of 0.1% per week and at the end of the month amounted to 0.5%. As a result, cumulative inflation since the beginning of the year has amounted to 6.8%. Herewith, the core consumer price index made 0.8%, and therefore, in the next month, when seasonal factor is expired, the cost of fruit and vegetables may again reach the pace of previous months. As a result, inflation for the year is unlikely to be below 8.5%, which exceeds the benchmarks already adjusted by government authorities.

Real sector: Difficult Recovery

The dynamics in the real sector in autumn 2010 remains within the overall trend, which can be characterized as “difficult recovery.” The main trend in the recent months (in general, in the III quarter) was, on the one hand, improved dynamics in investments (7.5% growth against the relevant term of the last year) and in construction sector, which has demonstrated a growth against the corresponding period of the last year for the first time (+2.2%). Those sectors were falling back at the background of the overall picture of economic recovery and have shown positive dynamics only in recent months.

However, in the sectors of mining and manufacturing sectors there is a synchronous slowdown in growth rates, due to, apparently, the restrictions in the external and domestic demand. In quarter III of 2010, the GDP growth slowed down to 2.2% against 3.1% in quarter I and to 5.2% in quarter II. It can with a certain lag in time have a negative impact on the rate of investment activity.

Monitoring of the level of business confidence in October, conducted by the Russian Statistical Service, shows that the negative trends of quarter III have not been overcome. In October, the level of business confidence was deteriorated as compared with September. A continuing decline in the index of confidence in the mining sector (from +5 in July to 0 in October) is stagnating, and the confidence index is deteriorating in the number of industries of the manufacturing sector. Assessments of the

demand sector are in negative zone and are being improved with a very low rate versus previous months. Estimates of the expected in the next 3 months changes in the output are in the positive zone (i.e., the number of pending output growth exceeds the number of tentative reduction), but the forecast has deteriorated in the recent months: thus, in October, positive assessments have been declined in terms of the minerals extraction from 15 to 8 points, and the sector of manufacturing from 19 to 13 points.

The contradictory attitudes of enterprises are demonstrated also by the IEP industrial surveys. The September surveys show that the stagnation in the estimated industrial sales is sustained for the eighth consecutive month. The dynamics of stocks of finished goods assessment definitely indicates that the confidence of enterprises in the growth of sales is declining from month to month. The share of responses "below regular rate" has reached in September 2010 the level of seventh-year (!) peak, while the share of replies "above regular level" was at the absolute minimum level (of 1992-2010). Such a low balance of reserves estimates were not observed in the Russian industry since 2000, when businesses believed in the sustainability of post-default growth and had transferred from the policy of stocks minimization to the abundance maintenance. Now the situation is developing in the reverse direction. Herewith, there are no objective limits to replenish the stocks in industry: the production capacities are idle, there is a shortage in the work force, credits are getting cheaper. Thus, the current reduction of warehouse stocks is a deliberate policy of the Russian producers, who are losing confidence in the chance to attract new customers and a soon tentative transition from stagnation to a noticeable increase in demand.

This uncertainty is also noted in the estimates of the dynamics and intentions in the employees hiring/firing. In August-September, the industries virtually stopped recruitment. It looks that in spring and summer enterprises started to create a reserve of skilled personnel in anticipation of a possible increase in demand, but the delayed exit from the crisis has forced them to suspend the process. In the coming months new dismissals may take place. ●

THE POLITICAL AND ECONOMIC RESULTS OF OCTOBER 2010

S.Zhavoronkov

At the regional legislative elections that took place in October 2010, United Russia managed to do away with the downward trend in the number of its supporters that has been manifest for almost the whole of the past year, as demonstrated by the results achieved by the party in the majority of regions where they are no worse than those achieved during the parliamentary elections. As a rule, the second place belongs to the Communist Party of the Russian Federation (CPRF). Nearly everywhere both Fair Russia and the Liberal Democratic Party of Russia (LDPR) got their access to the legislatures, while the other three officially registered parties failed to do so. The new Mayor of Moscow has become head of the RF Government apparatus S. Sobianin, and an overwhelming majority of the members of the Moscow Government appointed by Luzhkov have retained their posts. Vice Speaker of the RF State Duma V. Volodin was appointed head of the RF Government apparatus. At the ongoing second court proceeding against M. Khodorkovsky, the prosecution demanded the defendant be sent to prison for a term of 13.5 years for economic crimes. The draft law 'On the Police' submitted to the RF State Duma by the President differs little from its initial version as it was presented to the public in August 2010, although it is suggested that its elaboration should be continued.

October 2010 saw a new cycle of regional legislative elections (although these were not very impressive in terms of the actual number of regions that it involved), and in some regions the elections of mayors and municipal deputies were also held.

Elections to regional legislatures took place in the Republic of Tyva and in Belgorod, Kostroma, Magadan, Novosibirsk and Cheliabinsk Oblasts. In one of these regions (Novosibirsk Oblast), *United Russia* failed to get the planned 50 % of votes; while in three other regions it confidently passed this threshold – having gained 89 % of votes in Tyva, 66 % in Belgorod Oblast, 55 % in Cheliabinsk Oblast; and in yet another two regions it barely managed to secure its victory (50.2 %). By comparison with the parliamentary elections, *United Russia* seriously downgraded its former results in Novosibirsk Oblast (by 15 p.p.) and in Tyva (by 10 p.p.); in the other regions the decline was negligible. In Tyva, the 50-percent threshold was passed, beside *United Russia*, only by *Fair Russia* (10.5 %); the latter, however, lost in nearly all the one-mandate electoral districts – in contrast to the situation of four years ago when *Fair Russia* even managed to win in some legislative elections – by its summary results based on electoral lists and by district; since then, the bulk of that party has been integrated into *United Russia*, though.

The CPRF got the highest percentage of votes in Novosibirsk Oblast (25 %), and the lowest – in Cheliabinsk Oblast (11 %) (not counting Tyva). *Fair Russia* was most successful in Novosibirsk Oblast (16 %), while in other regions it gained more than 10 % of votes, and failed to get over the threshold in Belgorod Oblast (5 %)¹. *LDPR* enjoyed the best results in Kostroma Oblast (14.5 %), while in other regions it gained between 7 and 10 % (Belgorod, Cheliabinsk, Novosibirsk Oblasts), and in Magadan Oblast – 13.6 %. The non-parliamentary parties (*Yabloko*, *Patriots of Russia*, *Pravoe Delo* [Just Cause]) failed to get over the threshold in all the regions; moreover, at the legislature election in Kostroma Oblast and at the election to the city council in Kazan *Pravoe Delo* was altogether struck off the ballot, and the same happened to the ballot list of *Yabloko*'s candidates in Izhevsk. *Patriots of Russia*'s candidates – who were in sharp opposition to the local authority – were struck off the ballot during the elections to the city dumas in Izhevsk, Tomsk and Kazan, and the party managed to pass over the threshold in Orenburg (9 %) – if we are to look at its results achieved in more or less bigger towns. We should also note the disastrously low results achieved by *Yabloko* and *Pravoe Delo* even in the traditionally liberal cities like Tomsk where, for example, at the elections to the city *duma* they failed to get 5 % each, or even a summary result of 7 %).

1 However, in accordance with the local law they will be granted one 'consolation' deputy's mandate.

Thus, by the results of the autumn electoral cycle, it has become evident that the three non-parliamentary parties are doomed to retain the same status also during the 2011 elections, because they fail to get over the threshold practically everywhere, and they are simply struck off the ballot in those places where they do have some good chances of winning the elections. Among three non-governing parliamentary parties, in the majority of regions one may observe a small but stable advancement of the Communist Party of the Russian Federation (CPRF) on Fair Russia and LDPR; however, the results achieved by the two latter parties provide them with some good grounds for hoping that they would manage to get past the parliamentary threshold. In most regions, *United Russia* eliminated the trend of rapidly losing its voters (which has been visible over the past year at the regional elections. However, the most reliable results will be obtained only after the completion of the next cycle of regional elections in March, which will be held across two dozen regions – mainly large ones (among those participating in the recent elections, only Novosibirsk and Cheliabinsk Oblasts have more than 2 million voters, while in the other regions their numbers are less than a million).

In October, head of the RF Government apparatus S. Sobianin was appointed Moscow's new Mayor. He had been chosen from among the four candidates presented to D. Medvedev, the other three being Vice Prime Minister of the Moscow Government L. Shvetsova, Novgorod Governor and former Vice Mayor of Moscow V. Shantsev, and Minister of Transport S. Levitin. It seems that Sobianin managed to build a 'winning' coalition around his candidacy – he is believed to be close (simultaneously) to R. Abramovich, G. Timchenko and M. Fridman. Levitin's candidacy appears to have been supported by groups led by Yu. Kovalchuk and A. Rotenberg, while the other two candidates probably represented only themselves and simply provided some formal competition. S. Sobianin approved the composition of the Moscow Government: V. Resin remained First Deputy Mayor; the posts of deputy mayors were retained by L. Shvetsova (the social sphere), P. Biriukov (housing and utilities), Yu. Rosliak (economic issues); the newly appointed deputy mayors were A. Rakova (head of the apparatus, who for a long time had been accompanying S. Sobianin while he held different posts in the city of Moscow), N. Liamov (transport; prior to his new appointment he was RF Deputy Minister of Transport), A. Gorbenko (relations with the mass media; previously – editor-in-chief of the official press organ of the RF Government – *Rossiiskaia gazeta* [The Russian Newspaper], V. Shukshin (interaction with the power structures and Moskontrol; he is a rather unknown but influential member of Yu. Luzhkov's team). Most of the heads of city departments and districts have also kept their jobs. Thus, a majority of Yu. Luzhkov's team – in a broad sense of the word (because some of them had been competing among themselves on an administrative level) – remained on their posts. The number of the new appointees is fairly small, and by no means all of them have been given positions of responsibility (such as, say, A. Gorbenko), while only one whose name is actually associated with Sobianin on a personal footing is A. Rakova. On one previous occasion, when S. Sobianin came to power in Tiumen Oblast, he replaced almost all of the old administrative apparatus. However he could not do the same when he became head of the Presidential Executive Office, and then went on to head the RF Government's apparatus – among other things, for purely formal reasons – simply because the majority of his key staff, just like he himself, were to be appointed by the RF President and the RF Prime Minister respectively. In Moscow, however, where Sobianin enjoyed full formal power enabling him to replace all the key officials working under him – had he wished to do so – he chose not to do this. It seems that it was decided that the administrative and political stability in Moscow must be maintained by the 'old team' – at least during the forthcoming electoral cycle. It should also be taken into consideration that Luzhkov's destiny was still unclear just a short time ago, before he began his strange journalistic exercises involving admonitions addressed to this country's leaders and before his rating began to decline dramatically – which then ruled out his role of a 'locomotive' for the party on power and a 'ruling' candidate during elections. Any redistribution of Moscow's assets – if it is indeed to take place – is being postponed.

As for Yu. Luzhkov himself, he declared pretty soon after his dismissal that he was not planning to participate in the parliamentary and presidential electoral cycle of 2011 – 2012 (although he had initially mentioned the possibility of him being active within the framework of a social movement), and then he departed abroad together with his wife. No obstacles were set in his way. It seems that

Yu. Luzhkov decided to limit his oppositional activity to journalism – following the examples of N. Khrushchev and M. Gorbachev after their retirement. As for *Inteko's* assets, most probably these will be gradually transferred to some new owners – however not by way of expropriation but with the payment of money compensation to their former owners.

D. Medvedev submitted to parliament the draft law ‘On the Police’, while declaring that ‘it has been subjected to some considerable amendments’ (it should be reminded that in August the draft law was published for public discussion, thus giving rise to a storm of negative comments – including those concerning lexical and grammatical errors). Later on, Medvedev several times offered his own comments with regard to the course of the public discussion. Now it is suggested that the Law should come in force from 1 March 2011 instead of the previously established date – 1 January 2011, and so it is possible that some changes will be introduced into it during the readings at the State Duma – bearing in mind that many of the norms stipulated therein contain references to the future (thus, for example, the procedure for the reconfirmation of the acting staff in their posts is to be determined by the as yet unpublished decree of the RF President; it is not clear to whom the powers relating to the conduct of technical inspections, the upkeep of sobering-up stations and deportation of illegal migrants are going to be transferred after they are withdrawn from the domain of the police, and so on). Besides, contrary to the previously voiced statements, in the explanatory note attached to the text of the Law it is stipulated that its enactment will not require any additional expenditures from the federal budget.

The situation with regard to some of the most arguable details of the draft law turned out to be as follows. A citizen’s right to make a telephone call to his family or lawyers within three hours is envisaged for everybody except those who are on the federal ‘wanted’ list, while at the same time it is declared that a database of all detainees will be created. A policeman will be obliged to read to the detained citizen the latter’s rights; however, if those rights are not read – just as if the policeman provides no opportunity for a telephone call to a lawyer – this will not imply that all the subsequent investigative actions becomes null and void. The right of the police to penetrate into personal dwellings without a special warrant remained there – in ‘exceptional cases’ which, however, are interpreted very broadly (not only in order to follow a criminal but, for example, in order ‘to maintain public order’). The provisions that were criticized – those concerning checks of companies’ activity in the form of confiscation of any documents – have been made much more complex. The militia has retained its former function of rendering extra-departmental security services. ‘Public control’ is envisaged in the form of appointments, by bodies of executive authority, of relevant representatives of the public.

The RF Government extended its ban on export of grain until 1 July 2011 (previously the ban was to be in effect until 31 December 2010). Earlier (in September) D. Medvedev spoke of a possibility of lifting the embargo after the final harvesting parameters were to be determined. At present it has already become clear that this country will have enough of its own grain at least until the next harvest time – the catastrophic drought in Central Russia notwithstanding. But the RF Government, for some reason, does not hurry with the granting of opportunities to grain sellers, having declared instead that during the same period - until 1 July 2011 – it is going to subsidize railway shipments of grain and soya beans across Russia.

In October there appeared some signs that the second criminal case against M. Khodorkovsky was going to be rounded up – after the reading of the charges against the accused, which took two years, and the completion of the judicial pleadings of the parties – the state prosecution forwarded a demand that the defendant be deprived of freedom for a period of 13.5 years (as a result of the first proceeding in 2006 M. Khodorkovsky was given a term of 9 years) under Article 174, Item 1 ‘The Legalisation (Laundering) of Monetary Means and Other Property Acquired by Illegal Means’ and Article 160 ‘Appropriation or Waste’ of the RF Criminal Code. Probably the proceedings in the court of the first instance will be completed within about a month with an accusatory verdict. The manner of the second court proceeding against M. Khodorkovsky points to several important circumstances. First, it is the monstrosity of Russian criminal law itself which allows that within its framework a person can serve a 20-year term in prison for economic crimes. Some of the innovations that have been introduced in the past two years and dealt with limiting the imposition of arrest on those suspected of having committed economic crimes or abolishing some of the odious ‘economic’ articles

of the Criminal Code – like Article 173 ‘Pseudo-entrepreneurship’ – have by no means eliminated that more general circumstance. For one thing, as one can see from the absurdity of the charges (the ‘reproduction’ of the charges applied in the first proceeding – that the accused had stolen oil from *Yukos*, thus effectively robbing himself), the authorities have by no means become more reliant on the rule of law, while in terms of the period of deprivation of freedom they have become even less humane. In theory, a court of justice may ‘downgrade’ the demands put forth by the prosecutor (thus, for example, the term of imprisonment with regard to the first proceeding was shortened by one year by the cassational instance) – sometimes rather substantially. But in any event, the authorities do not intend to do away with that symbol of Russian justice – the *Yukos* case.

In October, for the first time in eight years, the State Duma gave its consent to the initiation of criminal proceedings against its deputy – A. Yegiazarian, a big entrepreneur, within the framework of the latter’s commercial conflict with S. Kerimov around the reconstruction of the *Moscow Hotel*. Yegiazarian himself is in a relatively safe position, being at present in the USA. This case has demonstrated that, in spite of the termination, over the past year, of a number of notorious criminal cases (T. Ismailov, V. Makhlay, M. Gutseriev, I. Linshits, ‘the Bashneft cases’, and some others), there still remain opportunities for launching new criminal proceedings in order to prosecute businesses (a little earlier, some theoretic assumptions were voiced by politologists that there would be no more such cases, meaning that although those previously prosecuted might not be freed, no new proceedings would be launched).

In October, the board of directors of *Sviazinvest* (75 % less one share held by the State) approved the retirement from his post of the company’s general director E. Yurchenko, and the appointment to this position of *Rostelekom*’s deputy general director V. Semenov – without waiting for an extraordinary shareholder meeting to be held in order to deal with that issue. A little earlier, a long-standing conflict between E. Yurchenko – who was believed to be a creature of RF Minister of Communications I. Shchegolev – and the RF President’s Adviser L. Reiman ended in them both retiring from their respective posts, although Yurchenko later on changed his mind and attempted to retain his post. The fact of being a Canadian citizen proved to be no obstacle for Semenov, Dmitry Medvedev’s fellow student at the University; the Federal Security Service coordinated his candidacy for becoming head of Russia’s strategic enterprise.

To the post of head of the RF Government’s apparatus (a ‘superministry’ whose approval is required by all the departments with regard to all relevant issues) – which became vacant after the appointment of S. Sobianin to be the Mayor of Moscow – Vice Speaker of the State Duma from *United Russia* V. Volodin was appointed, who is both politician and entrepreneur, and is believed to be V. Surkov’s creature.

Also in October, the RF Central Bank recalled the license of one of the oldest ‘oligarchic’ structure – the Close-end Joint-stock Company *Mezhprombank*, and then did the same in respect of its affiliated structure that attracted the population’s deposits – *Mezhprombank Plus*. Their owner is S. Pugachev, member of the Council of the Federation. Last summer, *Mezhprombank* allowed a default on Eurobonds, and then failed to repay their deposits to some of its big depositors, including *Severstal*. The bank has for a long time been supported by the RF CB, having first received an unsecured loan in the amount of 32 bn Rb, and then, as a security against that loan, *Mezhprombank*’s shipbuilding assets and the Elegend Coal Deposit (as a result, approximately one-third of *Mezhprombank*’s monies is owed to the RF CB). S. Pugachev’s ‘empire’ has been steadily shrinking throughout the 2000s, some of his former partners had abandoned him, and it now appears that the State has also lost its trust in this businessman. Faced with a difficult situation, *Mezhprombank*, nevertheless, demanded that its assets – interesting but with no short-term liquidity – be overestimated (the shipbuilding plants – strongly dependent on several state or quasi-state orders, as well as the big coal deposit, which he had owned for about 10 years but whose development has never been started). It seems that Sergei Pugachev has finally lost his oligarch status. ●

INFLATION AND CREDIT AND MONETARY POLICY

N.Luksha

In September, inflation continued to accelerate, having reached 0.8 per cent by the end of the month (against 0 per cent in September 2009). On Oct. 5, on the contrary, there was a slowdown in its growth from 0.2 to 0.1 per cent in the week. As a result of 18 days in October, consumer prices rose by 0.4 per cent. Cumulative inflation since the beginning of the year was 6.7 per cent, remaining still below the last year figure (8.1 per cent), but was rapidly approaching the bottom indicator of the official estimated for 2010 (7 per cent). In September and the first two weeks of October, foreign currency and gold reserves grew by 5.8 per cent to USD 503.7 billion in September, the real effective exchange rate has reduced by 1.6 per cent. In October, the value of the two-currency basket has increased by 1.7 per cent to USD 35.92 on October 23. From October 13, the Bank of Russia has rejected a fixed foreign currency range of RUR 26-41, having extended in each direction the three-ruble operating range of valid values of the two-currency basket accordingly and has lowered the amount of planned interventions from USD 700 million to USD 650 million.

In September inflation continued to accelerate: the CPI for the month amounted to 0.8 per cent (against 0.6 per cent a month earlier), having met the expectations of the Ministry of Economic Development (see Fig. 1). As in the previous month, the largest contribution to the growth made the growth in prices for food products (by 1.6 per cent). Growth in their prices continued to gain pace: they grew by 1.7 times faster as compared with August.

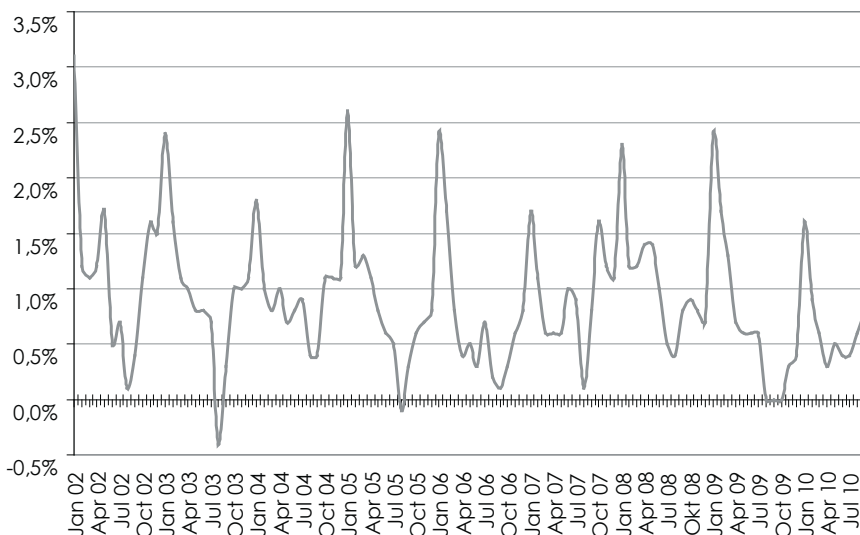
The engine of prices growth became the upsurge in eggs pricing by more than one third (34.2 per cent). In September there was no reverse trend in rapid prices growth, which started in the last summer for cereals and beans (11.6 per cent). Against that background, the rise in prices for sunflower oil (by 5.7 per cent), sugar (by 5 per cent) and butter (by 4.6 per cent) did not seem so devastating. In September the seasonal downgrading in prices for fruit and vegetables was over and their prices rose by 0.2 per cent. There was no decline in prices for any foodstuffs in September.

In September, growth in prices for industrial goods continued to accelerate (+0.6 per cent). As in August, the faster growth than other products was observed in tobacco products (+2.4 per cent) - the companies adjusted the price tags because of higher cost on the design of cigarette packs. Some corrections made autumn season in view of increased demand for autumn and winter shoes and clothing. Prices for footwear increased by 1.3 per cent, for knitwear, clothing and underwear - by 0.9 per cent. In September, none of the groups of consumer goods price reduction was not observed.

Growth rate in prices for commercial services in September continued to decelerate, having made 0 per cent for the month. Price growth throughout the summer for services of foreign tourism, health-care and recreation services and passenger transport have declined with the onset of autumn. Also, prices have fallen and insurance services (-0.7 per cent). At the same time early in the new school year, prices for education services went up (+2.4 per cent), as well as physical training and sports (+2.6 per cent).

The adverse effect of summer drought is continued: after a jump in prices for grain, cereals, eggs and milk prices rose sharply for potatoes (+8.7 per cent) and sunflower oil (+5.7). Also in September there was observed another negative trend - inflation expectations, were spread from the food segment to the non-food products. Growth rate of prices for industrial goods increased by 1.5 times as compared with August. Another factor of hindering the growth of inflation in September was the stagnation in prices for services, which was primarily related to the seasonal reduction in the cost of Railway tariffs.

Starting from October 5, the weekly inflation rate slowed down to 0.1 per cent per week, whereas in the previous 5 weeks, it grew by 0.2 per cent pace in the week. Therefore, from the beginning of the month to October 18, consumer prices rose by 0.4 per cent, and since the



Source: RF Statistical Service.

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

beginning of the year - by 6.7 per cent. Slowdown in inflation in October contributed due to, first of all, lower prices for eggs, which in 18 days of October fell down by 0.7 per cent after more than 30 per cent price growth in September. At the same time, millet and buckwheat, prices for which have risen since the beginning of the month, respectively, by 8.1 and 3.8 per cent, continue to urge an upward pressure on consumer prices. Under the forecast of Economic Development, in October inflation will slow down compared to September and can make 0.6-.7 per cent¹. The basic CPI of consumer price index² in

September 2010 has made 1.1 per cent (versus 0.5 per cent in the relevant period of 2009).

In September, the monetary base in broad definition has increased again to RUR 7,126 bn (+1.1 per cent). On October 1, cash in circulation with regard to the fund balances in credit organizations has reached RUR 5.02 trillion (+1.2 per cent), correspondent accounts of credit organizations with the Bank of Russia made RUR 590 billion (+5.7 per cent), mandatory reserves made RUR 182.2 billion (+1.6 per cent), deposits of the banks with the Bank of Russia made RUR 519.4 bn (+0.4), the value of shares of the Bank of Russia with credit organizations made RUR 810 bn (-18.2 per cent).

In September, the excessive reserves of commercial banks³ have reduced by 146.5, having reached as of the month result RUR 1919.4 bn. Nevertheless, excessive liquidity is sustained in the banking system and according to the Central Bank estimates, this situation could last at least until the end of 2010⁴. The banks (Sberbank, UniCredit, BINbank, etc.⁵) do not experience any problems of the excess liquidity, as the surplus is sterilized by intensified lending. Indeed, the banks' lending continues to increase: over 9 months their loan portfolio grew by 6.6 per cent⁶.

In September the growth of the volume of cash in circulation by 1.2 per cent with the simultaneous increase of mandatory reserves by 1.6 per cent urged the extension of monetary base in narrow definition (cash plus mandatory reserves)⁷ by 1.3 per cent to RUR 5206.7 bn (see Fig. 2).

In September, foreign currency and gold reserves of the Central Bank continued to grow. Their volume increased within the month by 5.8 per cent to USD 503.7 billion, having returned to the level of two years ago, when the crisis came in the acute phase.

According to the tentative estimates of the Central Bank, in the III quarter the net capital outflow from the country amounted to 4.2 billion dollars. With regard to the net capital outflow in the first half of the year in the amount of 11.8 billion dollars, in the first three quarters the net

1 RBC News (<http://www.rbc.ru/fnews.frame/a/top////////20101020171955.shtml?>), 20.10.2010.

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

3 Under the excessive reserves of commercial banks in the Central Bank rating if understood the sum of correspondent accounts of commercial banks, their deposits with the CB and the CB bonds from commercial banks.

4 RBC News (<http://www.rbc.ru/fnews.frame/a/top////////20101021144802.shtml?>), 21.10.2010.

5 RBC daily (<http://www.rbcdaily.ru/2010/10/22/finance/521547>), 22.10.2010.

6 From the speech of deputy Central Bank A.G. Ulyukayev on Gaidar's readings (<http://www.iet.ru/ru/konferencii-seminari-kruglye-stoly/gaidarovskie-chteniya-pervoe-zasedanie.html>). 13.10.2010.

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

capital outflow amounted to USD 16 billion, which is 4 times less than in the same period of the last year.

Foreign currency outflow from the country in the III quarter contributed to a weakening of the ruble during this period by 1.2 per cent. In September, the real effective exchange rate has weakened by 1.6 per cent. Accordingly, the index of real effective exchange rate for the month fell down to 141.07 (see Fig. 3)¹.

In the last week of September and first week of October the dollar rate against ruble was drastically decreasing: a little more than over two weeks, it fell down by 4.7 per cent to the indicator of 5 months earlier.

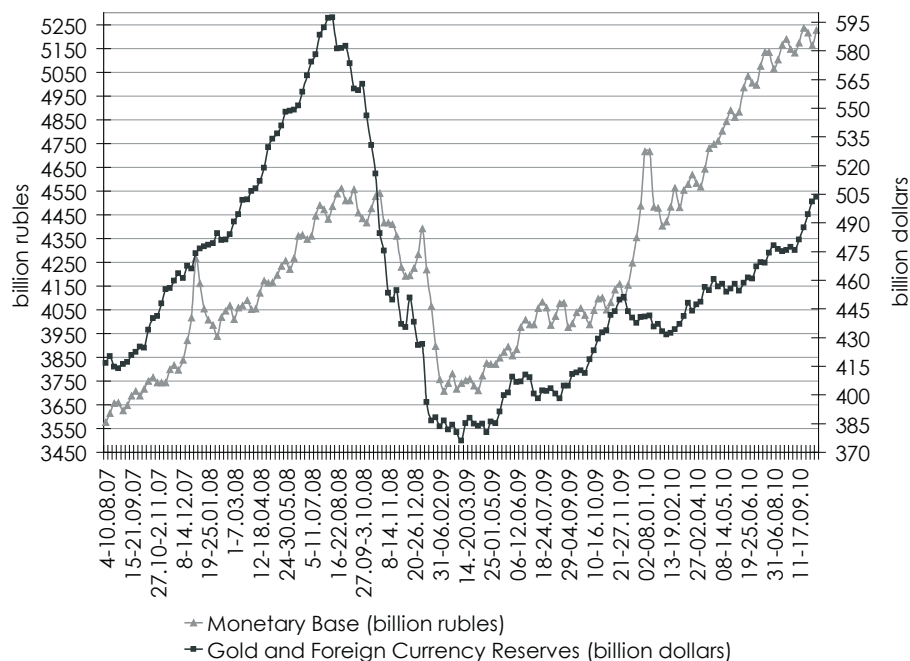
After a speculative attack on the ruble in mid-September, the presentations of the RF Central Bank representatives and the appropriate actions of the Bank of Russia (in particular, sales of foreign currency to support the ruble) were able to reassure market participants. Therefore, the ruble managed to gain back the downfall, and rumors about a possible devaluation of the ruble weakened. Negative information on unemployment in the U.S., as well as oil price growth (from USD 78 in the last week of September to USD 85 per barrel in the first week of October) also plaid in favor of ruble.

However, since the second week of October, dollar has once again started to win back the lost ground, reaching the indicator of 30.8 rubles to the dollar on October 21. In view of the fact that at the same time in the world currency market, the U.S. currency became cheaper, its growth rate against the ruble is connected, apparently, with the internal factors. This is, firstly, the high demand for foreign currency from corporate borrowers, who needed to repay foreign currency debt, and secondly, the reduction of trade balance due to the continued growth of imports with the stable exports, and thirdly, the expansion of monetary supply, and, finally, inflation expectations. Thus, the decline in the dollar earlier this month, and then its growth from a small adjustment in the fourth decade of the month left the rate unchanged in the first three weeks of October.

In October, the Euro rate continued its growth against ruble: a little more than over three weeks, it has grown by 4.7 per cent. In the middle of the month it has exceeded the indicator of 42 rubles, having returned to the level of late January 2010. One of the main reasons for the rapid growth of Euro has been strengthening against dollar in FOREX market as well: in the second week of October, quotations for Euro / dollar fluctuated around the indicator of 1.4 dollars / Euro.

In October the value of the two-currency basket has grown by 1.7 per cent and reached RUR 35.92 on October 23.

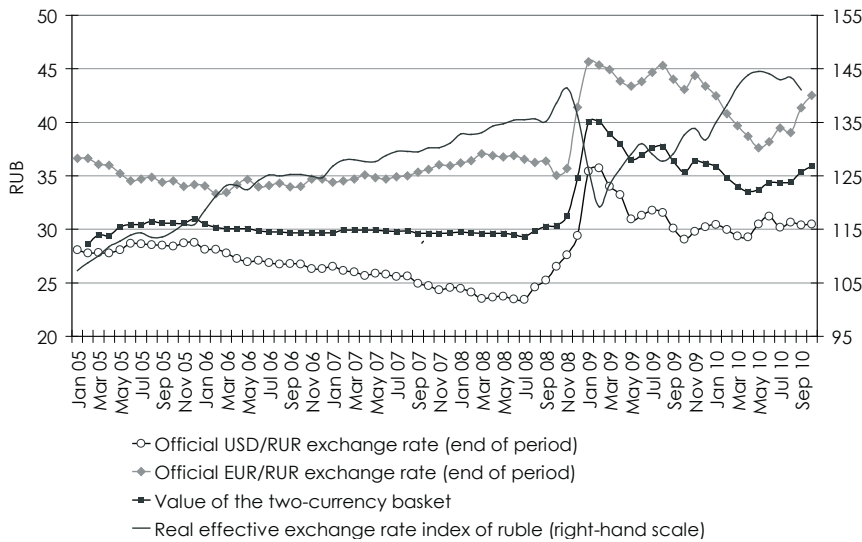
Dollar is getting weaker not only against Euro, but to the currencies of other trading partners. Despite assurances from T. Geithner, U.S. Treasury Secretary, that the United States will not intentionally devalue the dollar, the actual dollar weakening causes dissatisfaction on the part of many countries (Japan, China, Brazil, East Asia), which have been forced into a so-called "currency war" to prevent the strengthening of their national currencies. At the meeting of "Big Twenty" on October 23 in China, finance ministers and central banks Heads agreed to refrain from the devaluation of national currencies.



Source: RF Central Bank.

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

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



Source: RF Central Bank, author's estimates.
 Fig. 3. Indicators of Ruble Exchange Rate Dynamics
 within January 2005 – September 2010²

operating range of the two-currency basket values from 3 to 4 rubles and reduced the amount of accumulated interventions, leading to a shift in the operational range of the interval for 5 kopecks., from 700 million to 650 million dollars. Furthermore, the RF Central Bank abolition of the fixed boundaries of the corridor, which defines the allowable fluctuations in the two-currency basket in the range of 26-41 rubles for the basket, which were set on Jan. 23, 2009.

Those measures have been taken in accordance with the basic guidelines of the monetary and credit policy for 2011-2013 and are aimed at reducing the direct intervention of the Central Bank in the rate fixing in the domestic foreign exchange market in the framework of gradual transition to a regime of free-floating ruble rate. Nevertheless, the Bank of Russia does not intend to completely abandon the currency intervention to mitigate sharp fluctuations in the exchange rate.

Following the speech of the First Deputy Chairman of the Central Bank A.G. Ulyukaev at the VIII International Banking Forum «Russian Banks - XXI century» in Sochi on the decommissioning the anti-crisis measures to support the banking sector, on October 15, the Bank of Russia took the decision to return from 1 January 2011 to the approach of formation of the List of the Bank of Russia³, which was in effect until February 2009.

The Central Bank will exclude from the list the strategic organizations, which were included there in December 2008 as part of crisis management support to banks and real sector. Now, the Lombard list will include organizations which have the long-term credit rating on liabilities in foreign currency with at least one of the foreign rating agencies at the level no lower than “B” under classification of «Standard & Poor's» and «Fitch Ratings» or “B3” under classification of «Moody's Investors Service» rating Agency. Herewith, the liabilities of strategic organizations, provided under the loans of the Bank of Russia as of January 1, 2011, will remain as collateral for those loans before maturity.

During the crisis, the inclusion in the List of the RF Central bank securities of strategic organizations, that had no corresponding rating of international agencies, was necessary to support the banks, so as to expand their opportunities to refinance with the Central Bank. Now that is officially considered that the acute phase of the crisis is over⁴, cutting down the anti-crisis measures is timely. ●

As stated by Deputy Head of the Central Bank A. Ulyukaev at Gaidar Readings¹, the Bank of Russia is a peaceful organization and has no intention to participate in the currency wars. Nevertheless, the Bank of Russia in advance has insured itself against possible speculations that may flare up with renewed force after the expected by investors in early November measures to mitigate the monetary policy of the USA are implemented: on October 13, 2010 a fixed currency rate was cancelled, which is likely to make currency policy even less predictable.

From October 13, the Bank of Russia symmetrically extended

1 The first meeting of Gaidar Readings, E.T. Gaidar Institute for Economic Policy. (<http://www.iet.ru/ru/konferencii-seminary-kruglye-stoly/gaidarovskie-chteniya-pervoe-zasedanie.html>), 13.10.2010.

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

3 The List of Bank of Russia is a list of securities accepted by the Bank of Russia as collateral when granting lombard credits.

4 According to Ms. E. Nabiullina, Head of the Ministry for Economic Development//RIA News (<http://www.rian.ru/economy/20101021/287875523.html>), 21.10.2010.

FINANCIAL MARKETS¹

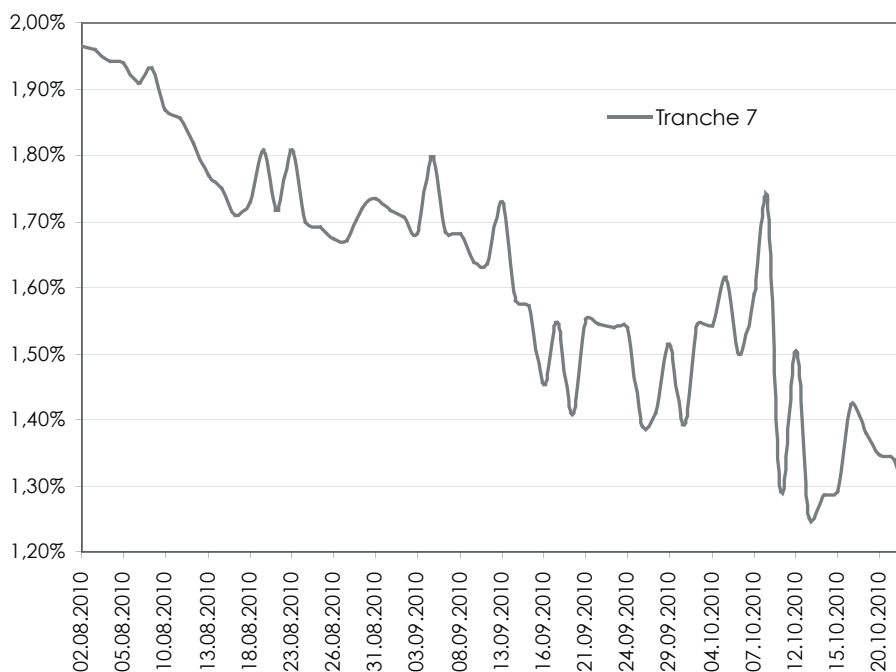
N.Burkova, E.Khudko

In October 2010 there was a general upward dynamics in the Russian financial market. Stabilization of the global economy and positive investors' expectations, extension of the RF foreign currency and gold reserves, as well as the sustained key refinancing rate have led to a sharp increase in the activity of bidders in corporate securities and turnover growth in the RF futures market. However, the reduction in estimates of the IMF and the Ministry of Economic Development of Russia in terms of the Russian economy growth in 2010 led to a sharp decline in trading volumes of the government securities market by 5.6 times. At the background of increased number of emissions, the volume of corporate bonds market demonstrated some growth, and the rates of secondary trading in bonds at the stock exchange reached a record level for the past six months. Average yields of corporate bonds fell for the first time in several months. The main problem remains with the failure of issuers to fulfill their obligations to the bondholders.

Government securities market

Information from the RF Ministry of Economic Development that the economic growth in Russia can be much lower than the estimated 4 per cent, the growth of external public debt of the Russian Federation in January-August by 10.4 per cent, and Yuri Luzhkov, the Mayor of Moscow dismissal have contributed to a significant reduction in the investors' interest in government securities market in October 2010 at the background of generally rising dynamics of the Russian Eurobonds yield since the middle of the month.

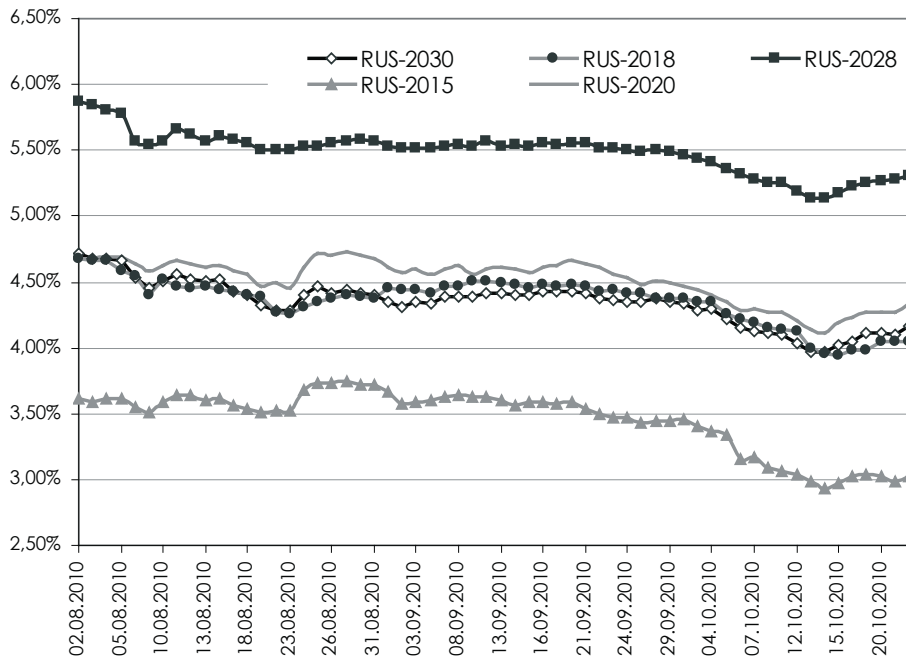
As of October 24 of the current year, the Russian Eurobonds RUS-28 yield to maturity has reduced as compared with the level of September 23 from 5.51 to 5.31 per cent per annum (by 3.7 per cent), RUS-30 – from 4.44 to 4.04 per cent per annum (by 8.94 per cent), RUS-30 – from 4.37 to 4.17 per cent per annum (by 4.51 per cent), RUS-20 – from 4.55 to 4.34 per cent (by 4.81 per cent) and RUS-15 from 3.48 to 3.03 per cent per annum (by 12.86 per cent). Herewith, on October 13-14, a similar downgrading trend in the yields of external currency debt bonds has been changed by an upgrading trend. As of the same date, a similar downgrading trend was observed in the yields of external currency debt bonds. Thus, the yield to redemption of the seventh tranche of external currency debt bonds has decreased, like a month before, from 1.54



Source: "Finmarket" Information Agency data.

Fig. 1. Minfin bonds' yields to maturity in August – October 2010

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



Source: "Finmarket" Information Agency data.

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

to 1.26 per cent per annum (by 18.12 per cent) (see Figs 1- 2) against the background of volatile trends.

Within the period from October 24 to October 24 the total turnover of the secondary market of government bonds amounted to approximately RUR 162.08 billion with an average daily turnover of RUR 7.72 billion (about RUR 779.98 billion with an average daily turnover of RUR 43.33 billion in September), which means the decrease of an average monthly turnover by 5.6 per cent.

In the period from August September 234 through October 24, there were no auctions for government bonds placement at the

primary government bonds market (a month before there were eight auctions). However, in the period under review there were five auctions for government bonds on additional government bonds placement in the secondary market (no auctions a month earlier). Thus, on October 6 there was an auction for government bonds series 25073 for the total volume of RUR 35 bn; the actual volume of placement made RUR 34.49 bn with an average weighted yield of 5.59 per cent per annum. On October 13 there were two auctions for government bonds series 25073 and 25075 for the total volume of RUR 15 bn each; the actual volume of placement made RUR 14.78 and RUR 14.93 bn with an average weighted yield of 5.75 and 6.87 per cent per annum, accordingly. On October 20 there were two auctions for government bonds series 25071 and 26203 for the total volume of RUR 9.5 and RUR 15.5 bn; the actual volume of placement made RUR 9.5 and 15.5 bn with an average weighted yield of 6.69 and 7.14 per cent per annum, accordingly. Therefore, the total actual volume of placement of the government bonds series in the secondary market for the period under review 89 per cent of the estimated volume. As of October 24, the volume of government bonds market made RUR 1,849.05 bn at face value and RUR 1,872.5 bn at the market value (as compared with RUR 1,768.65 bn and RUR 1,785.35 bn accordingly as of September 23). The duration of the OFZ market portfolio was 1,443.69 days, having decreased by 42.2 days as compared with the preceding month (as of September 23).

Stock market

Stock market situation

In October 2010, trading volumes in the stock market showed a greater market turnover as apposed to the previous month at the background of positive trends in view of improvement of the situation in the global financial markets, RF Central Bank sustained refinancing rate at the level of 7.75 per cent, growing budget surplus of the Russian Federation (49.8 per cent over the nine months of 2010 and the growth of foreign currency and gold reserves.

The maximum value within the month the MICEX index has reached on October 21, having reached – 1,528.11 points (1,441.58 points in the preceding month). The minimum value for the period the MICEX index has reached on October 1 – 1,441.58 points (against 1,394.57 points in the preceding month) (Fig. 3). Therefore, the investors' average daily activity in the stock market in October has decreased as compared with the preceding period by 25 per cent. The indicators of maximum and

minimum daily turnover in the market trades made, accordingly, RUR 90.2 bn (as of October 21) and RUR 25.16 bn (on October 11).

As of the month results (from September 24 through October 24), the majority of the “blue chips” securities have shown an upward dynamics. The leaders in the growth were Sberbank of Russia and VTB Bank and LUKOIL, whose shares have increased by 20.15 and 15.75 per cent, accordingly.

They were followed by Rostelecom, increased by 7.87 per cent, GMK Nor Nickel (7.85 per cent), Gazprom Neft (6.66 per cent), and Surgutneftegas (4.7 per cent). Sberbank of Russia (7.65 per cent) and Rosneft (2.77 per cent). The lowest rates of growth were demonstrated by Mosenergo (2.61 per cent), Tatneft (2.42 per cent) and Rostelecom (1.47 per cent). A reverse trend was demonstrated by LUKOIL and Gazpromneft, whose value has decreased by 3.72 and 0.9 per cent, accordingly (Fig. 4).

In October of the current year the MICEX turnover leaders were: “Sberbank of Russia” (34.46 per cent of the total turnover), Gazprom (17.04 per cent), GMK “Nor Nickel” (6.77 per cent), LUKOIL (6.10 per cent) and Rosneft (6.10 per cent). The total volume of transactions with the shares of those five «blue chips» was about 70.5 per cent (all «blue chips» - 78 per cent) of the total trades in shares at the MICEX stock market over the period from September 24 through October 24.

According to MICEX information, as of October 24, the top five leaders of the domestic stock market in terms of capitalization were: “Gazprom” – RUR 3 960.34 bn (RUR 3 782.32 bn a month earlier), “Rosneft” – RUR 2 301.61 bn (against RUR 2 127.16 bn), “Sberbank of Russia” - RUR 2 213.74 bn (against RUR 1 797.76 bn), “LUKOIL” - RUR 1 488.08 bn (against RUR 1 524.01bn) and Surgutneftegas – RUR 1 070,71 (against 1 031.12 bn rubles).

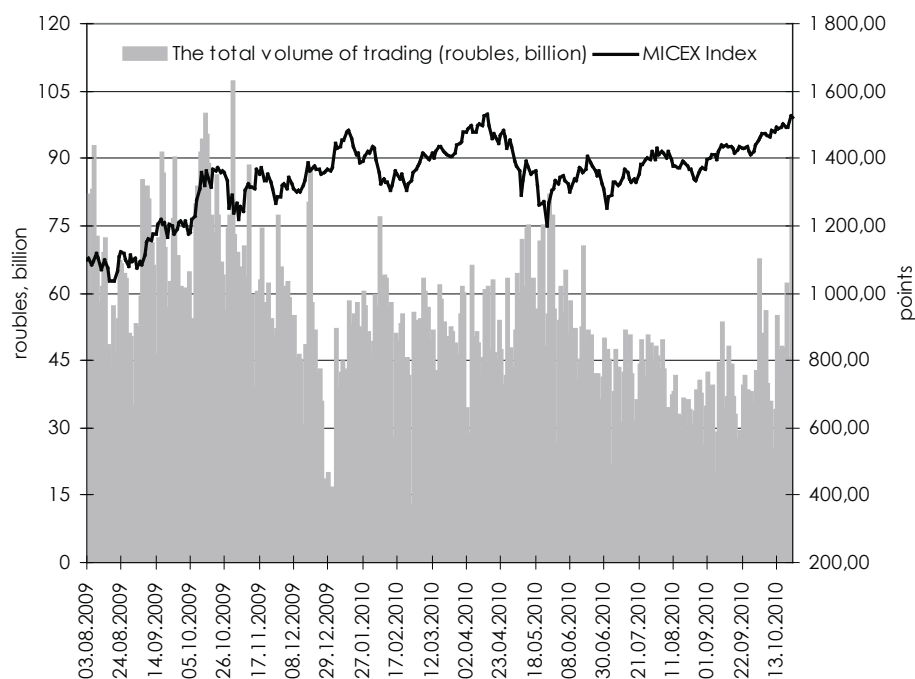


Fig. 3. Dynamics of MICEX Index and trading volume

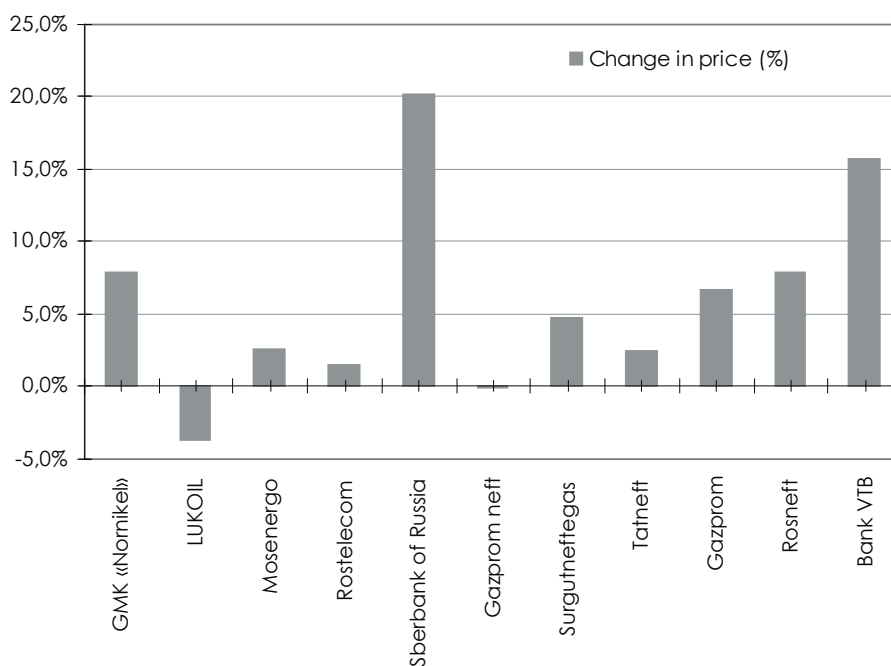


Fig. 4. Dynamics of the Russian Blue Chips from September 24 to October 24, 2010

Futures and Options Market

In October the average daily turnover in the MICEX futures market has increased by 18 per cent as compared with the preceding month. Thus, in the period from September 24 through October 24 the total turnover in the MICEX (futures) market made approximately RUR 161.15 (652.15 thousand of transactions, 3.1 mln of contracts) with an average daily turnover of RUR 7.67 bn against about RUR 117.19 (437.66 thousand of transactions, 2.36 mln of contracts) with an average daily turnover of RUR 6.51 bn in September. The largest volume of trading in October, like a month before, was observed in contracts for futures and equity instruments, amounting to RUR 117.07 billion (698.11 thousand of transactions, 3.1 mln of contracts). Herewith, in terms of the trading volume in this section, the MICEX derivatives market after the settlement of futures contracts for the MICEX index are followed by the futures supply contracts for the shares of Sberbank, Norilsk Nickel, Gazprom, and LUKOIL. We would like to note, that the value of the MICEX index (the price of transactions) for December 2010 was mainly in the range of 1,420 – 1,530 points, and for March 2011 – at the level of 1,440–1,530 points.

The second place in terms of trading volume within the month of October was taken by foreign currency futures (RUR 40.5 bn). Herewith, contracts for the US dollar were in the first place in terms of trading in the MICEX futures market, followed by futures contracts for Euro rate and for Euro/USD rate. It is worth noting that prices of futures contracts, concluded in October for RUR/USD futures in the MICEX market were within RUR/USD 30–30.9 for December 2010, and RUR/USD 30.2–31.1 for March 2011. Trading volume in futures for commodity assets within the period under review has made 3.98 per cent. There were no contracts for interest rate in September.

Similar trends were observed in the RTS FORTS futures market, where the investors' average daily activity has increased by 24 per cent as compared with the previous month. Thus, in the period from September 24 through October 24 the total market turnover of futures and options in RTS made about RUR 2 934.2 billion (10.11 million of transactions, 63.26 million of contracts) with the average daily turnover at the level of 139.72 bn as compared with about RUR 2 026.56 billion (7.74 million of transactions, 43.08 million of contracts) with the average daily turnover of RUR 112.59 in September. The greatest demand among the market participants, as before, was demonstrated in futures: trading volume in them during the period under review amounted to RUR 2,784.18 billion (9.87 million of transactions and 61.11 million of contracts). Herewith, in the first place in terms of futures trading volume were the futures contracts for the RTS index, which were followed with a significant margin by the futures contracts for the dollar-ruble rate and for Euro/USD rate and for the shares of Sberbank of Russia and Gazprom shares. It should be noted that prices of the transactions, concluded in the RTS FORTS on futures contracts RUR/USD rate for the date of execution on December 15, 2010, were within RUR 30–30.9 /USD, and for March 15, 2011 - RUR 30.2–31/USD. The value of futures contract for the RTS index (based on the prices of recent contracts) with the execution date on December 15, 2010 and for March 15, 2011 was estimated on average at 1 480–1 600 points. Options enjoyed far less demand, the turnover made about RUR 150.02 bn (232.38 thousand transactions and 2.15 mln of contracts). The maximum daily turnover in the short-term RTS futures market in the period under review made RUR 180.24 billion (as of October 22), and the minimum was RUR 83.99 bn (as of October 11). We would like to note that on October 18 in the FORTS market of futures and options, trades were started for the one-month futures contracts for Brent oil, and from October 25 trades with the new instrument were started for settlement futures on raw sugar with quotations in rubles per ton with the deadlines in March, May, July and October.

External factors behind the Russian stock market dynamics

In October 2010 the Russian financial market dynamics, as a month earlier, was largely dependent on the situation in the global financial markets. Among the basic factors of positive global market indicators, affecting the Russian market in April, one should mention:

- increase in the index of business activity in the U.S. and Germany in September
- opinion of the International Monetary Fund on stable economic growth in Germany in 2010 and 2011
- lowered unemployment rate in Germany in September to 7.5 per cent

- keeping the level of unemployment in the Euro zone in August at the July level (at 10.1 per cent)
- in the II quarter of 2010 growth of the U.S. GDP by 1,7 per cent, France GDP - by 0.7 per cent, UK GDP - 1,2 per cent
- growth of global prices for precious metals;
- Nike Inc. net profit growth by 9 per cent up to USD 559 mln;
- decision to establish a joint trans-Atlantic airline company by British Airways, American Airlines and Iberia
- information on reducing the number of initial applications for unemployment allowance in the U.S. in September

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

- preservation of the volume of sales of new U.S. homes in August at the July level, and also decrease of the amount of industrial stocks in the U.S. in August to 0.5 per cent
- reduction of Japan trade surplus in August, according to the estimated data by 37,5 per cent;
- decrease of Bank interest rate up to 0-0,1 per cent
- consumer price growth in the Euro zone in September in annual terms by 1.8 per cent;
- reduction in the international rating agency Moody's Investors Service's sovereign rating of Spain from the highest AAA assigned in 2001 to AA1 with the "stable" outlook.

All those factors have generally resulted in the increased dynamics of the global stock indices in October, as of the month results. Thus, the markets of the developed countries were demonstrating a general increase in the indices by 2-6 per cent over the month, while the stock indices of the developing markets have grown by 1-15 per cent. The exception was the index of Japan Nikkei-225, which have demonstrated a positive trend, like the basic global stock markets indices of the developing countries, demonstrating a positive trend (See *Table 2* and *Fig. 5*).

Table 1

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

Index	Ticker	Value	Dynamics within the month(%)*	Dynamics from the year beginning (%)
MICEX (Russia)	MICEXINDEXCF	1 519.30	6.24	10.90
RTS (Russia)	RTSI	1 608.71	8.91	11.36
Dow Jones Industrial (USA) Average (USA)	DJI	11 132.56	4.41	6.76
NASDAQ Composite (USA)	NASD	2 479.39	6.55	9.27
S&P 500 (USA)	SPX	1 183.08	5.18	6.10
FTSE 100 (UK)	FTSE	5 741.37	3.50	6.07
DAX-30 (Germany)	DAX	6 605.84	6.81	10.88
CAC-40 (France)	CAC	3 868.54	4.26	-1.72
Swiss Market (Switzerland)	SSMI	6 477.13	2.76	-1.05
Nikkei-225 (Japan)	NIKKEI	9 426.71	-1.46	-10.62
Overpay (Brazil)	BUSP	69 529.73	1.07	1.37
IPC (Mexico)	IPC	35 120.88	6.13	9.34
IPSA (Chile)	IPSA	4 793.37	1.32	33.84
Straits Times (Singapore)	STI	3 173.57	2.93	9.52
Seoul Composite (South Korea)	KS11	1 897.31	3.53	12.75
ISE National-100 (Turkey)	XU100	71 006.82	10.62	34.42
BSE 30 (India)	BSE	20 165.86	1.53	15.47
Shanghai Composite (China)	SSEC	2 975.04	14.80	-9.22
Morgan Stanley Emerging Frontier Markets Index	EFM	874.98	5.53	11.77

* – Versus index indicator valid on September 23, 2010.r.

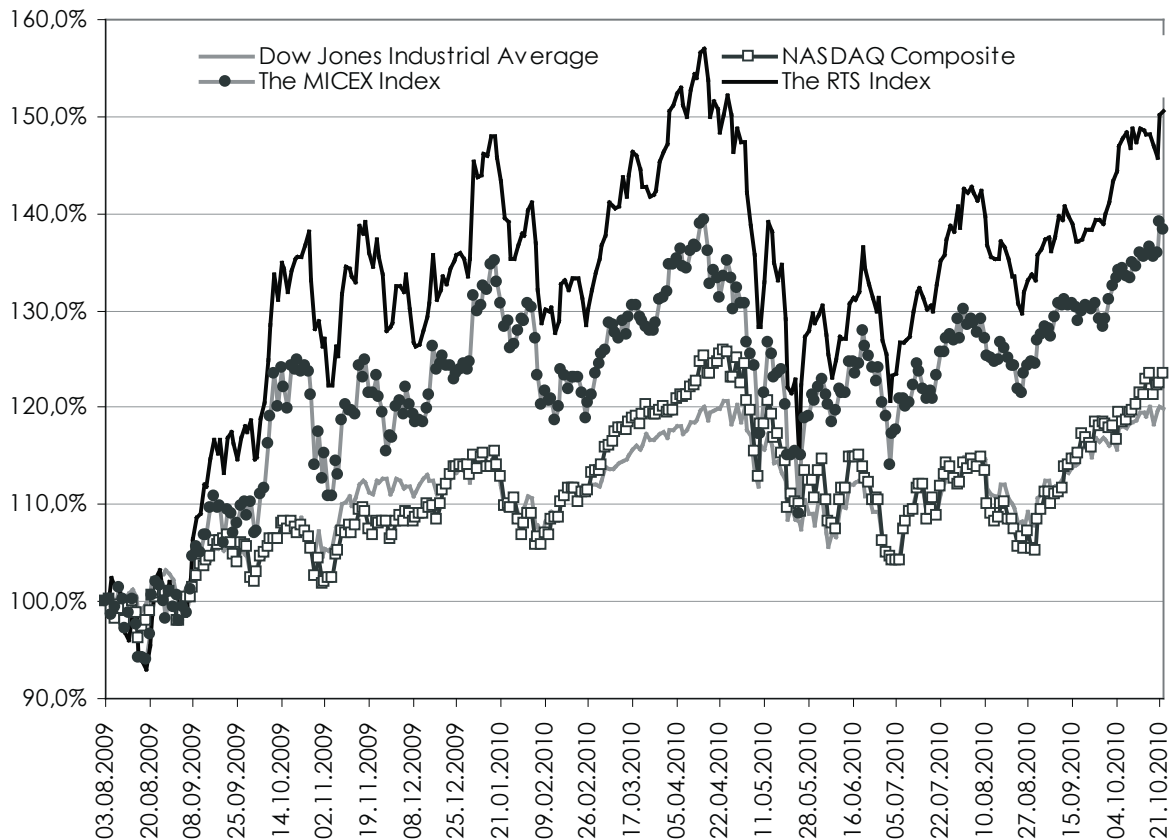


Fig. 5. Dynamics of the main USA and Russian stock indices (in percentage to the date 03.08.2009)

Corporate news

OAO "VTB Bank"

On September 27, 2010, VTB Bank and Industrial and Commercial Bank of China have signed an agreement, providing in the framework of the basic credit agreement dated August 22, 2002, the extension of credit line for long-term finance Russian imports from China from USD 200 to USD 500 million. On October 6 VTB Bank has emitted Eurobonds in the amount of USD 1 billion under the Program of VTB currency medium-term notes issue.

GMK «Norilsk Nickel»

On October 4 GMK "Norilsk Nickel" has disclosed preliminary financial reporting under IFRS for the 6 months of 2010: EBITDA increased from USD 1,398 million to USD 3,373 million (by 141 per cent), net profit grew by USD 1,906 million (by 434 per cent) and amounted to USD 2,345 million (USD 439 million over the same period in 2009), mainly due to higher-priced metal sales.

OAO NC «Rosneft»

On October 15 OAO NC «Rosneft» and Venezuela Petroleos de Venezuela S.A. (PDVSA) have signed a contract of purchase by «Rosneft» from PDVSA of 50 per cent share in Ruhr Oel GmbH for the amount of USD 1.6 bn.

OAO «Rostelecom»

On October 8, OAO "Rostelecom" has disclosed its unaudited consolidated reporting developed under IFRS for the first six months of 2010: consolidated net profit grew by 31 per cent and amounted to RUR 1.9 billion.

Sberbank of Russia

On October 15 the Sberbank of Russia has disclosed its financial reporting developed under RAS for the first nine months of 2010: net profit amounted to RUR 106.8 billion as compared with

RUR 9.1 billion within nine months of 2009, assets grew by 12.1 per cent to RUR 7,966 billion; Russian enterprises were granted loans amounting to about RUR 3 trillion.; capital adequacy ratio made 18 per cent.

OAO «Tatneft»

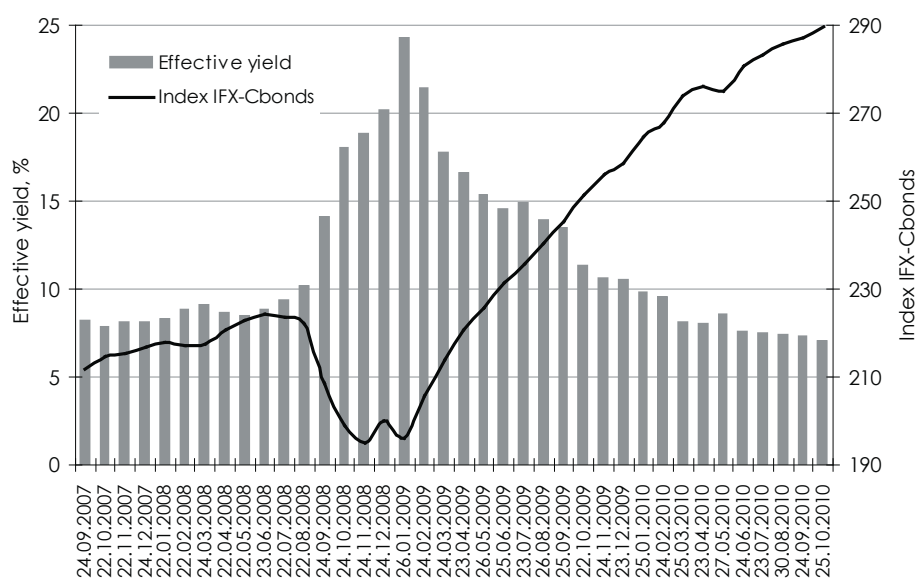
On October 14 OAO “Tatneft” has disclosed its consolidated interim condensed financial reporting developed under U.S. GAAP for the six months of 2010: net profit of shareholders amounted to RUR 15,860 million (USD 527 million) as compared with RUR 29,686 million (USD 898 million) in the first six months of 2009, total assets increased from RUR 495,742 million (USD 16,394 million) to RUR 540,395 million (USD 17,320 million).

Corporate bonds market

The volume of the Russian domestic corporate bonds market (as per nominal value of shares in circulation, denominated in national currency) in September of the current year continued its growth and at the end of the month made RUR 2,652.9 bn, which exceeds the relevant indicator of preceding month by 2.7 per cent (a similar growth was recoded in September against August)¹. The growth of the market is based on the growing number of bond emissions in circulation, denominated in national currency (from 678 to 691), though the number of emitters, observed against the preceding two months’ trend has decreased from 361 to 355. There is still one emission of bonds in circulation, denominated in US dollars and one in Japanese yens.

Index of the Russian corporate bonds market IFX-Bonds continued its upward trend emerging since the beginning of 2009. The increase of the index by 2.2 points (0.8 per cent) was demonstrated in the period from September 24 through October 25. Effective yield is decreasing in October, though for the four preceding months it was sustained. As of the end of the month, its value was 7.09 per cent against 7.33 in late September (*See Fig. 6*). The duration of corporate bonds market portfolio has regained a downgrading trend and made 634 days, which is by 16 days less against the last month indicator.

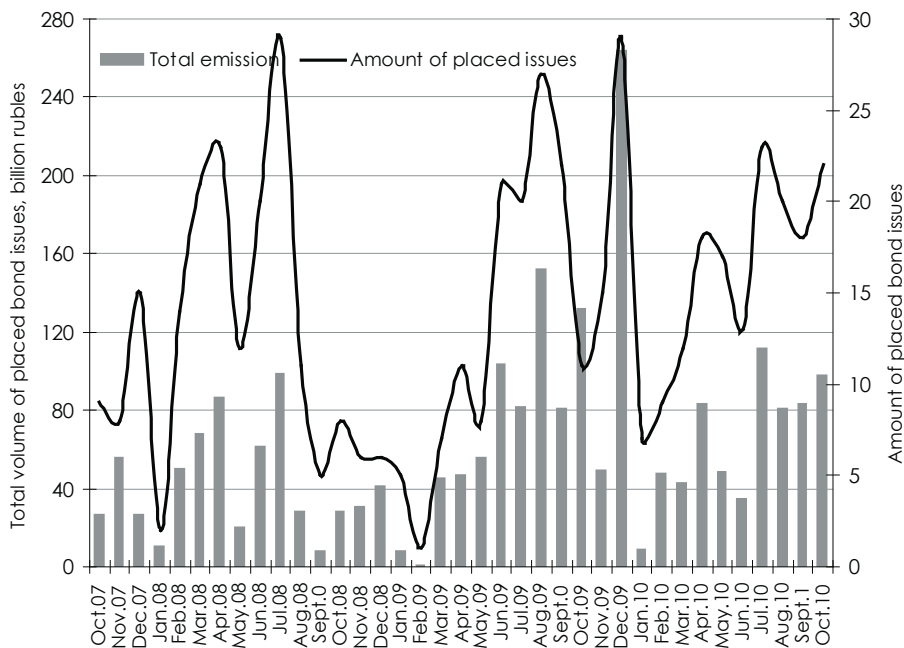
Among the most liquid emissions, the average effective yield in the period under review demonstrated weighted average earning power. The greatest decrease in effective yield of their emissions have demonstrated bonds of many companies, including: OAO “NOMOS BANK”, series 09 (-0.82 p.p.); OAO “Russian Agricultural Bank” series 09 (-0.82 p.p. and -0.96 p.p., accordingly). OAO AKB “Petrocommerts” series 05 and 07 (0.74 p.p. and -0.69 p.p. accordingly), OAO AKB “Avangard” series 03 (-0.69 p.p.), OAO “External Trade Bank” series BO-05 (-0.61 p.p.), OAO “Zenit Bank” series 05 (-0.9 p.p.). Also, a sizeable decline in yield was recorded in respect of securities of many major metals and mining companies (in particular, “Mechel”, “Seligdar Gold”, “ALROSA”). The substantial increase in the yields of their bonds have shown, perhaps, only of “Territorial generating company № 1” (series 02, 0.60 percentage points) and “Severstal” (series BW-01 .49



Source: Rusbonds data

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

1 As per Rusbonds information



Source: Rusbonds data

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

p.p.)¹. In October companies were registering a large number of bond issues, the total number of which was close to the record indicator of August. Thus, from September 25 through October 25, ten emitters have registered 46 bond issues amounting to 332.3 billion rubles (as compared with 12 emitters who registered 31 bonds issues worth of 105.6 billion rubles from August 31 through September 24). However, among the emitters there were only extremely large companies (moreover, mostly financial and credit institutions), which have long been present in the Russian bond market. Over a half of the reported emissions were

exchange bonds. The majority of registered emissions fell within twelve series of exchange bonds of OAO “Bank of Development and External Economic Activity (Vnesheconombank)”, totaling to 190 billion rubles, ten series of bonds of OAO “Raiffeisenbank” for the amount of 74 billion rubles, ten emissions of exchange bonds of OAO “Moscow credit bank” for the amount of 19 billion rubles.²

Indicators of primary bond market slightly exceeded the level of the previous month. Thus, from September 25 to October 25, 1922 there were placed 22 emissions of bonds, totaling to RUR 98 billion (for comparison, from August 31 to September 24 there were placed 18 emissions of bonds for RUR 83.7 billion) (Fig. 7). During the period under review, the largest bond issues were placed by OAO “Federal Network Company UES” (3 series of bonds totaling to RUR 30 billion), OOO “VimpelCom-Invest” (2 series of bonds for RUR 20 billion), OAO “Wimm-Bill-Dann Foods” (4 series of exchange bonds for RUR 14 billion).

Again long-term bonds of large emitters were in demand of investors - the term of the bonds yield to redemption of OAO “Federal Network Company UES” is 10 years, VimpelCom-Invest - 8 years, OAO “Territorial generating company № 5” - 7 years. Herewith, already within six months Russian Federal Financial Markets Service has not revoked any bonds due to the non-placement of securities, which indicates the presence of strong demand for bonds of Russian emitters³.

From September 25 through October 25, seven emitters were planning to redeem their bond issues for the total amount of RUR 11.3 billion. However, one emitter has announced a technical default on repayment of its bonds (in the last month all emitters have redeemed their bonds on time). In November 2010, there expected to be redeemed 6 emissions of corporate bonds for the total amount of 18.1 billion rubles⁴.

The situation with the performance of current debt liabilities by emitters is still not easy. From September 25 through October 25, the real default on bonds coupon yield redemption was announced by nine emitters (against four emitters from August 31 through September

1 “Finmarket” information agency data.

2 Source: Rusbonds data.

3 Data of the Russian Federal Financial Markets Service

4 Rusbonds data.

24). However, the emitters managed to reach agreement with bondholders to restructure their debts. An offer (bonds purchase), like in the previous period under review, was carried out by all emitters in due time, like in the preceding reporting period. A real default on bonds redemption at the nominal value of their bonds, planned in mid-September, was announced only by one emitter for two bonds (one emitter in the preceding period)¹. ●

1 Cbonds data

REAL ECONOMY: TRENDS AND FACTORS

O.Izryadnova

The expansion of the internal market due to the simultaneous growth of both the investments and consumer demand had a positive impact on the economic situation in January-September 2010. Social background was determined by the sustaining trend towards the increase in the real incomes of the population by 4.8% and real wages – by 5.0% versus January-September 2009.

The recovery of the economic growth positively influenced the situation at the labor market. The total number of the unemployed reduced by 9.8%, the number of the officially registered unemployed – by 5.1% versus January-September 2009.

According to the preliminary data of the RF Ministry of Economic Development, over January-September 2010 the GDP growth made 103.4% versus the corresponding period of the previous year. In the 3rd quarter 2009 GDP growth rates slowed down to 2.2% versus 5.2% in the 2nd quarter and 3.1% in the 1st quarter. In the 3rd quarter the slowdown of the GDP dynamics was connected with the structural characteristics of the economic growth. Whereas in the 1st half of 2010 the recovery of the positive dynamics of the investments in fixed assets and increase in retail trade turnover contributed in GDP growth rates acceleration, in the 3rd quarter the reinforcement of these factors' positive impact was insufficient to compensate for the slowdown in industrial production growth rates and drop in agriculture production. In the 3rd quarter the situation was also aggravated by the weakening of the external economic factors contribution in the dynamics of the economic growth. Under existing export and import dynamics the foreign trade balance has been reducing since the beginning of the year and made USD 29.1 billion according to estimation for July-September, which is by nearly USD 4.3 billion less than the corresponding figure of 2009.

According to the data of the Federal State Statistics Service, over January-September 2010 investments in fixed assets went up by 3.8% versus the corresponding period of the previous year and by 7.5% versus the 3rd quarter of 2009. Investment activity in the 3rd quarter increasing, the dynamics of workload in construction and implementation of residential floor area were registered to be positive for the first time since the beginning of the year – 102.2% versus the 3rd quarter 2009. It should be noted that the upsurge in the investment activity has resulted in the growth of investment goods export by 21.4% in the 3rd quarter on the previous quarter of the current year.

The industrial production index made 106.4% in the 3rd quarter 2010 versus the corresponding period of the previous year, being 109.5% in manufacturing industries and 101.3% in extractive industries. In agriculture, after a weak growth in the first half of the year, the production recession reached 18.6% versus July-September 2009 figure and 10.7% on the level of January-September 2009 (table 1).

Table 1

MAIN MACROECONOMIC INDICATORS IN 2008-2009,
AS PERCENTAGE TO PREVIOUS YEAR

	2009				2010			
	January-September	Quarters			January-September	Quarters		
		1	2	3		1	2	3
Gross domestic product	90.7	90.7	89.0	91.4	103.4	103.1	105.2	102.2
Investments in fixed assets	80.4	82.7	77.2	81.8	103.8	95.9	105.3	107.5
Implementation of residential floor area	81.6	80.7	80.3	82.3	99.2	91.9	99.9	102.2
Volume of industrial production	87.1	84.5	86.4	90.4	108.9	109.5	110.9	106.4
Minerals extraction	97.4	94.9	97.3	99.9	104.2	106.7	104.8	101.3

Table 1, cont'd

	2009				2010			
	January-September	Quarters			January-September	Quarters		
		1	2	3		1	2	3
Manufacturing industries	80.2	76.1	79.3	85.0	112.6	112.1	116.3	109.5
Gas, electricity and water production and distribution	94.0	94.9	94.5	92.2	105.1	107.7	102.6	103.9
Agriculture production	100.0	102.2	100.7	98.9	89.3	103.6	102.6	81.4
Freight transportation	86.0	82.8	82.2	93.1	108.5	111.6	113.0	101.5
Retail trade turnover	95.3	100.4	94.9	91.4	104.4	101.7	105.3	105.9
foodstuffs	98.2	100.3	99.3	102.8	105.6	104.3	105.5	106.8
non-food goods	92.5	100.2	90.9	97.7	103.2	99.3	105.0	105.1
Foreign trade turnover	57.3	56.2	55.4	59.9		144.1	139.0	
Real disposable monetary incomes	100.0	100.7	103.4	96.6	104.8	107.4	103.2	104.2
Real wages	96.5	99.2	96.1	94.8	105.0	103.1	106.1	105.7
Real accrued pensions	109.5	106.1	113.3	109.1	139.8	144.1	138.9	
Total number of unemployed	139.9	134.8	152.1	132.2	90.2	108.4	86.7	87.2
Number of officially registered unemployed	147.8	126.5	157.4	163.–	94.9	114.2	91.1	81

Source: Federal State Statistics Service

Industrial enterprises are cautious in both the industrial and investment policy. In January-September 2010 on the whole throughout the industry the production volumes were 5.1% below the pre-crisis level of January-September 2008. The recovery rates differentiating among the sectors of industry, in January-September 2010 minerals extraction made 101.5%, manufacturing industries production – 90.3%, electricity, gas and water production and distribution – 98.4% on the corresponding period of 2008. Due to the low base of 2009, in January-September of the current year the dynamics for nearly all the monitored industries remained positive.

Fossil fuels extraction index made 104.1% in January-September 2010 versus the corresponding period of 2009. In January-September of the current year production of the main kinds of primary fuels and energy commodities went up by 7.6% as compared to the corresponding period of the previous year due to the increase in gas and coal production.

In January-September 2010 volume of oil production grew by 2.2%, export – by 0.3%, internal consumption – by 8.7% versus the corresponding period of the previous year. The proportion of oil processing in its production went up to 49.2% versus 47.9% in January-September 2009. The extent of crude oil processing continued to decrease versus the level of the previous year and made 71.5% in January-September 2010 versus 72.2% a year ago. Oil products production index made 104.4% in January-September 2010 as compared with the corresponding period of 2009.

The slowdown in oil production growth rates that has been observed this year is connected with the natural exhaustion of operating oil fields in the traditional production regions. According to the data of the Fuel and Energy Complex Central Dispatch Office, in January-August 2010 the total drilling volume expanded by 14.8% versus the level of January-August 2009, the volume of development drilling increasing by 13.5%, of probe drilling – by 50.5%.

In January-September 2010 natural gas production made RUR b467.8 billion cu m, or 114.7% versus January-September 2009 and 94.4% of pre-crisis level of 2008.

Gas consumption in Russia went up by 7.7% in January-September 2010 on January-September 2009, consumption by boiler and heat power plants of the Unified Energy System of Russia – by 6.5%. Gas export made 123.8 billion cu m in January-September 2010 or 113.3% on the corresponding period of 2009. It should be noted that starting with May 2001 the trend towards the decrease in gas supplies to non-CIS countries versus the corresponding period of 2009 has sustained. Recently open joint-stock company Gazprom faced the problem of spot prices for gas in Europe, which are

by far below than those defined in long-term contracts, which decrease the competitiveness of the Russian gas in the external market.

The demand for coal growing at both the internal and external markets and the state of the market improving, in January-September 2010 the production of coal made 231 million of tons and went up by 8.4% versus January-September 2009. The proportion of export in the total volume of coal production made 37.7% in January-September 2010 versus 35.7% in the corresponding period of the previous year.

The production of the goods of intermediate demand in January-September 2009 is characterized by high growth rates. In January-September 2010 chemistry industry index made 117.1%, rubber and plastic goods production index – 121.2%, timber processing – 111.7%.

Index of metallurgy production and production of finished metal goods made 114.6% in January-September 2010 versus January-September 2009, metallurgy production index being 115.6%, production of finished metal goods index being 112.0%. The capacity of the internal market of rolled metal made 183.2% versus January-September 2009 and the volume of rolled metal production – 114.4%.

In January-September 2010 production of steel pipes made 138.0%, import increasing to 193.8% in January-August 2010 versus the corresponding period of 2009. The proportion of imported pipes at the internal market made 13%, which is by 10.8% above the average annual figure for 2009. However, taking into account the fact that up to 2008 the proportion of imported pipes in the internal consumption for a number of years exceeded 17%, one can notice a certain success in the fulfillment of program for import substitution and expansion of domestically produced steel pipes consumption. In January-August 2010 export supplies of steel pipes made 60.4% of the corresponding period of 2009. This is accounted for by the fact that the pipe producing industry recovered pre-crisis volumes of internal consumption in January 2010 and has been demonstrating steady growth of the demand for the last three quarters. As compared with the corresponding period of 2009 the demand for pipes in oil and gas sector went up by nearly 70% due to the fulfillment of oil and gas projects, which contribute in redirection of flow from the external market to the satisfaction of the internal market demand.

In January-September 2010 index of non-ferrous metal production made 107.4% versus the corresponding period of the previous year. The upsurge at the world markets was favored (especially in the 1st quarter 2001) by the growth of both the demand and world prices for the main non-ferrous metals which was the basis for the increase in internal Russian prices and improvement of the financial and economic performance indices of the companies, as well as to the increase in production efficiency. According to the data of the RF Ministry of Economic Development, the level of investments in fixed assets in non-ferrous metals production in the 1st half of the current year has reduced to 88.9% versus the corresponding period of 2009.

The positive dynamics of investments having recovered in January-September 2010 the production of investment goods has been increasing at the rates anticipating the aggregate figure for the dynamics in the manufacturing sector.

Index of machinery and equipment production made 113.6% on January-September 2009, index of electric, electronic and optic equipment production – 124.3%, transport vehicles and equipment production – 131.0%.

Improvement of the economic situation in a number of sectors of industry accounted for the increase in the solvent demand for technological equipment and for components. The dynamics of machinery and equipment production was influenced mainly by the increase in production of machine tools by 44.9%, of general purpose tools – by 25.4%, and of mechanical equipment – by 15.7%.

The base of January-September 2009 being low, in January-September the output of passenger cars went up by 92.8%. The growth of passenger cars production volumes is promoted by the system of government support measures aimed at demand stimulation: fulfillment of the experimental motor vehicles utilization program, subsidies for interest rates for credits issued to natural person for purchases of new passenger cars produced domestically.

In January-September 2010 production of trucks went up by 62.6% versus the level of January-September 2009, which is also connected with the low level of production in 2009, which was

accounted for by considerable decrease in leasing sales of motor vehicles and difficulties when getting credits for replenishment of liquid funds and paying off of the current credit liabilities experienced by the domestic enterprises (both the producers and consumers of motor vehicles).

The production of consumer goods is characterized by positive dynamics. In January-September 2010 textile and sewing production index made 112.4% versus January-September 2009, leather, leather goods and footwear production – 118.8%. In January-September 2010 the production rates of the light industry goods were accounted for by the shift of the demand to the segment of domestically produced goods the consumer prices growing moderately. However, taking into account the fact that the official data demonstrate the recovery of clothing import volumes to pre-crisis level and demand for the domestically produced raw leather is not supported by footwear production due to its low quality and a considerable proportion of footwear is produced from imported shoe uppers, one can assume that the process of import substitution at the market of clothing and footwear has finished.

Index of foodstuffs, including beverages and tobacco, production made 105.3% in January-September 2010 as compared with the corresponding period of the previous year. Taking into account the difficulties connected with providing foodstuffs producing enterprises with the domestically produced raw materials, import of foodstuffs and agricultural raw materials in January-August 2010 went up by 21.5% as compared with the corresponding period of 2009.

The trend to the recovery of the consumer expenses has been the main factor for the internal demand in 2010. The retail trade turnover in January-September 2010 went up by 4.4% as compared with the corresponding period of the previous year and is maintained by 4.8% growth of real incomes of the population, 5.0% increase in real wages. The sales of foodstuffs have been increasing at anticipating rates in the structure of the goods turnover. Over January-September 2010 as compared with the corresponding period of the previous year the turnover of the market of foodstuffs went up by 5.6%, whereas that of non-food goods market – by 3.2%. It should be noted that the nature and structure of the consumer market was significantly affected by the change in the inflation background. Highly unfavorable climate and weather conditions and recession in agriculture production increased the risks of inflation acceleration. Since the beginning of the year the prices for foodstuffs has risen by 8.4%, for non-food goods – by 3.1%. Against the background of the difficult situation in the agriculture, increased expected inflation in connection with the contraction of some goods supplies and anticipating growth of prices both at producers and processers, according to the forecast of the RF Ministry of Economic Development the growth of consumer prices will increase to 8% versus 6-7% expected earlier.

According to the forecast of the RF Ministry of Economic Development this year versus 2009 the expected growth of the retail trade turnover will make 105.2%, real incomes of population – 104.4%, real wages – 104.9%. The dynamics being as forecast, the volume of the goods turnover will reach the level of 2008 and the real wages will exceed the figure of pre-crisis period by 1.2%. ●

RUSSIAN INDUSTRY IN SEPTEMBER 2010

S.Tsukhlo

The first official data published by the Federal State Statistics Service demonstrate that there have not been any considerable positive shifts in the dynamics of the majority of industry's indices. The estimation of stocks dynamics and changes in the employment policy, according to surveys conducted by Gaidar Institute for Economic Policy¹ in September, testify that the industrial enterprises are becoming increasingly concerned about the dynamics of the current economic situation at the market.

Official Statistics in August

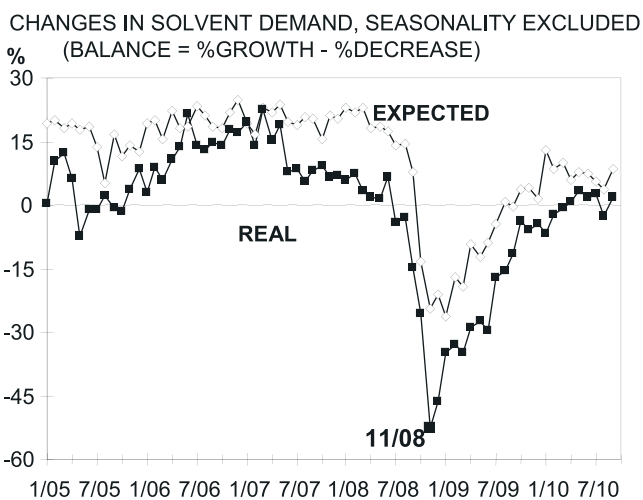


Fig. 1

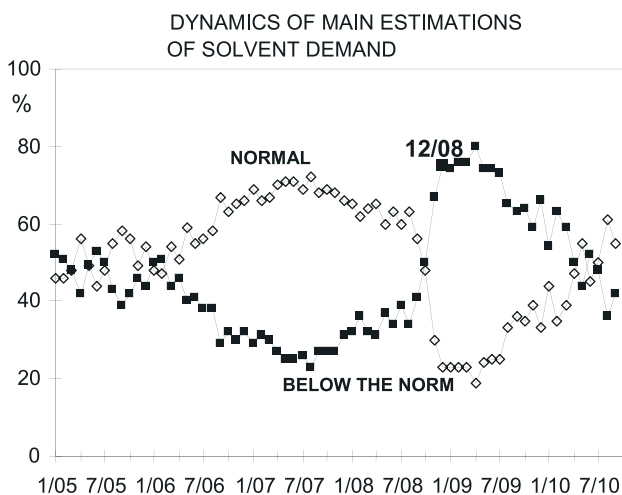


Fig. 2

According to the official data by the Federal State Statistics Service, in August versus July the growth of industrial production made 0.1%, and versus August 2009 – 7%. It should be noted that the manufacturing industries went up by 0.5% versus the current July. The softness of the industrial growth has definitely resulted the decrease in the number of commentaries and attempts to analyze the limited number of official statistics indices.

Demand for Industrial Goods

Real changes in the demand volumes for industrial goods were not changes fundamentally in September. The sales growth rates (upon exclusion of seasonality) made +2 balance points. This is better than August figures (-3) but the estimations are still in the zero neighborhood and the do not allow stating the noticeable growth of demand for industrial goods. Thus, stagnation of sales (growth rates are within the range of -3...+3 points) has been registered for the eighth month in a row in the Russian industry (fig. 1).

As compared with August prospects for demand growth have also improved in September and were not subject to considerable changes versus the previous months of 2010. The enterprises still do not see the opportunity to increase sales of their production, although the improvement of demand by 5 points in September versus August (which has so far been the month with the worst figures of this index) can be regarded as a positive characteristic of the elapsed month.

1 The surveys among the directors of the industrial enterprises have been conducted by Gaidar Institute for Economic Policy monthly starting with September 1992 in concordance with the European harmonized methodology and embrace the whole territory of the Russian Federation. The panel is about 1100 enterprises at which more than 15% of all those employed in the industry work. The panel is shifted towards large enterprises for each of the singled sectors of industry. The return of questionnaires makes 65–70%.

At the same time the satisfaction with the demand in September went down by 6 points, which is relatively moderate change considering that during the previous two months the prices have risen by 16 points. As a result, in August the proportion of estimations “normal demand” was registered to expand to 61%, which has been the maximum value for the whole crisis and post-crisis period (*fig. 2*). Thus, the industry remains somewhat uncertain as to which demand volumes are adequate to the current economic situation.

Stocks of Finished Goods

The dynamics of the estimations of the finishes goods stocks gives further evidence to the fact that every month enterprises are becoming less and less confident in the forthcoming growth of sales. The proportion of answers “below the norm” reached a seven-year (!) maximum in September 2010. The proportion of answers “above the norm” is at the level of absolute (for 1992-2010) minimum (*fig. 3*). This resulted in the balance sinking to -10 points as compared with -2 and -3 points in the preceding months. Thus, in the industry the prevalence of “below the norm” estimations became even more pronounced. Such a low balance of stocks estimations has not been registered in the Russian industry since 2000, when the enterprises became confident in the steadiness of post-default development and turned from the policy of stocks minimization to the policy of the maintenance of their excess. At the moment the situation is developing towards the opposite direction. The majority (on average 65% over the last six months) industrial enterprises estimate their stocks as normal. As a result this figure has definitely reached the pre-crisis level.

It should be noted that there are no objective limitations for stocks replenishing in the industry: the facilities are idle, there is enough staff, credit are becoming cheaper, the volumes of sales are low. The stocks are necessary for enterprises to fulfill quickly new (unplanned) orders. Thus, the current decrease in stocks should be regarded as a conscious policy of the Russian producers that lose confidence in the possibility of new customers and forthcoming turn to considerable growth of the demand from stagnation.

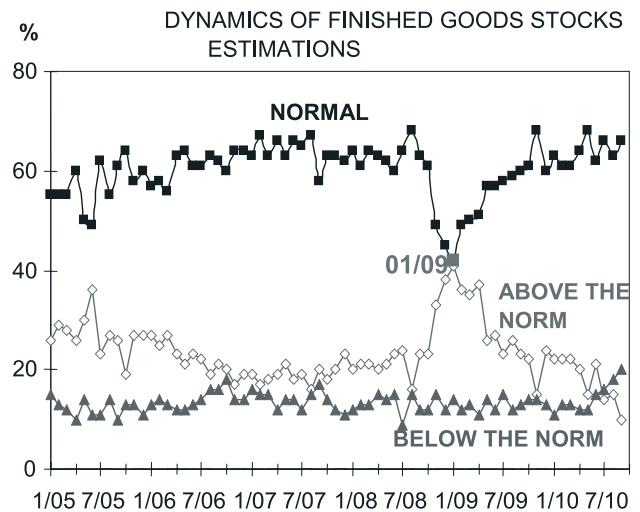


Fig. 3

Production Output

In September the industry seemed to make an attempt to increase production growth rates after they have been stable for the preceding four months at the level of 16 balance points. Earlier (October 2009 – April 2010) surveys registered the production volumes to be increasing at the rate of 8-11 points. As a result, September figure has been the maximum for the crisis period (*fig. 4*).

Plans for output demonstrate comparative stability – the trend that has been observed since January 2010. It should be noted that the raw data indicated a step rise of optimism in February 2010 (which is practically comparable to pre-crisis figures), but the exclusion of seasonality leveled this traditional New Year surge (which was obviously not observed in 2009).

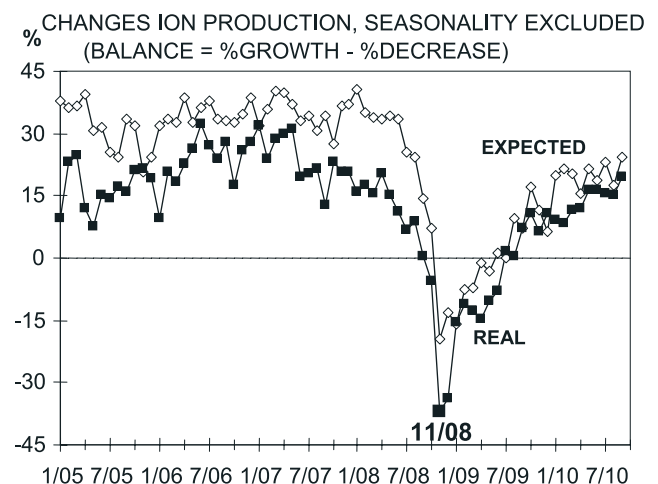


Fig. 4

Producers' Prices

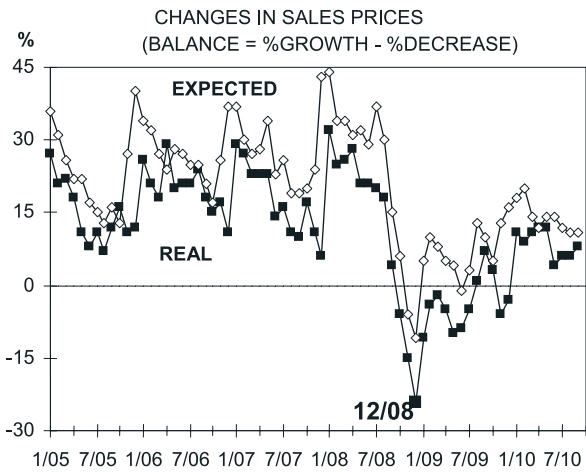


Fig. 5

Dismissals: Real Dynamics and Plans

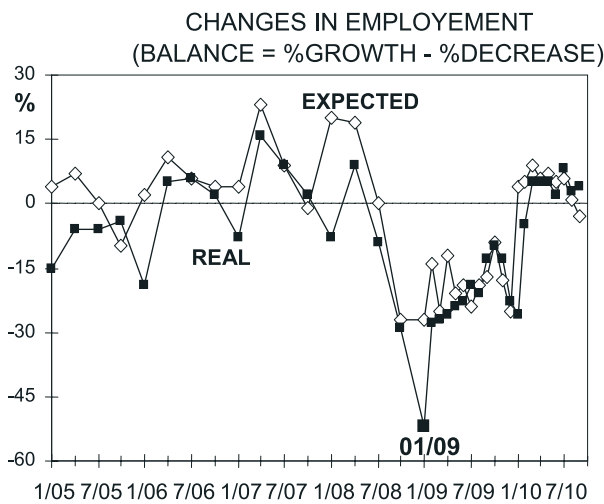


Fig. 6

DYNAMICS OF AVERAGE MINIMUM RATES FOR CREDITS IN RUBLES FOR ENTERPRISES OF DIFFERENT SIZES, % PER ANNUM

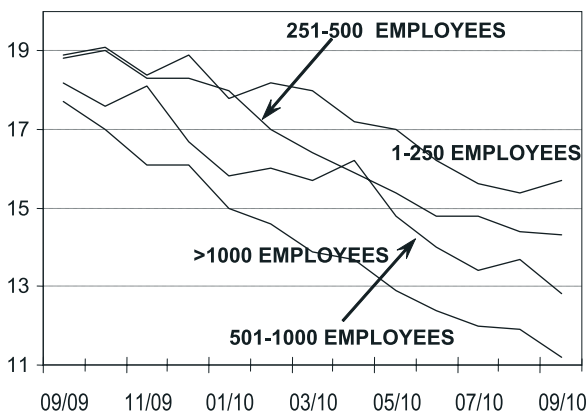


Fig. 7

On the whole the industry has cautiously reacted to the inflation upsurge caused by abnormally hot weather. The balance of prices growth changes from +6 to +8 points (fig. 5). The reaction of foodstuffs producers were, certainly, the most definite. Whereas in June-July the proportion of responses of unchanged prices in the sector made 92-95%, in September it dropped to 62%, while the proportion of quotes of the prices' growth skyrocketed from 2% to 38%.

The plans of prices changes testify that the enterprises want to suppress this inflation impulse. In September the intentions concerning prices have not changes and remained within the interval of the previous seven months. The foodstuffs producing sector is naturally the exception planning to maintain the real prices growth rates in October-November.

In August-September the industry has virtually stopped to hire the staff. The balance has sunk to +3 points compared to +8 in July and +5 in March-May (fig. 6). It seems the in the spring and summer the enterprises started to create a reserve of qualified staff expecting the possible growth of the demand but the procrastinated recovery made them slow the progress. The forthcoming months may bring dismissals in the industry. It should be noted that this may become characteristic for all the sectors with the only probable exception of timber industry.

The decrease in the inclination to increase labor efficiency was one of the results of the staff policy activation in the 2nd and 3rd quarters of 2010. This figure that is calculated on the basis of the plans for output and staff number changes decreased to 25%, compared with 36% in the 1st quarter. The cited figures serve as estimation for the proportion of enterprises in the industry that are willing to increase the production at higher rates than the number of the employed.

Industry Crediting

In September the banks continued to expand the possibilities for industry's crediting, though only through the decrease in the interests rates offered to enterprises. In September this index has lowered to the average of 13.2% per annum in the industry for credits in rubles. The lowest interest rates are offered to the large enterprises (more than 1000 employees), the best rates for small and medium-scale business comprise 15.7% per annum (fig. 7). As to the sector preferences, the banks fa-

vor chemistry and petrochemistry enterprises (the offered rate is 11.7%), metallurgy (11.9%) and foodstuffs producers (12.5%).

The proportion of enterprises with normal (according to their own opinion) access to the credits remained at the level of 69%, which has been the maximum figure for the crisis period. The normal availability of credits is associated with the offered interest rate of 12.2%. A year ago the figure was 17.9%. ●

FOREIGN TRADE

N.Volovik, K.Kharina

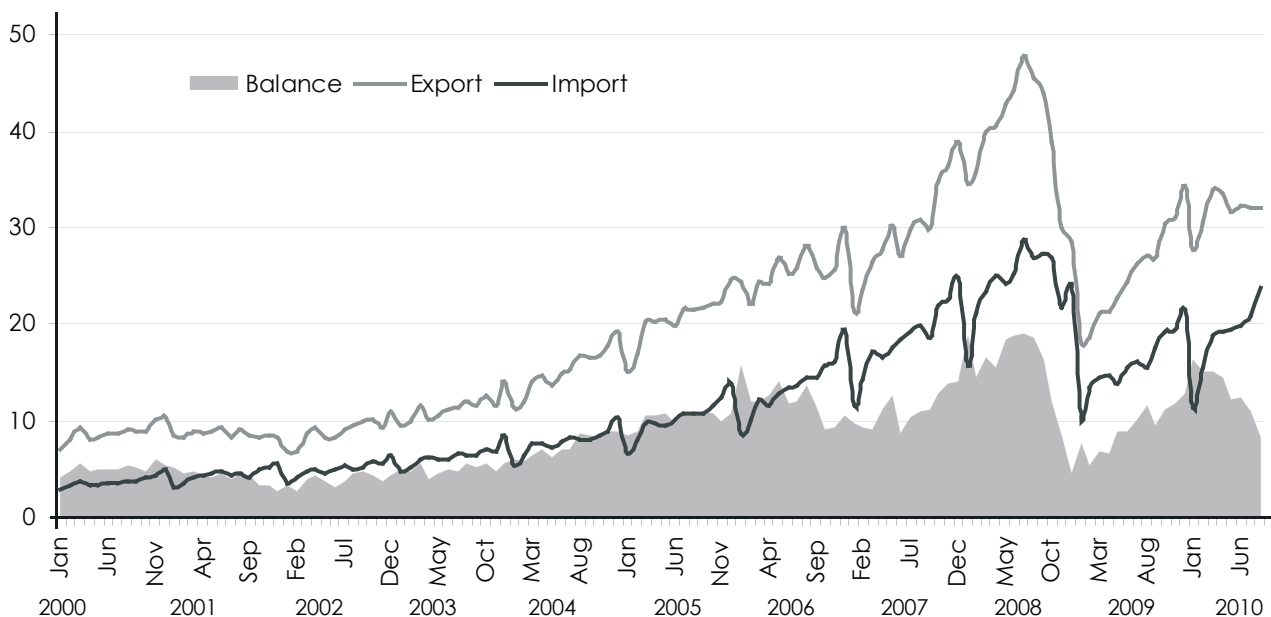
The trend for the rapid import growth and weak export dynamics sustained in August 2010. The foreign trade balance has been contracting at quite high rates. The RF Government has extended the moratorium for grains export up to July 1, 2011. In August 2010 the import of chemistry industry goods was observed to grow considerably which was mainly due to a sharp increase in import supplies of medicines and medical equipment.

According to September forecast of the WTO¹, the growth of the world trade will make 13.5% this year. The previous March forecast was considerably lower – 10%. A more active recovery of the world trade to a large extent reflects the success in the purposeful limitation of protectionist policy. According to the new forecast, in 2010 the trade will grow most noticeably in developing countries, including CIS countries: goods export from this group of countries will increase as a result of the year by 16.5%, whereas the export from developing countries – by 11.5%.

In 2010 the annual increase in the world trade volumes may turn out to be the highest since 1950, which is mainly accounted for by the use of the crisis 2009 figures of trade volume for reference – that year the world export reduced by 12.2%. Over the first half of 2010 the goods trade has expanded considerably under the influence of the production volumes recovery both in developed and developing countries. In connection with the gradual contraction in the budget measures aimed at the stimulation of the economic activities in the second half 2010 the growth rates of the world economy may reduce.

Russia's foreign trade turnover calculated on the basis of the balance-of-payments methodology made USD 55.9 billion in August 2010. As compared with July 2010 it went up by 5.6%, and as compared with August 2009 – by 30.5%.

In August 2010 export supplies made USD 32.1 billion, which is by 17.5% higher than the corresponding figure of the previous year. As compared with the previous month the growth was



Source: RF Central Bank

Fig 1. Main Indices of Russia's Foreign Trade (USD billion)

1 See http://www.wto.org/english/news_e/pres10_e/pr616_e.htm

equal to 0.5%. At the same time import supplies went up by 53.2% versus the previous year or by 13.4% versus July 2010.

Increase in export volumes in mainly accounted for by favorable price situation for the Russian exporters at the world markets and recovery of the demand for the Russian goods abroad.

It was the expansion of the physical volumes that was the main factor accounting the growth of import supplies. The increase in import supplies was registered for all consolidated position of goods nomenclature. For instance, non-foods consumer goods import and import of chemistry industry goods were characterized by high growth rates.

Thus, the data on the foreign trade of the last months indicate that the trend for rapid import growth against the background of weak export dynamics is sustained. As a result in 2010 the positive foreign trade balance is observed to decrease monthly: in August it made USD 8.3 billion, which is the minimum of the previous 16 months.

As a result of anticipating growth of export prices as compared with import prices the conditions for the foreign trade have improved as compared with August 2009. Index of trade conditions made 119.8 points in August 2010.

During July-August the increase in prices is observed at the world trade markets, which is partially due to the simultaneous decrease in US dollar exchange rates versus the world currencies. According to the data of the IMF the general prices index at the world markets in July went up by 1.7%, in August - by 2.5% versus the preceding month. Over this time the index of nominal effective US dollar exchange rate reduced by 1.7% and 0.8%, respectively.

Low rates of the post-crisis recovery of the world economy and record-breaking level of oil reserves in OECD countries have a limiting effect on oil prices that remained practically unchanged during May-August 2010 (USD 74-77 per barrel of oil grade Brent). At the beginning of August the prices reached the highest level of the preceding three months, exceeding USD 80 per barrel lowering after that by the end of the month. In August the price for oil grade Brent made USD 77.18 per barrel, increasing by 5.34% versus the corresponding period of the previous month and by 2.05% versus July of the current year.

The average price for oil grade Urals made USD 75.67 per barrel in August 2010 versus USD 72.28 per barrel in August 2009, having increased by 4.7% and 2.0% versus July of the current year.

According to the monitoring the average price for oil grade Urals over the period from September, 15th to October, 14th made USD 80.09375 per barrel. Thus, according to the decree of the RF Government from October 26, 2010 No 858 export duty rate will increase by 9% - to USD 290.6 per ton - starting with November, 1st. Export duty rate for oil of Eastern Siberia oil fields will increase by 20.3% - up to USD 98.9 per ton. Export duty rate for light oil products will make USD 208.1 per ton, for dark oil products – USD 112.1 per ton.

Table 1

AVERAGE MONTHLY PRICES IN AUGUST OF THE CORRESPONDING YEAR

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Oil (Brent), USD/barrel	20.2	29.4	25.7	27.2	29.9	42.8	61.9	71.7	72.1	118.3	73.06	77.18
Natural gas, USD/1 million BTU	2.8	4.437	2.91	2.999	4.888	5.212	9.533	6.593	6.309	8.455	3.469	4.47
Petrol, USD/gallon	0.6476	0.9021	0.776	0.834	0.935	1.152	1.811	2.073	1.968	2.93	1.971	1.94
Copper, USD/ton	1646.6	1941.7	1499.4	1480.0	1731.0	2835.8	3800.0	7689	7510.5	7645.6	6165.3	7284
Aluminum, USD/ton	1421.1	1546.4	1374.9	1292.0	1457.0	1694.3	1868.0	2460	2515.2	2780	1933.8	2118.4
Nickel, USD/ton	6430.8	8092.9	5554	6720.0	9365.0	13723	14894	30872	27600	18581	19642	21413

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

This August the prices at the markets of the main types of non-ferrous metals continued to grow. The main factors influencing the change in prices for the majority of metals can be regarded as

positive: in Europe, Asia and America the reserves are diminishing, China increased non-ferrous metal import in July. The uncertainty as to the rapid recovery of the economic growth remains the main problem limiting the prices growth. According to the data of London Metal Exchange, in August 2010 prices for copper, aluminum and nickel went up by 8.1%, 9.5% and 9.0%, correspondingly, versus July 2010.

According to the UN Food and Agriculture Organization forecast, in 2010 the volume of the world foodstuffs production will not be significantly lower than the record-breaking grain harvests of 2008–2009. According to the data of the US Department of Agriculture the trade with some kinds of foodstuffs, for instance, wheat, will grow somewhat this year despite the ban for grains export introduced in Russia and floods in Pakistan, which is one of the main wheat and rice exporters.

Although the prices at the world market of foodstuffs continue to grow they are still lower than in 2008 but higher than in 2009. FAO price index for foodstuffs is characterized by quite a considerable growth of prices for grains, sugar and oil starting with this summer, whereas prices for meat and dairy products have increase but insignificantly. The growth of world prices for wheat is mainly connected with the increase in speculative purchases due to the contraction of harvest in CIS countries and limitations for grains export from these countries.

Table 2

DYNAMICS OF AVERAGE WORLD PRICES FOR SOME AGRICULTURE GOODS

	2007	2008	2009	2010							
				I	II	III	IV	V	VI	VII	VIII
Wheat, USD per ton											
Canadian, CWRS	300.4	454.6	300.5	287.2	279.0	270.7	264.7	256.7	261.3	287.5	326.0
American, HRW	255.2	326.0	224.1	201.2	194.0	191.1	192.9	181.6	157.7	195.8	246.2
American, SRW	238.6	271.5	186.0	198.8	191.8	190.0	187.8	190.3	182.6	222.3	261.6
American corn, USD per ton	163.0	223.1	165.5	167.3	161.8	159.0	157.1	163.4	152.7	163.8	175.6
Barley, USD per ton	172.0	200.5	128.3	146.5	137.4	147.0	151.7	143.0	145.9	156.4	161.2
Soybeans, USD per kilo	384.0	523.0	437.0	436.0	406.0	408.0	411.0	407.0	407.0	429.0	457.0
Soy oil, USD per ton	881.0	1258	849.0	923.0	914.0	915.0	903.0	865.0	859.0	907.0	457.0
Thai rice, USD per ton	326.4	650.1	555.0	568.8	535.0	505.3	466.0	451.3	440.0	441.8	452.8

Source: World Bank.

It should be remembered that this summer due to low harvest expectations the RF Government introduced a temporary ban for wheat, barley, rye, corn and flour export (from August, 15th to December, 31st 2010). It was an unprecedented drought and fires which severely affected harvest volumes that were the reason for such a measure. The world market's first reaction was to increase the prices dramatically. Upon announcement of the ban the cost of futures for wheat supplies in December shot up to the level that was the maximum for the previous 23 months.

Internal demand for the grains in the country this agriculture year is estimated to be 77 million of tons. According to estimations of the RF Ministry of Agriculture the volume of harvested grains (slightly more than 60 million of tons) and transferred reserves as on July 1, 2010 (26.3 million of tons) provide for the reserve for 2011 as well.

The introduction of temporary ban allowed the Government to stabilize prices for the grains and prevent the risks of deficit. However in order to return to the world market Russia will have to lower its prices considerably as compared with its competitors.

In order to stabilize internal foodstuffs market and forage base for livestock sector the RF Government extended the moratorium for grains export till July 1, 2011.

Wheat and rye-and-wheat flour are not included in the list of goods export ban for which was extended, thus, flour export will be renewed starting with January 1, 2011. The volumes of flour export are insignificant: in 2009 only 389 thousand of tons were exported. Nevertheless, the decision not to prolong the moratorium for flour export can be regarded as positive for Russian flour millers. It is Uzbekistan, Tadzhikistan, Kirgizia and Afghanistan that are the main importers of the Russian flour. However these countries also import flour from Kazakhstan and Ukraine. Kazakhstan is the leading flour exporting country, accounting for 19% of flour market. In 2009 its export volume was equal to 2.24 million of tons, which is by nearly 6 times more than the volume of Russian export. Thanks to the convenient transportation scheme to the main sales markets Kazakhstan's flour-grinding enterprises can occupy the vacant niche and it will be difficult for Russia to return to it.

In August 2010 the import of chemistry industry goods was observed to grow significantly (by 39% versus this July), which was accounted for by the sharp growth of medicines and medical equipment import supplies: as compared with July 2010 the growth made 93.1%. This is connected with the Federal Law from April 12, 2010 No 61-FZ "On medicines turnover" coming into effect, which has changed the requirements for medicines packaging. The new law requires the producers to mark the primary medicine packaging (blister, ampoule etc) with the form of production, and the secondary packaging (box) - with the number of registration certificate. In August the RF Ministry of Health Care and Social Development allowed selling the medicines produced and imported before September 1, 2010 in the old packaging. In order to prevent possible interruptions in medicines supplies in case the sale of medicines imported after September 1, 2010 is limited, the importers increase considerably supplies in August.

The suppliers of pharmaceutical goods were already forced to urgently increase the import this year: starting with April 1, 2010 the state regulation of prices for vitally necessary and most important medicines came into effect (retail price for them must not exceed the producer's price approved by the Federal Service on Surveillance in Healthcare and Social Development of Russian Federation plus regional coefficient). Producers of medicines included in this list tried to import and sell the maximum volume before April, 1st: many companies were not sure that the price for their medicines would be registered and the sale without previous price registration was prohibited starting with April, 1st. According to the data of the Federal Customs Service, in the 1st quarter 2010 Russia imported 27.9% more medicines than in the 1st quarter 2009. ●

THE STATE BUDGET

E.Fomina

In October 2010, the RF Treasury drew preliminary results of federal budget execution in this year's first 9 months. Alongside a slight increase in revenue – of approximately 0.2 p.p. of GDP by comparison with its last year's index, the volume of expenditure dropped by 2.3 p.p. of GDP. As a result, the volume of deficit decreased by 2.5 p.p. of GDP. As of 1 October 2010, the federal budget has been executed only at the level of approximately 66 % of the planned annual budget revenue and expenditure, which is indicative of a risk of its marked growth toward the year's end – in excess of the expected values.

An Analysis of the Main Parameters of the Execution of the General Government Budget in January – August 2010

In accordance with the budgetary statistics concerning the execution of the general government budget in the first 8 months 2010, the revenue volume was by 0.9 p.p. of GDP higher than in the same period of 2009¹. At the same time, the volume of budget expenditure shrank in relative terms by 2.3 p.p. of GDP, bearing in mind that in absolute terms it increased by approximately 775 bn Rb. As a result, as of 1 September 2010 the general government budget was executed with a surplus of 0.9 % GDP, whereas in the corresponding period of 2009 the balance of the budget was negative and at the level of 2.3 % of GDP (Table 1). Growth of the revenue volume in the general government budget in absolute terms – as compared to the dynamic of its growth in the federal budget – can be explained by the altered procedure for the transfer of insurance contributions to the off-budget funds, which is now done by redistributing these monies directly to the funds' budgets, thus bypassing the federal budget.

Table 1

THE EXECUTION OF BUDGET REVENUE AND EXPENDITURE AT ALL LEVELS OF AUTHORITY IN JANUARY – AUGUST 2009 – 2010

	January – August 2010		January – August 2009		Deviation, p. p. GDP
	bn Rb	as % of GDP	bn Rb	as % of GDP	
Federal budget					
Revenue	5,300.5	18.7	4,645.8	18.9	– 0.2
Expenditure	5,923.7	20.9	5,580.1	22.7	– 1.8
Deficit (–) / Surplus (+)	– 623.3	– 2.2	– 934.3	– 3.8	+ 1.6
Consolidated budgets of RF subjects					
Revenue	4,368.9	15.4	3,903.6	15.9	– 0.5
Expenditure	3,792.1	13.4	3,590.3	14.6	– 1.2
Deficit (–) / Surplus (+)	5,76.8	2.0	313.3	1.3	+ 0.7
General government budget					
Revenue	1,0236.1	36.1	8,648.5	35.2	+ 0.9
Expenditure	9,988.9	35.2	9,214.2	37.5	– 2.3
Deficit (–) / Surplus (+)	247.2	+ 0.9*	– 565.7	– 2.3	+ 3.2
For reference: GDP, bn Rb	28, 357.4		24, 599.6		

* The markedly high general government budget surplus, as compared to the level of federal budget deficit indices can be explained by the altered procedure for the transfer of money to the off-budget funds, which now bypasses the federal budget.

Source: RF Ministry of Finance; Gaidar Institute's estimates.

¹ When analyzing the volume of revenues received by the country's budgetary system, it is necessary to take into account the receipt of the investment income from the management of the oil and gas funds in 2009 – 2010 in the amount of 275.2 bn Rb and 134 bn Rb respectively.

The consolidated budget of RF subjects in January – August 2010 was also executed with a surplus of 2.0 % of GDP (against 1.3 % of GDP in the same period of 2009). Although the volume of expenditure in the first 8 months of 2010 decreased by 1.2 p.p. of GDP, the federal authorities recommend that the policy of restricting the growth of budget expenditures of RF subjects should be continued. During the crisis period the federal center considerably relaxed its regional budgetary policy; besides, in the framework of the 2009 anti-crisis program, substantial support was provided to regional economies.

However, in 2010 and thereafter regional authorities should prepare to the toughening of the fiscal conditions imposed on them – in order to reestablish a proper balance of the country's budgetary system and to reduce the volume of deficit. Thus, the amount of financial aid is going to be substantially reduced. The regions will have to design their own measures aimed at promoting growth of their own resources through increasing the collectability of taxes paid to the regional budgets and improving their own investment 'micro-climate', as well as to try to optimize their assumed budget liabilities. Some should also be taken in order to lower the level of social expenditures which at present have approached to a certain critical threshold; there is clearly a need to reduce their volume and to improve their effectiveness.

While considering the structure of the general government budget revenue (*Table 2*), it can be stated that their growth is largely caused by the increasing revenues from foreign trade, as well as contributions to mandatory pension insurance.

The volumes of revenues from *the tax on mineral resources extraction* and *foreign trade* rose over the first 8 months of 2010 on their last year's levels by 0.7 p.p. of GDP and 1.3 p.p. of GDP respectively. This growth can in the main be accounted for by the growth of world oil prices as compared to their level in the same period of 2009 (75.9 against 56.7 USD/barrel). The positive effect of the upward movement of the world prices for energy carriers was supplemented by the increase in the physical volumes of the extraction and export of hydrocarbons. Besides, growth of world oil prices was followed by a consecutive upward movement of the export duty: from March through May 2010 it went up from 253.6 to 284 USD/ton, and then from 1 June it became 292.1 USD/ton. From 1 July 2010 the export duty was no longer being increased, its rate went down to 246 – 250 USD/ton against the background of a certain decline in oil prices in June. However, from 1 August 2010 the export duty on oil once again went up – to 263.8 USD/ton. At the same time, the export duty on oil produced in East Siberia was established at the rate of 80.3 USD/ton, which is by 14.8 % higher than the rate that had been established since 1 July 2010. In September 2010 its upward movement continued – it was increased – to 274 – 277 USD/ton, and for the oil produced in East Siberia – to 87 - 89 USD/ ton.

From 1 October 2010 the rate of the export duty was decreased from 273.5 to 266.5 USD/ton. Beside, the export duty on the oil produced in East Siberia was decreased from 87 to 82.1 USD/ton. In connection with the introduction of this measure, a certain slowdown in the growth of receipts of customs duties in the budget can be expected.

Also, in October a draft law was published which is part of the 'tax package' aimed at applying some targeted measures designed to increase the fiscal load on some branches of the national economy. This draft law stipulates the previously coordinated raise of the tax on mineral resources extraction's rate for natural gas; from the year 2011 it is going to be increased by 61 % – from 147 to 237 Rb per mi. In 2012 this rate is going to be indexed in accordance with the expected growth of prices by 5.9 % – to 251 Rb, and in 2013 – by 5.5 % to 265 Rb per mi. Resulting from this increase in the fiscal load on the extracting industry, the budgetary system is going to additionally receive between 51 and 70 bn Rb per annum over the period of 2011 – 2013. With regard to the tax on mineral resources extraction's rate on oil it can be said that in 2011 it is going to remain unchanged; in 2012 it is intended that it should increase from 419 to 446 Rb per ton; and in 2013 – to increase still further to 470 Rb per ton. This measure is expected to generate an additional 80 and 150 bn Rb per annum respectively for the treasury. At the same time, the implementation of these measures is going to decrease the profitability of companies operating in the industry.

Table 2

DYNAMICS OF THE TAX BURDEN LEVEL AND THE REVENUES FROM THE MAIN TAXES IN THE RF GENERAL GOVERNMENT BUDGET IN JANUARY – AUGUST 2009 AND 2010. AS % OF GDP

	8 months of 2010	8 months of 2009	Deviation, p. p. of GDP
Tax burden level (1 + 2 + 3)	33.3	29.8	+ 3.5
Tax revenues (1), including:	21.0	20.5	+ 0.5
Tax on profits of organizations	4.3	3.4	+ 0.9
PIT	3.9	4.3	- 0.4
SST*	0**	2.2	-
VAT	5.4	5.3	+ 0.1
Excise	1.1	0.9	+ 0.2
Tax on mineral resources extraction	3.2	2.5	+ 0.7
Insurance contributions to mandatory pension insurance (2)	5.2	3.5	+ 1.7
Revenues from foreign trade (3)	7.1	5.8	+ 1.3

* less insurance contributions to mandatory pension insurance.

** from 2010 onwards, SST is transformed into insurance contributions to be transferred directly to off-budget funds.

Source: RF Ministry of Finance; Rosstat; Gaidar Institute's estimates.

Against the backdrop of the noticeable increase in oil and gas revenues (both in absolute and relative terms), the revenues unrelated to oil and natural gas have been demonstrating a less pronounced upward trend (*Table 2*).

The volume of revenues from *the tax on profits of organizations* in the general government budget in the first 8 months of 2010 rose by 0.9 p.p. of GDP on the same period of 2009. It should be noted that over the period of January – March 2010 the dynamics of this index was lower than in the same period of 2009, and then in April it became possible to reverse that negative trend. This became possible due to the effect of the generally positive economic background.

Thus, in the first 8 months of 2010 the real sector yielded financial results in the amount of 3,831.6 bn Rb, which is by nearly 65 % higher than the corresponding index observed in the same period of 2009, while the share of profit-making organizations in the total number of organizations rose on the same period of last year by 2.8 p.p. and amounted to 67.7 %¹.

The volume of revenues from the personal income tax in the general government budget declined to 3.9 % p.p. of GDP, which is by 0.4 p.p. of GDP lower than the previous year's level. At the same time, growth of real disposable money incomes of the population increased since this year's beginning by 5.2 % against last year's dynamics, the principal contributing factor of its growth being the valorization of pensions implemented in January 2010.

The volume of budget revenues from *VAT* in the first 8 months of 2010 was 5.4 % of GDP, which is by 0.1 p.p. of GDP higher than the index observed in the same period of 2009. This was the result of an improved administration of that tax, as well as the gradual revival of the business activity of economic agents. However, although the index of *VAT* collectability is stable in relative terms, it should be noted that in absolute terms its value is somewhat lower than its pre-crisis level in 2008.

In January – August 2010 there occurred some growth of revenues from *excises* in the general government budget. Growth of the volume of revenues amounted to 0.2 p.p. of GDP by comparison with last year's dynamics. The cause of this growth was the accelerated growth, from 2010, of the rates of excises on some excisable commodities. Besides, in 2011 – 2013 it is planned to continue indexation of the specific rates of excises on tobacco products (on filter-tipped cigarettes: in 2011 – at the level of 280.4 Rb per 1,000 cigarettes, in 2012 – 360 Rb, and in 2013 – 460 Rb; on cigarettes without filter and on cigarettes with cardboard mouthpieces – up to 250 Rb, 360 Rb, and 460 Rb per 1,000 cigarettes respectively). According to preliminary estimates, this measure will increase budget revenues over that period by 105 bn Rb.

1 Based on Rosstat's data from the report 'On the financial results of the activity of organizations in January – August 2010'.

On the whole, it can be noted that the level of *tax load* on the national economy in the first 8 months of 2010 rose by 3.5 p.p. of GDP on the same period of 2009, having reached the level of 33.3 % of GDP. This happened due to the influence of external factors. At the same time, it should be noted that the tax load in Russia is 4 p.p. of GDP below the mean European level.

In the medium term it can be expected that the tax load will be somewhat increased, which is inevitable if the budget deficit is to be decreased in a situation when it is impossible to noticeably reduce government obligations during a pre-election period. A growing tax load may, however, have a negative effect in terms of revival of economic growth and the need to increase the investment inflow into the country.

Against the backdrop of the growing general government budget revenue in the first 8 months of 2010, the level of expenditure was demonstrating a marked decline in relative terms. Budget expenditure dropped by 2.3 p. p. of GDP. (*Table 3*), and in absolute terms the volume of expenditures rose by 775 bn Rb.

Table 3

THE EXECUTION OF THE GENERAL GOVERNMENT EXPENDITURE BUDGET IN JANUARY – AUGUST 2009 – 2010, AS % OF GDP

	January – August 2010		January – August 2009		Deviation, p.p. of GDP
	bn Rb	as % of GDP	bn Rb	as % of GDP	
Expenditure, total	9,988.9	35.2	9,214.2	37.5	– 2.3
	including				
Nationwide issues	836.1	2.9	770.5	3.1	– 0.2
Of these, servicing of state and municipal debts	171.4	0.60	149.2	0.61	– 0.01
National defense	739.9	2.6	685.1	2.8	– 0.2
National security and law-enforcement activity	771.2	2.7	7,24.5	2.9	– 0.2
National economy	1,128.5	4.0	1,583.6	6.4	– 2.4
Housing and utilities system	534.9	1.9	517.3	2.1	– 0.2
Environment protection	15.2	0.05	16.1	0.07	– 0.02
Education	1,107.9	3.9	1,051.7	4.3	– 0.4
Culture, cinematography and mass media	199.3	0.70	192.1	0.78	– 0.08
Public health care and sports	976.2	3.4	956.5	3.9	– 0.5
Social policy	3,679.8	13.0	2,716.4	11.0	+ 2.0

Source: RF Federal Treasury; Gaidar Institute's estimates.

To a varying degree, all the expenditure items in the general government budget demonstrated a drop in relative terms, with the exception of Social Policy where growth amounted to 2 p.p. of GDP against the same period of 2009.

The most noticeable cuts, in relative terms, were made to the items *National Economy* – by 2.4 p.p. of GDP, *Health Care and Sports* - by 0.5 p.p. of GDP, and *Education* – by 0.4 p.p. of GDP. Besides, lower expenditures were allocated to the items *Nationwide Issues*, *National Defense*, *Housing and Utilities System* and *National Security and Law-enforcement Activity* – by 0.2 p.p. of GDP each below the level observed in the same period of 2009.

The Execution of the RF Federal Budget in January – September 2010

According to preliminary data released by the RF Ministry of Finance, *federal budget revenue* in the first 9 months of 2010 amounted to 18.4 % of GDP, which is by 0.2 p.p. of GDP above the level noted in the same period of 2009 (*Table 4*). Growth of federal budget revenue over the period under consideration was in the main caused by the following factors: the increasing revenues of the fuel and energy complex as a result of the continuing relatively favorable situation with regard to the prices and demand for Russian export commodities; increased physical volume of hydrocarbon extraction; and the overall favorable economic background. The factors that caused a slowdown

in revenue growth were the transformation of SST and a drop in investment incomes from the placement of the monies from the 'oil and gas' funds.

Federal budget expenditure in the first 9 months of 2010 dropped on the same period of 2009 by 2.3 p.p. of GDP, while in absolute terms its growth amounted to approximately 300 bn Rb.

October saw the introduction of some new changes in the federal law on the 2010 federal budget. Resulting from the adjustment of the main macroeconomic indices, the volume of expenditures allocated to the servicing of government debt shrunk by 60 bn Rb. Besides, as a consequence of optimization of some other expenditures, there have emerged some additional savings that can be redistributed, their aggregate amount being 130 bn Rb. Among the recipients of this additional funding and the areas to which it will be allocated as indicated in the newly adopted document, there are the RF Ministry of Defense (12 bn Rb), reforming of the Housing and Utilities System (25 bn Rb), State Company *Rostekhnologii* (approximately 14 bn Rb). The biggest amounts of the government funds will be allocated to increasing the charter capital of the Open-end Joint-Stock Company *Rossiiskie zheleznye dorogi* [Russian Railways] (40 bn Rb)¹.

As a result, in the first 9 months of the current year the federal budget was executed with a deficit of 2.2 % of GDP, against 4.7 % of GDP in 2009. However, the size of the non oil and gas deficit, as shown by the preliminary data, dropped on its 2009 index by only 1.2 % of GDP, and so amounted to 10.6 % of GDP. It should be reminded that its level, in accordance with the World Bank's recommendations, must not exceed 5 % of GDP. Such an impressive index of the deficit unrelated to oil and gas continued to be an indication of the existence of voluminous government obligations that are not set off by any corresponding budget revenue unrelated to oil and gas.

Table 4

THE MAIN PARAMETERS OF THE RF FEDERAL BUDGET IN JANUARY – SEPTEMBER 2009 – 2010

	January – September 2010		January – September 2009		as % of budget revenue and expenditure for 2010	Deviation	
	bn Rb	as % of GDP	bn Rb	as % of GDP		bn Rb	p. p. of GDP
Revenue, including:	6,006.9	18.4	5,114.4	18.2	77.2	892.5	+ 0.2
Revenues from oil and gas	2,730.9	8.3	1,995.6	7.1	72.9	735.3	+ 1.2
Deductions to Reserve Fund and National Welfare Fund (Stabilization Fund)	26.5	0.1	277.1	1.0	–	– 250.6	– 0.9
Expenditure, including:	6,734.6	20.6	6,441.7	22.9	65.9	292.9	– 2.3
interest	165.3	0.51	146.5	0.52	59.0	18.8	- 0.01
non-interest	6,569.3	20.1	6,295.2	22.3	66.1	274.1	- 2.2
Federal budget surplus (deficit)	– 727.7	– 2.2	– 1,327.2	– 4.7	30.0	+ 599.5	+ 2.5
Deficit unrelated to revenues from oil and gas	– 3,458.6	– 10.6	– 3,322.9	– 11.8	56.0	+ 135.7	+ 1.2
GDP estimations	32, 729.7		28, 184.8				

Source: RF Ministry of Finance (preliminary estimations), Gaidar Institute's estimates.

The key source for financing the deficit in the federal budget remains the Reserve Fund (*Table 5*). On the whole, over 9 months its volume dropped by 572 bn Rb and amounted to 1,258.3 bn Rb. However, contrary to numerous forecasts, the Reserve Fund is not going to be spent in full by the end of the year 2010 – because the federal budget deficit has turned out to be lower than expected. Part of the monies kept in the Reserve Fund will still be saved in order to cover the budget deficit of 2011.

The volume of the National Welfare Fund (NWF) as of 1 November 2010 had dropped to 2,722.2 bn Rb as a result of the exchange rate fluctuations over that period.

1 <http://www.kommersant.ru/doc.aspx?DocsID=1516422>

Table 5

THE DYNAMICS OF THE FORMATION AND USE OF THE OIL AND GAS REVENUES OF THE FEDERAL GOVERNMENT IN JANUARY – SEPTEMBER 2010 – 2009, BN RB

Indices	Fund residuals, end of 2009	Approved for 2010 budget	Received in January – September 2010	Allocated in January – September 2010		Residual funds as of beginning of October 2010
				to maintaining well-balanced federal budget	to oil and gas transfer	
Oil and gas revenues in federal budget	X	2,057.2	2,730.9			x
Areas for allocating oil and gas revenues:	X	x				x
Oil and gas transfer	X	2,531.1	2,730.9			
Reserve Fund	1, 830.5	5,147.5	0	519.5	0	1,258.3
National Welfare Fund	2, 769.0	x	26.5	2.5	–	2,722.2
Total	4,599.5	x	2,757.4	522.0	0	3,980.5

* residuals as recalculated at the exchange rate as of 1 November 2010

Source: RF Federal Treasury.

On the whole, it is planned that 1.5 trillion Rb will be spent in 2010 from the Reserve Fund. The covering of the federal budget deficit in 2011 – 2013 will be achieved in the main through government borrowings and the incomes from privatization of federal property. It is intended that the privatization program should provide the treasury with a total of 900 bn Rb over 3 years.

Table 6 shows the dynamics of the execution of the federal budget in cash terms over the first 8 months of 2010 in accordance with the functional classification of budget expenditure. It should be noted that on the whole the dynamics of spending over January – August 2010 was slightly higher (by 0.8 p.p.) than the rate of budget execution in cash terms over the same period of 2009.

An accelerated rate of budget execution was noted with regard to the item *Interbudgetary Transfers*, with a rise of 7.9 p.p. on last year's indices. Such an increase in the volume of interbudgetary transfers can be explained in the main by the significantly raised pensions in the current year, as well as by the more speedy transfer of resources to the RF Pension Fund. On the whole, the RF Pension Fund's deficit in 2010 is estimated as being 1,116 bn Rb. After the amount of insurance contributions is raised from the year 2011 onwards, it is expected that the deficit will drop to 875 bn Rb. However, it is expected that by 2013 the amount of the RF Pension Fund's deficit will approximate its 2010 level.¹ On the whole, it can be noted that this country's pension system is becoming increasingly misbalanced, and so some serious regulatory measures will be required in the medium term, otherwise there is a high probability of the emergence of risks associated with insufficient indexation of pensions in the future, which will produce an additional pressure on the budgetary system.

The execution of the federal budget in cash terms at an accelerated rate was also noted with regard to the items *Social Policy and National Defense* - by 1.7 p.p. higher than last year.

Table 6
FEDERAL BUDGET EXECUTION IN CASH TERMS IN JANUARY – AUGUST 2010 – 2009,
AS A PERCENTAGE OF ANNUAL BUDGET REVENUE AND EXPENDITURE

	January – August 2010	January – August 2009
Budget expenditure, total	57.9	57.1
including		

1 http://www.vedomosti.ru/finance/news/1131492/kudrin_deficit_pensionnoj_sistemy_vyros_do_30

Table 6, cont'd

	January – August 2010	January – August 2009
Nationwide Issues	47.4	47.4
Servicing of State and Municipal Debts	46.5	49.5
National Defense	57.9	56.2
National Security and Law Enforcement Activity	57.3	58.2
National Economy	43.8	60.7
Housing and Utilities System	51.7	55.7
Environment Protection	58.4	51.2
Education	54.2	55.6
Culture, Cinematography and Mass Media	53.7	61.9
Public Health Care and Sports	48.1	50.8
Social Policy	57.9	56.2
Interbudgetary Transfers	66.9	59.0

Source: RF Ministry of Finance; Gaidar Institute's estimates.

The greatest delay in transferring federal funding to budget recipients was observed under the item *National Economy* – by 17 p.p. lower than in the first 8 months of 2009.

In spite of the accelerated dynamics of the current parameters of the execution of federal budget expenditure by comparison with last year's dynamics, the spending of budget resources still slightly falls behind its planned indices in annual terms.

An Overview of the Main Developments in the Sphere of Tax and Budgetary Policy in October 2010

In October 2010, the discussion of the issue of creating a budget road fund was continued¹. It should be reminded that in May 2010 the RF Government came forth with the initiative of establishing a target budget fund for supporting the construction and maintenance of roads. The suggested mechanism for funding the road system is often applied in international practice.

According to preliminary data, the sources for replenishing the fund will be excises on petrol, diesel fuel, and lubricating oils, as well as some other payments. Considering the fact that from the year 2011 the rates of excises on these commodities will be raised, this mechanism will make it possible to accumulate in the fund a sum of about 400 bn Rb per annum.

However, in October 2010 it became known that there had developed some controversy between the RF Ministry of Finance and the RF Ministry of Transport concerning the structural organization of the road fund. The RF Ministry of Finance is inclined towards creating a single fund at the federal level, while the RF Ministry of Transport supports the strategy of establishing a network of regional funds in order to ensure a more transparent procedure of transferring the monies needed for satisfying the needs of the road system and to make possible an adequate control over them. Thus, the issue of the road fund's actual remains open, and so some additional work will be necessary in order to eliminate all the sources of disagreement between the government departments. ●

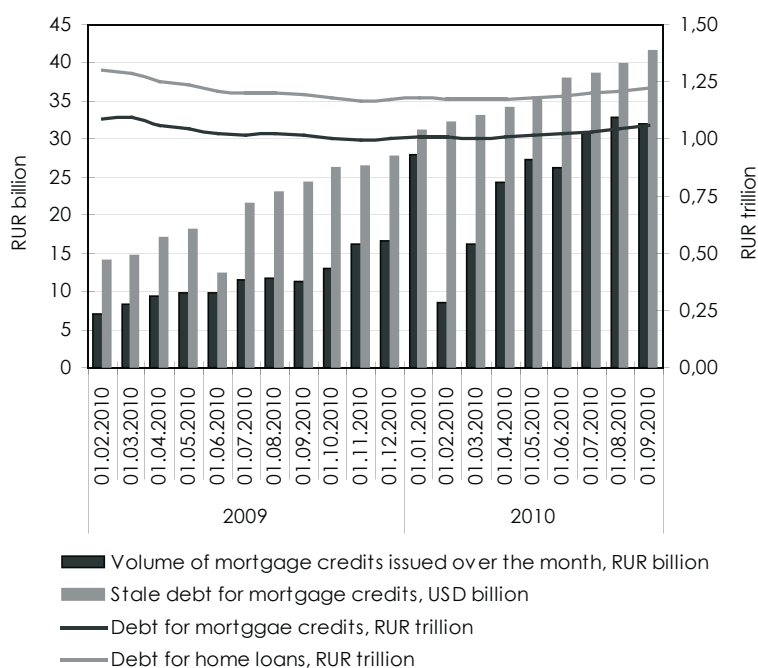
1 <http://www.kommersant.ru/doc.aspx?DocsID=1517973&NodesID=4>

MORTGAGES IN RUSSIAN FEDERATION

G.Zadonsky

Over first eight months of 2010 the volume of issued mortgage credits was 2.5 times above the volume of crediting in the corresponding period of 2008. At the same time stale debt is continuing to increase both in absolute and relative terms. Sberbank decreased the minimum rate for mortgage credits to 9.5% per annum.

According to the data of the RF Central Bank over eight months of 2010 there were 212 276 home loans issued of the total worth of RUR 230.186 billion. Mortgage credits make 158 936 of them, the total sum being RUR 198.257 billion, which made 86.1% of the volume of issued home loans. Outstanding debt for home loans made RUR 1.219 trillion as on September 1, 2001, debt for mortgage credits – RUR 1.056 trillion. The volume of stale debt is continuing to increase: stale debt for home loans went up to RUR 46.766 billion, for mortgage credits – up to RUR 41.690 billion (fig. 1). In terms of percentage of outstanding debt the stale debt for mortgages in rubles went up to 2.81%, for mortgages in foreign currency – to 9.23% (table 1). The trend for the growth of outstanding debt both for the home loans and for mortgages sustains. The same as in 2009 the volume of mortgages credits issued in August is lower than in the preceding month. It is the Republic of the Northern Ossetia – Alania that is characterized by the biggest proportion of stale debt: it makes 10.57% for mortgages in rubles and 24.03% for credits in foreign currency (table 1).



Source: data of the RF Central Bank

Fig. 1. Dynamics of Mortgage Credits Issue

Table 1

DATA ON DEBT FOR CREDITS ISSUED BY CREDITING ORGANIZATION TO NATURAL PERSONS

Federal okrugs and subjects of the Russian Federation	As on 01.09.2010					
	in rubles			in foreign currency		
	for mortgages, RUR million	including stale debt, RUR million	ratio of stale debt to the total debt, %	for mortgages, RUR million	including stale debt, RUR million	ratio of stale debt to the total debt, %
RUSSIAN FEDERATION	868 852	24 424	2.81	187 079	17 266	9.23
CENTRAL	197 374	6 039	3.06	131 697	14 425	10.95
Moscow oblast	50 776	2 020	3.98	35 787	4 485	12.53
Moscow	69 203	2 424	3.50	87 479	9 411	10.76
NORTH-WESTERN	97 151	1 786	1.84	25 557	1 291	5.05
Saint-Petersburg	46 771	897	1.92	19 462	867	4.45
SOUTHERN	56 248	2 081	3.70	4 229	163	3.85

Table 1, cont'd

Federal okrugs and subjects of the Russian Federation	As on 01.09.2010					
	in rubles			in foreign currency		
	for mortgages, RUR million	including stale debt, RUR million	ratio of stale debt to the total debt, %	for mortgages, RUR million	including stale debt, RUR million	ratio of stale debt to the total debt, %
NORTH-CAUCASIAN	14 629	498	3.40	2 124	214	10.08
PRIVOLZHISKY	159 281	5 150	3.23	10 489	595	5.67
URALS	146 769	2 841	1.94	3 543	161	4.54
SIBERIAN	160 512	5 523	3.44	6 575	271	4.12
FAR EASTERN	36 888	506	1.37	2 865	146	5.10
Republic of North Ossetia – Alania	1 079	114	10.57	233	56	24.03
Omsk oblast	13 873	1 091	7.86	785	49	6.24
Volgograd oblast	11 709	755	6.45	704	12	1.70
Kemerovo oblast	16 924	1 024	6.05	1 105	11	1.00
Tver oblast	7 978	391	4.90	903	242	26.80
Kaliningrad oblast	4 111	184	4.48	1 745	207	11.86

Source: data of the RF Central Bank

The proportion of stale debt, payment arrears for mortgages as percentage of the stale debt made 3.95% as on September 1, 2010 and the proportion of the total sum of high-risk debt and default debt for mortgages reduced as compared with August and made 14.26% as on September 1, 2010. At the same time the proportion of debt for mortgages with arrears of payments of more than 180 days is continuing to grow and has reached 5.79% (table 2).

Table 2

CLASSIFICATION OF MORTGAGE CREDITS DEBTS BY PERIOD OF PAYMENTS ARREARS*

	Total sum of mortgage credit debts	Including:									
		without delayed payments		with payments delayed for 1-30 days		with payments delayed for 31-90 days		with payments delayed for 91-180 days		with payments delayed for more than 180 days	
		As RUR million	As percentage**	As RUR million	As percentage**	As RUR million	As percentage**	As RUR million	As percentage**	As RUR million	As percentage**
2010											
01.02.	1 008 451	864 848	85.76	49 414	4.9	24 102	2.39	17 749	1.76	52 339	5.19
01.03.	1 005 628	859 410	85.46	51 689	5.14	23 532	2.34	17 699	1.76	53 298	5.3
01.04.	1 006 840	858 633	85.28	53 363	5.3	23 560	2.34	17 720	1.76	53 564	5.32
01.05.	1 013 689	867 256	85.55	52 200	5.15	22 518	2.22	19 815	1.95	51 899	5.12
01.06.	1 025 040	874 013	85.27	53 538	5.22	22 680	2.21	18 850	1.84	55 958	5.46
01.07.	1 033 813	883 883	85.5	54 113	5.23	22 433	2.17	15 976	1.55	57 407	5.55
01.08.	1 042 167	900 015	86.36	46 689	4.48	21 886	2.1	15 737	1.51	57 840	5.55
01.09.	1 055 931	905 355	85.74	54 169	5.13	20 802	1.97	14 466	1.37	61 138	5.79

* made on the basis of accounting data of crediting organizations 0409115 "Information on crediting organization assets quality"

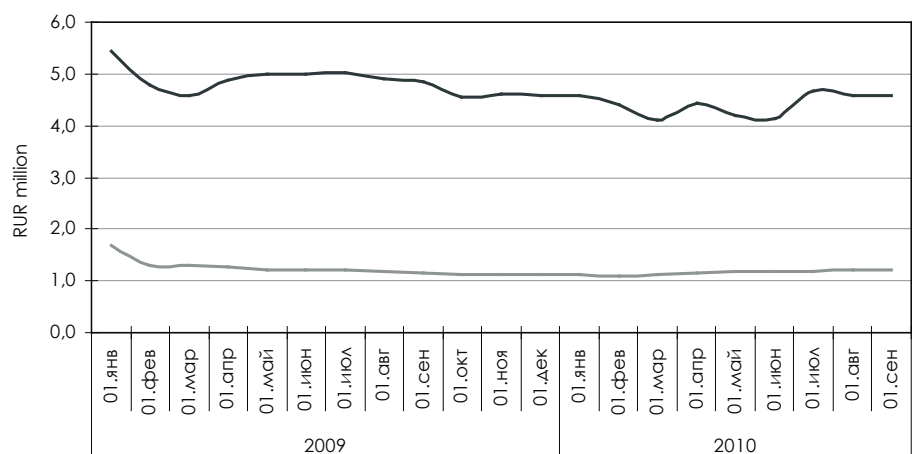
** – of the total sum of the debt

Source: data of the RF Central Bank

The average volume of mortgage credits in rubles issued since the beginning of the year is quite steady and makes approximately RUR 1.2 trillion. The corresponding volume in foreign currency varies in the range RUR 4.1–4.7 million (fig. 2), making RUR 4.588 million by the end of August 2010.

According to the data of the RF Central Bank, in 2010 average weighted interest rate for mortgages in rubles issued since the beginning of the year has been reducing both in July and August and reached 13.4%, the average weighted period of crediting being 16.4 years (fig. 3). Average weighted interest rate for mortgages in foreign currency issued since the beginning of the year made approximately 11% in the summer 2010 and was 11.1% in August.

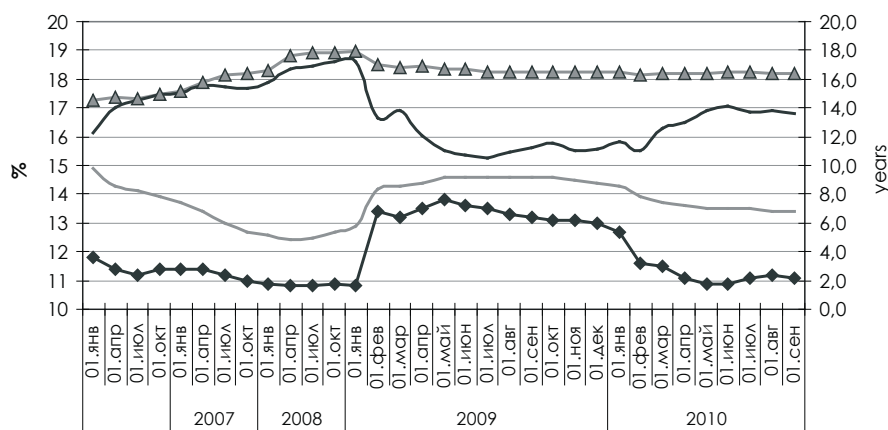
According to the data of Kreditmart, average market rate for mortgage increased insignificantly, by 0.05 percentage points, in August 2010 and made 16.27% (16.22% in July 2010). As compared with July 2010 (20.32%) the decrease in average market rate for credits in rubles made 4.05 percentage points.



— Average volume of mortgage credits in rubles issued since the beginning of the year, RUR million
 — Average volume of mortgage credits in foreign currency issued since the beginning of the year, RUR million

Source: data of the RF Central Bank

Fig. 2 Dynamics of Average Volume of Mortgage Credits



— Average weighted interest rate for credits in rubles issued since the beginning of the year, %
 — Average weighted interest rate for credits in foreign currency issued since the beginning of the year, %
 — Average weighted period of crediting for credits in rubles issued since the beginning of the year, years
 — Average weighted period of crediting for credits in foreign currency issued since the beginning of the year, years

Source: data of the RF Central Bank

Fig. 3. Average Weighted Data for Mortgages Credits Issued Since the Beginning of the Year in Rubles and in Foreign Currency

Table 3
 AVERAGE MARKET INTEREST RATES FOR CREDITS OFFERED IN RUBLES AND US DOLLARS, %

Credit type		June 2010		July 2010		August 2010	
		Min	Max	Min	Max	Min	Max
Credit for purchase of an apartment at the secondary market	Credit in rubles	12.90	19.48	12.59	19.08	12.68	19.27
	Credit in US dollars	10.01	16.36	9.91	16.00	9.91	15.94
Purposeful credit with the mortgage of owned immovable property	Credit in rubles	15.63	21.51	15.73	21.33	15.40	21.13
	Credit in US dollars	11.71	18.03	11.98	17.90	11.83	17.82

Table 3, cont'd

Credit type		June 2010		July 2010		August 2010	
		Min	Max	Min	Max	Min	Max
Credit for purchase of a house with a land plot at the secondary market	Credit in rubles	14.10	20.32	13.93	19.85	13.36	19.63
	Credit in US dollars	11.40	17.47	11.21	17.51	10.85	17.42

Source: Kreditmart data

As compared with July 2010 average market rate in US dollars reduced by 0.06 percentage points and made 13.20% (13.26% in July 2010), the decrease of average market rate for credits in US dollars made 2.59 percentage points versus July 2009 (15.79%).

Rates for credits for purchase of housing under construction vary from 12% to 19%, according to the data of Rusipoteka (table 4).

Table 4

RATES FOR CREDITS FOR PURCHASE OF HOUSING UNDER CONSTRUCTION, %
(AS ON SEPTEMBER 22, 2010)

Bank	Interest rate for credits in rubles		Interest rate for credits in foreign currency	
	minimum	maximum	minimum	maximum
	(for housing under construction/after state registration of property rights)	(for housing under construction/after state registration of property rights)	(for housing under construction/after state registration of property rights)	(for housing under construction/after state registration of property rights)
1. Bank of Moscow	15.75/14.75	18.75/17.75	10.75/9.75	13.75/12.75
2. VTB 24	16.1/13.6	17.6/15.1	11.6/9.1	14.35/11.85
3. Vozrozhdenie	15/13	16.5/15.5	12.5/11.5	15/14
4. Gazprombank	15.75/15	*	12.5/11.5	*
5. Deltacredit	14.75/12.75	17.25/15.25	11.0/9.0	13.5/11.5
6. Investtorgbank	15/14	19/18	13.5/12.5	17.5/16.5
7. Sberbank	12.9/11.65	14.75/13.5	12/10.1	14/12.1
8. Svyaz-Bank	12/–	12.5/–	–	–
9. Sobinbank	16/12.5	16/12.9	14.0/11.0	14/11.5
10. Transcreditbank	14/13	16/15	–	–

*) – depending on credit's parameters

Source: data of Rusipoteka (banks' internet sites).

It is AHML refinancing rates that serve as a minimum reference point for the interest rates for credits in rubles for the purchase of housing at the secondary market for the leading mortgage issuing banks (table 5).

Table 5

FIXED RATES FOR STANDARD PROGRAMS OF LEADING MORTGAGE ISSUING BANKS FOR
PURCHASE OF IMMOVABLE PROPERTY AT SECONDARY MARKET *
(AS ON SEPTEMBER 22, 2010)

Bank	Interest rate for credits in rubles		Interest rate for credits in foreign currency	
	minimum	maximum	minimum	maximum
AHML**	9.28	13.2	–	–
1. Absolut bank	12	19	–	–
2. Alfa Bank	13	16	10	13

Bank	Interest rate for credits in rubles		Interest rate for credits in foreign currency	
	minimum	maximum	minimum	maximum
3. AMT-Bank	12.75	14.25	9	10.5
4. Bank of Moscow	14.2	18.95	9.75	14.3
5. Societe General - Vostok	12.5	14.5	8	11
6. Vozrozhdenie bank	13	15.5	11.5	14
7. VTB 24	13.6	18.35	9.1	15.1
8. Gazprombank	13	***	11.5	***
9. Delta Credit	12.75	15.25	9	11.5
10. Housing Finance Bank	13.5	16	9	11.5
11. Nordea bank	11.5	18.5	9	16
12. Raiffeisen bank	14	17.5	10.5	14
13. Rosbank	13	20.5	9	16.5
14. Sberbank	11.65	14.75	10.1	12.1
15. Uralsib	14	19	–	–

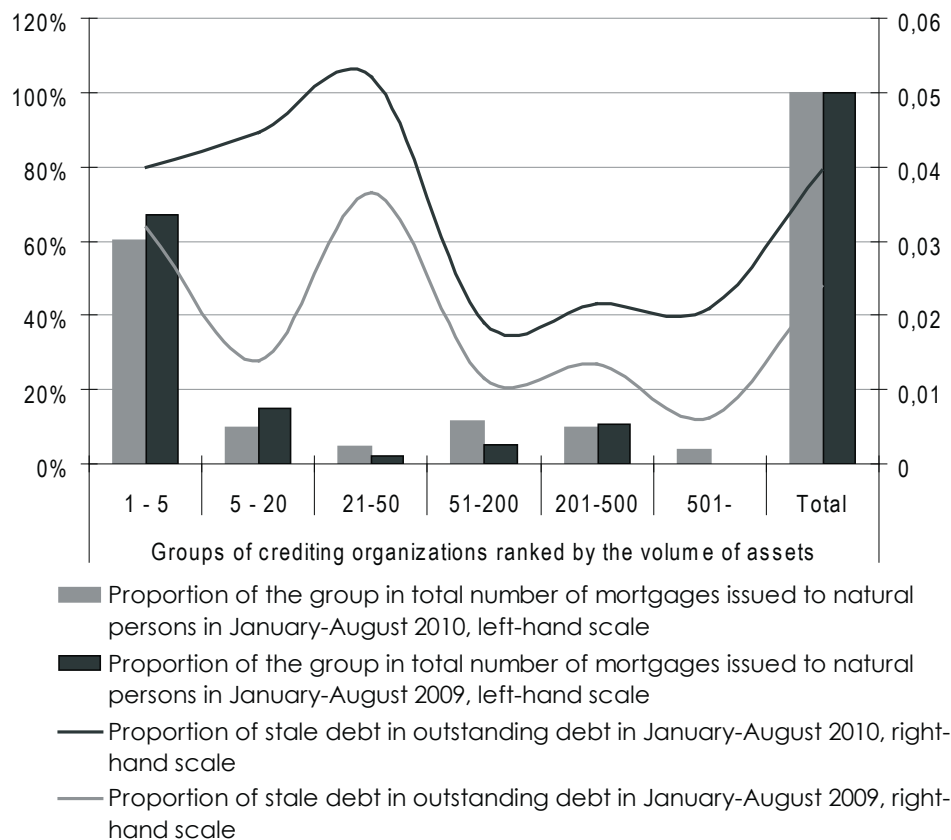
* – not taking into account different campaigns, corporate programs and other limitations, only rates for standard programs accessible to the general public

** – refinancing rate

*** – depending on credit's parameters

Source: Rusipoteka (banks' Internet sites, AHML).

As on September 1, 2010 the proportion of five biggest banks (first group of crediting organizations ranked in concordance with the amount of assets (descending)) in the total number of mortgage credits issued to natural persons in January-August 2010 reduced to 60% (fig. 4) versus 67% over the corresponding period of 2009. The proportion of the second group has also decreased, but there appeared some creditors in the last group, which testifies that the extent of market monopolization by large banks has somewhat decreased. The proportion of state debt versus outstanding debt has increased in all the groups in January-August 2001. It was the second group that was characterized by the highest increase in the sum of state debt – 2.08 percentage points. Such a growth is accounted for by the increase in state debt for credits issued in foreign currency by 7.27 percentage points (table



Source: data of the RF Central Bank

Fig. 4. Dynamics of Volumes of Issued Mortgages and State Debt as Broken by Groups of Crediting Organizations Ranked by Assets Volumes

6). The credits of the poorest quality are, the same as in 2009, characteristic for the third group of banks, stale debt making 5.22% of outstanding debt (*fig. 5*).

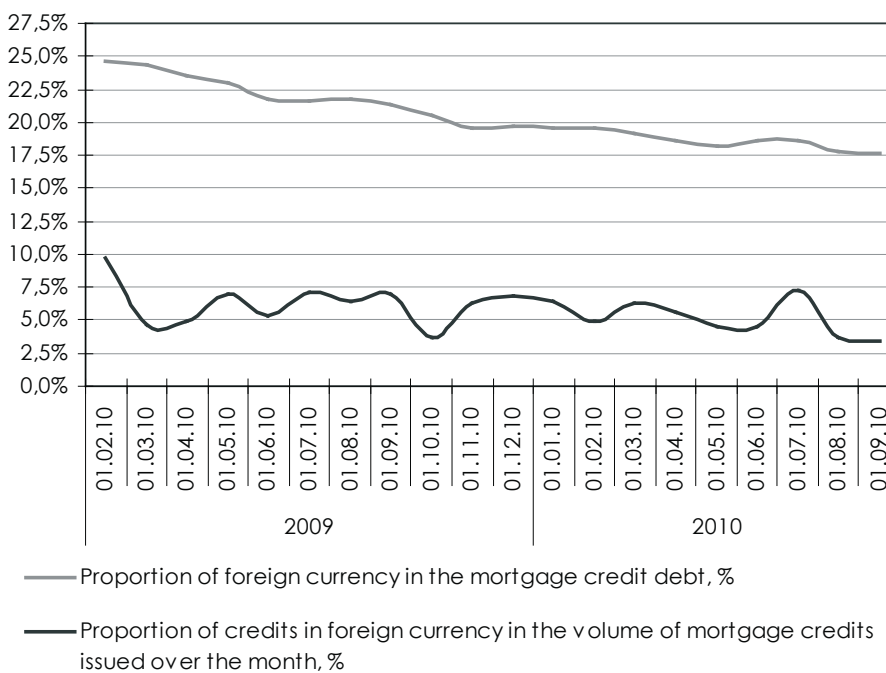
Table 6

INCREASE IN STALE DEBT PROPORTION IN OUTSTANDING DEBT AS ON SEPTEMBER 1, 2010
VERSUS SEPTEMBER 1, 2009, AS PERCENTAGE

Index	Groups of crediting organizations ranked by assets volume (descending)						
	1–5	5–20	21–50	51–200	201–500	501–1036	Total
Increase in proportion of total stale debt	0.81	3.08	1.57	0.74	0.82	1.47	1.56
Increase in stale debt proportion for credits in rubles	0.76	1.95	1.04	0.78	0.61	1.51	1.07
Increase in stale debt proportion for credits in foreign currency	6.33	7.27	2.73	0.70	2.22	1.67	4.47

* no data for the group in 2009

Source: data of the RF Central Bank



Source: data of the RF Central Bank

Fig. 5. Ratio of Rubles versus Foreign Currency in Mortgage Credit Figures

The general trend towards the decrease in the proportion of mortgages issued in foreign currency both in the volume of issued credits and in the volume of outstanding debt continues to decrease (*fig. 5*).

From January to August 2010 the total volume of mortgage credits (loans) refinanced by open joint-stock company AHML makes 27 597 credits of the total of RUR 27.791 billion, the average weighted interest rate being 10.88% and exceeds considerable the scale of refinancing in the preceding years. Over the same period of 2009 there were 15 341 mortgages of RUR 16.333 billion with the average interest rate of

14.05% refinanced, whereas in 2008 – 19 054 mortgages of RUR 18.249 billion with the average weighted interest rate of 12.36%.

Sberbank announced the decrease in interest rates for mortgage credits issued in rubles: the minimum rate is lowered to 9.5% per annum, the maximum – to 14.75%.

AHML restructured credits for 8.5 thousand of borrowers that applied for that, and it should be noted that 95% of borrowers successfully pay off the liabilities after restructuring.

In order to support Vnesheconombank investment program the Agency for Home Mortgage Lending has developed the Program for purchase of bonds with mortgage coverage. Within the framework of the program AHML is planning to buy out senior tranches of mortgage bonds issued by market participants of the total volume of RUR 20 billion. The volume of senior tranche bonds suggested for redemption should be no less than RUR 1 billion and no more than RUR 5 billion. It should be noted that the liability to redeem the bonds of junior tranches remains with the originator.

FULFILLMENT OF RUSSIA'S FOREIGN ECONOMIC STRATEGY: FIRST RESULTS

A.Pakhomov, R.Volkov

At the end of October 2008 the RF Government approved the concept of Foreign Economic Activity Strategy of the country up to 2020 (FES-2020)¹, which had been developed by the RF Ministry of Economic Development with the participation of other ministries and departments as well as experts and business representatives. This is the first document in the Russian history that includes goals and targets as well as sector and geography priorities of Russia's foreign economic policy in association with the long-term goals of country's socio-economic development².

At present the issues of Russia's foreign economy complex development are becoming especially important in view of formation of the economy that should be innovative, resistant to crises and diversified. The negative consequences of the world financial and economic crisis for the country require the creation of reliable instruments for regulation and institutes for securing economic growth getting the maximum benefit possible from new positioning of Russia in the international division of labor.

The practice has demonstrated that the foreign economic factor played an important role in slowing-down Russian economy decline (basing on the contribution of the net export in the GDP dynamics) during the acute phase of the crisis and somewhat accelerated its transition to the phase of recession. It was the measures of state anti-crisis regulation and expansion of internal demand that acted as the main driving force for the economies of the majority of other countries.

The necessity to fulfill FES-2020 is accounted for by both the traditional problems of Russia's foreign economy complex and fundamentally new situation in the world economy after the crisis, which is due to both the external and internal factors. It should be noted at the same time that there were no concept alternatives to Foreign economic activity strategy in the country developed.

External factors can be seen primarily in the growth of trade and political influence of the foreign countries on the sphere of international trade and transboundary flow of investments against the background of strengthening and modification of the export potential and the increase in competitive ability level (which is especially characteristic for quickly developing Asian economies). This requires to implement adequately and fully the whole spectrum of foreign economic instruments with the aim to achieve new positioning of Russian in changing architecture of the world economy.

Internal reasons are primarily connected with the necessity for the country to transfer to innovative model of socio-economic development, which, under modern conditions presupposes active participation in international labor division on the basis of achieving of leading positions in a number of high-tech sectors. Taking into account the course towards country's modernization, the following priority economy sectors were chosen: telecommunications, nuclear and space technologies, medicinal technologies and pharmaceuticals as well as computer technologies and programs. The development of these sectors' economic potential should become an additional factor in increasing the competitiveness of the national economy.

It is obvious that FES-2020 is not self-sufficient and is only one of the elements of the forming system of strategic management in Russia. On one hand, this document is based on the statements of the Concept for long-term socio-economic development of the Russian Federation up to 2020 (CLTD-2020), Main directions of RF Government work for the period up to 2012 (MDGW-2012)³, and a number of other directive documents. On the other hand, FES-2020 statements serve as a base for

1 Main directions of foreign economy policy of the Russian Federation up to 2020 (MD FEP -2020).

2 Goals and principles of FEP-2020 are considered in more detail in A.A. Pakhomov "On Foreign Economic Strategy of the Russian Federation". Economic and political situation in Russia, IET, October 2008, p. 67-68

3 See, correspondingly, the Decree of the RF Government from 17.11.2008 No1662-r (version of 08.08.2009) "On the Concept of long-term socio-economic development of the Russian Federation for the period of up to 2020" and Decree of the RF Government from 17.11.2008 No 1663-r (version of 14.12.2009) "On approval of the main direction for the work of the Government of the Russian Federation in the period up to 2012 and the list of projects for their execution"

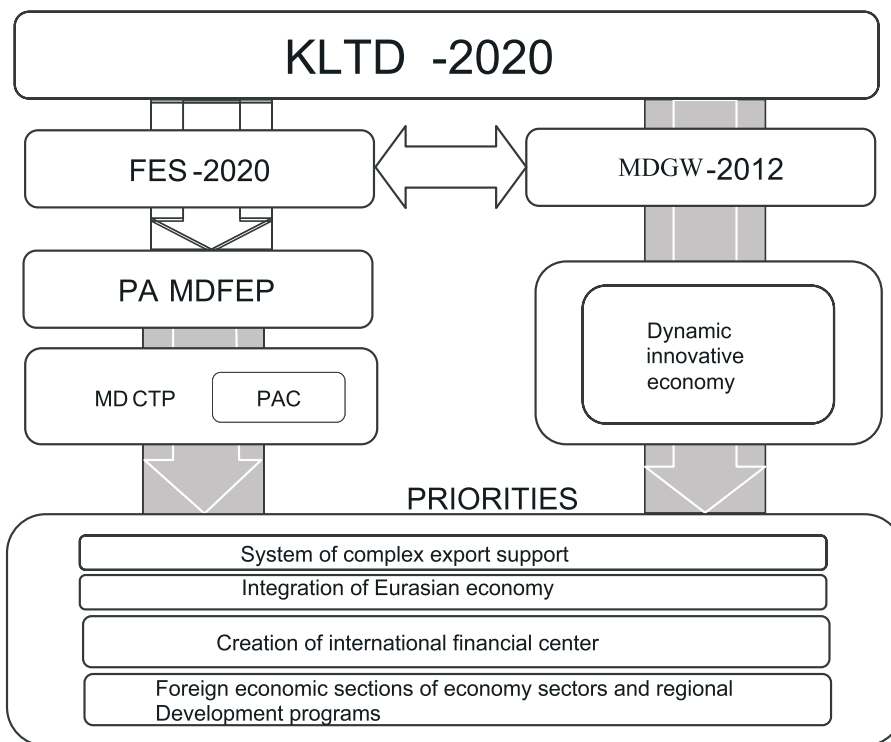


Fig. 1. System of Directive and Operational Documents for Management of Russia's Foreign Economic Relations

new instruments and documents in the sphere of foreign economic activity that specify the measures aimed at assisting the recovery of the Russian economy and its innovative development (see fig. 1).

In order to fulfill Foreign economic strategy statements fulfillment Main directions of customs and tariff policy (MD CTP) for 2011 and for the planning period of 2012 and 2013¹ have been developed, the system for complex export support measures is being formed², Plans for actions by countries (PAC) have been prepared, the Concept for creation of an international financial centre in the Russian Federation and measures for integration of Eurasia economic space. Besides, FES-2020

priorities are taken into account in the foreign economic sections of the corresponding regional and sector development programs.

In order to fulfill FES-2020 the RF Ministry of Economic Development has developed the Plan of Actions for the RF Government concerning fulfillment of the Main directions of foreign economic policy of the Russian Federation up to 2020 in 2009-2012 (PA MDFEP)³. The achievement of the strategic goal of foreign economic policy is secured through the fulfillment of 7 priority directions with a distinct connection of the actions in which of these with the solved internal tasks, goals, requirements and possibilities of the Russian economy. On the whole, it can be noticed that despite the world financial and economic crisis, over elapsed 2 years some results (although ambiguous) were achieved when fulfilling all FES-2020 priorities.

1. *Securing of Russia's leading positions at the world markets of high-tech goods and services in concordance with its specialization in the world scientific and technological sphere.*

First of all, this concerns the production of such economy sectors as aircrafts construction, rocket and space industry and space related services, nuclear power industry, shipbuilding, information and telecommunication technologies and nanotechnologies (in prospect).

Fulfilling this priority task, some progress has been made concerning the advancement of Russia's interests in the sphere of nuclear power industry in the world. State Atomic Energy Corporation Rosatom participates in construction of International thermonuclear experimental reactor in Cadarache (France). The state corporation and its branches take part in international innovative research projects on the development of new generation of nuclear reactors INPRO and "Generation 4" and in the fulfillment of "Global nuclear energy initiative" project.

1 Considered at the meeting of the Presidium of the RF Government on March 24, 2010 (<http://www.premier.gov.ru/events/news/9903/>)

2 Project No 37 MDGW-2012 "Creation of the system for complex export support"

3 The document was approved by the RF Government in March 2009 and is to be corrected on annual basis: the RF Ministry of Economic Development monitors the fulfillment of PA MDFEP and submits the report on its fulfillment and modifications to the RF Government. The Report on 2009 results was considered at the Meeting of the RF Government devoted to the issue of "On fulfillment of the main directions of foreign economic policy of the Russian Federation up to 2020" on June 3, 2010.

On the whole in 2009 the proportion of Russia at the world market makes 20% in nuclear power plants construction, 40% in uranium enrichment and 17% in supply of fuel for nuclear power plants¹. It is planned to build nuclear power plants in China, Vietnam, Turkey, Venezuela and Ukraine. At the same time, taking into account IAEA expert estimations, according to which up to 130 new energy blocks will have been built by 2020 in the world, significant efforts must be made to secure Russia's leading positions at the world market.

A number of contracts for equipment supply has been signed in the aerospace sphere, a number of space vehicles have been launched and the promotion of Global Navigation Satellite System Russia at the world market is going on. In the sphere of civil aircrafts construction the project "Sukhoi Superjet 100" (SSJ100) is noticeable. At present there are about 200 orders for SSJ 100 (including the agreements on intentions and options), including those by foreign companies².

On the whole no noticeable results in other direction in this sphere have been achieved, ship-building remaining the most difficult sector of those mentioned – export supplies are still irregular. Over two years the results of the Russian high-tech economy sector development can be estimated differently. On one hand, the progress is obvious – the number of partners has increased and the geography of contacts – expanded. On the other hand, there are persistent technological problems (the space industry is focused on Launching services by Russia³, a the first for 20 years serial civil aircraft SSJ-100 is made to a significant extent from the components produced abroad⁴, and these components comprise complex details and aggregates). In order to retain and strengthen Russia's positions at corresponding world markets it is necessary to solve the problems mentioned. As a result, in order to produce competitive commodities the main task in this direction is an accelerated modernization of the sectors of the industry.

2. Support for export and achievement of global competitiveness of processing industries and sphere of services

These includes, primarily, traditional sectors of industry – machine building, agriculture sector and fishing, metallurgy and chemistry industry, construction and some sectors of services.

In the course of fulfillment of this project on overcoming of negative consequences of the global financial and economic crisis mainly by the methods of customs and tariff regulations and elimination of barriers for Russian goods export to external markets⁵. On the whole these measures played a certain role during an acute phase of the crisis, but at the present stage their application should be reconsidered in order to create an adequate competitive environment.

In 2008–2009 the proportion of machinery and equipment in the Russian export has increased from 4.9% to 5.9%. However in the first half of 2010 it has contracted to 4.6% versus 5.2% over the corresponding period of 2009, although the absolute volumes of this type of goods export went up from USD 56.5 billion to USD 8.7 billion over the period.⁶ This dynamics was influenced by fluctuation of prices for energy carriers, however it is already obvious that it is impossible to reach the goal of export volume of USD 30 billion in 2010.

3. Integration of Russia into global transportation system and realization of Russian economy transit potential

It concerns the increase in competitiveness of Russian international transportation corridors due to development of competitive tariff policy in the sphere of transportation and accompanying services, new logistic centers creation, simplification of the procedures for transit freights clearance and development of admission points.

1 At present four power generating units are being constructed abroad – in India (nuclear power plant Koodankulam, 2 units), in Bulgaria (nuclear power plant Belene, 2 units), nuclear power plant Bushehr nuclear power plant in Iran has been launched. See Alabyan S.S., Rogov V.V., "International specialization of Russian at the world market of equipment for nuclear power plants", Russian foreign economy bulletin, No 8, August 2010, P. 49 (in Russian, Rossiiskii vnesheekonomicheskii vestnik)

2 <http://ir.superjet100.com/index.php?id=493>

3 <http://www.federalospace.ru/main.php?id=23>

4 On the whole 30 foreign suppliers take part in the aircraft production

5 According to the data of the RF Ministry of Economic Development, the action of 45 limiting measures that presented obstacles for the accession of Russian goods to the foreign markets has been cancelled. The sum of inflicted damage makes about USD 1.3 billion.

6 According to the data of the RF Federal Customs Service, <http://www.customs.ru>

Along this line a complex of measures aimed at further development of transit potential of transportation corridor between Europe and Asia-Pacific Region formed on the basis of trans-Siberian railway has been developed and is being fulfilled, the project of highway China-Europe is being elaborated¹. In order to secure the connection between Russia's transit corridors and transportation systems of neighboring countries the single CIS transportation space is being formed. The projects of the practical use of the Northern Sea Route for Russian goods and transit cargo supplies are being considered.

At the same time, despite the results for the target indices of transportation services exports (USD 12.4 billion in 2009 and USD 3 billion in the 1st quarter² the target annual figure being USD 17 billion), it is air (47%) and water (24%) transportation that prevail in its structure, the proportion of railway transportation being low (13%). This does not meet the goals declared by FES-2020 and testifies on unbalanced development of this sector. It should be noticed that the majority of projects in this sphere are still at the stage of discussion and their fulfillment is not systematic.

4. Increase in Russia's role global energy security and strengthening of its positions at the hydrocarbons market

In the course of this priority fulfillment it is envisaged to realize large-scale infrastructure projects focused on diversification of export routes and accession to the new markets.

The proportion of fuel and energy commodities in Russian export in 2009 and the first half of 2010 made 68%. This fact testifies that it is necessary to diversify export, and at the same time it demonstrates the role of fuel and energy complex in the Russian economy. The projects undertaken by domestic energy companies are characterized by their large scale. The model example of this is the construction of oil pipeline "Eastern Siberia – Pacific Ocean" with the branch to the boundary with China.

Taking into account the commissioning of the first plant of liquefied natural gas on Sakhalin in 2009 and re-orientation of the main pipelines to the East, it can be stated that the task of geographical diversification of energy resources export is being gradually fulfilled. Some progress has also been made in the fulfillment of the projects "Nord Stream" and partially "South Stream", which should diminish the dependence of Russian supplies from transit countries. Domestic energy companies have also markedly advanced at the markets of Latin America and Asia.

At the same time rapidly changing situation at the world market of energy carriers and its structure should be taken into account together with the weakening of Russia's position in the Central Asia, and the perspective decrease in the external demand for energy carriers, their production at the internal market decreasing. The latter problem will considerably influence the macroeconomic development of the country as the whole.

5. Integration of Eurasia economic area with Russia as the centre

In this sphere it is the formation of the Customs Union and Single Economic Area of Russia, Belorussia and Kazakhstan and the strengthening of integration processes in CIS countries that is the main task.

In July 2010 the Agreement on creation of Customs Union of Russia, Belorussia and Kazakhstan was concluded and on its basis the work on the formation of the single economic area (SEA) of three countries was commenced³. It should be noted that the package of SEA agreements makes provisions for qualitatively new development of integration processes in the region, and, consequently, new positioning of Russia in post-Soviet space. Russia has also initiated the project of the Agreement on multilateral zone of free trade within CIS, which at present is being discussed by member countries. The major problems in this sphere include inadequate enforcement of reached agreements and political nature of integration processes.

6. Creation of international financial centre (IFC) in Russia and conversion of the ruble in the regional reserve currency

1 For instance, in September 2009 the second stage of the bridge over the Amur river near Khabarovsk was completed and launched, in August 2010 the construction of a highway "Amur" (Chits-Khabarovsk) was completed.

2 Calculated on the basis of the RF Central Bank data, <http://www.cbr.ru>

3 In concordance with the Plan of Actions for Customs Union Formation in 2009-2010 there were more than 40 international agreements signed at the level of the heads of state and chairmen of governments, which comprise the legislative foundation for this union. Starting with January 1, 2010 Unified Customs Tariff came into effect.

The creation of IFC in the Russian Federation should contribute into the increase of attractiveness of the Russian financial institutions for national and foreign participants - investors, issuers, financial agents¹.

In concordance with the Plan of measures the federal government bodies are working on the pack of law projects². Immediate measures are aimed at the expansion of Russian financial market instruments, creation of competitive infrastructure for public trade, expansion of the long-term investment resources volume, improvement of corporate management, simplification of taxation of financial market operations, adaptation of the legislation and law enforcement practice in the adjacent sphere.

Financial crisis has suspended activity in this sphere, but at this point the process needs to be intensified. In 2010 a special project group under Presidential council for financial markets and consultative group with attraction of foreign structures have been created, which task will be the creation of the international financial center³. At the same time the extent of legislative base readiness and fulfillment of administrative measures for IFC formation can be estimated as rather low.

The work on converting the ruble into the reserve currency are in fact at the beginning stage, with the exception for a number of operations within CIS countries and experiments with accounts in national currencies with non-CIS countries (China, Venezuela).

7. Strengthening of Russia's position in the formation of world economy structure

The formation of favorable regulatory external environment for fulfillment of long-term foreign economy priority tasks and export growth is the main task in this sphere. In this connection Russia must play an important role in the formation of post-crisis architecture of the world economy.

In the course of this priority task fulfillment the process of Russia's accession to the WTO and OECD went on. The Organization committee for preparation and provision for Russian Federation presidency in APEC in 2012 has been formed in order to define priority tasks for this forum. Russia has participated in discussions on crisis overcoming and elaboration of coordinated approaches to the reforms in global financial and economic architecture within G8, G20 and other international forums. Upon Russia's initiative the cooperation within BRIC and SCO has intensified.

However, there are constant problems in this sphere and low activity of Russia in implementation of the main decisions and measures of the leading international organizations, as well as the lack of political support for its initiatives from leading countries are some of them

As it has been mentioned above the target indicators of FES for 2010 have not been achieved, which is accounted for by the global recession during the crisis that had a negative impact on foreign economic activity macroeconomic indices and weakened markedly Russia's positions in the world economy. In this connection, the planned dynamics for the growth of Russia's goods turnover with the key trading and economic partners in 2009-2010 have not been met.⁴

At present stage the fulfillment of foreign economic policy requires the creation of the institutional system that will provide for Russia's national interests in the world economy, increase in competitiveness of domestic companies at the world markets, flexibility and effectiveness of state regulation mechanism in the foreign economy sphere, its ability to react rapidly and adequately to external risks.

Taking into account the facts mentioned above, Foreign economy strategy is to favor fulfillment of long-term initiatives and global projects realized in the world economy as the whole. In this connection the key tasks are the following: complex support for Russian companies abroad by the state, creation of

1 The RF Ministry for Economic Development with the participation of concerned business representative and experts has developed the Concept for formation of IFC in Russia (approved by the RF Government on February 5, 2009). In order to fulfill this Concept the RF Ministry of Economic Development has developed Plan of Measures (approved by the RF Government on July 11, 2009 No 911-r). In January 2009 the strategy for the development of the financial market in Russia was also approved ([hppt://www.economy.ru](http://www.economy.ru)).

2 At present the procedures for open joint-stock companies and banks re-organizations have already been specified, the institute of stock agreements has been introduced, "anti-raider" law has been approved, the issues of foreign securities placement and circulation in Russia have been regulated, the issue of bonds has been simplified etc.

3 Bank review (in Russian, Bankovskoe obozrenie), May 2010, p.6.

4 The target indicators for export being USD 502 billion, for import – USD 434 billion in 2010, according to the RF Federal Customs Service these indicators for the first half of 2010 made USD 189 billion and USD 95 billion, correspondingly.

the system for identification and elimination of barriers for external markets accession, application of qualitatively new foreign economy instruments and institutions by Russia.

Such a system includes three interconnected parts: complex support rendered to export and direct investments abroad, regulation of foreign goods accession to the market and support for effective management in the foreign economy sphere.

In July 2010 the decision on formation of Russian agency for insurance of export credits and investments in the form of an open joint-stock company with 100% of Vnesheconombank participation in its capitalization was made in principle. The Agency, which liabilities for insurance agreements will be guaranteed by the state, is to insure export credits against commercial and political risks starting with 2011¹.

The specific characteristic of the present model of foreign economic activity management in Russia is the necessity to affect international business activity of domestic companies and increase the role of Federation's subjects and regions at external markets. In order to improve information support for foreign economic activity of Russian companies, in July 2010 Unified portal for foreign economic information was started on experimental basis, and programs for financial support of small- and medium-scale business export in the regions have been elaborated².

In concordance with PA MDFEP in 2009-2010 the plans of actions by countries (PAC) with the main Russian foreign economic partners are being developed that should serve as an instrument for mid-term planning and interdepartmental coordination³. On the basis of mutual interests analysis PAC formulated goals, tasks and measures and defines control indicators⁴.

Attraction of foreign and primarily high-tech companies to the Russian economy is an important direction along the line of contribution into modernization. It is the creation of foreign companies' competence centers that should serve as a target index in this case. Some measures adopted in this sphere concern customs and tariff regulation, creation of special economy zones etc.

In the course of modernization the project approach to the work of the Russian representatives in intergovernmental commissions on trade and economy and science and technology partnership has been implemented, and the system for estimation of trade representatives of Russia abroad has been created, which envisages the priority support for high-tech export and attraction of direct foreign investments.

On the whole it seems that FES-2020 tasks for the period of 2009-2010 have not been fulfilled properly. This concerns both the quantitative indicators and the measures of institutional nature. Improvement of the state system for foreign economic activity support, formation of new instruments and institutions in this sphere is not intensive and systematic enough.

World crisis aftermaths that have led to the decrease in foreign economic activity indicators and withdrawal of the state resources are one of the causes of the existing situation. Besides, it is necessary to notice low efficiency of state management bodies in the field of Russia's foreign economy sphere improvement low rates of national economy modernization, absence of the expected institutional reforms and sustention of traditional development model oriented towards the export of raw materials etc. But first and foremost cause is the change in the framework conditions for FES-2020m which is the external reflection of the national economy. In fact the crisis has leveled the first four-year stage of reforms (2009-2012), during which the state assumed that the sustention of high economic growth rates would create the necessary basis and resources for fundamental changes.

However, the situation is different and, citing A.R. Belousov, "At present model of raw materials export is recovering and has even aggravated: during the crisis the sectors have become more differentiated, a broad sector that cannot exist without massive government support has evolved"⁵.

1 The target for Agency's operation is insurance of at least 30% of the total volume of machinery, equipment and transport vehicles, construction and engineering services export. This will provide for the increase of Russian high-tech goods and services export by approximately one third by 2013 as compared with 2009

2 <http://www.ved.gov.ru>

3 Adopted at the Meeting of the Presidium of the RF Government on March 17, 2010

4 In 2010 PAC was prepared for 38 countries, which account for more than 78% of Russian export and nearly 80% of import, as well as 54% of accumulated investments in the Russian economy <http://www.economy.gov.ru/report2009/ru/par3/07/01/default.htm>

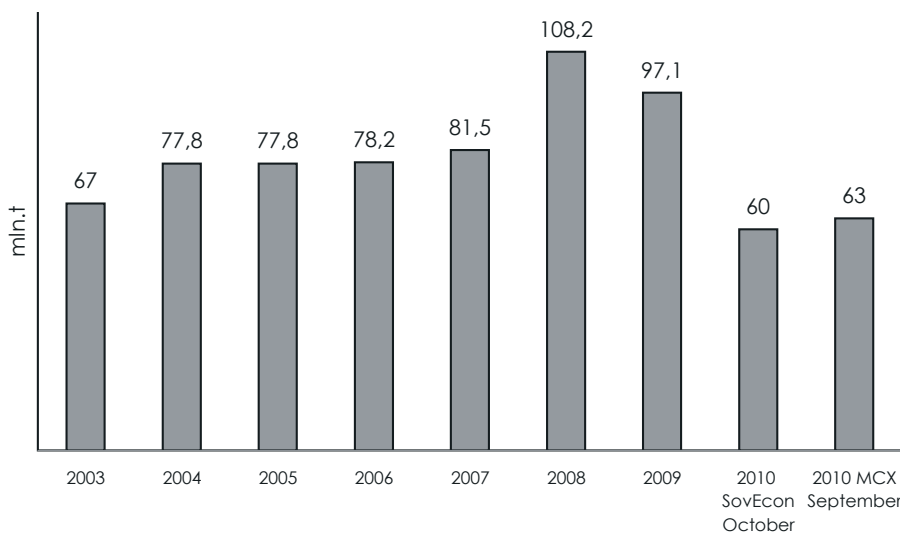
5 A.R. Belousov "Ten years of Russian economy development: growth models transformation and problems of further development". Presentation at the Association of Independent Centers for Economic Analysis "At the turn of the decade: results and prospects". Moscow, October, 1st, 2010.

It seems that it is the qualitative estimation of crisis aftermath for Russia and revelation of new challenges and risks in foreign economic sphere that should be the main result of the first stage of FES-2020 fulfillment. In this connection discovery of “opportunity windows” appearing in post-crisis period and their active use for the national benefit with aim of new positioning of Russia in global economy is one of priority tasks. ●

2010 HARVEST: GRAIN MARKET PROBLEMS

N.Karlova

Because of the abnormal heat and drought in summer of 2010 farmers, mainly of the Volga and Central Federal Regions, lost 1 / 3 of cereal crops. Before the end of harvest and on the verge of sowing season the government introduced a temporary embargo on grain exports, which negatively affected the prices in the domestic market. Sales of grain in export-oriented regions of the South and the North Caucasus Federal District, where the harvest was quite good, have been suspended. The effect of drought and the embargo will also provide a negative impact on the future harvest of grain in 2011. In addition, withdrawal, although temporary, Russia from the world market will negatively affect the reputation of Russia as a supplier of grain and provide advantage to its competitors.



Source: "SovEcon" data.

Fig. 1. Dynamics of the grain harvest in Russia in 2003-2009. and forecast for 2010



Source: «SovEcon» data

Рис. 2. Wheat and barley crop dynamics for 2003 – 2009 and forecast for 2010

In 2008 and 2009 Russia has reached the peak volumes of grain production over the past 10 years - 108.2 and 97.21 million tons, respectively. The forecast for the gross harvest in 2010 was slightly lower - about 90 million tons, but that would be enough so that the country could both, cover the domestic needs in grain and to keep the position of the net exporter, while remaining one of the largest players in the global grain market. However, climatic factors has made significant adjustments to the dynamics of the market - in summer 2010 heat and drought had destroyed about 30% of grain crops and lowered the crop yields up to 18.9 kg / ha as compared with 23.8 t / ha in 2009.

According to the estimates of the analytical center "SovEcon" (as of October), the gross grain harvest in 2010 will not exceed 60 million tonnes; the estimates of the Russian Ministry of Agriculture are slightly higher - 63 million tons (Fig. 1). The decline in grain production is expected in all

federal regions. Emergency situation is announced in more than 40 regions.

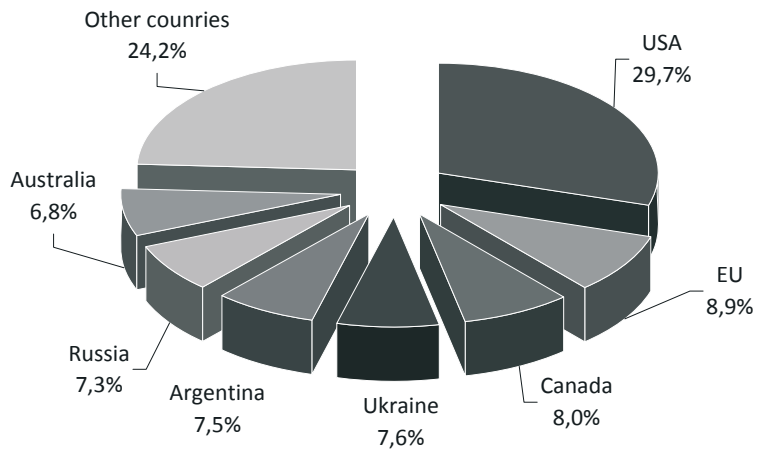
Gross crop yield of wheat in Russia will be reduced by more than 20 million tones - up to 41 million tons. The sharpest decline will occur in the production of barley, which harvest will fall by more than twice - up to 8 million tons (See Fig. 2). Significant reduction in the harvest of wheat and barley is expected in the Volga and Central Federal Regions.

Fearing the consequences of the grain shortage in the country and the speculative rise in prices, from August 15 the Russian government has imposed a temporary embargo on the exports of wheat, meslin, barley, rye, corn and wheat or rye flour. However, it should

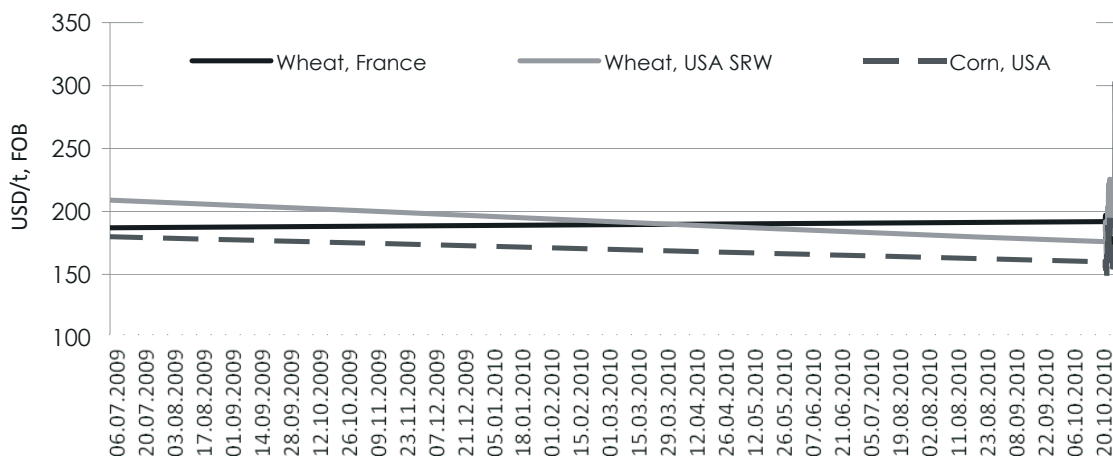
be noted that the embargo was imposed before the end of the harvest, when there was no clear understanding of the resources available in the market, but it will be in force until the end of 2010. According to experts assessments, the embargo is likely to be extended until the next harvest season (July of 2011), when the state and the result of the sowing of winter grain harvest in 2011 becomes known. In case of a poor state of the winter grain harvest the issue of opening exports can be delayed even until autumn 2011.

The embargo is not applied if the grain is exported from Russia in the framework of international treaties with Russia, for shipments to Kaliningrad Region or back, in regard to international humanitarian assistance of the needs of military and diplomatic missions. The Item on the implementation of international treaties is applied to intergovernmental agreements between Russia and some CIS countries and is associated mainly with humanitarian aid.

Russia is one of the largest players in the world market (Fig. 3). Decline in wheat production forecasts and the ban for grain exports from Russia has immediately affected the world market, where the already tense grain balance - the world price for wheat went up (Fig. 4). In addition, the wheat market is closely linked with the position of market maize. Due to the low yield of this crop in the USA and rising demand, the world prices for maize have been rapidly growing, pushing up the quotes for wheat. From July to October 2010, the price of wheat (soft, France, FOB) jumped from 190 to 300 dollars per ton and for maize (USA, FOB) - from 170 to 250 US dollars per ton.

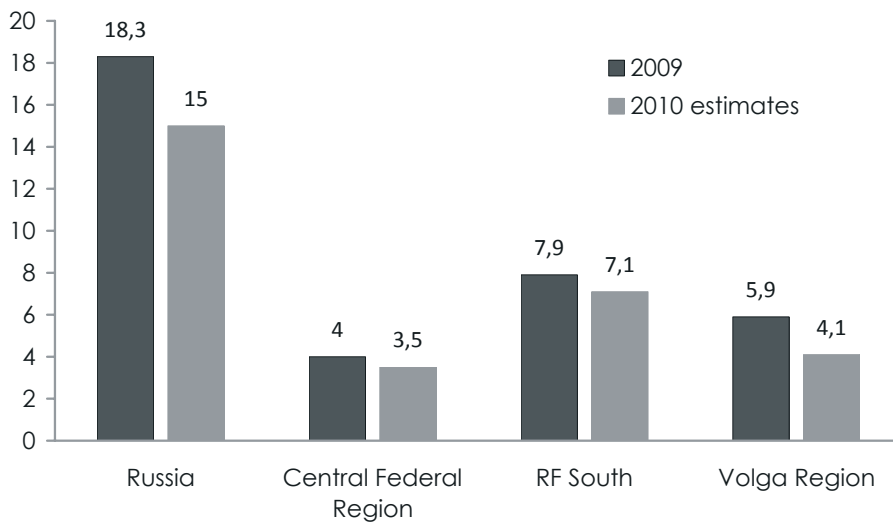


Source: USA Agricultural Ministry.
Fig. 3. The World Leading Grain Exporters to the Marketing Year of 2009/10



Source: "SovEcon" data

Fig. 4. The dynamics of world prices for wheat and corn in the 2009-2010



Source: "SovEcon" data

Fig. 5. Dynamics of the average bid prices for cereals crop in 2008-2010 (Incl. VAT, EXW)

harvest, and the Central Federal Region, where the harvest was reduced by more than two times. Only in the North Caucasus and Southern Federal Regions the grain crop remained virtually the same as in the last year (Fig. 5). Southern and Siberian grain became the main source of supply to cover the deficiency of the affected regions.

If the drought affected mainly agricultural economy of the European part of Russia, the embargo had a negative impact, first of all, on the export-producing regions in southern Russia, which received a good harvest. Producers of the Southern and the North Caucasus federal regions should have shifted from external to domestic market. However, when the embargo came into effect, sales in the south have almost stopped. Southern corn, with regard to the cost of delivery to the regions affected by the drought, was not in demand. As a result, purchase prices for wheat in the south of the country were automatically reduced by the amount of the transport component. However, the price for which regions affected by the drought were ready to buy grain, did not suit the southern producers.

To a lesser extent embargo affected regions of Siberia, which also became suppliers of grain to the affected regions. This is due to the fact that logistics costs for grain delivery from these regions to the European Russia are comparable to the cost of shipping to the port area. Thus, the competitiveness of the southern grain in many regions was lower than the Siberian products.

To change the situation in the market, the government has lowered tariffs for transportation of Siberian and Southern grain to other regions of the country. From September 1 to December 31, 2010. Thus, the tariffs for supplies from Siberia to a distance over 1100 km were lowered from 50 to 30% against the standard rate, and for the Southern areas - up to 50 from 100% for the distance exceeding 300 km. As a result, for the most regions of railway tariff for shipments from the North Caucasus will decrease more significantly than for the Siberian supplies. Reduction of tariffs will support the growth of grain prices in the North Caucasus and some lower prices in the Center. However, it is unlikely that this decline will be significant.

Price situation in the Russian grain market is characterized by strengthening of prices for all cereal crops in August 2010. The highest growth rates persist in the market of barley and maize. In fact, there are commodity stocks in this season, only in Krasnodar and Stavropol regions, as due to a sharp drop in the collection of feed grain the needs for corn has grown in nearly all regions. Prices for wheat of all classes show lower growth rates.

Effects of drought and the imposition of the embargo obviously will affect the next harvest of 2011. Prolonged drought in some regions has resulted in a delay of sowing. Reduced autumn sowing in these regions will affect the volumes of the collection of winter crops next year. Other negative consequences are associated with the introduction of the ban on exports until the end of

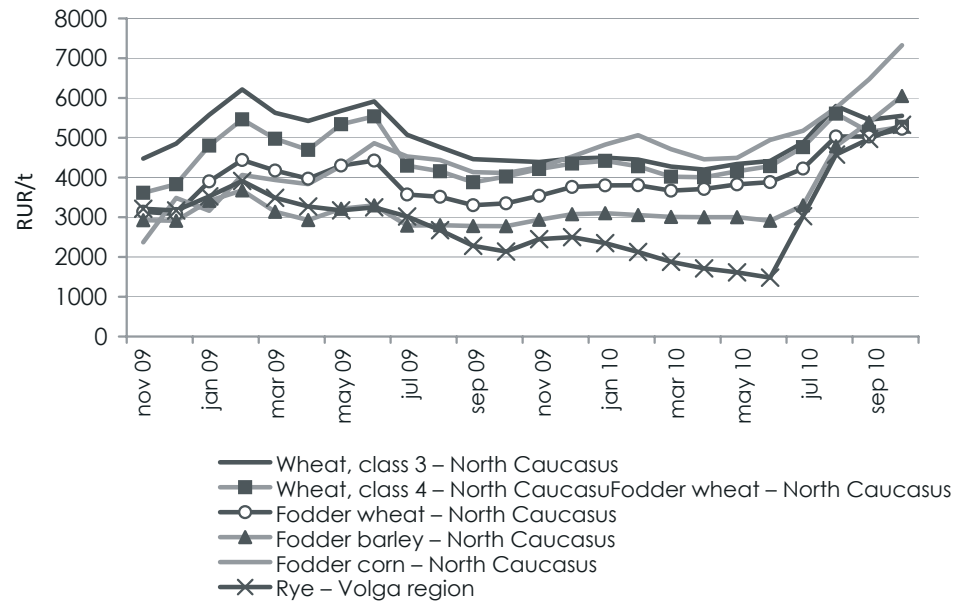
A difficult situation will be observed in the countries, almost entirely dependant on the import of Russian grain, such as Egypt. Russia's withdrawal from the world market would harm the reputation of Russia as a supplier of grain and enhance the position of competitors. Russia will have to pay for regaining the position in the global market, perhaps by lower prices.

In the territory of Russia from the drought the worst affected regions were Volga Federal Regions, where there was more than three-fold drop in the gross grain

harvest and the beginning of the autumn sowing season, which disrupted the incentive to invest in production for the subsequent harvests, as well as reduction of procurement of agricultural machinery, fertilizers and the transition to simplified technology.

According to the "SovEcon estimates, planting area of grains autumn sowing in 2010 for the harvest of 2011 could fall by more than 3 million hectares to 15 million ha (see Fig. 7), which will be the lowest in the last 3 years. It should be borne in mind that due to the poor condition the crop before the winter period there are high risks of increased loss of crops (especially in the Volga region and in South-East of the Central Chernozem region).

Since the beginning of season 2010/11 prior to the ban on grain exports (from July 1 to August 15, 2010) there were exported 3.7 million tons of grain, out of which 3.3 million tonnes of wheat (see Table 1). Herewith, in July and August wheat exports made a record volume for these months. Exports to Turkey and Egypt accounted to about 60% of Russian exports of wheat in the season of 2010/11- 1570 and 407 thousand tons, respectively. In contrast to wheat, barley export in early season of 2010/11 was lower than in the last season (266 tonnes), because of low carry-over stocks of barley and low harvest.



Source: "SovEcon" data

Fig. 6. Planting areas of grains autumn sowing in major producing regions

Table 1

DYNAMICS OF EXPORT AND IMPORT OF GRAIN AND FLOUR IN THE AGRICULTURAL YEAR, THOU.T

	2008/09 (June-July)		2009/10 (June-July)		2010/11 (June-July)	
	Export	Import	Export	Import	Export	Import
Wheat	18033.6	118.4	18185.6	98.6	3304.7	3.4
Rye	15.9	0	10.22	0.08	0	0.18
Barley	3479.1	61.9	2798.0	11.7	266.4	7.0
Including malting barley	44.0	0	16.6	0	2.7	7.0
Malt	36.0	69.2	28.4	56.2	10.5	24.6
Flour	473.4	8.6	276.2	5.7	20.4	1.7
Corn	32.5	350.8	1336.8	56.5	423.2	32.2

Source: «SovEcon» data

In 2009/10 Russia imported 0.35 million tones, in 2008/09 - 0.6 million tons of grain. In the current season, according to the «SovEcon» forecast, there can be imported about 3.5 million tons of grain (including flour in grain equivalent). Russian Grain Union estimates the import of grain at 1.5-2.5 million tons. Kazakhstan and Ukraine were estimated as possible suppliers of grain to Russia. However, in October Ukraine has introduced quotas for grain export in the amount of 2.7 million tones till the end of 2010, including the export of corn - 2 million tons. Grain imports

from Kazakhstan is still economically inefficient because of high prices. In addition, the Kazakh government also does not exclude the possibility of restricting exports of wheat to increase the production of flour and its exports instead of wheat.

Probability of grain import from Ukraine and Kazakhstan could be increased, if the Russian government to agrees to reserve certain amounts of grain in these countries for the needs of Russia; the import will be performed by the state-owned company UGC (United Grain Company).

The main components of a possible Russian imports could be wheat, rye and barley. The sharp decline in production of malting barley and its quality reduction caused a rise in domestic prices and the rapid exhaustion of barley resources in the domestic market. This in turn urged a surge in imports of malting barley and malt. Leading suppliers of malt to Russia are Finland and Germany. Ukraine and the UK are the top leaders in the list of the largest suppliers of malt and malting barley. The need for further downloads of domestic malt houses will contribute to further development of malting barley import and the expansion of its geography. "SovEcon" predicts that the import of barley in 2010/11 will rise to 0.7 million tons, while in previous years it did not exceed 0.1 million tons.

To relieve tension on the grain market, the government may use the market of interventions. However, according to analysts and market participants, their conduct is not expected before spring 2011.

Beneficial effect on the market can provide an extension of preferential railway tariffs for the domestic transport of grain and after January 1, 2011.

Russian Grain Union introduced a proposal to open the export of flour, which in recent years was the main factor supporting its production domestically. The main consumers of Russian flour are Afghanistan, Mongolia, Turkmenistan, Tajikistan.

The situation prevailing in the market in summer of 2010, served as a lesson for the government and market participants, which is the need to:

- reform of harvest insurance;
- introduction of new principles of sustainable agriculture;
- use of modern technologies to protect the soil;
- revival of land-clearing system. ●

SOCIAL STANDARD OF LIVING IN THE 1ST HALF OF 2010

S.Misikhina

Over 8 months of 2010 real disposable incomes of the population made 87.2% of the level of the 4th quarter 2009. The distribution of monetary incomes among the categories of the population with different level of incomes is becoming markedly more even. Thus, over the 1st half of 2010 both Gini coefficient and ratio of incomes of 10% of the population with the highest incomes to 10% of the population with lowest incomes have decreased, and the poverty figures have improved when compared with the 1st half of 2009.

Over 8 months of 2010 real disposable incomes of the population made 87.2% of the level of the 4th quarter 2009, which is somewhat better than in 2009, when the real disposable resources indicator over 8 months made 84.5% of the level of the 4th quarter of 2008.

As compared with the 1st quarter 2009, in the 1st quarter 2009 the seasonal drop of monetary incomes of the population was not as dramatic as in the 1st quarter 2009: real disposable monetary incomes of the population have dropped by 21.5% in the 1st quarter 2010, whereas in the 1st quarter 2009 the decrease was 23.4% versus the 4th quarter 2008. However, the growth of the monetary incomes of the population in the 2nd quarter 2010 was also not as rapid as in 2009 (14% compared with 19%). This has resulted in the slowdown of the recovery of real monetary incomes of the population over the 1st half of 2010 as compared with the 1st half of 2009.

Summer reduction in real disposable incomes of the population was not as pronounced as in 2009: over July-August 2010 real disposable incomes of the population remained practically at the level of July, whereas in 2009 over the same months real disposable monetary incomes of the population reduced by 7.3%.

The dynamics of eight months of 2010 lets us hope that that the seasonal growth of incomes of the population in the 4th quarter will result in the formation of higher value of “growth of the real disposable monetary incomes” index than in the previous 2009 when this figure made 1.9%.

In the 1st half of 2010 purchasing power of the population’s monetary incomes has increased or, at the very least, has not decreased for all the monitored foodstuffs goods (with the exception for cabbage and sugar) and non-food goods. Due to the growth of process for utilities the purchasing power of the monetary incomes of the population with regard to payments for hot and cold water supply, water disposal and especially for gas supply has diminished.

Structure of population’s monetary incomes. According to the official statistics data¹, in the 1st quarter 2010 as compared with the 4th quarter 2009 the proportion of labor² in the structure of population’s monetary incomes has contracted from 70.9% to 66.0%, while the proportion of social payments has expanded (from 13.9% to 18.0%) and the proportion of incomes from entrepreneurial activity has grown (from 9.0% to 9.8%).

The distribution of monetary incomes among the groups with different incomes level has become markedly more even in 2010, which is due to both the growth of the wages and the reduction of wages arrears, as well as the growth of pensions (real pensions volume has increased by 40% over 8 months of 2010 as compared with the corresponding period of the previous year):

– Both the 1st quarter and the 1st half of 2010 as the whole are characterized by some increase in the proportion of incomes of the first three quintiles of the population with regard to the level of incomes:

- it is of importance, that positive changes in incomes take place in each of these quintiles;
- the proportion of incomes of 10% of the population with lowest incomes level has not changed as compared with the 1st half of 2009 and made 1.9% of the total volume of population’s monetary incomes.

1 Live data for the section “Social standard of living”. Federal State Statistics Service. 2010. www.gks.ru.

2 Including hidden wages.

– Expansion of the proportion of incomes of the first three quintiles of the population takes place due to the decrease in the proportion of incomes of the fifth quintile (20% of the population with the highest incomes):

- decrease in proportion of the incomes of the fifth quintile in the total volume of incomes over the first half made 0.5 percentage points as compared with the corresponding period of the previous year;
- the decrease in incomes of the fifth quintile is primarily accounted for by the reduction of incomes of 10% of the population with the highest incomes: in the 1st half of 2010, according to preliminary data, their incomes made 30.2% of the total volume of monetary incomes (30.6% in the 1st half of 2009);

– Proportion of the fourth quintile of the population in the total volume of population's monetary incomes remains stable;

– Considered changes in the distribution of the total volume of monetary incomes of the population have resulted in the decrease of both Gini coefficient and the ratio of incomes of 10% of the population with highest incomes and 10% of the population with the lowest incomes (funds coefficient) over the 1st half of 2010.

Table 1

DISTRIBUTION OF TOTAL VOLUME OF MONETARY INCOMES OF POPULATION

	2009				2010	
	I quarter	I half of the year	9 months	year	1 quarter	I half of the year
Monetary incomes - total	100	100	100	100	100	100
including as broken by 20% groups of populations (quintiles):						
first (lowest incomes)	5.4	5.2	5.3	5.1	5.5	5.3
second	10.1	9.9	10.0	9.8	10.3	10.1
third	15.1	14.9	15.0	14.8	15.3	15.1
fourth	22.7	22.6	22.5	22.5	22.7	22.6
fifth (highest incomes)	46.7	47.4	47.2	47.8	46.2	46.9
Index of incomes concentration (Gini coefficient)	0.408	0.416	0.414	0.422	0.403	0.411
Ration of incomes of 10% of population with highest incomes to 10% of population with lowest incomes (funds coefficient), times	15.1	16.0	15.8	16.7	14.5	15.4

Source: data of the Federal State Statistics Service

Life subsistence level. In the 1st half of 2010 life subsistence level has increased by 9.4% on average for the population (4.8% in real terms), broken by socio-demographic groups of the population the figures are the following:

- able-bodied population – by 9.1% (4.6% in real terms);
- pensioners - by 9.4% (4.8% in real terms);
- children - by 10.2% (5.6% in real terms).

Table 2

 LIFE SUBSISTENCE MINIMUM IN THE 1ST HALF OF 2010

	Whole population	As broken by socio-demographic groups		
		Able-bodied population	Pensioners	Children
Minimum subsistence level in the 1 st quarter	5518	5956	4395	5312
Including the price of consumption basket	5147	5351	4395	5312

Table 2, cont'd

	Whole popula- tion	As broken by socio-demographic groups		
		Able-bodied population	Pensioners	Children
Of which minimum basket of: foodstuffs	2090	2144	1856	2173
non-food goods	868	843	773	1061
services	2189	2364	1766	2078
Expenses for compulsory payments and fees	371	605	-	-
Minimum subsistence level in the 2 nd quarter	5625	6070	4475	5423
Including the price of consumption basket	5246	5452	4475	5423
Of which minimum basket of: foodstuffs	2162	2217	1920	2254
non-food goods	881	854	783	1080
services	2203	2381	1772	2089
Expenses for compulsory payments and fees	379	618	-	-

In the 1st half of 2010 the figures of poverty have improved as compared with the 1st half of 2009:

- group of population with the monetary incomes below the subsistence level makes 19.1 million, which is by 2 million below the figure of the 1st half of 2009, in the 1st quarter the seasonal increase in poverty figures was less pronounced than in 2009.

- level of poverty (proportion of the population with monetary incomes below the minimum subsistence level in the total number of population) has decreased as compared with the 1st half of 2009 by 1.4 percentage points from 15.0% to 13.6%.

Structure of monetary incomes of the population use. As compared with the 4th quarter 2009 in the 1st quarter 2010 the population spends more of its incomes for goods and services (73.0% and 64.8%, correspondingly), which has resulted in the reduction of the proportion of funds used for formation of savings and cash monetary funds, as well as proportion of expenses for foreign currency purchase (from 24.9% to 17.4%). As to the structure of funds used for these purposes, the cash in hands has contracted – by 5.4 percentage points (from 3.7% to -1.7%). However, in the 1st quarter 2009 the contraction of cash in hands was more pronounced than in the 1st quarter 2010. The proportion of funds used for savings in the total amount of used incomes has also decreased: from 17.5% in the 4th quarter 2009 to 15.9% in the 1st quarter 2010. ●

NEW ASSESSMENT OF SCIENCE MATERIAL BASE

I.Dezhina

Currently, the Ministry of Education and Science completes an inventory of unique scientific equipment, used for research projects in public sector institutions of science and higher education. Quantitative or qualitative (expert) assessment showed that the material base of science on average is outdated, substantial upgrading of equipment occurs primarily in individual high schools, the average performance of the equipment is low. In academic institutions equipment is used more efficiently, but the pace of updates is lower than in universities. The common problem to all organizations is the shortage of technical personnel and funds to maintain the existing research infrastructure.

In the past few years the government started to allocate more funds to update the material base of science, especially in universities. New scientific and educational equipment, first purchased in innovative education program (2006-2008), then the opportunity to greatly improve the research material base was provided to the universities, which have won a status of national research institutions or acquired the federal status.

Other organizations involved in public science now have fewer opportunities, but some of them have built and continue in some way to maintain a powerful and sometimes unique material base of research. These are primarily public research centers and institutes of the Russian Academy of Sciences. These organizations have the opportunity to improve the material base of research, participating in various tenders in the framework of federal targeted programs, including activities specifically dedicated to supporting the unique scientific facilities, as well as centers of collective use of equipment.

Until recently there was no any consistent public policy on financial support to the science, except for priority support provided to the universities. For many years assistance was rendered on a competitive basis under the applications for R & D works from those organizations who considered that they have a unique scientific equipment. Herewith, the term «unique» was not precisely defined, but there was formed a list of organizations that have ever taken part in such tenders, and their equipment. The list is far from complete in terms of the most important objects of research infrastructure, including those that the state is supposed to support regardless the current development priorities and the research environment (libraries, banks and databases, valuable biological, petrological, geological collections, etc.).

Due to the fact that increasing amounts of funds are allocated for the material support of scientific research in universities on the one hand, and on the other hand, the budgets of national academies and science foundations will be in the long term decreased, the task of identifying the infrastructure of science, which require priority support becomes rather important. Accordingly, it is necessary to assess, what organizations truly have the unique scientific equipment, how it is used, and what is the extent of its effectiveness. Knowing the answers to these questions, one can develop a long-term policy for financial support of scientific research, more efficient utilization of budgetary resources, and to take measures necessary to ensure that scientific equipment is used effectively.

It should be emphasized that the analysis of the material base of science should be conducted after the goal-setting and formulation of assessment tasks. In addition, the goals and objectives may be different. If you want to assess the level of modern equipment as such, the foreground should leave the technical parameters of the equipment, the possibilities of its interface with other facilities to improve the performance and novelty inherent in their method-based research, as well as the load factor of the equipment. If you want to assess the level of modern equipment as such, priority should be given to the technical parameters of the equipment, its compatibility with other facilities to improve the performance, novelty inherent in their method-based research, as well

as the load factor of the equipment. If the objective is formulated as an increase in the utilization of the equipment, the characteristics of intensity and quality of publications in which the results of studies with the use of the unique facilities, statistics on patenting and licensing, personnel training, retention of personnel in science, etc. If the objective is financial optimization, important characteristics are the dates of construction and modernization, the net book value, condition of the premises where the equipment is located, the financial performance indicators. In other words, the analysis of all possible indicators of the equipment - and there can be developed a large number of them - has no meaning in itself, since it does not provide a comprehensive picture of the object and does not help to take management decisions.

Last year the Ministry of Education and Science has formulated the task of assessing the inventory of available equipment. One can regard it as a first step to establish a program of infrastructure support of science. Work on the inventory of the unique scientific equipment is being completed in 2010¹, and the first results of the evaluation allow us to draw some conclusions.

To date, the major part of the objects of unique scientific equipment deployed in the organizations of the national academies of sciences and universities are concentrated in 72% of all unique facilities. Structure of sources of funding for operating costs of equipment is rather stable: on average, about 75% are allocated from the government budget, in the second place in terms of financing industry funds, private sources and budgets of organizations. The least significant is the funding from international sources. Thus, the main source of maintaining the unique infrastructure of science is the state budget.

In academic institutions there are twice as many devices, which have prototypes abroad. Apparently, a lower share of such facilities in the universities is due to the fact that many of them were built and upgraded with their own budgets, as public funding was insufficient for the equipment maintenance and upgrading. In addition, during the survey, the representatives of universities more often than those of other organizations, could not answer the question whether there are prototypes of their installations anywhere else.

Load factor of the equipment is higher in academic research institutions because of more intensive research work performed by them, as compared with universities. In academic institutions, 40% of equipment deployed there are uploaded by 91-100% in relation to the specifications. In high schools with such intensity only 15% of all unique facilities are utilized. Only 20% of the unique equipment is utilized for 50% or less (against the specifications) in academic research organizations, and 31% of the equipment deployed in universities.

The main external users of unique scientific equipment are academic research institutions and universities (in total - 54% of all users). There is a so many small innovative companies among the users of the unique equipment - 11%, which confirms the weakness of the linkages between science and business.

The performance of the unique equipment, measured by the number of publications, presentations at conferences, numbers of patents and licenses is the highest in academic institutions, both in average and in absolute values. However, overall performance indicators are low. Thus, only 0.05% of the surveyed institutions the obtained results were licensed. Less than half of the work performed with the equipment has been protected by patents. Most of the universities, except for a few major ones (such as Moscow State University, St. Petersburg State University) still have no skills of effective use of unique scientific equipment. It should be also noted that in the advanced universities in this respect the unique equipment is located primarily in scientific institutes incorporated with those universities, which have a relatively autonomous status (this situation is typical for Moscow State University, Tomsk Polytechnic University, St. Petersburg State University, Southern Federal University).

In addition to collecting and analyzing quantitative data, equipment was randomly evaluated by experts - specialists in relevant fields of science. It was found that equipment which has been recognized by experts as consistent with the international standards, was located mainly in the institutes of the Russian Academy of Sciences and its regional branches, as well as in several universities, including those having the status of federal and national research universities.

¹ The assessment of the use of unique scientific equipment is done on the basis of the Institute of World Economy and International Relations.

Academic institutions constitute 62% of organizations which possess the unique world-class equipment. In universities there also appears the unique equipment, but it is still impossible to estimate the potential of its use because it is too early to assess the scientific results. In general, the situation in the universities is somewhat different from academic institutions: the world-class equipment is concentrated in a limited number of universities, i.e., the degree of concentration of unique equipment here is higher than in academic institutions. To some extent this reflects a policy pursued in the scientific field earlier: academic sector in previous years received significantly more funds for financial support of scientific research than the universities. The main problems associated with the operation of equipment, are traditionally based on the lack of funds for its maintenance and modernization. The second important factor is the problem of human resources, such as the lack of both, technical and scientific personnel capable to operate this equipment.

In conclusion, it should be noted that the issue of evaluation and ranking of the scientific equipment is extremely complex, and making management decisions basing only on such assessment is dangerous. The results of any ranking will heavily depend on the choice of assessment indicators. Herewith, the combination of formal and individual expert assessments does not always lead to unambiguous conclusions.

Formation of any development program for research infrastructure for the future should basically be supported by the the expert community. This community can and should be organized in various ways - from operating on a continuing basis experts committees under the major research institutions, to the departmental advisory councils in various areas of research. The experts in the relevant disciplinary areas should participate in developing the evaluation criteria of equipment - both quantitative and qualitative, especially in terms of its examination and subsequent discussion of the results. ●

FEDERAL AND REGIONAL LAND POLICY: SOME SPECIFICS

E.Apevalova

Regulation of land relations in Russia in recent years, particularly since 2006, has undergone a number of significant changes. This was due to the beginning of the so-called “small privatization” and “dacha amnesty”, creation of a system of cadastre and cadastral valuation of real estate, lower prices for the purchase of land by industrial enterprises, etc. Nevertheless, in general, it is still a very little change in the past 20 years to the federal and regional land policy, and the quality of public services in this area continues to be extremely low.

Regulation of land relations in Russia in recent years, particularly since 2006, has undergone a number of significant changes. This was due to the beginning of the so-called “small privatization” and “dacha amnesty”, creation of a system of cadastre and cadastral valuation of real estate, lower prices for the purchase of land by industrial enterprises, etc. New initiatives are producing results - the new institutions are being slowly formed, the segment of private land ownership is growing steadily. Demand for public services in the land sector is consistently high and far exceeds the capabilities of the existing structures at their current effectiveness. Nevertheless, in general, those “points of growth” only slightly influence the federal and regional land policy developed in the past 20 years, and the quality of public services in this area continues to be extremely low.

Segmentation is observed in regulation of the use and ownership of land acquisition for various purposes. Intensification of housing construction in 2005-2008 has resulted in the strengthening of government control over the lands granted for construction, there were introduced mechanisms of auction sale of such lands. Special attention to agriculture has induced support to agricultural producers, including the land area. Rent of farmlands from the state became the only segment of the land rent, where prices have been decreased. Simplifying the sale of farmland has become one of the most significant innovations of this period.

At the same time, the development of some segments of land relations does not entail the development of related relations. Thus, arrangement of sales of the state and municipal lands is easily avoided on legal basis due to the fragmentation of regulations. There is a government regulation on the order of their conduct, but it is executed rather randomly. In 2009, among the sold 12 government land plots, only 1 was sold through an auction.

The «drop-out» of individual segments of land relations from the sphere of public attention is accompanied by poor interaction of federal authorities with the regions in terms of implementation of economic decisions and systemic negligence of the regional land policy, which in some cases is directly opposite to the federal policy, ignored or not implemented for federal objectives. To a large extent, it is regional policy that constrains the possibility of local government in the land sector, depriving them of sufficient authority or funding to implement solutions in the land relations. No less obstacles are the inconsistencies in the land laws of the Subjects of the Federation and the lack of legislative regulations in the regions.

In 2007 “Rosnedvizhimost” (Russian agency for Real Estate Monitoring) has reviewed the activities 375,027 transactions of the Subjects of the Russian Federation and local self-government agencies involved in the issues of land ownership. During those inspections revealed the discrepancy land legislation in 8093 acts of Russian regions and local authorities, in connection with what was submitted 6,522 proposals for bringing these acts to the land laws, including 3947 attacks brought into compliance. In 2,316 cases have been sent to the regulatory authorities for the recognition of acts invalid.

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those acts in line with the land laws, out of which 3947 acts were brought into compliance. In 2,316 cases documents were filed with the regulatory authorities for the recognition the acts as invalid. In Nizhny Novgorod the Prosecutor's office initiated the adoption of more than 200 acts in the sphere of land ownership, in Penza there are 11 drafts of master plans and land use regulations and construction¹. However, such activity is unable to recover the inefficiency of the government management.

Analysis of the legislation on land privatization sufficiently clearly demonstrates that the transfer of land for private ownership to a large extent depends on the law of the RF subjects which:

- establishes standards for granting land plots in ownership for farming (KFKH), gardening, horticulture, animal husbandry, cottage construction;
- estimates the price for agricultural land;
- provides the right for free privatization of agricultural land;
- establishes prices of land for the owners of buildings and constructions;
- defines the starting price and the sale procedure for the land plots for construction;;
- makes decisions on the terms of privatization of small and medium-size businesses.

The implementation of these powers by the RF Subjects, particularly in the practical absence of municipal property, has in many ways a decisive impact on the development of privatization process in the land sector.

In practice, in a number of regions the land policy is pursued either with the established legislative and administrative obstacles, or with additional obligations on land owners (especially in construction industry), which make the purchase of land unreasonable in economic terms (for example, provision of the land plots for construction in Krasnodar Kray or Moscow), or with a significant restriction or the lack of authority for privatization of municipal bodies and undeveloped land law at the municipal level (the majority of the Subjects of the Russian Federation).

Zero or near-to-zero indicators for the lands under municipal ownership are regular for the country in general. Regional centralization of power allows the Subjects of the Russian Federation to use the right to dispose of land or to control the preservation of the status quo. An additional factor impeding the development of municipal ownership, is the traditional lack of funds in municipal budgets. As a result, there are no mechanisms for providing municipal land, and it is impossible to control the system.

The need for linkages between federal and regional land policy in the transfer of land to private ownership, its contours, mechanisms and allocation of appropriate funds for it, or a deliberate and consistent refusal from privatization in some regions or segments are essential for the effective implementation of the privatization process. The key issue here is the reasonability of the selected land policy in the region.

Narrowing of the scope of the general legal framework takes place in the same "segmental" way as the development of land relations. "Special" powers of government authorities to the land plots are introduced in Krasnodar and Primorsk Regions. Given the increasing activity of the country in international projects implementation, a number of "special" procedures will be extended. In 2007, "special" powers for getting land plots without bidding were obtained by the state-owned companies and their management companies². Taking into account the assets controlled currently by those companies, the market segment, derived from the general regulation is rather significant. In December 2008, the right to obtain land plots without bidding was provided also to the users of mineral resources³.

Exceptions to general rules are required very often, but here the incentive, which dictates the introduction of exceptions is important. When the incentive is of quasi-public nature and, as is the case with the state corporations, does not demonstrate an obvious positive economic effect, such exemptions are not justified.

1 From the speech of Yury Chaika, Prosecutor General on an extended meeting of the General Prosecutor's Office Board// genproc.gov.ru, 18.02.2008.

2 Federal Law No. 240-FZ of 10.30.2007 "On Amendments to the Federal Laws" On special economic zones in the RF" and some legislative acts of the Russian Federation"

3 Federal Law No. 311-FZ of 30.12.08 " On Amendments to some RF Federal Laws".

With regard to the privatization of land, the lack of clearly defined objectives and targets at the federal level entails an assessment of its effectiveness primarily by the general scale of the transition of land into private ownership. Assessing the impact of this transformation of property relations on the competitiveness of enterprises, farmers, the decline in housing prices, the growth of business activity, etc. is not carried out.

For effective implementation of land privatization program one should determine the objectives to be achieved through the transfer of land ownership. If it is, for example, providing citizens with housing, then, accordingly, all aspects of security and stimulating the housing construction should be included in the scope of work (introduction of transparent mechanisms and simple procedure for provision of land for construction, investing and lending for construction and infrastructure for projects under construction, etc.). Land privatization in itself will not guarantee the construction boost and prices reduction.

If the agricultural sector is in question, here, with the stated desire of the effectiveness of land resources utilization and development of their turnover, the legal status of unclaimed land plots and lands of farmers-bankrupts is not resolved. However, there are millions of hectares of agricultural lands, withdrawn from circulation.

The new, simpler regulation procedure is applied to the turnover of land shares. However, it is likely rather to promote buying of agricultural lands (and not only by the farmers), than the “sustainable development of rural areas” and their inhabitants.

No less of a problem is the low level of accounting and control over the land use. With the effective to date cadastral registration, the error is 20%, i.e., 341.96 million ha of 1,709.8 million hectares.

A kind of “black hole” is the Fund of Land Redistribution, established in the 1990s, to which the lands of farmers were transferred (Soviet collective and state farms). As of January 1, 2008 there were 46.6 million hectares, representing about 11.5% of agricultural land at the Fund disposal. Herewith, the Fund continues to grow at the expense of agricultural land of farmers-bankrupts, due to cases of non-use of lands, voluntary disposal thereof, etc. On January 1, 2009, 15.6 mln hectares of land were registered in the cadastral documents as the land used by manufacturers of agricultural products, while the rights-holders on these lands are excluded from the relevant register of legal entities and individuals. In 2008, the area of the above land increased by 1.3 million hectares, as compared with the previous year. Those lands included 5.5 million hectares in a common (shared or joint) property of citizens, as well as 9.9 million hectares in the state and municipal property.

Today, federal law leaves the possibility of land disposal of the Fund lands completely at the discretion of officials of the federal and regional levels, who are eligible to provide them for ownership for free, which can be used for illicit enrichment, reduce the level of revenue in the budgets of federal and regional levels, as well as qualitatively aggravate the state regulation of the land area.

In the “gray zone” remain unclaimed land shares, constituting 25.6 million hectares of land, which owners either have no certificates of title for the general share ownership for the land, or getting them do not to exercise their rights for the land management.

According to the recent tradition, ineffectiveness of public authorities in the land sector should have been balanced by the new government structures - the Foundation for Promotion of Housing Construction (RZHS) and Mortgage Agency (MA).

RZHS Fund was established in 2008 to develop the market of land plots allocated for construction. The Fund should be involved in the turnover of unused or inefficiently used federal lands, which are in use state unitary enterprises and other agencies, agricultural academies, Russian Academy of Sciences. Initially it was planned that the RZHS Fund will seek for the land plots and develop documentation for them. The formed land fund (at the discretion of the governmental commission) had to be either left in the public domain, or transferred to the Subjects of the Federation with a prerequisite to hook up utilities and sell the plots at auction within three years, or perform the construction itself (develop design documentation, infrastructure) with the subsequent sale at auction. Several years ago, such a scheme might be a success, but now its weaknesses are obvious. The main one is low level of effective demand for the land for construction.

One of the new schemes, which will involve the Fund implies funding the Mortgage Agency construction projects through targeted loans to banks. Banks will have to lend to developers and to provide mortgages to buyers. RZHS Fund will perform in this scheme as the guarantor of sales, in the case of unclaimed housing at the market, it should buy it at a liquidation price - 30 thousand rubles per square meter. Probably, this scheme will involve the sites developed by the Fund as well.

The scale and nature of the Fund operation exclude a possibility of qualitative changes with shortages of developed land plots for construction, since a large-scale construction and engineering development demand hundreds of thousands of hectares per year¹.

Summing up, it should be noted that the increase in the effectiveness of current land policy today is related to the implementation of a package of measures:

- establishment of effective mechanisms for interaction between the federal government economic sector and regional executive authorities;
- analysis of the regional land policies, assessing the validity of their selection and the implications for regional economies at the federal level;
- adoption of measures designed to improve the situation: from the recognition of regulations null and void and of bringing to administrative responsibility for the offenses in regard to competition policy to criminal prosecution;
- changes in the fund land redistribution activity;
- strengthen the level of control over the purchase of agricultural and other land plots. ●

1 See more: Annual report on the activities of RZHS for 2009– <http://fondrgs.ru> ; Expert No. 26, July 6, 2009.

CAN MILITARY EXPENDITURES BECOME A DEVELOPMENT INSTITUTION?

V.Zatsepin

Increasingly frequently, Russia's policy in the sphere of military technologies is regarded by this country's authorities as a development-promoting institution, while dramatic growth of the volumes of government military orders and the military budget are considered to be perfectly justified. However, there exist some serious arguments that the effect of the planned increase in military expenditures will be undermined by the existing chaotic situation with regard to planning and the budgeting process.

On 26 October 2010, one of the Russian newspapers published an interview with Andrei A. Kokoshin, full member of the Russian Academy of Sciences and deputy chairman of the *United Russia* faction in the State Duma¹. In the course of the interview, he has stated that one the most important elements of the state policy aimed at creating Russia's development institutions was the growth in expenditures allocated to the state defense order (SDO). According to Kokoshin, this growth in expenditures is synonymous to "supporting the hi-tech sectors of industry" which, among other things, means that "the state policy of increasing the defense order is justified". This conclusion may be logical but not necessarily true – bearing in mind the reality of the past few years.

Thus, according to Deputy Chairman of the RF Government Sergei Ivanov², the SDO for 2007 was fulfilled by 98 %, and more than 200 new models of weapons and military equipment were put into service. However, such an impressive fulfillment of the 2007 Program was achieved due to the seven consecutive adjustments that were made to the state defense order carried out under the auspices of RF Ministry of Defense. Those adjustments involved the redistribution of 7 bn Rb. In 2008, this tendency became further intensified, with 19 adjustments actually made to the order, although "only" 150 new models were put into service. And on 3 June 2010, it was revealed, in the course of parliamentary hearings held by the State Duma Defense Committee, that, according to the RF Audit Chamber, the SOD for 2009 had been fulfilled in the sphere of R & D only by 41.9 % with regard to the planned number of works, and by 64.9 % with regard to the planned volume of work, although the RF Ministry of Defense had allocated to the project almost 100 % of the earmarked funds³. There is a certain risk that, if this tendency continues for the next few years, our "hi-tech" sectors of industry will be allowed to spend the growing SDO funding without producing anything in return.

Rosstat's data published in October⁴ indicate that in 2009 prices in the shipbuilding and aerospace industries grew by 51.5 % and 56.8 % respectively, while consumer prices rose only by 8.8 %. These figures only confirm the above trend, but do not explain its causes.

The causes (or at least their part visible to the state financial control bodies) are explained in the RF Audit Chamber's Resolution on the draft federal budget for the year 2011 and the 2012 and 2013 planning period.⁵ Thus, the audits conducted by the RF Audit Chamber indicate that the existing requirements⁶ "in the part of scrutinizing, together with the authorized federal executive authorities, the issues relating to the implementation, by industrial organizations, of suggestions on the major parameters of the SDO, and also those relating to the assessment of the level of forecasted prices for defense-purpose products, are not properly fulfilled by state customers", which

1 Moskovskii Komsomolets [The Moscow Komsomol Member]. 2010. 26 October.

2 Rossiiskaia Gazeta [The Russian Newspaper]. 2008. 9 July (No 146).

3 Vremia Novostei [The Time of News]. 2010. 4 June (No 96).

4 Natsional'nye scheta Rossii v 2002 – 2009 godakh. Statisticheskii Sbornik. [Russia's national accounts in 2002 – 2009] / Rosstat. M., 2010. Electronic version: <http://www.gks.ru>.

5 For Resolution of the RF Audit Chamber No ZAM-33/01, of 11.10.2010, see the materials concerning Draft Law No 433091-5 posted to the RF State Duma Site: <http://www.duma.gov.ru/faces/lawsearch/search.jsp>.

6 Determined by Decree of the RF Government, of 5 December 2005, No 724 "On the Procedure for the Development of the State Defense Order and Its Major Indicators".

results in low quality of planning the implementation of the targets of both the SDO and the State Armament Program (SAP).

Moreover, the RF Audit Chamber's Resolution points to the fact that, in the course of development of the said draft budget, the key indicators of the State Defense Order were being formed in absence of any approved SAP, which "made it difficult to fulfill the requirements concerning the necessity to include in the SDO being formed the whole range of products, as well as the timelines and the cost of implementing the Program's measures". In our view, this is a clear understatement: the absence of an adopted SAP made this task simply impossible. It should be mentioned that, in accordance with the existing procedure,¹ the RF Government should have submitted the draft SAP to the President nine months in advance of the next program period (i.e. before 1 April 2010), but has failed to do this so far. Even in October the Military - Industrial Commission under the RF Government, chaired by Vice Prime Minister Sergei Ivanov, was still busy considering the issues concerned with the classification of the armaments to be included in the draft new SAP for 2011 – 2020, and assessing the implementation of the RF Ministry of Defense's requirements regarding the quality of armaments and the volume of their procurement².

Bearing all this in mind, it is quite natural that the quality of planning the volume of allocations to the new SAP also gives rise to some doubts. According to a recent statement of Vice Prime Minister Sergei Ivanov, their volume amounts to no less than 22 trillion rubles for all "power agencies"³. According to First Deputy Chairman of the Military – Industrial Commission Vladislav Putin, by the beginning of June 2010 the RF Ministry of Defense – the principal developer of the SAP – had failed to submit any conclusions as to the feasibility of the State Armament Program⁴. It seems that the situation with the feasibility assessment of the SAP for 2011 – 2020 has not changed at all – the Program still remains unapproved by the President. And apparently not without reason: the proposed growth in allocations to the new SAP will make it at least four times more expensive than the existing one⁵. If one considers the load of social liabilities, the growing public debt and the country's dependence on the export of raw materials, the resulting conclusion will be that Russia simply cannot afford such expenditures. Moreover, even such a rise in expenditures can by no means be a guarantee of success – given the evident inability of the Government to control runaway costs in the Defense-Industrial Complex.

The above difficulties associated with the attempts to provide some justification for the SAP constitute only part of the problems inherent in Russia's military-technical policy – an idea that was expressed by President Medvedev in May 2010 in the following words⁶:

"By 2015, modern arms must account for at least 30 percent of the arms in service in permanently combat – ready units. By then, these are the only kind of military units that we are going to have in any case. At the same time, we need to correct the imbalance between maintenance costs and the supplies of new equipment. The goal should be to get this ratio to be about 30 percent and 70 percent respectively.

Also, there is a third type of spending that has become increasingly important over recent years – the funding for sector-related, budget and target investment programs in capital construction, and the funding for the state arms procurement program".

The President's thesis concerning the imbalance in the funding of the country's defense and the necessity to correct it can be considered to be a shaky and – in the final analysis – even a dangerous basis for the national policy in a sphere so important for any country. Firstly, the desired "ratio" (30 % and 70 %) in the structure of military expenditures was actually achieved by the Soviet

1 Determined by Decree of the RF Government, of 30 August 2007, No 549 "On the Approval of the Rules for the Development and Implementation of State Armament Programs".

2 Press releases concerning the Military-Industrial Commission's meetings on 13 and 27 October: <http://www.government.ru/gov/agencies/134/>.

3 Russia's RBC agency, 22 September 2010: "In the next ten years Russia will spend no less than 22 trillion rubles on armaments": <http://top.rbc.ru/economics/22/09/2010/470230.shtml>.

4 Russia's Interfax Agency, 3 June 2010: "members of the RF Government's commission demand that the RF Ministry of Defense explain the necessity to increase arms expenditures".

5 Pushki vmesto vsego? [Guns Instead of Everything?] // *Novyi Kurs* [The New Deal]. 2010. 18 – 24 September (No 35). P. 9 – 10.

6 *Stenogramma soveshchaniia po biudzhetu silovykh vedomstv* [Minutes of the Conference on the Budget of Power Agencies]. Gorki, 24 May 2010. <http://www.kremlin.ru/transcripts/7837>.

Union in 1986, but this accomplishment by no means helped the USSR to prolong its existence, let alone to attain prosperity. Secondly, it is no secret that the reputed imbalance has resulted from some *disinformation* of an as yet unknown origin that has suddenly come into wide circulation among Russia's top military – political leadership. Thus, as recently as five years ago, the then Chief of Staff of the RF Armed Forces – General of the Army Yuri Baluevsky – absolutely sincerely believed that¹:

“The whole world develops in accordance with the following pattern: about 60 percent [of expenditures] is allocated to procurement of arms and R & D, and approximately 30 to 40 percent – to money allowances and the issues concerning material support and combat training of troops”.

Unfortunately², the situation regarding the structure of military expenditures of the world's leading countries is *diametrically opposite* to this picture: although one of the norms adopted by NATO establishes that its member countries should spend no less than 30 % of their military expenditures on investments, many of them have not been able to afford this for quite a number of years – for example, in Germany the share of capital expenditures has long been failing to exceed the level of 25 %.

According to our estimates, the third category of expenditures mentioned by President Dmitry Medvedev exceeds 1 % of GDP. Together with the accelerated growth of military expenditures, it represents the essence of the *soft budget constraints* that are now being imposed within the Military – Defense Complex. In combination with the non-transparency of public finances which have considerably increased in the five past years, the officially guaranteed 25-percent rate of profit for the “unique” domestic producers, the slackening of state financial control in the defense sector and the high degree of its politicization, these two factors have created extremely favorable conditions for rent seekers and so have given rise to various abuses. As a result, military expenditures – often seen in Russia as a means of supporting the hi-tech sector – have long been one of the major sources of inflation and corruption.

The drawbacks that were revealed in the course of the State Duma's consideration of the aforesaid draft federal budget for 2011 undoubtedly pose a serious threat to the defense capability of the country. But these drawbacks are not limited to the draft; it is more likely that they are in the nature of the budgetary process itself, because after being formally adopted for three years, Russia's state budget usually begins to “call the shots” as early as one month after its adoption, and then, in fact, it becomes a *three- or four-month* budget. Therefore any drawbacks and mistakes contained in a budget can be easily corrected, and everybody understands that no individual can be blamed for them even in principle. As a typical example of this trend, it will suffice to mention the reduction of expenditures under the items *fire safety* and *forestry* by 2 bn and 143 mln Rb and “only” 15 bn Rb respectively in accordance with Federal Law No 185-FZ signed in the Kremlin on 23 July 2010, when a state of emergency had already been in place in the Shatura region of Moscow Oblast for more than a month.

As regards the already mentioned drawbacks of the budgetary process, it should be noted that the Resolution of the State Duma Defense Committee³ introduced by the RF Government into the State Duma has practically nothing in common with the version of the budget that was introduced into the State Duma by the Government. Apart from one table, all the figures concerning the proposed allocations were taken from an earlier version submitted by the RF Ministry of Finance on 21 September for ‘anti-corruption analysis’. In the latter version, expenditures under *National Defense* category exceed the corresponding expenditures in the former version by approximately 3 bn Rb. Maybe that was the reason why the Resolution was signed not by the Committee's Chairman Victor Zavarzin (who, by the way, made a number of statements for the press on the 7th and 8th of October – statements that have been widely commented on) but by his deputy, MP Yuri Savenko. Naturally, all these inconsistencies did not prevent the Committee from recommending that the Duma should adopt the draft in the first reading.

1 *Rossiiskaia Gazeta*. 1 November 2005: <http://www.rg.ru/2005/11/01/baluevsky.html>.

2 Unfortunately – from the point of view of the quality of Russia's state control of defense and military-technical policy, but fortunately – from the point of view of threat to international security.

3 No 104/1, of 7 October 2010.

Apart from allocations to the SDO with all its above-discussed problems of planning, the Russian defense budget is also characterized by expenditures on the personnel of the RF Ministry of Defense and on solving the issue of providing housing to military servicemen. It has turned out that the latter issue also poses some difficulties.

First of all, the problem with money allowances cannot be reduced to the fact that the allocations planned for the years 2012 and 2013 do not envisage the expenditures to be made in accordance with the draft law on reform of the money allowances of military servicemen which is being presently developed (because this law has not been adopted as yet), or to the fact that the forthcoming 6.5-percent increase in the rates of pay to be effective from 1 April 2011 has not been taken into consideration. According to the results of the audit carried out by the RF Audit Chamber, the case in point is that the financial requirements of the RF Ministry of Defense for the year 2011 have been determined by the RF Ministry of Finance in accordance with the numerical strength of the RF Armed Forces in the year 2007 (1,107,170 persons). Obviously this calculation is in direct contradiction to President Medvedev's statement, of March 2010, that the numerical strength of the Armed Forces had been reduced to 1 million (the RF Ministry of Defense made a statement to this effect as early as 1 December 2009). However, as it is pointed out in the Resolution of the RF Audit Chamber, it is planned that the financial result of this strange operation is to be used as an additional legal stimulation of military labor in the amount of 73 billion and 387 million rubles.

As regards the solution of the notorious housing issue planned in the draft budget, no allocations for these purposes are envisaged at all. The Resolution of the RF Audit Chamber indicates that the sheer number of the military personnel in want of permanent housing as of 1 January 2011 (79.3 thousand) will make it impossible to fully provide these persons with housing even by the year 2014 due to the clear insufficiency of the volumes of budget allocations for 2011 – 2013. Moreover, as it transpires from Deputy Minister of Finance Tatiana Nesterenko's answers to the questions put to her by members of the RF State Duma, the RF Ministry of Defense has so far failed to submit to the RF Ministry of Finance the complete information on the measures being taken within the framework of the ongoing reduction in the numbers of officers and *praporshchiks* (warrant officers), as well as the calculations of and justification for the financial resources that will be necessary for the implementation of these measures.

The future will show whether the nominal growth in expenditures under *National Defense* category planned for the year 2011 (up to 1,517,91 trillion Rubles, or 3.01 % of GDP) will be able to compensate for the lack of transparency and proper order in the budgetary process. But it should be said that chances for such a compensation to take place are very slim. ●

REVIEW OF ECONOMIC LEGISLATION

I.Tolmacheva

In October 2010 the following changes were made to the legislation: the procedure for write-off of federal property was regulated; Instructions regulating some banking operations with cash currency and checks of natural persons by authorized banks (their internal structural departments) was approved; the refusal to exchange a cell phone of proper quality for analogous goods of another model was recognized as unfounded.

I. Decrees of the Government of the Russian Federation

1. "ON SPECIFIC FEATURES OF FEDERAL PROPERTY WRITE-OFF" from 14.10.2010 No 834.

The Decree defines that movable and immovable property, which is managed day-to-day or owned on the basis of economic control right, can be written off the budget account after the completion of the procedure of its recognition as not further utilizable or retires as a result of loss or damage (destruction). The Decree approved by the RF Government that stipulates specific requirements for writing off the property mentioned does not apply to: federal property withdrawn from circulation; museum objects and collection of the RF Museum Fund, documents of the RF Archive Fund and the National Library Fund; as well as the federal property located outside the RF boundaries. The Decree envisages creation of constantly operating commissions on preparation and adoption of decisions on writing the property off. The commission is charged with functions which are connected in particular with the inspection of the property, making the decision on the possibility of its restoration, establishing the causes for its write-off, preparation of the act and the package of documents for its write-off. Experts can be attracted to the work of the committee (including in return for compensation). The act of write-off is approved by the head of the organization independently, in case of immovable property – upon agreement with the federal executive body, which is in charge of the organization. Upon completion of the procedure, the act of write-off and the package of documents are submitted to the federal Agency for State Property Management for the corresponding changes to be made to the register of the federal property.

II. Instructions, Letters, Orders

1. Instruction of the RF Central Bank "ON PROCEDURES FOR SOME TYPES OF BANK OPERATIONS WITH CASH FOREIGN CURRENCY AND WITH CHEQUES (INCLUDING TRAVELER'S CHECKS) WHICH NOMINAL PRICE IS STATED IN FOREIGN CURRENCY WHICH ARE CONDUCTED BY AUTHORIZED BANKS (THEIR BRANCHES) WITH THE PARTICIPATION OF NATURAL PERSONS" from 16.09.2010 No 136-I.

Registered in the RF Ministry of Justice on 01.10.2010 No 18595.

On the basis of the Order of the RF Central Bank from April 2, 2010 No 2423-U by October 1, 2010 foreign currency exchange offices of crediting organizations (their branches) should be either closed or transferred to the status of structural divisions of other type. It should be noted that internal structural divisions should carry out not only the operations of sale and purchase of cash foreign currency but also other operations.

The RF Central Bank has approved the Instruction regulating some banking operations with cash currency and checks of natural persons conducted by authorized banks (their internal structural subdivisions). It regulates the list of operations that can be carried out by the bank and that can be delegated to internal structural subdivisions (including purchase and sale of foreign currency and checks, changing of money, acceptance of currency to be transferred to banking accounts) and establishes the requirements for the procedure of their realization. For instance, the banks are prohibited to establish the limitations concerning par value and year of issue of bills and coins of foreign countries in circulation as well as concerning the sums of purchased and sold amount of currency (with some exceptions). The banks do not have a right to establish different exchange

rates for different par values of monetary notes of foreign currency. The instruction also defines the conditions and procedure for encashment of monetary notes of foreign countries. After completion of the operation upon the requirement of a natural person the document certifying the completion of the operation should be issued (in some cases the issue of such a document is compulsory).

2. Letter of the Federal Service for Supervision of Consumer Rights Protection and Human Welfare “ON EXCHANGE OF CELL PHONES” from 26.10.2010

The Federal Service for Supervision of Consumer Rights Protection and Human Welfare, taking into account the fact that the complaints of the citizens about the sellers of cell phones are becoming more and more frequent, draws attention to some aspects of legal relations regulations in the sphere mentioned.

The Federal Service for Supervision of Consumer Rights Protection and Human Welfare holds that the refusal to exchange a cell phone of proper quality to a similar article of another model is ungrounded. In the opinion of a number of sellers, a cell phone that is a household radioelectronic appliance is a high-tech article and is not subject to exchange in concordance with the List of non-food goods of proper quality that are not subject to return or exchange that was approved by the Decree of the RF Government from 19.01.1998 No 55. The Federal Service for Supervision of Consumer Rights Protection and Human Welfare informs that the denomination “cell phone” is of everyday usage and this type of goods does not belong to household radio-electronic appliances or phones. In concordance with the All-Russian Production Classifier OC 005-93 “household radio-electronic appliances” belongs to the class of goods with codes OCP 65 8000 – OCP 65 8900. According to the certificate of conformity a cell phone is a product with the official denomination “portable radio station” and is characterized with OCP 65 7140 code, which belongs to the class of products “means of radio communication, broadcasting and television of general use”. Consequently, the denomination of a product “cell phone” does not belong to the class of production “household radio-electronic appliances”. Cell phones also do not belong to the class of “phones”, since the code for phones is 66 7310.

In case of complaints about the refusal to exchange a cell phone of proper quality for a similar article of another model regional bodies of the Federal Service for Supervision of Consumer Rights Protection and Human Welfare are authorized to institute administrative proceedings against the sellers of cell phones according to the article 14.15 of the RF Code of Administrative Offenses. ●

REVIEW OF RF GOVERNMENT MEETINGS IN OCTOBER 2010

M.Goldin

The following issues were considered among others at the meetings of the presidium of the RF Government: the project of the federal law “On making changes to the Federal Law “On the federal budget for 2010 and for the planning period of 2011 and 2012”; the bill granting privileges in connection of innovative activity implementation; the bill exempting from the severance tax rate the production of natural gas that is then injected back to the bed in order to increase the production efficiency.

On October 5, 2010 at the meeting of the Presidium of the RF Government the project of the Federal Law “On making changes to the Federal Law “On the federal budget for 2010 and for the planning period of 2011 and 2012” was considered.

The bill was developed on the basis of the results of budget execution in the 1st half off 2010, live data on federal budget execution in January-August 2010 and expected results of socio-economic development of the Russian Federation in 2010 and federal budget execution in 2010.

The bil envisages the increase in the total volumes of budget revenues by RUR 91.2 billion in 2010 or by 0.1% of the GDP versus the figures stated in the law on the budget, which is mainly due to non-oil-and-gas profits.

The total volume of federal budget expenses will increase by RUR 44.0 billion. It should be noticed that the ratio of expenses to the GDP will remain unchanged and make 22.7%.

The deficit of the federal budget will make RUR 2 381.4 billion or 5.3% of the GDP, which is by RUR 47.2 billion or by 0.1%, correspondingly, lower than the level established by the law on the budget (by 0.6% below the level of 2009).

The bill suggests approving of the federal budget expenses at the sum of RUR 10 256.4 billion in 2010m which is by RUR 44.0 billion more than the figure stated in the budget.

On October, 21st at the meeting of the Presidium of the RF Government the project of the Federal Law “On making changes to article 342 part two of the tax Code of the Russian Federation” submitted by the RF Ministry of Finance was discussed.

The bill envisages introduction of zero severance tax rate for the production of natural gas that is then injected back to the bed in order to maintain the bed pressure within one subsoil plot in order to increase the coefficient of gas condensate production when developing the fields applying the cycling process – the approach to development of fields sustaining the layer pressure by injecting into it the previously extracted gas upon separation of liquid hydrocarbons (gas condensate) from it.

It should be remembered that earlier the RF Ministry of Finance in its letter from 18.06.2007 No 03-06-06-01/29, referring to the fact that the taxation base for natural gas production from all types of hydrocarbon fields is defined as the volume of gas produced in natural terms held that severance tax calculation when producing gas at all types of hydrocarbons raw materials is made for the total volume of produced gas regardless of its further use.

The bill has been developed within the framework of fulfillment of “Main directions for tax policy of the Russian Federation in 2011 and in the planning period 2012 and 2013”, approved by the RF Government as on 20.05.2010.

On October, 25th the project of the Federal Law “On making changes to part one and two of the Tax Code of the Russian Federation concerning the formation of favorable conditions for innovative activity” submitted by the RF Ministry of Finance was considered.

At present the RF Tax Code does not envisage the list of expenses that are regarded as expenses for research and development for the purposes of organization’s profit taxation. At the same time taxpayers starting with January 1, 2009 have a right to apply 1.5 coefficient to the expenses for research and development according to the list approved by the RF Government. Thus, there is a

considerable privilege but the list of expenses for research and development has not been defined which may result in this privilege misuse and unjustified contractions in budget revenues.

In order to eliminate such possibilities the bill defines the list of expenses that are regarded as expenses for research and development for the purposes of organization's profit taxation.

The expenses for research and development are evenly included by the taxpayer in the list of other expenses during one year on condition that the research and development mentioned is applied to production and (or) sale of goods (execution of works, services rendering) starting with the 1st day of the month when such research (separate stages of research) were concluded.

In order to provide for the even accounting of expenses for research and development the bill grants the taxpayer the right to form the reserve of forthcoming expenses for research and development in tax accounting. It is envisaged that the taxpayer on the basis of the programs that he independently develops and established makes a decision on creation of the reserves reflecting the corresponding decision in the accounting policy for the purposes of taxation. At the same time the taxpayer's expenses made during fulfillment of the programs mentioned are made at the expense of such a reserve.

The bill also envisaged exempting the profit arising from the sale of Russian organizations' stocks that are not publically trade as well as securities that are publically traded in the innovative sectors of the economy from organization's profit tax and natural person's incomes tax, on condition that as on the date of sale or other case of withdrawal (including redemption) of such securities that had been continuously owned by the taxpayer by more than 5 years.

The procedure for ascription of publically traded securities to high-tech (innovative) sector of economy will be established by the RF Government.

In order to stimulate organizations' modernization and use of modern energy efficient equipment starting with January 1, 2011 it is envisaged to grant the privilege concerning organizations' property tax for three years for newly commissioned objects characterized by high energy efficiency in concordance with the list of such objects approved by the RF Government or for newly commissioned objects of high class of energy efficiency if definition of energy efficiency classes is envisaged for such objects. ●

REVIEW OF REGULATORY DOCUMENTS CONCERNING TAXATION OVER SEPTEMBER – OCTOBER 2010

L.Anisimova

1. According to the Letter of the RF Ministry of Finance and the RF Federal Tax Service from October 5, 2010 No YaK-37-3/12611@, letter of the RF Ministry of Finance from 14.09.2010 No 03-04-08/10-199 the question on granting property tax deduction when purchasing and selling a residential house under construction are clarified. The RF Ministry of Finance and the RF Federal Tax Service referring to paragraph 21 subclause 2 clause 1 article 220 of the RF Tax Code clarified that when there is registered property right for a house under construction a taxpayer can receive property tax deduction at the sum of really made expenses not exceeding RUR 2 000 000.

When selling the house that was in the ownership for more than 3 years a taxpayer has a right for property tax deduction of no more than RUR 1 000 000, and for other types of property -of no more than RUR 250 000. Since the houses under construction are not mentioned in the list of objects upon sale of which the property tax deduction of RUR 1000000 is granted, in the opinion of the RF Ministry of Finance this object belongs to the property upon sale of which the property tax deduction of RUR 250000 is granted.

2. According to the Letter of the RF Ministry of Finance from October 8, 2010 NO 03-04-08/2-211, the RF Ministry of Finance clarified the question of taxation connected with issue, placement, circulation and serving of domestic bonds of the Russian Federation placed at the international capital markets. Issues connected with the taxation of personal incomes from securities were also commented on in the Letter of the RF Ministry of Finance from October 1, 2010 No 03-04-05/2-578.

The RF Ministry of Finance clarifies that the sums of interests from the bonds of the Russian Federation are not to be taxed (exempted from taxation) with personal incomes tax regardless of the country of person's tax domicile.

Due to the special status of bonds' issuer (Russian Federation) federal executive bodies do not serve as tax agents since they do not have the status of such organization. Consequently, they do not collect the tax from the incomes in form of interest for bonds received by foreign organizations that do not have permanent residence in the Russian Federation.

As to clarification of taxation of incomes from bonds sale, the Letters of the RF Ministry of Finance considers in detail the taxation issues connected with such operations carried out by non-residents. At the same time, unfortunately, the Letters of the RF Ministry of Finance do not specify the most important circumstance connected with the mechanism of such incomes taxation – namely, that all the particular procedures for tax collection (personal incomes tax and organization's profit tax) from purchase and sale carried out by non-residents could be applies in cases when there is no Agreement on avoiding double taxation between the Russian Federation and the country where the foreign counteragent resides. In case such an Agreement has been concluded, it usually includes the statement that all the incomes from sale off movable property (and securities are regarded as movable property) are levied with taxes in the country of seller's tax domicile. Consequently, it will be the countries in which natural persons and legal entities are recognized as tax residents that will serve as the place for taxation of incomes received by them from the sale of the bonds issued by the Russian Federation.

3. According to the Federal Law from September 28, 2010 No 243-FZ changes are made to the laws of the Russian Federation in connection with adoption of the Federal Law of the Russian Federation from September 28, 2010 No 244-FZ "On Skolkovo innovation centre". In connection with granting of the special economic status to this Centre and project's participants a considerable part of the changes concerns inclusion of references to the Federal Law No 244-FZ into the texts of other laws. This concerns the laws on education, on health care, on sanitary and epidemiological welfare of the population, on town planning, on accounting (for instance the organization are exempted from

the liability to keep accounting according to the general rules is their annual turnover is less than RUR 1 billion, they keep books basing on the scheme in chapter of the RF Tax Code regulating the issues of simplified taxation system, record keeping and accounting). The participants of the project are not recognized as VAT payers for 10 years or until the annual earnings reach RUR 1 billion on condition that the accumulated profit over the period starting with that when the criterion was reached exceeded RUR 300 million the taxpayer is transferred to the general taxation regime at the rate of 20% and his status as VAT payer is recovered. In the period after the earnings criterion of RUR 1 billion is reached but before the sum of accumulated profit reaches RUR 300 million the participant of the project should execute all the liabilities of the taxpayer envisaged by chapter 25 of the RF Tax Code concerning profit tax – i.e. fill out the and submit declarations according to the established form, but profit tax rate is established to be 0% for this period. The managing company and organizations that participate in the project are exempted from property tax payment, and the managing company is also exempted form the land tax. Changes have been made to the budget legislation – for instance, it is envisaged that the customs payments of project’s participants will be made in advance at the expense of the federal budget (budget subsidies are granted for advance customs payments). For the organizations that were granted the status of project participants conducting research, development and commercialization of their results in concordance with the Federal Law “On Skolkovo innovation centre” the tariffs of insurance contribution at the rate of 14% are applied for ten years. The shortfall in government social funds incomes are to be compensated at the expense of transfers from the federal budget.

4. According to the Letter of the RF Ministry of Finance from September 28, 2010 No 03-03-05/210 the question on the procedure for application of 0% profit tax rate to the taxation base defined as dividends in case of organization’s restructuring is explained.

It concerns the privilege granted by subclause 1 clause 3 article 284 of the RF Tax Code in the form of 0% rate for dividends for organization, which, as on the date when the decision on payment of dividends was made, had continuously for no less than a calendar year owned no less than 50% share in authorized (statutory) capital of the payer on the basis of the right of property or depositary receipts that give the right to receive dividends at the sum that is no less than 50% of the total sum of dividends paid by the dividend payer on condition that the value of the share does not exceed RUR 500 million.

If even one of the criteria mentioned is not met the organization that receives the dividends is to pay the tax of 9% of the sum of dividends.

As it is justly mentioned by the RF Ministry of Finance, in case of reorganization the period of ownership of the share in the capital or the depositary receipts should be defined on the basis of the date of reorganized legal entity’s registration. For instance, if the organization that pays the dividends merging with another organization is excluded from the register of legal entities after 365 days of continuous ownership of 50% of stocks (depositary receipts) by its principal stockholder (owner of the major stock of depositary receipts) had elapsed, the former principal stock holder (owner of the major stock of depositary receipts) does not pay the tax on dividends. In case the dividend payer’s reorganization by, for instance, merging with another organization had finished before 365 days elapsed, the former principal stockholder pays the tax on dividends at the rate of 9%.

The problem resides in the fact that unlike the principal stockholder that really influences the process and period of reorganization in the company in which it holds the main share, the owner of the depositary receipts does not have the opportunity to influence it anyhow.

5. According to the Letter of the RF Ministry of Finance from September 30, 2010 No 03-03-06/1/620 responding to a private enquiry the RF Ministry of Finance elucidated how to calculate the property cost in case a part of payment for it in foreign currency was transferred before the moment of delivery, and by the date of the transfer of the right the RF Central Bank exchange rate had changed. The part of the property’s cost that was transferred as advance payment is recalculated into rubles according to the exchange rate fob the RF Central Bank in effect on the moment the advance payment was made. The remaining part is recalculated into rubles according to the exchange rate of the RF Central Bank as on the day the property right is transferred.

The problems evolving when applying the new procedure are analyzed in the letter of the RF Ministry of Finance from 12.01.2010 No 3-2-06/1. For instance, the RF Federal Tax Service mentions that within the framework of the RF Tax Code there is a conflict of norms when defining taxation base for the profit tax: the difference in exchange rate is excluded from the list of outstanding incomes (expenses), but no changes were made concerning the earnings from sales defined by article 316 of the RF Tax Code and these earnings are still defined as on the date the expenses and incomes are recognized (i.e. transfer of property rights, advance payments not meaning the transfer of property rights and is regarded as a form of crediting). As a result, in the opinion of the RF Federal tax Service either the incomes really received by the organization are exempted from taxes or, on the contrary, it has to pay the taxes on the sums that it does not in fact receive. In this connection, the RF Federal Tax Service asked for confirmation of the fact that the earnings (correspondingly, customer's expenses) is to be formed with recalculation taking into account exchange rate on the date of advance payment transfer (i.e. in the sum of really made expense) since changes to the application of article 316 of the RF Tax Code do not result from the text of amendments made to articles 250 and 265.

The Letter of the RF Ministry of Finance under consideration includes the directions that the seller's earnings (or customer's expenses) are to be defined by summing advance payments (payments in case of partial payments) recalculated basing on the exchange rate on the date of advance payment(s) (receipt) and sum of the concluding payments calculated on the date of property right transfer. The observation of the RF Federal Tax Service that the change in the procedure for accounting the differences in exchange rates leads to distortion of the tax load on goods producers remains uncommented on by the RF Ministry of Finance.

6. According to the Federal Law from 16.10.2010 No 272-FZ changes are made to federal laws regulating the procedures of insurance contributions payment to the state social off-budget funds:

1) Starting with 1.01.2011 the taxation base for insurance contributions is to be indexed annually depending on the growth of the average wages;

2) During 2011-2012 it is planned to redistribute the sources and concentrate the payments for compulsory health insurance in the Federal Fund for Compulsory Health Insurance to the extent of 5% in 2012, cancelling compulsory payments to the regional funds of health insurance;

3) The RF Federal Tax Service is commissioned with the liability to provide bodies controlling state social funds with the information necessary to check whether the requirements for insurance contributions payment basing on privilege tariffs are met. Since the tariff privileges are granted to some types of organizations that have privileges when taxing the profit, a new trend for formation of the base of insurance contributions collection is evolving, which partially reflects the base for taxation with profit tax.

Thus, for instance for application of the privilege tariff of 14% the proportion of contributions' payer's incomes from the sale of computer software, databases, transfer of property rights for software programs, databases, from rendering services (carrying out works) on development, adaptation and modification of computer software, databases as well as services (works) on installation, testing and maintenance of the mentioned programs should make no less than 90% of the total sum of incomes and the number of employees should be no less than 50. This is in concordance with clause 6 article 259 of the RF Tax Code.

Other privilege tariffs are envisaged for agriculture goods producers, organizations of traditional art crafts and family (tribal) communities of natives of the North that are engaged in traditional economic activities; for organizations and individual entrepreneurs applying single agriculture tax; for social organizations of the disabled; for organizations which statutory capital is totally comprised of the contributions of social organizations of the disabled and the average proportion of the disabled makes no less than 50% and the proportion of the wages for the disabled makes no less than 25%; for organizations created to meet educational, cultural, medical and health improvement, sport, scientific, informational and other social goals, as well those that were created to provide legal and other support to the disabled, disabled children and their parents (other legal representatives), if social organizations for the disabled are the only owners of their property; for economic entities created after August 13, 2009 by the budgetary supported scientific organizations

in concordance with the Federal Law from August 23, 1996 No 127-FZ “On science and the state science and technology policy” and educational institutions of higher professional education in concordance with the Federal Law from August 22, 1996 No 125-FZ “On higher and postgraduate professional education”; for organizations and individual entrepreneurs that are residents of special technology and innovation economic zones and make payments to natural persons working in the territory of the special technology and innovation economic zone. All these structures enjoy privileged or special profit taxation regimes.

Privileged insurance tariffs rates are strongly differentiated by particular groups of payers and by years, increasing for some groups by 1.5 times and for others – by 2 times in the period from 2011 to 2019.

On the whole, in our opinion, the Law introduces excessive number of individual rates for contributions tariffs. Due to application of the privileged tariffs the economic goal of the creation of specific mechanism for formation of the social funds incomes base is lost, since the difference in tariffs is supposed to be compensated at the expense of the federal budget. It becomes evident that contributions to the state funds move farther away from the principles of social insurance system construction and are not so closely connected with the incomes of natural persons resembling more and more the standard scheme for organizations’ profit (incomes) taxation. Administrative and managing expenses will continue to grow due to the commissioning of the taxation bodies with the additional functions of collection and processing of the information to be transferred to the funds. ●

CHANGES IN REGULATORY BASIS OF BUDGET PROCESS

M.Goldin

In October 2010 Federal Law from 30.09.2010 No 245-FZ “On making changes to the Budget Code of the Russian Federation and other legislative acts of the Russian Federation” was approved and came into effect.

Federal Law from 30.09.2010 No 245-FZ “On making changes to the Budget Code of the Russian Federation and other legislative acts of the Russian Federation” (further referred to as the Law No 245-FZ) has been developed in order to improve the classification of budget expenses, creation of legal basis for introducing of changes to the legislation on taxes and duties after October 1, 2010 and extension suspension of some regulations of RF budgetary legislation norms on formation and use of oil and gas revenues of the federal budget.

The changes introduced by the Law No 254-FZ to paragraph 3 article 21 of the Budget Code of the Russian Federation are aimed at improvement of budget classification and provision for full transparent accounting of all the budget expenses, their connection with the results of the state policy, harmonization with the state finance statistics and system of national accounts.

Subsection “Serving of state and municipal debt” has been excluded from the section “National issues” and new Section 13 “Serving of state and municipal debt” has been introduced. It concerns budgets’ financial resources direction for implementation of the government function of serving state and (or) municipal debts with further detail elaboration of budget expenses subsections included into it by kinds of the debt (internal debt, external debt).

These amendments are accounted for by the fact that serving of the state (municipal) debt is recognized as one of the main government functions by the state finance statistics, and, consequently, the expenses of the Russian Federation budgetary system budgets directed for state and (or) municipal debt serving are to be isolated.

The subsection “Road infrastructure” of the section “National economy” is connected with the formation of federal road fund on January 1, 2011 and the possibility of regional road funds formation.

In order to reflect the RF budgetary system budgets’ expenses for interbudgetary subsidies and other interbudgetary transfers of general nature that cannot be ascribed to particular directions of government (local government) bodies activity, it is suggested to make a new version of Section 11 “Interbudgetary transfers” – “Interbudgetary transfers of general nature to budgets of subjects of the Russian Federation and municipal formations” (Section 14 in new version), elaborated with the corresponding subsections, excluding from it purposeful interbudgetary subsidies, subventions and other transfers.

The expenses of the RF budgets for purposeful interbudgetary transfers is envisaged within the subsections of classification of budgets expenses by sectors of economy, which will allow grouping of these expenses within section and subsections of budget expenses classification regardless of the form of expenses.

According to the Law No 245-FZ the formation and execution of the federal budget not diving the revenue part into oil and gas and non-oil-and-gas revenues was prolonged and without cancellation of limitations for the federal budget deficit. Separate planning of revenue part of the federal budget for oil and gas and non-oil-and-gas part is reasonable in case the federal budget is planned with the surplus and a part of oil-and-gas revenues is saved.

It should be remembered that according to the Federal Law from December 17, 2009 no 314-FZ the norms of the RF Budget Code establishing separate planning of oil and gas and non-oil-and-gas revenues for oil and gas transfer were suspended till January 1, 2013.

In 2011–2013 the trend for the federal budget expenses exceeding revenues sustains, oil and gas revenues reducing, means of the Reserve Fund and Fund for National Welfare being necessary

to finance federal budget deficit. In this connection the Law NO 245-FZ prolongs by 1 year (up to January 1, 2014) suspension of the RF Budget Code norms that envisage:

- formation of oil and gas profits of the federal budget (clause 1 article 96⁶ of the RF Budget Code);
- formation and use of oil and gas transfer (clause 3 article 96⁷ of the RF Budget Code);
- volume, sources of formation of the Reserve Fund and the requirement to specify the volume of this fund's means use in the federal law on the federal budget (clauses 2 and 3 article 96⁹ of the RF Budget Code);
- sources of formation of the Fund for National Welfare (clause 3 article 96¹⁰ of the RF Budget Code);
- ascription of incomes from trust management of the Fund for National Welfare for the increase of the Fund of National Welfare means that have been transferred to trust management (clause 4¹ article 96¹¹ of the RF Budget Code);
- accounting of oil and gas revenues, operations with these revenues, accounting of their receipt and use, publication of the data on their use and transfer to the Reserve Fund and the Fund for National Welfare (clauses 1-3, 5 article 96¹² of the RF Budget Code).

Since in 2011-2013 it is not planned to form oil and gas transfer and include oil and gas revenues of the federal budget to the Reserve Fund and the Fund for National Welfare, the suspension of the following norms is also extended:

- on use of oil and gas profits of the federal budget for financial provision of oil and gas transfers (clause 4 article 94 of the RF Budget Code);
- on submission of calculation for the planned use of oil and gas revenues of the federal budget to the State Duma simultaneously with the project of the federal law on the federal budget for the financial year and the planning period (clause 4 article 192 of the RF Budget Code);
- on the first reading of the forecast volume of federal budget oil and gas revenues and oil and gas transfer volume by the State Duma (clause 2 article 199 of the RF Budget Code);
- on accounting federal budget oil and gas revenues and revenues from management of Reserve Fund and Fund for National Welfare means when making changes to the federal law on federal budget for the current financial year and for the planning period (clauses 2 and 3 article 212 of the RF Budget Code), as well as when considering and approving the law (clause 2 article 213 of the RF Budget Code);
- on accounting of federal budget oil and gas revenues and revenues from managing the Reserve Fund and the Fund for National Welfare means that are really received when the budget is executed with the excess of the general revenue volumes established by the law (clause 1 article 232 of the RF Budget Code).

The action of part 5 article 8 of Law o 314-FZ that envisages that the volumes of Reserve Fund and Fund for National Welfare means used according to the decision of the RF Government to finance the federal budget deficit are established by the federal law on the federal budget among the sources of federal budget deficit financing is extended by 1 year (up to January 1, 2014).

The action of some legislative norms regulating budget process in the Russian Federation has been suspended.

Thus, for instance, the norms of the RF Budget Code regulating adoption of federal and regional legislative acts as well as municipal legislative acts that result in the changes of budgetary system revenues is suspended till January 1, 2011.

The norms of the RF Budget Code regulating to some extent the use of the Reserve Fund means, trust management of the Fund for National Welfare, incoming and use of federal budget oil and gas revenues were suspended up to January 1, 2014, as well as the norm of the Federal Law "On the Central Bank of the Russian Federation (Bank of Russia)" that regulates the transfer of really received profit as a result of the year (the volume of profit interest transferred to the budget) to the federal budget by the Bank of Russia.

Coming into the effect of the norms of the RF Budget Code that establish the volume of oil and gas deficit of the federal budget and the volume of oil and gas transfer for the following financial year was also delayed to January 1, 2014 (earlier it was established that these norms are to come into the effect on January 1, 2013).

The possibility to grant budget credits at the expense of budgets of the RF subjects in which territory Extreme North regions and regions of the same status with the limited period of goods transportation are located to legal entities for the purposes of purchase and transportation of the fuel to the corresponding subjects of the Russian Federation was prolonged to January 1, 2013 (earlier it was established that budget credits for these purposes can be granted up to January 1, 2011).

Besides, for instance, the norms of the RF Budget Code that establish the sources of financing for the federal budget deficit and classification of budget expenses (for instance for state and municipal debt servicing, expenses for road maintenance, mass media physical education and sport) have been specified. ●