

RUSSIAN ECONOMY: TRENDS AND PERSPECTIVES 11'2009

MONTHLY BULLETIN:

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RUSSIAN ECONOMY IN NOVEMBER: TENTATIVE INDICATORS AND MAJOR TRENDS

External factors of macroeconomic dynamics: a sustained instability

The main impact on the dynamics of macroeconomic indicators provided in November, as before, were the external factors. Oil prices in November remained close to the level of the second part of October and were within the range of USD 76-80 per barrel, its highest level since the autumn of 2008. This suggests that revenues from exports in November would be even higher than in October. Accordingly, the Central Bank foreign currency reserves were growing; their amount by 20.11.09 has reached USD 443.8 billion (against USD 429.3 billion as of 23.10.09), which is 74.2 per cent of the pre-crisis maximum and nearly equal to the level at which the Central Bank has moved to a policy of "managed devaluation" in November 2008.

During October and the first three weeks of November, the value of two-currency basket has downgraded by 3.1 per cent to RUR 35.24. RUR strengthening was contributed not only by the situation with the balance of payments, but the capital inflow, amounting to USD 9.2 billion in October (the absolute historical maximum since the beginning of the year). However, the news on a possibility of a tentative default of Dubai World fund in late November led to a sharp reversal trend in the markets and the return of the currency basket to the values of the late September – early October (RUR 36.36).

Volatile trends, prevailing in the world markets, also affected the dynamics of the Russian stock market in November. Excessive liquidity pushes markets up, but the gap between the sluggish pace of economies recovery out of recession and the rapid growth of assets increases the nervousness of buyers and sellers. As a result, the Russian stock market has demonstrated a decline by 10-12 per cent (minimum MICEX Index - 1281 p.p. as of 03.11.09) in late October - early November, having gained up the downfall of the middle of the month to the previous values (maximum of the MICEX Index - 1371 as of 18.11.09), and then has fallen down to the level of early November (1285 p.p. as of 30.11.09).

Internal factors: inflation and exchange rate: between the hammer and the anvil

In November, after three months of stagnation, inflation resumed its growth, but its rate seems to be very weak in the autumn months – 0.3 per cent for the first three weeks of November (8.4 per cent from the beginning of the YTD). Such a growth rate of prices is probably due to seasonal factors (rising prices for fruit and vegetables). In general, the low rate of price growth in 2008 was based on the conservative (in fact) fiscal and monetary policies, strengthening of the ruble and the stagnation in demand. It should be noted that the growth in prices for non-food products continue to outpace the last year level (a rise in prices since the beginning of the year by 9.0 per cent versus 7.3 per cent in the same period of preceding year), and the overall inflation rate is determined by the low dynamics of prices for food products (5.2 per cent since the beginning of the year against 13.9 per cent in the last year) and services (10.9 per cent since the beginning of the year against 14.1 per cent in the past year).

Until the end of the year, inflation, according to our forecasts, will not exceed 9.5 per cent. However, its further development remains one of the most difficult issues for estimates. Despite the expected seasonal upsurge in January - February 2010, based on the indexing of prices and tariffs of natural monopolies, the tight credit and monetary policy of 2008 allow to expect that inflation in 2009 will remain largely at a rather low level (around 7 per cent in annual terms). However, the high uncertainty in this regard is based on the uncertainty in regard to the actual execution of the federal budget in 2009. If the government fulfills all its obligations in 2009, it will mean a further increase in the money supply by about RUR 2.5-3 trillion (about 50 per cent of reserve money) within 1-1.5 months. The inflationary effect of such emission will be seen in April and May 2010, and in the second half of 2010 the CPI may reach 10-12 per cent in annual terms. If a part of the budget expenses of 2009 is transferred to 2010 or not executed due to unnecessary implementation of the

anti-crisis measures, then, in our view, already in 2010 inflation in Russia could be reduced to 6-8 per cent.

Low inflation allowed the Central Bank on November 25, 2009 to make one more - for the tenth time in succession - reduction of the refinancing rate (up to the level of 9 per cent per annum; interest rates for other transactions with securities were lowered respectively). However, in our opinion, the rate reduction will not have any serious effect either on inflation processes, or the expansion of credit activity of banks (which is the purpose of the Central Bank policy in this case). Previously, the October rate reduction has not produced such an effect: the growth of credit portfolio of banks to businesses was not observed, and disregarding revaluation of October it fell by 0.5 per cent. Low levels of crediting was due, above all, to high risks and high share of bad debts of companies. At the same time, reducing the cost of resources for the banks is a danger, to the stability of the ruble. In October, excessive reserves of commercial banks rose to RUR 908.3 billion; as of the month results, the growth made RUR 127.6 billion, or 16.3 per cent. Therefore, excessive liquidity is accumulated in the banking system.

Industry puzzle: two steps forward, one step back

The main intrigue of the Russian economic dynamics are the prospects of industry to resume the growth rates. Moreover, the October indicators showed, that according to the Ministry of Economic Development production has reduced against the level of September by 1 per cent (after purification of seasonal indicators). IET advance estimates, based on short-term surveys of enterprises, do not justify high expectations for November as well. However, such «slow-downs» repeatedly occurred throughout the year, which does not give grounds to consider these effects as the signs of a new trend.

Nevertheless, the dynamics of demand estimates in November for the fourth time in a year demonstrated a suspension of positive trend. Regardless seasonal factors, the balance estimates are reduced (by 4 points) in November for the first time in the last 6 months. Dynamics of production growth assessments has also changed in November for the worse. The absolute output reduction in November (as per businesses estimates) was registered in metallurgy, construction and light industry. Machinery, timber industry and especially the food industry are demonstrating some growth. The production plans of enterprises were reduced, as well as the demand estimates; clearance of seasonal factors showed decline in optimism 6 percentage points. However, this was the first deterioration in the estimates since the crisis beginning in November 2008. There are still hopes for the production growth in the industry, but there are less confidence.

The volatile dynamics in demand and the low level of satisfaction with sales forced the companies to resume the practice of lowering prices for their products. Therefore, an attempt to increase prices during the previous three months was premature. This is most obvious for timber industry, construction and light industry, which demonstrate the most intense decline in prices in November.

The accelerated sales declines and slowdown in production growth in November have provoked increased dismissals in the industry. Dismissal rate increased from 11 to 15 points and became the highest (worst) within the last three months. So we can expect a continuation of the trend in October: after a three-month decline, an increase in the number of unemployed by 1.3per cent is recorded in October as compared with September 2009. On the one hand, this trend can be considered a normal reaction to the stagnation of business demand and sales, and on another hand, it delays the prospect of domestic consumption growth. ●

INFLATION AND MONETARY POLICY

N.Luksha

In October 2009, for the third consecutive month, the zero inflation was sustainable at the zero rate. However, in November, the inflation growth started and amounted to 0.3 per cent within the first three weeks. Therefore, the consumer prices growth since the beginning of the year made 8.4 per cent, which is by 3.9 p.p. less than the relevant indicator of the preceding year. On November 20 of 2009 the foreign currency and gold reserves of the Bank of Russia reached its maximum level since the beginning of the year and made USD 443.8 bln. (+2.7 per cent). In October the outflow of capital has been resumed, amounting to USD 9.2 bln, which is the absolute maximum of 2009, while the real effective exchange ruble rate continued to strengthen (+2,7). Within October and the first three weeks of November the two-currency basket value has fallen down by 3.1 per cent. The Bank of Russia has continued its monetary policy mitigation: on October 30, and afterwards, on November 25, the refinancing rate once again was lowered by 1 p.p. to 9 per cent per annum. At the same time the interest rates on loans and deposits of commercial banks in the CBR were lowered. On November 16, the Bank of Russia has announced on cutting down a number of counter-crisis instruments of banks' refinancing.

In October for the third consecutive month, the inflation did not grow, amounting to 0 per cent by the end of the month (See Fig. 1). Zero inflation growth rate was sustainable, firstly, due to the continued decrease in food prices (-0,5 per cent), and secondly, due to decrease in commercial services (-0,1 per cent). The growth of prices was observed only for non-food products (+ 0,6 per cent). The zero growth of prices within three consecutive months is a record for the last 10 years.

As in the preceding month, in October there was continued reduction in the cost of food products and a trend to reduction of prices for fruit and vegetables (-6.1 per cent). In view of the absolute record of monthly production of sugar from Russian domestic raw material (sugar beet) - about 1.24 bln tons¹, the price for sugar has significantly decreased (-5,1 per cent). In addition to the food stuff, which began to fall in prices in September (fish and seafood, sunflower oil), prices decline was also recorded in a number of other food products - cereals and beans (-0.9 per cent) and pasta (-0,6 per cent).

In October, prices for commercial public services have decreased by 0.1 per cent. As in the preceding month, this was contributed by lower prices for foreign tourism (-2.8 per cent), health and resort services (-3 per cent) and passenger transport services (-1.3 per cent). Significant growth was observed for gas prices (+3.5 per cent), which react to the dynamics of oil prices with some lag.

In October the growth rate of prices for non-food products has not been greatly changed as compared with September (+0,6 per cent). In view of winter frosts, some growth was observed in seasonal footwear (+1.4 per cent), knitwear (+0.3 per cent) and clothes (+1.2 per cent). Reduced prices were noted in October only in petroleum (-0,1 per cent) due to the end of the «peak» season.

In general, within January-October 2009, the cumulative inflation rate amounted to 8.1 per cent, which is by 3.5 p.p. less, as compared with the relevant indicator of the preceding year. The main factors of prices growth curbing in October were the same as in the preceding two months (restricted domestic demand due to decreased real disposable incomes of population and strengthening of the ruble, contributed by the rising prices for oil and other export goods).

However, in the first week of November the inflation zero rate has been changed and inflation started to rise. Within the first three weeks of November inflation rate has reached 0.3 per cent. Nevertheless, the cumulative inflation rate is far lower than the indicator of preceding year – 8.4 and 12.3 per cent, accordingly.

The increasing rate of prices growth in November was quite natural due to the expiration of the seasonal factor (cheaper fruit and vegetables). By the end of the year some acceleration in

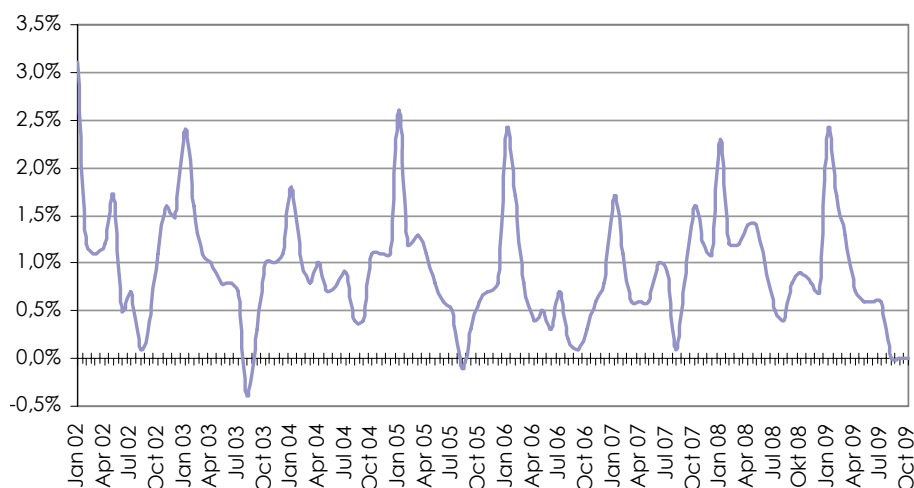
1 <http://www.isco-i.ru/>

inflation, contributed by the growth of monetary supply, renewed in September, can be expected (the monetary supply M2 within the term of January-October 2009 amounted to 2.8 per cent), as well as an increase in budget expenditures. According to the estimates of A. Ulyukajev, First Deputy Chairman of the Central Bank, the inflation within the last months of 2009 will make 0.2 -0.3 per cent per month¹. As per the tentative assessments of the Ministry of Economic Development, in November the inflation rate will make 0.3–0.4 per cent and in December it will be accelerated to 0.5–0.6 per cent. The official estimates of the annual inflation rate of the Ministry of Economic Development was reduced in early November from 11–12 per cent to 9 per cent. The basic CPI of consumer price index² in October has made 0.3 per cent (versus 1.3 per cent in the relevant period of preceding year).

As of October results, the monetary base (in broad definition³) has grown by 4.6 per cent and amounted to RUR 5023.5 billion. Cash in circulation with regard to the fund balances in credit organizations made RUR 3.96 trillion (decline by 2.4 per cent within the month), correspondent accounts of credit organizations in the Bank of Russia made RUR 548.7 billion (+2.4 per cent), mandatory reserves made RUR 154 billion (+0.1 per cent), banks' deposits with the Bank of Russia made RUR 318.9 billion (47 per cent), the value of shares of the Bank of Russia with credit organizations made RUR 30.7 billion (increased 1.7 times).

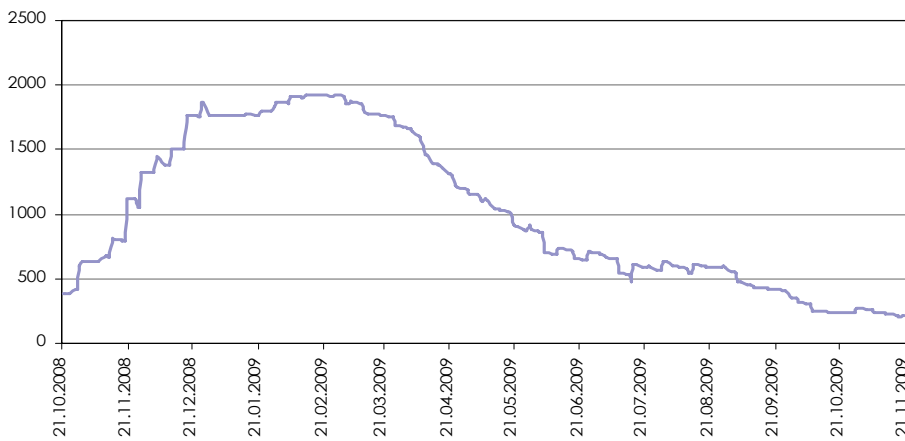
In October, the excessive reserves of commercial banks⁴ have been increased to RUR 908.3 billion. As of the month results, the increase has accounted to RUR 127.6 billion, or 16.3 per cent. Therefore, excessive liquidity has been accumulated in the banking sector. In this regard, the Central bank has decided to minimize the use of a number of anti-crisis instruments to refinance the banks, which were necessary during liquidity shortage. On November 16, the Central Bank Board of Directors has announced a reduction of credit risks limits and an increase of the minimum levels of credit ratings, assigned to the three national rating agencies, and required to obtain unsecured credits from February 1, 2010. For credit institutions, related to the 4th category, the credibility rating to obtain unsecured 5-months credit has been increased from BB minimum to BB as per the classification of the «RusRating» national rating agency, from B++ to A as per the classification of RA Expert and from A- to A as per classification of NRA. According to the first Deputy Chairman of the Central Bank A. Ulyukaev, due to the tighter requirements to the unsecured credits, 1/3 of the banks (about 70 banks out of 230) will not be able to participate in the Central Bank auctions. The decision of the Central Bank has become a response to the surplus of the banking sector liquidity and low demand from credit institutions for unsecured loans as a result of risks'

1 RBC daily (<http://www.rbcdaily.ru/2009/11/05/finance/440226>, 05.11.09)
 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 The RF monetary base in broad terms with no regard to the cash issued by the Bank of Russia and the balance of Compulsory Reserve Accounts on credit organizations in national currency, deposited in the Bank of Russia, taking into account the assets of correspondent accounts and bank deposits, allocated in the Bank of Russia.
 4 The excessive reserves of commercial banks with the RF CB refers is the amount of correspondent accounts of commercial banks, their deposits with the RF CB and the CB bonds of commercial banks.



Source: Russian Statistical Agency

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



Source: RF Central Bank.

Fig. 2. Banks indebtedness on the RF Central Bank unsecured credit from 21.10.2008 through 20.11.2009 (RUR bln)

overdraft was getting declined, and on November 20, 2009 has made RUR 210 billion (see Fig. 2). Therefore, in late September, the level of overdraft has returned to pre-crisis level and afterwards this level got down below this indicator. The volume of funds, issued by the Central Bank within the unsecured auctions to commercial banks has also decreased sharply since the crisis beginning - from RUR 200-300 billion in the first months of the crisis to RUR 15-40 billion in autumn of the current year, and in November remained at the level below RUR 13 billion per auction.

Slight decline of banks' credits arrears, observed in September, has been replaced by its growth. According to the Bank of Russia¹, on November 1, the share of credit indebtedness has increased to 6.6 per cent (versus 6.4 per cent as of October 1), and the share of non-financial institutions - up to 5.94 per cent (versus 5.7 per cent as of October 1). The total share of overdraft credits in the portfolio was 5.07 per cent (versus 4.8 per cent on 1 October). However, according to the Central Bank, the banking sector is already close to the maximum arrears, so in late November, it has decreased the estimates of the level of arrears on credits from 10 per cent to 7 per cent.

One should note also the absence of any growth in the banks' credit portfolio by businesses, which, excluding revaluation in October has decreased by 0.5 per cent, should be also noted. Low credit volumes of lending were caused, above all, by high risks. S & P rating agency has grouped countries by level of risk in the banking sector. The first group included the countries with the lowest risk for the banks, and the 10th group those with the greatest risk². Russia was included in the 8-th group, as well as Colombia, Pakistan and Tunisia. 7 countries (Australia, Canada, Netherlands, Finland, France, Sweden and Switzerland) have been included in the 1st group, together with the countries with the lowest bank risk; whereas Britain, Germany, Italy, USA and Japan, according to the rating agency, have been included in the 2nd group.

In October, the growth of the volume of cash in circulation by 2.4 per cent and an increase of mandatory reserves by 0.1 per cent have led to extension of monetary base in narrow definition (cash plus mandatory reserves)³ by 2.3 per cent (see Fig. 3).

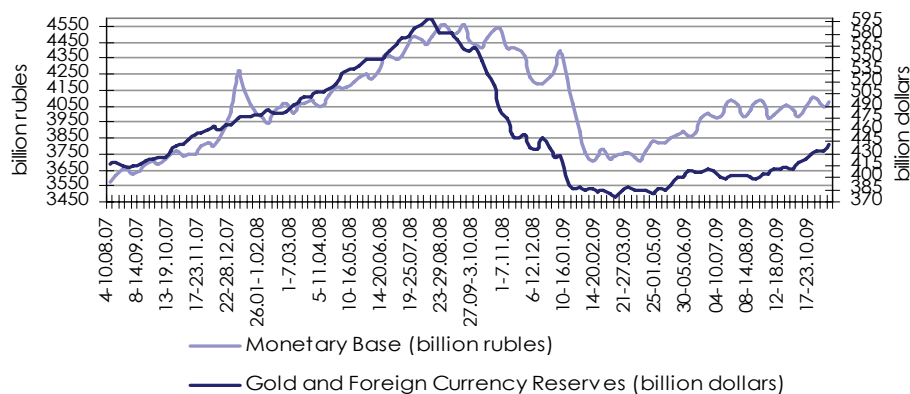
In October, the volume of the Central Bank foreign currency and gold reserves has increased by USD 2.1 billion or 5.1 per cent, having amounted by the end of the month to USD 434.4 billion, which is a maximum peak since early 2009. Within the first two weeks of November, foreign currency and gold reserves have grown up by more than USD 9.4 billion, to USD 443.8 billion. Therefore, the

¹ According A. Simanovsky, Director of the Central Bank Department of banking regulation and supervision, RBC, November 25, 2009.

² Infox.ru (<http://www.infox.ru/business/finances/2009/11/23/debt.phtml> 24.11.09)

³ 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.

reserves to support the ruble during the RF Bank's policy of "managed devaluation", have been practically restored (gold and foreign reserves at the beginning of the policy of ruble "soft devaluation", when the value of the two-currency basket fluctuations has been first upgraded (on November 11, 2008) made RUR 453.5 billion . In addition to foreign exchange revaluation, high oil prices, as well as the inflow of foreign capital have become the main reasons for the growth of foreign currency and gold reserves.



Source: RF Central Bank

Fig. 3. Changes in the Monetary Base and in the Gold and Foreign Currency Reserves in 2007–2009

As per the Central Bank estimates, within nine months of 2009, the net capital outflow from the country reached USD 53 bln¹. According to the RF Central Bank verified data, within the term of January-September 2009 the amount of capital outflow amounted to USD 62.2 billion, which showed renewed capital inflow in October. It was estimated at USD 9.2 billion, which was the maximum value since the beginning of the year. It is worth reminding, that in the I-st and the III-d quarters, the net outflow of capital has been observed - USD 38.8 and 31.5 billion, accordingly. If in the I-st quarter, the devaluation of the ruble was the main reason, within the III-d quarter - the continuing devaluation expectations, payments on foreign debt and the transfer from the Central Bank foreign accounts of foreign banks. Capital inflow in the II-nd quarter of the current year (USD 7.2 billion), caused by the ruble strengthening and growing oil prices, still remains, nevertheless, lower, than the inflow of foreign capital in October 2009. Foreign speculative capital, as well as repatriable Russian capital, were the main sources of capital inflow in October. The resumed currency inflow was possible due to stabilization of the situation in the global economy, continuing spread of interest rates in the domestic and external market. According to the estimates of A. Ulyukaev, the CBR First Deputy Chairman, within the last two months of the year the capital inflow into the country at about USD 10 billion can be expected.

The currency inflow into the country, as well as the continued increase in oil prices contributed to further strengthening of the ruble. In October, RUR has strengthened by 2.7 per cent. As of the results of the month, the index of real effective ruble rate has increased to 132.64² (see Fig. 4).

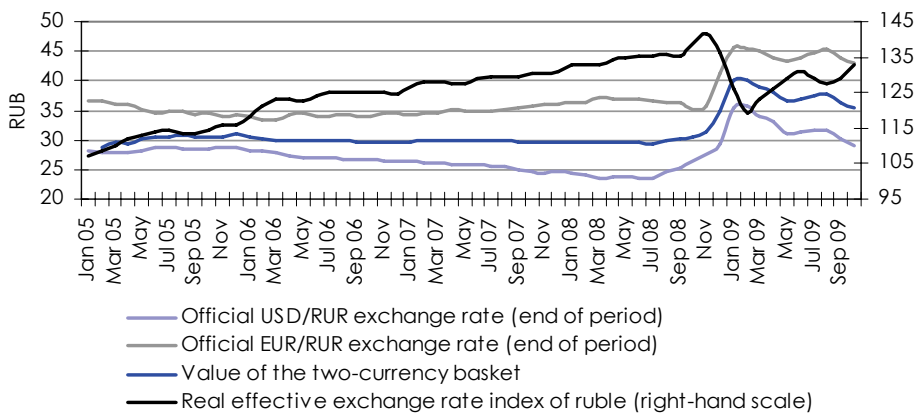
As of October results, RUR has demonstrated a significant strengthening against USD and Euro, this trend continued in the first three weeks of November. Therefore, within October and 3 weeks of November, the nominal value of the dollar has fell down against RUR by 4.1 per cent to RUR 28.86, and Euro - by 2.2 per cent to RUR 43.04. Since November 7, USD 1 was recorded below RUR 29. As a result, the value of two-currency basket³ has decreased by 3.1 per cent to RUR 35.24, which was a new annual minimum. A steady trend of growth in oil prices - USD 68-78 per barrel in the first three weeks of October and USD 75-80 per barrel (Brent) in the last week of the month and the first three weeks of November has become the main factor for strengthening of the ruble. In order to avoid too rapid ruble strengthening and to restrain excessive fluctuations of the ruble rate, the RF Central Bank had to perform significant currency intervention in October: the net dollar purchases amounted to USD 15.2 billion and Euro 484.6 million.

However, there should be noted an increased volatility of the ruble against Euro by the end of November. Thus, on November 27 ruble has sharply fallen against Euro to RUR 43.55 for Euro 1.

1 Itar-Tass, 19.11.2009.

2 2002 level is accepted as 100 per cent.

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



Source: RF Central Bank, author's estimates

Fig.4. Indicators of Ruble Exchange Rate in January 2005 – October 2009

RUR 36.36. Within the forthcoming days, market volatility will continue. Medium-term dynamics of the national currency rate will depend primarily on the correction in the global markets.

Within the term from late October to late November the Bank of Russia has lowered the refinancing rate twice, by 0.5 p.p. on October 30 and then, on November 25, 2009 the refinancing rate was reduced again to 9 per cent per annum, which is a historical minimum. Interest rates on other Central Bank operations have been also reduced in general by 1 p.p. (see Table. 1)

Table 1

INTEREST RATE UNDER RF CENTRAL BANK CREDIT OPERATIONS

	Term	From 30.09.09	From 30.10.09	From 25.11.09
Lombard credits (lowest interest rates)	14 days	7.25	6.75	6.25
	3 months	8.75	8.25	7.75
	6 months	9.25	8.75	8.25
	12 months	9.75	9.25	8.75
Direct Repo through an auction (Stock Exchange and OTC) (minimum interest rate)	1 day	7.25	6.75	6.25
	7 days	7.25	6.75	6.25
	90 days	8.75	8.25	7.75
	6 months	9.25	8.75	8.25
Overnight credits	Overnight	10.0	9.5	9.0
	«Foreign currency swap» (RUR share)	1 day	10.0	9.5
Lombard credits (under fixed interest rate)	1 day	9.0	8.5	8.0
	7 days	9.0	8.5	8.0
	30 days	9.0	8.5	8.0
Direct Repo (under fixed interest rate)	1 day	9.0	8.5	8.0
	7 days	9.0	8.5	8.0
	12 months	9.75	9.25	8.75
Credits, secured by assets or warranty (Credit, secured by assets or warranty)	Up to 90 days	9.0	8.5	8.0
	From 91 to 180 days	9.5	9.0	8.5
	From 181 to 365 days	10.0	9.5	9.0
Deposit operations (Credit, secured by assets or warranty)	«tom-next», «tom-next», «on demand»	4.75	4.25	3.75
	«Week 1», «Spot-week»	5.25	4.75	4.25

Source: RF Central Bank

Therefore, the Bank of Russia for the ninth consecutive time has mitigated the interest rate policy. As in the preceding months, the decision on the rate reduction was possible only due to the con-

tinuing downward trend in inflation (within the term from the beginning of the year to November 23, the consumer price index made 8.4 per cent). The key objective of this decision is the recovered crediting of the real sector of the economy, and as a consequence, higher incentives of economic activity in the country. Moreover, the refinancing rate reduction will support the attractiveness of the Russian financial market for inflows of speculative capital. ●

THE BANK OF RUSSIA'S NEW POLICY

S.Drobyshevsky

In the short-term perspective (up to one year ahead) the inflation rate in the Russian Federation may drop to 6 – 8 % per annum. The main threat is posed by the large-scale budget spending in late 2009. The switchover to inflation targeting cannot be started until the inflation rate goes down to 4 – 5 %, and also until the former level of banks' credit activity is reestablished. After the switchover to a regime of modified inflation targeting, the Bank of Russia will be taking into consideration not only the current level of inflation, but also the dynamics of the ruble's real effective exchange rate.

The current financial and economic crisis, similarly to the crisis, represents a watershed with regard to the monetary policy model that so far has been implemented by the Bank of Russia. It should be remembered that the outcome of the crisis in 1998 was the discontinuation of the 'currency corridor' policy, accumulation of the gold and foreign currency reserves, and the control of excessive liquidity of the ruble (aimed against its accumulation by banks). Consequently, among the innovations introduced in 2008 – 2009 by the monetary agencies into their policy we can note the application of interest rates as an effective regulation instrument, as well as a few first steps being made in the direction of the policy of a 'floating' exchange rate of the ruble and inflation targeting.

Below we are going to discuss in more detail the possible variants and limitations of the new policy of the Bank of Russia in the short term (a period of up to one year).

The current decline of the inflation rate has been caused primarily by the very tough (de facto) monetary policy being implemented over the first half-year 2009. Its most important aspect was that it coincided with the drop in real aggregate demand in the economy and an increasing rate of saving. Thus, unlike the situation in 1998, there was no upsurge of inflation coupled with declining effective demand.

On the basis of the existing lags between the dynamics of money mass and changes in the levels of prices in the Russian economy (4 – 9 months) it can be assumed that in the first half-year 2010 the rate of inflation (as demonstrated by Consumer Price Index (CPI)) will stay at a sufficiently low level (5 – 7 % per annum). In 2009, according to our forecast, Consumer Price Index will not rise above 9.5 %. In January – February 2010 there will traditionally occur a seasonal leap of prices associated mainly with the indexation of prices and tariffs for the products and services of natural monopolies - but, most probably, it will be less impressive than the one that happened last year.

The forecasts of inflation in the second half-year 2010 are still very uncertain, this uncertainty resulting from the actual execution of the federal budget in November – December 2009. If the RF Government is indeed going to fulfill all of its obligations for the year 2009 (as stipulated in the law on the state budget), this will mean growth of money supply, in 1 – 1.5 months, by approximately 2.5 – 3 trillion rubles (about 50 % of the reserve money volume). The inflation-triggering effect of this issue of money will begin to be felt as early as April – May 2010, and in the second half-year CPI growth may become as high as 10 – 12 % per annum. Thus, in this case, by the results of the year 2010 the inflation rate will amount to 8 – 10 %, practically no lower than it was in 2009.

However, the federal budget is not executed in full in nominal terms until the end of the year 2009, while part of the expenditure allocated for the year 2009 is carried forward to 2010 – or is not executed at all due to lack of necessity to implement these items as part of the package of anti-crisis measures, then we believe that the inflation rate in Russia can go down to 6 – 8 % already in the year 2010.

The aggressive lowering, in the second half-year 2009, of the rate of refinancing by the Bank of Russia will not, in our opinion, have any serious impact on the inflation processes. First of all, alongside lowering its rate of refinancing, the Bank of Russia declared that more tough restrictions

from now on would apply to the access of Russian banks to liquid resources. Secondly, in conditions of the lingering high risks associated with crediting in the real sector and the high share of bad debts sustained by companies, the lowering of the refinancing rate cannot be conducive to a marked revival of the crediting activity of banks. Thirdly, in the present situation the lowering cost of the resources available to banks can be fraught with some risks for the stability of the ruble's exchange rate rather than risks in terms of inflation.

Thus, the currently downward trend displayed by the inflation rate makes it possible to hope that, from the year 2011 onwards, there will be a switchover to inflation targeting within the interval of 4 – 5 % per annum. However, until the level of crediting to the real sector once again becomes sufficiently high, the rate of refinancing, as well as the rates for the other operations carried on by the Bank of Russia will be unable to perform the function of an effective monetary policy instrument. In other words, any true switchover to inflation targeting can be possible only if the following two requirements are satisfied: a drop of the inflation rate to a level of no higher than 5 % per annum is achieved, and a significant influence is to be exerted by the rates on the Bank of Russia's operations on the situation in the banking sector.

When the issue concerning the switchover to inflation targeting is discussed, it is inevitably associated with switching over the currency exchange policy to free floating of the ruble. As shown by the latest empirical studies on inflation targeting in developing economies (e.g., the works by Eisenmann), almost all the developing countries, and even more so – the countries with raw-materials-oriented export never resort to pure inflation targeting. The so-called 'modified inflation targeting', when the target function of monetary authorities involves, in addition to inflation, the real exchange rate of the national currency instead of real output, or in addition also the asset prices on the stock market and the real estate market, is practiced nearly everywhere.

Considering the structure of the RF national economy and exports, one can hardly speak of any possibility of free floating of the ruble relative to a 'currency basket'. The Bank of Russia will be forced to implement an interest rate policy aimed both at maintaining a certain corridor with regard to inflation and at keeping the exchange rate of the ruble within a certain – probably rather broad – interval. From that point of view, the current strengthening of the ruble's exchange rate in real and nominal terms appears to be well-justified in view of a stable balance of the current operations account. So far, the effective exchange rate of the ruble in real terms has always been noticeably lower than it had been prior to the onset, in August 2008, of the downward movement of the nominal exchange rate. However, in conditions of a freer floating of the ruble (within a broad corridor), any further strengthening of its exchange rate is by no means certain, as the ruble's exchange rate must be more sensitive to movement of capital. ●

FINANCIAL MARKETS¹

N.Burkova, E.Khudko

In November the dynamics of Russia's financial market was volatile with predominating downward trend. The negative trends were particularly clearly observed in the market for corporate shares, the investors' activity in which decreased by 10 per cent, and positive ones in the market for government bonds, where the average monthly turnover has grown nearly by 30 per cent.

Russian domestic market of corporate bonds was relatively stable: the volume of the market increased only slightly, activity of investors in the secondary tradings remained virtually unchanged, the index of corporate bonds continued to rise with a simultaneous decrease in their effective yield. A decline in the volume of IPOs and the record number of actual defaults, especially on the redemption of securities can be regarded as negative indicators.

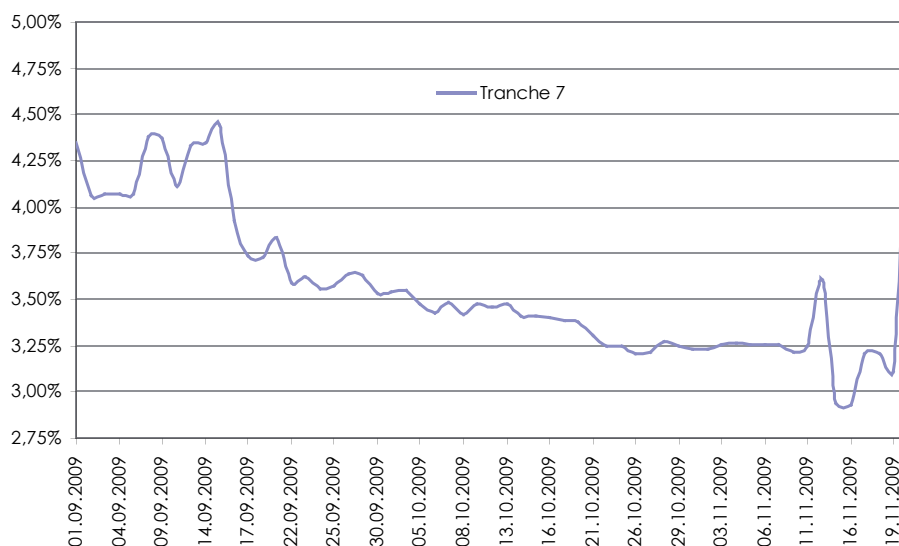
Government securities market

Within November, the growing RUR, RF Central Bank refinancing rate reduction at the end of October, as well as positive situation with ruble liquidity at the background of general negative external news has supported the market of government securities denominated in rubles and foreign currency.

As of November 22, the Russian Eurobonds RUS-30 yield to maturity has decreased as compared with the level of October 2 from 5.70 to 5.29 per cent per annum (by 7.19 per cent), RUS-28 – from 6.09 per cent to 6.05 per cent per annum (by 0.66 per cent), RUS-10 – from 0.81 to 0.43 per cent per annum (by 47 per cent), whereas RUS-18 yield to maturity on the contrary, has increased from 4.99 per cent to 5.04 per cent per annum (by 1 per cent) and . As of the same date, the upgrading trend was also observed in the yields of external currency debt bonds. Thus, the yield to redemption of the seventh tranche of external currency debt bonds has decreased from 3.25 to 4.77 per cent per annum (by 46.77 per cent) (see *Figs 1-2*).

Within the period from October 26 to November 22, the total turnover of the OFZ secondary market amounted to approximately RUR 150.77 billion with an average daily turnover of RUR 7.94 billion (about RUR 124.16 billion with an average daily turnover of RUR 6.21 billion in October), what corresponds to the growth of an average monthly turnover nearly by 30 per cent.

Within October 26 – November 22, there were three auctions on OFZ additional placements (against six auctions a month before) at the primary OFZ market. Herewith, an auction for OFZ additional placement series 25069 for the amount of RUR 10 bln, declared for October 28 was recognized invalid by the RF Ministry. However, on November 11,



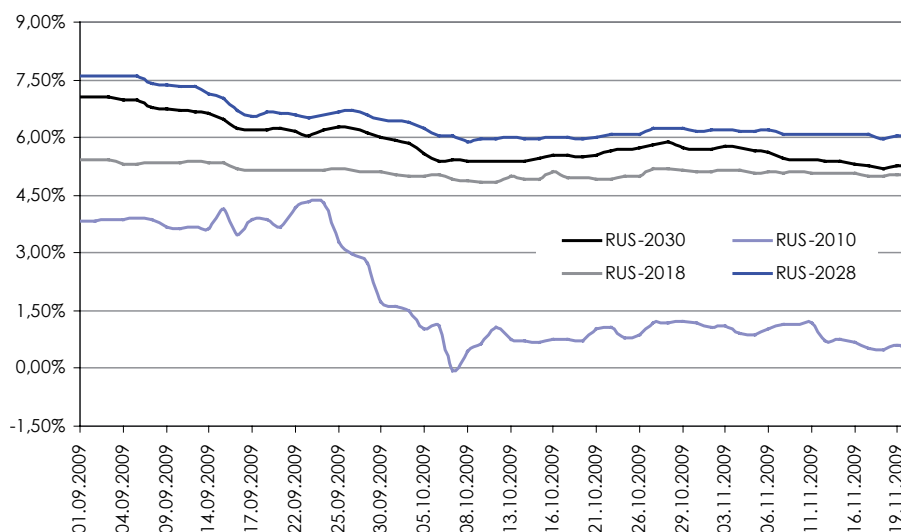
Source: "Finmarket" Information Agency data

Fig. 1. Minfin bonds' yields to maturity in September – November 2009

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

there was an auction on OFZ placement, series 25070 for the amount of RUR 10 bln. Actual placement volume was RUR 9.36 bln and RUR 5.81 bln with an average weighted yield of 8.22 per cent per annum. On November 18, there was an auction on OFZ additional placement, series 26200 for the amount of RUR 15 bln, an actual placement volume reached RUR 14.15 mln with an average weighted yield of 8.18 per cent per annum. Therefore, the actual volume for the period under review was RUR 94 per cent versus the estimated level of 73.04 per cent (a month earlier), which demonstrates a resumed interest of the investors to government bonds market.

Furthermore, in this period there were several auctions on OFZ additional placements in the secondary market (see *Table 1*). The total actual placement in the secondary market for the period amounted to 31 per cent of the estimated volume (versus 20 per cent a month earlier). This trend reflects the overall volatile dynamics in the market of government securities.



Source: "Finmarket" information Agency data

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

Table 1

AUCTIONS FOR OFZ ADDITIONAL PLACEMENTS IN THE SECONDARY MARKET

Auction date	Issue	Auction type	Issue volume, RUR, mln.	Nominal placement amount. RUR. mln	Average yield
26.10.2009	ОФЗ-25062-ПД	Add. placement	11 447.37	23.98	8.43
06.11.2009	ОФЗ-25062-ПД	Add. Placement	11 423.40	601.50	8.47
09.11.2009	ОФЗ-25062-ПД	Add. placement	10 821.90	1 295.00	8.44
10.11.2009	ОФЗ-25062-ПД	Add. placement	9 526.90	9 518.90	8.36
11.11.2009	ОФЗ-25062-ПД	Add. placement	8.00	8.00	8.22
11.11.2009	ОФЗ-25070-ПД	Add. placement	635.94	635.94	8.21
11.11.2009	ОФЗ-26202-ПД	Add. placement	4 488.20	950.00	8.55
12.11.2009	ОФЗ-26202-ПД	Add. placement	3 538.20	720.50	8.55
16.11.2009	ОФЗ-26202-ПД	Add. Placement	2 817.70	0.76	8.52
17.11.2009	ОФЗ-26202-ПД	Add. placement	2 816.94	2 816.94	8.54
18.11.2009	ОФЗ-26200-ПД	Add. placement	7 067.11	2 967.11	8.18
19.11.2009	ОФЗ-26200-ПД	Add. placement	4 100.00	1 804.71	8.18
26.10.2009	ОФЗ-25062-ПД	Add. placement	11 447.37	23.98	8.43
Total:			68 691.64	Add. placement	

Source: "Finmarket" information Agency data

As of November 22, the OFZ market has amounted to RUR 1,417.69 bln at face value and to RUR 1,341.64 bln at the market value (RUR 1,372.84 bln and RUR 1,283.33 bln accordingly, as of October 25). The duration of the OFZ market portfolio has made 1,623.01 days, having decreased by 34.31 days as compared with the preceding month (as of October 25).

Stock market

Stock market situation

Volatile dynamics in the majority of global market stock indices, reduced refinancing rate of the RF Central Bank since October 30 (from 10 to 9.5 per cent per annum), growth of the RF foreign currency and gold reserves on the one hand, in the background of some oil price downgrading, the RF GDP decline and trade balance surplus within January-September 2009 by 10 per cent and 51.7 per cent respectively, the growing inflation and unemployment rates, license revocation from a number of banks, fines imposed by the Federal Antimonopoly Service on OAO Rosneft and OAO Lukoil in the amounts of RUR 5.28 bln and RUR 6.545 billion, respectively, for the abuse of dominant position in the wholesale market of oil products in the first half of 2009, reduced net profits of several major Russian companies as a results of the 3rd quarter of 2009, the RF budget deficit in January-August 2009 amounting to RUR 565.7 billion, as well as the RF external debt growth by USD 22.27 per cent to RUR 1,740.03 bln within ten months of 2009, on the other hand, made for the volatile dynamics in the Russian financial market with the predominating downgrading trend during the month.

Thus, while in late October – early November, a general downgrading dynamics was observed in the MICEX index, since the middle of the month the decreasing trend was replaced by an upgrading one (See Fig. 3). The minimum value the MICEX index has reached on November 3 - 1,218.42 points (against 1,175.83 points in the preceding month). The maximum value the MICEX index has reached on November 18, having reached 1 371,82 points (1,371.20 per cent points in the preceding month).

In general, within the period from October 26 to November 22, the MICEX index has decreased by 2.27 per cent, what makes about 30.94 points in absolute terms (within the year, from November 23, 2008 to November 22, 2009, the MICEX index has been upgraded times 2.6). Over the same period, the turnover of trades in shares, included in the MICEX index, made about RUR 1,299.43 bln at an average daily turnover of RUR 68.39 bln (against RUR 1,522.24 billion with an average daily turnover of RUR 76.11 billion in the preceding period). Therefore, the investors' average daily activity in the stock market in November has declined as compared with the preceding month by 10 per cent. The indicators of maximum and minimum daily turnover in the market trades in November made, accordingly, RUR 88.24 bln (as of November 10), and RUR 39.04 bln (on November 13).

As of the month results (from October 26 through November 22), the majority of the “blue chips” securities have shown a downgrading trend. The leaders in this regard were Surgutneftegas, whose value declined by 8.88 per cent and Gazprom shares (8.16 per cent). Some lower downgrading

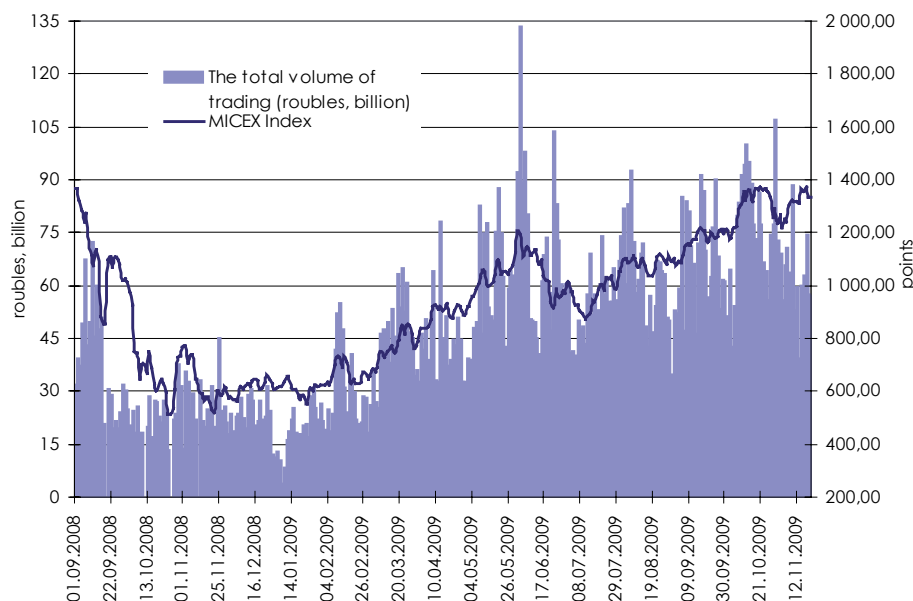


Fig. 3. Dynamics of MICEX Index and trading volume

rates were demonstrated by LUKOIL shares (6.43 per cent), GMK “Nornickel” (by 3.25 per cent) and “Rostelecom” (by 2.02 per cent). They were followed by “VTB Bank” (0.63 per cent) and “Gazprom Neft” (0.32 per cent). At the same time, shares of Mosenergo, Sberbank of Russia, “Tatneft” and Rosneft were demonstrating growing trends by 6.78 per cent, 2.85 per cent, 2.13 per cent and 1/40per cent, respectively (Fig. 4).

In November the MICEX turnover leaders were: “Sberbank of Russia” (34.79

percent of the total turnover), “Gazprom” (23.71 per cent of the total turnover), “VTB Bank” (6.30 per cent), “LUKOIL” (6.39 per cent) and GMK “Nornickel” (6.15 per cent). The total share of transactions with the shares of the five «blue chips» was about 77.34 per cent (all «blue chips» - 84.42 per cent) of the total trades in shares at the MICEX stock market during the period from October 26 to November 22.

According to MICEX information, as of November 22, the top five leaders of the domestic stock market in terms of capitalization were: “Gazprom” – RUR 4,256.50 bln (RUR 4,599.53 bln a month earlier), “Rosneft” – RUR 2,646.26 bln (RUR 2,623.58 bln in preceding month), “Sberbank of Russia” - RUR 1,535.48 bln (against RUR 1,512.17 bln), “LUKOIL” - RUR 1,497.82 bln (RUR 1,623.25 bln in preceding month), and “Surgutneftegas” - RUR 944.38 bln (RUR 1,032.65 bln).

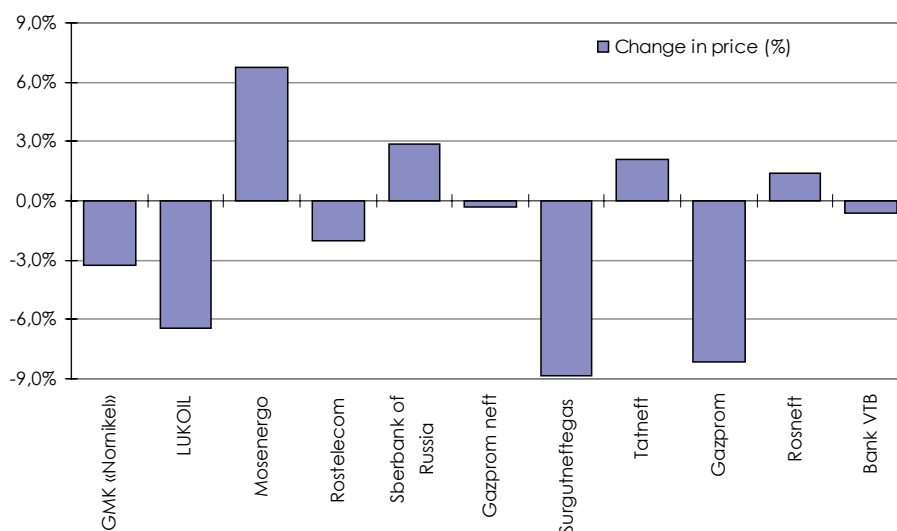


Fig. 4. Dynamics of the Russian Blue Chips from October 26 to November 22, 2009

Futures and Options Market

In November the total turnover in the MICEX (futures) market has decreased by 15 per cent as compared with the preceding month. Thus, in the period from October 26 through November 22 the total turnover in the MICEX (futures) market made approximately RUR 37.99 bln (71.52 thousand of transactions, 1.17 mln of contracts), against approximately RUR 44.83 bln (73.35 thousand of transactions, 1.2 mln of contracts) in October. The largest volume of trading in November, as a month earlier, was observed in foreign currency futures, amounting to RUR 24.62 billion (278 thousand of transactions, 0.82 mln of contracts). Herewith, contracts for the US dollar were in the first place in terms of trading in the MICEX futures market section, followed by futures contracts for Euro and for Euro/USD rate.

It is worth noting that prices of futures contracts, concluded in November for RUR/USD futures in the short-term MICEX market were made within RUR/USD 28.8-29.5 for December, RUR/USD 29.2-30 for March, RUR/USD 29.7-30.3 for June, RUR/USD 30.2-30.8 for September 2010.

The greatest number of transactions (69.46 thousand) per month was made with the futures contracts on equity instruments (71.14 thousand transactions in October). Herewith, futures for the MICEX index were leading in the short-term MICEX market, followed by futures for «Sberbank of Russia» and «Gazprom» shares. It should be noted, that the value of the MICEX index (the price of transactions) for December 2009 made on average 1,250–1,350 points and 1,300–1,350 for March. Trading volume in futures for commodity assets within the period has decreased by 7 per cent (from RUR 2.93 billion to RUR 2.73 billion). There were no transactions in futures contracts on interest rates in November.

Opposite trends were observed in the short-term market of RTS FORTS, where the investors' activity in November has increased as compared with the previous month by 9 per cent. Thus, in the period from October 26 to November 22 the total market turnover of futures and options in RTS was about RUR 1 775.81 billion (8.51 million of transactions, 45.90 million of contracts) as compared with about RUR 1 633.42 billion (7.67 million of transactions, 45.52 million of contracts) in October. The greatest demand among the participants, as before, was presented in Futures: trading volume in them during the period under review amounted to RUR 1,703.3 billion (8.42 million of transactions and 44.11 million of contracts). At the same time, in the futures market of RTS FORTS prices of the recent transactions, concluded on futures contracts for the date of

execution on December 15, 2009, were within 4 RUR / USD 28.8-29.4, on March 15, 2010 - RUR / USD 29.5-30, and on June 15, 2010 - RUR / USD 29.8-30.7.

The value of futures of the RTS index (based on the prices of recent contracts) for December 15, 2009 was estimated on average at 1,350–1 480 points, and 1.340–1.460 points for March 15, 2010. Options enjoyed far less demand, the turnover made about RUR 72.51 bln (93.61 thousand transactions and 1.79 mln of contracts). The maximum daily turnover in the short-term RTS futures market in November made RUR 102.35 billion (as of November 5), and minimum was RUR 70.4 bln. (on November 16).

External factors behind the Russian stock market dynamics

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

- Increase of the net profit of British pharmaceutical company GlaxoSmithKline Plc. in the 3rd quarter of 2009 by 30.4 per cent to GBP 1.37 billion, the Spanish bank Banco Santander - by 0.9 per cent to Euro 2.22 billion, the German bank Deutsche Bank - 3.4-fold to Euro 1.39 billion and chemical company BASF - by 68.7 per cent to Euro 237 million, Samsung Electronics Co. - more than 2-fold to USD 3.14 billion and net the profit of Visa Inc. company has tripled up to USD 2.35 billion as of the nine months in 2009;

- Information of the US GDP growth in the third quarter of 2009 by 3.5 per cent and by 1.2 per cent in Japan;

- Growth of housing prices in the USA;

- the Central Bank of Norway decision to increased the discount rate by 0.25 percentage points – up to 1.5per cent as a result of economic growth of the country;

- U.S. FRS decision to maintain interest rate at a level - 0-0.25 per cent per annum, the European Central Bank - at the level of 1 per cent and the Bank of England - at the level of 0.5 per cent;

- Reduced unemployment level in Germany as of October results;

- placement of additional shares issue by French bank Societe Generale SA for Euro 4.8 billion in order to attract capital;

- increased index of consumer confidence in the UK in October 2009;

- increased China rating from "stable" to "positive" by the international rating agency Moody's Investors Service;

- the decision of the Big Twenties "on the adoption of further incentive measures for the global economy;

- the decision to merge British airline British Airways and Spain airlines Iberia.

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

- reduction of gold and oil prices (below USD 77 per barrel);

- information about the net losses for the 9 months of 2009 of the German automaker Daimler AG amounting to Euro 2.29 billion, Japanese Mitsubishi Motors Corp, - USD 399 million, the Deutsche Lufthansa AG airlines – Euro 32 million, as well as the net loss in the third quarter 2009 of the bank Commerzbank AG - Euro 1.05 billion and UBS AG – Euro 361 million;

- reduction of the net profit in the nine months of 2009 of the U.S. oil company ConocoPhillips by more than four-fold to USD 3.64 billion, the General Electric Company by 42 per cent - up to USD 2.49 billion, the oil company Royal Dutch Shell - by 61 per cent to USD 3.29 billion, automaker Volkswagen - by 82.5 per cent to Euro 655 million, BMW group - 28 times to Euro 47 million;

- the allocation of the IMF loan to Iceland in the amount of USD 167.5 million and to Moldavia – USD 186 dollars;

- reduction of the volume of sales of new houses in the U.S.;

- European Commission forecast on a downfall of the aggregate GDP of the EU countries up to 4 per cent in 2009;

- U.S. federal budget deficit in October 2009 in the amount of USD 176.4 billion dollars;

- plans of the bank Royal Bank of Scotland to reduce 3.7 thousand employees, General Motors - up to 10 thousand employees, Air France-KLM – 1.7 thousand employees.

All those factors have generally resulted in volatile dynamics of the global stock indices in November, as compared with the indicators of the preceding month results. Thus, as of results of November, the markets of some developing countries have shown the indices growth by 1-6 per cent, as well as reduction of some indices by 1-12 per cent. A similar trend was observed in the markets of European countries, where those indices were demonstrating growth within 1-3 per cent reduction was by 1-8 per cent. Herewith, there was observed a decline in the basic stock market indices in the global markets as of the month results (See *Table 2* and *Fig. 5*).

Table 2

DYNAMICS OF THE GLOBAL STOCK INDICES (AS OF NOVEMBER 22, 2009)

Index	Ticker	Value	Dynamics within the month(%)	Dynamics since the year beginning(%)
MICEX (Russia)	MICEXINDEXCF	1 334.15	-2.27	115.35
RTS (Russia)	RTSI	1 436.44	-1.70	127.32
Dow Jones Industrial (USA) Average (USA)	DJI	10 318.16	3.47	17.57
NASDAQ Composite (USA)	NASD	2 146.04	-0.39	36.08
S&P 500 (USA)	SPX	1 091.38	1.09	20.83
FTSE 100 (UK)	FTSE	5 251.41	0.17	18.43
DAX-30 (Germany)	DAX	5 663.15	-1.34	17.73
CAC-40 (France)	CAC	3 729.36	-2.07	15.89
Swiss Market (Switzerland)	SSMI	6 277.46	-1.58	13.42
Nikkei-225 (Japan)	NIKKEI	9 497.68	-7.64	7.20
Bovespa (Brasil)	BUSP	66 327.28	1.95	76.64
IPC (Mexico)	IPC	30 666.51	0.16	37.02
IPSA (Chile)	IPSA	3 289.60	-3.87	38.43
Straits Times (Singapore)	STI	2 761.54	1.70	56.77
Seoul Composite (South Korea)	KS11	1 620.60	-1.19	44.12
ISE National-100 (Turkey)	XU100	45 230.95	-11.97	68.37
BSE 30 (India)	BSE	17 021.85	1.26	76.44
Shanghai Composite (China)	SSEC	3 308.35	6.45	81.70
Morgan Stanley Emerging Markets Free Index	EFM	764.95	-0.63	67.15

* – Versus index indicator valid on October 25, 2009.

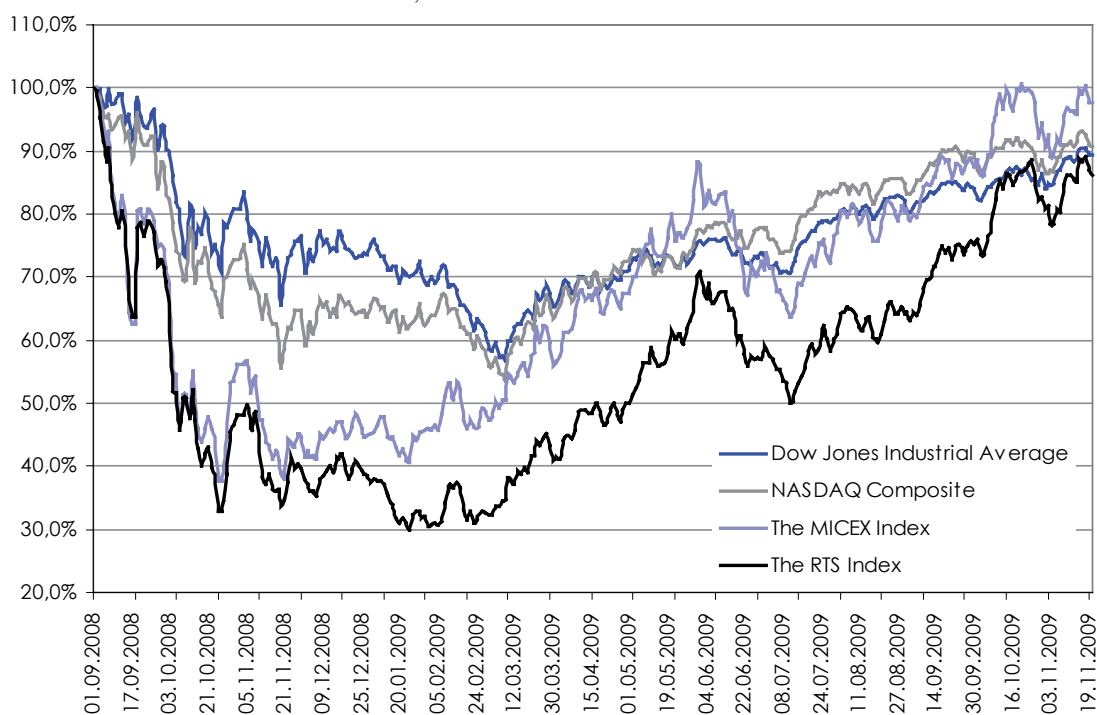


Fig. 5. Dynamics of the main USA and Russian stock indices (in % to the date 01.09.2008)

Corporate News*ОАО «VTB Bank»*

On November 5, ОАО «VTB Bank» has disclosed unconsolidated financial results under RAS for October 2009: as of November 1, assets exceeded RUR 2 653 billion (USD 2 551 billion as of January 1, 2009), net profit for the 10 months of 2009 amounted to RUR 23.44 billion as compared with RUR 7.92 billion within 9 months of 2009 (an increase in the net profit in October was due to the high income from operations, as well as the positive result of the allocation of reserves for tentative losses on credits and other assets). On November 19, ОАО «VTB Bank» has provided a credit to ОАО «NPK Uralvagonzavod» in the amount of RUR 3 billion for 3 years.

ОАО «Gazprom»

On October 30, ОАО «Gazprom» started gas production in the framework of the project for the development Achimov deposit of Urengoi oil-gas field. In addition, on October 30, ОАО «Gazprom» and E. ON Ruhrgas AG have finalized transaction on the asset swap on the project to develop South-Russian oil and gas field. As a result of the transaction, ОАО «Gazprom» has received 49 per cent in ЗАО «Gerosgaz», which owns 2.93 per cent in ОАО «Gazprom». This package of shares is transferred to the full ownership of «Gazprom». In turn, E. ON AG has received a 25 per cent share in ОАО «Severneftegazprom». On November 9, ОАО «Gazprom» has disclosed unaudited consolidated interim condensed financial statements developed under IFRS for the first six months of 2009: sales proceeds (net of excise, VAT and customs duties) amounted to RUR 1 639 698 million; profit of shareholders within the period under review amounted to RUR 296 243 million, which is by RUR 277 514 million, or 48 per cent less than in the same period of 2008. On November 12, the Board of Directors of ОАО «Gazprom» has approved a draft investment program, the budget and a program of optimization (reduction) of costs for 2010, reviewed the estimates of the key financial documents for 2011-2012: in 2010 the total investments will amount to RUR 802.4 billion, capital investments – RUR 663.56 billion, long-term investments – RUR 138.84 billion; borrowings are estimated in the amount of RUR 90 billion. On November 17, «Gazprom» and the State Enterprise «Serbijagas» decided to create a joint venture South Stream Serbia AG for the project «South Stream» implementation in the territory of the Republic of Serbia. The share of ОАО «Gazprom» in the venture will be 51 per cent, SE «Serbijagas» - 49 per cent.

ОАО «Gazprom Neft»

On November 11, ОАО «Gazprom Neft» and the National Iranian Oil Company (NIOC) have signed a memorandum of understanding on the development of oil fields and Azar and Changuleh in Iran. On November 12, ОАО «Gazprom Neft» has won a case in the Arbitration Court of St. Petersburg and Leningrad Region on charges of violating the antimonopoly legislation (FAS decision and an abuse of the market of petroleum products; decision on a fine on the RUR 4.675 billion).

ОАО «LUKOIL»

On October 30, ОАО «LUKOIL» paid at their own expense the last tranche for the shares of Turkish company Akpet. On November 9, «LUKOIL» completed the release of two tranches of bonds with yield to maturity in 2014 and 2019 totaling USD 1.5 billion, funds from the placement are to be addressed to general corporate needs, including repayment of existing debt. In addition, ОАО «LUKOIL» and took the 8-th place among the oil and gas companies in Europe, Middle East and Africa, as well as the 12-th place among the world leading oil and gas in the rating of the American energy agency Platts «250 Global Energy Companies in 2009» (8-th and 11-th place in 2008, respectively). Companies were assessed under four main criteria - total assets, revenues, profits and return on invested capital.

ОАО «GMK «Norilsk Nickel»

On October 22, ОАО «GMK «Norilsk Nickel» became the winner in the nomination «Leader of foreign trade» under the all-Russia competition «Customs Olympus - 2009», organized by the Federal Customs Service of Russia. On November 5, the international agency Fitch Ratings has

confirmed the investment credit rating of OAO “GMC “Norilsk Nickel” at «BBB-» level and changed the forecast rating from “negative” to “Stable”, which was the result of the market prices growth for the company’s products and further liquidity enhancement.

OAO «Rostelecom»

On November 2, OAO “Rostelecom” has disclosed the unaudited financial reporting developed under RAS for the nine months of 2009: net profit decreased by 34,3 per cent and amounted to RUR 4 553.6 million; OIBDA indicator (revenues less expenses from ordinary activities excluding amortization) amounted to RUR 9 359.6 million, having decreased as compared with the same period of 2008 by 22.4 per cent; OIBDA net profit margin made 20.6 per cent. On November 9, OAO “Rostelecom” has disclosed its unaudited consolidated reporting, developed under IFRS for the first six months of 2009: net profit amounted to RUR 1.4 billion, having decreased as compared with the first half of 2008 by 85.4 per cent. OIBDA (operating income before amortization, depreciation of fixed assets and losses (profit) on disposal of fixed assets) has decreased by 26.9 per cent to RUR 5.7 billion; OIBDA net profit margin made 17.5 per cent.

Sberbank of Russia

In November, Sberbank of Russia continued to provide credits to domestic businesses in the framework of the program for the support of priority sectors of the Russian economy. In particular, Sberbank of Russia has provided credit lines to OAO “Silvinit” (USD 1.515 billion), to OOO “SPAR Tula” (RUR 920 million), to the Group of Companies Chkalovsky (RUR 650 million), to OAO “Vyksun Steel Works” (RUR 6 billion), to OAO “North-Western Phosphorous Company (RUR 9.5 billion), to OAO “Cox” (RUR 3 billion). On November 2, Sberbank Bank of Russia has announced the establishment of the Moscow Bank in order to improve management structure of the branch network of the Sberbank Bank of Russia in the territory of Moscow. On November 9, the Sberbank of Russia and the European Bank for Reconstruction and Development have signed a Memorandum of Understanding on cooperation in the field of energy and carbon financing efficiency in Russia. On November 12, the Sberbank of Russia and the Government of St. Petersburg have signed a large-scale agreement on joint implementation of the bank and the city projects related to infrastructure development in the region. The tentative investment will amount to not less than RUR 38 billion. On November 19, the Sberbank of Russia and the Government of Tyumen region have signed the documents aimed at developing strategic partnership in the implementation of social and investment programs in the region.

Corporate bonds market

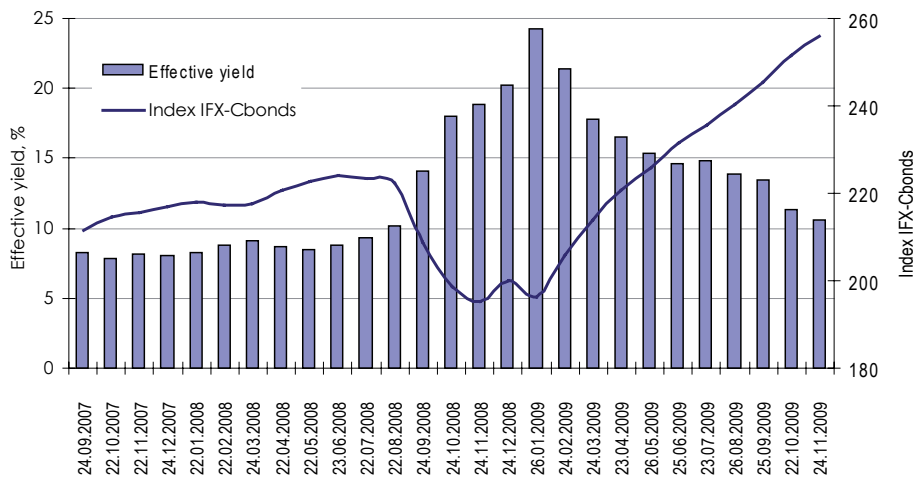
The volume of the Russian domestic stock market (as per nominal value of shares in circulation, denominated in national currency) in November of the current year has significantly grown and at the end of the month reached RUR 2,183.2 bln, which is more than the relevant indicator of preceding month by 4.8 per cent¹. The number of emissions and emitters is getting permanently decreased (in late November there were 682 emissions, made by 411 companies against 703 emissions made by 428 emitters in late October). This trend against the background of the market capacity growth demonstrates an extension of the bond issues. There are still two issues of bonds in circulation, denominated in U.S. dollars, and one issue in Japanese yens. Also, currently there are 15 issues of exchangeable bonds, which provide a possibility of their redemption through conversion into additional shares of the issuer at the request of the bonds owners.

The investors’ activity in the secondary corporate bond market continues to be stable: the volume of trading is virtually unchanged in the period from October 26 to November 20 and amounted to USD 60.1 billion (since September 28 to October 23 it was equal to RUR 61.0 billion), and the total number of transactions has significantly declined, to 21.4 thousand against 27.1 thousand for the previous perio².

Since January of the current year the index of the Russian market of corporate bonds IFX-Cbonds is continuously growing. Within the period from October 23 to November 24, the in-

1 As per Rusbonds information

2 As per «Finmarket» information agency



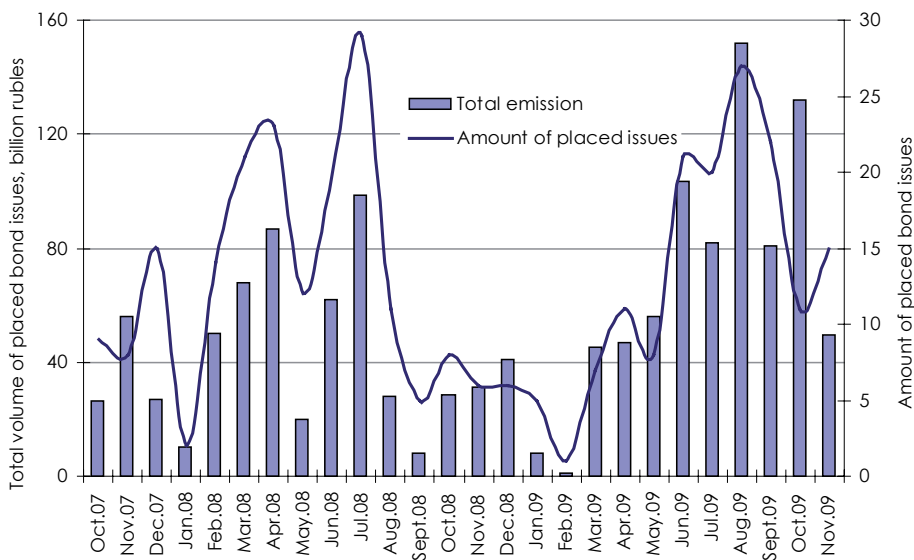
Source: Cbonds data

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

index has grown by 4.5 points (or 1.8 per cent), having reached the highest level since the beginning of its assessments. The effective yield has decreased from 11.36 to 10.60 per cent during the period under review (see Fig. 6). The duration of corporate bonds market portfolio continued to decline again and by November 24 has made 326 days, which is by 26 days less as compared with late October of the current year.

the borrowings through debenture issues, due to which a significant increase in the number and total amount of registered issues of corporate bonds was noted. In the period from October 23 to November 24 there were 23 emitters have issued 69 emissions for the total amount of RUR 408.00 bln (for comparison, between September 26 through October 22 there were registered 30 issues of corporate bonds totaling to RUR 252.5 billion). The majority of the reported issues were made by eight series of OAO “Russian Railways” for the total amount of RUR 100 bln, two series of bonds of OAO “Sibmetinvest”, totaling to RUR 20 billion, and seven issues of OAO “UTC” bonds, totaling to RUR 10 billion ¹, six series of OAO “Federal Network Company UES” bonds for RUR 50 billion, three series of OAO “Joint Stock Oil Company” Bashneft bonds for RUR 50 billion, five series of exchange-traded bonds of OAO Magnitogorsk Iron and Steel Works for USD 33 billion, eight series of exchange-traded bonds of Wimm-Bill-Dann for rUSD 30 billion, four series of bonds of “VTB-Leasing Finance” for the amount of RUR 20 billion.

In November of the current year large companies have demonstrated an interest to



Source: as per Rusbonds data.

Fig. 7. Corporate securities primary placement dynamics, denominated in national currency

In November a significant reduction of initial placements of corporate bonds was observed as compared with the preceding term. Thus, in the period from October 26 to October 22, there were 15 bonds issues, totaling to RUR 49.3 billion, which is the minimum indicator within the last six months (for comparison, from September 26 through October 22 there were placed 1 bond issues, totaling to RUR 132.1 billion (See Fig. 7). During the period under review the major bond issues were placed by the shareholding commercial bank “Rosbank” (two series

1 As per Rusbonds company.

of bonds for RUR 10 billion) and OAO “Novolipetsk Steel Works” (one issue of exchange-traded bonds for RUR 10 billion).

In the period under review there was again a large number of issues, recognized invalid due to non-placement of any security. Thus, in the period from October 23 through November 24 the Federal Statistical Service for Financial Markets of Russia has recognized as invalid five issues of corporate bonds, offered for open placement (versus six bonds issues within September 26 – October 22)¹.

Within October 23 through November 24, 23 emitters were supposed to redeem bond issues totaling to RUR 35.5 billion. However, five emitters have announced a technical default on repayment of their bond loans, totaling to RUR 6.6 bln (all of them are debut issues), whereas there were four emitters who have announced a technical default on repayment of their bond loans in preceding period. In December 2009, 39 issues of corporate bonds redemption for the total amount of RUR 55.6 bln are expected².

The issue of the emitters’ failure to perform their liabilities in regard to the bonds holders is still sustained, especially in regard to repayment the accumulated coupon interest. Thus, from October 23 through November 24, the default on bonds redemption was announced by eight emitters (since September 26 through November 22 there were 12 emitters). A real default on failure to repay the nominal value of the bond loans within the period under review was announced by 5 emitters for the total amount of RUR 9.2 billion (against for the previous period - 3 of the issuer in the amount of 6.2 billion rubles)³. Four issuers - OAO «Alliance Russian Textile», OOO “Agricultural company Arcada” OAO “Agrica Food Products” and OOO «Sevkabel Finance» - managed to reach agreement with bondholders to restructure the debts.

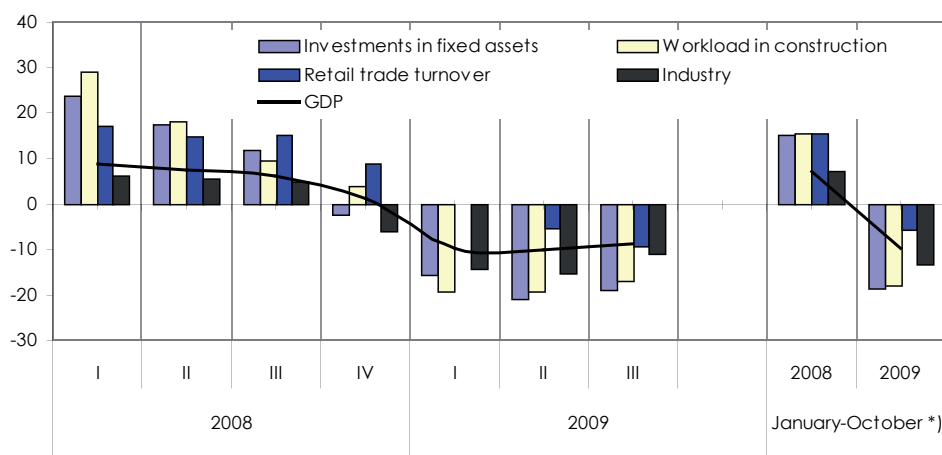
1 As per FSS of Russia.
2 As per Rusbonds data.
3 Cbonds data.

REAL ECONOMY: TRENDS AND FACTORS

O.Izryadnova

The comparison of the first ten months of 2008 with the corresponding period of 2009 demonstrates the influence of the internal and external limitations which evolved in the economy as a result of the world financial crisis. The internal market was most severely affected by the decrease of the investment and construction activity by 18% and the output of the processing industries by 18.9% (versus January-October 2008). The situation was undoubtedly complicated by the contraction of the consumer market in the same period by 5.7% the real incomes of the population decreasing by 0.4%. Starting with the 2nd quarter the change of the situation at the external market and the growth of the demand for oil (and beginning with October 2009 for gas as well) started to effect positive influence on the macroeconomic situation. However the unsteadiness of the monthly dynamics in the main kinds of the economic activity still does not allow speaking about the overcoming of the negative trends. In this connection the special attention should be paid to the unemployment monitoring: after a three-month drop of this indicator, there was an increase of the number of the unemployed observed by 1.3% as compared with September 2009.

According to the preliminary data of the Ministry for Economic Development, in the 3rd quarter 2009 the GDP made 91.1% and in the period from January to September of the current year – 90.4% of the level of the corresponding period of the previous year. It should be noted that the quarter-by-quarter weakening of the drop in the current year as compared with the corresponding indices in 2008 and the positive dynamics of the GDP in the 2nd and 3rd quarters versus the preceding period of 2009. The positive influence on the dynamics of the GDP is executed by the external factors. A gradual improvement of the situation at the world market of hydrocarbons and the increase of the export against the background of the contraction of the import scales versus the figure of January-September 2008 resulted in the positive dynamics of the net export (in internal prices). The effect of the internal factors remains controversial and depends on the ratio of the rates of the investment activity, retail trade turnover and industrial production (fig. 1). In the 3rd quarter 2009 the slow-down of the recession rates in the industry versus the first quarters of the current year against the background of the slowdown of the process of the contraction of works in the construction and



Note. The rates of GDP growth are given for the period of January-September of the corresponding year

Source: Federal State Statistics Service.

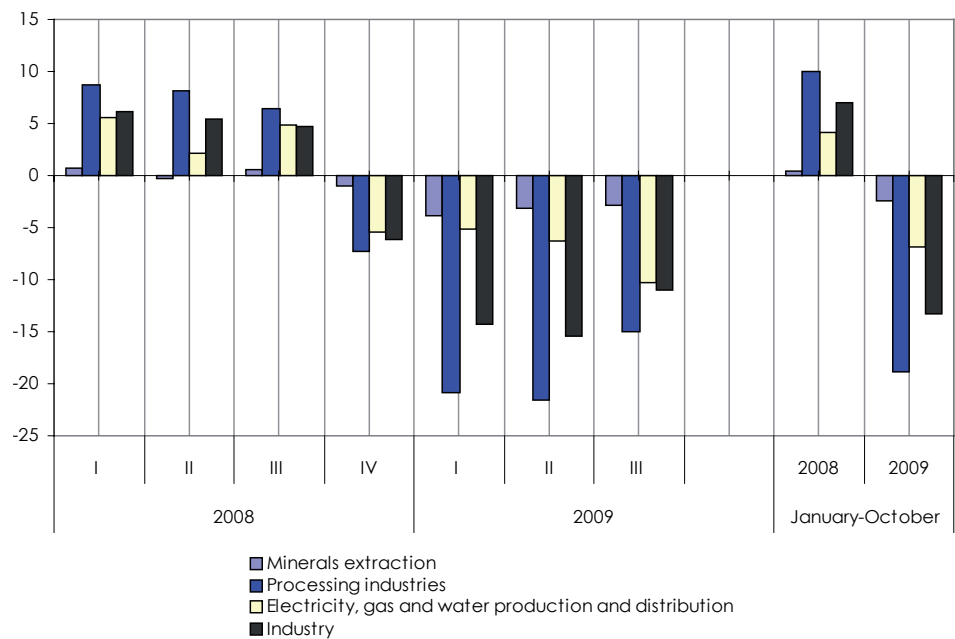
Fig. 1. Changes in GDP Dynamics, Investments in Fixed Assets, Retail Trade Turnover, Industrial Production in 2008-2009, as percentage to the corresponding period of the previous year

the positive dynamics of export in terms of physical volumes weakened the negative influence of the contraction of retail trade turnover.

However on the whole over January-October 2009 the economic situation was considerably influenced by the drop of investments in fixed assets by 18.8% and the industrial production – by 13.3%. The retail trade turnover as compared with January-October 2008 dropped by 5.7%, the volume of paid service rendered to the population – by 4.3%, the

real disposable incomes of the population decreasing by 0.4% and the real wages – by 3.6%.

During 2009 the dynamics of the production in the industry was defined by the intensive contraction of the volumes of production in processing industries, which is accounted for by the contraction of the aggregated internal demand. On the whole over the period of January-October of the current year the production of the processing industries reduced by 18.9%, of extractive industries – by 2.4%, and of electricity, gas and water production and distribution – by 6.8% versus the corresponding period of 2008. (fig. 2).



Source: Federal State Statistics Service

Fig. 2. Change in Production Growth Rates by Kinds of Economic Activities in Industry in 2008-2009, as percentage to the corresponding period of the previous year

Over January-October of the current year the production index in fossil fuels extraction made 98.4% versus January-October 2008. According to the data of the Ministry for Economic Development of the Russian Federation extraction and production of the primary fuel and energy resources reduced by 8.4%, including the reduction in gas production – by 17.2%, in coal production – by 10.1%, the production of oil increasing by 0.8%.

Over January-October 2009 export of oil is estimated to be at the volume of 205.3 million of tons, which makes 101.4% to the level of the corresponding period of the previous year. There was 195 million of tons of the oil stock used at the internal market (98.9% versus January-October 2008).

In January-October 2009 the index of production of oil products made 99.6% versus the corresponding period of the previous year, export of oil products increasing by 4.1% and being equal to 91.7 million of tons.

The production of gas in January-October 2009 made 457 billion of cu. m, the proportion of the enterprises of Gazprom group in the total volume of gas production went down: 80% versus 83% in January-October 2008. The reduction in the volumes of gas production as compared with the level of 2008 was accounted for by the decreased demand at the internal and external markets as well as the curtailment of gas volumes according to the intergovernmental agreements.

The consumption of gas at the internal market in January-October 2009 is estimated to be 329.2 billion of cu. M (89.2% of the corresponding figure of the previous year). Out of this volume 118.8 billion of cu. M or 89.7% was directed to the enterprises of the power industry. The export of gas made 125.4 billion of cu. m or 76.1% versus January-October 2008. The proportion of the export in the total volume of gas production reduced by 7.4 percentage points in January-October 2009, and made 22.5% versus the corresponding period of the previous year. Within the framework of the project “Sakhalin-2” there was 3.9 million of tons of the liquefied gas produced in January-October 2009, which was mainly directed to the export and is equal to 5.1 billion of cu. M of the natural gas.

The decrease of coal production in January-October 2009 versus the corresponding period of the previous year was accounted for by the decrease in the internal demand for coal in connection with the recession in the majority of the sectors of the economy. In January-October 2009 the production of coal made 87.85 of the corresponding figure of the previous year and is estimated to be 239 million of tons. There was 142.7 million of tons of Russian coal supplied to the internal market (85.2%

versus January-October 2008), of which 69.7 million of tons (82.1%) was supplied to power plants and 30.8 million of tons (88.0%) for carbonization process. The growth of the demand for coal from energy complex is to be expected in connection with the breakdown of Sayano-Shushensk hydro-power plant, which resulted in the increase of the load at the heat and power plants.

In January-October 2009 there was 800 billion of kWh of electricity produced, making 93.6% versus the corresponding period of 2008. The reduction in the production of the electric energy is accounted for by both the drop of growth rates in a number of branches of economy with high electric capacity and the warm weather conditions defining the decrease in the demand for heat and energy and the change in the structure of electricity production by the kinds of power plants. The production of the electric energy at hydroelectric power plants in January-October 2009 as compared with the corresponding period of the previous year increased by 8.4%, at heat and nuclear power plants – reduced by 10.9% and 2.1%, correspondingly.

The analysis of the production in processing industries in January-October 2009 versus the corresponding period of the previous year allows stating the weakening of the production dynamics by nearly all kinds of economic activity (*table 1*).

Table 1

PRODUCTION INDICES FOR MAIN KINDS OF PROCESSING INDUSTRIES, AS PERCENTAGE TO THE CORRESPONDING PERIOD OF THE PREVIOUS YEAR

	January-October		October	
	2008	2009	2008	2009
Processing industries, total	107.0	81.1	100.3	82.5
Foodstuffs, including beverages, and tobacco production	103.0	98.2	97.2	100.1
Textile and sewing industries	99.6	80.8	92.6	94.5
Leather, leather goods and footwear production	105.3	94.7	102.0	96.8
Timber processing, production of wooden goods	106.6	78.2	93.9	90.0
Pulp and paper industry, printing and publishing	104.2	84.9	97.2	90.2
Coke and oil products production	103.6	98.6	107.8	97.9
Chemical industry	100.8	88.2	90.9	99.5
Rubber and plastic goods production	116.5	85.8	115.6	89.1
Other non-metal mineral goods production	104.0	71.8	95.9	76.9
Metallurgy production and production of finished metal products	101.7	80.8	103.4	98.4
Machinery and equipment production	108.2	66.7	104.6	52.0
Electric, electronic and optic equipment production	94.1	65.0	91.1	75.2
Transport vehicles and equipment production	115.1	58.9	103.6	63.2
Other production	110.6	78.2	105.6	79.7

Source: Federal State Statistics Service.

It should be remembered that October 2008 was a border month of the transfer to the slow-down of the growth rates towards the recession of the production. Different initial reactions of the processing industries to the world financial crisis to the world financial crisis have to a large extent affected the nature of their adaptation of the changed situation at the internal market. The complex of production of consumer goods and the goods of intermediate demand demonstrate a deeper extent of adaptation to the changed conditions. In January-October 2009 as compared with the corresponding period of the previous year, the index of production of foodstuffs, including beverages and tobacco, made 98.2%, of textile production – 80.8%, of leather, leather goods and footwear production – 94.7%.

In chemistry and timber complex with the characteristic export orientation the influence of the external situation has reinforced. In January-October the production index versus the corresponding period of the previous year made 78.2% in timber processing and production of timber goods, 84.9% in pulp and paper production and 88.2% in chemistry industry.

The comparison of the production level in January-October 2009 with the corresponding period of 2008 demonstrates that the recession was the most acute in the complex of investment produc-

tion of machine-building and the production of construction materials. The large-scale contraction of the investment programs defined the recession in the production of machinery and equipment by 33.3%, of transport vehicles and equipment production – by 41.1%, of adjacent productions of metallurgy complex – by 19.2%, of construction materials production – by 28.2%. High vulnerability of the investment complex was objectively accounted for by long lag effect of the technical and technological situation at these productions, characterized by extremely low indices of investment activity, production renovation and modernization, changes in the product mix and output of new kinds of goods. The government measures aimed at overcoming the crisis aftermaths have led to the improvement of the financial indices, increase in the facilities load due to the direct state orders, which, finally, resulted in some upsurge in the production in October 2009 as compared with September 2008. However the internal limitations for the development persisted and they require application of qualitatively new measures, connected with fundamental changes in the technology of production and the structure of output.

According to the estimation of the Ministry for Economic Development, in 2009 the GDP will make 91.5% of the figure of the previous year, the investments in fixed assets being at the level of 80% and in the production of investment goods – at the level of 72%. According to the forecast of the International Monetary Fund the decrease of the GDP in Russia as a result of the year may make 7.5% if the situation at the world market of hydrocarbons develops favorably. ●

RUSSIAN INDUSTRY IN NOVEMBER 2009

S.Tsukhlo

In November the positive dynamics of the main indicators of the industry has ceased. The changes in the demand, output, prices and employment demonstrated either the slow-down of the growth or the decrease, which was more intensive than a month ago. It is the dynamics of the stocks of finished goods and the credits availability that are still characterizes by the positive trends.

Official Statistics of October

According to the data of the Federal State Statistics Service, in October the recession again became more intensive – it went up to 11.2% versus October 2008 from 9.5% in September versus the corresponding previous of the previous year. As compared with September 2009 there was only 0.8% of the production made in October versus September 2009, whereas in September increase versus August made 5.1%. After exclusion of the seasonality the drop of production in October versus September made, according to the data of the Ministry for Economic Development 1%, and according to the data of the Center for Macroeconomic Analysis and Short-Term Forecasting -0.5%. The following comments prevail among the experts: “October put a stop to timid recovery of the industry”, “it is too early to speak about the cessation of the recovery - it can be a matter of an interruption only”, “it is not worth taking the October data of the Federal State Statistics Service too seriously and make a conclusion on the worsening of the situation in the industry”.

Demand for Industrial Goods

The dynamics of the demand in November for the fourth time in the year demonstrated the interruption of the positive trend for the way out of the crisis after undoubtedly positive changes in October (fig. 1). This time the rate for the decrease of the sales went up by 2 points (by 1 point in August, by 3 points in June, by 1 point in March). It should be noted that earlier this year after each such a slow-down of the demand there was a serious improvement in it next month. At the level of branches of industry there was both the increase of the demand decrease rates (metallurgy, timber industry, industry of construction materials) and their decrease (chemistry industry, machine building, light industry, foodstuffs production) observed.

The forecasts for demand in November were subject to more significant negative changes. According to the initial data, the rates of the forecast changes in sales have lost 15 points and as

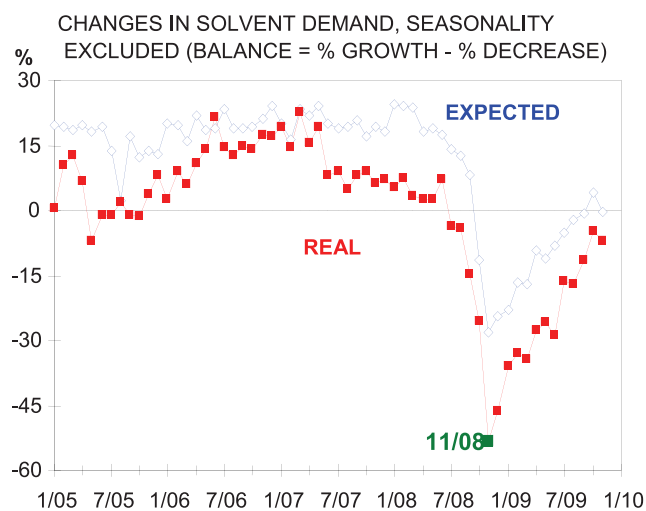


Fig. 1.

a result were minimal for the whole 2009. Such a growth of pessimism is certainly accounted for by the closeness of the full cessation of the business activity in the first half of January. However in the preceding years (excluding the last months of 2008) the drops in sales made no more than 8-10 points. The exclusion of the seasonality demonstrated the decrease in the forecast balances (by 4 points) in November for the first time over the last 6 months. Thus, the forecasts of the demand made in October remain the maximum for the period of the crisis.

However, the intensification of the rates of the sales decrease does not cause much apprehension among the Russian enterprises. It seems that the satisfaction with the demand reached a new higher level after three-month stay at the previous level and eight-month – at the bottom

of the crisis. At the moment 425 of the enterprises are satisfied with the volumes of their sales. And the resulting difference in the estimation “above the norm” – “below the norm” went up to the figure that is the maximum for the previous 13 months. In November the highest satisfaction with the demand was registered in foodstuffs production (68% of enterprises), petrochemistry (46%) and machine-building industry (45%).

Stocks of Finished Goods

In the estimations of stocks of finished goods the proportion of the normal estimations went up by 9 points at once up to 70% in November. It has not been such a high proportion of the enterprises with the normal stocks of finished products in the Russian industry since March 1992 (the beginning of business surveys by the IET). This growth has occurred because of the decrease of both “below the norm” and “above the norm” estimations. As a result two last indices lowered down to nearly historical minimums. However the difference between them (that is the balance of estimation of stocks) has but slightly changed and remains at the level of the reasonable excess of the pre-crisis years. The latter testifies the stability of the situation at the storehouses of finished goods of the Russian enterprises and sustention of the hopes for the increase in sales.

Goods Output

The production growth rates, as well as the rates of the demand decrease, changed to the worse in November (fig. 2). Initial data demonstrated the slow-down by 10 points at once and virtually signify the cessation in the growth of the production. The exclusion of the seasonality demonstrated the slow-down of the intensity of the production growth by 4 points and still the sustention of the production growth. There has been no indication of the cessation of the growth in October observed so far. The absolute decrease in the output in November is registered in metallurgy, industry of construction materials and light industry. Machine-building, timber industry and especially foodstuffs production demonstrated the growth of the production in November. According to the initial data the production plans of the enterprises have worsened, as well as the forecasts of the demand, by the very same 15 points, also becoming the minimum for the whole 2009. The exclusion of the seasonality demonstrated the decrease of the optimism by only 6 balance points. This, however, was the first worsening of the plans starting with the beginning of the crisis in November 2008. The hopes for the growth of the production still prevail, but there is by far less certainty.

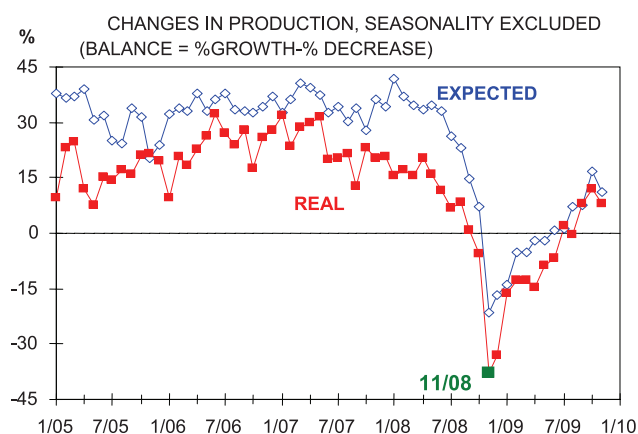


Fig. 2.

Enterprises' Prices

In November the enterprises once again returned to the decrease of prices for their production. Unsteady dynamics of the demand and low level of satisfaction with the sales makes the producers to use price levers when struggling for customers once again. Thus, the attempt to transfer to the growth of prices during the previous three months became premature. This was most obvious for the timber industry, industry of construction materials and light industry, which demonstrated the most intensive decrease in November.

The plans of the enterprises reflect the possibility of them increasing the prices at the beginning of the year in the response to the traditional growth of tariffs and the increase in the cost of raw materials and components connected with it. However, a year ago the critical fall of the demand proved to be more intensive than the surge in the prices and tariffs in January, and the enterprises both planned and decreased the prices in an unexampled way. Now the crisis outweighs all the other factors only in the plans of the enterprises of the industry of construction materials, where

still the intentions to lower prices prevail. Other branches of industry are planning to increase them gradually, and this is especially true for the foodstuffs and metallurgy industry.

Dismissals: Real Dynamics and Plans

A more intensive decrease in sales and the slow-down of the output in November resulted in the growth of the intensity of dismissals at the industrial enterprises. The rates of dismissals deepened

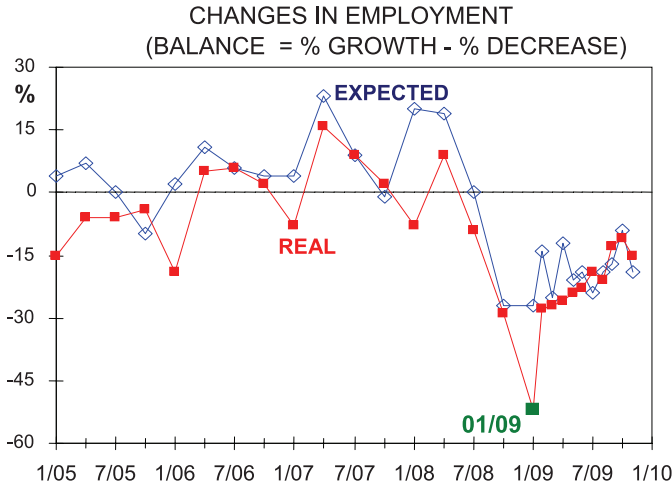


Fig. 3.

from -11 to -15 points and became the highest (worst) for the last three months (fig. 3). The dismissals prevailed in all the branches of industry with the exception of the foodstuffs production, where the number of the staff in November did not change. The most intensive reduction in the number of the employees took place in chemistry, machine-building, timber industry and light industry.

The forecasts for the changes in the number of the employees reduced by 9 points in November and also became the worst for the last three months. It is expected that the dismissals will prevail in all the branches of industry except timber industry. It is in the industry of construction materials, chemistry industry and machine-building where they are likely to become the most intensive.

Industry Crediting

The availability of the credits for the industrial enterprises is still on the increase (fig. 4). In November this figure went up from 46% to 50%, the proportion of the enterprises holding that the availability of credits for them is “below the norm” continuing to decrease. The banks still favor foodstuffs production (76% of enterprises having normal credit availability) and metallurgy (71% of enterprises). The light industry is among the outsiders (30%), although November result has been the best for the industry since the beginning of the crisis. There are 39% of the enterprises

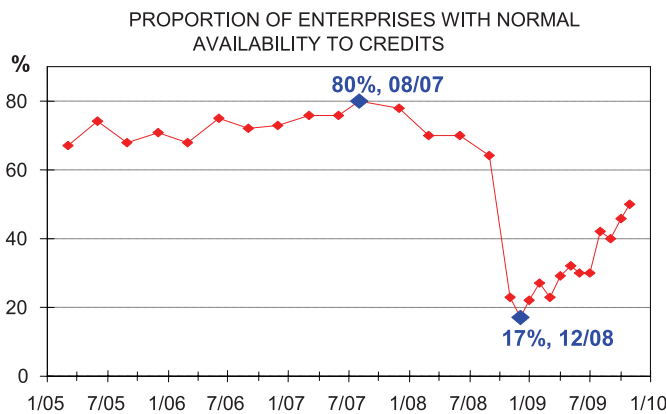


Fig. 4.

in the industry of construction materials that have a desire and are able to get credits, and there are 52% such in the machine-building.

The minimum interest rate for the ruble credits on average throughout the industry lowered to 17.6% in November compared with 18.0% in October. The small- and medium-scale enterprises (1-250 people) are offered credits with 18.5% per annum, large enterprises (above 1 thousand people) – 15-16% per annum. In non-ferrous metallurgy one can get credits with 14% per annum, in ferrous metallurgy – with 16.5%, in foodstuffs production – with 17.3%, and in machine-building – with 18.3% per annum.

FOREIGN TRADE

N.Volovik

The improvement of the situation at the world market and the ruble strengthening in summer months of the current year accounted for a gradual recovery of the volumes of the Russian foreign trade, though they are still significantly below the pre-crisis level. In September 2009 export went up by 1.6 times as compared with January of the current year, and by 7.6% as compared with August. Import in September 2009 went up by nearly 1.7 times as compared with January of the current year and by 12.6% as compared with August.

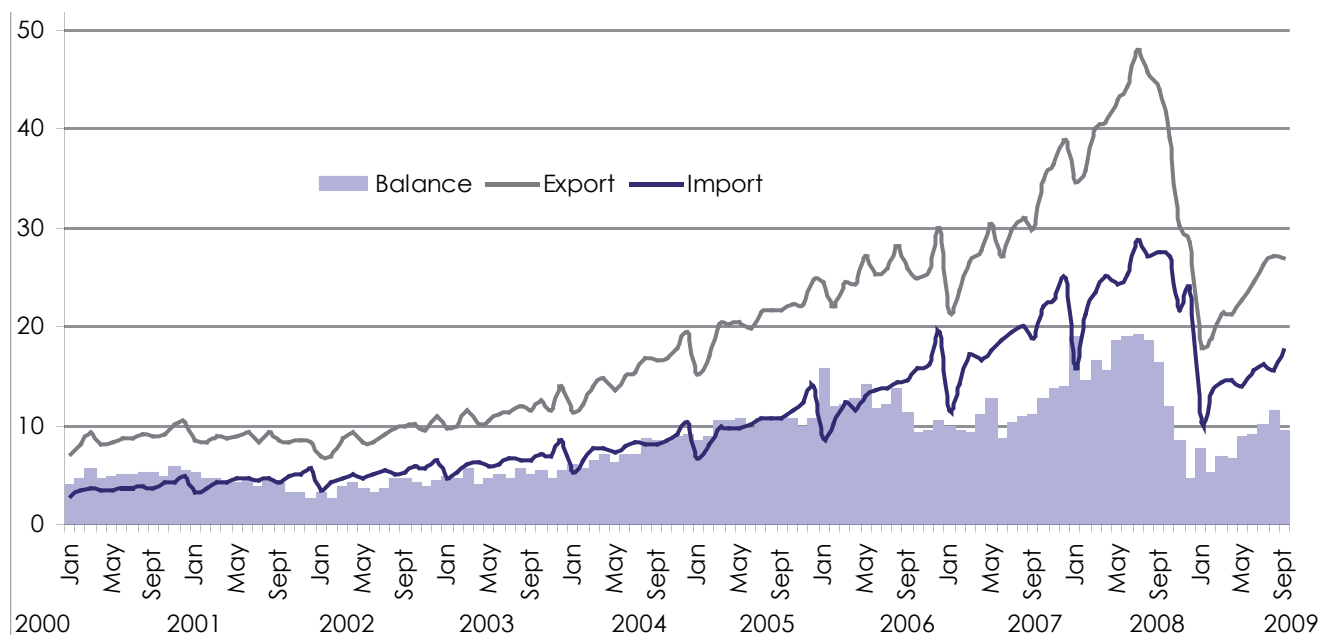
On November, 27 the Presidents of Belorussia, Russia and Kazakhstan signed a package of documents on creation of the Customs Union on January 1, 2010.

In September 2009 the foreign trade turnover calculated on the basis of the methodology of the balance-of-payments made USD 46.7 billion, which is by 34.2% lower than the figure of September 2008 and by 9.4% above the corresponding figure of the previous month.

The export of the goods out of Russian in September 2009 as compared with September 2008 reduced by 33.4% and made USD 29.2 billion. In September 2009 as compared with the corresponding period of 2008 reduced by 35.4% - down to USD 17.6 billion.

In September 2009 export went up by 1.6 times as compared with January of the current year, and by 7.5% versus August of the current year. In the 2nd quarter export went up by 19.2% versus the level of the 1st quarter, and in the 3rd quarter – by 20.9% versus the previous quarter.

In September 2009 import went up by nearly 1.7 times, and versus August – by 12.6%. The growth of the import in September was accounted for by the increase of the machinery and mechanical equipment import by 21%, of electric equipment import – by 16%, of transport vehicles import – by 10%, of goods of chemical and metallurgical goods – by 16% and 8%, correspondingly, of agriculture goods and foodstuffs – by 9%. The growth of machinery and equipment import was one of the first indicators of the recovery of the internal demand. In the 2nd quarter the import went up by 14.5% versus the level of the 1st quarter, and in the 3rd quarter – by 12.2% versus the preceding quarter.



Source: Central Bank of the Russian Federation

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

The positive balance of the foreign trade of the Russian Federation in September 2009 was reduced by 30.1% as compared with the corresponding period of September 2008 and made USD 11.6 billion. At the same time as compared with August 2009 the positive balance of the foreign trade went up by 0.8%.

At the world oil market the prices for oil became stable in the range from USD 65 to 72 per barrel. The fluctuations of prices for oil within the interval mentioned occur mainly as a result of the changes in expectations concerning the recovery of the world economy and the fluctuations of the US dollar exchange rate versus other world currencies.

In September 2009 the average world price for oil grade Urals made USD 67.2 per barrel and reduced by 7% versus the preceding month. Over 9 months of 2009 as compared with the corresponding period of 2008 the average world prices for oil grade Urals reduced by 1.9 times.

The average price of Russian oil over the whole period of monitoring from October, 15 to November, 14 inclusive made USD 75.97881 per barrel. As a result starting with December 1, 2009 the export duty rate will go up from USD 231.2 per ton to USD 271 per ton. Export duty rate for light oil products will make USD 194.9 per ton versus USD 168.1 per ton that was earlier in the effect, and the duty rate for dark oil products – USD 105 per ton versus USD 90.5 per ton.

The prices at the market of non-ferrous metal gradually lose a speculative component and return to the fundamental factors (balance between the demand and supply). In September the world prices for aluminum, nickel and zinc remained stable or lowered under the pressure of the growth of excesses at stocks.

There were no considerable fluctuations of the prices for aluminum at exchanges observed in September 2009, they were considerably above the minimum level of the winter (about USD 1400 per ton then), but below the record-breaking figures of the previous year of USD 3200 per ton. It is not expected that the prices for this metal either grow further or drop dramatically. For the recovery of the pre-crisis level of the production and prices a dramatic improvement of the situation in the sectors of construction and automobile industry is necessary, which, in the opinion of the experts is not possible before the middle of 2010. The excessive supply of aluminum sustains at the market, although the existing facilities for its production are loaded approximately at 80%.

The growth of prices for copper in September versus the previous month sustained, but its rates decreased. With the existing level of prices all the copper producers work with a profit, which stimulates the increase in copper production, and, correspondingly, leads to the growth of stocks and decrease of prices. The stocks at the London metal Exchange in September reached the level that is a maximum for the previous five months, and the stocks of copper at Shanghai Exchange went up to the level that has been the highest since 2004. The growth of copper stocks occurring everywhere made the Russian traders again express apprehension that the growth of prices anticipates the growth of consumption. Another factor slowing down a price trend was a sharp drop of activity of Chinese customers on the eve of their national holidays.

Table 1

AVERAGE MONTHLY PRICES IN SEPTEMBER OF THE CORRESPONDING YEAR

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Oil (Brent), USD/barrel	22.6	32.15	26.18	28.26	27.1	42.68	61.7	62.1	75.9	104.7	68.64
Natural gas, USD/1 million BTU	2.62	5.118	2.204	3.625	4.678	5.483	6.75	8.41	6.46	7.58	3.774
Petroleum, USD/gallon	0.683	0.941	0.757	0.797	0.832	1.26	1.958	1.596	2.03	2.63	1.768
Copper, USD/ton	1876.8	2037.5	1452.9	1498.3	1816.4	2892.6	3858.0	7602	7656.5	6990.9	6195
Aluminum, USD/ton	1493.6	1600.2	1342.6	1294.7	1415.0	1726.0	1840.0	2473	2392.9	2525.8	1833
Nickel, USD/ton	6932	8654.3	5040.9	6592.5	9996.1	13298	14228	30131	29605	17795	17462

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

In September of the current year the average prices for nickel dropped from the high levels of August (USD 19 624 per ton) to the moderate USD 18 000 per ton. At the end of September the curve of prices went upwards, which was a consequence of a sudden decrease in the stocks at exchanges. However there are no real reasons for the increase of the metal purchases. The Chinese purchases of the metal that provoked the growth of prices have ceased and are likely to only reduce in the future. The demand from the producers of stainless steel also does not live up to the expectations of the nickel producers.

In January-September 2009 the foreign trade turnover of Russia made, according to the data of the Bank of Russia, USD 339.8 billion (57.4% versus January-September 2008), including export of USD 208.2 billion (55.7%), import of USD 131.5 billion (60.2%). The balance of the foreign trade remained positive of USD 76.7 billion (USD 155 billion in January-September 2008).

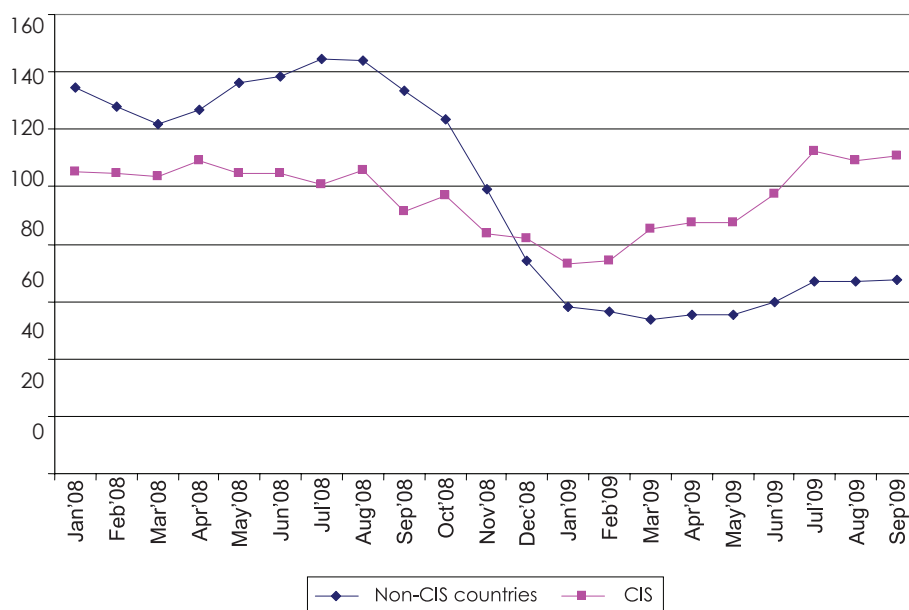
The development of the foreign trade is still characterized by a considerable gap between the dynamics of export and import physical volumes. Over nine months of the current year the reduction of the physical volumes of export made only 7.7% versus January-September 2008, whereas the import in terms of physical volumes in the period under consideration reduced by 42.4%.

However the prices for export goods were observed to fall at faster rates than the prices for import ones, the result being that the conditions of the trade of the Russian Federation with the foreign countries have worsened considerably over the first nine months of the current year. However in the 3rd quarter 2009 the conditions of the foreign trade started improving, and the trade with CIS countries even demonstrated the positive dynamics.

The Government of the Russian Federation adopted a decision on nullifying the customs export duties rates for crude oil of a number of oil fields of Eastern Siberia.

It should be remembered that on July 21, 2009 the Government of the Russian Federation promulgated the appendix to the Decree from July 16, 2009 No 574 "On making changes to the customs tariff of the Russian Federation with regard to the crude oil", by which special duty rates for oil at 13 following oil fields of the Eastern Siberia is introduced: Vankor, Yurubchen-Tokhom, Talakan (including Eastern block), Alinsk, Srednebotuobinsk, Dulismin, Verkhnechonsk, Kuyumbin, Severo-Talakansk, Vostochno-Alinsk, Verkhnepeleduisk, Pilyudinsk, Stanokhsk. According to this decree a new subposition is introduced in the goods assortment of the Russian Federation, namely crude oil of the density of no less than 694.7 kg per cu.m but no more than 872.4 kg per cu. M at 20 degree Centigrade with the content of sulphur of no less 0.1 mass % and no more than 1 mass% (trade classification for the foreign trade activity 2709 00 900 1).

The new rate of the tariff for oil of this quality was established at the rate of 5% of its customs value either in US dollars or in Euros for the period of up to nine months after the moment of the decree coming into the effect. It applied to the above-mentioned 13 oil fields if the physic-chemicals parameters mentioned in the document were observed. The issue of nullification of the export duty rates for the Eastern Siberia and Far East was discussed among other measures aimed at stimu-



Source: Ministry for Economic Development

Fig. 2. Indices of Conditions for Foreign Trade

lating the inflow of the investments in oil production in this region at the meeting for the support measures of the oil industry, taking place in Kirishi on February 12, 2009. In order to develop the oil fields of the Eastern Siberia the Government had already adopted a decision on introduction severance tax vacations. Oil produced at the oil fields of the Eastern Siberian oil and gas province is supposed to supply to the oil pipeline "Eastern Siberia- the Pacific Ocean".

On November, 27 the Presidents of Belorussia, Russia and Kazakhstan signed a package of documents on creation of the Customs Union on January 1, 2010 at the meeting of the supreme body of the Customs Union. On the whole the leaders considered the drafts of 15 agreements, including one on the Customs Code, on single customs tariff, single goods assortment and other documents comprising the legislative basis for the trading and economic interaction of three countries. At the meeting a number of questions concerning the regulation of the foreign trade were discussed, including statistics recordkeeping, functioning of the unified system of bans and limitations, step-by-step abolition of limitation measures of economic nature on the reciprocal trade of three countries of the Union.

The countries of the Customs Union agreed for the first time to transfer a part of sovereignty to a supranational body, namely the Commission of the Customs Union. In order to fulfill the decisions of the Commission at supranational level it is necessary to provide for direct application of its decisions in the territory of the countries that are the member of the Customs Union.

The single customs territory within Belorussia, Russia and Kazakhstan will start to operate on July, 1 2010. For instance, the countries have adopted a decision to introduce single customs tariff, which is the first key component of the Union.

In connection with the customs tariff and other instruments for regulation of foreign trade activity of the Customs Union coming into effect on January 1, 2010, the consultations with the trading partners will take place concerning the changes in the regime of trade.

Within 6 months of the new year it is planned to introduce single mechanisms for regulation of the foreign trade, to put into the effect the Customs Code of the Union, to conclude the transfer of control function to the outer boundary of Belorussia, simplify the control at the boundary between Russia and Kazakhstan.

There are still a lot of unsolved problems. Among these, there are, for instance, duties for foreign car models import, which are higher in Russia than in Belorussia. Another difficulty is a higher level of the government support to the economy in Belorussia, which will complicate the accession to the WTO to it and its partners. Despite the single Customs Code and customs tariff the exceptions for each of the countries are inevitable.

The second summit of the EuroAsian Economic Community will take place with more participants – the group of here will be joined by counterparts from Kirgizia and Tadzhikistan. The key topic of the meeting of the International Government Council of European and Asian Economic Cooperation will be the fulfillment of the joint measures to overcome the consequences of the global crisis in the countries that are members of the Cooperation. ●

THE STATE BUDGET

E.Fomina

According to the preliminary data, in November 2009 the fiscal and budgetary sphere was displaying the same trend, typical the last months of a current year: the federal budget is to a higher degree faced with the problem of balancing revenue against expenditure – due to the burden of fulfilling obligations relating to pensions, welfare payments, and interbudgetary transfers. At the same time, there still exists the risk associated with the accelerated executing of budget obligations in the last months of the year 2009, which may entail an upsurge of inflation. At the same time it is evident that the parameters of the execution of budget across the budgetary system of Russia may be better than was expected in early 2009.

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

According to the preliminary estimations, the first 9 months of 2009, the revenue volume of the general government budget dropped by 6.0 p. p. of GDP on the corresponding period of 2008, while the expenditure volume, on the contrary, increased by 8.5 p. p. of GDP. According to the statistics published by the RF Federal Treasury, in the first three quarters of the current year the general government budget deficit amounted to 3.3 % of GDP, while in the corresponding period of 2008 the budget of general government was executed with a historically high surplus – more than 11 % of GDP (Table 1).

Table 1

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

	January –September 2009		January – September 2008		Deviation, p. p. GDP
	billion rubles	% GDP	billion rubles	% GDP	
Federal budget					
Revenue	5114.4	18.0	7155.7	23.3	-5.3
Expenditure	6441.7	22.6	4594.2	14.9	+7.7
Deficit (-) /Surplus (+)	-1327.2	-4.7	2561.6	8.3	-13.0
Consolidated budgets of RF subjects					
Revenue	4321.7	15.2	4571.5	14.9	+0.3
Expenditure	4099.6	14.4	3916.2	12.7	+1.7
Deficit (-) /Surplus (+)	222.0	0.8	655.4	2.1	-1.3
General government budget					
Revenue	9555.0	33.6	12178.9	39.6	-6.0
Expenditure	10503.9	36.9	8741.5	28.4	+8.5
Deficit (-) /Surplus (+)	-948.9	-3.3	3437.4	11.2	-14.5
For reference: GDP, billion rubles	28479.2		30759.8		

Source: RF Ministry of Finance, IET estimations.

However, even while there occurred growth of prices for energy carriers on the international market, and the decline in the volumes of oil and gas extraction was discontinued, the volume of revenues from tax on the incomes of enterprises and organizations and the taxes on foreign trade in the general government budget became lower. On the whole over that period, the volume of these tax revenues dropped by 2.1 and 2.9 p. p. of GDP respectively against the same period of 2008 (Table 2). The volume of revenues from *tax on profits of organizations* in the general government

budget over the period of January–September 2009 also declined dramatically and reached the level of 3.3 % of GDP in relative terms against 6.6 % p. p. of GDP in the corresponding period of 2008. The financial situation at the majority of enterprises remains rather difficult. The package of measures designed to support the real sector of the economy is targeted towards a limited number of big enterprises, and so has no large-scale effect. In the first 9 months of 2009 the financial results in the real sector amount to 2,805.7 billion rubles, which is nearly half of the same index for the corresponding period of 2008. The share of profit-making entities in the overall number of organization dropped on the same period of the previous year by 6.4 p.p. and amounted to approximately 66.6%. The worst financial results for the first 9 months of 2009, as before, were demonstrated by the manufacturers of electrical equipment and means of transportation, as well as by the chemical industry.

Table 2

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

	first 9 months of 2009	first 9 months of 2008	Deviation, p. p. of GDP
Tax burden level (1 + 2 + 3)	32.3	38.9	–6.6
Tax revenues (1), including:	23.0	26.8	–3.8
tax on profits of organizations	3.3	6.6	–3.3
PIT	4.1	3.9	+0.2
SST*	2.1	2.0	+0.1
VAT	5.3	5.8	–0.5
Excise	0.9	0.9	0.0
Tax on mineral resources extraction	2.6	4.7	–2.1
Insurance contributions to mandatory pension insurance (2)	3.2	3.1	+0.1
Revenues from foreign trade (3)	6.1	9.0	–2.9

* * without insurance contributions to mandatory pension insurance

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

Given the substantial reduction of the volume of revenues from the taxes on profits and mineral resources extraction, VAT receipts in January – September 2009 also demonstrated a downward trend in relative terms, but this decline was by far not so sharp: the drop of revenues from this tax in the general government budget amounted to 0.5 p. p. of GDP (*Table 2*). In spite of the better administration of this tax and a more even distribution of its receipts over the year (in which it differed from the situation in 2008), this had no effect on the tax collection rate. The key factor responsible for this year's drop of VAT receipts was the shrinking tax base.

The volume of revenues from PIT in the general government budget in the first 9 months of 2009, on the contrary, increased and reached the level of 4.1 % of GDP, which is by 0.2 p. p. of GDP higher than the index recorded in the corresponding period of last year. The positive dynamics of PIT receipts is has largely been determined by the accelerated indexation of the salaries of the 'budget-funded' categories of employees.

Against the backdrop of the dwindling general government budget revenue, the expenditure component of this country's budgetary system demonstrated a reverse dynamics. General government budget expenditure increased by 8.5 p. p. of GDP (*Table 3*). In this connection, it can be noted that the level of spending with regard to state budget resources has begun to rise on the level of fulfillment of government obligations early this year.

As can be seen by the preliminary results, in the first 9 months of 2009 the greatest deviation of the volume of financing from last year's volumes was displayed by the item 'Social Policy': the funding allocated to it in general government budget was by 2.8 p. p. of GDP higher than in the corresponding period of 2008. A similarly upward trend was displayed by the financing allocated on the execution of government obligations under the item 'National Economy' – up to 6.3 % of GDP in 2009 against 3.8 % of GDP in 2008. A noticeable growth was observed with regard to expenditures under the items 'National Defense' and 'Education'. The volumes of budget resources being

spent in each of these areas are higher by 0.7 p. p. of GDP than those in the corresponding period of the year 2008.

Table 3

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

	January – September 2009		January – September 2008		Deviation, p. p. of GDP
	billion rubles	as % of GDP	billion rubles	as % of GDP	
Expenditure, total	10,504	36.9	8,741	28.4	+8.5
including					
Nationwide issues	883	3.1	852	2.8	+0.3
Of these, servicing of state and municipal debts	185	0.7	154	0.5	+0.2
National defense	758	2.7	620	2.0	+0.7
National security and law- enforcement activity	838	2.9	717	2.3	+0.6
National economy	1,800	6.3	1,164	3.8	+2.5
Housing and utilities system	616	2.2	609	2.0	+0.2
Environment protection	18	0.06	19	0.06	0
Education	1,176	4.1	1,064	3.5	+0.6
Culture, cinematography and mass media	215	0.8	196	0.6	+0.2
Public health care and sports	1 087	3.8	1,002	3.3	+0.5
Social policy	3102	10.9	2,497	8.1	+2.8

Source: RF Treasury, IET estimations

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

According to the preliminary estimations by the RF Ministry of Finance, federal budget revenue in the first 10 months 2009 amounted to 18 % of GDP, which was by 5.1 p. p. of GDP lower than its index recorded in 2008, while at the same time the volume of expenditure increased by 7.6 p. p. of GDP, reaching the figure of 22.7 % of GDP (*Table 4*).

The key reason for this impressive growth of federal budget expenditure has been the implementation of the anti-crisis package of measures developed by the RF Government and planned for the year 2009; they are designed to support the population as well as enterprises in the real sector of the national economy.

The decline in federal budget revenue in January – October 2009 by comparison with the corresponding period of last year happened as a result of a combined impact of both external and domestic factors. The most important effect was produced by the drop of revenues in the oil and gas sector of the national economy (as the budget potential strongly depends on the situation in the fuel and energy complex) and the resulting decline of receipts from tax on mineral resources extraction, as well as from foreign trade; on the other hand, the world financial crisis also negatively influenced the situation in the domestic economy which, in its turn, produced a decline of federal budget revenues from items other than oil and gas.

Table 4

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

	January – October 2009		January – October 2008		as % of budget revenue and expenditure	Deviation	
	billion rubles	% of GDP	billion rubles	billion rubles		billion rubles	p. p. of GDP
Revenue, including:	5,788.8	18.0	8,092.8	23.1	86.2%	2304.0	-5.1
Revenues from oil and gas	2,291.1	7.1	3,842.7	10.9	11.4%	1551.6	-3.8

Table 5, cont'd

	January – October 2009		January – October 2008		as % of budget revenue and expenditure	Deviation	
	billion rubles	% of GDP	billion rubles	billion rubles		billion rubles	p. p. of GDP
Deductions to Reserve Fund and National Welfare Fund (Stabilization Fund)	196.3	0.6	1736.3	4.9	–	1,540.0	–4.3
Expenditure, including:	7,294.8	22.7	5309.4	15.1	75.1%	1985.4	+7.6
interest	150.3	0.5	134.6	0.4	73.5%	15.7	+0.1
non-interest	7,144.5	22.2	5174.8	14.7	74.1%	1969.7	+7.5
Federal budget surplus (deficit)	–1,506.0	–4.7	2,783.45	7.9	45.0%	–1,277.5	–12.6
'oil and gas' deficit	–3,797.1	–11.8	–1,059.3	–3.0	72.0%	–2,737.8	–8.8
GDP estimations	32,135.2		35,110.8				

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

According to preliminary estimations, the federal budget for the first 10 months 2009 is executed with a deficit of 4.7 % of GDP, while the amount of deficit other than that under the oil and gas items is almost 12 % of GDP. Thus, the previously observed dynamics of continual month-to-month growth of budget deficit throughout the year 2009 has become less prominent. Over the last two months, there has been no increase of federal budget deficit in relative terms. In spite of the implementation of budget allocations at an accelerating rate (which is typical for the last quarter of each year) the dynamics of federal budget expenditure displayed no changes in relative terms with regard to the statistics for the first 9 months. Thus, the risk of federal budget deficit over the whole year exceeding its level approved in the law on the 2009 federal budget (7.4 % of GDP) is becoming lower. At present the federal budget deficit is covered by the Reserve Fund: in the first 10 months the Fund's resources allocated to ensuring a well-balanced federal budget amounted to approximately 2.0 trillion rubles. As of 1 November, the residuals in the Reserve Fund amounted to approximately 2.2 trillion rubles

Table 5 demonstrates the dynamics of revenues from the oil and gas sector and the dynamics of their spending by the federal government in January – October 2009. The total revenue volume allocated in the first 10 months of 2009 to the Reserve Fund and the National Welfare Fund was 196.3 billion rubles, while the volume of the oil and gas transfer to the federal budget in the first 10 months of this year was approximately 2.5 trillion rubles.

Table 5

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

Indices	Fund residuals, end of 2008	Approved for 2009 budget	Received in January – October 2009	Allocated in January – October 2009		Fund residuals, end of October 2009*
				on maintaining well-balanced federal budget	on oil and gas transfer	
Oil and gas revenues in federal budget	x	2,057.2	2,291.1			x
Areas for allocating oil and gas revenues:	x	x				x
Oil and gas transfer	x	2,531.1	2531.0			
Reserve Fund	4,027.6	5,147.5	183.1	2,023.6	179.4	2,242.1
National Welfare Fund	2,584.5	x	13.2	–	–	2,712.6
Total	6,612.1	x	2727.3	2,023.6	179.4	4,954.7

* the residuals are recalculated at the exchange rate as of 1 October 2009.

Source: RF Federal Treasury.

Table 6 shows the dynamics of federal budget execution in cash terms in the first 9 months of the current year in accordance with the functional classification of budget expenditures. It should be noted that on the whole the dynamics of spending over the first 9 months of 2009 is close to the corresponding parameters for the same period of 2008. However, if some budget items are taken separately, their execution is much higher than last year's dynamics. Thus, the rate of spending under the items 'National Economy' and 'Culture, Cinematography and Mass Media' is 1.1 p.p. higher than it was last year in each of these areas. The accelerated budget expenditure on 'Housing and utilities system' was nearly 8.8 p.p. The annual carry-forward of substantial part of financing obligations to the year's end is fraught with the risk of speeding up the inflation rate, given that in the last three months up to 30 % of the total budget revenue and expenditure allocated to this year will have to be implemented.

Table 6

FEDERAL BUDGET EXECUTION IN CASH TERMS IN JANUARY – SEPTEMBER 2009
(AS A PERCENTAGE OF ANNUAL BUDGET REVENUE AND EXPENDITURE)

	January – September 2008	January – September 2009
BUDGET EXPENDITURE – TOTAL	65.4	65.9
Nationwide issues	64.4	55.0
including servicing of state and municipal debts	72.8	62.3
National defense	60.9	62.5
National security and law-enforcement activity	66.7	67.3
National economy	58.0	69.0
Housing and utilities system	53.6	61.5
Environment protection	62.5	58.1
Education	61.0	62.0
Culture, cinematography and mass media	57.1	68.0
Public health care and sports	69.7	58.0
Social policy	74.2	64.9
Interbudgetary transfers	69.3	69.7

Source: RF Ministry of Finance; IET estimations.

It is particularly the period of December 2009 that may see the 'peak of expenditure', when a sum of up to 1.5 billion rubles can be spent within a single month. Besides, some additional transfers to the Pension Fund of Russia are planned in connection with the forthcoming pension indexation, as the base part of labor pension is to be increased by 31.4 % from 1 December).

An overview of the main developments in the sphere of budgetary policy in November 2009

In November, deputies of the State Duma considered and approved in the second and third readings the draft law 'On the federal budget for the year 2010 and the planning period 2011 – 2012'. It should be noted that their discussion was focused on the structure of available budget resources and the government obligations due to be fulfilled in 2010 – 2012, set against the parameters of the former as they are presented in the draft law's initial wording. In this connection, the marginal values of the main indices of the federal budget were left unchanged.

Thus, in accordance with budget projections, the volume of federal budget resources will be reduced, by 2012, to 15 % of GDP against their preliminary estimation made in 2009 (17.2 % of GDP). At the same time, the volume of government obligations will also be gradually reduced – from nearly 25.5 % of GDP in 2009 to 18 % of GDP by 2012. So, it can be assumed that the government is determined to fulfill its obligations in full by means of a more efficient implementation of state budget resources.

In spite of the evident trend towards suppressing expenditure growth, one should bear in mind that if the volume of expenditure planned for the year 2010 is compared with the corresponding budget parameters for the pre-crisis years, the overall budget expenditure for the years 2010 –

2011 will look rather impressive, getting somewhere near the parameters for 2007 – 2008 (in relative terms) only toward the year 2012.

It is also noteworthy that the draft law contains complete expenditure projections for the year 2010 broken up by classification items, while the parameters of spending obligations for the years 2011 and 2012 are presented only in the form of their marginal values. In our opinion, it is not feasible to do any detailed allocation by budget item for the whole planning period in a situation when the main macroeconomic indices for the post-crisis period cannot be determined with any degree of precision due to their instability.

On 12 November 2009, RF President D. A. Medvedev presented his annual Message to the Federal Assembly. The Message focused mainly on issues relating to the transition of Russia's economy from the existing model based on the production of raw materials to an innovation development model. In addition to listing the priority strategies to be implemented in the economic sphere, the Message also put forth the priority goals to be achieved in the fiscal and budgetary spheres.

The RF President declared that in the forthcoming planning period the average pension size was to be increased by no less than 1.5 times. Besides, the upper threshold for the unemployment benefit will also be raised by 1.5 times.

In addition, the government is planning to implement a strategy of the rearmament of the Russian army, as well as to continue to provide housing to the military personnel. In conformation of this intention, in the draft law on the RF federal budget for the period 2010 -2012 submitted to the State Duma the allocations to the support of this country's power block are increased on the whole by 1 % of GDP by comparison with the corresponding parameters for 2007 – 2008.

It was proposed that the services relating to patient care and the care for senior citizens rendered by not-for-profit organizations, as well as welfare services provided to orphaned children, should be exempted from value added tax. Besides, it is suggested that profits tax should not be levied on grants allocated to the support of health care, physical culture and sports programs. In our opinion, these tax measures have a narrow orientation, and so will have no significant impact on taxpayers' situation.

The RF President also put forth an initiative that should result in this country's tax system being brought in conformity with the declared priorities of innovative restructuring of the national economy. In this connection, it is planned that, in the forthcoming planning period 2010 – 2012, the single social tax (SST) should be replaced by insurance contributions, with a gradually increasing rate (from 26 to 34 % in 2011). However, even this gradual increase of the rate of insurance contributions can become a heavy tax burden on Russian organizations, thus creating additional barriers in the way towards their modernization and technological upgrading of production. ●

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

M.Goldin

The following issues were considered at the meetings of the Government of the Russian Federation in November: the forecast plan (program) for privatization of the federal property in 2010 and the main directions for privatization of the federal property in 2011 and 2012; the results of execution of the federal budget over 9 months of 2009.

On November, 11 at the meeting of the Government the project of the Forecast plan (program) of the privatization of the federal property for 2010 and the main directions of the privatization of the federal property in 2011 and 2012 (further referred as the Project) was considered.

According to article 7 of the Federal Law "On privatization of the state and municipal property" from 21.12.2001 No 178-FZ the Forecast plan (program) of the privatization of the federal property is annually approved by the Government of the Russian Federation.

The Forecast plan (program) contains the list of the federal state unitary enterprises, stocks of open joint-stock companies which are in the federal property and other federal property which is planned for privatization in the corresponding year. The characteristics of the federal property which is planned for the privatization and the supposed period for privatization are also mentioned in the forecast plan (program).

In 2010 the privatization will be primarily continued with regard to the enterprises with a considerable number of the objects of immovable property, land plots, which require the work to be made on the formation, technical inventory and registration of the rights of the enterprise and the Russian Federation for them. Besides, the privatization will be continued at the enterprises that are to be included in vertically integrated systems, the decisions on whose turning into joint-stock companies were made during 2009.

The Forecast plans also include the joint-stock companies whose financial situation is worsening steadily. Such property is envisaged for privatization in 2010 in order to avoid the damage to the property interests of the Russian Federation and the loss of the property in case of the company going bankrupt.

In order to reduce the costs for the management of the state property the Plan includes joint-stock companies, in which the share of the state participation in the authorized capital does not allow making decision by the stockholders for the benefit of the Russian Federation.

In order to fulfill the budget requirements on the inpayments from the privatization in 2010 the Forecast plan includes the joint-stock companies that have relatively high (according to the evaluation made previously) market cost and investment attractiveness.

On the whole the Plan envisages privatization of the stocks of 461 joint-stock companies which are in the federal property, as well as 56 objects of the immovable property which belong to the Treasure of the Russian Federation.

In 2010 the stocks of joint-stock companies of the construction and agroindustrial complex, chemistry, petrochemistry and printing industries, road facilities, geology, water and air transport, machine building etc (excluding the joint-stock companies of the strategic value) were envisaged for privatization.

Basing on the estimation of the forecast cost of the objects offered for the privatization, in 2010 RUR 18 billion is expected to be paid to the federal budget as revenues from the privatization of the federal property.

On November, 11 at the meeting of the Government the results of the execution of the federal budget over 9 months of 2009 were considered.

In the total sum of the received revenues of RUR 5 114.4 billion the tax revenues made 55.1%. Over 9 months of 2009 the tax earnings of the federal budget made RUR 2 818.3 billion, and are by RUR 393.9 billion or by 16.2% more than the sum envisaged by the forecast for 9 months of 2009.

The major part of the tax earnings of the federal budget was provided with the earnings of the value added tax (53.4% of the total volume of the tax earnings), severance tax (24.1%), single social tax, paid to the federal budget (13.3%), tax on organizations' profit (5.1%), excises on excisable goods (products) (1.4%).

Non-tax incomes of the federal budget over 9 months of 2009 made RUR 2 294.9 billion, being by RUR 600.9 billion or by 35.5% more than the sum envisaged by the forecast for 9 months of 2009. In the structure of non-tax revenues of the federal budget 73.1% was accounted for by the revenues from payment of customs duties and 12.2% - by the revenues from the management of the means of the Reserve Fund and the Fund for the National Well-being.

Non-repayable earnings and targeted allocations from the all-Russian state lotteries over the 1st half of 2009 made RUR 1.2 billion.

The cash expenditures of the federal budget over the accounting period made RUR 6 441.6 billion or 65.9% of the specified budget revenues and expenditures for 2009. The cash non-interest expenditures over 9 months of 2009 made RUR 6 295.2 billion or 66.0% of the corrected budget revenues and expenditures (RUR 4 463.2 billion or 60.3% of the corrected budget revenues and expenditures over 9 months of 2008).

The volume of the state debt made RUR 2 908.9 billion as on October 1, 2009 and increased by RUR 216.9 billion versus its volume on January 1, 2009.

As on October 1, 2009 the total volume of the means of the Reserve Fund made RUR 2 298.0 billion, and the total volume of means of the Federal Fund for National Well-being – RUR 2 764.4 billion.

REVIEW OF ECONOMIC LEGISLATION

L.Tolmacheva

In November the following changes were made to the economic legislation: the legal status of Lomonosov Moscow State University and Saint-Petersburg State University was changed, the list of universities that are ascribed to the category of “national research universities” was established, the minimal and maximum amount of the unemployment benefit for the next year will remain at the level of 2009; the refinancing rate of the Bank of Russia was lowered once again.

I. Federal Laws of the Russian Federation

1. “On Lomonosov Moscow State University and Saint-Petersburg State University” No 259-FZ from 10.11.2009.

It is established, for instance, the Lomonosov Moscow State university and Saint-Petersburg State University are federal state budget institutions. The Government of the Russian Federation acts on behalf of the Russian Federation as their founders. The rectors of the mentioned universities are appointed and relieved of their posts by the President of the Russian Federation. Lomonosov Moscow State University and Saint-Petersburg University have a right to fulfill the programs of higher professional and postgraduate professional education on the basis of the educational standards and requirements set independently. The financing of the mentioned universities will be made at the expense of the means of the federal budget and other sources that are not forbidden by the legislation of the Russian Federation. The Statutes of the Universities are to be adjusted with the federal law within one year after the Chancellors are appointed by the president of the Russian Federation.

II. Orders of the Government of the Russian Federation

1. “On the list of the national research universities” No 1613-r from 02.11.2009.

The following 12 state educational institutions of higher professional education are, in concordance with the Federal Law “On higher and postgraduate professional education” were included in the list: the State University “High School of Economics”, Moscow Aviation Institute (state technical university), Kazan State Technical University named after A. N. Tupolev, Moscow State Technical University named after N. E. Bauman, Moscow Institute of Physics and Technology (state university), Nizhniy Novgorod State University named after N. I. Lobachevsky, Novosibirsk State University, Perm State Technical University, Samara State Aerospace University named after academician S. P. Korolev, Saint-Petersburg State Mining Institute named after G. V. Plekhanov (technical university), Saint Petersburg University of Informational Technologies, Mechanics and Optics and Tomsk Polytechnical University.

III. Decrees of the Government of the Russian Federation

1. “On amount of the minimum and maximum unemployment benefit for 2010” No 926 from 14.11.2009.

In 2010 the minimum and maximum amount of the unemployment benefit will remain at the level of 2009 and will make, correspondingly, RUR 850 and RUR 4500. In 2008 the mentioned volumes were RUR 781 and RUR 3124.

2. “On establishment of the volume of the minimal subsistence level per capita of the population and for the main social and demographic groups of the population on the whole throughout the Russian Federation over the 2nd quarter 2009” No 925 from 14.11.2009.

The volume of the subsistence level was defined for the 2nd quarter 2009. On the whole throughout Russia the volume of the minimum subsistence level per capita of the population made RUR 5187, for the able-bodied population – RUR 5607, for pensioners – RUR 4129, for children – RUR

4953. As compared with the 1st quarter 2009 the increase of the minimum subsistence level made about 2%.

IV. Instructions, Letters, Orders

1. Order of the Central Bank of the Russian Federation “On refinancing rate of the Bank of Russia” from 24.11.2009 No 2336-U

Starting from November 25, 2009 the refinancing rate of the Bank of Russia is established to be 9% per annum. It should be remembered that starting with October 30, 2009 the refinancing rate of 9.5% per annum was in effect (Order of the Central Bank of the Russian from 29.10.2009 No 2313-U). ●

REVIEW OF REGULATORY DOCUMENTS CONCERNING TAXATION OVER OCTOBER–NOVEMBER 2009

L.Anisimova

1. The letter of the Ministry of Finance of the Russian Federation from November 6, 2009 No 03-11-09/367 clarifies the issues of transfer to the single tax on the imputed income for some kinds of works and services by the organization of the retail trade of the jewelries produced at factories. For instance, as it is mentioned by the Ministry of Finance of the Russian Federation, the services of purchase of jewelries and scraps of such goods from the population for further exchange of them at the jewelry plant for goods of retail sale are not reflected in paragraph 2 article 346 of the Tax Code of the Russian Federation (which establishes the complete list of works and services which can be transferred to the single tax on the imputed income).

As for the entrepreneurial activity on the retail sale of jewelries obtained by the jewelry factory for exchange for the handed in goods and scraps of such goods purchased from the population, it is subject to regulation of paragraph 2 article 346.2 of the Tax Code of the Russian Federation and can be transferred to the payment of the single tax for the imputed income.

2. The Letter of the Ministry of Finance of the Russian Federation from October 26, 2009 No 03-05-06-01/68 clarifies the issues of taxation with the property tax of the equipment, purchased with the purpose of its further transfer for the rent. The Ministry of Finance of the Russian Federation explained that at present time there are no differences between the rules of accounting and tax recordkeeping for the purposes of recognition of movable and immovable property as fixed assets that is purchased with the aim of further transfer for the rent. Such property is recognized as fixed assets. This is testified by references for paragraph 1 article 374 of the Tax Code of the Russian Federation and Russian Accounting Standards 6/01 “Accounting of fixed assets”, established by the Order of the Ministry of Finance of the Russian federation from 12.12.2005 No 147n.

3. The letters of the Ministry of Finance of the Russian Federation from October 29, 2009 No 03-03-06/1/677 and from November 6, 2009 N 03-03-06/2/215 clarify the issues of amortization calculation by the taxpayer lessee concerning the inseparable improvements of the rented property as well as the dates for the start of amortization for such improvements. The Ministry of Finance of the Russian Federation draws attention to the fact that the explanation applies to inseparable improvements made upon agreement of the lessor but not paid by him. For such improvements the lessee has a right to add the amortization for the period of action of the lease agreement regardless of the fact whether the owner of the property has changed or not. Besides, it is clarified that the agreement of the owner for the use of the property after the expiry of the lease period means that the agreement is automatically prolonged, which allows the lessee to continue adding the amortization. After the lease agreement has expired, the user of the property loses such a right independent of whether the expenses for the made inseparable improvements of somebody else’s property were fully compensated or not.

4. The Letter of the Ministry of Finance of the Russian Federation from October 29, 2009 No 03-03-06/1/702 clarifies the issue on estimation of the volume of the additional payments for combination of the professions (posts), service zones, increase in the volume of the work or execution of the duties of temporary absent employee without discharge from the work. Since the Labor legislation defines that the volume of such additional payments is established according to the agreement between the parties of the labor contract taking into account the content and (or) volume of additional work (article 60.2 of the Labor Code of the Russian Federation) and does not set limits to its maximum volume, the organization acting as a taxpayer of profit tax has a right

to ascribe all the additional payments to the volume defined by the agreement of the sides of the labor contract to the expenses.

5. The Letter of the Ministry of Finance of the Russian Federation from October 30, 2009 No 03-03-06/1/712 clarifies the possibility to ascribe the expenses of an agent when calculating the profit tax to the transportation costs uncompensated by the committent when delivering goods to the committent if such costs according to the committee agreement were levied on the commission agent.

6. The Letter from October 30, 2009 No 03-07-09/51 the Ministry of Finance of the Russian Federation stated its position on the fact that the invoice with the empty lines for “the consignee” and “the consignor” cannot be applied for the purposes of calculation (compensation) for the included VAT. This position has already been considered by courts (see, for instance, the decree of the Federal Arbitrary Court of Povolzhsky Okrug from 21.10.2008 No A55-8800/07) and was not supported – the courts find the mentioning of the customer and the seller in the document as sufficient. Besides, the Court referred to the letter of the Ministry of Finance of the Russian Federation from 23.09.2004 No 03-04-11/158 and the letter of the Federal Tax Service of the Russian Federation from 26.02.2004 No 03-1-08/525/18, according to which if the notions of the “consignor” and “consignee” are not applicable for services rendering, the dash should be put in the corresponding sections or the section is not filled.

7. According to the Letter of the Ministry of Finance of the Russian Federation from October 30, 2009 No 03-11-06/2/230, the Ministry of Finance of the Russian Federation testified the possibility to ascribe of the expenses made by the organization as a result of the goods transferred for sale to the retail trade but not sold (in connection with their transportation, storage and servicing) and returned later to the wholesale trade to the expenses connected with the wholesale trade. The issue was complicated by the fact that as a wholesale trade the organization applies the simplified taxation system (according to the scheme of profit minus the losses), and as a retail trade organization it applies the single tax on the imputed income. It should be noted that when the goods are transferred from wholesale to retail trade and vice versa there was no change of the owner, that is, the goods were not alienated, and, according to subparagraph 2 paragraph 2 article 346.17 of the Tax Code of the Russian Federation the expenses connected with the payment for the cost of the goods purchased to be further sold are taken into account when defining the taxation base for the simplified taxation system as soon as the goods are sold.

8. According to the letter of the Ministry of Finance of the Russian Federation from October 30, 2009 No 03-11-06/2/233 the issue on the procedure for application of the simplified taxation system when selling the stocks is clarified. In the first part of its explanation the Ministry of Finance of the Russian Federation indicates that in accordance with subparagraph 5 paragraph 1 article 346.25 of the Tax Code of the Russian Federation, an organization which applied the general system of taxation with the charge method before it transferred to the simplified taxation system (according to the scheme the profit minus the losses) does not reduce the taxation base for the expenses that were earlier calculated and taken into account when defining taxation base for the general system of taxation, that is before it transferred to the simplified taxation system but were paid for after such a transfer. On the contrary, if before the transfer to the simplified taxation system the real expenses were made and the deal itself (the transfer of the property right for the goods) was conducted after the transfer, these expenses will be taken into account when defining taxation base for the simplified taxation system. This is a consequence of article 319 of the Tax Code of the Russian Federation, according to which organizations applying a charge method for the purposes of calculation of the profit tax calculation, do not take into account the sum of direct expenses when defining taxation base determined in concordance with article 318 of the Code, which belong to the outstanding finished goods and unfinished production.

Thus, as the Ministry of Finance of the Russian Federation explains, when transferring to the simplified taxation system organizations that applied the charge method, ascribing the material

expenses and expenses for labor remuneration connected with the outstanding goods and unfinished production as on January 1, 2008, the payment for which was made in 2007, could account them when defining the taxation base for the 1st quarter 2008.

The Ministry of Finance of the Russian Federation, analyzing the possibility of the deduction of the balance cost of the securities purchased before the transfer to the simplified taxation system and sold after such a transfer, makes another conclusion. Despite that when defining the taxation base for the simplified taxation system the similar situations were mainly solved for the benefit of a taxpayer: it was allowed to reduce the incomes from the sale of the fixed assets and non-material assets by the expenses for their purchase, that is to take into account the fixed assets on the basis of the residual value (paragraph 1 article 346.16, paragraph 2.1 article 346.25), and reduce the profits from the sale of the goods by the expenses for their purchase (see the explanation of the Ministry of Finance of the Russian Federation given above), however, as for the financial investments, in the opinion of the Ministry of Finance of the Russian Federation, an organization does not have a right to deduce the balance value (that is the expenses for their purchase) of securities from the incomes from the sale of the securities, since the financial investments are not mentioned in the expenses taken into account when transferring to the simplified taxation system.

We suppose that such a practice should be changed by the legislative procedure as well, since there are no economical reasons for a dramatic increase in the taxation load on the organization, making financial investments at the moment of its transfer to the simplified taxation system.

9. According to the Letter from November 2, 2009 No 03-03-06/1/720 the Ministry of Finance of the Russian Federation explained the difference between the accounting and tax recordkeeping with the regard to the interest rates on the loans taken for making investments. For instance, the Ministry of Finance of the Russian Federation explained that is according to the regulations of accounting (Accounting Regulations 15/2008, established by the Order of the Ministry of Finance of the Russian Federation from 06.10.2008 No 107n) such interests refer to the cost of the constructed (purchased) object, but for the purposes of taxation that are immediately included in the current outstanding expenses and are not ascribed to the expenses through the increase of the cost of the object and its further amortization. The adopted scheme allows a taxpayer to write off the expenses sooner and to avoid an undesirable immobilization of the liquid funds in material assets.

10. According to the letter of the Ministry of Finance of the Russian Federation from November 3, 2009 No 03-07-09/53 it is clarified that in case a mistake in the invoice is revealed, a customer does not have a right to use it to get a deduction (compensation) for VAT, since this document is invalid and should be corrected by the seller.

11. According to the Letter of the Ministry of Finance of the Russian Federation from November 3, 2009 No 03-02-07/1-493 the issue on the registration at taxation bodies of the organization by the place of the operation of its employees. For instance, the Ministry of Finance of the Russian Federation clarifies that there is labor contract signed with an employee but in the territory where he conducts his work there is no permanent specifically equipped workplace for execution of such activity, the organization should not be registered in the taxation body by the place where its employee conducts his activity.

12. According to the Letter from November 5, 2009 No 03-03-05/200 the Ministry of Finance of the Russian Federation explained that the labor remuneration can be made in natural form at the rate of no more than 20% of the total sum of the labor remuneration (article 131 of the Labor Code of the Russian Federation). That is why the expenses for labor remuneration in natural form, whose share exceeds 20% of the total amount of labor remuneration, cannot be taken into account in the expenses when calculating the taxation base for the profit tax.

13. According to the Letter of the Ministry of Finance of the Russian Federation from November 6, 2009 No 03-07-11/285 the issue on the amount of the deduced (compensated) VAT for expenses which for the purposes of calculation of the profit tax are normalized (regarded as expenses not to

the full extent). The explanation is illustrated with an example of the expenses for advertisement, representative expenses. According to subparagraph 2 paragraph 7 article 171 of the Tax Code of the Russian Federation in case of in concordance with chapter 25 “tax on organizations’ profit” the expenses are normalized for the purposes of taxation, the VAT sums for these expenses are to be deduced at the amount, corresponding to the norms mentioned. At the same time it is noted that the profit tax is defined by the aggravated result since the beginning of the year that is why the VAT sums taken into account for the purposes of deduction (compensation) are to be corrected.

14. According to the Letter of the Ministry of Finance of the Russian Federation from November 6, 2009 No 03-05-06-01/297 the procedure and the list of the necessary documentation submitted to obtain a privilege for property tax for the children of the people suffered as a result of Chernobyl catastrophe and of the people participating in the eliminating its aftermaths (the first and the second generation) is clarified.

15. According to the Letter of the Ministry of Finance of the Russian Federation and the Federal Tax Service of the Russian Federation from September 21, 2009 no IIIC-22-3/730@ the issue on the measures adopted to promote orderliness in consideration of the applications by the taxpayers on transfer from the general to the simplified taxation system is clarified. For instance, the notification on the refusal from the registration, which is the cause for the main complaints, will be corrected. The Ministry of Finance and the Federal Tax System of the Russian Federation explain that the transfer to the simplified taxation system is of notification nature, and the refusals from the registration are mainly connected with non-observance of the dates for submission of applications after the registration in a taxation body. The use of the general form of notification on refusal in this case is technically unreasonable. It is to be supposed that in the new form of the notification sent by a taxation body on the refusal from registration due to violation of the dates for application submission, the reason for the refusal will be stated in more detail.

16. According to the Order of the Ministry for Economic Development of the Russian Federation from November 13, 2009 No 465 the deflation coefficient K1 necessary to calculate the taxation base for the profit tax in concordance with chapter 26.3 “System of taxation in the form of the single tax on the imputed income for some kinds of activities” of the Tax Code of the Russian Federation is established to be 1.295.

17. The Order of the federal Tax System of the Russian Federation from November 2, 3009 No MM-7-6/534@ approves the Methodical guidelines for organization of electronic document turnover when submitting tax declarations (calculations) in the electronic form through the telecommunication channels. The Departments of the Federal Tax Service of the Russian Federation are commissioned with the development and approval of the formats of electronic documents, conduct the tests before February 15, 2010, and in 10 days after their conclusion to submit suggestion on the dates of the introduction of the software in exploitation. The approved methodical guidelines define the sequence of the electronic papers turnover with the electronic digital signature when submitting tax declarations (calculations) through the telecommunication channels, the list of the necessary functions and the frequency of their implementation for each participants of the interaction, the list of electronic documents, with which the parties exchange in the process of electronic documentation turnover.

18. The Letter of the Ministry of Finance of the Russian Federation from October 26, 2009 No 03-03-06/1/693 clarifies the issue on exclusion from the incomes levied with taxes of the funds gratuitously received by a Russian organization from another organization if the authorized capital (fund) of the receiving party contains more than 50 per cent of a share (contribution) of a transferring party on condition that the property mentioned (excluding monetary funds) is not transferred to third parties within a year of its obtaining (subparagraph 11 paragraph 1 article 251 of the Tax Code of the Russian Federation). After the means are contributed to the capital (fund) of a receiving organization, the means become its property and are taken into account when

financing the expenses for the purposes of profit taxation according to the general rules of the taxation system applied by the organization.

19. According to the Letter of the Ministry of Finance of the Russian Federation from October 30, 2009 No 03-07-08/220 the issue of levying with VAT the services of transshipment (transfer reloading) of the goods imported into the territory of the Russian Federation by sea, rendered by a Russian organization in a Russian port when unloading a foreign ship on which board the mentioned goods are transferred from the territory of a foreign country is clarified: they are levied with 0 percent VAT rate in case the document envisaged by paragraph 4 article 165 of the Tax Code of the Russian Federation are submitted to taxation bodies. As for the services of transshipment of the empty containers that were earlier imported into the territory of the Russian Federation sent out of the territory of the Russian Federation rendered by a Russian organization in a Russian port, in the opinion of the Ministry of Finance of the Russian Federation, are considered as an independent kind of services and are to be levied with VAT at 18% rate. In order to justify its position the Ministry of Finance of the Russian Federation presents the qualification of containers on the basis of statements of the Appendix B.3 to the Convention on temporary import from 26.06.1990, unofficial translation of which is given as Appendix No 2 to the Methodical guidelines on the application of ATA carnet, established by the Order of the Federal Customs Service of the Russian Federation from 25.07.2007 No 895, as a specifically constructed equipment for the simplification of the transportation by one or several means of transport without intermediate transshipment of goods (and not a kind of goods).

The position of the Ministry of Finance of the Russian Federation on the transshipment of empty containers is quite doubtful in our opinion. In the essence containers are a returnable package. In similar situation considered by courts the works on the return of a returnable package (for instance empty tank cars) were recognized as directly connected with the sale of goods and thus subject to levying with the VAT at the rate of 0 per cent (see for instance the decree of the Federal Arbitrary Court of Moscow okrug from 08.06.2004 No KA-A40/4595-04).

20. An organization operating in the field of publishing and selling the finished goods through a distributor without the right of property for the publisher's products transferring to it, made an enquiry to the Ministry of Finance of the Russian Federation to clarify the statements of the Tax Code of the Russian Federation concerning the reflection in the incomes all the sums of expenses (including direct) for the goods returned by a distributor and taken off the books as off-market. The Ministry of Finance provided an exhaustive answer in the Letter from October 30, 2009 No 03-03-06/1/714.

In our opinion the publisher's question arose due to discrepancy between the regulations of accounting and taxation bookkeeping. The publisher draws attention to the fact that the direct expenses in concordance with article 318 of the Tax Code of the Russian Federation are to be ascribed to the sold goods, and since its goods remained unsold, there no taxable incomes arising. Here the Ministry of Finance of the Russian Federation faces a typical case of misunderstanding of such a notion as an additional charge of income for the purposes of taxation by a taxpayer. Within the frameworks of bookkeeping when taking the unsold goods off the books all the expenses (including the direct expenses) will be written off as losses. However, for the purposes of taxation these sums will be accepted for deduction from the taxation base not to the full extent. And in this sense the taxation base will be increased (additionally) as compared with the profit in accounting. The Tax Code of the Russian Federation hinders the possibility to evade from taxes by pretending to conduct entrepreneurial activity, and so makes the taxpayers to sell the goods. Thus, primarily the losses from goods (works, services) realization are primarily accepted for deduction when defining the taxation base. Besides, the outstanding expenses connected with the profit retrieval are accepted. Among such expenses taken into account when forming the base for profit tax the losses within the limits of natural diminution established by the President of the Russian Federation, for which the defined percentage (10%) of the cost of the off-market printing goods taken off the books is an analogue, are considered. If an organization produces goods that are not in demand, such an organization should be regarded as a normal final consumer and there are no economical

grounds to accept such expenses that have not finished with the realization of the produced goods for deduction.

As the Ministry of Finance of the Russian Federation explained, for the cases of writing off the off-market publishing goods paragraph 21 article 250 of the Tax Code of the Russian Federation should be applied simultaneously, according to which the sum of the direct incomes ascribed to the goods that are written off, should be included in the list of outstanding expenses, with subparagraph 44 paragraph 1 article 264, according to which the possibility for writing off the losses is defined as an independent recognition of taxpayer's expenses within the limits established by the Tax Code of the Russian Federation.

21. According to the Letter of the Ministry of Finance of the Russian Federation from October 27, 2009 No 03-07-11/270 it is clarified that the violation of the dates for submission of the tax declaration in which the tax liabilities are zero, are still subject to a sentence in the form of fine of RUR 100 (article 119 of the Tax Code of the Russian Federation). It seems that the reservation should be made concerning the presence of such a taxation object at the taxpayer.

22. According to the Federal Law of the Russian Federation from October 30, 2009 No 242-FZ changes were introduced to the chapter on the tax on the organization's property of the Tax Code of the Russian Federation. According to these changes, only the organizations that have the property recognized as an object of taxation and not all the organizations are to be levied with the tax mentioned.

23. According to the Letter of the Ministry of Finance and the Federal Tax Service of the Russian Federation from November 3, 2009 No IIIC-22-3/831@ the property that is on the books of the Federal Penitentiary Service of the Russian Federation and its regional bodies and belonging to them on conditions of operational management, including residential houses, is ascribed to the property not regarded as an object of taxation with the organization's property tax according to article 374 of the Tax Code of the Russian Federation.

24. According to the Letter of the Ministry of Finance and the Federal Tax Service of the Russian Federation from October 23, 2009 No IIIC-17-7/192@ the decision of the Constitutional Court of the Russian Federation from 19.05.2009 No 815-O-P concerning the complaint of the open joint-stock company Kapustnik about the violation of the constitutional rights and liberties paragraph 10 article 275.1 of the Tax Code of the Russian Federation was brought into consideration. The taxation body refused the right, which is established by article 275.4 of the Tax Code of the Russian Federation, to take into account the losses from the activity connected with the use of servicing productions and entities to the principal employer and mainstay of an entire town, the open joint-stock company Kapustnik. In concordance with the mentioned article a principal employer and mainstay of an entire town has a right to accept losses from the servicing productions and entities within the standard limits established by bodies of the local government ., as well as on the basis of the procedure for definition of expenses for maintenance of these object, which is in effect for similar objects in the territory for which the local government bodies are in charge and for which the bodies of local government are in charge. The situation in which there are no corresponding standards in the territory for which the local government body is in charge and the procedure is not established, is not regulated with the article mentioned.

After the consideration of the case in the courts of different levels, the Supreme Arbitrary Court of the Russian Federation on April 21, 2008 made a decision according to which the possibility to take into account for the purposes of taxation of the profit of a principal employer and mainstay of an entire town of the expenses that were really made connected with the maintenance of the objects of servicing productions and entities in cases when there are no established standards for maintenance of similar objects, is not envisaged by article 275.1 of the Tax Code of the Russian Federation.

The Constitutional Court of the Russian Federation accepted the case for the consideration but has not supported the position of the Supreme Arbitrary Court of the Russian Federation, and

agreed with the position of the Arbitrary Court of the Republic of Bashkortostan, which stated that when in the territory of a local government body there are no standard limits for maintenance of the servicing productions and entities as well as procedures to define the expenses for maintenance of such objects in effect for similar objects in the territory of the body of local government and for which the local government is in charge, the principal employer and mainstay of an entire town as a taxpayer has a right to take into account the expenses that were really made and are testified by documents for maintenance of such objects when calculating the profit tax to the full extent. The Constitutional Court of the Russian Federation noted that due to the technical inaccuracy of article 275.1 of the Tax Code of the Russian Federation there are two different procedures for recognition of the expenses (losses) connected with the activity of the principal employer and mainstay of an entire town concerning with the use of servicing productions and entities for the purposes of taxation and suggested to be guided with the general constitutional norms to settle the conflict, which assume the equal rights of the subjects in the sphere of taxation as well (article 19 part 1, article 57). This allows considering the servicing of the production and entities of the principal employer and mainstay of an entire town as similar to the entities, situated in the territory of the local government body, with the same field of activity. When such an approach is applied the situation is resolved for the benefit of the principal employer and mainstay of an entire town – the expenses of their servicing productions and entities should be deduced from the received incomes to the full extent. In an opposite case, as it is stated by the Constitutional Court of the Russian Federation, the fair balance, which in concordance with article 55 (part 3) of the Constitution of the Russian Federation would be maintained between the requirements of protection of public (fiscal) interests and the protection of the private interests of owners-taxpayers, as well as constitutional principles of a legal state and of the equality in the field of taxation are violated.

25. According to the Letter from October 29, 2009 No 03-07-08/219 the Ministry of Finance of the Russian Federation clarified the situation concerning the application of zero VAT rate for works (services) on organization and maintenance of shipment and transshipment of the goods exported and imported in the territory of the Russian Federation, conducted (rendered) by Russian organizations or by individual entrepreneurs or other similar works (services). Such services in concordance with subparagraph 2 and subparagraph 9 paragraph 1 article 164 of the Tax Code of the Russian Federation are levied with the VAT at the rate of 0 per cent on condition the organization rendering such services submits to taxation bodies the documents envisaged by paragraph 4 article 165 of the Code, including the copies of transport, accompanying and (or) other documents, testifying the export of the goods out of the customs territory of the Russian Federation.

26. According to the Letter of the Ministry of Finance of the Russian Federation from October 30, 2009 No 03-11-06/3/263 the question on the payment of the single tax on the imputed income for rendering of transport services is clarified. The Ministry of Finance of the Russian Federation has repeatedly given explanations concerning this issue, noting, for instance, that the grounds for the use of the single tax on the imputed income is the use of a car fleet of no more than 20 vehicles, envisaged to render paid services for transportation of passengers and freight. The transport vehicles regardless of their exploitation conditions are included to the transport vehicles on the books, that is both those used in the economic activity and in the service during the on the books of taxpayers (their own) or rented (received), including those received according to the lease agreement, for the purposes of implementation of given entrepreneurial activity. The transport vehicles that belong to the taxpayers by the right of property and (or) by other right that are used for other purposes not connected with the rendering of paid services on transportation of passengers and freight, for instance for economic needs or as company vehicles are not referred to the mentioned transport vehicles. At the same time the Ministry of Finance of the Russian Federation noted that the absence of the written orders for transportation of goods within the taxation period is not a reason for the diminution of the value of the physical figure of the basic profitability when calculating the single tax on the imputed income for separate kinds of activities.

27. According to the Letter of the Ministry of Finance of the Russian Federation from October 30, 2009 No 03-03-06/1/717 the regulations for transfer for payment of the monthly advance payments of the profit tax are commented on. The Ministry of Finance of the Russian Federation explained that the organization has a right to transfer from the payment of the tax on quarter-by-quarter basis to the payment on monthly basis even if it has not exceeded the set limits during the year (in concordance with paragraph 3 article 286 of the Tax Code of the Russian Federation the incomes from the realization should not exceed RUR 3 million a quarter for the advance payments of the tax to be paid every quarter). In case the organization's incomes from realization in the preceding four quarters exceed RUR 3 million on average, such an organization should transfer to payment of monthly advances as a result of the accounting period.

28. According to the Letter of the Ministry of Finance of the Russian Federation from November 3, 2009 No 03-04-06-02/79 it is clarified that the payment to the head of the organization who is the only founder of a legal entity is levied with the single social tax only in case they are made on the basis of the labor contract with him. It should be added that the payments not levied with the single social tax are not taken into account in the expenses of the organization when the profit tax is concerned.

29. According to the Letter of the Ministry of Finance of the Russian Federation from November 3, 2009 No 03-04-06-02/80 the situation with the payment of the single social tax from the travelling allowance paid when an employee is sent on a business trip both within the country and abroad in connection with the abolition of the standards for such expenses by the Government of the Russian Federation from 1.01.2009 is clarified. Due to the fact that the legislator kept the phrase "within the limits established by the Government of the Russian Federation" in the text of chapter on the single social tax of the Tax Code of the Russian Federation, the sums of travelling allowances proved to be out of the taxation with the single social tax (article 238 paragraph 1). At the same time, according to chapter 25 on the organization's profit tax the travelling allowance is included in the expenses deduced when calculating the taxation base (article 264 paragraph 1 subparagraph 12). As a result the shift of the taxation load has occurred, which is not economically justified, - the single social tax is paid from the salary by the organization, but the travelling allowance is not levied with the tax, which can form a channel for evasion from taxes. The Ministry of Finance of the Russian Federation as an authorized body should make the corresponding changes to the tax Code of the Russian Federation.

30. According to the Letter of the Ministry of Finance of the Russian Federation from November 10, 2009 No 03-03-06/1/738 the procedure for the transfer of the losses evolving as a result of the taxation period into the future is clarified. In concordance with paragraph 2 article 283 of the Tax Code of the Russian Federation the taxpayer has a right to make a transfer of the loss for the future within 10 years following the taxation period in which the loss has occurred. The loss that is not transferred to next year can be transferred fully or partially to the following of 9 years. Correspondingly, the Ministry of Finance of the Russian Federation concludes that the transfer of losses to the future is possible both as a result of the accounting and the taxation period. Thus, the taxpayer has a right to reduce a taxation base for the profit tax of the accounting period (November, December 2009) by the sum of losses occurring in 2007.

31. According to the Letter of the Ministry of Finance of the Russian Federation from November 12, 2009 No 03-03-06/1/744 the procedure for writing a recoverable debt off is commented on. The debts for which the time allowed for claims has expired as well as the debts for which in concordance with the civil legislation the liability expired due to impossibility to execute it on the basis of an act by a government body or a liquidation of an organization are referred to as irrecoverable. A taxpayer has a right to write off an irrecoverable debt at the expense of the created reserve for doubtful debts (debts for which the time allowed for claims has not expired) and in case such a reserve was not created and irrecoverable debts exceed the sum of the reserve - to ascribe them to outstanding expenses of the current taxation period. ●

CHANGES IN REGULATORY BASIS OF BUDGET PROCESS

M.Goldin

In November 2009 the following changes took place in the regulatory basis of the budget process: amendments were made to the Guidelines for distribution of subsidies to equalize the provision with budget funds of the subjects of the Russian Federation; the Procedure for granting federal subsidies to budgets of subjects of the Russian Federation for the purposes of co-financing of the objects of capital construction in the regions and municipal formations, not included in the federal targeted programs.

According to the Decree of the Government of the Russian Federation from 02.11.2009 No 885 “On making changes to the Decree of the Government of the Russian Federation from November 22, 2004 No 670” changes were made to the Guidelines for distribution of subsidies to equalize the provision with budget funds of the subjects of the Russian Federation. For instance, according to the new version the regulations of the Guidelines, which envisage a formula for the calculation of the total amount of subsidies, allocated for a subject of the Russian Federation for the next financial year, first and second years of the planning period (it should be noted that the previous regulations concerning the calculation of the volume of subsidies for the first and the second year of the planning period were excluded). Besides, the changes applied to the procedure for calculation of the tax potential index of a subject of the Russian Federation for the next financial year, as well as the index of budget expenditures of a subject of the Russian Federation.

According to the Order of the Ministry for Regional Development of the Russian Federation from 25.08.2009 No 374 “On establishing the procedure for granting subsidies at the expense of budget allocations from the federal budget in 2009, whose chief superintendant is the Ministry for Regional Development of the Russian Federation, to budgets of subjects of the Russian Federation for the purposes of co-financing of the objects of capital construction in the state property of the Russian Federation not included in the federal targeted programs, budget investments into which are made from the budgets of subjects of the Russian Federation, and for the purposes of allocating the corresponding subsidies from the budgets of subjects of the Russian Federation for co-financing of objects of capital construction in municipal property not included in the federal targeted programs, budget investments into which are made from the local budgets” the granting of subsidies to the budgets of subjects of the Russian Federation for the purposes of co-financing of the objects of capital construction not included in the federal targeted programs whose superintendant is the Ministry for Regional Development of the Russian Federation is regulated. The Order was approved in order to fulfill point 2 of the Decree of the Government of the Russian Federation from August, 2009 No 650 with the same name.

The Order establishes the procedure regulating the relationships connected with the granting of the mentioned subsidies by the Ministry for Regional Development of the Russian Federation to the budgets of subjects of the Russian Federation (budgets of municipal formations). For instance, the conditions upon fulfillment of which the subsidies are granted were defined. The subsidies are given on the following conditions:

a) a subject of the Russian Federation submitting a legal regulatory acts of the supreme executive body of the subjects of the Russian Federation (local administration) concerning the fulfillment of budget investments in the objects of capital construction (further referred to as the decision on making budget investments);

b) a subject of the Russian Federation submitting an extraction out of the law of the subject of the Russian Federation on the budget of the subject of the Russian Federation for 2009 and (or) legal regulatory acts of municipal formations on local budgets for 2009 on the availability of the budget allocations to the volumes that correspond the decisions on making budget investments and to the amount of subsidy sums reflected in the appendix to the Order;

c) the subject of the Russian Federation and (or) the municipal formation fulfilling the financing of the objects of capital construction at the expense of the budget of the subjects of the Russian Federation and the local budget to the extent that corresponds the sums in the appendix mentioned above;

d) submitting of the copy of the agreement between the supreme executive body of the subject of the Russian Federation and the local administration on the submission of corresponding subsidies from the budget of the subject of the Russian Federation to the local budgets for co-financing of the objects of capital construction of municipal property, which is attested according to the established procedure;

e) availability of the approved project documentation for the objects of capital construction or submission of the letter of guarantee signed by the head of the supreme executive body of the subject of the Russian Federation (the head of the municipal formation) on the liability to develop and (or) approve the project documentation in the current year;

f) submission of the results of the inspection (positive conclusion) on the efficiency of use of the budget funds of the subject of the Russian Federation (local budget) according to the procedure established by the legal regulatory acts of the subjects of the Russian Federation and local legislative acts as well as the funds of the federal budget directed for the investments in accordance with the Regulations for inspection of investment projects concerning the efficiency of the use of federal budget funds directed for investments established by the Decree of the Government of the Russian Federation from August 12, 2008 No 590;

The Order also defines the indices of the efficiency of the use of subsidies, the procedure for their transfer, the reasons for the reduction in the volume of the granted subsidies and cessation of their transfer. ●

INVESTMENTS OF PENSION SAVINGS AND PENSION RESERVES

L.Mikhailov, L.Sycheva

As demonstrated by the results of Q II 2009, the value of assets in the mandatory funded component of the pension system, less the amount of insurance contributions to the Pension Fund of the Russian Federation (PFR), increased by 14.7 %; the rate of return in nominal terms on the pension savings invested by the government asset manager (GAM) returned into the 'positive zone'; the pension reserves held by independent pension funds (IPFs) increased by 7%. In Q III the normative base for investing both pension reserves and pension savings underwent a number of changes. Some amendments were introduced in Federal Law FZ-111 'On investing the funds for financing the funded part of labor pension in the Russian Federation'.

By the results of Q II 2009, the value of assets in the mandatory funded pension system, less the amount of insurance contributions to the PFR, somewhat increased. As seen from the data presented in *Table 1*, growth over that quarter amounted to 38.0%¹ (526.6 against 381.6 billion rubles). The highest contribution to this upward dynamics resulted from the transfer, towards the very end of the quarter, of accumulated insurance contributions from the PFR – which was done after the receipt from the RF Ministry of Finance of compensation for the declining value of the bonds issued within the framework of federal loans, in which these monies were invested. Net inflow of funds from the PFR to the asset managers over the quarter amounted to 112.5 billion rubles out of 145 billion rubles (the sum of asset growth). Besides, the value of the assets in which pension savings are invested also increased over the period under consideration.

Table 1

VALUE OF ASSETS IN THE MANDATORY FUNDED PENSION SYSTEM, 2007 - 2009
(IN BILLION RUBLES)

Date	Value of assets in which pension savings transferred to asset managers were invested			Pension savings accumulated in IPF	Total
	subtotal	including in GAM	including in PAM		
01.01.2007	276.2	267.1	9.2	9.96	286.2
01.04.2007	270.0	260.7	9.4	19.85	289.85
01.07.2007	274.5	265.1	9.4	19.25	293.75
01.10.2007	340.1	329.0	11.1	25.55	365.65
01.01.2008	375.1	362.9	12.2	26.8	401.9
01.04.2008	360.7	348.7	12.1	42.6	403.3
01.07.2008	366.0	353.7	12.3	43.1	409.1
01.10.2008	360.6	350.1	10.6	39.9	400.5
01.01.2009	352.2	343.1	9.1	35.5	387.8
01.04.2009	334.8	325.7	9.1	46.9	381.6
01.07.2009	459.3	446.6	12.7	67.3	526.6

Note. The estimations presented in *Table 1* do not include the amount of contributions to the funded part of pension savings in the PFR.

Source: The indices of asset managers represent value of net assets as estimated on the basis of data published on the PFR's website www.pfrf.ru. The indices of IPF are based on the Summary Data on the activity of IPFs posted by the Federal Service for Financial Markets (FSFM) to its website www.fscm.ru.

The share of the government asset manager (GAM), whose functions are performed by *Vneshekonombank (VEB)* in the asset value of the funded component of the mandatory pension system (less the amount of insurance contributions to the PFR) over the quarters decreased

¹ Hereinafter, the data published by the PFR, the Federal Service for Financial Markets (FSFM), and *Vneshekonombank* are applied.

from 85.3 % to 84.8 %. **The share of independent pension funds (IPFs)** over the same period increased from 12.3 % to 12.8 % (see *Table 2*).

Table 2

THE DISTRIBUTION OF ASSETS BETWEEN ASSET MANAGERS AND IPFS WITHIN THE FUNDED COMPONENT OF THE MANDATORY PENSION SYSTEM, 2006 – 2009 (%)

	01.01.2006	01.01.2007	01.01.2008	01.01.2009	01.04.2009	01.07.2009
Share of assets held by GAM*	95.9	93.3	90.3	88.5	85.3	84.8
Share of assets held by PAMs*	3.0	3.2	3.0	2.3	2.4	2.4
Share of assets held by IPFs**	1.1	3.5	6.7	9.2	12.3	12.8
Total	100	100	100	100	100	100
Including the share of PAMs and IPFs	4.1	6.7	9.7	11.5	14.7	15.2

Notes. The estimations shown in *Table 2* do not include the amount of contributions to the funded part of pension savings in the PFR.

Source: the indices of asset managers represent value of net assets as estimated from the data published on the PFR’s website pfrf.ru.

The indices of IPF are based on the Summary Data on the activity of IPFs posted by the Federal Financial Markets Service to its website fsm.ru.

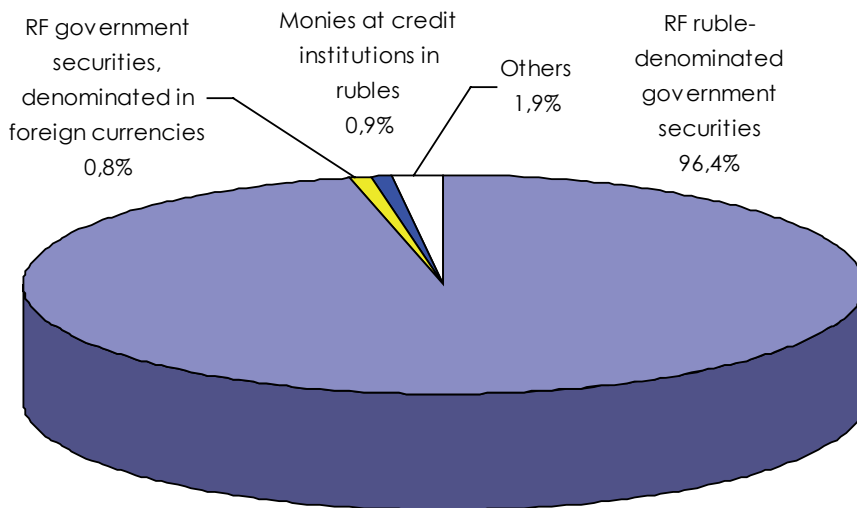


Fig. 1. The structure of the investment portfolio of the GAM (Vneshekonombank), as of the end of 2008.

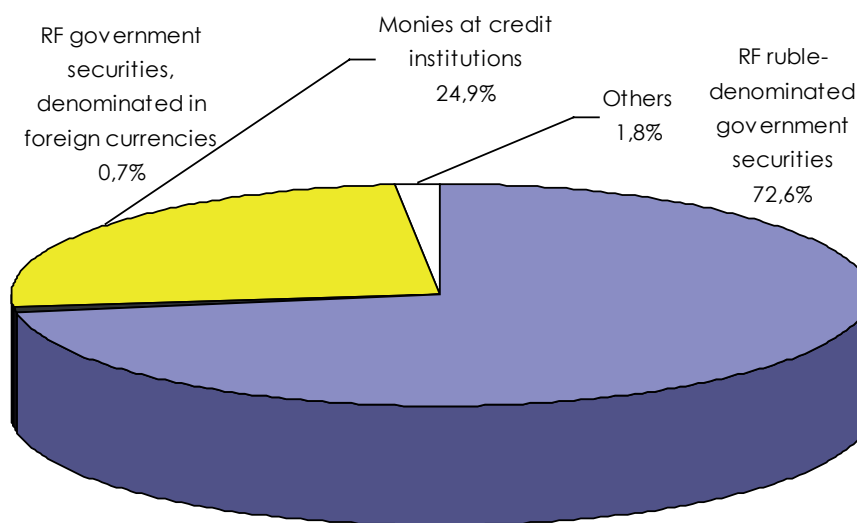


Fig. 2. The structure of the investment portfolio of the GAM (Vneshekonombank), as of the end of Q II 2009.

The pension reserves held by IPFs over the half-year period increased by 7 % and amounted to 495.1 billion rubles, while at the same time declining by 14.7% as compared to the mid-2008 level. However, the data on the aggregate dynamics of pension reserves over the period under consideration cannot serve as an index of the actual changes in the value of assets in which pension reserves are invested, because funds were allowed not to display the market value of their assets as of the end of the year 2008.

Investments of pension savings by asset managers. The structure of investments by the GAM and of the aggregate investment portfolio of private trust management companies, or asset managers (PAMs), which were investing pension savings under their agreements with the PFR, as of the end of the year 2008 and Q II 2009 is shown in *Fig 1–4*. The structure of the investment portfolios of asset managers as of the end of Q II was found to be strongly

influenced by the transfer of the pension contributions for the year 2007 from the PFR, which as of the reporting date remained on the bank accounts of the asset managers because the latter had had no time to invest these monies in securities. The share of securities dropped both in the GAM's and the PAMs' investment portfolios, while the share of monies kept with credit institutions exceeded the limit of 20 % established by the law (see Fig. 2 and 4).

Rate of return on investments. By the results of Q II 2009, the rate of return in nominal terms on the pension savings invested by the GAM returned onto the 'positive zone' (3.2 % per annum in the first half-year), which happened in the main due to the favorable dynamics of prices for the bonds of RF domestic loans over that period. As stated by Director of the VEB's Trust Management Department Alexander Popov, this income was received from coupon payments and the rise of prices for short-term OFZ issues¹. The revaluation of securities resulted in VEB gaining in Q II the sum of 9.5 billion rubles; coupon yields on OFZ amounted to 1,6 billion rubles.

The rate of return on the funds invested by PAMs over the half-year period amounted to 34.4 % per annum. By the results of a three-year period, a positive rate of return in nominal terms was once again achieved by 33 PAMs.

Changes in the normative base regulating investments of pension savings and pension reserves. In Q III, the normative base for investing both pension reserves and pension savings underwent certain changes. Some amendments were introduced in Federal Law FZ-111, 'On investing the resources for financing the funded part of labor pension in the Russian Federation', which expanded the set of instruments available for investing pension savings, including the investments of the pension savings being accumulated to the benefit of those insured persons who have not made their choice of an asset manager, as well as the insurance contributions to the funded part of labor pension prior to their personification and transfer from the PFR to asset managers and IPFs.

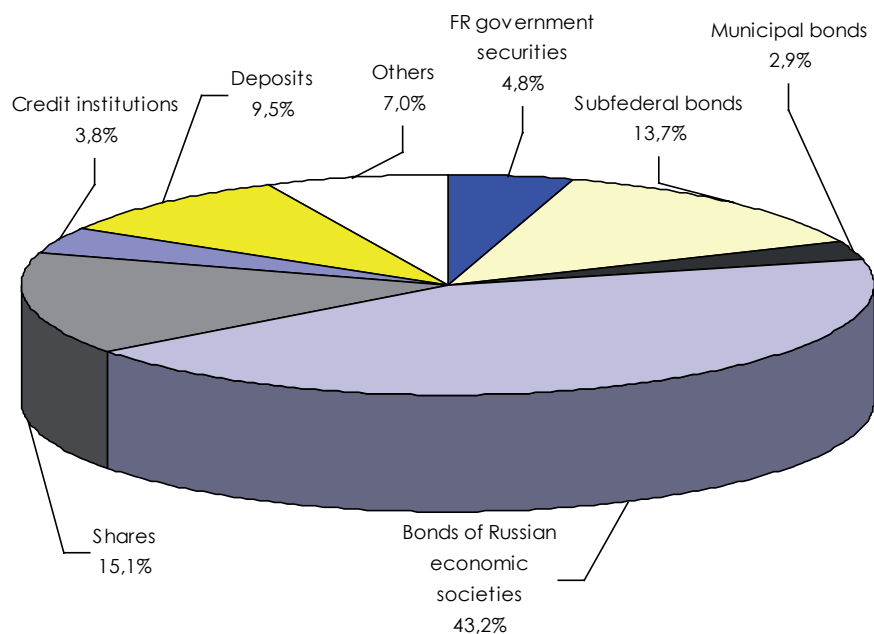


Fig. 3. The structure of the investment portfolios of the PAMs, as of the end of 2008.

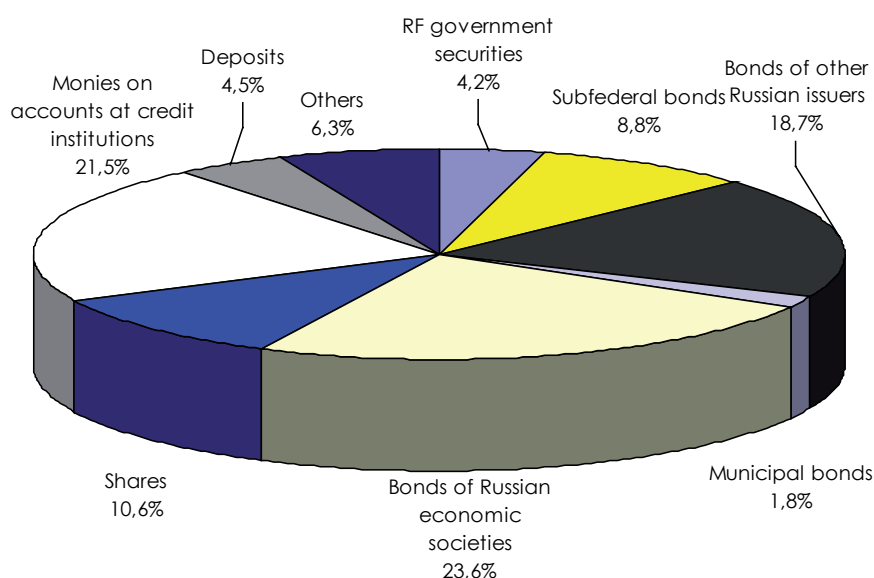


Fig. 4. The structure of the investment portfolios of the PAMs, as of the end of Q II 2009.

1 See *Kommersant* [The Businessman], 10 July 2009.

Some alterations in the rules for investing pension reserves within the framework of voluntary pension insurance were introduced by Decree of the Government of the Russian Federation of 28 August 2009, No 702. In accordance with this Decree, the list of instruments in which IPFs may invest pension reserves independently, without involving asset managers, was augmented by stakes in close-end mutual investments funds (MIFs). The norm regulating the investment of pension reserves in the securities issued by those companies that held their deposits with the IPFs was somewhat adjusted. The formed rules allowed investing of no more than 5 % of reserves in such securities (this limit would be raised to 10 % if the securities were listed in the quotations at a top-level stock exchange). Now the fund has been granted the right to invest up to 5 % in the securities of each depositor (or up to 10 % if the securities were listed in the quotations at a top-level stock exchange), while no aggregate upper margin for the amount of investment in the securities issued by depositors with the IPFs has been established. The upper limits for the share of certain instruments in the assets have also been raised. Particularly marked changes were introduced in the restrictions imposed on deposits with banks. The aggregate share of bank deposits and deposit certificates of Russian banks can not constitute up to 80 % of pension reserves (previously – no more than 50 %). At the same time, the restrictions on the level of risks per credit institution have been somewhat relaxed: the share of bank deposits at one bank (or deposit certificates issued by one bank) may now constitute up to 25 % of all pension reserves held by an IPF (previously this norm was 10 %).

The requirements to the composition and structure of pension reserves held by independent pension funds are shown in *Table 3*.

Table 3

 RESTRICTIONS IMPOSED ON INVESTMENT OF PENSION RESERVES BY
 INDEPENDENT PENSION FUNDS

Type of assets in which reserves are invested	Maximum share of pension reserves (% of total value of pension reserves*)	Additional requirements
bank deposits in Russian banks	aggregate share - 80 %; share of bank deposits in one bank (or deposit certificates of one bank) – 25 %	bank participates in deposit insurance system
deposit certificates of Russian banks		
RF government securities	share of securities of one issue – 35 %	
government securities issued by RF subjects	70 %, share of securities of one issue – 35 %	admitted for trading by Russian organizers of trade on securities market
municipal securities	80%	admitted for trading by Russian organizers of trade on Securities market
bonds issued by Russian economic societies	80%	admitted for trading by Russian organizers of trade on securities market
housing mortgage securities issued under RF legislation on housing mortgage securities	20%, including share of housing mortgage participation certificates in trust management of one mortgage-cover manager, 10%	admitted for trading by Russian organizers of trade on securities market
shares issued by Russian open-end joint-stock societies	70%	admitted for trading by Russian organizers of trade on securities market
stakes in open-end and interval MIFs created in accordance with RF legislation	share of MIFs - 70 %, shares issued by joint-stock investment funds and stakes in MIFs managed by one asset manager - 25 %;	
stakes in closed-end MIFs created in accordance with RF legislation	share of closed-end MIFs not admitted for trading on Russian stock exchange, as well as of stakes intended for qualified investors, 5 % of reserve allocated to covering pension obligations of IPF, increased by share of insurance reserves in reserves allocated to covering those pension obligations	

Type of assets in which reserves are invested	Maximum share of pension reserves (% of total value of pension reserves*)	Additional requirements
foreign government securities	aggregate share of foreign government securities, securities issued by international financial organizations, shares issued by foreign joint-stock companies, bonds issued by foreign commercial organizations, and shares (or stakes) in foreign investment funds - 30 %	a) foreign country is member in Organization for Economic Cooperation and Development; b) issuer has long-term credit rating no less than 'BBB-' (by Fitch-Ratings or Standard & Poor's), or no less than 'Baa3' (by Moody's Investors Service). Such rating must be granted by at least two of aforesaid rating agencies
securities issued by international financial organizations		included in list approved by Federal Service for Financial Markets (FSFM)
shares issued by foreign joint-stock companies and bonds issued by foreign commercial organizations		a) shares (or bonds) underwent listing procedure at stock exchange included in list of stock exchanges approved by Federal Service for Financial Markets (FSFM); b) foreign state where legal entity – issuer of shares (or bonds) is founded is member in Organization for Economic Cooperation and Development; c) issuer of bonds or issue of bonds has long-term credit rating no less than 'BBB-' (by Fitch-Ratings or Standard & Poor's), or no less than 'Baa3' (by Moody's Investors Service). Such rating must be granted by at least two of aforesaid rating agencies.
shares (or stakes or quotas) in foreign investment funds		a) fund is created in accordance with legislation of member state of Organization for Economic Cooperation and Development; which controls collective investment institutions; b) fund's shares (or stakes or quotas) admitted for trading on stock exchange which is included in list of stock exchanges approved by Federal Service for Financial Markets (FSFM); c) assets of an indexed fund are invested in foreign securities in accordance with investment index included in list of stock exchanges approved by Federal Service for Financial Markets (FSFM);
immovable property objects		10 %

Pension reserve funds cannot be part of:

- other assets;
- securities issued by fund's asset managers (trust management company), specialized depository, auditor or actuary, or their affiliated persons, with exception of securities included in quotation lists of stock exchanges.

Other restrictions

	share of issuer's securities, except RF government securities, government securities issued by RF subjects, or shares issued by joint-stock investment funds, 10 %	
	share of securities issued by IPF's depositor - 5 %, except in cases when aforesaid securities are included in A-level quotation list of Russian stock exchange	
	aggregate share of securities included in quotation lists of stock exchanges which list securities initially placed by open subscription or initially offered for public circulation, or securities not included in quotations lists of stock exchanges, except RF government securities and stakes in open-end and interval MIFs, 40 %, including share of securities for which report on issue results has not been registered, or notification thereon has not been submitted to registration body, 15 %	

*Share of assets in a fund's pension reserves is calculated on the basis of the market value of each asset, as well as the aggregate market value of pension reserves.

PROVISION OF POPULATION WITH MEDICINE: STRENGTHENING OF GOVERNMENT REGULATION OF PRICES FOR MEDICINES

L.Popovich, S.Shishkin

The growth of prices for medicines at the beginning of 2009 led to the Government of the Russian Federation adopting the decision for the strengthening of regulation of prices for medicines, included in the list of vital and the most important medicines (essential drugs). At the same time the procedure for execution of the suggested mechanisms for price regulation will cause the risks for the worsening of availability of these remedies for the population.

The situation with the provision of the population with medicines has become one of the burning issues of the crisis. According to the data of the Federal State Statistics Service over 10 months 2009 the growth of retail prices for medicines made 16.6% versus December 2008, whereas the total index of the increase of consumer prices in Russia made only 8.1% over the same periods. The prices went up at the fastest rates in the 1st quarter 2009 – then the increase made 14.2% versus December 2008. At the same time there is a considerable difference between prices observed for the one and the same class of medicines, and this difference is increasing. Thus, in Saint-Petersburg in March 2008 the maximum price exceeded the minimal price for the equivalent medicine by 5 times on average, and in March 2009 this ratio went up to 10 times¹.

The increase of prices for medicines reduced the opportunities of the population and primarily the poor to purchase the necessary medicines out of their own incomes. According to the data of the survey on the increase of the growth of prices on the budgets of households conducted by the Public Opinion Foundation in October 2009 for the all-Russian sampling of 2000 respondents, the growth of prices for medicines has significantly affected the budget of 38% of the respondents².

Together with the retail prices the prices of purchase of medicines within the framework of the state programs went up too, and at even higher rate. Thus, according to the data for the first half of 2009 the average price of one package within the framework of additional provision with medicines went up by 56.4% in ruble terms and by 12.1% in dollar terms³. At the same time in Saint-Petersburg the increase of prices in rubles made 0.73%, and in Moscow region – 160%..

The prices for medicines in Russia are traditionally subject to the state regulation, however mild, and, as it was shown by the crisis, having few results. The regulation of prices is made towards the medicines included in the list of vital and the most important is regulated by the Federal Law from June 22, 1998 No 86-FZ “On medicines” and by the Decree of the Government of the Russian Federation No 782 from November 9, 2001. The peculiar feature of the existing system for price regulation is the registration of the price upon the vital and most important medicines upon application, the registration itself being optional (at present only 43.72% of the international non-proprietary names included in the vital and the most important medicines), lack of the mechanism for control over the formed prices, the right of the subjects of the Russian Federation to establish independently the limit increment to the prices for the vital and the most important medicines. The levels of increments for wholesale trade at the same time fluctuate in the different subjects of the Russian Federation from 3-5% to 60-80%. At the same time the maximum wholesale increment which was established in the regions was applied not only to the producer’s price but also to the sale price

1 The World Bank. Russian Economic Report 19. June, 2009, <http://siteresources.worldbank.org/INTRUSSIANFEDERATION/Resources/305499-1245838520910/rer19-eng.pdf>

2 Public Opinion Foundation, 2009. Dynamic of prices: opinions of Russians. Survey 24–25 October, <http://bd.fom.ru/pdf/d43tseny.pdf>

3 IMS Health, 2009. Continuous Market Insight. Russia. Additional provision with Medicines. First half of 2009 <http://www.rmbc.ru/analytics/article/detail.php?ID=1451>.

of the organizations of wholesale trade. In practice in medicines sale there is a chain of intermediates each of whom applies the limit wholesale increments for the corresponding regions.

The situation with the provision with medicines was a topic for discussion in the Government of the Russian Federation. At the meeting of the Government committee on the increase of stability of the Russian economy that took place on March 10, 2009 there were assignment made that were reflected in the Order of the Ministry for Health Care and Social Development of the Russian Federation from 27.05.2009 No 277N, regulating the organization of the monitoring of prices and assortment of medicines and in the Decree of the Government of the Russian Federation from 08.08.2009. This Decree envisages serious changes in the procedure for regulation of the pricing of the medicines ascribed to the vital and most important medicines. The essence of changes is the following:

1. The maximum sales prices of producers will be identified in concordance with the guidelines which is to be established by the Ministry for Health care and Social development of the Russian Federation together with the Federal Tariff Service. The guidelines should include the forms with which the producer justifies the maximum sales price when applying to the Roszdravnadzor with the purpose of registration of this price.

It is obvious that the two mentioned departments have quite a difficult problem to solve. If the guidelines for definition of the maximum sales prices are too rigid, there is a risk of lowering of the economic interest of producers towards the supply of the corresponding medicines, the consumer correspondingly might not find in pharmacies.

2. When the state registration of the maximum sale price of the producer is registered the prices for the corresponding (in terms of international non-proprietary names, form of production and dosage) medicines in the Russian Federation. This means that the database should be available and topical for the producer.

Federal Service for the Supervision of Public Health and Social Development (Roszdravnadzor) is commissioned with the creation of such a database on the basis of the conducted monitoring for prices for medicines. At present Roszdravnadzor is carrying out the monitoring of the prices for only a number of medicines out of the list of the vital and most important medicines currently in effect and/or the minimal assortment list of medicines. There are 81 international non-proprietary names, represented in 111 medicine forms that are the objects of monitoring. At the same time the minimal assortment list of medicines contain 148 international non-proprietary names, and the list of the vital and most important medicines – 658 international non-proprietary names. Thus, the scale of monitoring of prices for medicines would be increased considerably.

3. The maximum sales prices of producers are coordinated by the Roszdravnadzor with the Federal Tariff Service. At present there is a condition in effect, according to which the adjustment of the maximum sales price claimed by the producer cannot be refused, if it is a minimal sales price of this producer over the half of the year preceding the date for the submission of the data to the state registration of this price. Starting with January 1, 2010 (from the date of the changes approved by the Decree No 654 coming into effect) this condition will become invalid. Until March 1, 2010, which is the date established for the final re-registration of the prices, the producers are to manage to adjust the price with two other departments, and in case the agreement has not been reached they can apply to the special committee on regulation of disagreements evolving during the state registration of the maximum sales prices for the vital and most important medicines, which was created in concordance with the order of the Ministry for Health Care and Social Development from 09.10.2009 No 820. It should be noted that the meetings of the committee take place “when it is necessary upon the initiative of the Ministry of Health Care and Social Development”, which adds one more barrier to the procedure of adjustment of prices for producers.

Since the existing at the moment list of the vital and most important medicines contains the remedies produced by only one supplier, the introduction of the new procedure for registration of prices created risks of cessation of medicines supply, the prices for which will not be registered after March 1, 2010. The refusal for the registration will mean the impossibility of their turnover and unavailability to the patients.

4. The sale of the medicines by the organizations of the wholesale trade will be made with the compulsory filling of the report on the adjustment of prices for the supplies of the vital and most

important medicines according to the form established by the Decree no 654. The sale of the medicines by a pharmacy should be carried out upon the presence of the mentioned report.

However the period for filling such reports for distributors working with foreign producers may prove to be unacceptably long. A large number of medicines has already been purchased and are at the stocks at the moment. In order to fill the necessary reports with new prices, it is necessary to sign new contracts. In case there is no agreement with the suppliers the sale of the medicines becomes impossible and the stocks of goods will be returned to the foreign suppliers. The organization of new supplies will require a sufficient period of time during which the vital medicines will be unavailable to the population.

5. The state registration of the maximum sales prices for medicine of foreign producers will be conducted basing on the minimum prices for them in the country of the producer and other countries where these medicines are registered (according to the international non-proprietary names, form of production and dosage), taking into account the comparable expenses for transportation.

At the same time it is not clear whether at present the registration bodies of Russia have precise information on the minimum prices in other countries and whether there are objective guidelines concerning the estimation of comparable prices for transportation. Such a method should be transparent and well-grounded, and at the same time available to any participant of the market.

6. The maximum wholesale and retail increments to the prices for medicines, established by the executive bodies of the Russian Federation concerning the organizations of wholesale trade with medicines and pharmacies should obviously be expressed as percentage and differentiated depending on the cost of medicines and taking into account the geographical distance, transport availability and other peculiar features.

However the principles and the procedure for such differentiation of the rate of increments are not determined. If the increments are little differentiated than, depending on the price of the medicines, there arises a risk of cheap medicines going out of the turnover. Logistics and sale expenditures do not depend on the price of medicines and are fixed for particular conditions of supply and sale. That is why in order to increase profitability of operations both the wholesale and retail enterprises will primarily focus on the sale of expensive medicines.

7. Decree No 654 does not envisage the regulation of prices for the active pharmaceutical ingredients of the medicines. At the same time the expenditures for active pharmaceutical ingredients (raw materials and materials) account for from 40% to 80% in the structure of prime cost of medicines. At the same time in the production of the domestic medicines Russian producers use mainly import active pharmaceutical ingredients: they make 87% of the market of active pharmaceutical ingredients in our country¹. As a result the limitation of prices for the finished goods without the limitation on the margin for the foreign suppliers of raw materials might seriously worsen the situation with the domestic producers.

At the moment the measures envisaged by the Decree have not come into the effect yet. At the same time the growth of prices for medicine has ceased since August and only in October made 0.3%. Nevertheless the risks connected with the implementation of new mechanism for regulation of prices require serious attention when the further regulatory and methodological documents are prepared. ●

¹ Chamber of Commerce and Industry of the Russian Federation, Soyuzexpertisa, Moscow Stocks Exchange, 2008. Organization of the exchange trade with pharmaceutical substances. Explanatory note, Moscow, October 2008. http://www.mse.ru/comm_ex/pharma/docs/pz.doc

MIGRATORY PROCESSES – AUTUMN (PART 2)

L.Karachurina (SU–HSE)

The results of two waves of surveying of labor migrants in a number of Russian regions have demonstrated that over the past year their number in Russia declined, while the principal changes occurred not so much in the volumes of migration than in the legal to illegal migration ratio. The crisis gave rise to a new ‘relapse’ towards large-scale illegitimate use of migrant labor. The restrictive measures introduced in Russia with regard to labor migration from the other CIS countries have produced only an illusion that the number of labor migrants is declining, while in reality these measures promote illegal employment of migrants while at the same time strengthen the ‘shadow’ infrastructure that makes this employment possible.

In the previous IET overview for October it was noted that over the past year the number of labor migrants in Russia declined, although not so impressively as it was declared by the government agencies which had been influencing the labor market by means of reducing the quotas established for the employment of foreign citizens. In accordance with some experts’ warnings¹, it was not so much the volume of migration that has changed than the ratio of its legal to illegal components.

The employment of migrants in Russia is built into the most informal and ‘shadow’ segments of the national economy. Informal attraction of migrants on the labor market per se is by no means a phenomenon immanent for Russia alone – it is only the scale of this phenomenon here that is unique. The selective surveys conducted in Russia in 2003 – 2006 have revealed that up to 80 % of migrants had no written agreements with their employer, 75 % of migrants received a part of or all their wages ‘in an envelope’ (that is, off-record), and 50 % were not registered at the place of their residence². The revision of migration legislation with the purpose of its liberalization that followed in mid-2006 (envisaging the residence registration in an advising procedure for those arriving under a visa-waiver regime, the possibility to register at the legal address of their employers, a new procedure for obtaining a work permit, etc.³) resulted in a shift in the ratio of legal to illegal use of migrants towards the legal segment. However, the crisis has made it possible to revert once again to large-scale illegitimate use of migrant labor. This is confirmed both by the results of surveys conducted in the donor countries⁴ and by results of the two ‘waves’ of surveys conducted

1 Rossiian poshliut mesti dvory. [Russian will be sent to sweep the yards.] / utro.ru, 15 October 2009.

2 Tiuriukanova Ye. V. Pronuditel’nyi trud v sovremennoi Rossii: nereguliruemaia migratsia i toprgovlia liud’mi. [Forced labor in modern Russia: unregulated migration and the trade in humans]. 2nd ed.. ILO, Geneva, 2006, 240 p.; Karachurina L. B. Osobennosti zaniatosti migrantov v Rossii (po dannym sotsiologicheskogo obsledovaniia) [The specific features of migrant employment in Russia (by the results of sociological surveys)] // Gornye strany: rasselenie, etnodemographicheskie i geopoliticheskie protsessy, geoinformatsionnyi monitoring. [Mountainous countries: population distribution, ethno-demographical and geopolitical processes, geo-informational monitoring.] Materials of an international conference. Stavropol – Dombai, 25–30 September 2005 – M.– Stavropol, 2005. – pp. 156 – 165; Problemy nezakonnoi migratsii v Rossii: realii i poisk reshenii (po itigam sotsiologicheskogo obsledovaniia). [The problems of illegal migration in Russia: the realities and the search for solutions (by the results of a sociological survey conducted by the International Organization for Migration (IOM), IOM Bureau in Russia (Ed. By G. S. Vitkovskaia). M.: Gendalf, 2006, pp. 490 — 498; Mukomel’ V. I. Ekonomika nelegal’noi migratsii v Rossii. [The economics of illegal migration in Russia.] // Demoskop Weekly. No 207–208. <http://demoscope.ru/weekly/2005/0207/tema01.php>

3 For further details, see Karachurina L. B. Migratsionnye protsessy. [The migration processes.] // Russian Economy in 2007: Trends and Outlooks. M.: IET, 2008, Section 4.2. pp. 379–394.

4 S. Olimova. Kogda rabota stanovitsia neeffektivnoi, oni vozvrashchautsia domoi. [When work becomes ineffective, they return home.] // Rossiiskaia migratsia. No 5 - 6 (36 - 37) August – September 2009. P. 35 - 38. Moshniaga V. The report delivered at the regional experts’ meeting ‘Partnership of the CIS countries in the sphere of migration: a search for coordinated decisions’ (Moscow: The Institute for Economic Forecasts of the RAS – the Center for Migration Studies, 24 – 25 September 2009).

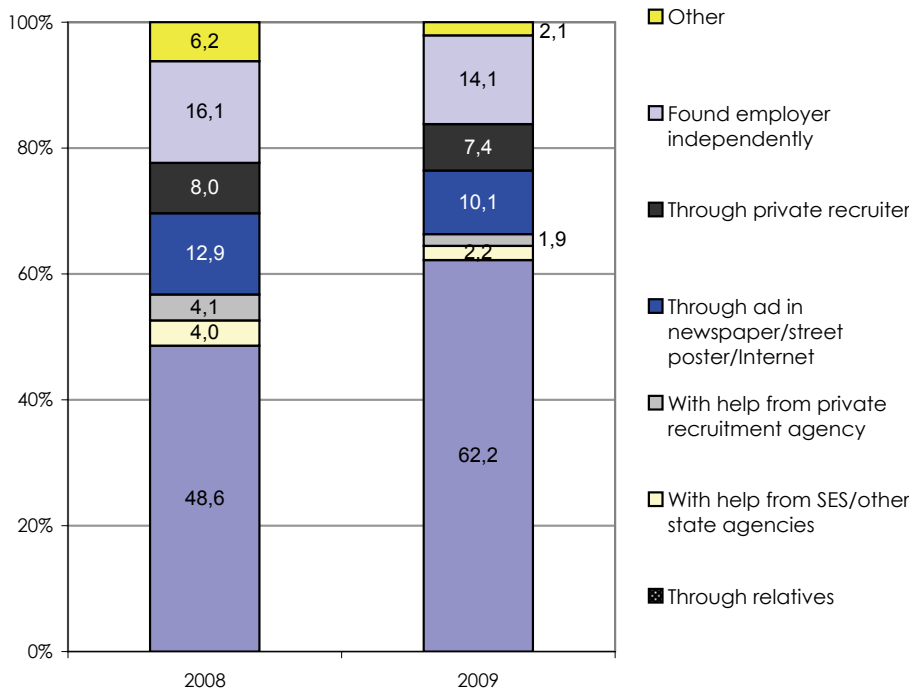


Fig 1. Employment channels for labor migrants in Russia, 2008 (N=774), 2009 (N=801), as %

by the Center for Migration Studies in some Russian regions, which are presented below¹. The survey patterns were similar, and so it is possible to compare the labor flows ‘before’ and ‘during’ the financial crisis.

The pre-crisis survey took place in August – September 2008 and involved 774 migrants from the CIS countries, who were questioned in Moscow, Kazan, Voronezh, Krasnodar, and Astrakhan. The ‘crisis’ survey was conducted in May 2009 in Moscow, in St. Petersburg, and Krasnodar, and involved 801 migrants.

A comparative analysis of the two ‘waves’ has led to the following conclusions:

- The crisis divided the

flow of labor migrants into layers, and the percentage of those who were not newcomers increased significantly. The number of ‘experienced’ migrants was 61 % in May 2009 against 47.4 % in 2008. In all the sectors except the construction sector there occurred dramatic growth – nearly twofold – of the share of ‘experienced’ migrants: thus, for example, among those employed in trade in 2009 their number constituted 73.2 % against 36.3 % in 2008; among those employed in the housing and utilities sector these figures were 60 % and 37.1 % respectively, and in industry – 80.4 % and 55.2 % respectively. Only in the construction sector the situation remained almost unchanged, with approximately equal numbers of ‘newcomers’ and ‘the experienced ones’. But the construction sector, for a long time, has been applying its own mechanism of recruiting employees – through team managers and foremen. In this form of recruitment the migration experience – even during a crisis – has no particular significance, because it is personal connections that matter, and not specific places or situations;

- However, the crisis increased the role in employment of personal contacts, family relations and/or friends also in other sectors (Fig. 1). If in 2008 this way the way to find employment for about half of all the migrants, in the early summer 2009 this was already true of 2/3 of them. The role of institutional intermediaries (both government employment services and private recruitment agencies) for migrants has always been insignificant, but at the time of crisis it dwindled to nearly zero. The government employment agencies now have practically no opportunities for assisting in the employment of migrants, because they are even more actively than before involved in providing employment for local laborers. The law on private recruitment agencies has not yet been passed, and so the services relating to the recruitment of labor migrants (both from the CIS countries and the domestic migrants) formally remain the prerogative of government structures (regional services and employment centers), with the result that the ‘gap in services’ becomes even larger, to be filled by ‘self-serve’ employment;

¹ The study was conducted by the Center for Migration Studies (Director – Ye. V. Tiuriukanova) as part of the projects ‘Migration management in conditions of a demographic crisis’ (The McArthur Foundation) and ‘Assessment of Russia’s new migration policy in the sphere of labor migration from the CIS countries’ (supported by a grant of the Civic Chamber of the Russian Federation).

- The share of migrants complying with the migration registration procedure remained nearly the same. In Russia, 80 % of all the migrants are registered. It should be reminded that as of 15 January 2007 the Federal Law ‘On migration registration of foreign citizens and persons without citizenship in the Russian Federation’ (of 18 July 2006, No 109-FZ) came into force in this country, whereby all the foreign citizens arriving for a temporary stay are required to register at the place of their residence within three days of their arrival, while their ‘place of dwelling’ may be ‘residential premises that are not a place of residence’ or ‘another premises, institution or organization in which the foreign citizen or the person without citizenship are situated’¹. The surveys conducted by the International Organization for Migration (IOM) (2007 – 2008) have demonstrated that nearly all the labor migrants learned very soon of the simplification of the registration procedure and of the necessity to obtain a migration registration, and so tried to comply with the established rules. By mid-2009, when the second ‘wave’ of surveys was under way, the new procedure had been in force for nearly 2.5 years, and in a situation of crisis and lowering quotas for the employment of foreign workers the authorities began a furtive struggle against those employers who were allowing their workers to register at non-residential premises, as it was allowed by the law². Nevertheless, the legalization level in Russia of temporary labor migrants remains high;

- In contrast, the share of migrants with work permits became much lower. While prior to the crisis their share was 60.8 %, in the June survey ‘the plastic labor card’ could be displayed by only 48.7 % of the respondents. These data unquestionably point to the increasing ‘shadow’ components both in the migration flows and on the labor market, as well as across the whole spectrum of ‘related administrative-distributive’ zones. The crisis or, to be more precise, the desire of the authorities to manage the labor market and to adopt some populist decisions in the sphere of migration policy resulted in a situation where the process of migrant legalization and their ‘coming out of the shadow’ (after the migration reform of 2006) was interrupted and then reverted. At the same time, the crisis had no negative effect on the system of incentives for employer to attract migrant labor, namely the lack of Russian workers of the necessary specialization, the high quality of work achieved by the migrants, and their ‘submission’ to the employer. Moreover, some of their motives, for example the employers’ desire to save the extra wages, the migrants’ readiness to work overtime, to skip their days off and leaves, and to manage a higher workload, became even stronger because of the crisis. Even in the pre-crisis period (when the first ‘wave’ of surveys was conducted) the average workday of a migrant was 9 hours. By the onset of the second ‘wave’ it had increased to 10 hours. The duration of a working week remained practically unchanged, but even during the first phase of the survey it was 5.9 days³. At the same time, both in 2008 and in 2009 the average workday of a migrant without a work permit was longer than that of those with work permits (*Table 1*). Thus, the average working week during the second ‘wave’ was 59 hours, which is indicative of an increased workload both by comparison with the pre-crisis period and with the results of surveys conducted by G. S. Vitkovskaia (in 2006 – 53 hours)⁴;

- The stronger trend towards illegal employment of migrants can be demonstrated by the changes in the index describing the form of payment of wages. Among those who had work permits, in 2008 the wages were paid in accordance with payment records (fully or in part, when part of the wages was recorded in the accounting documentation, and part was paid off-record (‘in an

1 Article 2 of the Federal Law ‘On migration registration of foreign citizens and persons without citizenship in the Russian Federation’ (of 18 July 2006, No 109-FZ) // <http://demoscope.ru/weekly/knigi/zakon/zakon056.html>

2 Yu. F. Florinskaia. Sochi – rai dlia migrantov i bezrabornykh? [Is Sochi a paradise for migrants and the unemployed?] // *Rossiiskaia migratsia* [The Russian Migration]. 2009. No 5 – 6 (36 – 37). P. 27 – 28.

3 Here is an employer’s opinion recorded as part of Yu. F. Florinskaia’s survey during a focus group meeting with employers: ‘With us, they work not 8 but 14 hours, and without any Saturday or Sundays off. And we pay them for speed and quality. There exist certain time limits for them to complete the project. And that is why they work without Saturday or Sundays off, and without leaves.’ // Materials of Yu. F. Florinskaia’s presentation ‘The practice of migrant employment during the period of crisis’ at the regional experts’ meeting ‘Partnership of the CIS countries in the sphere of migration: a search for coordinated decisions’ (Moscow: The Institute for Economic Forecasts of the RAS – the Center for Migration Studies, 24 – 25 September 2009).

4 Problemy nezakonnoi migratsii v Rossii: realii i poisk reshenii (po itigam sotsiologicheskogo obsledovaniia). [The problems of illegal migration in Russia: the realities and the search for solutions (by the results of a sociological survey conducted by the International Organization for Migration (IOM), the IOM Bureau in Russia (Ed. By G. S. Vitkovskaia). M.: Gendalf, 2006, p. 122

envelope') to 78 % of migrants, and in 2009 – to 71 % of migrants. It means that the illegal segment increased among those who had opportunities for legal employment. Besides, the size of wages – for those with and without work permits alike – could no more be applied even as a 'weak' index of the 'normality' of work, when the wages of illegal workers were lower than those of the legal ones. In this connection, the amount of wages did not decline – instead, it even increased¹. On the whole, it is close to the average nominal level of wages across Russia (in April 2009 – 18,287 rubles). Similar proportions of the wages paid to Russians and to migrants were observed in the pre-crisis surveys. Thus, for example, in the study conducted by Ye. V. Tiuriukanova (June 2003) the average wage of illegal migrants was 5,338 rubles (approx. 176 USD), while the country's average wage was 5,591 rubles (or 184 USD)². In G. S. Vitkovskaia's survey conducted in 2006, 50 % of migrants believed that their pay was the same as that of the locals.³

Table 1

INFLUENCE OF WORK PERMIT ON SOME FEATURES OF MIGRANT EMPLOYMENT

Index	Phase of survey	Work permit	
		Yes	No
Workday duration (hours per day)	2008	9.2	9.5
	2009	9.7	10.2
Entry of wages in payment records (in full or in part), %	2008	78.0	30.7
	2009	71.0	31.1
Amount of wages, thousand rubles	2008	15.8	14.9
	2009	18.2	20.0

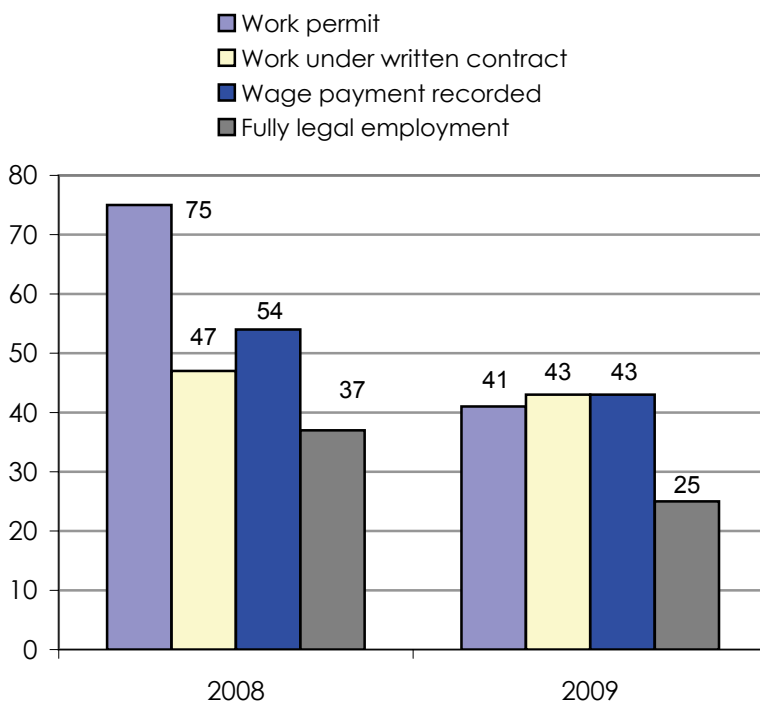


Fig 2. Levels of legal employment in Moscow, 2008 (N = 150), 2009 (N = 300), as %

The obvious strengthening of the informal labor market is confirmed by the data obtained for the city of Moscow, the only Federation's subject that was surveyed during both 'waves'. In less than one year, the share of migrants who were legally employed (had migration registration, a work permit, and a written labor contract with their employer) in the capital city declined from 37 to 25 % (Fig. 2), and the work permit index dropped by 1.8 times. As a result, a 'full' legal status can be demonstrated by one-quarter of all Moscow migrants. Approximately the same results had been obtained prior to the migration legislation reform of 2006 – the goal of which was to increase the level of legality of residence and employment of foreign citizens in Russia.

The increasing weight of informal practices on the labor market could be contributed to by the desire of

1 The average size of earnings depends on the sector of employment, the quality of the labor force, the territory of preferential employment and other factors the comparison with which without no correct description of migrant earnings can be possible.

2 Tiuriukanova Ye. V. Pronuditel'nyi trud v sovremennoi Rossii: nereguliruemaia migratsia i topgovlia liud'mi. [Forced labor in modern Russia: unregulated migration and the trade in humans]. 2nd ed.. ILO, Geneva, 2006, p. 59.

3 Problemy nezakonnoi migratsii v Rossii: realii i poisk reshenii (po itigam sotsiologicheskogo obsledovaniia). [The problems of illegal migration in Russia: the realities and the search for solutions (by the results of a sociological survey conducted by the International Organization for Migration (IOM), the IOM Bureau in Russia in Russia (Ed. by G. S. Vitkovskaia). M.: Gendalf, 2006, p. 122

migrants to get employment at any cost – so that to be able to help their families in the less wealthy countries of the CIS, which were further weakened by the crisis. Another cause is provided by the economic incentives for employers to use migrant labor illegally, which at the time of crisis were made stronger as a result of toughened labor legislation in Russia. However, these two circumstances were augmented by some administrative measures designed to reduce labor migration in order to provide better employment opportunities for local residents (the sequestering of quotas, more complicated procedures of obtaining a work permit, the impossibility (as noted by employers) to register workers at a company's legal address). In this connection, it should be admitted that the restrictive measures applied against the backdrop of a crisis to labor migration from the CIS countries can produce only an illusion that the number of labor migrants is declining, while in reality they simply 'retire into the 'shadow' segment, thus increasing the level of 'shadow' migrant employment and simultaneously strengthening the 'shadow' infrastructure servicing that employment. ●

FACTORS OF ECONOMIC GROWTH IN JANUARY – SEPTEMBER 2009¹

E.Astafieva

In January-September 2009 it was the total factor productivity (TFP) that was the dominating factor of the GDP growth rates, which growth rates made on average 6.4% over the quarter. At the same time in the 3rd quarter 2009 the dynamics of the total factor productivity demonstrated the reduction of the growth rates down to the level of 5.4%. In its turn the biggest proportion of the growth rates of the TFP and GDP is defined by the dynamics of the growth of prices for oil. On average in January-September 2009 the changes in the price factor defined about 57% of the output growth rates, whereas the technological productivity accounted for 6%.

According to the preliminary estimations of the Ministry for Economic Development, in the 3rd quarter 2009 the GDP decreased by 9.4% versus the corresponding period of the previous year. The figure made 9.8% and 10.9%, correspondingly, in the 1st and 2nd quarters, that is, in comparison with the 1st half of 2009, in the 3rd quarter the GDP demonstrate the slow-down of the decrease rates.

The changes in the volumes of the GDP and the input of the main factors in January-September 2009 are characterized by the single-direction dynamics: the reduction of the output is accompanied with the decrease of the use of the main extensive factors. However, in contrast to the GDP, the input of labor and the capital demonstrate the intensification of the decrease rates (from 3.4% in the 1st quarter 2009 to 4.0% in the 3rd quarter 2009).

According to the decomposition made (*table 1, fig. 1²*) in the first three quarters of 2009 22% of the growth rates of the GDP was accounted for by the changes in labor input, the input of this factor reducing from 24.1% in the 1st quarter 2009 to 20.05 in the 3rd quarter 2009. On the contrary, the input in the GDP growth rates that was defined by the changes in the volume of the capital involved in the production process increased from 10.3% in the 1st quarter 2009 to 22.5% in the 3rd quarter 2009, making on average 15% over the period. It should be mentioned that in comparison with the preceding years the first three quarters of 2009 demonstrate the shifts in the structure of GDP growth, characterized by the decrease of the labor input. These structural changes reflect the influence of the crisis phenomena in the economy on the behavior strategies of producers who in the process of adaptation to new economic conditions use a more flexible tool, namely the management of labor input. At the same time, the same as before, it is the TFP that is the main factor defining the dynamics of the GDP growth rates in January-September 2009, whose changes accounted for 63% of the production growth rates on average.

Table 1

STRUCTURE OF GDP GROWTH RATES
(IN COMPARISON WITH THE CORRESPONDING PERIOD OF THE PREVIOUS YEAR)

	1 st quarter 2008	2 nd quarter 2008	3 rd quarter 2008	4 th quarter 2008	1 st quarter 2009	2 nd quarter 2009	3 rd quarter 2009
Growth rates							
GDP	8.70	7.50	6.00	1.20	-9.80	-10.90	-9.40
I. Input of factors	4.92	3.29	5.03	-0.54	-3.38	-3.63	-3.99
I.1 Labor	0.46	0.32	0.59	-1.05	-2.37	-2.43	-1.88

1 The results of the decomposition of the growth of the output index (GDP) in January-September 2009, obtained in concordance with the method, described in IET's work ("Factors of Economic Growth", series of Scientific Works, No 70, IET, Moscow, 2003) is presented in this section. The basis of the decomposition is the breakdown of the economic growth into extensive and intensive components, which allows estimating the quality of the growth and forecasting of forthcoming trends of the economic growth

2 For reference the results of GDP decomposition by quarters of 2008 are presented in the figure and in the table

Table 1, cont'd

	1 st quarter 2008	2 nd quarter 2008	3 rd quarter 2008	4 th quarter 2008	1 st quarter 2009	2 nd quarter 2009	3 rd quarter 2009
Employment	0.35	0.53	0.30	-0.26	-1.37	-1.50	-1.12
Hours of work*	0.11	-0.21	0.29	-0.79	-1.00	-0.93	-0.76
I.2 Capital	4.46	2.98	4.45	0.51	-1.01	-1.20	-2.11
Fixed assets	1.66	1.77	1.99	1.86	1.46	1.45	1.34
Extent of facilities load**	2.80	1.20	2.46	-1.35	-2.47	-2.65	-3.45
II. TFP	3.78	4.21	0.97	1.74	-6.42	-7.27	-5.41
As percentage of the GDP growth rates							
GDP	100.0	100.0	100.0	100.0	100.0	100.0	100.0
I. Input of factors	56.5	43.9	83.9	-44.8	34.5	33.3	42.5
I.1 Labor	5.3	4.2	9.8	-87.6	24.1	22.3	20.0
Employment *	4.0	7.1	4.9	-21.6	14.0	13.8	11.9
Hours of work	1.3	-2.8	4.9	-66.0	10.2	8.5	8.1
I.2 Capital	51.2	39.7	74.1	42.8	10.3	11.0	22.5
Fixed assets	19.1	23.7	33.1	155.2	-14.9	-13.3	-14.2
Extent of facilities load**	32.1	16.0	41.0	-112.4	25.2	24.3	36.7
II. TFP	43.5	56.1	16.1	144.8	65.5	66.7	57.5

* - in 2009 the Federal State Statistics Service does not give any data on time worked by one employee. The information of the intensity of the use of labor input is limited by the data on the number of the employees working part-time or having holiday leaves. That is why the indices of worked hours were received according to the regressive model, evaluated on the basis of the previous years (the time worked by all the employed is considered as a dependent variable, and the number of the employed working full time, working part time and having holiday leaves are regarded as explanatory variables).

** - the estimation of the change in the extent of facilities load in the economy is based on the data about the volume of the consumed electricity.

In January-September 2009 it is the changes in the labor reserves that is the number of the employed that was the essential component of labor input, defining its contribution to GDP growth rates. Despite the fact that starting with March 2009 the number of the employed in the economy has been growing, the growth rates of labor reserves as compared with the previous year remained negative, making -2.4% in the 1st quarter, -2.8% in the 2nd quarter and -2.1% in the 3rd quarter. Such dynamics was mainly accounted for by the increase of the proportion of the employed population in the number of economically active population, the proportion of the population able to work and the proportion of economically active population in the number of population able to work remaining practically unchanged.

In January-September 2009 the average growth rate of the time worked by one employee a year, remains below the rate of the growth of a number of the employed providing for on average 9% of GDP growth rates. After nearly fivefold increase at the end of 2008, in the first three quarters of 2009 there has been a reduction in the number of the employees observed who worked part-time and had holidays, thus, whereas in March 2009 the number of partially employed (as on the initiative of the employer and on the agreement between an employee and an employer) made 1368.4 thousand of people, and 1310.7 thousand of people had a holiday leave, in September the corresponding figures made 949 thousand of people and 1019 thousand of people. As a result, during the whole 2009 the contribution of the worked time in GDP growth rates reduced: in the 1st quarter it made 10.2% and in the 3rd quarter – 8.1%.

In January-September 2009 the capital reserves are the only factor characterized by a negative input in GDP growth rates, that is the only factor demonstrating growth in the environment of the reduction of the output. However it should be mentioned that the growth rates of fixed assets are

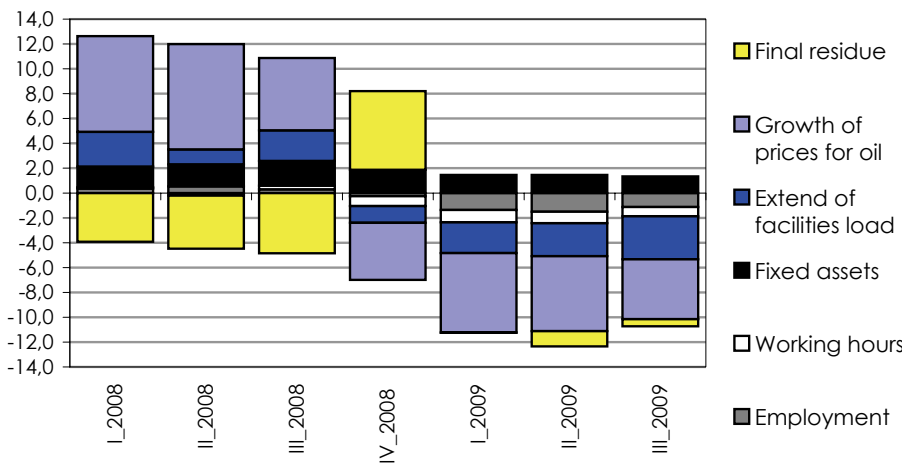


Fig. 1. Decomposition of the GDP Growth by Factors (as compared with the corresponding period of the previous year) with the estimation of the effect of oil prices

falling. In concordance with the guidelines for estimation¹ the dynamics of the capital reserves is defined by the changes in the volume of investments in fixed assets, whose growth rates decreased on average by 1.7 percentage points each quarter in January-September 2009 (from -15.6% in the 1st quarter 2009 to -19.0% in the 3rd quarter 2009). As a result, the reduction of funds directed at the renovation and restoration of the fixed assets taking into account a considerable extent of their deterioration result-

ed in the quarterly slow-down of the growth rates of the reserves of the capital by 0.22 percentage points.

In the period under consideration the changes in the capital input are mainly accounted for by the volatility of the intensity of its use, which in the first three quarters of 2009 defined the direction of the changes of capital input. The rates of the decrease of the intensity of load of the production facilities in January-September 2009 intensified, that is quarter by quarter increase of the input of this component in GDP growth rates made 5.8 percentage points.

The total factor productivity is the prevailing factor in the GDP growth rates in January-September 2009, its growth rates in the period under consideration made 64% on average. At the same time in the 3rd quarter 2009 the dynamics of TFP demonstrate the reduction of the growth rates down to 5.4% (in the 1st quarter the TFP growth rates made 6.4%, in the 2nd quarter – 7.3%).

It should be noted that the sense of the TFP when decomposing the growth of the value indices, such as GDP, is somewhat different from the traditional understanding of productivity connected with technology. The estimation of the TFP characterizes not only the changes of intensive, primarily “technological” components, enabling attaining the increase in the efficiency of the production process, but also exogenic shocks, the increase of other indices that are not accounted for when estimating the input of the main factors and shifts defined by unevenness of the output price and prime costs², among which and especially in the short term the changes defined by the dynamics of the world prices for oil play an essential part.

In concordance with the received estimation³, the dynamics of prices for oil define the biggest part of TFP and GDP growth rates. On average in January-September 2009 the changes in the price factor defined about 57% of the production growth rates, whereas the technological productivity (final residue) – 6%. Changes in the growth rates of “technological” component obtained

1 There being no quarter to quarter statistics, the estimation of the growth of the fixed assets is based on the supposition that the coefficient of the retirement of fixed assets is constant and so is the proportion of the investments directed for their renewal. It should be noted that the estimation received in this way can be shifted since it does not take into account the time lag between the moment of the receipt of the investments and the moment of their use.

2 The “value” estimation of the efficiency coincides with the “physical” in case the economy is in long-term equilibrium and there is perfect competition or, in other words, when all the possible exogenous shocks are taken into account in the current equilibrium of the system

3 The apportionment of the situational component in the structure of the TFP and the conduction of further decomposition of the production growth rates is based on the existing statistical dependence between the TFP growth rates and the growth rates of world oil prices, which is estimated with the help of regression on the basis of the annual data in the period from 1993 to 2008. The “final residue” obtained in the end, cleared from the influence of the changes at the world markets of raw materials is a more correct characteristic for technological efficiency, that is the intensive component of the growth

as a result of the apportionment of the price situation in the world market of the raw materials as a separate factor, is somewhat different from the dynamics of TFP. The growth rates of the “residue” are also negative in 2009, but in contrast to TFP growth rates there is no trend for reduction in their dynamic: whereas in the 1st quarter 2009 the figure was equal to -0.03%, in the 2nd and 3rd quarter it made -1.2% and -0.6%, correspondingly. ●